

NEW ISSUE
BOOK ENTRY ONLY

NOT RATED

In the opinion of Bond Counsel, under existing law and subject to compliance with the provisions of the Internal Revenue Code of 1986, as amended (the "Code"), as described herein, interest on the Bonds is excludable from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax. In the opinion of Bond Counsel, under existing law, interest on the Bonds is exempt from State of North Carolina income taxes. See "TAX TREATMENT."

\$48,240,000*



**North Carolina Medical Care Commission
Retirement Facilities First Mortgage Revenue Refunding Bonds
(Galloway Ridge)
Series 2019A**

Dated: Date of Delivery

Due: As shown on the inside cover

The above referenced bonds (the "Bonds") are being issued by the North Carolina Medical Care Commission (the "Commission") pursuant to a Trust Agreement dated as of October 1, 2019 (the "Trust Agreement") between the Commission and The Bank of New York Mellon Trust Company, N.A., as trustee (the "Bond Trustee"). The Bonds are being issued for the purpose of assisting Galloway Ridge, Inc. (the "Corporation") in (a) refunding a portion of the outstanding principal amount of the Commission's Retirement Facilities First Mortgage Revenue Bonds (Galloway Ridge Project) Series 2010A (the "Series 2010A Bonds"), originally issued on October 21, 2010 for purposes of (i) refinancing a portion of certain existing indebtedness incurred to finance a portion of the costs of the acquisition, construction and equipping of the Corporation's existing facility, (ii) financing a portion of the costs of the construction and equipping of an expansion to the Corporation's existing facility, (iii) paying a portion of the interest accruing on the new money portion of the Series 2010A Bonds, (iv) funding a debt service reserve fund, and (v) paying certain issuance expenses and (b) paying certain expenses incurred in connection with the issuance of the Bonds.

The Bonds will be limited obligations of the Commission, and the Commission will not be obligated to pay debt service on the Bonds except from the revenues and other funds pledged or assigned therefor under the Trust Agreement. Neither the faith and credit nor the taxing power of the State of North Carolina or of any political subdivision thereof is pledged as security for the Bonds.

The Bonds will be issued as fully registered bonds in denominations of \$5,000 and multiples thereof. Purchases of the Bonds will be made in book-entry form only, and individual purchasers will not receive physical delivery of bond certificates. When issued, the Bonds will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). So long as Cede & Co. is the registered owner of the Bonds, principal and interest payments on the Bonds will be made to Cede & Co., which will in turn remit such payments to its Participants for subsequent disbursement to the beneficial owners of the Bonds, all as described herein. So long as Cede & Co. is the registered owner of the Bonds, references herein to the Holders or registered owners of the Bonds shall mean Cede & Co. and shall not mean the beneficial owners of the Bonds.

Interest on the Bonds is payable on each January 1 and July 1, beginning on January 1, 2020. The Bonds are subject to optional, extraordinary optional and mandatory redemption prior to maturity as described in "THE BONDS."

FOR A DISCUSSION OF CERTAIN RISKS ASSOCIATED WITH THE PURCHASE OF THE BONDS, SEE "BONDHOLDERS' RISKS."

This cover page contains certain information for quick reference only. It is not a summary of this Official Statement. Investors should read the entire Official Statement to obtain information essential to the making of an informed investment decision.

The Bonds are offered subject to prior sale, when, as and if issued by the Commission and accepted by the Underwriters, subject to the approval of Robinson, Bradshaw & Hinson P.A., Charlotte, North Carolina, Bond Counsel. Certain legal matters will be passed upon for the Corporation by Womble Bond Dickinson (US) LLP, Winston-Salem, North Carolina; and for the Underwriters by McGuireWoods LLP, Charlotte, North Carolina. First Tryon Advisors, a business of First Tryon Securities, LLC ("First Tryon Advisors"), is serving as financial advisor to the Corporation in connection with the issuance and sale of the Bonds. It is expected that the Bonds will be available for delivery through the facilities of DTC on or about October 23, 2019.*



Date: October __, 2019

* Preliminary, subject to change.

This Preliminary Official Statement and the information contained herein are subject to change, completion and amendment without notice. The Bonds may not be sold nor may an offer to buy be accepted prior to the time the Official Statement is delivered in final form. Under no circumstances shall this Preliminary Official Statement constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the Bonds in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of such jurisdiction.

\$48,240,000*
North Carolina Medical Care Commission
Retirement Facilities First Mortgage Revenue Refunding Bonds
(Galloway Ridge)
Series 2019A

<u>Maturity (January 1)*</u>	<u>Principal Amount*</u>	<u>Interest Rate</u>	<u>Price</u>	<u>Yield</u>	<u>CUSIP†</u>
2021	\$1,965,000				
2022	2,020,000				
2023	2,085,000				
2024	2,145,000				
2025	2,235,000				
2026	2,325,000				
2027	2,415,000				
2028	2,515,000				
2029	2,640,000				

\$14,840,000* ___% Term Bonds due January 1, 2034,* Priced at ___% to Yield ___%, CUSIP:

\$13,055,000* ___% Term Bonds due January 1, 2039,* Priced at ___% to Yield ___%, CUSIP:

* Preliminary, subject to change.

† Copyright, American Bankers Association. CUSIP numbers have been assigned by an organization not affiliated with the Commission, the Corporation or the Underwriters, and are included solely for the convenience of the holders of the Bonds. The Commission, the Corporation and the Underwriters are not responsible for the selection or uses of these CUSIP numbers, and no representation is made as to their correctness on the Bonds or as indicated above. The CUSIP number for a specific maturity is subject to change after the issuance of the Bonds due to various subsequent actions, including but not limited to, a refunding in whole or in part of such maturity or as a result of the procurement of secondary market portfolio insurance or other similar enhancement by investors that may be applicable to all or a portion of certain maturities of the Bonds.



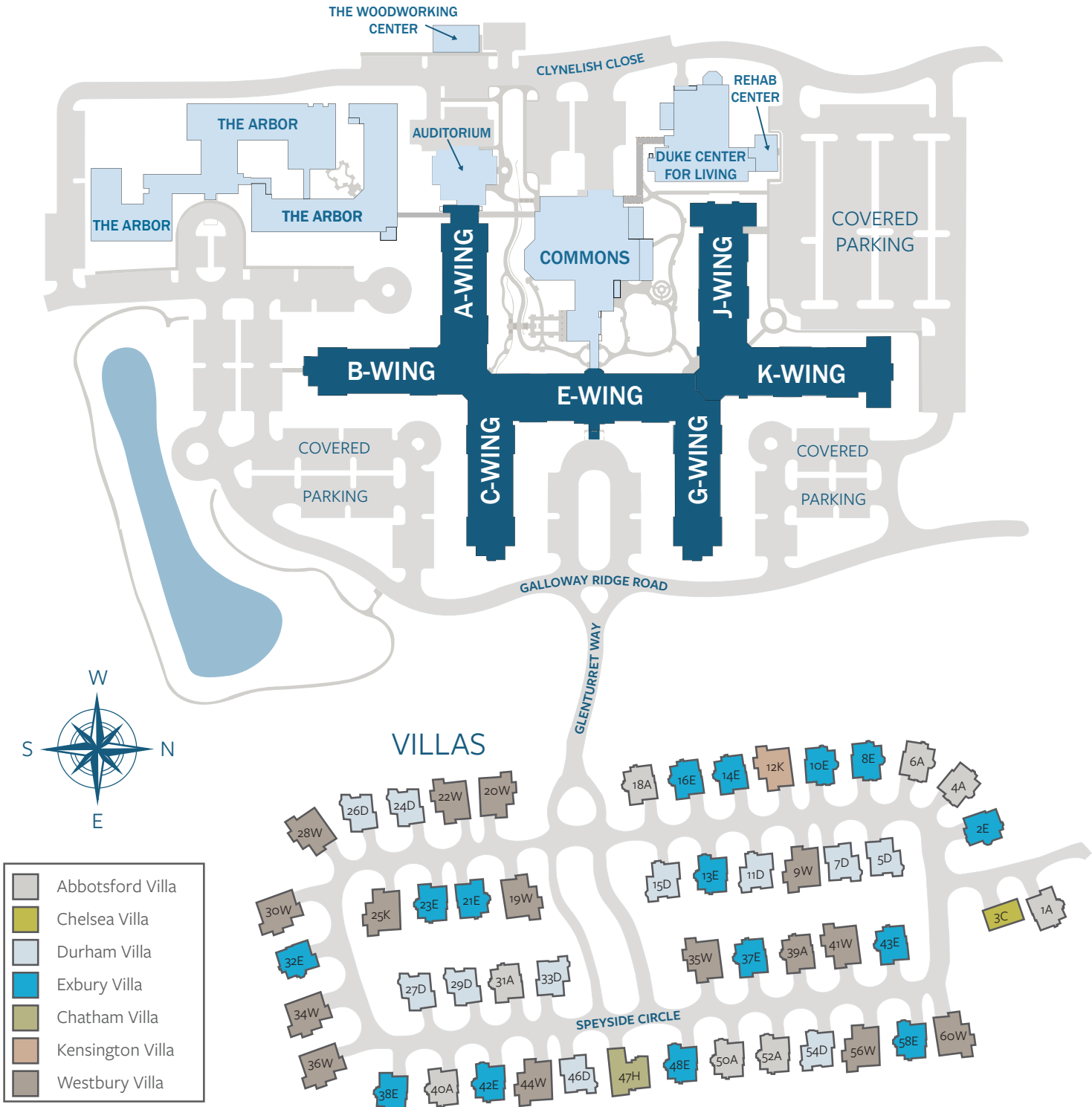
Apartments and Field facing Weathersfield Dr.



Main Entrance



GALLOWAY RIDGE SITE PLAN



- Abbotsford Villa
- Chelsea Villa
- Durham Villa
- Exbury Villa
- Chatham Villa
- Kensington Villa
- Westbury Villa

WOULD YOU LIKE TO LEARN MORE ABOUT GALLOWAY RIDGE?
VISIT OUR WEBSITE, WWW.GALLOWAYRIDGE.COM/LEARN-MORE

3000 GALLOWAY RIDGE | PITTSBORO, NC 27312
(888) 763-9600 | (919) 545-2647 | FAX (919) 545-2219



THE UNDERWRITERS MAY ENGAGE IN TRANSACTIONS THAT STABILIZE, MAINTAIN OR OTHERWISE AFFECT THE PRICE OF THE BONDS, INCLUDING TRANSACTIONS TO (A) OVERALLOT IN ARRANGING THE SALE OF THE BONDS AND (B) MAKE PURCHASES AND SALES OF BONDS FOR LONG OR SHORT ACCOUNT, ON A WHEN-ISSUED BASIS OR OTHERWISE, AT SUCH PRICES, IN SUCH AMOUNTS AND IN SUCH MANNER AS THE UNDERWRITERS MAY DETERMINE.

The Bonds are exempt from registration under the Securities Act of 1933 and the securities laws of North Carolina. No dealer, broker, salesman or other person has been authorized to give any information or to make any representations other than those contained in this Official Statement, and if given or made, such other information or representations should not be relied upon as having been authorized by the Commission, the Local Government Commission of North Carolina, the Corporation or the Underwriters. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the Bonds by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale.

The information set forth herein has been obtained from the Commission, the Corporation and other sources that are deemed to be reliable, but is not guaranteed as to accuracy or completeness by the Underwriters. This Official Statement speaks as of its date except where specifically noted otherwise and is subject to change without notice. Neither the delivery of this Official Statement, any sale made hereunder nor any filing or other use of this Official Statement shall under any circumstances create an implication that there has been no change in the affairs of the Commission or the Corporation since the date hereof or imply that any information herein is accurate or complete as of any later date.

Certain statements contained in this Official Statement reflect not historical facts but forecasts and "forward-looking statements." In this respect, the words "estimate," "project," "anticipate," "expect," "intend," "believe" and similar expressions are intended to identify forward-looking statements. All projections, forecasts, assumptions, expressions of opinions, estimates and other forward-looking statements are expressly qualified in their entirety by the cautionary statements set forth in this Official Statement.

THE ACHIEVEMENT OF CERTAIN RESULTS OR OTHER EXPECTATIONS CONTAINED IN SUCH FORWARD-LOOKING STATEMENTS INVOLVE KNOWN AND UNKNOWN RISKS, UNCERTAINTIES AND OTHER FACTORS WHICH MAY CAUSE ACTUAL RESULTS, PERFORMANCE OR ACHIEVEMENTS DESCRIBED TO BE MATERIALLY DIFFERENT FROM ANY FUTURE RESULTS, PERFORMANCE OR ACHIEVEMENTS EXPRESSED OR IMPLIED BY SUCH FORWARD-LOOKING STATEMENTS. THE CORPORATION DOES NOT PLAN TO ISSUE ANY UPDATES OR REVISIONS TO THOSE FORWARD-LOOKING STATEMENTS IF OR WHEN ITS EXPECTATIONS, OR EVENTS, CONDITIONS OR CIRCUMSTANCES ON WHICH SUCH STATEMENTS ARE BASED OCCUR.

The Bank of New York Mellon Trust Company, N.A., in each of its capacities, including, but not limited to, Bond Trustee and Master Trustee, has not participated in the preparation of this Official Statement and assumes no responsibility for its content.

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OFFICIAL STATEMENT

\$48,240,000*
North Carolina Medical Care Commission
Retirement Facilities First Mortgage Revenue Refunding Bonds
(Galloway Ridge)
Series 2019A

INTRODUCTION

This Official Statement, including the cover page and the appendices, furnishes information regarding the offering by the North Carolina Medical Care Commission (the "Commission") of its \$48,240,000* Retirement Facilities First Mortgage Revenue Refunding Bonds (Galloway Ridge) Series 2019A (the "Bonds"). The Bonds are being issued pursuant to the Health Care Facilities Finance Act, Chapter 131A of the General Statutes of North Carolina, as amended (the "Act"), and a Trust Agreement, dated as of October 1, 2019 (the "Trust Agreement"), between the Commission and The Bank of New York Mellon Trust Company, N.A., Jacksonville, Florida, as trustee (the "Bond Trustee").

Concurrently with the issuance of the Bonds, the Commission will enter into a Loan Agreement, dated as of October 1, 2019 (the "Loan Agreement"), with Galloway Ridge, Inc., a North Carolina nonprofit corporation (the "Corporation"). Pursuant to the Loan Agreement, the Commission will lend the proceeds of the Bonds to the Corporation to provide funds to be used, together with other available funds, to (i) refund a portion of the outstanding principal amount of the Commission's Retirement Facilities First Mortgage Revenue Bonds (Galloway Ridge Project) Series 2010A (the "Series 2010A Bonds") and (ii) pay certain expenses incurred in connection with the issuance of the Bonds.

The Bonds will be limited obligations of the Commission, payable solely from money to be received from the Corporation, pursuant to the terms of the Loan Agreement and the Corporation's promissory note, dated as of the date of delivery of the Bonds, designated Obligation No. 6 ("Obligation No. 6"). The Corporation will execute and deliver Obligation No. 6 pursuant to (1) the Master Trust Indenture, dated as of October 1, 2010 (as amended and supplemented pursuant to its terms, the "Prior

* Preliminary, subject to change.

Master Indenture"), between the Corporation and The Bank of New York Mellon Trust Company, N.A., Jacksonville, Florida, as master trustee (the "Master Trustee"), and (2) a Supplemental Indenture for Obligation No. 6, dated as of October 1, 2019 ("Supplement No. 6"), between the Corporation and the Master Trustee. Payments on Obligation No. 6 will be required to be sufficient to pay the principal of, premium, if any, and interest on the Bonds as they become due and payable. Obligation No. 6 will be a joint and several general obligation of the Members of the Obligated Group, as described below. To secure payment of the Bonds, the Commission will assign to the Bond Trustee (a) all right, title and interest in and to Obligation No. 6 and (b) substantially all right, title and interest in and to the Loan Agreement. See **"SECURITY AND SOURCES OF PAYMENT FOR THE BONDS."**

Simultaneously with the delivery of the Bonds, the Prior Master Indenture will be amended and restated in its entirety by an Amended and Restated Master Trust Indenture, dated as of October 1, 2019 (as supplemented, the "Master Indenture"), between the Corporation and the Master Trustee. **By purchasing the Bonds, the registered owner and any beneficial owner thereof consent to the amendment and restatement of the Prior Master Indenture and appoint BB&T Capital Markets, as representative for the Underwriters, as their attorney-in-fact for the purpose of executing a consent to the amendment and restatement of the Prior Master Indenture.** The provisions of the Master Indenture are those described in this Official Statement, including Appendix C, and no description is being provided of the distinctions between the Master Indenture and the Prior Master Indenture.

Upon the issuance of the Bonds, the Obligations outstanding under the Master Indenture will be Obligation No. 6 and the Corporation's promissory note designated Obligation No. 5 ("Obligation No. 5") issued by the Corporation in connection with the Retirement Facilities First Mortgage Revenue Refunding Bonds (Galloway Ridge Project), Series 2014A (the "Series 2014A Bonds") issued by the Commission for the benefit of the Corporation with an outstanding principal amount of \$15,455,000. Obligation No. 6 and Obligation No. 5 will be parity obligations under the Master Indenture. As security for repayment of all Obligations issued under the Master Indenture, including Obligation No. 6 and Obligation No. 5, the Corporation has executed and delivered a Deed of Trust dated as of October 1, 2010 (as previously supplemented and amended and as further supplemented and amended by a Second Amendment thereto dated as of October 1, 2019, the "Corporation Deed of Trust"), to a deed of trust trustee for the benefit of the Master Trustee, pursuant to which the Corporation granted a first lien on the Mortgaged Property, as more particularly described in the Corporation Deed of Trust, subject to Permitted Liens. In addition, pursuant to the Master Indenture, each Member of the Obligated Group has granted to the Master Trustee a first priority security interest in its Pledged Assets, subject to Permitted Liens. The lien on the Mortgaged Property and the security interest in the Pledged Assets are also subject to the right of the Members of the Obligated Group to transfer Property, Plant and Equipment free of such lien and security interest under certain circumstances (see in Appendix C **"SUMMARY OF THE MASTER INDENTURE – Limitation on Creation of Liens"** and **"-Transfers of Property, Plant, and Equipment; Transfers of Cash and Investments"** and **"SUMMARY OF THE CORPORATION DEED OF TRUST – Release of Land from Lien of Corporation Deed of Trust"**). All Obligations issued under the Master Indenture are secured pari passu by the lien on the Mortgaged Property created by the Corporation Deed of Trust and the security interest in the Pledged Assets created by the Master Indenture. The Members of the Obligated Group are subject to certain covenants under the Master Indenture restricting, among other things, incurrence of Indebtedness, existence of Liens, consolidation or merger and disposition of assets.

Upon issuance of the Bonds, the Corporation will be the sole Member of the Obligated Group. The Master Indenture permits any Persons that are not Members of the Obligated Group and other corporations that are successor corporations to any Member of the Obligated Group through merger or consolidation as permitted by the Master Indenture to become Members of the Obligated Group upon compliance with certain financial and other requirements. The Master Indenture also permits, upon compliance with certain requirements, any Member of the Obligated Group to withdraw from the Obligated Group. The Loan

Agreement, however, prohibits the withdrawal of the Corporation from the Obligated Group without the written consent of the Commission.

Reserve Fund No. 1 established under the Prior Master Indenture currently secures the Series 2010A Bonds and the Series 2014A Bonds. Upon the issuance of the Bonds, Reserve Fund No. 1 will secure the Bonds and the Series 2014A Bonds. For a more detailed description of Reserve Fund No. 1 see **"SECURITY AND SOURCES OF PAYMENT FOR THE BONDS – Debt Service Reserve Fund."**

Certain information concerning the Corporation is contained in Appendix A and certain financial statements of the Corporation audited by Dixon Hughes Goodman LLP ("Dixon Hughes"), independent certified public accountants, are contained in Appendix B. See **"FINANCIAL STATEMENTS."**

This introduction provides summary information and is qualified by reference to the entire Official Statement. Capitalized terms used and not otherwise defined herein shall have the meanings given to such terms in the Master Indenture, the Loan Agreement, the Trust Agreement and the Corporation Deed of Trust (see in Appendix C **"DEFINITIONS OF CERTAIN TERMS"**). Brief descriptions and summaries of the Master Indenture, the Loan Agreement, the Trust Agreement and the Corporation Deed of Trust are included in Appendix C. Such descriptions and summaries do not purport to be comprehensive or definitive, and all references in this Official Statement to the Master Indenture, the Loan Agreement, the Trust Agreement and the Corporation Deed of Trust are qualified in their entirety by reference to such documents, and all references to the Bonds are qualified by reference to the definitive forms of the Bonds contained in the Trust Agreement. Copies of such documents may be obtained from the Underwriters prior to the delivery of the Bonds at BB&T Capital Markets, a division of BB&T Securities, LLC, 901 East Byrd Street, Suite 260, Richmond, Virginia, 23219 Attention: John Franklin, and thereafter at the corporate trust office of the Bond Trustee at 10161 Centurion Parkway, N., Jacksonville, Florida 32256, Attention: Corporate Trust Division.

THE COMMISSION

General

The Commission was created primarily as a result of the findings of the North Carolina Hospital and Medical Care Commission, a special commission appointed in 1944 to study the critical shortages in general hospital facilities and trained medical personnel in the State of North Carolina (the "State") and to make recommendations for improvements in these areas. Among the recommendations made was that the legislature provide for a permanent State agency that would be responsible for the maintenance of high standards in the State's hospitals and for the administration of a medical student loan fund and a statewide hospital and medical care program.

The Commission was established in 1945 and, pursuant to its enabling legislation, was given the power, among others, to make a survey of the hospital resources in the State and formulate a statewide program for construction and maintenance of local hospitals, health centers and related facilities and to receive and administer federal and State funds appropriated for such purposes.

In 1946, Congress passed the Hospital Survey and Construction Act ("Hill-Burton") to provide funds for the construction and renovation of health care facilities, and the Commission was designated as the agency empowered to administer the program within the State. Under this program, also known as the Hill-Burton program, health facility construction in North Carolina has totaled more than \$500 million, of which 40% was provided by federal sources, 5% by the State and 55% by local sponsors. Of the more than 500 Hill-Burton projects approved by the Commission between 1946 and 1976, 241 were general hospital projects, including 80 completely new facilities.

Pursuant to the Executive Organization Act of 1973, the 17-member Commission was incorporated into the Department of Human Resources. Effective August 28, 1997, the Department of Human Resources was renamed the Department of Health and Human Services. Three members of the Commission are nominated by the North Carolina Medical Society, one by the North Carolina Pharmaceutical Association, one by the North Carolina State Nurses' Association, one by the North Carolina Hospital Association and one by The Duke Endowment. Each nomination is subject to the Governor's approval. In addition, ten Commission members, one of whom must be a dentist, are appointed by the Governor.

Today the Commission has the duty and power to promulgate, adopt, amend and rescind rules in accordance with the laws of the State regarding the regulation and licensing or certification, as applicable, of hospitals, hospices, free standing outpatient surgical facilities, nursing homes, adult care homes, home care agencies, home health agencies, nursing pools, facilities providing mammography/pap smear services, free standing abortion clinics, ambulances and emergency medical services personnel.

In 1975, the North Carolina General Assembly enacted the Health Care Facilities Finance Act, which enables the Commission to issue tax-exempt revenue bonds to finance construction and equipment projects for nonprofit and public hospitals, nursing homes, continuing care facilities for the elderly and facilities related to the foregoing.

Outstanding Debt

As of June 30, 2019, the Commission had issued revenue bonds or notes to finance 629 projects, refundings or conversions. The total authorized principal amount of all such financings was \$25,555,721,073.50, and the total outstanding principal amount of all such financings as of June 30, 2019 was \$5,883,324,049. Each such issue is payable solely from revenues derived from the respective corporate entity or entities receiving such financing, and any other credit support provided therefor is separately secured, and is separate and independent from all other series of bonds as to source of payment and security.

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Membership

The Commission currently consists of 17 members as follows:

NAME	TERM	PRINCIPAL OCCUPATION	RESIDENCE
John J. Meier, IV, M.D. Chairman	2017-2021	Physician	Raleigh
Joseph D. Crocker Vice Chairman	1988-2020	Director, Local Impact Program Area, Division of the Kate B. Reynolds Charitable Trust	Winston-Salem
Sally B. Cone	2019-2023	Attorney	Greensboro
Paul R.G. Cunningham, M.D.	2017-2021	Physician	Grimesland
John A. Fagg, M.D.	2003-2023	Physician	Winston-Salem
Bryant C. Foriest	2019-2023	Managing Director, Excalibur Consulting LLC	Kernersville
Charles H. Hauser	2014-2020	Chief Executive Officer of Physician Discoveries	Winston-Salem
Linwood B. Hollowell, III	2017-2021	Director, Health Care Division The Duke Endowment	Charlotte
Eileen C. Kugler, R.N. M.S.N., M.P.H., F.N.P.	2010-2022	Retired, Manager of Practice, North Carolina Board of Nursing	Leland
Albert F. Lockamy, Jr., R.Ph.	1986-2022	Retired Pharmacist	Raleigh
Ashley Lloyd, D.D.S.	2019-2020	Dentist	Raleigh
Karen Moriarity	2017-2021	President and CEO, Carillon Assisted Living	Raleigh
Stephen T. Morton	2018-2022	CEO, Navion Senior Living	Durham
J. William Paugh	2016-2020	Retired Hospital Administrator	Goldsboro
Robert E. Schaaf, M.D.	2005-2022	Physician	Raleigh
Patrick D. Sebastian	2016-2020	State Strategist, Majority Strategies	Raleigh
Jeffrey S. Wilson	2017-2021	Chief Operating Officer, Liberty Healthcare Management	Wilmington

Staff of the Commission

The Division of Health Service Regulation (formerly known as the Division of Facility Services) of the Department of Health and Human Services employs a staff of approximately 550 persons (including registered architects, professional engineers and consultants in fields of emergency medicine, hospital administration, nursing service and administration, dietetics and nutrition, laboratory design and operation, and medical records), the services of whom are available to and used by the Commission. The Division of Health Service Regulation provides all necessary administrative and clerical assistance to the Commission.

Certain Administrative Officers

S. Mark Payne was appointed to the position of Secretary for the North Carolina Medical Care Commission in February of 2016 and to the position of Director for the Division of Health Service Regulation in January of 2016. Mr. Payne is an accomplished corporate attorney and compliance officer with extensive experience providing business-focused legal advice and developing and implementing business process to achieve strategic objectives. He has served in varied roles including Vice President and Chief Ethics & Compliance Officer and Compliance Counsel for Blue Cross Blue Shield of North Carolina and Senior Counsel for Blue Cross Blue Shield, Kaiser Foundation Health Plan of North Carolina, and CIGNA Corporation. Mr. Payne is a licensed attorney in the State. He earned his law degree from Cumberland School of Law at Samford University and he holds a Bachelor of Arts degree from Covenant College.

Geary W. Knapp, JD, CPA, Assistant Secretary, Audit Manager and Advisor. As Audit Manager and Advisor, Mr. Knapp is responsible for the areas of (1) financial and operational auditing and compliance, (2) assistance and consultation to the Construction Section during project development and completion and (3) evaluation of and counseling of projects during the process of financing through the Commission. He served as an Assistant State Auditor with the Office of State Auditor from 2014 until 2017. In 2017, Mr. Knapp was named Audit Manager and Advisor. Prior to his State service, Mr. Knapp practiced law with a regional law firm for thirteen years, primarily in the litigation field. Mr. Knapp has a bachelor's degree in Business Administration from the University of North Carolina and a MBA and Juris Doctorate from Campbell University. Mr. Knapp is a Certified Public Accountant and licensed attorney in the State.

Steven C. Lewis, Chief, Construction Section, Division of Health Service Regulation, North Carolina Department of Health and Human Services. Mr. Lewis is responsible for the review of plans and specifications for projects seeking assistance under the Act to insure that they meet the minimum standards of construction and design developed by the Construction Section for that purpose. Mr. Lewis has been with the Construction Section of the Division of Health Service Regulation since 1994 and has served successively as a Building System Engineer (1994-2007) and Assistant Chief (2007-2010). In March 2010, he assumed the position of Chief of the Construction Section. Mr. Lewis has a B.S.E. degree in Engineering, Mechanics and Materials from the University of North Carolina at Charlotte and is experienced in the areas of design, maintenance and mechanical engineering.

Kathy C. Larrison, Auditor, North Carolina Medical Care Commission, North Carolina Department of Health and Human Services. As Auditor, Ms. Larrison is responsible for continuous review and audit of projects financed through the Commission to ensure financial, legal and operational compliance with the bond and note covenants. She joined the Commission staff in September 2004, after serving 17 years in an acute care hospital in the capacities of Staff Accountant, Controller and Chief Financial Officer. She has a Bachelor of Business Administration in Accounting from Campbell University.

Crystal M. Watson-Abbott, Auditor, North Carolina Medical Care Commission, North Carolina Department of Health and Human Services. As auditor for the Commission, Ms. Watson-Abbott is responsible for continuous review and audit of projects financed through the Commission to ensure financial, legal and operational compliance with the bond and note covenants. She joined the staff in August 2010, after serving five years for a local C.P.A. firm providing auditing and reimbursement consulting services for various healthcare entities in the capacities of staff auditor, reimbursement specialist and senior reimbursement specialist and two years as Director of Social Services for a nursing home. She has a B.S.W. in Social Work and a M.S.A. in Accounting from East Carolina University.

THE BONDS

General

The Bonds will be dated the date of their delivery and will bear interest from their date at the rates set forth on the inside front cover of this Official Statement, payable on January 1, 2020 and on each January 1 and July 1 thereafter. The Bonds will bear interest based on a 360-day year of twelve 30-day months. The Bonds will mature, subject to earlier redemption, on January 1 in the years and amounts as set forth on the inside front cover of this Official Statement.

The Bonds will be issued as fully registered bonds in denominations of \$5,000 and multiples thereof. Purchases of the Bonds will be made in book-entry form only, and individual purchasers will not receive physical delivery of bond certificates.

Interest on any Bond which is payable, and is punctually paid or duly provided for, on any interest payment date shall be paid by check mailed by the Bond Trustee to the person in whose name that Bond is registered at the close of business on the 15th day (whether or not a business day) of the month immediately preceding any interest payment date (the "Regular Record Date").

Book-Entry-Only System

The Depository Trust Company, New York, New York ("DTC"), will act as securities depository for the Bonds. The Bonds will be issued as fully-registered bonds registered in the name of Cede & Co., DTC's partnership nominee. One fully-registered Bond certificate will be issued for each maturity of the Bonds, as set forth on the inside front cover hereof, each in the aggregate principal amount of such maturity, and will be deposited with DTC. SO LONG AS CEDE & CO. IS THE REGISTERED OWNER OF THE BONDS, AS DTC'S PARTNERSHIP NOMINEE, REFERENCE HEREIN TO THE HOLDERS OR REGISTERED OWNERS OF THE BONDS SHALL MEAN CEDE & CO. AND SHALL NOT MEAN THE BENEFICIAL OWNERS OF THE BONDS. See Appendix E for more information regarding the book entry-only system.

Redemption Provisions*

The Bonds may not be called for redemption by the Commission except as provided below.

Optional Redemption. The Bonds maturing on or after January 1, 20__, are required to be redeemed by the Commission, upon the direction of the Obligated Group Representative, in whole or in part (by lot) on any date on or after January 1, 20__, at a Redemption Price equal to ___% of the principal amount of the Bonds to be redeemed, plus interest accrued to the redemption date.

Mandatory Redemption. The Bonds that are stated to mature on January 1, 20__ (the "20__ Term Bond"), will be subject to mandatory redemption in part by lot on January 1 in the years and amounts set forth below at a Redemption Price equal to 100% of the principal amount of the Bonds to be redeemed plus accrued interest to the date of redemption, all in the manner provided in the Trust Agreement:

<u>Year</u>	<u>Amount</u>	<u>Year</u>	<u>Amount</u>
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The Bonds that are stated to mature on January 1, 20__ (the "20__ Term Bond," and together with the 20__ Term Bond, the "Term Bonds"), will be subject to mandatory redemption in part by lot on January 1 in the years and amounts set forth below at a Redemption Price equal to 100% of the principal amount of the Bonds to be redeemed plus accrued interest to the date of redemption, all in the manner provided in the Trust Agreement:

* Preliminary, subject to change.

<u>Year</u>	<u>Amount</u>	<u>Year</u>	<u>Amount</u>
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On or before the 45th day next preceding any January 1 on which Term Bonds are to be retired pursuant to the Sinking Fund Requirement therefor, the Commission or the Corporation may deliver to the Bond Trustee for cancellation Term Bonds required to be redeemed on such January 1 in any aggregate principal amount desired and receive a credit against amounts required to be transferred from the Sinking Fund Account on account of such Term Bonds in the amount of 100% of the principal amount of any such Term Bonds so purchased. Any principal amount of Term Bonds purchased by the Bond Trustee and canceled in excess of the principal amount required to be redeemed on such January 1, shall be credited against and reduce the principal amount of future Sinking Fund Requirements for such Term Bonds in such manner as shall be specified by the Obligated Group Representative.

Extraordinary Optional Redemption. The Bonds will be subject to redemption, in whole or in part, on any date by the Commission, upon the direction of an Obligated Group Representative, at a Redemption Price equal to 100% of the principal amount of the Bonds to be redeemed, plus accrued interest to the redemption date, from amounts received by any Member of the Obligated Group as insurance proceeds with respect to any casualty loss or failure of title or as condemnation awards (provided such amount is not less than \$100,000) upon the damage or destruction of all or any part of the Facilities by fire or casualty, or loss of title to or use of all or any part the Facilities as a result the failure of title or as a result of Eminent Domain proceedings or proceedings in lieu thereof (if such damage or destruction or loss of title causes the Facilities as a whole to be impracticable to operate, as evidenced by an Officer's Certificate filed with the Commission and the Bond Trustee); provided, however, that in the event an amount greater than 10% of the aggregate principal amount of Obligation No. 6 and all other Obligations is prepaid, the Corporation will file with the Commission, the Local Government Commission of North Carolina (the "Local Government Commission") and the Bond Trustee (a) an Officer's Certificate to the effect that the forecasted Long-Term Debt Service Coverage Ratio for the Fiscal Year next succeeding the Fiscal Year in which such prepayment is made will not be less than 1.30 or (b) a report of a Management Consultant to the effect that the forecasted Long-Term Debt Service Coverage Ratio for the Fiscal Year next succeeding the Fiscal Year in which such prepayment is made will not be less than 1.20.

The Bonds will also be subject to redemption, in whole, on any date by the Commission, upon the direction of an Obligated Group Representative, at a Redemption Price equal to 100% of the principal amount of the Bonds to be redeemed, plus accrued interest to the redemption date, upon the occurrence of the following events: changes in the Constitution of the United States of America or of the State of North Carolina or legislation or administrative action or failure of administrative action by the United States of America or the State of North Carolina, or any agency or political subdivision of either, or any judicial decision to the extent that, in the opinion of the Board of Directors of the Corporation (expressed in a resolution) and in the opinion of a Management Consultant both filed with the Commission and the Bond Trustee (a) the Loan Agreement is impossible to perform without unreasonable delay or (b) unreasonable burdens or excessive liabilities not being imposed on the date of the Loan Agreement are imposed on the Corporation.

General Redemption Provisions. If less than all the Bonds are to be called for optional or extraordinary redemption, the maturities to be redeemed will be selected by an Obligated Group Representative. If less than all the Bonds within a maturity are to be called for redemption, the Bonds (or portions thereof) within each maturity to be redeemed will be selected (a) so long as a book-entry-only system is used for determining beneficial ownership of such Bonds, by the securities depository for the

book-entry system or (b) if a book-entry system is not then being used, by the Bond Trustee, by lot, each \$5,000 portion of principal being counted as one Bond for such purpose.

Notice of redemption will be mailed by the Bond Trustee, first class, postage prepaid, at least 30 but not more than 60 days prior to the redemption date to each registered owner of the Bonds called for redemption in whole or in part at the address shown on the registration books (or sent by Electronic Means if so required or requested by a Holder). Failure to mail any such notice to any registered owner or any defect therein will not affect the validity of the proceedings for the redemption of the Bonds of any other registered owners as to which notice was properly given. Notice of redemption will also be given by the Bond Trustee at least 30 days prior to the redemption date to one designated securities depository, and not less than 30 days prior to the date of redemption, the Bond Trustee will use commercially reasonable efforts to file notice of such redemption with the MSRB using the MSRB's Electronic Municipal Market Access system or such other means permitted by the rules of the MSRB; provided, however, that failure to give such notice or any defect therein will not affect the sufficiency of the proceedings for the redemption of such Bonds.

On the date fixed for redemption, notice having been given as provided above, the Bonds or portions thereof called for redemption will be due and payable at the redemption price provided therefor, plus accrued interest to the redemption date. If, on the date fixed for redemption, money or Defeasance Obligations, or a combination of both, sufficient to pay the Redemption Price of the Bonds to be redeemed, plus accrued interest thereon to the date fixed for redemption, are held by the Bond Trustee in trust for the registered owners of the Bonds to be redeemed, interest on the Bonds so called for redemption will cease to accrue from and after the redemption date, such Bonds will cease to be entitled to any benefit or security under the Trust Agreement or to be deemed Outstanding, and the registered owners of such Bonds will have no rights in respect thereof except to receive payment of the redemption price thereof, plus accrued interest to the date fixed for redemption.

In the case of an optional or extraordinary optional redemption of Bonds, the redemption notice may state that (a) it is conditioned upon the deposit of moneys or Defeasance Obligations, or a combination of both, in an amount equal to the amount necessary to effect the redemption, with the Bond Trustee no later than the scheduled redemption date or (b) the Corporation retains the right to rescind such notice on or prior to the scheduled redemption date (in either case, a "Conditional Redemption"), and such notice and optional redemption shall be of no effect if such moneys are not so deposited or if the notice is rescinded as provided in the Trust Agreement. In the case of a Conditional Redemption subject to the deposit of moneys or Defeasance Obligations, the failure of the Corporation or any other Person to make such moneys or obligations available in part or in whole on or before the scheduled redemption date shall not constitute an Event of Default under the Trust Agreement and any Bonds subject to such Conditional Redemption shall remain Outstanding. Any Conditional Redemption subject to rescission may be rescinded in whole or in part at any time on or prior to the scheduled redemption date if an Obligated Group Representative instructs the Bond Trustee in writing to rescind the redemption notice. Any Bonds subject to Conditional Redemption where redemption has been rescinded shall remain Outstanding, and the rescission shall not constitute an Event of Default hereunder. If a Conditional Redemption for which notice has been sent to Holders will not occur, either because moneys or Defeasance Obligations to effect such redemption are not available on or before the scheduled redemption date or the Corporation has rescinded such notice in accordance with the Trust Agreement, the Bond Trustee shall immediately give notice to the affected Holders of any Bonds that the redemption will not occur and that the Bonds called for redemption and not so paid will remain Outstanding.

So long as a book-entry system is being used for determining beneficial ownership of Bonds, the Bond Trustee will send such notice with respect to the redemption of such Bonds to DTC (or its nominee). Any failure of DTC to notify any DTC Participant of any such notice, or of any Direct Participant or Indirect

Participant to notify the beneficial owner of any such notice, will not affect the validity of the redemption of such Bonds.

SECURITY AND SOURCES OF PAYMENT FOR THE BONDS

General

The principal of, premium, if any, and interest on the Bonds will be payable from moneys paid by the Corporation and any other Members of the Obligated Group pursuant to the Loan Agreement and Obligation No. 6. Obligation No. 6 is a joint and several general obligation of each Member of the Obligated Group. Upon the issuance of the Bonds, the Corporation will be the sole Member of the Obligated Group. The Commission will assign to the Bond Trustee (1) its right, title and interest in and to Obligation No. 6, (2) its rights under the Master Indenture and the Corporation Deed of Trust as owner of Obligation No. 6 and (3) its right, title and interest in and to the Loan Agreement, including the right to receive loan payments thereunder (except for certain reserved rights, including its rights to indemnification and the payment of certain expenses, its rights to give certain approvals and consents and its rights to receive certain documents, information and notices), as security for the payment of the principal of, redemption premium, if any, and interest on the Bonds. The Bonds will be secured by the moneys and securities held by the Bond Trustee in certain funds and accounts created under the Trust Agreement and by the Master Trustee in Reserve Fund No. 1 under the Master Indenture, as described below.

The Bonds will be limited obligations of the Commission. The Commission will not be obligated to pay debt service on the Bonds except from the revenues and other funds pledged or assigned therefor under the Trust Agreement, including moneys paid by the Obligated Group under Obligation No. 6. Neither the faith and credit nor the taxing power of the State of North Carolina or of any other political subdivision thereof is pledged as security for the Bonds.

Security for Obligation No. 6

Pursuant to the Master Indenture, each Member of the Obligated Group has granted to the Master Trustee a security interest in its Pledged Assets as security for the payment of amounts due on any Obligations issued thereunder, including Obligation No. 6. Pledged Assets consist of all Gross Receipts, Accounts, Equipment, general intangibles, inventory, documents, instruments and chattel paper of each Member of the Obligated Group, now owned or hereafter acquired, and all proceeds thereof; provided, however, that Pledged Assets shall not include contract rights consisting of charitable pledges.

The security interest in the Pledged Assets has been and will continue to be perfected to the extent, and only to the extent, that such security interest may be perfected by filing financing statements under the UCC. Continuation statements with respect to such filings must be filed as required by law to continue the perfection of such security interest. The security interest in the Pledged Assets is subject to Permitted Liens that exist prior to or that may be created subsequent to the time the security interest in the Pledged Assets attaches and is subject to the right of the Members of the Obligated Group to transfer Property, Plant and Equipment free of the security interest created in the Pledged Assets under certain circumstances. See in Appendix C **"SUMMARY OF THE MASTER INDENTURE - Limitation on Creation of Liens" and "-Transfers of Property, Plant and Equipment; Transfers of Cash and Investments."**

If an Event of Default under the Master Indenture shall have occurred and be continuing, the Master Trustee may require that each Member of the Obligated Group deliver all Gross Receipts to it. Each Member of the Obligated Group has covenanted in the Master Indenture that, if an Event of Default under the Master Indenture shall have occurred and be continuing, it will, immediately upon receipt of a written request from the Master Trustee, deliver to or direct to be delivered to the Master Trustee all Gross Receipts thereafter

received until such Event of Default has been cured, such Gross Receipts to be applied in accordance with the Master Indenture. If the Master Trustee requires that all Gross Receipts be delivered to it pursuant to the Master Indenture and thereafter the State Commissioner of Insurance obtains an order pursuant to Section 58-64-45 of the General Statutes of North Carolina, as amended, or any successor statute or provision, directing or authorizing the Commissioner to rehabilitate or liquidate the Facilities, the Master Trustee will, if required by such order, deliver and direct the Members of the Obligated Group to deliver all Gross Receipts to the Commissioner or any other Person specified in such order. See "**State Delinquency Proceedings**" in "**BONDHOLDERS' RISKS.**"

Pursuant to the Corporation Deed of Trust, as security for the payment of amounts due on any Obligations issued under the Master Indenture, including Obligation No. 6, the Corporation granted a first lien on the Mortgaged Property described therein to the Master Trustee, subject to Permitted Liens and the right of the Members of the Obligated Group to transfer Property, Plant and Equipment free of the lien on the Mortgaged Property under certain circumstances (see in Appendix C "**SUMMARY OF THE MASTER INDENTURE – Limitation on Creation of Liens**" and "**-Transfers of Property, Plant and Equipment; Transfers of Cash and Investments**" and "**SUMMARY OF THE CORPORATION DEED OF TRUST – Release of Land from Lien of Corporation Deed of Trust**"). Simultaneously with the delivery of the Bonds, the Corporation will deliver an endorsement to the existing mortgagee title insurance policy issued to the Master Trustee by Stewart Title Guaranty Company insuring that the Corporation Deed of Trust constitutes a first priority lien of record, subject to Permitted Liens, on the Mortgaged Property described therein. When the Bonds are issued, the stated amount of such policy, with endorsements, will be equal to or greater than the amount of all the Obligations then outstanding.

In the event that any Member of the Obligated Group acquires or constructs in Chatham County, North Carolina, real property, building, improvements or fixtures as an addition to or in replacement of or substitution for the Facilities, such Member of the Obligated Group is required to follow the proper procedure under North Carolina law to subject such property to the lien of a deed of trust securing all Obligations on a pari passu basis. Real property, buildings, improvements or fixtures are deemed to be an addition to the Facilities if they comprise facilities that are functionally related to, and operated on an integrated basis with, the Facilities. In the event that any Obligation is issued pursuant to the Master Indenture to acquire or finance real property or improvements to real property, the Member of the Obligated Group acquiring or financing such real property or improvements is required to take all action required by law to subject such property to the lien of a deed of trust or mortgage securing all Obligations on a pari passu basis.

Debt Service Reserve Fund

Reserve Fund No. 1 established under the Prior Master Indenture currently secures the Series 2010A Bonds and the Series 2014A Bonds. Upon the issuance of the Bonds, Reserve Fund No. 1 will secure the Bonds and the Series 2014A Bonds. Upon the issuance of the Bonds, the amount of funds in Reserve Fund No. 1 will equal the Debt Service Reserve Requirement (\$5,451,950)*. The Master Indenture requires the Master Trustee to use amounts in Reserve Fund No. 1 to make transfers to the applicable Related Bond Trustee to the extent necessary to pay interest on and principal of (whether at maturity, by acceleration or in satisfaction of the sinking fund requirement therefor) the Bonds, whenever and to the extent that the money on deposit in the applicable debt service funds is insufficient for such purposes.

The Master Trustee may establish one or more Debt Service Reserve Funds as security for one or more Obligations issued under the Master Indenture. Each Debt Service Reserve Fund, including Reserve

* Preliminary, subject to change.

Fund No. 1, may serve as security for more than one Obligation under the Master Indenture, in which case all Obligations secured under such Debt Service Reserve Fund will be secured equally and ratably by amounts on deposit in such Debt Service Reserve Fund. Each Debt Service Reserve Fund will be required to be funded in an amount equal to the Debt Service Reserve Fund Requirement. See in Appendix C **"DEFINITIONS OF CERTAIN TERMS"** for the definition of "Debt Service Reserve Fund Requirement" and **"SUMMARY OF THE MASTER INDENTURE – Debt Service Reserve Funds."**

Covenants; Additional Indebtedness

The Members of the Obligated Group are subject to covenants under the Master Indenture relating to, among other things, maintenance of a Long-Term Debt Service Coverage Ratio and restricting incurrence of Indebtedness, existence of Liens on Property, consolidation and merger, transfers of assets, addition of Members to the Obligated Group and withdrawal of Members from the Obligated Group. See Appendix C **"SUMMARY OF THE MASTER INDENTURE."**

The Master Indenture permits each Member of the Obligated Group to issue or incur additional Indebtedness evidenced by Obligations that will share the security for Obligation No. 6 on a parity with Obligation No. 6 and Obligation No. 5. Such additional Obligations will not be secured by the money or investments in any fund or account held by the Bond Trustee under the Trust Agreement as security for the Bonds.

Operating Reserves

Section 58-64-33 of the General Statutes of North Carolina, as amended, requires that all continuing care facilities, such as the Facilities, maintain operating reserves equal to 50% of the total operating costs (as defined in Section 58-64-33) (or 25% of the total operating costs if such facilities maintain an occupancy level in excess of 90% and the North Carolina Commissioner of Insurance so approves) projected for the twelve month period following the period covered by the most recent disclosure statement filed with the North Carolina Department of Insurance. Such operating reserves may only be released upon approval of the North Carolina Commissioner of Insurance. As such, the ability of the Master Trustee to enforce its security interest in any funds constituting Pledged Assets held as operating reserves pursuant to Section 58-64-33 may be limited.

Bankruptcy

Title 11 of the United States Code (the "Bankruptcy Code") permits a bankruptcy court to modify the rights of a creditor holding a secured claim under certain circumstances. In the event of a bankruptcy proceeding involving the Corporation or any other Member of the Obligated Group, by virtue of the Master Indenture, the Master Trustee should be treated under the Bankruptcy Code as one holding a secured claim to the extent provided in the Master Indenture; and by virtue of the Corporation Deed of Trust, the Master Trustee should be similarly treated to the extent provided in the Corporation Deed of Trust (as suggested by the legislative history of the Bankruptcy Code, although there is no direct authority on the point). The potential effects of bankruptcy of the Corporation or any other Member of the Obligated Group could be, among other things, (1) to delay enforcement of remedies otherwise available to the Master Trustee and allow the bankruptcy court, under certain circumstances, to substitute other assets of the Corporation or any other Member of the Obligated Group for collateral under the Master Indenture or the Corporation Deed of Trust, (2) to sell all or part of the collateral under the Master Indenture or the Corporation Deed of Trust without application of the proceeds to the payment of the Obligations, including Obligation No. 6, (3) to subordinate the rights and liens created by the Master Indenture and the Corporation Deed of Trust to liens securing borrowing approved by the bankruptcy court, (4) to permit the Corporation or any other Member of the Obligated Group to cure defaults and reinstate the Master Indenture and the Corporation Deed of

Trust, (5) to compel release of the Corporation Deed of Trust or termination of the Master Indenture by payment of an amount determined by the bankruptcy court to be the value of the collateral thereunder (even though less than the total of the Obligations thereunder) or (6) to modify the terms of or payments due under the Obligations, including Obligation No. 6. For additional detail, reference is made to the Bankruptcy Code, 11 U.S.C. 101 et seq.

Additional Members of the Obligated Group

The Master Indenture provides that under certain conditions Persons that are not Members of the Obligated Group may, with the prior written consent of the then current Members of the Obligated Group, become Members of the Obligated Group. See in Appendix C "**SUMMARY OF THE MASTER INDENTURE – Parties Becoming Members of the Obligated Group.**"

Amendment of Master Indenture

The Holders of a majority in aggregate principal amount of Obligations outstanding under the Master Indenture (including Obligations issued in the future) may approve amendments to the Master Indenture. Such amendments may result in elimination of, or a reduction or alteration in, the covenants and other provisions provided to secure payments of the Bonds.

Enforcement of Remedies

The security interest in the Pledged Assets may not be enforceable against third parties unless the Pledged Assets are transferred to the Master Trustee (which transfer Members of the Obligated Group are required to make only if requested by the Master Trustee upon the occurrence and continuation of an Event of Default under the Master Indenture) and is subject to certain exceptions under the UCC. In such event, the Master Trustee may not be able to compel certain third-party payors to make payment directly to the Master Trustee. The enforcement of the security interest in the Pledged Assets may further be limited by the following: (1) statutory liens, (2) rights arising in favor of the United States of America or any agency thereof, (3) current or future prohibitions against assignment contained in any federal or State statutes or regulations, (4) constructive trusts, equitable liens or other rights impressed or conferred by any state or federal court in the exercise of its equitable jurisdiction and (5) federal bankruptcy laws, rights of the North Carolina Commissioner of Insurance to supervise, rehabilitate or liquidate certain continuing care facilities pursuant to the provisions of §58-64-45 of the General Statutes of North Carolina, State of North Carolina receivership or fraudulent conveyance laws or similar laws affecting creditors' rights that may affect the enforceability of the Master Indenture or the security interest in the Pledged Assets.

The remedies specified in the Loan Agreement, the Trust Agreement, the Master Indenture and the Corporation Deed of Trust may, in many respects, require judicial action of a nature that is often subject to discretion and delay. Under existing law, the remedies specified in the Loan Agreement, the Trust Agreement, the Master Indenture and the Corporation Deed of Trust may not be readily available or may be limited. A court may decide not to order the specific performance of the covenants contained in those documents. The various legal opinions to be delivered concurrently with the delivery of the Bonds will be qualified as to the enforceability of the various legal instruments by limitations imposed by State and federal laws, rulings and decisions affecting remedies and by bankruptcy, fraudulent conveyance, reorganization and other laws affecting the enforcement of creditors' rights generally and by general equitable principles.

THE CORPORATION

The Corporation is a North Carolina nonprofit corporation exempt from income taxation under Section 501(a)(3) of the Internal Revenue Code of 1986, as amended (the "Code") by virtue of being an

organization described under Section 501(c)(3) of the Code. The Corporation operates a retirement community in Pittsboro, North Carolina, south of Chapel Hill, North Carolina, currently consisting of 248 independent living apartments, 52 independent living villas, 14 multi-unit assisted housing with services units, 22 traditional assisted living units, 20 memory support units and 40 skilled nursing beds (the "Facilities"). For more information on the Corporation and the Facilities, see Appendix A hereto.

THE REFUNDING PLAN

The proceeds of the Bonds will be used, together with other available funds, to (1) refund the Series 2010A Bonds maturing on January 1, 2021 through January 1, 2023, inclusive, January 1, 2031 and January 1, 2039 (the "Refunded Bonds") and (2) pay certain expenses incurred in connection with the sale and issuance of the Bonds.

On the date of issuance of the Bonds, proceeds of the Bonds, together with other available funds (including a portion of the debt service reserve fund currently allocable to the Series 2010A Bonds), will be deposited with the bond trustee for the Series 2010A Bonds and be used to acquire non-callable direct obligations of the United States of America (the "Investment Securities"), the principal of and interest on which, when due, together with any initial cash deposit, will provide moneys sufficient to redeem the Refunded Bonds and pay the January 1, 2020 maturity of the Series 2010A Bonds. The Refunded Bonds will be irrevocably called for redemption on January 1, 2020, at a price of 100% of the principal amount thereof.

The sufficiency of the Investment Securities and any other amounts on deposit with the bond trustee for the Series 2010A Bonds will be verified by Bingham Arbitrage Rebate Services, Inc. (the "Verification Agent") as described under caption "**VERIFICATION OF MATHEMATICAL ACCURACY**" herein.

Upon the deposit of funds with the bond trustee for the Series 2010A Bonds as described above, all of the Series 2010A Bonds will cease to be outstanding under the trust agreement pursuant to which they were issued and Obligation No. 1 will cease to be outstanding under the Master Indenture.

The proceeds of the Series 2010A Bonds, along with the proceeds of the Commission's Retirement Facilities First Mortgage Revenue Bonds (Galloway Ridge Project), Series 2010B (the "Series 2010B Bonds" and together with the Series 2010A Bonds, the "Series 2010 Bonds"), the Commission's Retirement Facilities First Mortgage Revenue Bonds (Galloway Ridge Project), Series 2010C (the "Series 2010C Bonds") and a taxable loan from Branch Banking & Trust Company (the "2010 Term Loan"), were used to assist the Corporation in (a) refinancing a portion of certain existing indebtedness incurred to finance a portion of the costs of the acquisition, construction and equipping of the Facilities (see "**THE CORPORATION**" above), (b) financing a portion of the costs of the improvements to the Facilities, including the construction and equipping of 66 independent living apartments, one independent living villa, 15 memory support units, 24 skilled nursing beds, 14 multi-unit assisted housing with services units and supporting common areas (the "Expansion Project"), (c) paying a portion of the interest accruing on the new money portion of the Series 2010 Bonds, (d) funding a debt service reserve fund, and (e) paying certain issuance expenses incurred in connection with the issuance of the Series 2010 Bonds. Neither the Series 2010B Bonds, the Series 2010C Bonds, nor the 2010 Term Loan is outstanding. The outstanding principal amount of the Series 2010B Bonds was redeemed with the proceeds of the Series 2014A Bonds, and the Series 2010C Bonds and the 2010 Term Loan were repaid from entrance fees and cash on hand from the Expansion Project.

ESTIMATED SOURCES AND USES OF FUNDS

The estimated sources and uses of funds in connection with the issuance of the Bonds are as follows:

Sources: ⁽¹⁾	
Par Amount of the Bonds	\$
[Plus/Less] [Net] Original Issue [Premium/Discount]	
Transfer from Reserve Fund ⁽²⁾	
Trustee Held Funds ⁽³⁾	
Equity Contribution	
Total	\$ _____
Uses: ⁽¹⁾	
Refunding of Series 2010A Bonds	\$
Cost of Issuance ⁽⁴⁾	
Total	\$ _____

⁽¹⁾ Amounts are rounded to the nearest dollar.

⁽²⁾ Upon the issuance of the Bonds, Reserve Fund No. 1 will secure the Series 2014A Bonds and the Bonds, and the Debt Service Reserve Requirement will be \$5,451,950, which is lower than the Debt Service Reserve Requirement prior to the issuance of the Bonds. Therefore, the Master Trustee will transfer \$405,136 of funds on deposit in Reserve Fund No. 1 allocable to the Series 2010A Bonds to be used to pay a portion of the accrued interest on the Series 2010A Bonds.

⁽³⁾ Upon the issuance of the Bonds, funds on deposit in the Bond Fund securing the Series 2010A Bonds in the amount of \$ _____ will be used to pay principal of the Series 2010A Bonds maturing on January 1, 2020 and a portion of the interest due on January 1, 2020 for the Series 2010A Bonds.

⁽⁴⁾ Includes Underwriters' discount, legal fees, financial advisor fees, accounting fees, printing costs, fees and expenses of the Bond Trustee and the Master Trustee and other miscellaneous fees and expenses related to the issuance and sale of the Bonds. See the section herein "UNDERWRITING."

ANNUAL DEBT SERVICE REQUIREMENTS

The following table sets forth, for each Fiscal Year ending on December 31, the annual debt service requirements under Obligation No. 6 relating to the Bonds and Obligation No. 5 relating to the Series 2014A Bonds. In some cases, totals in the following table may not sum due to rounding.

Fiscal Year Ending (December 31)	Obligation No. 6 / Bonds		Obligation No. 5 / Series 2014A Bonds		Total Debt Service
	Principal	Interest	Principal	Interest	
2019			\$10,000	\$810,169	
2020			10,000	809,869	
2021			10,000	809,569	
2022			10,000	809,169	
2023			10,000	808,769	
2024			10,000	808,369	
2025			5,000	807,881	
2026			10,000	807,638	
2027			10,000	807,150	
2028			10,000	806,663	
2029			10,000	806,175	
2030			10,000	805,688	
2031			15,000	805,200	
2032			10,000	804,469	
2033			15,000	803,981	
2034			15,000	803,250	
2035			15,000	802,463	
2036			15,000	801,675	
2037			2,940,000	800,888	
2038			2,215,000	646,538	
2039			4,920,000	530,250	
2040			5,180,000	271,950	
	\$	\$	\$15,455,000	\$16,767,773	\$

BONDHOLDERS' RISKS

General

So long as the Corporation is the sole Member of the Obligated Group, payment of the Bonds will depend primarily upon the Corporation's ability to generate revenues from the Facilities sufficient to provide for payment of Obligation No. 6 while paying the operating expenses and other indebtedness of the Corporation, including the other Obligations.

The Corporation's ability to generate revenues and the overall financial condition of the Corporation may be adversely affected by a wide variety of future events and conditions, including changes in demand for facilities similar to those provided by the Corporation affecting the Corporation's ability to maintain full occupancy, fluctuations in public confidence both in the Corporation and the services it provides, changes in government licensing procedures and regulations and competition. The following are some of the factors that may affect the Corporation's operations and economic well-being and its ability to pay Obligation No. 6.

Certain risks are inherent in the successful operation of facilities such as the Facilities. Such risks should be considered in evaluating the Obligated Group's ability to generate sufficient revenues from the operations of the Facilities to pay principal of, premium, if any, and interest on the Bonds when due. This section discusses some of these risks but is not intended to be a comprehensive listing of all risks associated with the operation of the Facilities or the payment of the Bonds.

Limited Assets of the Obligated Group

The Corporation's sole business is expected to consist of the ownership and operation of the Facilities. Although it may seek donations from groups and individuals, the Corporation has no other sources of funds if revenues from operation of the Facilities are not sufficient to cover its expenses, including debt service on Obligation No. 6.

Uncertainty of Full Occupancy and Fee Collection

Payment of Obligation No. 6 is dependent in part on the ability of the Corporation (a) to collect Entrance Fees from residents occupying residential units or health care center beds vacated by deceased residents or by permanent transfers from residential units to health care center beds or by residents leaving the Facilities for other reasons and (b) to keep the Facilities occupied by residents who can pay both the Entrance Fees and the monthly service fee or per diem rates for the health care center. Many factors, including economic conditions such as a depressed housing market, could prevent prospective residents from selling their homes and generating cash sufficient to pay Entrance Fees.

Under certain conditions, portions of Entrance Fees must be refunded by the Corporation to residents or prospective residents upon termination of a Residence and Care Agreement. See in Appendix A **"THE COMMUNITY - Description of the Residence and Care Agreement."**

Management assumes that regular increases in Entrance Fees, monthly service fees and daily rates will be necessary to offset increasing costs due primarily to inflation. There can be no assurance that such increases can or will be made or that increases in expenses will be no greater than assumed. In addition, since many of the residents will be living on fixed incomes, there can be no assurance that any such fee increases can be paid by residents or that such increases will not adversely affect the utilization of the Facilities. The Corporation currently retains a certain number of residents who initially met the Corporation's financial requirements for residency but who, after admittance, may be unable to pay in full all monthly and other fees by reason of circumstances beyond their control. Additionally, the Corporation could possibly be required to accept additional residents unable to pay all fees in the future in order to maintain its tax-exempt status.

The current fee structure for the Facilities is described in Appendix A. The Corporation sets such fees based on, among other things, forecasts and actuarial tables. If the number of deaths and permanent transfers to the health care facility is less than assumed, the revenues of the Corporation could be adversely affected.

Issues Related to the Market of the Obligated Group

Sale of Personal Residences. It is anticipated that a number of prospective residents of the Facilities will need to sell their current homes in order to pay the Entrance Fee prior to occupancy or to meet other financial obligations under their Residency Agreements. Should prospective residents encounter difficulties in selling their current homes due to local or national economic conditions affecting the sale of residential real estate, such prospective residents may not have sufficient funds to pay the Entrance Fee or

to meet other obligations under their Residency Agreements, thereby causing a delay in the remarketing of vacated units, either of which could have an adverse effect on the revenues of the Obligated Group.

Dependence on Attracting Residents with Sufficient Resources to Pay. A large portion of the Obligated Group's net revenue for the Fiscal Year ended December 31, 2018 was attributable to private pay sources. Inflation or other circumstances that adversely affect the ability of residents to pay for the Obligated Group's services could have a material adverse effect on the Obligated Group's business, financial condition, and results of operations.

Existing Operations and Possible Increased Competition. The health care industry is highly competitive. The Obligated Group competes with a variety of other communities. Such competition may inhibit the extent to which the Obligated Group will be able to raise charges and maintain or increase admissions. Competing communities may offer newer or different centers or services and may thereby attract residents who are presently or potential residents of the Obligated Group's Facilities. The Obligated Group expects that it will face increasing levels of competition with respect to its operations and the services it provides. The Obligated Group also competes with health care and other businesses with respect to attracting and retaining nurses, technicians, aides, and other high quality professional and non-professional employees and managers. The Facilities are located in areas where other facilities exist and they may face additional competition in the future as a result of the construction of new housing for the elderly or continuing care facilities or assisted living, skilled nursing or memory care facilities in their primary market areas. There may also arise in the future competition from other forms of housing for the elderly or nursing care facilities or from home care or home health providers, some of which may be designed to offer similar services at lower prices.

Affiliation, Merger, Acquisition and Divestiture. Significant numbers of affiliations, mergers, acquisitions and divestitures have occurred in the health care industry recently. As part of its ongoing planning process, the Obligated Group may consider potential affiliations and acquisition of operations or properties which may become affiliated with or become part of the Obligated Group in the future. As a result, it is possible that the organizations and assets that currently comprise the Obligated Group may change from time to time. See in Appendix C "**SUMMARY OF THE MASTER INDENTURE – Parties Becoming Members of the Obligated Group.**"

Utilization Demand. Several factors could, if implemented, affect demand for services of the Facilities including: (i) efforts by insurers and governmental agencies to reduce utilization of skilled nursing home and long-term care facilities by such means as preventive medicine and home health care programs; (ii) advances in scientific and medical technology; (iii) a decline in the population, a change in the age composition of the population or a decline in the economic conditions of the service area of the Facilities; and (iv) increased or more effective competition from retirement communities and long-term care facilities now or hereafter located in the service area of the Facilities.

Labor Relations. At the present time, none of the Obligated Group's employees are members of unions or receive union wages and benefits. Unionization of employees or a shortage of qualified professional personnel could cause an increase in payroll costs beyond those projected. The Obligated Group cannot control the prevailing wage rates in its service area and any increase in such rates will directly affect the costs of its operations.

Nursing and Technical Staff Shortage. In past years, the health care industry has suffered from a shortage of skilled nursing and other technical personnel. The industry-wide shortage has created increased costs of operating health care facilities by creating upward pressure on nursing wage scales. Factors underlying this industry trend include an increase in the proportion of the elderly population, an increase in the tendency to institutionalize senior citizens as opposed to providing nursing care in the home, a decrease

in the number of persons entering the nursing profession and an increase in the number of nurses specializing in home health care. These factors may intensify in years to come, aggravating the shortage of skilled personnel. As competition for skilled nursing and technical personnel intensifies, staffing shortages could have the effect of significantly increasing the Obligated Group's personnel costs and could have a material adverse effect on the financial results of the Obligated Group and on the Obligated Group's ability to sustain minimum staffing levels necessary to maintain licensure and certification.

Rights of Residents; State Regulation

Although under the Corporation's current Residence and Care Agreements residents have no special lien or claim against any property of the Corporation, there can be no certainty that residents could not successfully claim or otherwise restrict the use of the Corporation's property in a bankruptcy proceeding or other dispute.

Legislation regulating continuing care facilities in North Carolina, codified as Section 58-64-1 et seq. of the General Statutes of North Carolina, creates specific requirements for disclosure statements and contracts for continuing care, restricts the use of entrance fees, provides for civil liability for violations of the disclosure requirements and criminal penalties for knowing and willful violations of the legislation. Section 58-64-45 of the General Statutes of North Carolina grants the State Commissioner of Insurance broad discretionary powers to supervise and, upon court order, to rehabilitate or liquidate any continuing care facility that is in imminent danger of becoming bankrupt or insolvent, or becomes bankrupt or insolvent or otherwise fails to satisfy certain statutory standards. In addition, in the event of liquidation of the Corporation, under Section 58-64-60, residents' Residence and Care Agreements are deemed preferred claims against all assets owned by the Corporation, except secured claims.

Residents occupying skilled nursing beds and assisted living beds are protected by the Nursing Home Patients' Bill of Rights, pursuant to Section 131E-115 et seq. of the General Statutes of North Carolina and the Adult Care Home Residents' Bill of Rights, pursuant to Section 131D-19 et seq. of the General Statutes of North Carolina, respectively. The Nursing Home Patients' Bill of Rights provides that beneficiaries shall have the right, among other things, to receive reasonable responses to their requests, to present grievances, to be transferred or discharged only for limited reasons and to receive statements of any account of personal funds of the resident managed by the Corporation. Similarly, the Adult Care Home Residents' Bill of Rights provides that beneficiaries shall have the right, among other things, to receive a copy of the section of the statute containing their list of rights upon admission, to receive reasonable responses to their requests and to examine any account of personal funds managed by the Corporation at any time. Injunctive remedies and administrative monetary penalties can be imposed for violation of either the Nursing Home Patients' or the Adult Care Home Residents' Bill of Rights, and such a violation could result in the revocation of the Corporation's licenses to operate the nursing home and assisted living components of its continuing care retirement facility.

The North Carolina General Assembly periodically studies the regulation of continuing care facilities. Although management of the Corporation is not aware of the introduction of any specific legislative proposals, legislation affecting continuing care facilities could be enacted in the future. Such legislation might limit the enforceability of and remedies provided under the Trust Agreement, the Loan Agreement, the Master Indenture or the Corporation Deed of Trust, thereby affecting the security for the Bonds.

Community Benefit Program

The Commission has instituted a community benefit program for nonprofit retirement communities for which the Commission issues revenue bonds. Pursuant to that program, the Commission desires the

total value of the Corporation's qualifying "charity care" and "community benefit" activities to equal 5% of the Facility's "resident revenues," all as set forth and defined in North Carolina General Statutes Section 105-278.6A. This statute generally defines charity care as assistance to residents who cannot pay full charges and community benefit as donation of money or services to charitable activities for the local community.

Nonprofit retirement communities can choose from three options to comply with the Commission's community benefit program: (i) pay property taxes, (ii) qualify for an exemption under North Carolina General Statutes Section 105-278.6A, or (iii) sign a community benefits agreement with the Commission. The Corporation, from its inception, has elected to pay property taxes; however, any failure of the Corporation to comply with the Commission's community benefit program could adversely affect the Corporation's future ability to utilize tax-exempt bonds issued by the Commission to finance additional projects or to refund existing bonds. In addition, the impact of changes to the Commission's community benefit program, if any, upon the Corporation or other nonprofit retirement communities in North Carolina cannot be predicted at this time.

State Delinquency Proceedings

Section 58-64-45 of the General Statutes of North Carolina, as amended, grants the North Carolina Commissioner of Insurance broad discretionary powers to supervise and, upon court order, to rehabilitate or liquidate any continuing care facility that becomes bankrupt or insolvent or otherwise fails to satisfy certain statutory standards. In the event that the North Carolina Commissioner of Insurance commences a delinquency proceeding against the Corporation pursuant to the provisions of Section 58-30-1 et seq. of the General Statutes of North Carolina, as amended, the North Carolina Commissioner of Insurance may be authorized by court order to take possession and control of all or a part of the property of the Corporation, including, without limitation, the Pledged Assets and the Mortgaged Property, and the Master Trustee may be delayed, limited or precluded in the enforcement of remedies otherwise available to the Master Trustee under the terms of the Master Indenture and the Corporation Deed of Trust.

Tax Consequences to Residents

Section 7872 of the Internal Revenue Code of 1986, as amended (the "Code") provides that, in each year of a "below market loan," the lender will be treated as receiving taxable interest income calculated at the "applicable federal rate" in each year of the loan, even if the obligation to pay the loan does not provide for payment of any interest. The payment to the Corporation of the Entrance Fee, which must be refunded to such resident in certain circumstances in diminishing amounts for a period of time (see Appendix A), may be deemed to be a below market loan. If, however, the Corporation and the residents satisfy the conditions of Section 7872(h) of the Code dealing with certain payments to a "qualified continuing care facility" pursuant to a "continuing care contract," an Entrance Fee will not be treated as a "below market loan." No Treasury Regulations interpreting Section 7872(h) or the committee reports have been issued.

If a resident's payment of an Entrance Fee does not satisfy the conditions of Section 7872(h), then the prospect of a resident having to pay taxes on amounts not actually received will increase the resident's costs and may increase the time necessary to fill vacancies in the Facilities. This, in turn, could adversely affect revenues of the Corporation. Section 7872 of the Code could have an adverse effect on the Corporation's ability to maintain current reservations or to market additional units of the Facilities.

Organized Resident Activity

The Corporation may, from time to time, be subject to pressure from organized groups of residents seeking, among other things, to raise the level of services or to maintain the level of monthly fees with

respect to the Facilities or other charges without increase. Moreover, the Corporation may be subject to conflicting pressures from different groups of residents, some of whom may seek an increase in the level of services while others wish to hold down monthly fees and other charges. No assurance can be given that the Corporation will be able satisfactorily to meet the needs of such resident groups.

Failure to Provide Ongoing Disclosure

Pursuant to the Loan Agreement, the Corporation will undertake certain continuing disclosure obligations pursuant to Rule 15c2-12 promulgated by the Securities and Exchange Commission in connection with the issuance of the Bonds. Failure to comply with this continuing disclosure undertaking and additional disclosure obligations in the future may adversely affect the liquidity of the affected Bonds and their market price in the secondary market. See "**CONTINUING DISCLOSURE AND ADDITIONAL DISCLOSURE**" herein.

Market for Bonds

The Bonds have not received any credit rating by any recognized rating agency. The absence of any such rating could adversely affect the ability of Holders to sell the Bonds or the price at which the Bonds can be sold.

It is the present practice of the Underwriters to make a secondary market in the bond issues they offer. Occasionally, because of general market conditions or because of adverse history or economic prospects connected with a particular bond issue, these secondary marketing practices in connection with a particular bond issue are suspended or terminated. In addition, prices of issues for which a market is being made will depend upon then-prevailing circumstances. Such prices could be substantially lower than the original purchase price. While there can be no guarantee or assurance that the Underwriters will always continue their present secondary marketing practices, the Underwriters presently intend to make a secondary market in the Bonds, subject to the foregoing limitations. Nevertheless, there can be no guarantee that there will be a secondary market for the Bonds or, if a secondary market exists, that the Bonds can be sold for any particular price. Any prospective purchaser of the Bonds should therefore undertake an independent investigation through its own advisors regarding the desirability and practicality of the investment in the Bonds. Any prospective purchaser should be fully aware of the long-term nature of an investment in the Bonds and should assume that it will have to bear the economic risk of its investment indefinitely. Any prospective purchaser of the Bonds that does not intend or that is not able to hold the Bonds for a substantial period of time is advised against investing in the Bonds.

Tax-Exempt Status

The Corporation has received a letter from the Internal Revenue Service ("IRS") determining that the Corporation is a tax-exempt organization described in Section 501(c)(3) of the Code based on the representations it made to the IRS. In order to maintain such status, the Corporation is required to conduct its operations in a manner consistent with representations previously made to the IRS and with current and future IRS regulations and rulings governing tax-exempt continuing care retirement facilities. Loss of tax-exempt status would likely have a significant adverse effect on the Corporation and its operations and could result in the includability of interest on the Bonds in gross income for federal income tax purposes for owners of the Bonds retroactively to their date of issue. In the Loan Agreement and the Master Indenture, the Corporation has covenanted to maintain its status as a tax exempt organization.

State of North Carolina Tax Reform

The North Carolina General Assembly has in the past five years implemented various changes to the State's income and sales tax laws. Currently, charitable nonprofit entities such as the Corporation receive refunds for State and local sales taxes paid by such nonprofit entities; provided, however, that such refunds are limited to \$31,700,000 for State sales taxes and \$13,300,000 for local sales taxes per year. Although not adopted, several proposals have been introduced in the North Carolina General Assembly to decrease these sales tax refund limits. The Corporation can make no assurance that such refunds will not be decreased in the future. During the calendar year 2018, the Corporation received \$181,989 in such tax refunds. In addition, other proposals, although not adopted, would have limited the amount of charitable contributions individuals could deduct for North Carolina state income tax purposes, which could have led to the Corporation receiving fewer charitable contributions. These and other tax reforms in the future may adversely affect the financial condition of the Corporation.

Legislation Affecting Tax-Exempt Bonds

In recent years the IRS and members of Congress have expressed concern about the need for more restrictive rules governing the tax-exempt status of 501(c)(3) organizations generally and of retirement communities in particular. Legislation has been previously introduced restricting the ability of such organizations to utilize tax-exempt bonds unless they maintain a required percentage of low to moderate-income residents. Although the Corporation has covenanted in the Loan Agreement to take all appropriate measures to maintain its tax-exempt status, compliance with current and future regulations and rulings of the IRS could adversely affect the ability of the Corporation to charge and collect revenues at the desired level, finance or refinance indebtedness on a tax-exempt basis or otherwise generate revenues necessary to provide for payment of Obligation No. 6.

Environmental Risks

The Corporation obtained a Phase I environmental site assessment report on its then existing Facilities in June 2001, which was updated in 2003, 2006, 2009 and 2018. The report revealed no evidence of on-site recognized environmental conditions and the consultant recommended no further assessment of the Corporation's property at that time.

If the Facilities or other property owned by the Corporation were found to be environmentally contaminated, the federal or State government may require a clean-up and the Corporation may be required to pay all or a part of such clean-up costs. If the Corporation were unable to continue operations at the Facilities, the value of such Facilities at foreclosure could be reduced by the cost of any clean-up.

Future Legislation and Regulation

The Corporation is subject to federal and state regulatory actions, legislative and policy changes by federal, state and local governments and agencies. A wide variety of bills and regulations intended to regulate, control or alter the health care industry are often proposed and introduced in Congress, state legislatures and regulatory agencies. Because of the many possible financial effects that could result from enactment of any bills or regulatory actions affecting the health care industry, it is not possible at this time to predict with assurance the effect on the business of the Corporation, if any, of such laws, bills or regulatory actions.

Additional Indebtedness

The Master Indenture permits the Corporation to incur additional indebtedness which may be equally and ratably secured with Obligation No. 6. Any such additional parity indebtedness would be entitled to share ratably with the holders of Obligation No. 6 in any money realized from the exercise of remedies in the event of a default under the Master Indenture. There is no assurance that, despite compliance with the conditions upon which additional indebtedness may be incurred at the time such debt is created, the ability of the Corporation to make the necessary payments to repay Obligation No. 6 will not be materially adversely affected upon the incurrence of additional indebtedness.

Risks Related to Bank Financing

The Corporation may incur debt in the future through private placements with one or more financial institutions (each a "Bank Loan"). The terms of each Bank Loan will likely be negotiated separately and could create certain risks that could negatively affect the Corporation's ability to make the payments on the Bonds. The risks associated with a Bank Loan could include, but are not limited to the following:

- (a) being variable rate (which would subject the Corporation to interest rate risk, if interest rates were to increase);
- (b) having a balloon payment at maturity (which would subject the Corporation to either a large payment of cash at maturity or require the Corporation to obtain alternate financing, and there could be no guarantee that the Corporation could accomplish either);
- (c) having financing covenants that are more restrictive than those in the Master Indenture and the Loan Agreement (which could result in a situation where the Corporation is in default of its obligations under a Bank Loan but not the Bonds); and
- (d) having the holder of the Bank Loan exercise certain remedies if the Corporation defaults on its obligations under the Master Indenture (specifically, if the holder of one or more Bank Loans controls a significant proportion of the Obligations outstanding under the Master Indenture, that holder could exercise certain remedies in a default scenario).

Health Care Costs

As described in Appendix A, the Corporation is obligated to provide to its independent living residents certain personal or nursing care services. In some cases, after a resident uses their personal or nursing care services allotments, the resident becomes responsible for paying the current daily fee for such personal or nursing care services. The increased cost of such care resulting from cost increases generally or increased frequency of use by residents could adversely affect the Corporation's financial condition. In addition, any resident requiring personal or nursing care in excess of their respective allotments may not be required to leave solely because of inability to pay for such care.

The Corporation is not currently, and has no plans to become, a Medicaid provider, but may decide to become a certified provider in the future. There are certain risks associated with the participation in and reimbursement from the Medicaid program. Because the federal government funds the Medicare program and participates in the Medicaid program, the rapidly rising cost of health care has put pressure on the federal budget. In recent years, there have been numerous federal legislative and administrative actions (including the "Patient Protection and Affordable Care Act" and "The Health Care and Education Affordability Reconciliation Act of 2010" that were signed into law in 2010) that have reduced the rate of increase in Medicare payments to health care providers, including skilled nursing facilities. The federal

government has also reduced the share of federal matching payments made to the states to subsidize the cost of their Medicaid programs.

Attempts to further reduce Medicare and Medicaid funding will likely intensify as the pressure to reduce the federal deficit and balance the federal budget increases, and the federal government may implement other reductions in Medicare and Medicaid funding. Any such reductions in Medicare funding could result in a decrease in operating revenues of the Corporation.

Third-Party Payors

The Corporation is eligible for reimbursement from Medicare and is a certified provider of Medicare services, with a number of its licensed nursing beds at the Facilities being Medicare certified beds as more particularly described in Appendix A hereto. The Corporation is not currently, and has no plans to become, a Medicaid provider, but may decide to become a certified provider of Medicaid in the future. The Medicare and Medicaid programs impose limitations on payment that may require the delivery of services below cost. Participation in these programs also subjects the Corporation to extensive regulation that may impose significant restrictions on the operations of the Facilities and subjects the Corporation to a range of potential criminal, civil and administrative sanctions. Health care providers such as the Corporation are regularly subject to audits, inquiries and investigations and have received requests for information relating to a variety of subjects because of these enforcement activities. As a result of these audits, inquiries and investigations, claims and lawsuits may be brought against the Corporation from time to time. The Corporation cannot predict the results of any such claims and lawsuits. The ultimate resolution of these claims and lawsuits, individually or in the aggregate, may have a material adverse effect on the Corporation's business (both in the near and long term), reputation, financial position, results of operations or cash flows.

Payment for health care services, except health care services provided to residents without further charge under the terms of the Corporation's residency agreements or services reimbursed under the Medicare or Medicaid programs, is the sole responsibility of each resident and any private insurer of such resident. Private insurers are increasing their efforts to restrict and control payments, and such actions may adversely affect the ability of the Corporation to generate revenues sufficient to provide for the payment of the Bonds.

Certificate of Need

Under the North Carolina Certificate of Need Law (the "CON Law"), the Corporation cannot, without obtaining a certificate of need ("CON"), among other things, make capital expenditures relating to health care exceeding \$2,000,000, increase the number of, or relocate, health care beds, including assisted living beds, effect a change of more than 15% of approved capital expenditures during development or within a year of completion of a project for which a CON has already been issued, change its nursing care or assisted living bed capacity or materially deviate from the proposed scope of an approved project or violate conditions imposed in the CON for such a project. The Corporation is contractually obligated to provide health care to its residents. To the extent it may need additional nursing care or assisted living beds, the ability to obtain such beds may be restricted by the CON law. Any failure to obtain a CON for needed beds could require the Corporation to contract with outside providers for the required services.

The Corporation has received all CONs required for its Facilities, however, there can be no assurance as to the ability of the Corporation to obtain CON approval for future projects necessary to maintain competitive rates and charges or its quality and scope of care.

Recently, some states have amended their certificate of need laws to reduce or remove the restrictions imposed with respect to undertaking covered activities or expenditures related to health care facilities. In each of these states there were substantial increases in the number of health care facilities providing services in major urban areas. There have recently been increasing efforts in the North Carolina General Assembly to amend the CON Law in a similar manner. If the CON Law is so amended in the future, the Corporation could experience increased competition for certain health care services it currently provides, or their revenues from such services could decline, or both.

In addition, the CON Law may be amended in the future to increase or decrease the regulatory restrictions and resulting costs. For all of these reasons, the CON Law could adversely affect the revenues of the Corporation and may be changed in the future in ways that are adverse to the Corporation.

Insurance

The Corporation is obligated to carry insurance as described in the Master Indenture. See Appendix C "**SUMMARY OF THE MASTER INDENTURE - Insurance.**" Claims and increases in insurance premiums could, to the extent not covered by increased revenues, adversely affect the Corporation's financial condition.

Bankruptcy

Bankruptcy and similar proceedings and usual equity principles may limit any attempt by the Master Trustee to enforce remedies against, or seek payment from, the property of the Corporation or any future Members of the Obligated Group. Bankruptcy proceedings by the Corporation could have adverse effects on Holders that might reduce or delay payments on the Bonds. Federal bankruptcy law also permits adoption of a reorganization plan without the approval of the Holders if they are provided with the benefit of their original security or the "indubitable equivalent." In addition, if a bankruptcy court concludes that the Holders have "adequate protection," the court may (1) substitute other security for the Holders' security and (2) subordinate the security of the Holders to (a) claims by persons supplying goods, services or credit to the Corporation after bankruptcy and (b) the administrative expenses of the bankruptcy proceeding. In the event of such bankruptcy, the amount realized by the Holders may depend on the court's interpretation of "indubitable equivalent" and "adequate protection" under then existing circumstances. The effect of these and the provisions of federal bankruptcy law cannot be predicted and may be significantly affected by judicial interpretation.

Courts may restrict the ability of the Master Trustee to compel the liquidation of the property of the Corporation or any future Member of the Obligated Group to pay a judgment against it for payment of the Bonds because it is a nonprofit corporation carrying out charitable purposes. Furthermore, recent judicial decisions concerning the status of debt service reserve funds held by an indenture trustee have concluded that such reserves are "cash collateral" of a debtor in bankruptcy and have cast doubt on the ability of the Bond Trustee to use moneys in the Reserve Fund No. 1 to make payments on the Bonds in the event of a bankruptcy of the Corporation or any future Member of the Obligated Group.

Under the terms of the Master Indenture, each Member of the Obligated Group is obligated to pay and to grant security interest in Pledged Assets to secure the payment of all Obligations issued thereunder, including Obligations issued before it became a Member. The enforceability of Obligation No. 5 and Obligation No. 6 and any subsequent Obligations of the Corporation against future Members of the Obligated Group and the security interests granted in Pledged Assets by them as security for Bonds may be limited under fraudulent conveyance laws and the federal bankruptcy code.

Limitations on Enforceability of Remedies

Initially, the Corporation will be the only Member of the Obligated Group. In the future, if there is more than one Member of the Obligated Group, the financial results of all the Members of the Obligated Group will be combined for purposes of various covenants and tests, including debt incurrence tests, under the Master Indenture. Although the assets of the Corporation are expected to produce revenues necessary to provide for payment of the Bonds, under the terms of the Master Indenture, substantial portions of all such assets could be conveyed to other Members. In an action involving the enforceability of an Obligation or the security interest in Pledged Assets granted as security therefor, against a Member of the Obligated Group, payment of such Obligation may not be enforced if sufficient consideration was not received by such Member for the Obligation and its incurrence will render such Member insolvent.

The realization of any rights upon a default will depend upon the exercise of various remedies specified in the Trust Agreement, the Loan Agreement, the Master Indenture and the Corporation Deed of Trust. Any attempt by the Bond Trustee or the Master Trustee to enforce such remedies may require judicial action, which is often subject to discretion and delay. Under existing law, certain of the legal and equitable remedies specified in the Trust Agreement, the Loan Agreement, the Corporation Deed of Trust and the Master Indenture may not be readily available.

Any default in the performance of a covenant set forth in the Trust Agreement (including a default which has become an Event of Default thereunder), the Loan Agreement, the Corporation Deed of Trust or the Master Indenture would constitute an Event of Default under the Master Indenture only following notice by the Master Trustee and lapse of time, as further described in Appendix C "**SUMMARY OF THE MASTER INDENTURE – Defaults and Remedies.**" The Master Trustee may give such notice at any time in its discretion, but is not required to give such notice without the request of the Holders of at least 25% in aggregate principal amount of the Obligations Outstanding under the Master Indenture. Events of Default specified by the Master Indenture are remediable through an enforcement action taken by the Master Trustee in its discretion or at the request of the Holders of not less than 25% in aggregate principal amount of the Obligations Outstanding under the Master Indenture. Notwithstanding any provision of the Master Indenture described in this paragraph, the Holders of not less than a majority in aggregate principal amount of Obligations then Outstanding under the Master Indenture will have the right to control all remedial proceedings.

Upon issuance of the Bonds, the principal amount of Obligation No. 6 will be approximately 75.7%* and Obligation No. 5 will be approximately 24.3%* of the aggregate principal amount of all Obligations Outstanding under the Master Indenture. The Master Indenture permits the issuance of Additional Obligations under the circumstances specified therein, so the proportion of the principal amount of Obligation No. 6 to the principal amount of all Obligations at any time Outstanding under the Master Indenture is subject to change.

Upon an acceleration of the outstanding Obligations and all other Obligations issued under the Master Indenture, after paying the expenses and other amounts due the Master Trustee, amounts available to pay the Obligations will be prorated among all Holders of Obligations without preference or priority of principal or premium over interest or of interest over principal or premium, or of any Obligation over any other Obligation.

* Preliminary, subject to change.

Amendments to Documents

Certain amendments to the Master Indenture, the Trust Agreement and the Loan Agreement may be made without notice to or the consent of all of the Holders of, with respect to the Master Indenture, the Obligations or, with respect to the Trust Agreement and Loan Agreement, the Bonds, and other amendments may be made with the consent of the Holders of a majority in aggregate principal amount of all outstanding Obligations or the Bonds, as applicable. Such amendments could affect the security for the Obligations or the Bonds, as applicable. Certain amendments under the Master Indenture, however, are not permitted, including, (a) changing the times, amounts or currency of payment of the principal of, redemption premium, if any, interest or any other payment on any Obligation or a reduction in the principal amount or redemption price of any Obligation or the rate of interest thereon, without the consent of the Holder of such Obligation, (b) permitting preference or priority of any Obligation over any other Obligation, without the consent of the Holders of all outstanding Obligations and (c) reducing the aggregate principal amount of Obligations required for consent to a supplement to the Master Indenture without the consent of the Holders of all outstanding Obligations. Additionally, certain amendments under the Trust Agreement are not permitted, including (a) an extension of the maturity of the principal of or the interest on any Bonds without the consent of the Holders of such Bonds, (b) a reduction in the principal amount of any Bonds or the redemption premium or the rate of interest thereon without the consent of the Holders of such Bonds, (c) the creation of a pledge of receipts and revenues to be received by the Commission under the Loan Agreement superior to the pledge created by the Trust Agreement without the consent of the Holders of all Bonds Outstanding, (d) a preference or priority of any Bond over any other Bond without the consent of the Holders of all Bonds Outstanding, or (e) a reduction in the aggregate principal amount of Bonds required for consent to such supplemental trust agreement without the consent of the Holders of all Bonds Outstanding. See in Appendix C **"SUMMARY OF MASTER INDENTURE – Supplements and Amendments"** and **"SUMMARY OF TRUST AGREEMENT - Modification of Trust Agreement."**

In addition, the Master Indenture specifically permits that, in connection with the initial offering and sale of any Related Bonds, the underwriters (or their representative) of such Related Bonds will be deemed to be the initial Holders thereof or, if such Related Bonds so provide, may be appointed as attorney-in-fact by the initial purchasers of such Related Bonds for the purpose of consenting to any request, direction, consent or other instrument to be signed and executed by the Holders. In connection with any future changes implemented with the issuance of future Related Bonds, Holders of the 2019A Bonds being issued hereby may not get notice or a chance to vote with respect to any such changes. See in Appendix C **"SUMMARY OF MASTER INDENTURE – Evidence of Acts of Holders."**

Limited Value at Foreclosure

The Facilities have been specifically constructed for continuing care purposes. The number of entities that could be expected to purchase the Facilities at a foreclosure sale is limited, and thus the ability of the Master Trustee to realize funds from the sale of the Facilities, except as a continuing care facility, upon an event of default may be limited. Under State law, licenses to operate continuing care facilities are not transferable. Accordingly, an entity purchasing the Facilities at a foreclosure sale would need to obtain its own license to operate the Facilities as a continuing care facility.

Cybersecurity

Like many organizations, the Corporation is highly dependent on digital technologies. These systems necessarily hold large quantities of highly sensitive protected health information that is highly valued on the black market for such information. As a result, the electronic systems and networks of organizations like the Corporation are considered likely targets for cyber attacks and other potential breaches of their systems. In addition to regulatory fines and penalties, the healthcare entities subject to the

breaches may be liable for the costs of remediating the breaches, damages to individuals whose information has been breached, reputational damage and business loss, and damage to the information technology infrastructure. The Corporation has taken, and continues to take, measures to protect its information technology system against such cyber attacks, but there can be no assurance that the Corporation will not experience a significant breach. If such a breach occurs, the financial consequences of such a breach could have a materially adverse impact on the Corporation.

Other Risk Factors

The occurrence of any of the following events, or other unanticipated events, could adversely affect the operations of the Obligated Group:

- (i) Reinstatement or establishment of mandatory governmental wage, rent or price controls;
- (ii) Inability to control increases in operating costs, including salaries, wages and fringe benefits, supplies and other expenses, given an inability to obtain corresponding increases in revenues from residents whose incomes will largely be fixed;
- (iii) Unionization, employee strikes and other adverse labor actions which could result in a substantial increase in expenditures without a corresponding increase in revenues;
- (iv) Adoption of other federal, state or local legislation or regulations having an adverse effect on the future operating or financial performance of the Obligated Group;
- (v) The cost and availability of energy;
- (vi) Increased unemployment or other adverse economic conditions in the service area of the Obligated Group which would increase the proportion of residents who are unable to pay fully for the cost of their unit or services;
- (vii) Any increase in the quantity of indigent care provided which is mandated by law or required due to increased needs of the community in order to maintain the charitable status of the Obligated Group;
- (viii) Inflation or other adverse economic conditions;
- (ix) Changes in tax, pension, social security or other laws and regulations affecting the provisions of health care and other services to the elderly;
- (x) Inability to control the diminution of residents' assets or insurance coverage which could affect their ability to pay for their unit or assisted living services or result in charges being reimbursed from government reimbursement programs rather than private payments;
- (xi) The occurrence of natural disasters, including floods and earthquakes, which may damage the facilities of the Obligated Group, interrupt utility service to the facilities, or otherwise impair the operation and generation of revenues from said facilities; or
- (xii) Cost and availability of any insurance, such as malpractice, fire, automobile and general comprehensive liability, that organizations such as the Obligated Group generally carry.

SELECTED COVENANTS

Set forth below are summaries of certain covenants in the Master Indenture. These summaries do not purport to be complete, and reference is made to the Master Indenture, a copy of which is on file with the Bond Trustee, for a complete statement of the rights, duties and obligations of the parties thereto.

Rate Covenant

Under the Master Indenture, each Member of the Obligated Group covenants to set rates and collect charges for its Facilities, services and products such that the Long-Term Debt Service Coverage Ratio, calculated as of the end of each Fiscal Year, will not be less than 1.20; provided, however, that in any case where Long-Term Indebtedness has been incurred to acquire or construct capital improvements, the Long-Term Debt Service Requirement with respect thereto shall not be taken into account in making the foregoing calculation until the first full Fiscal Year commencing after substantially all of such capital improvements are placed in service (except that with respect to capital improvements consisting, in whole or in part, of independent or assisted living units or health care beds, the Long-Term Debt Service Requirement with respect thereto shall not be taken into account until the earlier to occur of (i) the first full Fiscal Year next succeeding the Fiscal Year in which the occupancy of such independent or assisted living units or health care beds reaches 90% and (ii) the first full Fiscal Year following the Fiscal Year in which occurs that date which is 18 months following the date upon which substantially all of such independent or assisted living units or health care beds are placed in service; in either case, the Obligated Group agrees that it will notify the Master Trustee of such event within ten (10) days following its occurrence.

In the event the Long-Term Service Debt Coverage Ratio, calculated as of the end of any Fiscal Year, is less than 1.20 but greater than 1.10 and the Reserve Ratio as of the end of such Fiscal Year is not less than 0.35, no Event of Default shall be deemed to have occurred and no further action need be taken.

In the event the Long-Term Debt Service Coverage Ratio, calculated as of the end of any Fiscal Year, is less than 1.20 but greater than 1.10 and the Reserve Ratio as of the end of each such Fiscal Year is less than 0.35, the Obligated Group shall retain a Management Consultant to analyze the reasons for the failure to achieve a Long-Term Debt Service Coverage Ratio of 1.20 and to make recommendations to increase the Long-Term Debt Service Coverage Ratio for the following Fiscal Year to such amount. If, for two successive Fiscal Years, the Long-Term Debt Service Coverage Ratio is less than 1.20 but greater than 1.10 and the Reserve Ratio as of the end of each such Fiscal Year is less than 0.35, it shall be an Event of Default.

In the event the Long-Term Debt Service Coverage Ratio, calculated as of the end of any Fiscal Year, is less than 1.10, the Obligated Group shall retain a Management Consultant to make recommendations to increase the Long-Term Debt Service Coverage Ratio for the following Fiscal Year to 1.20. If the Long-Term Debt Service Coverage Ratio is less than 1.10 for two successive Fiscal Years, it shall be an Event of Default.

In the event the Obligated Group fails to make a selection of a Management Consultant and fails to give notice of such selection to the Master Trustee within thirty (30) days after its receipt of Financial Statements for a Fiscal Year referred to in either of the two preceding paragraphs (or such later date permitted as described in the subsection entitled "Approval of Management Consultants" below), the Master Trustee shall notify the Obligated Group Representative of such failure and request the Obligated Group to select such Management Consultant within five days. A copy of such recommendations must be filed with the Master Trustee within ninety (90) days after the date the Management Consultant is selected unless the Master Trustee extends, by prior written consent, the time within which such recommendations must be so filed.

The Obligated Group agrees that it will, to the extent permitted by law and consistent with the status of any Member of the Obligated Group as a Tax-Exempt Organization, follow any recommendations of the Management Consultant.

Liquidity Covenant

Under the Master Indenture, each Member of the Obligated Group has agreed to conduct its business so that on each June 30 and December 31 (each, a "Liquidity Testing Date"), the Obligated Group shall have no less than 180 Days' Cash on Hand (the "Liquidity Requirement"). If the Days' Cash on Hand on any Liquidity Testing Date shall be less than the Liquidity Requirement, the Obligated Group Representative shall, within 45 days after delivering the Officer's Certificate disclosing such deficiency, deliver an Officer's Certificate approved by a resolution of the Governing Body of each Member of the Obligated Group to the Master Trustee setting forth in reasonable detail the reasons for such deficiency and adopting a specific plan setting forth steps to be taken designed to achieve the Liquidity Requirement on future Liquidity Testing Dates.

If the Obligated Group has not achieved the Liquidity Requirement by the next Liquidity Testing Date following delivery of the Officer's Certificate required in the preceding paragraph, the Members of the Obligated Group shall, within 30 days after delivery of the Officer's Certificate disclosing such second consecutive deficiency (or such later date permitted as described in the subsection entitled "Approval of Management Consultants" below), retain a Management Consultant to make recommendations with respect to the rates, fees and charges of the Obligated Group, the Obligated Group's methods of operation and other factors affecting its financial condition in order to achieve 180 Days' Cash on Hand on future Liquidity Testing Dates. Each Member of the Obligated Group shall follow each recommendation of the Management Consultant applicable to it to the extent feasible (as determined in the reasonable judgment of the Governing Body of such Member of the Obligated Group) and permitted by law.

Notwithstanding any other provision of the Master Indenture, failure of the Obligated Group to achieve the Liquidity Requirement for any Liquidity Testing Date shall not constitute an Event of Default under the Master Indenture if the Obligated Group takes all action necessary to comply with the procedures set forth above for adopting a plan or retaining a Management Consultant and follows each recommendation contained in such plan or Management Consultant's report to the extent feasible (as determined in the reasonable judgment of the Governing Body of the Corporation) and permitted by law.

Rating Solicitation Covenant

Not later than 150 days after receipt by the Obligated Group of Financial Statements for each Fiscal Year, the Obligated Group will approach any Rating Agency to obtain a credit rating until the Obligated Group obtains a credit rating of "BBB-" (or an equivalent rating) or better from any Rating Agency (an "Investment Grade Credit Rating"). Notwithstanding the foregoing, the requirement to annually approach a Rating Agency shall terminate when the Obligated Group obtains an Investment Grade Credit Rating. Notwithstanding the foregoing, the Obligated Group shall not be required to approach a Rating Agency to obtain a credit rating if the Obligated Group Representative reasonably believes that the Obligated Group will not meet the criteria of any Rating Agency for an Investment Grade Credit Rating based on the then-existing published rating criteria of the Rating Agencies.

Approval of Management Consultants

If at any time the Members of the Obligated Group are required to engage a Management Consultant under the Master Indenture covenants described above, such Management Consultant shall be engaged in the manner set forth under this subheading.

Upon selecting a Management Consultant as required under the provisions of the Master Indenture, the Obligated Group Representative will notify the Master Trustee and the Commission of such selection. While any Commission Bonds are outstanding, each Management Consultant must be acceptable to the Commission. The Commission shall indicate acceptance of each Management Consultant as soon as practicable, but in any case, no longer than five Business Days after receipt of notice. The Master Trustee shall, as soon as practicable but in no case longer than five Business Days after receipt of notice, notify the Holders of all Outstanding Obligations of such selection. Such notice shall (i) include the name of the Management Consultant and a brief description of the Management Consultant, (ii) state the reason that the Management Consultant is being engaged including a description of the covenant(s) of the Master Indenture that require the Management Consultant to be engaged, and (iii) state that the Holder of the Obligation will be deemed to have consented to the selection of the Management Consultant named in such notice unless such Holder submits an objection to the selected Management Consultant in writing (in a manner acceptable to the Master Trustee) to the Master Trustee within 20 days after the date that the notice is sent to the Holders. No later than two Business Days after the end of the 20-day objection period, the Master Trustee shall notify the Obligated Group of the number of objections. If the Holders of two-thirds (66.6%) or more in aggregate principal amount of the Outstanding Obligations have been deemed to have consented to the selection of the Management Consultant, the Obligated Group Representative may engage the Management Consultant. If the Holders of more than one-third (33.3%) in aggregate principal amount of the Outstanding Obligations have objected to the Management Consultant selected, the Obligated Group Representative shall select another Management Consultant, which may be engaged upon compliance with the procedures described under this subheading, within 30 days after receipt of notice from the Master Trustee.

When the Master Trustee notifies the Holders of such selection, the Master Trustee will also request any Related Bond Trustee send a notice containing the information required by the preceding paragraph to the registered owners of all of the Related Bonds outstanding. Such Related Bond Trustee shall, as the Holder of an Obligation securing such Related Bonds, consent or object to the selection of the Management Consultant in accordance with the response of the owners of such Related Bonds. If the owners of two-thirds (66.6%) or more in aggregate principal amount of the outstanding Related Bonds have been deemed to have consented to the selection of the Management Consultant, the Bond Trustee shall approve the Management Consultant. If the owners of more than one-third (33.3%) in aggregate principal amount of the outstanding Related Bonds have objected to the Management Consultant selected, the Bond Trustee shall not approve the Management Consultant.

The 20-day notice period described in the second paragraph above may be extended by the Master Trustee in order to permit each Related Bond Trustee to give the owners of the Related Bonds 20 days to respond to the notice given by the Related Bond Trustee. By acceptance of an Obligation securing any Related Bonds, the Related Bond Trustee agrees to comply with the provisions described under this subheading.

CONTINUING DISCLOSURE AND ADDITIONAL DISCLOSURE

Continuing Disclosure

To permit the Underwriters to comply with Rule 15c2-12 (the "Rule") promulgated by the Securities and Exchange Commission (the "SEC"), the Corporation will undertake in the Loan Agreement to provide to the Municipal Securities Rulemaking Board ("MSRB"):

(a) by not later than 120 days after the end of each Fiscal Year of the Obligated Group, commencing with the Fiscal Year ending December 31, 2019, the Financial Statements for such Fiscal Year, if available, or, if such Financial Statements are not available by 120 days after the end of such Fiscal Year, the Unaudited Financial Statements (defined below) for such Fiscal Year to be replaced subsequently

by the Financial Statements to be delivered within 15 days after such Financial Statements become available for distribution;

(b) by not later than 120 days after the end of each Fiscal Year, commencing with the Fiscal Year ending December 31, 2019, the financial and statistical data as of a date not earlier than the end of the preceding Fiscal Year for (i) the type of information described in the tables entitled "**Independent Living Unit Configuration**," "**Healthcare Center Configuration**," "**Days' Cash On Hand**" and "**Statements of Operations**," (ii) the type of information described in the table entitled "**Historical Occupancy**" and (iii) the information described in the section "**HISTORICAL FINANCIAL PERFORMANCE - Management Discussion and Analysis**" in Appendix A hereto;

(c) by not later than 120 days after the end of each Fiscal Year, commencing with the Fiscal Year ending December 31, 2019, the Long-Term Debt Service Coverage Ratio and Reserve Ratio for such Fiscal Year and the number of Days' Cash on Hand as of the end of such Fiscal Year, to the extent such items are not included in the Financial Statements provided pursuant to clause (a) above, if required to be calculated as described in "**SELECTED COVENANTS - Rate Covenant**" and "**- Liquidity Covenant**" herein.

(d) in a timely manner, not in excess of ten business days after the occurrence of the event, notice of any of the following events with respect to the Bonds:

- (1) principal and interest payment delinquencies;
- (2) non-payment related defaults, if material;
- (3) unscheduled draws on any debt service reserves reflecting financial difficulties;
- (4) unscheduled draws on credit enhancements reflecting financial difficulties;
- (5) substitution of credit or liquidity providers, or their failure to perform;
- (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Bonds, or other material events affecting the tax of the Bonds
- (7) modifications to the rights of the beneficial owners of the Bonds, if material;
- (8) bond calls (other than calls for mandatory sinking fund redemption), if material, and tender offers;
- (9) defeasances;
- (10) release, substitution or sale of any property securing repayment of the Bonds, if material;
- (11) rating changes;
- (12) bankruptcy, insolvency, receivership or similar event of any Member of the Obligated Group, which for purposes of this event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for any Member of the Obligated

Group in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of any Member of the Obligated Group, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of any Member of the Obligated Group;

(13) the consummation of a merger, consolidation, or acquisition involving any Member of the Obligated Group or the sale of all or substantially all of the assets of any Member of the Obligated Group, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material;

(14) appointment of a successor or additional Bond Trustee or the change of name of a Bond Trustee, if material;

(15) incurrence of a financial obligation (as defined below) of any Member of the Obligated Group, if material, or agreement to covenants, events of default, remedies, priority rights or other similar terms of a financial obligation of a Member of the Obligated Group, any of which affect the beneficial owners of the Bonds, if material;

(16) default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a financial obligation of any Member of the Obligated Group, any of which reflect financial difficulties; and

(e) in a timely manner, notice of a failure of the Corporation to provide required annual financial information described in (a), (b) or (c) above on or before the date specified.

The Corporation shall provide the documents referred to above to the MSRB in an electronic format as prescribed by the MSRB and accompanied by identifying information as prescribed by the MSRB. The Corporation may also discharge its undertaking described above by transmitting such information in any other manner subsequently authorized or required by the SEC.

For the purposes of this Section, "financial obligation" means a debt obligation, a derivative instrument entered into in connection with, or pledged as security or a source of payment for, an existing or planned debt obligation, or a guarantee of either. The term "financial obligation" shall not include municipal securities as to which a final official statement has been provided to the MSRB consistent with the Rule.

See in Appendix C "**DEFINITIONS OF CERTAIN TERMS**" for the definition of "Financial Statements." For the purposes of continuing disclosure, "Unaudited Financial Statements" has the same meaning as Financial Statements, except that such financial statements have not been audited and reported upon by an Accountant (or, in the case of any Member of the Obligated Group which is not an Affiliate, the accounts of such Member of the Obligated Group to be added to unaudited combining financial statements described above are not extracted from audited financial statements of such Member of the Obligated Group and its Affiliates, if any).

If the Corporation fails to comply with the undertaking described above, the Bond Trustee or any beneficial owner of the Bonds then Outstanding may take action to protect and enforce the rights of

beneficial owners with respect to such undertaking, including an action for specific performance and, if such failure is not cured and becomes an Event of Default under the Loan Agreement, the Bond Trustee also may exercise any other remedy available to it upon the occurrence of an Event of Default. All actions shall be instituted, had and maintained in the manner provided in this paragraph for the benefit of all beneficial owners of the Bonds.

The Corporation reserves the right to modify from time to time the information to be provided to the extent necessary or appropriate in the judgment of the Corporation, provided that:

(a) any such modification may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature, or status of the Obligated Group;

(b) the information to be provided, as modified, would have complied with the requirements of the Rule as of the date of this Official Statement, after taking into account any amendments or interpretations of the Rule, as well as any changes in circumstances; and

(c) any such modification does not materially impair the interests of the beneficial owners of the Bonds, as determined either by parties unaffiliated with the Corporation (such as the Bond Trustee or Bond Counsel), or by approving vote of the registered owners of not less than a majority in principal amount of the Bonds then Outstanding pursuant to the terms of the Trust Agreement, as it may be amended from time to time.

The Corporation agrees that any annual financial information containing modified operating data or financial information will explain, in narrative form, the reasons for the modification and the impact of the change in the type of operating data or financial information being provided.

The requirements described above shall terminate upon payment, or provision having been made for payment in a manner consistent with the Rule, in full of the principal of and interest on all of the Bonds.

Any person subsequently becoming a Member of the Obligated Group is required to deliver to the Bond Trustee an instrument containing the agreement of such Person to become subject to the provisions of this section entitled "**Continuing Disclosure**" to the extent that such provisions are applicable to such Member of the Obligated Group.

Additional Disclosure

Under the Loan Agreement, the Corporation covenants that it will provide the following additional information:

(a) Within forty-five (45) days after the end of each quarter of each Fiscal Year of the Corporation, commencing with the fiscal quarter ending September 30, 2019, the Corporation shall send by Electronic Means or mail first-class, postage prepaid, to the Commission, the Local Government Commission (upon written request), the Bond Trustee, the Underwriters, and the MSRB (collectively, the "Required Information Recipients"), the following information:

(1) quarterly unaudited financial statements of the Obligated Group, including a combined or combining statement of revenues and expenses (including a comparison to budget) and statement of cash flows of the Obligated Group during such period, a combined or combining balance sheet as of the end of each such fiscal quarter, and management discussion and analysis,

(2) an Officer's Certificate of the calculation of the Long-Term Debt Service Coverage Ratio (calculated on a rolling 12 month basis), the Reserve Ratio and Days' Cash on Hand,

(3) an Officer's Certificate stating whether, to the best of the knowledge of the signer of such Officer's Certificate, the Corporation is not in compliance with any covenant contained in the Master Indenture, the Trust Agreement or in the Loan Agreement (including any covenant in the Tax Certificate incorporated into the Loan Agreement by reference) and, if so, specifying each failure to comply of which the signer may have knowledge and the steps that are being taken to cure such non-compliance,

(4) occupancy statistics for the Facilities for such fiscal quarter in the form appearing under the caption "Historical Occupancy" in Appendix A hereto,

(5) the principal amount of and anticipated debt service schedule for any additional Long-Term Indebtedness incurred by the Obligated Group during such quarter that is on parity with the Bonds, and

(6) with respect to any capital project of the Obligated Group financed with Long-Term Indebtedness undertaken in such quarter, notice of commencement of such capital project, and, beginning with the quarter in which such capital project is commenced and ending with the quarter in which such capital project is completed, a summary of construction progress and activities.

Notwithstanding any provision described above to the contrary, if the Long-Term Debt Service Coverage Ratio for any Fiscal Year is less than 1.00 and Days' Cash on Hand is less than the Liquidity Requirement for any test date as provided in the Master Indenture, the Corporation will deliver the information described in the paragraphs described above on a monthly basis within 45 days after the end of each month until the Long-Term Debt Service Coverage Ratio is at least 1.00 and Days' Cash on Hand is at least equal to the Liquidity Requirement.

(b) The Corporation further covenants that it will file with the Commission, the Local Government Commission and the Bond Trustee and the other Required Information Recipients (i) a copy of the operating budget and capital budget of the Obligated Group for the ensuing Fiscal Year not later than the first day prior to each Fiscal Year and (ii) any material amendments to such budgets approved by the Governing Body of the Corporation not later than 30 days after such amendments are approved.

(c) At any time during the Fiscal Year, to the Required Information Recipients copies of any correspondence to or from the Internal Revenue Service questioning or contesting the status of a Member of the Obligated Group as an organization described in Section 501(c)(3) of the Code or with respect to the tax-exempt status of the Bonds the interest on which is excludable from the gross income of the owners thereof for federal income tax purposes, promptly upon receipt.

(d) The Corporation shall send by Electronic Means or mail first-class, postage prepaid, to the Required Information Recipients, within ten (10) days following its delivery to the Master Trustee, a copy of any Officer's Certificate and any report and recommendations of any Management Consultant required to be delivered to the Master Trustee under the Master Indenture as it relates to compliance with the Long-Term Debt Service Coverage Ratio and Days' Cash on Hand. See "**SELECTED COVENANTS**" herein.

(e) Within ten (10) days after the occurrence of such event, the Corporation shall send by Electronic Means or mail first-class, postage prepaid, to the Required Information Recipients, notice of the failure to make any Loan Repayment when due if such failure has not been cured.

(f) The Corporation shall submit to the MSRB a summary of each new actuarial report it obtains regarding the Facilities, which is typically every three to five years, within 60 days of receiving such actuarial report.

Prior Compliance with Continuing Disclosure and Additional Disclosure Obligations

Within the past five years, the Corporation has been in material compliance with its prior undertakings under the Rule.

Limited Information

The obligations described above will require the Obligated Group to provide only limited specified information at specified times and may not provide all the information necessary to value the Bonds at any given time.

Only the Corporation is required to comply with the continuing disclosure undertakings described in this "CONTINUING DISCLOSURE AND ADDITIONAL DISCLOSURE" section. The Underwriters do not have any obligations with respect to such continuing disclosure.

LITIGATION

There is no action, suit, proceeding, inquiry or investigation at law or in equity or before or by any court, public board or body pending, or, to the best knowledge of the Commission, threatened against or affecting the Commission wherein an unfavorable decision, ruling or finding would adversely affect (1) the transactions contemplated by, or the validity or enforceability of, the Bonds, the Trust Agreement, the Loan Agreement, or described in this Official Statement, or (2) the tax-exempt status of interest on the Bonds.

No action, suit, proceeding, inquiry or investigation at law or in equity or before or by any court, public board or body is pending or, to the best knowledge of the Corporation, threatened against or affecting the Corporation wherein an unfavorable decision, ruling or finding would have a material adverse effect on the financial condition of the Corporation or would adversely affect (1) the transactions contemplated by, or the validity or enforceability of, the Bonds, the Trust Agreement, the Loan Agreement, the Master Indenture, Supplement No. 6, Obligation No. 6 or the Corporation Deed of Trust, or described in this Official Statement, or (2) the tax-exempt status of interest on the Bonds.

FINANCIAL ADVISOR

First Tryon Advisors has served as financial advisor (the "Financial Advisor") to the Corporation with respect to the sale of the Bonds. The Financial Advisor's fee for services rendered with respect to the sale of the Bonds is contingent on the issuance and delivery of the Bonds. The Financial Advisor is not obligated to undertake, and has not undertaken, either to make an independent verification of or to assume responsibility for the accuracy, completeness, or fairness of the information contained in this Official Statement and the appendixes thereto.

UNDERWRITING

Pursuant to a contract of purchase (the "Purchase Agreement") between BB&T Capital Markets, a division of BB&T Securities, LLC (on its own behalf and as representative for Herbert J. Sims & Co., Inc., collectively, the "Underwriters"), and the Local Government Commission, and approved by the Commission and the Corporation, the Underwriters will purchase the Bonds at the principal amount thereof

[plus/less] a [net] original issue [premium/discount] in the amount of \$_____ and an underwriters' discount in the amount of \$_____ (_____% of the principal amount of the Bonds).

The obligation of the Underwriters to pay for the Bonds is subject to certain terms and conditions set forth in the Purchase Agreement, including specified opinions of counsel and a certificate of the Corporation that there has been no material adverse change in its condition (financial or otherwise) from that set forth in this Official Statement. The Corporation has agreed in the Purchase Agreement to indemnify the Underwriters, the Commission and the Local Government Commission against certain liabilities relating to this Official Statement.

The Underwriters may offer and sell the Bonds to certain dealers (including dealer banks and dealers depositing Bonds into investment trusts) and others at prices lower than the public offering prices stated on the inside front cover of this Official Statement. Such initial public offering prices may be changed from time to time by the Underwriters.

LEGAL MATTERS

Legal matters incident to the authorization and validity of the Bonds are subject to the approving opinion of Robinson, Bradshaw & Hinson, P.A., Charlotte, North Carolina, Bond Counsel. The proposed form of such opinion is contained in Appendix D. Certain legal matters will be passed on for the Corporation by Womble Bond Dickinson (US) LLP, Winston-Salem, North Carolina, and for the Underwriters by McGuireWoods LLP, Charlotte, North Carolina.

TAX TREATMENT

General

The opinion of Bond Counsel will state that under existing law (a) interest on the Bonds is excludable from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax, and (b) interest on the Bonds is exempt from State of North Carolina income taxes. In rendering the foregoing opinion, Bond Counsel will rely on the opinion of Womble Bond Dickinson (US) LLP, Winston-Salem, North Carolina, counsel to the Corporation, with respect to the Corporation's status under Section 501(c)(3) of the Code. The tax exemption of interest on the Bonds is dependent upon, among other things, the Corporation's status as an organization described in Section 501(c)(3) of the Code, and therefore Bond Counsel's conclusion that interest is excludable from gross income for purposes of federal income tax exemption is dependent, in part, upon the opinion of Womble Bond Dickinson (US) LLP.

The Code and the regulations promulgated thereunder contain a number of requirements that must be satisfied subsequent to the issuance of the Bonds in order for interest on the Bonds to be and remain excludable from gross income for purposes of federal income taxation. Examples include: the requirement that the Corporation maintain its status as an organization exempt from federal income taxation by reason of being described in Section 501(c)(3) of the Code; the requirement that the Commission rebate certain excess earnings on proceeds and amounts treated as proceeds of the Bonds to the United States Treasury; restrictions on investment of such proceeds and other amounts; and restrictions on the ownership and use of the facilities financed with proceeds of the Bonds. The foregoing is not intended to be an exhaustive listing of the post-issuance tax compliance requirements of the Code, but is illustrative of the requirements that must be satisfied by the Commission and the Corporation subsequent to the issuance of the Bonds to maintain the exclusion of interest on the Bonds from income for federal income taxation purposes. Failure to comply with certain of such requirements may cause interest on the Bonds to be included in gross income retroactively to the date of issuance of the Bonds. The Commission and the Corporation have covenanted

to comply with these requirements. The opinion of Bond Counsel delivered on the date of issuance of the Bonds will be conditioned on the compliance by the Commission and the Corporation with such requirements, and Bond Counsel has not been retained to monitor compliance with requirements such as described above subsequent to the issuance of the Bonds.

Bond Counsel's opinions are based on existing law, which is subject to change. Such opinions are further based on factual representations made to Bond Counsel as of the date thereof. Bond Counsel assumes no duty to revise or supplement its opinions to reflect any facts or circumstances that may thereafter come to Bond Counsel's attention, or to reflect any changes in law that may thereafter occur or become effective. Moreover, Bond Counsel's opinions are not a guarantee of a particular result, and are not binding on the Internal Revenue Service or the courts; rather, such opinions represent Bond Counsel's professional judgment based on its review of existing law, and in reliance on the representations and covenants that it deems relevant to such opinions.

Other Tax Consequences

Prospective purchasers of the Bonds should be aware that ownership of the Bonds may result in collateral federal, state or local tax consequences to certain taxpayers, including, without limitation, financial institutions, property and casualty insurance companies, individual recipients of Social Security or Railroad Retirement benefits, certain S corporations with "excess net passive income," foreign corporations subject to the branch profits tax, life insurance companies and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry or have paid or incurred certain expenses allocable to the Bonds. Bond Counsel expresses no opinion regarding any such collateral tax consequences. Prospective purchasers of the Bonds should consult their tax advisors regarding collateral tax consequences.

Original Issue Discount

The original issue discount in the selling price of each Bond maturing on January 1 in the years 20__ and 20__, to the extent properly allocable to each owner of such Bond, is excludable from gross income for federal income tax purposes with respect to such owner. The original issue discount is the excess of the stated redemption price at maturity of such Bond over its initial offering price to the public, excluding underwriters and other intermediaries, at which price a substantial amount of the Bonds of such maturity were sold.

Under Section 1288 of the Code, original issue discount on tax-exempt bonds accrues on a compound basis. The amount of original issue discount that accrues to any owner of a Bond during any accrual period generally equals (i) the issue price of such Bond plus the amount of original issue discount accrued in all prior accrual periods, multiplied by (ii) the yield to maturity of such Bond (determined on the basis of compounding at the close of each accrual period and properly adjusted for the length of the accrual period), minus (iii) any interest payable on such Bond during such accrual period. The amount of original issue discount so accrued in a particular accrual period will be considered to be received ratably on each day of the accrual period, will be excludable from gross income for federal income tax purposes, and will increase the owner's tax basis in such Bond. Purchasers of any Bond at an original issue discount should consult their tax advisors regarding the determination and treatment of original issue discount for federal income tax purposes, and with respect to state and local tax consequences of owning such Bonds.

Premium Bonds

The Bonds maturing on January 1 in the years 20__ through 20__ have been sold at initial public offering prices that are in excess of the amount payable at maturity. An amount equal to the excess of the purchase price of a Bond over its stated redemption price at maturity constitutes premium on such Bond.

Purchasers must amortize any premium over such Bond's term using constant yield principles, based on the Bond's yield to maturity. As premium is amortized, a purchaser's basis in such Bond and the amount of tax-exempt interest received will be reduced by the amount of amortizable premium properly allocable to such purchaser. This will result in an increase in the gain (or decrease in the loss) to be recognized for federal income tax purposes on sale or disposition of such Bond prior to its maturity. Even though a purchaser's basis is reduced, no federal income tax deduction is allowed. Purchasers of a Bond at a premium, whether at the time of initial issuance or after initial issuance, should consult their tax advisors with respect to the determination and treatment of premium for federal income tax purposes, and with respect to state and local tax consequences of owning such Bonds.

NO RATING ON THE BONDS

No party involved in the issue of the Bonds has applied to Moody's Investors Service, S&P Global Ratings, or Fitch Ratings or any other similar rating service for an investment rating of the Bonds.

LEGALITY FOR INVESTMENT

The Bonds are legal investments for all public officers and bodies of the State of North Carolina and its political subdivisions and all insurance companies, trust companies, banking associations, investment companies, executors, administrators, trustees and other fiduciaries in the State of North Carolina.

FINANCIAL STATEMENTS

The financial statements of the Corporation included in Appendix B to this Official Statement as of and for the years ended December 31, 2018, and 2017 have been audited by Dixon Hughes Goodman LLP, independent certified public accountants, as stated in their report thereon, which appears in Appendix B hereto.

VERIFICATION OF MATHEMATICAL ACCURACY

On the date of delivery and payment, proceeds of the Bonds, funds released from the existing debt service and debt service reserve funds and the Corporation's equity contribution will be used to purchase non-callable direct obligations of the United States of America (the "Investment Securities") to be held in trust by the bond trustee for the Series 2010A Bonds to provide for payment of principal of and interest on the Series 2010A Bonds on January 1, 2020. The arithmetical accuracy of certain computations included in the schedules provided by or on behalf of the Commission and the Corporation relating to computation of anticipated receipts of principal and interest on the Investment Securities to pay the January 1, 2020 maturity of the Series 2010A Bonds and redeem the Refunded Bonds on the redemption date will be verified by Bingham Arbitrage Rebate Services, Inc. Such computations are based solely upon assumptions and information supplied by or on behalf of the Commission and the Corporation. Bingham Arbitrage Rebate Services, Inc. has restricted its procedures to verifying the arithmetical accuracy of certain computations and has not made any study or evaluation of the assumptions and information upon which the computations are based and, accordingly, has not expressed an opinion on the data used, the reasonableness of the assumptions, or the achievability of future events.

RELATIONSHIP OF PARTIES

Robinson, Bradshaw & Hinson, P.A., Bond Counsel, has represented, continues to represent or expects to represent in the future the Underwriters in unrelated matters. Womble Bond Dickinson (US)

LLP, counsel to the Corporation, has represented, continues to represent or expects to represent in the future the Underwriters, the Commission and Branch Banking and Trust Company.

MISCELLANEOUS

The Corporation has furnished all information herein relating to the Corporation. Any statements involving matters of opinion, whether or not expressly so stated, are intended as such and not as representations of fact. The Commission and its staff assume no responsibility for the accuracy or completeness of any representation or statement in this Official Statement except for material with respect to them included under the sections entitled "**THE COMMISSION**" and "**LITIGATION.**" Neither this Official Statement nor any statement that may have been made orally or in writing is to be construed as a contract with the owner of any of the Bonds.

The Commission has deemed this Preliminary Official Statement "final" as of its date within the meaning of the Rule, except for the omission of certain pricing and other information permitted to be omitted by the Rule.

**NORTH CAROLINA MEDICAL CARE
COMMISSION**

By: _____
Vice Chairman

Approved:

GALLOWAY RIDGE, INC.

By: _____
President

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APPENDIX A

CERTAIN INFORMATION CONCERNING GALLOWAY RIDGE, INC.

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APPENDIX A

CERTAIN INFORMATION CONCERNING GALLOWAY RIDGE, INC.

OVERVIEW

Background

Galloway Ridge, Inc. ("Galloway Ridge" or the "Corporation") was formed on September 4, 2001, as a nonprofit corporation under the laws and regulations of the State of North Carolina. The Corporation has received an exemption from federal income taxation under Section 501(a) of the Internal Revenue Code of 1986, as amended (the "Code"), as an organization described in Section 501(c)(3) of the Code, and an exemption from state income taxation in North Carolina under its applicable tax provisions. The Corporation operates a continuing care retirement community ("CCRC") in Chatham County, North Carolina, known as Galloway Ridge at Ferrington (the "Community").

The Community is located on approximately 67 acres, of which 55 acres are part of the Mortgaged Property and 12 acres are currently part of the Excluded Property (as defined in the Master Indenture attached in Appendix D to the Official Statement). The Community is adjacent to Ferrington Village, an upscale, mixed-use community located just south of Chapel Hill in Pittsboro, North Carolina. Ferrington Village offers residential housing, amenities, shops and restaurants, including the renowned Ferrington House Inn and Ferrington House Restaurant, and is home to approximately 2,000 residents, most of whom are older, active adults. It was largely the vision of R.B. Fitch, the original owner and developer of Ferrington Village, that led to the creation of the Community so that residents of Ferrington Village would have a CCRC choice in their own community. While the Community continues to attract residents from all over the country, Ferrington Village provides a significant number of resident referrals to the Community. Residents of Ferrington Village and the Community share various amenities and programs offered by both communities.

Affiliates of the Duke University Health System (the Duke University Health System and its affiliates that have been associated with Galloway Ridge are hereinafter referred to individually and collectively as "Duke") assisted in the initial development and marketing of the Community and currently provide certain management services to the Community, including the management of the fitness center, referred to as the "Duke Center for Living," and operation of a primary care clinic.

Affiliates of The University of North Carolina at Chapel Hill's Division of Geriatric Medicine in the Department of Medicine in its School of Medicine (hereinafter referred to individually and collectively as "UNC") currently provide the Medical Director for Galloway Ridge and medical professionals to staff a primary care clinic.

The mission of Galloway Ridge is: *"to inspire meaningful and engaged lives and to assure each resident a superior quality of life and care."* The Corporation strives to be an industry leader in the senior retirement housing market. Galloway Ridge seeks to provide residents opportunities for personal enrichment and participation in an environment that promotes active lifestyles by focusing on the full spectrum of mind, body and spirit. Galloway Ridge desires to be a responsible community partner by adding value and enrichment to the lives and well-being of those residing in Galloway Ridge and in the greater community.

The Corporation provides services to residents and clients without regard to race, religion, national origin, gender, or sexual orientation.

Affiliations

Galloway Ridge is not affiliated with, nor owned by, any other organization or individual. Galloway Ridge does not have subsidiaries, and it holds no ownership position in any other organization, except that it may own securities for investment purposes.

Galloway Ridge is a member of LeadingAge, LeadingAge North Carolina, the American Association of Nurse Assessment Coordinators (AANAC), the National Association of Directors of Nursing Administration in Long-Term Care (NADONA/LTC), the International Council on Active Aging (ICAA), North Carolina Health Care Facilities Association (NCHCFA) and the Chamber of Commerce for each of Chatham County, NC and Chapel Hill/Carrboro, NC.

Summary of the Community

Galloway Ridge initially opened its facility in June 2005 with 234 independent living units, including: 183 independent living apartments and 51 independent living villas; 22 assisted living units; 16 skilled nursing beds; a wellness center known as the "Duke Center for Living," and related common areas. The initial construction was financed via a construction credit agreement offered by a bank syndicate in 2003. In 2006, Galloway Ridge refinanced the remaining balance of the 2003 debt with two \$22,000,000 term loans.

In order to meet the continuing demand for the Community and its lifestyle and healthcare offerings, the Corporation originally planned for an expansion of the Community in 2008; however, due to challenging economic conditions, the expansion was postponed until 2010. While waiting for the expansion, the demand for healthcare services exceeded the Community's capacity. Since Galloway Ridge is responsible for providing nursing care under the Residence and Care Agreement, some residents were cared for with increased services in their independent living apartment, while others were moved to offsite facilities during the fiscal years 2008 through 2012 when the project was completed.

Galloway Ridge commenced construction on the expansion of the Community in 2010 which consisted of the construction of an additional 67 independent living units (66 independent living apartments, 1 independent living villa), 29 assisted living units (15 memory support units and 14 multi-unit housing with services or "MAHS"), and 24 skilled nursing beds, as well as additional and renovated supportive common areas ("Phase II"). The Phase II project was opened in three phases as the components became available: one independent living villa in September 2011; 66 independent living apartments in February 2012; and the healthcare expansion in May 2012.

In 2015, Galloway Ridge converted one independent living unit into the marketing office. In July 2019, five additional memory support units were added to the Community.

Although the MAHS units are assisted living units, the units are located in the Community's Healthcare Center (defined below) and, for purposes of this Appendix A, are included in the Healthcare Center.

The following table summarizes the type and number of independent living units ("independent living units" or "ILUs"), MAHS units, traditional assisted living units, memory support units, and skilled nursing beds currently at the Community.

Type of Unit	Total Units/Beds
Independent Living Apartments	248
Independent Living Villas	52
Total Independent Living Units	300
Assisted Living Units	22
Memory Support Units	20
MAHS Units	14
Skilled Nursing Beds	40
Total Healthcare Center Units and Beds	96
Total Community Units and Beds	396

The Community also contains the Duke Center for Living fitness center, a primary care clinic operated by Duke, a primary care clinic staffed by medical professionals from UNC and other amenities and related commons areas.

Licenses and Certifications

Galloway Ridge is licensed by the North Carolina Department of Insurance ("NCDOI") as a CCRC and is required by North Carolina statute to file a disclosure statement annually with the NCDOI. In addition, Galloway Ridge is licensed or certified by the North Carolina Department of Health and Human Services, Division of Health Service Regulation ("DHHSR") (i) to operate 22 traditional assisted living units (a total of 31 residents can be housed as 9 units are licensed as dual occupancy), 20 memory support units, and 40 skilled nursing beds, and (ii) to provide non-medical in-home aide services. Galloway Ridge also operates 14 MAHS units and is a certified Medicare provider with 16 certified beds.

Governance

Galloway Ridge is governed by a volunteer Board of Directors (the "Board" or "Board of Directors") of not fewer than ten (10) nor more than twelve (12) voting members, of which three (3) directors shall be residents of the Community. Voting members of the Board serve three (3) year terms, with approximately one-third of the Board rolling off each year. Board members are eligible to serve two consecutive terms. In addition to the voting Board members, the Board has appointed the Community's Executive Director/Chief Executive Officer to serve as a non-voting, ex-officio member of the Board. The Board meets five (5) times annually and at such other times as the Board may determine. Board members, with the exception of the Executive Director/Chief Executive Officer, do not receive compensation for their service to Galloway Ridge, and Galloway Ridge maintains a policy that governs the evaluation and disclosure of potential conflicts of interest.

The Board has the following five standing committees:

- Governance
- Audit & Finance
- Health & Wellness
- Long Range Planning
- Community Engagement

The Board may, from time to time, establish other committees or task forces as it deems advisable.

Members of the Board of Directors and the Officers of Galloway Ridge are summarized in the table below:

Table 2 Board of Directors and Officers of Galloway Ridge		
Name/Office	Occupation	Term Expires
Stan Campbell	Retired Consultant and Sales Executive UNC Chapel Hill	2020
Robbie Cox ⁽¹⁾	Professor Emeritus, Dept. of Communication UNC Chapel Hill	2021
Matt Ewend	President, UNC Physicians	2020
Valerie Crofton-Harris	Sr. Management at Welford Harris Ford	2020
Kelly Mackay	Managing Member, Walker Lambe, PLLC	2021
Stan Mandel ⁽¹⁾	Retired, Doctor	2019
Rob Nelson President	Financial, Strategic and Planning Consultant	2019
Todd Peterson Treasurer	Retired, COO and CFO	2021
Marva Price	Associate Professor Emeritus Duke University School of Nursing	2021
Alan Rimer Vice President	Environmental Engineer Black and Veatch	2019
Jeff Strickler	Vice President, Hillsborough Hospital, University of North Carolina Hospitals	2019
Alex Weller ⁽¹⁾ Secretary	Retired, Attorney at Law	2020
Robert Zimmer Executive Director/CEO (Ex-Officio, Non-Voting)	Executive Director/Chief Executive Officer, Galloway Ridge	NA

⁽¹⁾ Indicates resident Board member.

On-Site Management and Staff

Duke provides management of the Duke Center for Living fitness center and operates a primary care clinic. UNC staffs the Community's primary care clinic with medical professionals and provides the Medical Director for the Community.

All employees at the Community are employed by Galloway Ridge but principally managed by the Executive Director/CEO with oversight by the Board, except for the medical professionals and staff of the Duke primary care clinic and the Director of the Duke Center for Living, who are employed by Duke; and the medical professionals in the Community's primary care clinic as well as the Medical Director for the Community, who are employed by UNC.

As of June 30, 2019, the Corporation employed 378 employees, of which 235 were full-time, 50 were part-time and 93 were employees that work on an as-needed basis. Currently, there are no unions organized by the Corporation's employees. Management of the Corporation believes that employee relations are good.

Members of the Galloway Ridge management team are (their ages are in parentheses):

Robert Zimmer, Executive Director/Chief Executive Officer (59):

Mr. Zimmer joined the leadership team of Galloway Ridge in 2011, and came to Galloway Ridge with over 20 years of experience in all aspects of 501(c)(3) non-profit management. He has served in financial management roles for organizations that include the Roman Catholic Diocese of Raleigh, the North Carolina Museum of Life and Science and the Greater Durham Chamber of Commerce. Mr. Zimmer was promoted to role of Executive Director/Chief Executive Officer of Galloway Ridge in December 2014. Mr. Zimmer earned his Bachelor of Arts degree at the University of Dallas, and holds a Master of Business Administration from the University of Dallas as well.

Adam T. Melton, Associate Executive Director (38):

Mr. Melton joined Galloway Ridge in June 2016 with 15 years of experience in senior living administration and work in life plan communities. Mr. Melton is responsible for the operations management and financial performance of all resident facing departments that include Dining Services; Healthcare Services that include the Arbor Health Center, the UNC Clinic and Home Care Services; Resident Concierge Services; Resident Enrichment (Activities and Wellness), the Duke Center for Living; and Community Navigation (Social Work). Mr. Melton also serves as the Community's compliance officer, ensuring regulatory compliance with State and federal laws, and assists the Executive Director with the overall operations of the Community. Mr. Melton has over a decade of experience as a Nursing Home Administrator, both in the profit and non-profit sectors of the long-term care industry. Mr. Melton received his Bachelor of Arts degree in Communication Studies with a concentration in Rhetorical Studies from the University of North Carolina, Chapel Hill.

Kathy Turner, Senior Director of Human Resources (60):

Ms. Turner joined the Galloway Ridge leadership team in 2011. She has over 20 years of diversified experience in Human Resources, serving in various leadership roles. Ms. Turner started her Human Resources career at Analog Devices Inc. in Greensboro, North Carolina. She was promoted in 1998 to Vice President of Human Resources for Steelcase/Brayton International Inc. in High Point, North Carolina where she served for 11 years. Ms. Turner's professional career also includes experience in all facets of Human Resources including employee relations, performance management, strategic workforce planning, succession management, employment law and compliance, health, safety, benefits and compensation. Ms. Turner earned her Bachelor of Science degree in Business Administration and Economics from the University of North Carolina in Greensboro. She holds the designation of Senior Professional Human Resources (SPHR) from the Human Resources Certification Institute.

Missy Johnson, Senior Director of Marketing and Sales (48):

Ms. Johnson joined the marketing and sales team at Galloway Ridge in 2013 and was promoted to Director in 2016. Ms. Johnson is responsible for all marketing, sales and advertising of Galloway Ridge. She brings over 25 years of experience in gerontology and marketing to her current leadership position. She has worked in a variety of healthcare settings, including behavioral health, assisted living, and life plan communities. While earning her Masters of Developmental Psychology and a Certificate of Gerontology from University of Georgia, Ms. Johnson focused on research and development for successful aging and cognitive aging.

Dana Boylan-Walker, Senior Director of Finance (46):

Ms. Boylan-Walker joined the leadership team of Galloway Ridge in March 2015. She brings 20 years of non-profit financial management experience to the Corporation. She is responsible for managing the financial risk, financial planning, financial reporting and the analysis of financial data for Galloway Ridge. Before Galloway Ridge, Ms. Boylan-Walker served as Chief Operating Officer for the Guilford County Partnership for Children. Ms. Boylan-Walker obtained her Bachelor of Science in Accounting from NC A&T State University and holds a Master of Business Administration from Pfeiffer University.

Brad Moore, Ph.D., Senior Director of Facilities and Technologies (36):

Dr. Moore joined the Galloway Ridge leadership team in September 2017. He has over a decade of experience in software development, scientific research, and information technology. He is responsible for the overall management of all infrastructure at Galloway Ridge, including: building maintenance, grounds maintenance, environmental services, security and refurbishments. Dr. Moore also serves as the Security Officer for the Corporation and as such is responsible for IT security and compliance, including PCI and HIPAA/HITECH. He is also responsible for identifying, implementing, and supporting new and innovative technologies for Galloway Ridge residents. He holds a Master of Science in Computer Science from The Ohio State University and a Ph.D. in Computational Biology and Bioinformatics from Duke University.

THIRD-PARTY MANAGEMENT

General

The Corporation has entered into an agreement for management of the Duke Center for Living fitness center; an agreement for the use of the Duke name; and a lease agreement for the primary care clinic each with Duke and dated December 1, 2016. All three agreements expire November 30, 2021, unless extended by the parties.

A professional services agreement has been entered into with UNC, dated January 1, 2019, for staffing of the Community's primary care clinic with UNC medical professionals and for the provision of the Medical Director for the Community. The agreement expires December 31, 2019 with automatic annual renewals unless cancelled by either party with ninety (90) day notice. The agreement is scheduled to automatically renew as of January 1, 2020, and the Corporation has no intention of canceling this agreement at this time.

The Corporation has a therapy services agreement with RehabCare Group East (hereinafter referred to as "RehabCare"), dated October 1, 2015, to furnish physical and occupational therapy and speech-language pathology services to residents of the Community on both an inpatient and outpatient basis and to furnish physical and occupational therapy and speech-language pathology services to the

general public on an outpatient basis. The initial term of the agreement expired September 30, 2016 and is subject to automatic annual renewals unless cancelled by either party with sixty (60) day notice. Effective October 1, 2019, the agreement will be amended and restated pursuant to an amended and restated therapy services agreement dated October 1, 2019, primarily for the purpose of incorporating recent changes to Medicare reimbursement practices. The initial term of the amended and restated agreement will expire September 30, 2021 and be subject to automatic annual renewals unless cancelled by either party within sixty (60) day notice. Additionally, the Corporation has an administrative billing services agreement with RehabCare dated February 1, 2017 to submit claims on behalf of the Community for all outpatient services rendered. The initial term of the agreement expired January 31, 2018 with automatic annual renewals unless cancelled by either party with sixty (60) day notice. The agreement is scheduled to automatically renew as of February 1, 2020, and the Corporation has no intention of canceling this agreement at this time.

THE COMMUNITY

Independent Living Units

The following table summarizes the type, number, approximate square footage, and the Entrance Fees and Monthly Fees for the independent living units in the Community, effective January 1, 2019:

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Table 3
Independent Living Unit Configuration

Unit Type	Unit Name	Number of Units	Square Footage	Entrance Fees ^{(1) (2)}			Monthly Fee
				Plan A	Plan B	Plan C	
Independent Living	Apartments						
1BR, 1 bath	Barnsley	12	815	\$222,000	\$426,000	\$355,000	\$3,077
1BR, 1 bath	Kent	6	939	250,000	480,000	400,000	3,378
1BR, 1.5 baths	Somerset	15	1,095	292,000	561,000	467,000	3,955
1BR, 1.5 baths	Barnsley Deluxe	2	919	245,000	470,000	392,000	3,203
1BR, 1.5 baths	Claremont	7	1,081	282,000	541,000	451,000	3,889
1BR, 2 baths	Chelsea	38	1,081	282,000	541,000	451,000	3,889
2BR, 2 baths	Marston	30	1,218	302,000	580,000	483,000	4,315
2BR, 2 baths	Wycombe	28	1,296	329,000	632,000	526,000	4,528
2BR, 2 baths	Sutton	18	1,432	350,000	672,000	560,000	4,892
2BR, 2 baths	Sutton II	11	1,506	383,000	735,000	613,000	5,268
2BR, 2 baths	Abbey	30	1,651	398,000	764,000	637,000	5,407
2BR, 2 baths	Abbey Deluxe	6	1,701	414,000	795,000	662,000	5,880
2BR, 2 baths	Windsor	16	1,266	340,000	653,000	544,000	4,537
2BR, 2 baths	Windsor Plus	3	1,361	366,000	703,000	586,000	4,895
2BR, 2 baths	Windsor Deluxe	2	1,500	393,000	755,000	629,000	5,403
2BR, 2 baths	Oxford	12	1,500	393,000	755,000	629,000	5,249
2BR, 2 baths	Devon	6	1,500	393,000	755,000	629,000	5,249
2BR, 2 baths	York	6	1,700	435,000	835,000	696,000	5,552
Total/weighted avg.	Apartments	248	1,297	\$330,407	\$634,379	\$528,569	\$4,530
Independent Living	Villas						
1BR, 2 baths	Chelsea	1	1,081	\$297,000	\$570,000	\$475,000	\$3,889
2BR, 2 baths	Chatham	1	1,886	539,000	1,035,000	862,000	5,244
2BR, 2 baths	Exbury	15	1,566	414,000	795,000	662,000	4,983
2BR, 3 baths	Abbotsford	8	1,946	457,000	877,000	731,000	5,064
2BR, 3 baths	Abbotsford Deluxe	1	2,430	489,000	939,000	782,000	5,835
2BR, 2 baths	Durham	11	1,802	451,000	866,000	722,000	5,272
2BR, 2.5 baths	Westbury	13	2,150	544,000	1,044,000	870,000	5,751
3BR, 3.5 baths	Kensington	2	2,922	729,000	1,400,000	1,166,000	5,919
Total/weighted avg.	Villas	52	1,886	\$474,654	\$911,212	\$759,250	\$5,285
Total/weighted avg.	Independent Living	300	1,399	\$355,410	\$682,363	\$568,553	\$4,661
Second person fees				\$43,000	\$79,000	\$65,000	\$1,241

(1) The Entrance Fee and Monthly Fee pricing is effective as of January 1, 2019. Monthly Fees are projected to increase by 3 to 4% annually.

(2) The Corporation offers three Entrance Fee plans under the Residence and Care Agreement: the "Amortizing Plan" or "Plan A"; a 90 percent "Refundable Plan" or "Plan B"; and a 75 percent "Refundable Plan" or "Plan C". Further plan description is provided under the Fee Structure section found below.

The Healthcare Center

The assisted living units, MAHS units, and skilled nursing beds of the Community are known as "The Arbor" (the "Healthcare Center"). Admittance is restricted to only those residents who have signed a Residence and Care Agreement and paid fees in accordance with the terms of such agreement. The assisted living units and MAHS units are designed to foster continued independence of residents who require varying levels of assistance with activities of daily living. The programs for assisted living

residents and MAHS residents differ in the degree of support with activities of daily living that the resident requires. The skilled nursing beds are licensed by the State for nursing care as provided in the State Medical Facilities Plan. The skilled nursing beds are staffed with registered nurses and other nurses and aides as required.

The following table summarizes the type, number, approximate square footage, and the Monthly Fees of the Community's Healthcare Center:

**Table 4
Healthcare Center Configuration**

Unit Type	Units/Beds	Sq Ft	Entrance Fee	Monthly/Daily Fee ⁽³⁾	
				Life Care Rate ⁽⁴⁾	Market Rate
Assisted Living Units ⁽¹⁾	22	460	Not applicable	\$4,661/month	N/A
MAHS Units ⁽²⁾	14	460	Not applicable	N/A	\$5,674/month
Memory Support Units ⁽¹⁾	20	330	Not applicable	\$4,661/month	\$329/day
Skilled Nursing Beds ⁽¹⁾	40	300	Not applicable	\$4,661/month	\$380/day
Total Healthcare Center	96				

⁽¹⁾ Residents who transfer to the Healthcare Center continue to pay their Monthly Fee. In the event of double occupancy, the resident who is transferred to the Healthcare Center would pay their Second Person Monthly Fee. For the purpose of this Appendix A, the Monthly Fee is assumed to approximate the weighted average for the Independent Living Units. Future years are projected to increase at 4% annually.

⁽²⁾ Residents from outside the Community admitted to a MAHS unit paid an Entrance Fee of \$30,000 for a one bedroom unit or \$40,000 for a one bedroom den unit. As of 2015, the offering of MAHS contracts was suspended. Currently MAHS residents that are admitted directly from outside the Community pay a Monthly Fee \$5,674. Future years are projected to increase at 4% annually.

⁽³⁾ Monthly/Daily Fees are effective as of January 1, 2019.

⁽⁴⁾ The Monthly Fee calculated as a Daily Fee is approximately \$153 per day.

Community Amenities

Residents of the Community receive numerous amenities. The on-site Duke Center for Living, managed by Duke, provides an array of fitness and wellness programs for residents. Facilities include a saltwater lap pool, hot tub, elevated track, exercise equipment, aerobics studio, and therapy services. A sample of the programs offered, include fitness classes, aquatics, personal training, nutrition counseling, aerobics, yoga, and massage therapy.

Community residents have the convenience of the existing amenities available as a part of Ferrington Village and the Ferrington Home Owners Association, including restaurants, stores, banking, travel, social clubs and other services. These amenities include the acclaimed Ferrington House Restaurant and Ferrington House Inn, as well as the many existing neighborhoods at Ferrington Village.

Other Community amenities include:

- Main lobby and reception area
- Mail and communications center
- Main dining area and a private dining room
- Informal café
- Lounge
- On-site primary care services provided by UNC
- On-site primary care services provided by Duke
- Guest rooms and accommodations
- Walking/biking trails and garden areas
- Dog park
- Library
- Billiards and card rooms
- Bocce court
- Putting green
- Arts and crafts room
- Assembly and performing arts areas for seminars, movies and parties
- Salon
- Woodshop
- Resident business center
- On-site ATM banking

Services Included

The following services are available to all residents of Galloway Ridge, and are supported by the Monthly Fees and amortization of initial Entrance Fees.

- Weekly standard housekeeping services to the residence
- Weekly in-home linen service
- Social, cultural, educational, recreational and spiritual activities designed to stimulate and support overall physical, spiritual and emotional well-being. Residents are encouraged to join in such activities as they find appealing.
- A set number of meal points each month sufficient for one meal per day per resident. Meal points may be used in accordance with the meal points program.
- Meal delivery to residence
- Unassigned surface parking for use
- Each residence and all common areas of the Community are equipped with an emergency call system which is monitored 24-hours per day to summon emergency aid
- Security services for the Community at large, as well as basic grounds keeping and maintenance for common areas
- Water, heat, electricity, sewer service, air conditioning in the residence, and trash removal from central locations. At the Community's discretion, it may offer Community-wide wireless internet access.
- The residence is pre-wired for telephone installation. Arranging for telephone services and payment of any charges for such service are the Residents' responsibilities.
- Dining rooms, cafe, auditorium, social and activities rooms, and other Community facilities. Such other facilities include the Community's fitness center, which includes a saltwater lap pool, hot tub, exercise track and equipment, aerobics facilities, and massage area. Private dining rooms can be reserved by residents.

- The residence is pre-wired for cable television service, and basic cable television service is included in the Monthly Fee. Arranging for any additional television service beyond basic cable and payment of charges for such additional service is the Residents' responsibility
- Wall-to-wall carpeting, clothes washer and dryer, kitchen appliances consisting of refrigerator/freezer with icemaker, oven/range, dishwasher, garbage disposal and microwave oven with built-in exhaust hood, and other permanent fixtures in the residence. All other furnishings are provided by the Residents and shall remain their personal property. Furnishings and appliances in the residences shall be subject to inspection and approval to ensure the safety of residents. Exterior furnishings are subject to Galloway Ridge's policies and procedures. No physical changes may be made to a residence without the prior written approval of Galloway Ridge.
- Building janitorial staff and maintenance of buildings, grounds, and residences, and all necessary (as determined by Galloway Ridge) repairs, maintenance and replacement of property and equipment are owned by Galloway Ridge, including provided appliances
- A centralized mail area for the delivery of mail by the U.S. Postal Service
- Unaccompanied transportation to and from local medical appointments
- (Apartment residents only) A small storage area away from the residence to store non-perishable and non-hazardous materials and other items not required for daily living. These storage areas may or may not be on the same floor as the Residence.

Additional Services Available for an Extra Charge

The following services are provided, arranged or referred by Galloway Ridge, and are available to residents at an additional charge on a resident's monthly statement:

Residential Living Services

- Additional meal points
- Guest meals
- Guest accommodations
- Special requests for maintenance or housekeeping of resident personal property
- Special requests for landscaping around resident's villa/apartment
- Special modifications made to living units
- Companion care services

Healthcare Services

- Medical supplies, personal need supplies, oxygen and medications
- Medical transportation and accompaniment by Galloway Ridge's staff to area medical providers for residents living on campus in villas/apartments
- On campus nutrition and diet counseling
- Nursing care and assisted living expenses other than those for basic services and supplies
- Occupational, speech, physical and aquatic therapy
- Such additional services as described in the Residence and Care Agreement

Personal Services

- US Postal Service post office boxes
- Massage therapy services provided by a licensed masseuse in the Duke Center for Living
- Personal training services at the Duke Center for Living
- Nutritional counseling services at the Duke Center for Living
- Medical specialty services provided by independent licensed practitioners in the Community's primary care clinic as a convenience to residents
- Pick-up and drop-off services provided by a local dry cleaning service
- Pick-up and drop-off point for UPS and other express mail services
- Grocery shopping and delivery
- Package delivery
- Medication delivery
- Personal transportation services

Fee Structure

Prior to admission, prospective residents pay an initial, one-time entrance fee ("Entrance Fee") depending upon unit type, single or double occupancy and payment plan selected. Selected units may also include a location premium. At the time a resident enters into a Residence and Care Agreement with Galloway Ridge, an Entrance Fee deposit equal to ten percent (10%) of the resident's total Entrance Fee is due. Three Entrance Fee contract options are available:

- **Plan A - The "Amortizing" Plan:** Pursuant to Plan A, the Entrance Fee is "earned" by Galloway Ridge at a rate of four percent (4%) upon the resident's initial occupancy in the Community, and then two percent (2%) per month during the first 48-month period of residency. If the Residence and Care Agreement is terminated after occupancy of the unit but prior to the expiration of the 48-month period, subject to receipt by Galloway Ridge of a replacement Entrance Fee from a new resident for a similar type unit, the resident is entitled to a refund equal to the Entrance Fee minus any portion thereof earned by Galloway Ridge during the term of residency. If the Residence and Care Agreement is terminated after the expiration of the 48-month period, Galloway Ridge is considered to have "earned" the entire Entrance Fee (*i.e.*, it is "fully amortized") and the resident is entitled to no refund of the Entrance Fee.

- **Plan B - The "90% Refundable" Plan:** Under Plan B, the Entrance Fee is "earned" by Galloway Ridge at a rate of two percent (2%) per month for the first five months of residency. After this initial five-month period, upon termination of the Residence and Care Agreement, the resident is entitled to a refund equal to ninety percent (90%) of the Entrance Fee paid, subject to receipt by Galloway Ridge of a replacement Entrance Fee from a new resident for a similar type unit. If the Residence and Care Agreement is terminated prior to the expiration of the initial five-month period, the resident shall receive a refund equal to the Entrance Fee minus any portion thereof earned by Galloway Ridge during the term of residency.

- **Plan C - The "75% Refundable" Plan:** Under Plan C, the Entrance Fee is "earned" by Galloway Ridge at a rate of one percent (1%) upon the resident's initial occupancy in the Community, and then two percent (2%) per month for the first twelve months of residency. After this initial twelve-month period, upon termination of the Residence and Care Agreement, the resident is entitled to a refund equal to seventy-five percent (75%) of the Entrance Fee paid, subject to receipt by Galloway Ridge of a replacement Entrance Fee from another resident for the unit that was occupied. If the Residence and Care Agreement is terminated prior to the expiration of the initial twelve-month period, the resident shall

receive a refund equal to the Entrance Fee less one percent (1%), minus any portion thereof earned by Galloway Ridge during the term of residency.

Contract Type	2015	2016	2017	2018
Plan A	59%	59%	62%	65%
Plan B	32	30	27	24
Plan C	9	11	11	11

The total amount of contractual refund obligations under all existing contracts (if all residents with a refundable balance were to withdraw from the Community) totaled approximately \$60,497,000 and \$63,240,000 as of December 31, 2018 and 2017, respectively.

In addition to Entrance Fees, residents pay monthly fees (the "Monthly Fee") based on the type of residential unit they occupy.

Description of the Residence and Care Agreement

General

Under the terms of the Residence and Care Agreement, the Corporation generally accepts as residents those persons at least 62 years of age or older at the time of occupancy (both members of a couple must meet this requirement) who are able to care for themselves with limited or no assistance and are able to demonstrate the necessary financial resources to meet the Corporation's minimum fee requirements. A resident is required to pay an Entrance Fee and a Monthly Fee on an on-going basis. Payment of these amounts entitles residents to occupy and use of the residence, commons areas, amenities, programs and services of the Corporation during the term of the Residence and Care Agreement. The services and fee structure are more specifically described in the Residence and Care Agreement.

The Corporation previously offered a separate residence and care agreement for residents admitted into a MAHS unit ("MAHS Residence and Care Agreement"); however, the Board suspended the offering of the MAHS Residence and Care Agreements in 2015. As of June 30, 2019, the Corporation has one resident that has executed a MAHS Residence and Care Agreement. The Board may reconsider the offering of MAHS Residence and Care Agreements in the future. The MAHS units are now reserved for residents with the Residence and Care Agreement also used for independent living units; provided, however, there are no applicable Entrance Fees associated with the MAHS units.

Termination and Refunds

The resident may cancel his or her Residence and Care Agreement within thirty (30) days of the later of the execution of a Residence and Care Agreement or receipt of the Disclosure Statement. If the resident elects to terminate his/her Residence and Care Agreement during this 30-day "rescission period," all monies paid to Galloway Ridge are refundable to the resident, except for the initial processing fee, any wait-list fee paid by the resident and any charges incurred by the Community on behalf of the resident.

In the event, prior to the occupancy date, of (i) the resident's demise, or (ii) the resident's serious illness, injury or other incapacity which would preclude the resident from meeting the admission criteria detailed in the Residence and Care Agreement, the Residence and Care Agreement will automatically

cancel upon the Community's receipt of written notice of such event, and a full refund of any Entrance Fee will be made to the resident or his or her estate within sixty (60) days after receipt of such written notice from the resident or his or her designee, unless a surviving co-resident elects to continue the Residence and Care Agreement and move into the Community.

Following expiration of the 30-day rescission period, should the resident cancel his or her Residence and Care Agreement prior to occupancy of the living unit by giving Galloway Ridge written notice of such termination, the resident will be due a refund of all Entrance Fee deposits less one percent (1%) of the Entrance Fee and less any non-standard charges incurred by the Community on behalf of the resident.

Following expiration of the 30-day rescission period and after the resident's occupancy of the residential unit, the resident may cancel his/her Residence and Care Agreement by providing at least thirty (30) days written notice to Galloway Ridge. At the expiration of the notice period, the resident must vacate the living unit. If such notice is given, the Residence and Care Agreement will terminate the later of the end of the thirty (30) day period or the date the resident vacates the residential unit. Any refund of Entrance Fee balances which may be due to the resident shall be calculated and payable in accordance with the applicable provisions set forth in the Residence and Care Agreement.

After the occupancy date for the resident's residential unit, the Residence and Care Agreement shall terminate upon (i) the resident's demise (or upon the demise of the survivor if there is more than one resident, whichever occurs later), or (ii) just cause (as defined in the Residence and Care Agreement) by Galloway Ridge. A refund of any Entrance Fee balance due to the resident at that time shall be calculated in accordance with the Residence and Care Agreement and payable following payment of an appropriate Entrance Fee and subsequent occupancy of the residential unit by another resident.

See "**FEE STRUCTURES**" above for the Entrance Fees for the applicable units within the Community.

Financial Assistance

If a resident of Galloway Ridge can no longer pay the Monthly Fee in full due to lack of funds for reasons beyond the control of the resident, the Corporation shall subsidize, in whole or in part, the Monthly Fee and other charges, provided the ability of the Corporation to operate on a sound financial basis for all residents is not materially impaired. In the event that financial assistance is provided by the Corporation, such amounts, may be charged against the refund, if any, of the Entrance Fee owed to an independent living resident upon termination of the Residence and Care Agreement. The Corporation may also require an independent living resident receiving financial assistance to move to a smaller independent living unit.

Social Accountability

Upon the recommendation of the Community Engagement Committee, a standing committee of the Board of Directors of Galloway Ridge, Galloway Ridge established the Galloway Ridge Charitable Fund (the "Charitable Fund"), effective December 13, 2006. The Charitable Fund is organized and operated to carry out the mission of Galloway Ridge.

Through the Charitable Fund, Galloway Ridge has provided financial support to a number of charitable organizations in Chatham County, North Carolina. In addition, Galloway Ridge provides benevolent assistance to residents, and Galloway Ridge's employees and residents provide hundreds of

unreimbursed volunteer service hours to a variety of nonprofit organizations on an annual basis. Galloway Ridge has also paid and continues to pay property taxes.

As of the quarter ended June 30, 2019, the balance of the Charitable Fund designated to the support of local charitable organizations was equal to \$252,161. Galloway Ridge, led by the Board's Community Engagement Committee, maintains an active, on-going campaign to raise additional money to grow the Charitable Fund.

Excluded Property

In August 2017, the Community acquired approximately 12.8 acres of land adjacent to the campus at a cost of approximately \$750,000. The land is presently used for a dog park and a nature trail. There are currently no development plans for the land. The land is not considered essential to the operations of the Community and is excluded from the Mortgaged Property that secures the Bonds.

Historical Occupancy

The following table sets forth the occupancy of the various units at the Community for the four fiscal years ended December 31, 2018, and the six-month period ended June 30, 2019.

Unit Type	Number of Units Available	Occupancy as of				
		December 31				June 30
		2015 ⁽³⁾	2016	2017	2018	2019
Independent Living	300	94.3%	93.6%	98.0%	94.3%	97.0%
MAHS	14	100.0	100.0	100.0	100.0	100.0
Assisted Living/Memory Support ^{(1) (2)}	37	67.6	89.2	75.7	81.1	83.4
Skilled Nursing ⁽¹⁾	40	85.0	80.0	82.5	82.5	67.5

Source: Management

⁽¹⁾ The Assisted Living and Skilled Nursing units are "closed beds," so they may only be occupied by residents that have first lived independently at the Community.

⁽²⁾ Assisted Living is licensed for 51 residents however 14 of the assisted living units are licensed as semi-private. Galloway Ridge has a policy to not place unrelated residents in semi-private rooms limiting the number of available units to 37. As described in "**OVERVIEW – Summary of the Community**", as of July 2019 five additional memory support units were brought into operation. As a result, the number of units licensed as semi-private was reduced from 14 to 9; therefore, the number of available units changed from 37 to 42, effective July 2019.

⁽³⁾ In 2015 Galloway Ridge converted one independent living unit to the marketing office, reducing the number of independent living units from 301 to 300.

PRIMARY MARKET AREA AND COMPETITION

The Corporation's primary market area ("PMA"), from which the majority of residents would originate, has been defined as an 8-zip code area surrounding the Community, extending approximately 32 miles north to south at the longest point and 31 miles east to west at the widest point. The PMA includes the areas of Pittsboro, Durham, Chapel Hill and Carrboro. Approximately 45% of the current residents at Galloway Ridge originated from the PMA, while approximately 18% originated from other areas of North Carolina and approximately 37% from outside of North Carolina.

There are five existing comparable CCRCs located in the PMA that currently operate a total of 1,738 independent living units, 262 assisted living and specialty care units and 336 nursing care beds. In addition, there is one new comparable CCRC located outside but near the PMA that consists of a total of 169 independent living units, 14 assisted living units and 25 nursing care beds.

HISTORICAL FINANCIAL PERFORMANCE

Existing Debt Overview

The table below reflects the Obligated Group's existing secured debt. As described in "THE REFUNDING PLAN", the proceeds of the Bonds, as well as other available funds, will be used to refund and defease all of the outstanding Series 2010A Bonds.

Table 7				
Existing Indebtedness				
Series	Par Amount Outstanding	Interest Rates	Final Maturity	Call Provisions
Series 2010A Fixed Rate Bonds	\$51,855,000	4.625% - 6.00%	1/1/2039	1/1/20 @ 100%
Series 2014A Fixed Rate Bonds	\$15,455,000	3.00% - 5.25%	1/1/2041	1/1/24 @ 100%
Total	\$67,310,000			

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Covenant Compliance

Liquidity Covenant - Summary of Cash Position

Under the Master Indenture, Galloway Ridge is required to conduct its business so that on each June 30 and December 31, Galloway Ridge shall have no less than 180 Days' Cash on Hand. The table below sets forth the Days' Cash on Hand of the Corporation for the four fiscal years ended December 31, 2018 based on audited financial statements and for the six-month periods ended June 30, 2018 and 2019, derived from the Corporation's interim unaudited financial statements.

Table 8
Days' Cash On Hand

Days' Cash on Hand	(000's Omitted, Except Ratios) (Derived from Audited Financial Statements)				(000's Omitted, Except Ratios) (Unaudited)	
	Year Ended December 31				Six Months Ended	
	2015 ⁽²⁾	2016	2017 ⁽³⁾	2018	2018	2019
Cash, Cash Equivalents and Certificates of Deposit	\$22,245	\$24,267	\$25,976	\$24,814	\$26,876	\$25,963
Operating Expenses (Excluding Depreciation and Amortization)	\$24,856	\$25,601	\$25,954	\$26,906	\$12,521	\$13,916
Daily Cash Operating Expenses	\$68	\$70	\$71	\$74	\$69	\$77
Days' Cash on Hand	327	347	366	335	390 ⁽¹⁾	337 ⁽¹⁾
Master Trust Indenture Requirement	180	180	180	180	180	180

Source: Management

⁽¹⁾ For purposes of calculating Days' Cash on Hand for the six-months ended June 30, 2018 and 2019, operating expenses have been annualized.

⁽²⁾ Effective January 1, 2016, ASU 2015-03 Interest – Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs was adopted. 2015 reporting was adjusted to reflect the retrospective application of the accounting guidance.

⁽³⁾ During 2018 Financial Accounting Standards Board Accounting Standard Codification Topic 606, Revenue from Contracts with Customers was adopted. Additionally, Accounting Standards Update No. 2016-14 – Not for Profit Entities (Topic 958): Presentation of Financial Statements of Not-For Profit Entities was adopted. Fiscal Year 2017 reporting was adjusted to reflect the retrospective application of the accounting guidance.

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Long-Term Debt Service Coverage Ratio

Under the Master Indenture, Galloway Ridge is required to conduct its business so that on each December 31, Galloway Ridge shall have a Long Term Debt Service Coverage Ratio of at least 1.20.

The table below sets forth the Long Term Debt Service Coverage Ratio of the Corporation for the four fiscal years ended December 31, 2018 based on audited financial statements and for the six-month periods ended June 30, 2018 and 2019, derived from the Corporation's interim unaudited financial statements.

Table 9
Long Term Debt Service Coverage Ratio

LTDSR	(000's Omitted, Except Ratios) (Derived from Audited Financial Statements)				(000's Omitted, Except Ratios) (Unaudited)	
	Year Ended December 31				Six-Months Ended June 30⁽¹⁾	
	2015 ⁽²⁾	2016	2017 ⁽³⁾	2018	2018	2019
Change in Unrestricted Net Surplus (Deficit)	(\$1,319)	(\$1,978)	\$250	(\$1,264)	(\$657)	(\$310)
Entrance Fee Amortization	(\$5,816)	(\$4,850)	(5,220)	(\$5,774)	(\$5,443)	(\$5,842)
Depreciation & Amortization	\$5,279	\$5,229	\$4,769	\$4,802	\$5,486	\$4,513
Interest Expense	\$4,160	\$4,105	\$4,100	\$3,971	\$3,957	\$3,853
Net Turnover Entrance Fees	\$5,050	\$5,577	\$5,593	\$5,550	\$6,211	\$5,643
Funds Available for Debt Service	\$7,354	\$8,083	\$9,492	\$7,285	\$9,554	\$7,857
Maximum Annual Debt Service	\$5,458	\$5,458	\$5,458	\$5,445	\$5,445	\$5,445
Long-Term Debt Service Coverage Ratio	1.35x	1.48x	1.74x	1.33x	1.75x	1.44x
Master Trust Indenture Requirement	1.20x	1.20x	1.20x	1.20x	1.20x	1.20x

Source: Management

⁽¹⁾ For purposes of calculating Long Term Debt Service Coverage Ratio for the six-months ended June 30, 2018 and 2019, a rolling 12 month year was used.

⁽²⁾ Effective January 1, 2016, ASU 2015-03 Interest – Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs was adopted. 2015 reporting was adjusted to reflect the retrospective application of the accounting guidance.

⁽³⁾ During 2018 Financial Accounting Standards Board Accounting Standard Codification Topic 606, Revenue from Contracts with Customers was adopted. Additionally, Accounting Standards Update No. 2016-14 – Not for Profit Entities (Topic 958): Presentation of Financial Statements of Not-For Profit Entities was adopted. Fiscal Year 2017 reporting was adjusted to reflect the retrospective application of the accounting guidance.

Summary Statements of Operations

The following summary statements of operations of the Corporation for the four fiscal years ended December 31, 2018 are derived from the financial statements of the Corporation which have been audited by Dixon Hughes Goodman LLP, independent certified public accountants. The summary statements of operations for the six-month periods ended June 30, 2018 and June 30, 2019 are derived from the Corporation's interim unaudited financial statements. Operating results for the six-months ended June 30, 2019 are not necessarily indicative of the results that may be expected for the entire year ending

December 31, 2019. A copy of the audited financial statements for the fiscal year ended December 31, 2018, is included in APPENDIX B to this Official Statement.

The data set forth in the following table should be read in conjunction with the financial statements and related notes included in APPENDIX B to this Official Statement.

Table 10
Statement of Operations

	(000's Omitted) (Derived from Audited Financial Statements) Year Ended December 31				(000's Omitted) (Unaudited) For the Six Months Ended June 30	
	2015 ⁽²⁾	2016	2017 ⁽³⁾	2018	2018	2019
	Revenue, gains, and other support:					
Net resident services ⁽¹⁾	\$20,953	\$20,177	\$21,506	\$22,669	\$11,240	\$11,443
Healthcare Services	5,384	5,440	5,153	4,947	2,544	2,526
Duke Center for Living	987	1,024	1,115	1,224	611	641
Investment Income (Loss)	0	628	1,480	(201)	105	1,850
Other	878	942	1,005	954	507	532
Net assets released from restrictions	614	641	714	851	144	149
Total revenue, gains, and other support	28,816	\$28,852	\$30,973	\$30,444	\$15,151	\$17,141
Expenses:						
Healthcare Services	\$6,043	\$6,087	\$6,241	\$6,138	\$2,799	\$3,134
Resident Services	560	834	1,061	1,189	557	660
Facility Services	6,131	6,300	6,332	7,210	3,115	3,377
Dining Services	3,263	3,295	3,551	3,831	1,820	2,106
Duke Center for Living	826	870	903	1,009	461	502
Administrative	3,873	4,110	3,766	3,558	1,823	2,231
Depreciation and amortization	5,279	5,229	4,769	4,802	2,729	2,362
Interest	4,160	4,105	4,100	3,971	1,946	1,907
Total Expenses	30,135	\$30,830	\$30,723	\$31,708	\$15,250	\$16,279
Excess (deficiency) of revenues, gains, and other support over expenses	(\$1,319)	(\$1,978)	\$250	(\$1,264)	(\$99)	\$862

Source: Management

⁽¹⁾ Net resident services includes amortization of advance fees of \$5,816,000 in 2015, \$4,850,000 in 2016, \$5,220,000 in 2017, \$5,774,000 in 2018, \$2,718,000 for six months ended June 2018, and \$2,787,000 for six months ended June 2019.

⁽²⁾ Effective January 1, 2016, ASU 2015-03 Interest – Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs was adopted. 2015 reporting was adjusted to reflect the retrospective application of the accounting guidance.

⁽³⁾ During 2018 Financial Accounting Standards Board Accounting Standard Codification Topic 606, Revenue from Contracts with Customers was adopted. Additionally, Accounting Standards Update No. 2016-14 – Not for Profit Entities (Topic 958): Presentation of Financial Statements of Not-For Profit Entities was adopted. Fiscal Year 2017 reporting was adjusted to reflect the retrospective application of the accounting guidance.

Management Discussion and Analysis

Overview

As a result of the Corporation's expansion of the Community and initiatives as described in "OVERVIEW – Summary of the Community" above, Independent Living occupancy has increased from 226 units in December 2010 to 291 units in June 2019. Over \$36.8M in debt has been repaid since October 2010. As of June 30, 2019, \$67.31M of debt remains outstanding, which includes the debt to be refinanced with the proceeds of the Series 2019A Bonds.

Management continues to focus on Galloway Ridge's operational efficiency. Management aims to monitor and streamline expenses to maintain a 0.90 operating ratio target.

Six-Months Ended June 30, 2019

For the six-months ended June 30, 2019, total revenues of \$17.1M are \$1.9M ahead of budget due to \$1.8M in investment returns and higher than projected amortization of advance fees resulting in net resident service fees being \$200K ahead of budget. Total expenses are \$16.3M on a budget of \$15.9M. The most significant variances are in the area of healthcare where wage pressures and scarcity of available workforce have driven up staffing expenses. There have been 19 resident settlements during the first six months of 2019, generating \$7.0M in Entrance Fees and \$3.7M in refunds have been paid. As of June 30, 2019 Occupancy for Independent Living stood at 291 of 300 units (97%) with reserved occupancy at 99%. As of June 30, 2019, Days' Cash on Hand was 337 and the rolling twelve months Long Term Debt Service Coverage Ratio was 1.44.

Fiscal Year Ended December 31, 2018

The occupancy for Independent Living Units as of December 31, 2018 was 283 of 300 units (94.3%). Operating revenues for the year were \$30.4M on a budget of \$29.2M. A shortfall of \$599K in healthcare revenue due to lower utilization and investment income that was \$471K below budget was offset by \$1.2M in additional net resident service fee income and \$851K in net assets released from restrictions which is an unbudgeted revenue source. Operating expenses were \$31.7M on a budget of \$31.0M. The most significant variance in expenses was \$851K in net assets released from restrictions added to facility services expense. Overall the YTD increase to the net deficit of \$1.3M is \$600K better than the budgeted net deficit of \$1.9M. Cash position decreased by \$836K for the year due to construction of the facility operations building and remodeling of the main lobby. As a result of the decrease in the cash position, Days Cash on Hand decreased to 335 days at December 31, 2018 down from 366 days at December 31, 2017. The rolling twelve months Long Term Debt Service Coverage Ratio was 1.33.

During 2018, Galloway Ridge implemented the provisions of the Financial Accounting Standards Board Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financials Statements of Not-for-Profit Entities* and ASU 2015-14, *Revenue from Contracts with Customers (Topic 606)*. As a result of adopting these new standards, Galloway Ridge restated amounts previously reported as of and for the year ended December 31, 2017.

Fiscal Year Ended December 31, 2017

The occupancy for Independent Living Units as of December 31, 2017 was 294 of 300 units (98%). Operating revenues for the year were \$30.9M on a budget of \$28.4M. A shortfall of \$600K in healthcare revenue due to lower utilization was offset by \$1M in additional net resident service fee income, \$1.5M additional investment income, and \$714K in net assets released from restrictions which is

an unbudgeted revenue source. Operating expenses were \$30.7M on a budget of \$30.4M. The most significant variance in expenses was \$714K in net assets released from restrictions added to facility services expense. Overall the YTD net surplus of \$250K is \$1.7M better than the budgeted net deficit of \$2.0M. Cash position increased by \$78.6K for the year. Days Cash on Hand increased to 366 days at December 31, 2017 up from 347 days at December 31, 2016. The rolling twelve months Long Term Debt Service Coverage Ratio was 1.74.

Fiscal Year Ended December 31, 2016

The occupancy for Independent Living Units as of December 31, 2016 was 281 of 300 units (93.6%). Operating revenues for the year were \$28.8M on a budget of \$27.1M. While independent living occupancy was lower than projected, higher than projected amortization of advance fees resulted in net residential service fees exceeding budget by \$278K. Investment income exceeded budget by \$580K and net assets released from restrictions was \$641K which is an unbudgeted revenue source. Operating expenses were \$30.8M on a budget of \$29.9M. The increased expenses were the result of \$500K in higher than budgeted staff expenses in companion and nursing care as well as \$336K in additional facility services expense. Overall the YTD increase to the net deficit of \$2.0M is \$0.8M better than the budgeted net deficit of \$2.8M. Cash position strengthened during the year with a net increase of \$1.2M. This increased Days' Cash on Hand to 347 days at December 31, 2016 up from 327 days at December 31, 2015. The rolling twelve months Long Term Debt Service Coverage Ratio was 1.48.

Effective January 1, 2016, ASU 2015-03, Interest – Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs, which amends current presentation guidance by requiring debt issuance cost related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability. This accounting standard was adopted but had no financial impact to the financial statements. It resulted only in a change to the Balance Sheet presentation. At the end of October 2016, Galloway Ridge terminated its management contract with Life Care Services and began independent operations.

Fiscal Year Ended December 31, 2015

The occupancy for Independent Living Units as of December 31, 2015 was 283 units of 300 units (94.3%). Revenues for the year were \$28.8M on a budget of \$25.8M. Amortization of advance fees for the year exceeded budget by \$1.6M due to higher than expected termination income. Health Care Center revenue was \$572K better than budget due to higher than projected Medicare revenue. Net assets released from restrictions was \$614K, which is an unbudgeted revenue source. Expenses for the year were \$30.1M on a budget of \$28.8M. Expenses were higher than budget primarily due to higher than expected staff expenses in healthcare and companion care as well as higher than expected utility and maintenance costs. Cash position during the year decreased \$6.5M. Days' Cash on Hand was 327 days at December 31, 2015 up from 292 days at December 31, 2014. The rolling twelve months Long Term Debt Service Coverage Ratio was 1.35.

FUTURE CAPITAL IMPROVEMENTS

Management is committed to maintaining the Community so as to remain competitive with other continuing care retirement communities and to be attractive to new residents. In April 2019, Galloway Ridge completed remodeling of the main lobby. Galloway Ridge intends to begin the refurbishment of residential corridors in January 2020 and the refurbishment of all dining venues in late 2020. In July 2019, Galloway Ridge completed the construction of five additional memory care beds, bringing the total units to 20 and in May 2018 Galloway Ridge completed the construction of a 2,800 square foot facility

operations building. All of these construction and remodeling projects have been or are expected to be funded from cash reserves.

BUDGETING PROCESS

Galloway Ridge manages its operations under a budgetary plan adopted annually by the Board of Directors. The Senior Director of Finance is responsible for preparing the operating and capital budgets after which it is reviewed by the Executive Director. The resulting budget plan is presented for review to the Board Audit and Finance Committee upon which agreed upon modifications are made and a final budget is presented to the Board of Directors for approval and adoption.

Staff monitors financial performance on a monthly basis, comparing actual performance to budget. Significant variances are analyzed and corrective actions developed and implemented. The Board Audit and Finance Committee receives the financial statements on a monthly basis, including management's discussion concerning occupancy and significant variances to budget. The Board of Directors receives the financial statements on a quarterly basis, including management's discussion concerning occupancy and significant variances to budget.

INVESTMENT POLICY

Galloway Ridge's Board, with input from its Audit and Finance Committee, sets investment policy and monitors performance on a regular basis. The investment policy includes the goal of achieving a reasonable return on the Corporation's assets for the long-term benefit of current and future residents of Galloway Ridge. The Corporation seeks to achieve this goal by investing its assets so as to balance the potential for long-term growth with the desire for capital preservation over market cycles, and with the understanding that each fund may have specific objectives and constraints. External investment managers are granted full discretionary authority to manage the Corporation's assets so long as they maintain compliance with the investment policy. The investment policy has established three distinct asset allocation targets for the Corporation's funds: (1) a balanced endowment allocation, (2) an operating reserve allocation, and (3) a cash management allocation.

EMPLOYEES AND EMPLOYEE BENEFITS

As of June 30, 2019, Galloway Ridge maintained a staff of 377 full and part-time employees, including a total of 278 full-time equivalents. Galloway Ridge is not a party to any collective bargaining agreements with its employees and there are no unions organized by Galloway Ridge employees. Management believes the relationship between Galloway Ridge and its employees is generally satisfactory. The continuing care retirement community industry has seen increases in turnover rates among certain employee positions, including, but not limited to, dining services, nurses, nurses aides, and environmental services. Turnover of the full time staff at the Community is approximately 38% from year to year and total turnover including part-time staff is 45% from year to year.

Galloway Ridge maintains a 403(b) plan for all employees. Employees may contribute to their plans the maximum allowed by federal law. Galloway Ridge may match a percentage of employee contributions at its discretion. Galloway Ridge contributed approximately \$74,000 and \$77,000 to the 403(b) plans for fiscal years 2018 and 2017, respectively.

INSURANCE MATTERS

Galloway Ridge maintains blanket property insurance in the aggregate amount of \$95,271,492, business interruption insurance of \$16,442,161, general and professional liability insurance of \$3,000,000 in the aggregate and \$1,000,000 per occurrence.

LITIGATION

To the best knowledge of management of Galloway Ridge, there is no litigation pending or threatened, which, if decided adversely to Galloway Ridge, could have a material adverse effect on the business, operations, financial position or properties of Galloway Ridge. Furthermore, there is no litigation pending or, to the knowledge of management, threatened involving professional liability claims in which the amount claimed by the plaintiff exceeds applicable professional liability insurance policy coverage limits.

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APPENDIX B

FINANCIAL STATEMENTS OF THE CORPORATION

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Galloway Ridge, Inc.

Financial Statements

Years Ended December 31, 2018 and 2017

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Independent Auditors' Report

Board of Directors
Galloway Ridge, Inc.
Pittsboro, North Carolina

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

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the 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 Company as of December 31, 2018 and 2017, and the results of its operations, changes in net deficit and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter – New Accounting Pronouncement

As discussed in Note 1 to the financial statements, during the year ended December 31, 2018, the Company implemented the provisions of Financial Accounting Standards Board Accounting Standards Update (“ASU”) 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities* and ASU 2015-14, *Revenue from Contracts with Customers (Topic 606)*. As a result of adopting these new standards, the Company restated amounts previously reported as of and for the year ended December 31, 2017. Our opinion is not modified in respect to these matters.

Dixon Hughes Goodman LLP

Raleigh, North Carolina
April 24, 2019

Galloway Ridge, Inc.
Balance Sheets
December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u> <u>(As Adjusted)</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 8,011,948	\$ 8,847,988
Assets limited as to use, current portion	1,962,456	2,044,309
Accounts receivable, net of allowances for uncollectible accounts of approximately \$111,000 and \$79,000 at December 31, 2018 and 2017, respectively	697,055	710,744
Other receivables	196,244	278,358
Other current assets	<u>544,987</u>	<u>508,330</u>
Total current assets	<u>11,412,690</u>	<u>12,389,729</u>
Assets limited as to use, net of current portion:		
Reserves required by state statute	5,698,315	5,927,428
Restricted by donor	1,969,312	1,965,676
Board designated funds	11,103,328	11,200,720
Restricted by trustee	<u>7,117,066</u>	<u>6,919,426</u>
Total assets limited as to use, net of current portion	<u>25,888,021</u>	<u>26,013,250</u>
Property and equipment, net	<u>97,078,390</u>	<u>98,488,294</u>
Total assets	<u>\$ 134,379,101</u>	<u>\$ 136,891,273</u>

Galloway Ridge, Inc.
Balance Sheets
December 31, 2018 and 2017

(Continued)

	<u>2018</u>	<u>2017</u> <u>(As Adjusted)</u>
LIABILITIES AND NET DEFICIT		
Current liabilities:		
Current maturities of long-term debt	\$ 1,555,000	\$ 1,495,000
Accounts payable	782,855	343,043
Accrued interest	1,962,456	2,044,309
Accrued payroll and related liabilities	716,131	677,007
Refunds payable	2,551,325	1,005,997
Other accrued expenses	486,766	413,836
	<u>8,054,533</u>	<u>5,979,192</u>
Long term debt, net of current maturities	65,167,520	66,637,724
Refundable deposits	698,400	615,900
Covered parking deposits	564,000	534,000
Refundable advance fees	47,287,425	51,143,664
Deferred revenue from advance fees	53,271,044	51,383,759
	<u>175,042,922</u>	<u>176,294,239</u>
Net assets (deficit):		
Without donor restrictions	(42,633,133)	(41,368,642)
With donor restrictions	1,969,312	1,965,676
	<u>(40,663,821)</u>	<u>(39,402,966)</u>
Total net deficit	<u>(40,663,821)</u>	<u>(39,402,966)</u>
Total liabilities and net deficit	<u>\$ 134,379,101</u>	<u>\$ 136,891,273</u>

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

Galloway Ridge, Inc.
Statements of Operations
Years Ended December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u> <u>(As Adjusted)</u>
Revenue, gains, and other support:		
Net residential service fees, including the amortization of advance fees of approximately \$5,774,000 in 2018 and \$5,220,000 in 2017	\$ 22,668,802	\$ 21,506,038
Healthcare services	4,946,711	5,153,270
Duke Center for Living	1,224,030	1,115,023
Investment income (loss)	(201,355)	1,479,472
Other	953,660	1,005,409
Net assets released from restrictions	851,647	714,170
	<u>30,443,495</u>	<u>30,973,382</u>
Total revenue, gains, and other support		
Expenses:		
Administration	1,819,264	2,090,246
Human Resources	922,200	882,894
Marketing	816,443	792,546
Healthcare services	6,000,528	5,979,651
Dining services	3,831,588	3,551,328
Maintenance	3,398,413	2,864,135
Housekeeping	1,328,113	1,120,130
Facility costs	2,482,995	2,347,921
Resident services	1,188,698	1,061,393
Duke Center for Living	1,009,318	902,523
Wellness	137,721	261,615
Depreciation and amortization	4,801,569	4,769,325
Interest expense	3,971,136	4,099,945
	<u>31,707,986</u>	<u>30,723,652</u>
Total expenses		
Excess (deficiency) of revenues, gains, and other support over expenses	<u>\$ (1,264,491)</u>	<u>\$ 249,730</u>

Galloway Ridge, Inc.
Statements of Changes in Net Deficit
Years Ended December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u> <u>(As Adjusted)</u>
Net assets without donor restrictions:		
Excess (deficiency) of revenues, gains, and other support over expenses	<u>\$ (1,264,491)</u>	<u>\$ 249,730</u>
Net assets with donor restrictions:		
Contributions	818,970	762,210
Investment income	36,313	195,139
Net assets released from restrictions	<u>(851,647)</u>	<u>(714,170)</u>
Increase in net assets with donor restrictions	<u>3,636</u>	<u>243,179</u>
(Increase) decrease in net deficit	<u>(1,260,855)</u>	492,909
Net deficit, beginning of year	<u>(39,402,966)</u>	<u>(39,895,875)</u>
Net deficit, end of year	<u>\$ (40,663,821)</u>	<u>\$ (39,402,966)</u>

Galloway Ridge, Inc.
Statements of Cash Flows
Years Ended December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u> <u>(As Adjusted)</u>
Cash flows from operating activities:		
(Increase) decrease in net deficit	\$ (1,260,855)	\$ 492,909
Adjustments to reconcile (increase) decrease in net deficit to net cash provided by operating activities:		
Proceeds from non-refundable advance fees	7,848,700	8,914,550
Unrealized (gains) losses on assets limited as to use	863,422	(1,130,202)
Realized (gains) losses on assets limited as to use	(449,173)	-
Depreciation and amortization	4,801,569	4,769,325
Amortization of deferred financing costs	78,444	78,444
Amortization of bond discount	6,352	6,351
Amortization of advance fees	(5,773,950)	(5,220,017)
Change in assets and liabilities:		
Accounts receivable	13,689	(216,399)
Other receivables	(117,886)	(20,758)
Other current assets	(36,657)	(37,761)
Accounts payable	(79,391)	210,014
Accrued interest	(81,853)	33,195
Accrued payroll and other liabilities	39,124	54,163
Other accrued expenses	72,930	26,657
Covered parking deposits and refundable deposits	112,500	(164,500)
Net cash provided by operating activities	<u>6,036,965</u>	<u>7,795,971</u>
Cash flows from investing activities:		
Purchase of property and equipment	(2,872,462)	(2,159,108)
Net changes in assets limited as to use	(207,167)	(801,851)
Net cash used by investing activities	<u>(3,079,629)</u>	<u>(2,960,959)</u>
Cash flows from financing activities:		
Principal payments on long-term debt	(1,495,000)	(1,435,000)
Refundable entrance fees received	1,077,300	3,103,450
Refunds of entrance fees	(3,375,676)	(6,424,848)
Net cash used by financing activities	<u>(3,793,376)</u>	<u>(4,756,398)</u>
Net change in cash and cash equivalents	(836,040)	78,614
Cash and cash equivalents, beginning of year	<u>8,847,988</u>	<u>8,769,374</u>
Cash and cash equivalents, end of year	<u>\$ 8,011,948</u>	<u>\$ 8,847,988</u>
Supplemental cash flow information:		
Cash payments for interest	\$ 4,046,637	\$ 4,060,399
Entrance fees recorded via notes receivable	\$ -	\$ 200,000
Additions of property and equipment included in accounts payable	<u>\$ 519,203</u>	<u>\$ -</u>

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

Notes to Financial Statements

1. Description of Organization and Summary of Significant Accounting Policies

Organization

Galloway Ridge, Inc. (the "Company") was formed on September 4, 2001 as a not-for-profit corporation under the laws and regulations of the state of North Carolina. The Company was formed to acquire real property and to develop, market and operate the property as a continuing care retirement community ("CCRC") in Chatham County, North Carolina, known as Galloway Ridge at Farrington (the "Project"). The Company acquired its assets on October 31, 2001 from Galloway Ridge Associates, LLC ("GRA"). Details regarding this acquisition are included in Note 7. The Project has been developed in two phases.

	<u>Phase I</u>	<u>Phase II</u>	<u>Total</u>
Independent Living Villas	51	1	52
Independent Living Apartments	183	66	249
Multiunit Assisted Housing with Services	-	14	14
Assisted Living Units	22	-	22
Memory Support Units	-	15	15
Skilled Nursing Units	<u>16</u>	<u>24</u>	<u>40</u>
Total	<u>272</u>	<u>120</u>	<u>392</u>

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses for years ended December 31, 2018 and 2017. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents, excluding those classified as assets limited as to use, include certain investments in highly liquid instruments with original maturities of three months or less when purchased. The Company maintains deposits at financial institutions insured by the Federal Deposit Insurance Corporation ("FDIC") up to \$250,000. At various times throughout the year, the Company maintains amounts in excess of FDIC insured amounts.

Accounts Receivable, Net

Accounts receivable is reported at estimated net realizable amounts from residents and responsible third-party payers. Amounts owed to the Company are reported net of allowances for uncollectible accounts. Specific balances are written off at the time they are determined to be uncollectible.

Assets Limited as to Use

Assets limited as to use include reserves required by state statute, contributions that have been restricted by donors, funds that have been designated by the board, and funds held by trustee.

Galloway Ridge, Inc.
Notes to Financial Statements

Reserves required by state statute represent an amount set aside to meet the requirements of North Carolina General Statute Chapter 58, Article 64. Under this legislation, the Company is required to maintain an operating reserve at least equal to 25% (50% if occupancy is less than 90%) of the upcoming year's total forecasted operating costs as defined by the statute. The Board of Directors has designated approximately \$5,698,000 and \$5,927,000 at December 31, 2018 and 2017, respectively, as reserves required by state statute.

Funds designated by the board include funds that have been earmarked for capital improvements, benevolent care and maintenance.

Amounts restricted by donors include contributions to establish a charitable fund to support the community at large and other various donor restricted purposes.

Funds held by trustee include amounts maintained by a trustee for debt service and to make future principal and interest payments on outstanding long-term debt.

Property and Equipment

Property and equipment are stated at cost less accumulated depreciation. Contributed property is recorded at the estimated fair value at the date of receipt. Depreciation is computed under the straight-line method and is based on estimated useful lives from 3 to 40 years using the straight-line method. The cost of maintenance and repairs is expensed as incurred. Interest is capitalized on facilities during the construction period and amortized over the useful life of the facility.

Deferred Marketing Costs, Net

The Company deferred costs of acquiring initial continuing-care contracts that are expected to be recovered from future revenues. These costs include salaries and commissions paid to sales office personnel located on the Project site, direct response advertising costs, and the costs of the Project model. The costs were being amortized using the straight-line method over the average expected remaining lives of the residents under the contract or the contract term, if shorter than average expected remaining lives of the residents. See note below on adoption of new accounting revenue recognition standard below.

Deposits on Unoccupied Units

Deposits for living units to be occupied in the future are deferred when received. A portion of the deposit is refundable if the resident terminates the continuing care contract. Upon occupancy of the unit, the nonrefundable portion of the deposit is amortized into net residential service fees using the straight-line method over the estimated remaining life expectancy of the resident, adjusted on an annual basis.

Deferred Revenue from Advance Fees

Fees paid by a resident upon entering into a continuing care contract, net of the portion thereof which is refundable to the resident, are recorded as deferred revenue from advance fees and amortized into net residential service fees using the straight-line method over the estimated remaining life expectancy of the resident, adjusted on an annual basis. The refundable portion of fees paid by a resident is recorded as a long-term liability.

When a contract is terminated, by death of last survivor or withdrawal, any unamortized deferred revenue is recognized as net residential service fees. For the years ended December 31, 2018 and 2017, unamortized deferred revenue of approximately \$1,288,000 and \$1,769,000, respectively, was recognized as revenue from advance fees and included in net residential service fees.

Obligation to Provide Future Services

The Company enters into continuing care contracts with its residents. A continuing care contract is an agreement between a resident and the Company specifying the services and facilities to be provided over the resident's remaining life. Under the contracts, the Company has the ability to increase fees as deemed necessary. As of December 31, 2018 and 2017, the Company calculated the present value of the estimated net cost of future services to be provided, including the cost of facilities to current residents, and compares the amount with deferred revenue from advance fees. If the present value of the net cost of future services and use of facilities exceeds the deferred revenue from advance fees, an additional liability is shown in the balance sheets. No liability has been recorded as of December 31, 2018 and 2017, as the present value of the estimated net costs of future services and use of facilities is less than deferred revenues from advances fees. The present value of the net cost of future services and use of facilities was discounted at 5.5% in both 2018 and 2017.

Net Residential Services Fees

Net residential service fees represent the estimated net realizable amounts from patients, third-party payors, and others for services rendered. Health care revenue from the Medicare program is based on pre-established allowable rates determined by the Medicare program. Laws and regulations governing Medicare are extremely complex and subject to interpretation. As a result, there is a reasonable possibility that recorded estimates may change by a material amount in the near term. Gross health care charges from the Medicare program totaled approximately \$1,316,000 and \$1,299,000 for years ended December 31, 2018 and 2017, respectively.

Net Assets (Deficit)

The Company reports its net assets (deficit) using the following two classes: net assets without donor restrictions and net assets with donor restrictions depending on the presence and type of donor-imposed restrictions limiting the Company's ability to use or dispose of specific contributed assets or the economic benefits embodied in those assets. Net assets (deficit) without donor restrictions include those net assets whose use is not restricted by donors, even though their use may be limited in other respects, such as by board designation. Net assets with donor restrictions are those net assets whose use by the Company has been limited by donors (a) to later periods of time or after specified dates or (b) to specified purposes.

Contributions and Donor-Imposed Restrictions

All contributions are considered to be available without donor restrictions unless specifically restricted by the donor. The Company reports gifts of cash and other assets as restricted contributions if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets (deficit) without donor restriction and reported in the statements of operations as net assets released from restriction.

Excess (Deficiency) of Revenues, Gains and Other Support Over Expenses

The statements of operations include excess (deficiency) of revenues, gains, and other support over expenses. Changes in net deficit without donor restrictions are excluded from the excess (deficiency) of revenues, gains, and other support over (under) expenses, consistent with industry practice would include unrealized gains and losses on investments other than trading securities, permanent transfers of assets to and from affiliates for other than goods and services, and contributions of long-lived assets (including assets acquired using contributions which by donor restriction were to be used for the purpose of acquiring such assets).

Income Tax Status

The Company is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and applicable state statutes. Accordingly, the accompanying financial statements do not reflect a provision or liability for federal and state income taxes. The Company has determined that it does not have any material unrecognized tax obligations at December 31, 2018.

New Accounting Pronouncements

During 2018, the Community adopted Financial Accounting Standards Board (“FASB”) Accounting Standard Codification (“ASC”) Topic 606, Revenue from Contracts with Customers (“ASC Topic 606”) under the full retrospective approach applied to certain contracts using the practical expedient in paragraph 606-10-10-4 that allows for the use of a portfolio approach, as we determined that the effect of applying the guidance to our portfolios of contracts within the scope of ASC Topic 606 on our financial statements would not differ materially from applying the guidance to each individual contract within the respective portfolio or our performance obligations within that portfolio. The five-step model defined by ASC Topic 606 requires us to: (1) identify our contracts with customers, (2) identify our performance obligations under those contracts, (3) determine the transaction prices of those contracts, (4) allocate the transaction prices to our performance obligations in those contracts and (5) recognize revenue when each performance obligation under those contracts is satisfied. Revenue is recognized when promised goods or services are transferred to the customer in an amount that reflects the consideration expected in exchange for those goods or services. Our adoption of ASC Topic 606 did not result in an adjustment to our net assets except for the write-off of deferred marketing costs that are not considered incremental costs as defined in ASC Topic 606 and did not have a material impact on the amount and timing of our revenue recognition for the year ended December 31, 2018.

The promised good or service in the resident agreement for a Type A life care contract is that the entity is standing ready each month to provide a service such that the resident can continue to live in the facility and access the appropriate level of care based on his or her needs. As such, the entity recognizes the nonrefundable entrance fee in an equal amount allocated to each month, given the nature of the entity’s performance is that of having the various residential, social or health care services available to the resident on a when-and-if needed basis each month for as long as the resident resides in the facility.

Upon adoption of ASC Topic 606, entities should evaluate costs associated with acquiring life care contracts to determine if they meet the requirements for capitalization under FASB ASC 340-40-25. Under FASB ASC 340-40-25-2, the incremental costs of obtaining a contract are those that an entity incurs to obtain a contract with a customer that it would not have incurred if the contract had not been obtained. Costs to obtain a contract that would have been incurred regardless of whether the contract was obtained shall be recognized as an expense when incurred, unless those costs are explicitly chargeable to the customer regardless of whether the contract is obtained.

Galloway Ridge, Inc.
Notes to Financial Statements

As such, the entity has retrospectively adjusted the prior year financial statements for the removal of deferred marketing costs previously recorded on the balance sheets.

	<u>2017 Previously Presented</u>	<u>Adjustment</u>	<u>2017 (As Adjusted)</u>
<u>Balance Sheet:</u>			
Deferred marketing cost, net	\$ 1,629,493	\$ (1,629,493)	\$ -
Total assets	138,520,766	(1,629,493)	136,891,273
Total net deficit	(37,773,473)	(1,629,493)	(39,402,966)
Total liabilities and net deficit	138,520,766	(1,629,493)	136,891,273
<u>Statements of Operations and Changes in Net Deficit:</u>			
Depreciation and amortization	5,362,581	(593,256)	4,769,325
Total expenses	31,316,908	(593,256)	30,723,652
Excess (deficiency) of revenues, gains, and other support over expenses	(343,526)	593,256	249,730
(Increase) decrease in net deficit	(100,347)	593,256	492,909
Net deficit, beginning of year	(37,673,126)	(2,222,749)	(39,895,875)
Net deficit, end of year	(37,773,473)	(1,629,493)	(39,402,966)
<u>Cash Flows:</u>			
Decrease (increase) in net deficit	\$ (100,347)	\$ 593,256	\$ 492,909
Depreciation and amortization	5,362,581	(593,256)	4,769,325
Net cash provided by operating activities	7,795,971	-	7,795,971

Galloway Ridge, Inc.
Notes to Financial Statements

Presentation of Financial Statements of Not-for-Profit Entities

During fiscal year 2018, the Company adopted Accounting Standard Update (“ASU”) No. 2016-14 – *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The ASU No. 2016-14 addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity of available resources, and the lack of consistency in the type of information provided about expenses and investment return. The fiscal year 2017 financial statements have been adjusted to reflect retrospective application of the new accounting guidance, except for the disclosures around liquidity and availability of resources and analysis of expenses by functional and natural categories. These disclosures have been presented for 2018 as allowed by ASU No. 2016-14. The retrospective application resulted in temporarily restricted net assets of \$1,965,676 being reported as net assets with donor restrictions and unrestricted net deficit of \$41,368,642 being reported as net deficit without donor restrictions as of December 31, 2017.

Reclassifications

Certain amounts included in the 2017 financial statements have been reclassified to conform to the 2018 presentation. Changes in net deficit previously reported for 2017 were not affected by these reclassifications, except as noted above.

Subsequent Events

The Company evaluated the effect subsequent events would have on the financial statements through April 24, 2019, which is the date the financial statements were issued.

2. Revenue Recognition

The Company generates revenues, primarily by providing housing and health services to its residents. The following streams of revenue are recognized as follows:

Monthly service fees:

The life care contracts that residents select require an advanced fee and monthly fees based upon the type of space they are applying for. Resident fee revenue for recurring and routine monthly services is generally billed monthly in advance. Payment terms are usually due within 30 days. The services provided encompass social, recreational, dining along with assisted living and nursing care and these performance obligations are earned each month. Under ASC Topic 606, management has determined that the performance obligation for the standing obligation to provide the appropriate level of care is the predominate component and does not contain a lease component under ASC Topic 840. Resident fee revenue for non-routine or additional services are billed monthly in arrears and recognized when the service is provided.

Entrance fees:

The nonrefundable entrance fees are recognized as deferred revenue upon receipt of the payment and included in liabilities in the balance sheet until the performance obligations are satisfied. The refundable portion of an entrance fee is not considered part of the transaction price and as such is recorded as a liability in the balance sheet. Additionally, management has determined the contracts do not contain a significant financing component as the advanced payment assures residents the access to health care in the future. These deferred amounts are then amortized on a straight-line basis into revenue on a monthly basis over the life of the resident as the performance obligation is the material right associated with access to future services as described in FASB ASC 606-10-55 paragraph 42 and 51.

Health care services:

In the facility, the Company provides assisted and nursing care to residents who are covered by government and commercial payers. The Company is paid fixed daily rates from government payers. The fixed daily rates and other fees are billed in arrears monthly. The monthly fees represent the most likely amount to be received from the 3rd party payors. Most rates are predetermined from Medicare. Under ASC Topic 606, management has elected to utilize the portfolio approach in aggregating the revenues under these revenue streams.

Galloway Ridge, Inc.
Notes to Financial Statements

The Company disaggregates its revenue from contracts with customers by payor source, as the Company believes it best depicts how the nature, timing and uncertainty of its revenues and cash flows are affected by economic factors. See details on a reportable segment basis in the table below:

	December 31, 2018			
	<u>Independent Living</u>	<u>Assisted Living & Memory Care</u>	<u>Skilled Nursing</u>	<u>Total</u>
Private pay	\$ 23,218,098	\$ 2,857,981	\$ 1,154,214	\$ 27,230,293
Government reimbursement	899,144	41,145	465,922	1,406,211
Other third-party payor programs	<u>184,624</u>	<u>11,212</u>	<u>7,203</u>	<u>203,039</u>
Total	<u>\$ 24,301,866</u>	<u>\$ 2,910,338</u>	<u>\$ 1,627,339</u>	<u>\$ 28,839,543</u>

	December 31, 2017			
	<u>Independent Living</u>	<u>Assisted Living & Memory Care</u>	<u>Skilled Nursing</u>	<u>Total</u>
Private pay	\$ 22,061,996	\$ 2,608,629	\$ 1,515,729	\$ 26,186,354
Government reimbursement	727,457	169,484	407,224	1,304,165
Other third-party payor programs	<u>257,707</u>	<u>14,865</u>	<u>11,240</u>	<u>283,812</u>
Total	<u>\$ 23,047,160</u>	<u>\$ 2,792,978</u>	<u>\$ 1,934,193</u>	<u>\$ 27,774,331</u>

3. Fair Value Measurements

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 Company'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.

Assets 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 investments include money market funds, mutual funds, common stocks, exchange-traded funds and government securities which are valued based on prices readily available in the active markets in which those securities are traded, and money market funds which are based on their transacted value. Level 2 investments include corporate bonds which are valued on a recurring basis on inputs that are readily available in public markets or can be derived from information available in publicly quoted markets.

Galloway Ridge, Inc.
Notes to Financial Statements

The Company does not have any financial assets or liabilities measured on a recurring basis categorized as Level 3, and there were no transfers in or out of Level 3 for years ended December 31, 2018 and 2017. There were no changes during 2018 or 2017 to the Company's valuation techniques used to measure asset fair values on a recurring basis.

The tables below present the balances of assets measured at fair value on a recurring basis.

	December 31, 2018			Total
	Level 1	Level 2	Level 3	
Fixed Income:				
Corporate bonds	\$ -	\$ 4,254,114	\$ -	\$ 4,254,114
Government securities	<u>4,285,667</u>	<u>-</u>	<u>-</u>	<u>4,285,667</u>
Total fixed income	<u>4,285,667</u>	<u>4,254,114</u>	<u>-</u>	<u>8,539,781</u>
Mutual funds:				
Fixed income	1,672,926	-	-	1,672,926
Equity	<u>1,668,108</u>	<u>-</u>	<u>-</u>	<u>1,668,108</u>
Total mutual funds	<u>3,341,034</u>	<u>-</u>	<u>-</u>	<u>3,341,034</u>
Common stocks	<u>6,667,022</u>	<u>-</u>	<u>-</u>	<u>6,667,022</u>
Exchange-traded funds	<u>111,593</u>	<u>-</u>	<u>-</u>	<u>111,593</u>
Money market funds	<u>8,851,555</u>	<u>-</u>	<u>-</u>	<u>8,851,555</u>
Total	<u>\$ 23,256,871</u>	<u>\$ 4,254,114</u>	<u>\$ -</u>	<u>\$ 27,510,985</u>

The Company had \$290,064 of cash and \$49,428 of accrued interest included within assets limited as to use and investments which was not included in the fair value hierarchy.

	December 31, 2017			Total
	Level 1	Level 2	Level 3	
Fixed Income:				
Corporate bonds	\$ -	\$ 4,888,473	\$ -	\$ 4,888,473
Government securities	<u>3,113,178</u>	<u>-</u>	<u>-</u>	<u>3,113,178</u>
Total fixed income	<u>3,113,178</u>	<u>4,888,473</u>	<u>-</u>	<u>8,001,651</u>
Mutual funds:				
Fixed income	1,799,277	-	-	1,799,277
Equity	<u>1,828,452</u>	<u>-</u>	<u>-</u>	<u>1,828,452</u>
Total mutual funds	<u>3,627,729</u>	<u>-</u>	<u>-</u>	<u>3,627,729</u>
Common stocks	<u>6,260,120</u>	<u>-</u>	<u>-</u>	<u>6,260,120</u>
Exchange-traded funds	<u>113,591</u>	<u>-</u>	<u>-</u>	<u>113,591</u>
Money market funds	<u>9,720,426</u>	<u>-</u>	<u>-</u>	<u>9,720,426</u>
Total	<u>\$ 22,835,044</u>	<u>\$ 4,888,473</u>	<u>\$ -</u>	<u>\$ 27,723,517</u>

The Company had \$282,942 of cash and \$51,100 of accrued interest included within assets limited as to use and investments which was not included in the fair value hierarchy.

Galloway Ridge, Inc.
Notes to Financial Statements

4. Assets Limited as to Use

Assets limited as to use consist of the following at December 31:

	<u>2018</u>	<u>2017</u>
Reserves required by state statute:		
Corporate bonds	\$ 2,629,997	\$ 3,386,251
Government securities	1,732,756	1,888,635
Common stock	1,107,901	302,675
Money market funds	200,743	211,417
Cash and cash equivalents	-	107,057
Accrued interest	26,918	31,393
	<u>5,698,315</u>	<u>5,927,428</u>
Restricted by donor:		
Common stocks	756,412	816,770
Equity mutual funds	191,880	219,706
Fixed income mutual funds	273,203	299,363
Corporate bonds	228,204	208,589
Government securities	154,381	166,585
Money market funds	60,102	62,968
Cash and cash equivalents	290,064	175,885
Exchange-traded funds	12,249	13,309
Accrued interest	2,817	2,501
	<u>1,969,312</u>	<u>1,965,676</u>
Board designated funds:		
Common stocks	4,802,709	5,140,675
Equity mutual funds	1,476,228	1,608,746
Fixed income mutual funds	1,399,723	1,499,914
Corporate bonds	1,395,913	1,293,633
Government securities	1,254,641	1,057,958
Money market funds	655,077	482,306
Exchange-traded funds	99,344	100,282
Accrued interest	19,693	17,206
	<u>11,103,328</u>	<u>11,200,720</u>
Funds held by trustee:		
Money market	7,935,633	8,963,735
Government securities	1,143,889	-
	<u>9,079,522</u>	<u>8,963,735</u>
 Total assets limited as to use	 <u>\$ 27,850,477</u>	 <u>\$ 28,057,559</u>

Investment return is comprised of the following:

	<u>2018</u>	<u>2017</u>
Interest and dividend income	\$ 212,894	\$ 431,127
Net realized gains (losses)	449,173	(81,857)
Net unrealized gains (losses)	<u>(863,422)</u>	<u>1,130,202</u>
	<u>\$ (201,355)</u>	<u>\$ 1,479,472</u>

Interest and dividend income on unrestricted cash is reported in the statements of operations within total revenue, gains, and other support. Interest income, realized and unrealized gains (losses) on cash, cash equivalents and investments within the charitable fund are included in investment income for net assets with donor restrictions in the statements of changes in net deficit.

5. Life Care Contracts

Plan A – The Amortizing Plan

Upon termination of the Plan A Residency Agreement after residency has been established (if the resident occupies the independent living unit at the time of termination), the entrance fee will be refunded, less four percent (4%) of the entrance fee upon reoccupancy of a like living unit, and less two percent (2%) of the entrance fee for each month of residency of the initial forty-eight (48) months of residency. If the Plan A Residency Agreement is terminated at any time following the initial forty-eight months, no refund of any entrance fee is due. The refund will be made no later than thirty (30) days after the termination of the agreement and reoccupancy of a like living unit. Any resident withdrawing before the expiration of the first 90 days of residency is entitled to a full refund of their advance fee.

Plan B – The 90 Percent Refundable Plan

Upon termination of the Plan B Residency Agreement, (if the resident occupies the independent living unit at the time of termination), the entrance fee will be refunded, less two percent (2%) of the entrance fee for each month of residency for the initial five (5) months of residency. If the Plan B Residency Agreement is terminated at any time following the initial five months of residency, the refund amount will be equal to ninety percent (90%) of the entrance fee and is contingent upon reoccupancy of a like independent living unit. The refund will be made no later than thirty (30) days after the termination of the agreement and reoccupancy of a like living unit. The amount refundable after occupancy is the full entrance fee less 2% per month for each subsequent month or partial month after occupancy. After 5 months of occupancy, the refundable amount is equal to 90% of the entrance fee.

Plan C – The 75 Percent Refundable Plan

Upon termination of the Plan C Residency Agreement, (if the resident occupies the independent living unit at the time of termination), the entrance fee will be refunded, less one percent (1%) of the entrance fee upon settlement and two percent (2%) for each month of residency for the initial twelve (12) months of residency. If the Plan C Residency Agreement is terminated at any time following the initial twelve months of residency, the refund amount will be equal to seventy-five percent (75%) of the entrance fee and is contingent upon reoccupancy of a like independent living unit. The refund will be made no later than thirty (30) days after the termination of the agreement and reoccupancy of a like living unit. The amount refundable after occupancy is the full entrance fee paid less 1% upon occupancy and less 2% per month for each subsequent month or partial month after occupancy. After 12 months of occupancy, the refundable amount is equal to 75% of the entrance fee.

The total amount of contractual refund obligations under all existing contracts (that is, if all residents with a refundable balance were to have withdrawn) totaled approximately \$60,497,000 and \$63,240,000 at December 31, 2018 and 2017, respectively.

Galloway Ridge, Inc.
Notes to Financial Statements

6. Property and Equipment

A summary of property and equipment at December 31 follows:

	<u>2018</u>	<u>2017</u>
Land & land improvements	\$ 6,606,453	\$ 6,532,402
Buildings	130,228,272	128,667,630
Furniture, fixtures, and equipment	9,309,563	8,749,682
Construction in progress	<u>1,793,226</u>	<u>602,487</u>
Property and equipment, gross	147,937,514	144,552,201
Less accumulated depreciation	<u>(50,859,124)</u>	<u>(46,063,907)</u>
Property and equipment, net	<u>\$ 97,078,390</u>	<u>\$ 98,488,294</u>

Construction in progress includes various projects. The estimated cost to complete the projects is approximately \$1,127,000. Depreciation expense was approximately \$4,197,000 and \$4,164,000 for years ended December 31, 2018 and 2017, respectively. There was no interest capitalized during 2018 or 2017. Amortization expense on the capitalized interest was approximately \$605,000 in both 2018 and 2017.

7. Long-Term Debt

Long-term debt consists of the following on December 31:

	<u>2018</u>	<u>2017</u>
First Mortgage Revenue Bonds, Series 2010A:		
Serial bonds due 2013 – 2023, interest of 2.9% to 5.1%	\$ 7,170,000	\$ 8,655,000
Term bonds:		
Due 2031, interest rate of 5.875%	20,675,000	20,675,000
Due 2039, interest rate of 6.00%	25,555,000	25,555,000
First Mortgage Revenue Refunding Bonds, Series 2014A:		
Serial bonds due 2016 – 2024, interest of 2.0% to 4.0%	60,000	70,000
Term bonds:		
Due 2034, interest rate of 4.875%	105,000	105,000
Due 2041, interest rate of 5.25%	<u>15,300,000</u>	<u>15,300,000</u>
Total long-term debt, before issuance costs and discounts	68,865,000	70,360,000
Less unamortized debt issuance costs	(2,002,748)	(2,081,192)
Less unamortized discounts	<u>(139,732)</u>	<u>(146,084)</u>
Total long-term debt	66,722,520	68,132,724
Less current maturities of long-term debt	<u>1,555,000</u>	<u>1,495,000</u>
Long-term debt, net of current maturities	<u>\$ 65,167,520</u>	<u>\$ 66,637,724</u>

Galloway Ridge, Inc.
Notes to Financial Statements

In October 2010, the Company issued \$61,180,000 of tax-exempt, fixed rate Retirement Facilities First Mortgage Revenue Bonds (Galloway Ridge Project) Series 2010A (“2010A Bonds”) and \$15,000,000 of tax-exempt, variable rate Retirement Facilities First Revenue Bonds (Galloway Ridge Project) Series 2010B (“2010B Bonds”) through the North Carolina Medical Care Commission, the issuing authority. The proceeds of the 2010A and 2010B Bonds were used to construct the expansion of 67 independent living units (66 independent living apartments and 1 independent living villa), 29 assisted living units, of which 15 are designated for dementia care, and 24 skilled nursing units, as well as additional and renovated supportive common areas of the Project. Additionally, proceeds from the 2010A and 2010B Bonds were used to pay a portion of the outstanding loans from the Bank of Scotland and to fund certain debt service reserves and other costs associated with issuance of the 2010A and 2010B Bonds. The Series 2010A Bonds were issued at a discount of \$190,269. The Company paid off the 2010B Series Bonds in full during 2014.

In September 2014, the Company issued \$15,495,000 of tax-exempt, adjustable rate First Mortgage Revenue Refunding Bonds (“2014A Bonds”) through the North Carolina Medical Care Commission. Of this total amount, \$15,000,000 was used to refund the Series 2010B Bonds. The remaining amounts were used for costs of issuance and to fund a debt service reserve fund.

Under the terms of the master trust indenture and loan agreements underlying the Series 2010A and 2014A Series Bonds, the Company is required to make annual principal and interest payments on unpaid debt and is also required to comply with certain restrictive covenants, including the maintenance of specified ratios, the limitation on incurrence of additional debt, the limitation on liens and the limitation on the transfer of assets.

Principal repayments on the Series 2010A and 2014A Bonds, excluding the discount on the Series 2010A and 2014A Bonds, for the next five years and thereafter are summarized as follows:

	<u>2010A Bonds</u>	<u>2014A Bonds</u>	<u>Total</u>
2019	\$ 1,545,000	\$ 10,000	\$ 1,555,000
2020	1,615,000	10,000	1,625,000
2021	1,690,000	10,000	1,700,000
2022	1,770,000	10,000	1,780,000
2023	1,860,000	10,000	1,870,000
Thereafter	<u>44,920,000</u>	<u>15,415,000</u>	<u>60,335,000</u>
	<u>\$ 53,400,000</u>	<u>\$ 15,465,000</u>	<u>\$ 68,865,000</u>

8. Fair Value of Financial Instruments

The carrying amounts of the Company’s financial instruments approximate their fair values. The fair values of the Company’s long-term debt obligations are estimated based on the quoted market prices for the same or similar issues.

The carrying amount and fair value of the Company’s long-term debt at December 31 follows:

	<u>2018</u>		<u>2017</u>	
	<u>Fair Value</u>	<u>Carrying Value</u>	<u>Fair Value</u>	<u>Carrying Value</u>
Long-term debt	<u>\$ 70,444,530</u>	<u>\$ 68,865,000</u>	<u>\$ 73,176,382</u>	<u>\$ 70,360,000</u>

9. Development and Management Agreements

A management services agreement was entered into with Health Systems Medical Strategies, Inc. (“HSMS”), a North Carolina corporation, and the Company. A management agreement has been executed with HSMS for HSMS to manage the Duke Center for Living (“DCFL”) through November 2021. The Company incurred approximately \$232,000 and \$140,000 of expense under terms of this agreement for the years ended December 31, 2018 and 2017, respectively.

10. Net Assets with Donor Restrictions

Net assets with donor restrictions are available for the following purposes at December 31:

	<u>2018</u>	<u>2017</u>
Benevolent fund	\$ 1,161,123	\$ 1,244,610
Community / charitable fund	302,194	319,373
Special events	271,454	291,962
Other	<u>234,541</u>	<u>109,731</u>
	<u>\$ 1,969,312</u>	<u>\$ 1,965,676</u>

Net assets with donor restrictions that were released for their designated purpose were approximately \$852,000 and \$714,000 for years ended December 31, 2018 and 2017, respectively.

11. Retirement Plan

The Company maintains a 403(b) plan for all employees. The plan is funded by one or more investment arrangements selected by the Company. Employees can contribute the maximum allowed by federal law. The Company may match a percentage of employee contributions at the Company’s discretion. Total contributions to the plan were approximately \$74,000 and \$77,000 in 2018 and 2017, respectively.

12. Commitments and Contingencies

Insurance

The Company was involved in litigation in the ordinary course of business related to professional liability claims. Management believes all claims will be settled within the limits of insurance coverage. However, the ultimate settlement of these cases and losses, if any, to the Company cannot be estimated at this time. Other claims may be asserted arising from past services provided through December 31, 2018. Management believes these claims, if asserted, would be settled within the limits of insurance coverage. General and professional liability coverage is on a claims-made basis for individual claims up to \$1,000,000 per occurrence, with a total annual aggregate of \$3,000,000.

Regulatory

The healthcare industry is subject to numerous complex laws and regulations of federal, state and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government health care program participation requirements, reimbursement for patient services and Medicare fraud and abuse. Recently, government activity has increased with respect to investigations and

Galloway Ridge, Inc.
Notes to Financial Statements

allegations concerning possible violations of fraud and abuse statutes and regulations by health care providers. Violations of these laws and regulations could result in expulsion from government healthcare programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed. The Company believes that they are in compliance with all applicable laws and regulations and are not aware of any pending or threatened investigations involving allegation of potential wrongdoing.

13. Liquidity and Availability

As part of its liquidity management, the Company has a policy to structure its financial assets to be available as its general expenses, liabilities, and other obligations come due. In addition, the Company invests cash in excess of daily operating funds in short-term investments such as stocks, bonds, money market funds, and mutual funds.

The following schedule reflects the Company's' financial assets to meet cash needs for general expenses within one year. The financial assets were derived from the total assets on the balance sheets by excluding the assets that are unavailable for general expenses in the next 12 months. Board designated amounts for projects have been included in the schedule below as the board could release these funds for liquidity purposes if needed.

The Company seeks to maintain sufficient liquid assets to cover three months' operating and capital expenses.

Financial assets available for general expenditure within one year of the balance sheet date, consist of the following:

<u>Asset Categories</u>	<u>2018</u>
Cash and cash equivalents	\$ 8,011,948
Accounts receivable	697,055
Other receivables	196,244
Investments and assets limited as to use	27,850,477
Less: Held by trustee	(7,117,066)
Less: Reserves required by state statute	(5,698,315)
Less: Restricted by donor	<u>(1,969,312)</u>
	<u>\$ 21,971,031</u>

14. Schedule of Expenses by Natural Classification and Function

The following is a schedule of expenses by both natural classification and function for the year ended December 31, 2018:

	<u>Independent</u>	<u>Program Services</u>		<u>Total</u>	<u>Administrative and General</u>	<u>Marketing</u>	<u>Total</u>
		<u>Assisted Living</u>	<u>Skilled Nursing</u>				
Salaries and benefits	\$ 5,494,932	\$ 2,363,291	\$ 2,147,550	\$ 10,005,773	\$ 1,974,559	\$ 635,056	\$ 12,615,388
Medical and personal care	851,669	52,167	472,727	1,376,562	1,587	323	1,378,472
Food services	1,108,872	257,687	167,542	1,534,102	44,701	7,413	1,586,216
Facilities services	1,125,367	149,292	71,223	1,345,882	574,595	86,406	2,006,883
Supplies	71,999	7,126	7,621	86,746	53,510	7,176	147,432
Utilities	816,016	112,887	53,791	982,694	267,074	54,401	1,304,169
Administration	1,365,061	143,523	93,258	1,601,842	1,952,176	67,948	3,621,965
Marketing	15,362	344	8	15,714	3,766	255,276	274,756
Depreciation and amortization	3,053,414	422,408	201,279	8,677,100	999,351	203,561	4,880,013
Interest expense	2,435,650	336,947	160,556	2,933,152	797,163	162,377	3,892,692
Total expense	<u>\$ 16,338,340</u>	<u>\$ 3,845,672</u>	<u>\$ 3,375,556</u>	<u>\$ 23,559,568</u>	<u>\$ 6,668,482</u>	<u>\$ 1,479,937</u>	<u>\$ 31,707,986</u>

APPENDIX C

**DEFINITIONS OF CERTAIN TERMS AND
SUMMARY OF PRINCIPAL LEGAL DOCUMENTS**

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Brief descriptions of the Master Indenture, the Loan Agreement, the Trust Agreement and the Corporation Deed of Trust are included in this Appendix C. Such descriptions do not purport to be comprehensive or definitive; all references herein to the Master Indenture, the Loan Agreement, the Trust Agreement and the Corporation Deed of Trust are qualified in their entirety by reference to each such document.

DEFINITIONS OF CERTAIN TERMS

The following is a summary of the definitions of certain terms contained in the Master Indenture, the Loan Agreement, the Trust Agreement and the Corporation Deed of Trust and used in this Official Statement. Terms which are used herein and not otherwise defined herein have the definitions specified in the Master Indenture, the Loan Agreement, the Trust Agreement or the Corporation Deed of Trust.

“Accountant” means an independent certified public accountant or a firm of independent certified public accountants that is a member of the American Institute of Certified Public Accountants (or its successor organization) and is licensed to practice in the State of North Carolina.

“Accounts” means any right to payment of a monetary obligation, whether or not earned by performance, (i) for property that has been or is to be sold, leased, licensed, assigned or otherwise disposed of, (ii) for services rendered or to be rendered, or (iii) for a secondary obligation incurred or to be incurred. The term “Accounts” shall include healthcare insurance receivables. The term “Accounts” shall not include (i) rights to payment evidenced by chattel paper or an instrument, (ii) commercial tort claims, (iii) deposit accounts, (iv) investment property, (v) letter-of-credit rights or letters of credit, or (vi) rights to payment for money or funds advanced or sold. Any terms used in this definition (other than the term “Accounts”) shall have the meanings given such terms, if any, in the UCC.

“Act” means the Health Care Facilities Finance Act, Chapter 131A of the General Statutes of North Carolina, as amended, or any successor statute.

“Additional Indebtedness” means Indebtedness incurred by a Member of the Obligated Group subsequent to the issuance and delivery of the Existing Obligations.

“Affiliate” means a corporation, limited liability company, partnership, joint venture, association, business trust or similar entity organized under the laws of the United States of America or any state thereof which (i) is directly or indirectly controlled by any Member of the Obligated Group, or by any Person which directly or indirectly controls any Member of the Obligated Group or (ii) controls, directly or indirectly, any Member of the Obligated Group. For purposes of this definition, control means the power to direct the management and policies of a Person through the ownership of not less than a majority of its voting securities or the right to designate or elect not less than a majority of the members of its board of directors or other governing board or body by contract or otherwise. “Affiliate” includes each Person who is an “affiliate” of a Member of the Obligated Group under accounting principles generally accepted in the United States of America.

“Available Reserves” means, as of any particular date of determination, an amount equal to the sum of all cash and the market value of all investments of the Members of the Obligated Group, less: (a) any cash or investments held by a trustee or creditor (i) in any bond payment fund or similar account for the payment of interest on Long-Term Indebtedness (or Related Bonds) up to, but not exceeding, the amount of interest accrued on such Long-Term Indebtedness (or Related Bonds) to such date of determination, or (ii) for the payment of Qualifying Intermediate-Term Indebtedness; (b) the principal balance of any Short-Term Indebtedness then Outstanding; (c) any amount required to be reserved by any Member of the Obligated Group under applicable state or federal regulations against such Member’s obligation under

Residency Agreements to provide nursing or other health care to residents (not including any amounts held in any operating reserve required by Section 58-64-33 of the General Statutes of North Carolina); (d) with respect to the acquisition or construction of Property that will, upon such acquisition or construction, constitute Property, Plant and Equipment, (i) the amount of proceeds of Indebtedness incurred to finance such acquisition or construction, (ii) the amount of cash or securities pledged by a Member of the Obligated Group as collateral for Indebtedness incurred to finance such acquisition or construction, or (iii) the amount which is due and payable and will be due and payable within one year pursuant to a contract for such acquisition or construction, unless such amount will be paid with the proceeds of Indebtedness incurred to finance such acquisition or construction; (e) cash and investments the use of which is restricted by a donor or grantor to a particular use or purpose inconsistent with their use for the payment of Long-Term Indebtedness or Related Bonds and (f) any other cash or investments not legally available for the payment of Long-Term Indebtedness or Related Bonds (or the purchase thereof) when due.

“Balloon Long-Term Indebtedness” means Long-Term Indebtedness (other than Qualifying Intermediate-Term Indebtedness) 25% or more of the principal payments of which are due in a single year, which portion of the principal is not required by the documents pursuant to which such Indebtedness is incurred to be amortized by payment or redemption prior to such year.

“Beneficial Owner” means the Person in whose name a Bond is recorded as beneficial owner of such Bond by the Securities Depository or a Participant or an Indirect Participant on the records of such Securities Depository, Participant or Indirect Participant, as the case may be, or such Person’s subrogee.

“Beneficiary” means The Bank of New York Mellon Trust Company, N.A., as Master Trustee.

“Bond Counsel” means a firm of attorneys knowledgeable and experienced in the law relating to municipal securities and the law relating to federal and State taxation of interest thereon and approved by the Commission.

“Bond Fund” means the North Carolina Medical Care Commission Retirement Facilities First Mortgage Revenue Refunding Bonds (Galloway Ridge), Series 2019A Bond Fund created and so designated by the Trust Agreement and consisting of the Interest Account, the Principal Account and the Sinking Fund Account.

“Bond Trustee” means the Bond Trustee at the time serving as such under the Trust Agreement, whether the original or successor Bond Trustee, which shall initially be The Bank of New York Mellon Trust Company, N.A., and its successors in the trusts created under the Trust Agreement.

“Bond Year” means the period commencing on January 1 of any year and ending on December 31 of such year.

“Bonds” means the North Carolina Medical Care Commission Retirement Facilities First Mortgage Revenue Refunding Bonds (Galloway Ridge) Series 2019A authorized and issued under the Trust Agreement.

“Book Entry Bonds” means Bonds for which a Securities Depository or its nominee is the Holder.

“Book Entry System” means a book entry system established and operated for the recordation of Beneficial Owners of the Bonds pursuant to the Trust Agreement.

“Business Day” means, with respect to the Trust Agreement, any day on which banks in the city in which the designated corporate trust office of the Bond Trustee is located and in New York, New York are not authorized to be closed for commercial banking purposes.

“Business Day” means, with respect to the Master Indenture, any day on which banks in the city in which the Corporate Trust Office of the Master Trustee is located and in New York, New York are not authorized to be closed for commercial banking purposes.

“Closing” means the date on which the Loan Agreement becomes legally effective, the same being the date on which the Bonds are delivered against payment therefor.

“Code” means the Internal Revenue Code of 1986, as amended, and all regulations promulgated thereunder.

“Collateral Assignments” means any assignment of construction documents, management agreements or Residency Agreements or any other assignment or agreement executed by any Member of the Obligated Group as security for all Obligations issued under the Master Indenture, each as amended from time to time in accordance with its terms.

“Commission” means the North Carolina Medical Care Commission of the Department of Health and Human Services of the State of North Carolina, and any successor thereto.

“Commission Bonds” means any Related Bonds issued by the Commission or the issuance of which was subject to the approval of the Local Government Commission.

“Commission Representative” means each of the persons at the time designated to act on behalf of the Commission in a written certificate furnished to the Corporation and the Bond Trustee, which certificate shall contain the specimen signature(s) of such person(s) and shall be signed on behalf of the Commission by its Chairman or Vice Chairman.

“Completion Indebtedness” means any Indebtedness for borrowed money: (i) incurred for the purpose of financing the completion of the acquisition, construction, remodeling, renovation, or equipping of Facilities with respect to which Indebtedness for borrowed money has been incurred in accordance with the provisions of the Master Indenture; and (ii) with a principal amount not in excess of the amount that is required to provide a completed and equipped Facility of substantially the same type and scope contemplated at the time such prior Indebtedness was originally incurred, to provide for capitalized interest during the period of construction, to provide any reserve fund relating to such Completion Indebtedness, and to pay the costs and expenses of issuing such Completion Indebtedness.

“Corporate Trust Office” means the principal or a designated office of the Master Trustee at which its corporate trust business is conducted, which at the date hereof is located in Jacksonville, Florida.

“Corporation” means Galloway Ridge, Inc., a nonprofit corporation duly incorporated and validly existing under and by virtue of the laws of the State of North Carolina, and any successor or successors thereof.

“Corporation Deed of Trust” means the Deed of Trust, dated as of October 1, 2010, from the Corporation to the Deed of Trust Trustee for the benefit of the Master Trustee, as security for all Obligations issued under the Master Indenture, as amended by a First Amendment to Deed of Trust dated as of September 1, 2014 and a Second Amendment to Deed of Trust dated as of October 1, 2019, and as the same may be further supplemented or amended from time to time in accordance with its terms.

“Days’ Cash on Hand” means 365 times (i) the aggregate unrestricted cash and unrestricted marketable securities (including board-designated funds and any amounts held in any operating reserve required by Section 58-64-33 of the General Statutes of North Carolina) of the Obligated Group as of the date of computation, excluding cash and unrestricted marketable securities attributable to Indebtedness of the Obligated Group divided by (ii) the total operating expenses of the Obligated Group for the immediately preceding Fiscal Year for which Financial Statements are available, excluding depreciation and amortization, as shown on the Financial Statements for such Fiscal Year and calculated in the same manner as that used to determine Income Available for Debt Service; provided, however, that for purposes of calculating the amount of Excess Funds, the total operating expenses of the Obligated Group shall be determined based upon the combined budgets of the Members of the Obligated Group for the then current Fiscal Year. All securities shall be valued at fair market value for purposes of this definition.

“Debt Service Reserve Fund” means Reserve Fund No. 1 and any other Debt Service Reserve Fund established and maintained pursuant to the Master Indenture and a Supplement.

“Debt Service Reserve Fund Requirement” means, with respect to each Debt Service Reserve Fund, (i) if such Debt Service Reserve Fund secures more than one Obligation that secures Tax-Exempt Related Bonds, the least of (A) one hundred percent (100%) of Maximum Annual Debt Service on the Obligation or Obligations secured by such Debt Service Reserve Fund, (B) one hundred twenty-five percent (125%) of average annual Long-Term Debt Service Requirement (excluding the Long-Term Debt Service Requirement with respect to Qualifying Intermediate-Term Indebtedness) on the Obligation or Obligations secured by such Debt Service Reserve Fund and (C) ten percent (10%) of the stated original principal amount of the Related Bonds secured or Indebtedness evidenced by the Obligation or Obligations secured by such Debt Service Reserve Fund less the stated original principal amount of any Qualifying Intermediate-Term Indebtedness so secured, or, if the Related Bonds have original issue discount or premium that exceeds two percent (2%) of the stated redemption price at maturity plus any original issue premium attributable exclusively to underwriters’ compensation, ten percent (10%) of the initial offering prices to the public of the Related Bonds, or (ii) if such Debt Service Reserve Fund secures only one Obligation that secures Tax-Exempt Related Bonds or secures one or more Obligations that evidence and secure only taxable Indebtedness or Related Bonds, the amount specified in the Master Indenture or any Supplement directing that such Debt Service Reserve Fund be established or maintained.

“Deeds of Trust” means the (i) Corporation Deed of Trust, and (ii) any other deed of trust or mortgage substantially similar to the Corporation Deed of Trust in form and substance executed by any Member of the Obligated Group, as security for all Obligations issued under the Master Indenture, each as amended from time to time.

“Deed of Trust Trustee” means each trustee serving under a Deed of Trust.

“Defaulted Interest” means any interest on any Bond which is payable, but is not punctually paid or duly provided for, on any Interest Payment Date.

“Defeasance Obligations” means (i) noncallable Government Obligations, (ii) evidences of ownership of a proportionate interest in specified noncallable Government Obligations, which Government Obligations are held by a bank or trust company organized and existing under the laws of the United States of America or any state thereof in the capacity of custodian, (iii) Defeased Municipal Obligations and (iv) evidences of ownership of a proportionate interest in specified Defeased Municipal Obligations, which Defeased Municipal Obligations are held by a bank or trust company organized and existing under the laws of the United States of America or any state thereof in the capacity of custodian.

“Defeased Municipal Obligations” means obligations of state or local government municipal bond issuers which are rated in the highest rating category by S&P and Moody’s, respectively, provision for the payment of the principal of and interest on which shall have been made by deposit with a trustee or escrow agent of (i) noncallable Government Obligations, (ii) evidences of ownership of a proportionate interest in specified noncallable Government Obligations, (iii) cash or (iv) any combination of such noncallable Government Obligations, evidences of ownership and cash, which Government Obligations or evidences of ownership, together with any cash, are held by a bank or trust company organized and existing under the laws of the United States of America or any state thereof in the capacity of custodian, the maturing principal of and interest on such Government Obligations or evidences of ownership, when due and payable, being sufficient, together with any cash, to provide money to pay the principal of, premium, if any, and interest on such obligations of such state or local government municipal bond issuers.

“Defeased Obligations” means Obligations issued under a Supplement that has been discharged, or provision for the discharge of which has been made, pursuant to its terms.

“Derivative Agreement” means, without limitation, (i) any contract known as or referred to or which performs the function of an interest rate swap agreement, currency swap agreement, forward payment conversion agreement or futures contract; (ii) any contract providing for payments based on levels of, or changes or differences in, interest rates, currency exchange rates, or stock or other indices; (iii) any contract to exchange cash flows or payments or series of payments; (iv) any type of contract called, or designed to perform the function of, interest rate floors or caps, options, puts or calls, to hedge or minimize any type of financial risk, including, without limitation, payment, currency, rate or other financial risk; and (v) any other type of contract or arrangement that the Member of the Obligated Group entering into such contract or arrangement determines is to be used, or is intended to be used, to manage or reduce the cost of Indebtedness, to convert any element of Indebtedness from one form to another, to maximize or increase investment return, to minimize investment return risk or to protect against any type of financial risk or uncertainty.

“Derivative Indebtedness” means Indebtedness (or that portion of Indebtedness) for which a Member of the Obligated Group shall have entered into a Derivative Agreement.

“Derivative Obligations” means the payment obligations of a Member of the Obligated Group under a Derivative Agreement that hedges Indebtedness, including but not limited to regularly scheduled payments and termination payments.

“Derivative Period” means the period during which a Derivative Agreement is in effect.

“Electronic Means” means facsimile transmission, email transmission, secure electronic transmission containing applicable authorization codes, passwords and/or authentication keys issued by the Master Trustee or the Bond Trustee, as applicable, or other similar electronic means of communication providing evidence of transmission and specified by the Master Trustee or the Bond Trustee, as applicable, as available for use in connection with its services under the Master Indenture or the Trust Agreement, as applicable, including a telephone communication confirmed by any other method set forth in this definition.

“Eminent Domain” means the eminent domain or condemnation power by which all or any part of the Property, Plant and Equipment may be taken for public use or any agreement that is reached in lieu of proceedings to exercise such power.

“Entrance Fees” means (a) all admission fees received by any Member of the Obligated Group pursuant to any agreement with respect to the granting of rights to the initial and exclusive use of any unit in the Facilities not subject to refund under the laws of the State and net of any amount which has been

refunded; provided, however, that deposits for admission to the Facilities will not be “Entrance Fees” until the prospective resident has a right to take possession of such unit pursuant to such agreement, (b) all admission fees received by any Member of the Obligated Group pursuant to any agreement with respect to the granting of rights to exclusive use of any unit that had been previously occupied by another resident and which comprised a part of the Facilities, not subject to refund under the laws of the State and net of any refunds paid to (i) the prior resident upon regranteeing of exclusive rights to use such unit or (ii) the resident succeeding to the exclusive rights to use such unit and (c) all fees received pursuant to any agreement with respect to customized changes to any unit in the Facilities. If any portion of an Entrance Fee is not paid in cash at the time the resident takes possession of the unit (e.g., is evidenced by a promissory note), such portion of the Entrance Fee will not be recognized for purposes of determining compliance with the covenants in the Master Indenture until received by a Member of the Obligated Group in cash.

“Equipment” means those items constituting equipment as defined in the UCC used in connection with the Mortgaged Property, whether such equipment is now owned or hereafter acquired by any Member of the Obligated Group.

“Event of Default” means, with respect to the Master Indenture, each of those events set forth under the caption SUMMARY OF THE MASTER INDENTURE—Defaults and Remedies--Events of Default” herein, with respect to the Loan Agreement, each of those events set forth under the caption “SUMMARY OF THE LOAN AGREEMENT—Defaults and Remedies” herein, and with respect to the Trust Agreement, each of those events set forth under the caption “SUMMARY OF THE TRUST AGREEMENT—Events of Default” herein.

“Excess Funds” means, as of any particular date of determination, the amount of Available Reserves (determined as of the date of the most recent Liquidity Testing Date prior to the date of determination) in excess of the greater of (a) 180 Days’ Cash on Hand or (b) thirty-five percent (35%) of the principal amount of Outstanding Long-Term Indebtedness, exclusive of Qualifying Intermediate-Term Indebtedness, as of the date of determination.

“Excluded Real Property” means the real property described in the Master Indenture, unless and until such real property becomes subject to the lien of the Corporation Deed of Trust pursuant to the provisions of the Master Indenture described below under the caption “SUMMARY OF THE MASTER INDENTURE – After-Acquired, Replacement or Substituted Real Property.” See “THE COMMUNITY—Excluded Property” in Appendix A

“Existing Facilities” means the continuing care retirement facilities and facilities ancillary thereto owned and operated by the Corporation on the date of execution and delivery of the Master Indenture.

“Existing Obligations” means the Obligations issued and Outstanding as of the effective date of the Master Indenture, namely Obligation No. 5 and Obligation No. 6.

“Facilities” means the Existing Facilities and any other continuing care retirement facilities or health care delivery or residential facilities designed to provide services to the elderly hereafter owned by any Member of the Obligated Group and operated by or on behalf of any Member of the Obligated Group.

“Financial Statements” means combined financial statements of the Corporation and its Affiliates, if any, for a Fiscal Year, or for such other period for which an audit has been performed, required to be prepared under, and prepared in accordance with, accounting principles generally accepted in the United States of America consistently applied, including a statement of changes in cash flows as of the end of such period, which have been audited and reported upon by an Accountant. If any Member of the Obligated Group is not an Affiliate of the Corporation, “Financial Statements” shall also mean combined financial

statements of such Member of the Obligated Group and its Affiliates, if any, for the same Fiscal Year (or other period) as the Financial Statements of the Corporation, prepared in accordance with accounting principles generally accepted in the United States of America consistently applied, which have been audited and reported upon by an Accountant. Financial Statements of the Corporation shall also include, in an additional information section, unaudited combining financial statements for the same Fiscal Year (or other period) from which the accounts of any Affiliate which is not a Member of the Obligated Group have been eliminated and to which the accounts of any Member of the Obligated Group which is not an Affiliate have been added by extracting the balances of such accounts from audited combined financial statements of such Member of the Obligated Group and its Affiliates, if any.

“Fiscal Quarter” means a period of three full calendar months ending on March 31, June 30, September 30 or December 31, respectively.

“Fiscal Year” means the fiscal year of each of the Members of the Obligated Group, which period commences on January 1 of any year and ends on December 31 of such year, unless each of the Master Trustee, the Commission and each Related Bond Trustee is notified in writing by the Obligated Group Representative of a change in such period, for all of the Members of the Obligated Group in which case the Fiscal Year shall be the period set forth in such notice.

“Fitch” means Fitch, Inc., a corporation organized and existing under the laws of the State of Delaware, its successors and their assigns, and if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, “Fitch” shall be deemed to refer to any other nationally recognized securities rating agency designated by the Commission with the approval of the Corporation by notice to the Bond Trustee and the Master Trustee.

“Governing Body” means, when used with respect to any Member of the Obligated Group, its board of directors, board of trustees or other board or group of individuals in which the powers of such Member of the Obligated Group are vested.

“Government Obligations” means direct obligations of, or obligations the timely payment of the principal of and interest on which are fully and unconditionally guaranteed by, the United States of America.

“Gross Receipts” means all revenues, income, receipts and money (other than proceeds of borrowing and moneys received from residents that are held in escrow) received in any period by or on behalf of any Member of the Obligated Group, including, but without limiting the generality of the foregoing, (a) revenues derived from its operations, (b) gifts, grants, bequests, donations and contributions and the income therefrom, exclusive of any gifts, grants, bequests, donations and contributions to the extent specifically restricted by the donor to a particular purpose inconsistent with their use for the payment of Obligations, (c) proceeds derived from (i) insurance, except to the extent otherwise required by the Master Indenture to be used for a particular purpose inconsistent with their use for the payment of Obligations, (ii) Accounts, (iii) securities and other investments, (iv) inventory and other tangible and intangible Property, (v) medical or health care insurance, indemnity or reimbursement programs or agreements, and (vi) contract rights and other rights and assets now or hereafter owned, held or possessed by each Member of the Obligated Group, (d) rentals received from the leasing of real or tangible personal property, and (e) any licensing fees or royalties from any intellectual property owned by any Member of the Obligated Group.

“Guaranty” means any obligation of any Member of the Obligated Group guaranteeing in any manner, directly or indirectly, any obligation of any Person that is not a Member of the Obligated Group which obligation of such other Person would, if such obligation were the obligation of any Member of the Obligated Group, constitute Indebtedness under the Master Indenture.

“Holder” means, with respect to the Master Indenture, the owner of any Obligation issued thereunder and, with respect to the Trust Agreement, the Person in whose name a Bond is registered in the registration books maintained by the Bond Trustee.

“Income Available for Debt Service” means, with respect to the Obligated Group, as to any Fiscal Year or such other twelve month period for which such calculation is made, the increase (decrease) in unrestricted net assets, to which shall be added depreciation, amortization and interest and other non-cash expenses deducted from total revenues, all as determined in accordance with accounting principles generally accepted in the United States of America consistently applied, and all Entrance Fees received in cash during such Fiscal Year (less any refunds actually paid in such Fiscal Year), and from which shall be deducted all Entrance Fees amortized during such Fiscal Year; provided, however, that for the purposes of determining compliance with any of the provisions described under the caption “SUMMARY OF THE MASTER INDENTURE—Limitations on Indebtedness,” Entrance Fees received from the initial resident of a unit in the Facilities or pursuant to any agreement with respect to customized changes to a unit in the Facilities shall be excluded and for the purposes of determining compliance with any of the provisions described under the caption “SUMMARY OF THE MASTER INDENTURE—Long-Term Debt Service Coverage Ratio,” Entrance Fees received from the initial resident of any unit financed with Qualifying Intermediate-Term Indebtedness shall be excluded; and provided further that no determination thereof shall take into account:

(a) any gain or loss resulting from either the extinguishment of Indebtedness or the sale, exchange or other disposition of capital assets not made in the ordinary course of business;

(b) any nonrecurring items of an extraordinary nature which do not involve the receipt, expenditure or transfer of assets;

(c) any unrealized gains or losses, including any unrealized gains or losses on investments or the value of any Derivative Agreement, or any “other-than-temporary” impairment losses; provided, however, that realized gains and losses on assets that suffer an other-than-temporary impairment loss shall be determined using the basis for such asset without giving effect to any reductions in basis resulting from such other-than-temporary impairment loss;

(d) any increase or decrease in obligations to provide future services; and

(e) any losses incurred from development of additional facilities that the Governing Board of any Member of the Obligated Group later determines not to pursue; and

(f) any marketing expenses related to an expansion of or addition to the Facilities to the extent such expenses are being funded with proceeds of Long-Term Indebtedness;

and provided further that total revenues shall not include investment income from (A) any investment of funds held in a Qualified Escrow or (B) any fund or account that is set aside and used for the purpose of paying Qualifying Intermediate-Term Indebtedness

“Indebtedness” means (i) all indebtedness of Members of the Obligated Group for borrowed money, (ii) all installment sales, conditional sales and capital or finance lease obligations, incurred or assumed by any Member of the Obligated Group, and (iii) all Guaranties, whether constituting Long-Term Indebtedness or Short-Term Indebtedness. Indebtedness shall not include obligations of any Member of the Obligated Group to another Member of the Obligated Group.

“Independent Architect” means an architect, engineer, or firm of architects or engineers selected by the Obligated Group, and licensed by, or permitted to practice in, the state where the construction involved is located, which architect, engineer, or firm of architects or engineers will have no interest, direct or indirect, in any Member of the Obligated Group or any Affiliate thereof and, in the case of an individual, will not be a partner, member, director, officer, controlling shareholder, or employee of any Member of the Obligated Group or any Affiliate thereof and, in the case of a firm, will not have a partner, member, director, officer, or employee who is a partner, member, director, officer, controlling shareholder, or employee of any Member of the Obligated Group or any Affiliate thereof; it being understood that an arm’s-length contract with a Member of the Obligated Group for the performance of architectural or engineering services will not in and of itself be regarded as creating an interest in or an employee relationship with such entity and that the term Independent Architect may include an architect or engineer or a firm of architects or engineers who otherwise meet the requirements of this definition and who also are under contract to construct the facility that they have designed.

“Independent Living Unit” means any apartment, villa or similar unit located at the Facilities and in which the resident thereof is living independently pursuant to the Residency Agreement for such resident.

“Indirect Participant” means a broker-dealer, bank or other financial institution for which the Securities Depository holds Bonds as a securities depository through a Participant.

“Insurance Consultant” means a Person which is not, and no member, stockholder, director, officer or employee of which is, a director, officer or employee of any Member of the Obligated Group or an Affiliate, which is qualified to survey risks and to recommend insurance coverage for continuing care facilities and services and organizations engaged in such operations.

“Interest Account” means the account in the Bond Fund created and so designated by the Trust Agreement.

“Interest Payment Date” means January 1, 2020 and each January 1 and July 1 thereafter, to and including January 1, 20__.

“Investment Obligations” means, with respect to the Trust Agreement, any investment to the extent from time to time permitted by applicable law, including but not limited to Sections 131A-14 and 159-30 of the General Statutes of North Carolina, as amended, or any successor statutes, and with respect to the Master Indenture, (i) with respect to any Debt Service Reserve Fund that secures one or more Obligations that secure Commission Bonds, an investment permitted by the North Carolina Health Care Facilities Finance Act, Chapter 131A of the General Statutes of North Carolina, or any successor statute, which as of the date of the Master Indenture is limited to Section 159-30 of the General Statutes of North Carolina, as amended, or any successor statute, and (ii) with respect to any other Debt Service Reserve Fund, the investments specified in any Supplement directing that such Debt Service Reserve Fund be established or maintained, which may be specified by reference to investments of proceeds of Related Bonds permitted under the Related Bond Indenture.

“Issuance Account” means the North Carolina Medical Care Commission Retirement Facilities First Mortgage Revenue Refunding Bonds (Galloway Ridge) Series 2019A Issuance Account created and so designated by the Trust Agreement.

“Issuance Costs” means all issuance costs, within the meaning of Section 147(g) of the Code, incurred in connection with the Bonds.

“Letter of Representations” means, when all the Bonds are Book Entry Bonds, the Blanket Letter of Representations dated February 28, 2019, executed by the Commission and delivered to The Depository Trust Company and any amendments thereto or successor blanket agreements between the Commission and any successor Securities Depository, relating to a system of Book Entry Bonds to be maintained by such Securities Depository with respect to any bonds, notes or other obligations issued by the Commission.

“Lien” means any interest in Property securing an obligation owed to, or a claim by, a Person other than the owner of such Property, whether such interest arises by contract, statute or common law, including but not limited to any mortgage, deed of trust or pledge of, security interest in or encumbrance on any Property which secures any Indebtedness or any other obligation of any Member of the Obligated Group or which secures any obligation of any Person. The term “Lien” shall include any easements, covenants, restrictions, conditions, encroachments, reservations, rights-of-way, leases and other title exceptions and encumbrances affecting real property.

“Liquidity Testing Date” means June 30 and December 31 of each Fiscal Year.

“Loan” means the loan of the proceeds of the Bonds made by the Commission to the Corporation pursuant to the Loan Agreement.

“Loan Agreement” means the Loan Agreement, dated as of October 1, 2019, between the Commission and the Corporation, including all amendments or supplements thereto, pertaining to the Bonds.

“Loan Repayments” means those payments so designated by and set forth in the Loan Agreement.

“Local Government Commission” or “LGC” means the Local Government Commission of North Carolina, a division of the Department of the State Treasurer, and any successor or successors thereto.

“Long-Term Debt Service Coverage Ratio” means, for each Fiscal Year or such other twelve month period for which such calculation is made, the ratio determined by dividing the Income Available for Debt Service for such Fiscal Year by Maximum Annual Debt Service.

“Long-Term Debt Service Requirement” means, for each Fiscal Year, the aggregate of the payments to be made in respect of the principal of and interest on Outstanding Long-Term Indebtedness of the Obligated Group during such Fiscal Year, taking into account:

(i) with respect to Balloon Long-Term Indebtedness, the amount of principal which would be payable in such Fiscal Year if the principal of such Balloon Long-Term Indebtedness to be amortized in succeeding Fiscal Years were amortized from the date of incurrence of such Balloon Long-Term Indebtedness over a period of thirty (30) years (or such shorter period as the Obligated Group may choose) on a level debt service basis at an interest rate set forth in an opinion of a banking institution or an investment banking institution knowledgeable in such matters of finance delivered to the Master Trustee as the interest rate at which the Obligated Group could reasonably expect to borrow the same by issuing an obligation with the same term and a fixed rate of interest as assumed above; provided, however, that if the date of calculation is within twelve (12) months of the stated maturity of such Balloon Long-Term Indebtedness, the full amount of principal payable at maturity shall be included in such calculation unless (A) a binding commitment to refinance such Balloon Long-Term Indebtedness shall be in effect, in which case the amortization schedule established by such commitment shall apply or (B) the Members of the Obligated Group have received a letter from a reputable financial institution or investment banking firm to the effect that such firm has evaluated the creditworthiness of the Obligated Group and

concluded that it is reasonable to assume that the Obligated Group will have access to the debt markets at reasonable interest rates and setting forth the projected interest rate and assumed maximum amortization schedule for such debt, in which case the amortization schedule and projected interest rate established by such letter shall apply;

(ii) with respect to Variable Rate Indebtedness that is Long-Term Indebtedness, the interest on such Indebtedness shall be calculated at (A) in the case of Outstanding Variable Rate Indebtedness, the rate which is equal to the average of the actual interest rates which were in effect (weighted according to the length of the period during which each such interest rate was in effect) for the most recent 12 month period immediately preceding the date of calculation for which such information is available (or shorter period if such information is not available for a 12 month period) and (B) in the case of Variable Rate Indebtedness proposed to be incurred, the rate which is equal to the average of the SIFMA Municipal Swap Index (or any other specified index or reference rate for such Variable Rate Indebtedness) for the most recent 12-month period immediately preceding the date of calculation (or if the SIFMA Municipal Swap Index or such other index or reference rate is not available for such 12-month period, the Revenue Bond Index most recently published by The Bond Buyer), plus or minus any specified fixed spread;

(iii) (A) with respect to any Guaranty by any Member of the Obligated Group of any obligation of any Person, which obligation would, if it were a direct obligation of such Member of the Obligated Group, constitute Short-Term Indebtedness, such Guaranty shall be excluded and (B) with respect to any Guaranty by any Member of the Obligated Group of any obligation of any Person, which obligation would, if it were a direct obligation of such Member of the Obligated Group, constitute Long-Term Indebtedness, it shall be assumed that the indebtedness that is the subject of the Guaranty shall be repaid in accordance with its scheduled maturities (or, if the indebtedness that is the subject of the Guaranty would be Balloon Long-Term Indebtedness if incurred directly by a Member of the Obligate Group, in accordance with (i) above), that the Guaranty shall have identical repayment terms and that such Guaranty shall be deemed Long-Term Indebtedness of the Obligated Group in accordance with the following schedule:

Long-Term Debt Service Coverage Ratio of the Person whose indebtedness is subject to a Guaranty (calculated as set forth herein for the most recent fiscal year of such Person for which audited financial statements are available)	Percentage of the principal amount of the guaranteed indebtedness deemed to be Long-Term Indebtedness of the Obligated Group
Greater than 2.0	0%
1.5 to and including 2.0	20
1.25 to and including 1.49	50
1.10 to and including 1.24	75
Less than 1.10 (or no available audited financial statements)	100

Notwithstanding the foregoing, if any Member of the Obligated Group is required to make a payment on such indebtedness pursuant to any Guaranty, 100% of the principal amount of the guaranteed indebtedness shall be deemed Long-Term Indebtedness of the Obligated Group for a period of two Fiscal Years following the Fiscal Year in which the most recent payment was made under such Guaranty; and

(iv) with respect to Derivative Indebtedness, for so long as the provider of the Derivative Agreement has a long term credit rating of at least "A" (without regard to any rating

refinement or gradation by numerical modifier or otherwise) assigned to it by Moody's and S&P and has not defaulted on its payment obligations thereunder, the interest on such Indebtedness during any Derivative Period shall be calculated by adding (x) the amount of interest payable by a Member of the Obligated Group on such Derivative Indebtedness pursuant to its terms and (y) the amount payable by such Member of the Obligated Group under the Derivative Agreement and subtracting (z) the amount payable by the provider of the Derivative Agreement at the rate specified in the Derivative Agreement; provided, however, in calculating the interest on such Indebtedness for any current or future period, (1) if such Member of the Obligated Group reasonably expects, at the time it enters into the Derivative Agreement, that a floating rate payable by the provider of the Derivative Agreement will be approximately equal to a variable rate of interest on such Derivative Indebtedness or a floating rate under a Derivative Agreement payable by such Member of the Obligated Group, then amounts payable at such approximately equivalent rates shall be deemed to offset each other and will not be included in computing interest of such Indebtedness, and (2) any amount payable under the Derivative Agreement at a floating rate that is included in computing interest on such Indebtedness will be calculated based on the average of the specified index or reference rate for the most recent 12-month period immediately preceding the date of calculation; provided, further, that to the extent that the provider of any Derivative Agreement does not have a long-term rating of at least "A" (without regard to any rating refinement or gradation by numerical modifier or otherwise) assigned to it by Moody's and S&P or is in default thereunder, the amount of interest payable by the Member of the Obligated Group shall be the interest calculated as if such Derivative Agreement had not been executed;

provided further, however, that interest shall be excluded from the determination of Long-Term Debt Service Requirement to the extent the same is provided from the proceeds of the Long-Term Indebtedness; and provided further, however, that notwithstanding the foregoing, the aggregate of payments to be made with respect to principal of and interest on Outstanding Long-Term Indebtedness shall not include principal and interest payable from funds available (without reinvestment) in a Qualified Escrow (other than principal and interest so payable solely by reason of the Obligated Group's failure to make payments from other sources).

"Long-Term Indebtedness" means all obligations for borrowed money incurred or assumed by any Member of the Obligated Group, including (a) Guaranties, (b) Short-Term Indebtedness if there exists a commitment by an institutional lender whose long-term, unsecured debt obligations are rated not less than "A" (without regard to any rating refinement or gradation by numerical modifier or otherwise) by both Moody's and S&P to provide financing to retire such Short-Term Indebtedness and such commitment provides (i) terms and conditions that can be reasonably met by such Member of the Obligated Group to incur such Indebtedness, as certified in an Officer's Certificate filed with the Master Trustee and (ii) for the repayment of principal on terms which would, if such commitment were implemented, constitute Long-Term Indebtedness, and (c) the current portion of Long-Term Indebtedness (this shall not be read to exclude any portion of Long-Term Indebtedness not constituting the current portion), for any of the following:

(i) money borrowed for an original term, or renewable at the option of the borrower for a period from the date originally incurred, longer than one (1) year;

(ii) leases which are classified as capital leases or finance leases in accordance with accounting principles generally accepted in the United States of America having an original term, or renewable at the option of the lessee for a period from the date originally incurred, longer than one (1) year; and

(iii) installment sale or conditional sale contracts having an original term in excess of one (1) year; provided, however, that any Guaranty by any Member of the Obligated Group of any

obligation of any Person which obligation would, if it were a direct obligation of such Member of the Obligated Group, constitute Short-Term Indebtedness or Non-Recourse Indebtedness shall be excluded.

“Management Consultant” means, with respect to the Master Indenture, an independent management consulting firm of favorable repute for skill and experience in performing the duties imposed upon it by the Master Indenture and, with respect to the Loan Agreement, an independent management consulting firm of favorable repute for skill and experience in performing the duties imposed upon it by the Loan Agreement, selected by the Corporation and, after notice of such selection to the Commission and the Bond Trustee, approved by the Commission.

“Master Indenture” means the Amended and Restated Master Trust Indenture, dated as of October 1, 2019, between the Corporation and the Master Trustee, including all amendments or supplements thereto.

“Master Trustee” means The Bank of New York Mellon Trust Company, N.A., Jacksonville, Florida, and its successors in the trusts created under the Master Indenture.

“Maximum Annual Debt Service” means the highest Long-Term Debt Service Requirement excluding the Long-Term Debt Service Requirement with respect to Qualifying Intermediate-Term Indebtedness.

“Member of the Obligated Group” means, initially, the Corporation and, thereafter, any Person which shall become a Member of the Obligated Group in accordance with the Master Indenture and excluding any Person which shall have withdrawn from the Obligated Group in accordance with the Master Indenture.

“Moody’s” means Moody’s Investors Service, Inc., a corporation organized and existing under the laws of the State of Delaware, its successors and their assigns, and if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, “Moody’s” shall be deemed to refer to any other nationally recognized securities rating agency designated by the Commission, with the approval of the Corporation, by notice to the Bond Trustee and the Master Trustee.

“Mortgaged Property” means the real property, fixtures and personal property described in the Deeds of Trust.

“Net Book Value” means, (a) when used in connection with Property, Plant and Equipment or other Property of any Person (except cash, securities and other intangibles), the value of such Property, Plant and Equipment or other Property, net of accumulated depreciation, as it is carried on the books of such Person in conformity with accounting principles generally accepted in the United States of America consistently applied, (b) when used in connection with cash, securities and other intangibles of any Person, the fair market value of such cash, securities and other intangibles, and (c) when used in connection with Property, Plant and Equipment or other Property or cash, securities and other intangibles of the Obligated Group, means the aggregate of the values so determined with respect to such Property, Plant and Equipment or other Property or cash, securities and other intangibles of the Obligated Group determined in such a manner that no portion of such value of Property, Plant and Equipment or other Property or cash, securities and other intangibles is included more than once.

“Non-Recourse Indebtedness” means any Indebtedness to finance the purchase, acquisition or construction of Property, Plant and Equipment, the payment of which is limited to and secured by a Lien on such Property, Plant and Equipment with no recourse, directly or indirectly, to any other Property of any Member of the Obligated Group.

“Obligated Group” means, collectively, the Members of the Obligated Group.

“Obligated Group Representative” means the Person at the time designated to act on behalf of the Obligated Group in a written certificate furnished to the Master Trustee, which certificate shall contain a specimen signature of such Person and shall be signed on behalf of the Obligated Group by the President of the Corporation or by his designee.

“Obligation” means the evidence of particular Indebtedness or Derivative Obligations issued under the Master Indenture, including the Existing Obligations.

“Obligation No. 5” means Obligation No. 5 issued, authenticated and delivered under the Prior Master Indenture and Supplement No. 5 to the Commission as evidence of the Corporation’s obligation to repay a loan made by the Commission to the Corporation pursuant to a loan agreement, and assigned to the Related Bond Trustee as security for the Related Bonds issued by the Commission to obtain funds for such loan.

“Obligation No. 6” means Obligation No. 6 issued, authenticated and delivered under the Prior Master Indenture and Supplement No. 6 to the Commission as evidence of the Corporation’s obligation to repay the loan made by the Commission to the Corporation pursuant to the Loan Agreement, and assigned to the Bond Trustee.

“Occupied” means with respect to any Independent Living Unit, a unit for which the total Entrance Fee has been paid.

“Officer’s Certificate” means a certificate signed by (i) the chairman of the Governing Body, or the president or chief executive officer, or the chief financial officer, or the chairman of the finance committee of the Governing Body of each Member of the Obligated Group or (ii) the Obligated Group Representative.

“Opinion of Bond Counsel” means an opinion in writing signed by an attorney or firm of attorneys experienced in the field of municipal bonds whose opinions are generally accepted by purchasers of municipal bonds.

“Opinion of Counsel” means, with respect to the Master Indenture, an opinion in writing signed by an attorney or firm of attorneys, who may be counsel for any Member of the Obligated Group and with respect to the Trust Agreement, an opinion in writing signed by an attorney or firm of attorneys acceptable to the Bond Trustee and the Commission who may be counsel for the Commission or the Corporation or other counsel.

“Outstanding” means, when used with reference to the Bonds, as of a particular date, all Bonds theretofore issued under the Trust Agreement, except: (i) Bonds theretofore cancelled by the Bond Trustee or delivered to the Bond Trustee for cancellation; (ii) Bonds for the payment of which money, Defeasance Obligations or a combination of both, sufficient to pay, on the date when such Bonds are to be paid or redeemed, the principal amount of or the Redemption Price of, and the interest accruing to such date on, the Bonds to be paid or redeemed, has been deposited with the Bond Trustee in trust for the Holders of such Bonds; Defeasance Obligations shall be deemed to be sufficient to pay or redeem Bonds on a specified date if the principal of and the interest on such Defeasance Obligations, when due, will be sufficient to pay on such date the Redemption Price of, and the interest accruing on, such Bonds to such date; (iii) Bonds in exchange for or in lieu of which other Bonds have been issued; and (iv) Bonds deemed to have been paid in accordance with the Trust Agreement, except as provided in the Trust Agreement or the Loan Agreement.

“Outstanding” means, when used with reference to Indebtedness or Obligations, means, as of any date of determination, all Indebtedness or Obligations theretofore issued or incurred and not paid and discharged other than (i) Obligations theretofore cancelled by the Master Trustee or delivered to the Master Trustee for cancellation, (ii) Indebtedness deemed paid and no longer Outstanding under the documents pursuant to which such Indebtedness was incurred, and (iii) Obligations in lieu of which other Obligations have been authenticated and delivered or have been paid pursuant to the provisions of the Supplement regarding mutilated, destroyed, lost or stolen Obligations unless proof satisfactory to the Master Trustee has been received that any such Obligation is held by a bona fide purchaser. For purposes of the Master Indenture, the principal amount of any Obligation that evidences and secures Derivative Obligations shall be deemed to be zero and such Obligation shall be disregarded for purposes of any request, direction or consent of the Holders requested or permitted hereunder unless the related Derivative Agreement has terminated, in which case the principal amount of such Obligation shall be deemed to be the amount of any termination payment owed to the Holder of such Obligation as set forth in an Officer’s Certificate or written communication from such Holder delivered to the Master Trustee.

“Participant” means a broker-dealer, bank or other financial institution for which the Securities Depository holds Bonds as a securities depository.

“Permitted Liens” shall have the meaning given under the caption “SUMMARY OF THE MASTER INDENTURE—Limitation on Creation of Liens”.

“Person” means an individual, association, unincorporated organization, corporation, limited liability company, partnership, joint venture, business trust or a government or an agency or a political subdivision thereof, or any other entity.

“Pledged Assets” means all Gross Receipts, Accounts, Equipment, general intangibles, inventory, documents, instruments and chattel paper of each Member of the Obligated Group, now owned or hereafter acquired, and all proceeds thereof; provided, however, that Pledged Assets shall not include contract rights consisting of charitable pledges.

“Principal Account” means the account in the Bond Fund created and so designated by the Trust Agreement.

“Prior Master Indenture” means the Master Trust Indenture, dated as of October 1, 2010, between the Corporation and the Master Trustee, as previously amended and supplemented.

“Property” means any and all rights, titles and interests in and to any and all property whether real or personal, tangible (including cash) or intangible, wherever situated and whether now owned or hereafter acquired.

“Property, Plant and Equipment” means all Property of the Members of the Obligated Group which is property, plant and equipment under accounting principles generally accepted in the United States of America.

“Put Indebtedness” means Long-Term Indebtedness the principal of which is required, at the option of the owner thereof, to be purchased or redeemed on a date prior to its stated maturity, which portion of the principal is not required by the documents pursuant to which such Indebtedness is issued to be amortized by redemption prior to such date.

“Qualified Escrow” means a segregated escrow fund or other similar fund or account which (a) is irrevocably established as security for Long-Term Indebtedness previously incurred and then Outstanding

(herein referred to as “Prior Indebtedness”) or for Long-Term Indebtedness, if any, then to be incurred to refund Outstanding Prior Indebtedness (herein referred to as “Refunding Indebtedness”), (b) is held by the holder of the Prior Indebtedness or Refunding Indebtedness secured thereby or by a trustee or agent acting on behalf of such holder and is subject to a perfected security interest in favor of such holder, trustee or agent, (c) is held in cash or invested in Defeasance Obligations, as defined in the Related Bond Indenture that secures such Prior Indebtedness or Refunding Indebtedness, and (d) is required by the documents establishing such fund or account to be applied toward the Obligated Group’s payment obligations in respect of the Prior Indebtedness, provided that, if the fund or account is funded in whole or in part with the proceeds of Refunding Indebtedness, the documents establishing the same may require specified payments of principal or interest (or both) in respect of the Refunding Indebtedness to be made from the fund or account prior to the date on which the Prior Indebtedness is repaid in full.

“Qualifying Intermediate-Term Indebtedness” means any Indebtedness that (i) matures on a single date not more than seven years from its date of issuance or incurrence and (ii) is issued or incurred to finance the expansion of the Existing Facilities or to finance additional Facilities which, in either case, is expected by the Obligated Group to generate initial Entrance Fees (pursuant to executed Residency Agreements under which deposits of not less than 10% of the Entrance Fees have been or are required to be received and which obligate the prospective resident or some other Person, which prospective resident or other Person shall have met the financial criteria established by the Governing Body of any Member of the Obligated Group, to pay the balance) in an amount not less than 100% of the principal amount of such Qualifying Intermediate-Term Indebtedness, all as certified to the Master Trustee in an Officer’s Certificate.

“Rating Agencies” means Fitch, Moody’s and S&P.

“Redemption Fund” means the North Carolina Medical Care Commission Retirement Facilities First Mortgage Revenue Refunding Bonds (Galloway Ridge), Series 2019A Redemption Fund created and so designated by the Trust Agreement.

“Redemption Price” means, with respect to Bonds or a portion thereof, the principal amount of such Bonds or portion thereof plus the applicable premium, if any, payable upon redemption thereof in the manner contemplated in accordance with its terms and the terms of the Trust Agreement.

“Regular Record Date” means the 15th day (whether or not a Business Day) of the month immediately preceding any Interest Payment Date.

“Related Bond Indenture” means any indenture, bond resolution or other comparable instrument pursuant to which a series of Related Bonds is issued.

“Related Bond Issuer” means the issuer of any issue of Related Bonds.

“Related Bonds” means (a) revenue bonds or similar obligations issued by any state, territory or possession of the United States or any municipal corporation or political subdivision formed under the laws thereof or any constituted authority or agency or instrumentality of any of the foregoing empowered to issue obligations on behalf thereof, and (b) any bonds issued by any other Person, in either case the proceeds of which are loaned or otherwise made available to a Member of the Obligated Group in consideration, whether in whole or in part, of the execution, authentication and delivery of an Obligation to such governmental issuer or Person or in consideration of the execution and delivery of a Guaranty issued by a Member of the Obligated Group which Guaranty is represented by an Obligation.

“Related Bond Trustee” means the trustee and its successors in the trusts created under any Related Bond Indenture.

“Required Payments under the Agreement” means the payments so designated by and set forth in the Loan Agreement.

“Reserve Fund No. 1” means the Debt Service Reserve Fund established pursuant to the Master Indenture, Supplement No. 5 and Supplement No. 6, which secures Obligation No. 5 and Obligation No. 6 issued under the Master Indenture and any other future Obligation securing Tax-Exempt Related Bonds issued under the Master Indenture if so designated in a Supplement.

“Reserve Ratio” means, as of any particular date of determination, the ratio determined by dividing Available Reserves as of such date of determination by Outstanding Long-Term Indebtedness as of such date of determination, exclusive of (i) the current portion of Long-Term Indebtedness, (ii) Qualifying Intermediate-Term Indebtedness, and (iii) other Long-Term Indebtedness not taken into account under paragraph (a) under the caption “SUMMARY OF THE MASTER INDENTURE – Long-Term Debt Service Coverage Ratio” herein in computing the Long-Term Debt Service Coverage Ratio for the Fiscal Year during which such date of determination occurs.

“Residence and Care Agreement” or “Residency Agreement” means an agreement entered into by a Member of the Obligated Group with respect to the granting of rights to the exclusive use of any unit in the Facilities, as the same may be amended from time to time.

“S&P” means S&P Global Ratings, a division of Standard & Poor’s Financial Services LLC, its successors and their assigns, and if S&P shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, “S&P” shall be deemed to refer to any other nationally recognized securities rating agency designated by the Commission, with the approval of the Corporation, by notice to the Bond Trustee and the Master Trustee.

“Securities Depository” means The Depository Trust Company, New York, New York or other recognized securities depository selected by the Commission, which maintains a book-entry system in respect of the Bonds, and shall include any substitute for or successor to the securities depository initially acting as Securities Depository.

“Securities Depository Nominee” means, as to any Securities Depository, such Securities Depository or the nominee of such Securities Depository in whose name there shall be registered on the registration books maintained by the Bond Trustee the Bond certificates to be delivered to and immobilized at such Securities Depository during the continuation with such Securities Depository of participation in its book-entry system.

“Serial Bonds” means the Bonds that are stated to mature on January 1 in the years 20__ to 20__, inclusive.

“Short-Term Indebtedness” means all obligations, other than the current portion of Long-Term Indebtedness, incurred or assumed by one or more Members of the Obligated Group, for any of the following:

- (i) payments of principal and interest with respect to money borrowed for an original term, or renewable at the option of the borrower for a period from the date originally incurred, of one (1) year or less;
- (ii) payments under leases which are classified as capital leases or finance leases in accordance with accounting principles generally accepted in the United States of America having

an original term, or renewable at the option of the lessee for a period from the date originally incurred, of one (1) year or less; and

(iii) payments under installment purchase or conditional sale contracts having an original term of one (1) year or less.

“Sinking Fund Account” means the account in the Bond Fund created and so designated by the Trust Agreement.

“Sinking Fund Requirement” means, with respect to the Term Bonds for any Bond Year, the principal amount fixed or computed as provided in the Trust Agreement for the retirement of such Term Bonds by purchase or redemption on January 1 of the following Bond Year.

The aggregate amount of such Sinking Fund Requirements for the Term Bonds together with the amount due upon the final maturity of such Term Bonds, will be equal to the aggregate principal amount of the Term Bonds. The Sinking Fund Requirements for the Term Bonds will begin in the Bond Year set forth in the Trust Agreement and will end with the Bond Year immediately preceding the maturity of such Term Bonds (such final installment being payable at maturity and not redeemed). Any principal amount of Term Bonds retired by operation of the account designated the Sinking Fund Account under the Trust Agreement by purchase in excess of the total amount of the Sinking Fund Requirement for such Term Bonds to and including such January 1, will be credited against and reduce the future Sinking Fund Requirements for such Term Bonds in such manner as shall be specified in an Officer’s Certificate of the Obligated Group Representative filed with the Bond Trustee pursuant to the Trust Agreement. The Sinking Fund Requirements for the Term Bonds are set forth in the front part of this Official Statement under the caption “THE BONDS—Redemption Provisions—Mandatory Redemption.”

“State” means the State of North Carolina.

“Supplement” means an indenture supplemental to, and authorized and executed pursuant to the terms of, the Master Indenture, including Supplement No. 5 and Supplement No. 6.

“Supplement No. 5” means Supplemental Indenture for Obligation No. 5, dated as of September 1, 2014 between the Corporation and the Master Trustee, including all amendments or supplements thereto.

“Supplement No. 6” means Supplemental Indenture for Obligation No. 6, dated as of October 1, 2019 between the Corporation and the Master Trustee, including all amendments or supplements thereto.

“Tax Certificate” means the Tax Certificate and Agreement executed by the Commission and the Corporation in connection with the issuance of the Bonds.

“Tax-Exempt Organization” means a Person organized under the laws of the United States of America or any state thereof which is exempt from federal income taxes under Section 501(a) of the Code by virtue of being an organization described in Section 501(c)(3) of the Code, or corresponding provisions of federal income tax laws from time to time in effect.

“Tax-Exempt Related Bonds” means Related Bonds for which an Opinion of Bond Counsel that interest thereon is excludable from gross income for federal income tax purposes was delivered upon initial issuance and delivery of such Related Bonds.

“Term Bonds” means the Bonds that are stated to mature on January 1, 20__ and January 1, 20__.

“Total Revenue” means, as to any period of time, total revenue of the Obligated Group, as determined in accordance with accounting principles generally accepted in the United States of America consistently applied, less investment income.

“Total Required Payments” means the sum of Loan Repayments and Required Payments under the Agreement.

“Transfer” means any act or occurrence the result of which is to dispossess any Person of any asset or interest therein, including specifically, but without limitation, the forgiveness of any debt.

“Trust Agreement” means the Trust Agreement securing the Bonds, dated as of October 1, 2019, between the Commission and the Bond Trustee, including any trust agreement amendatory thereof or supplemental thereto.

“UCC” means the North Carolina version of the Uniform Commercial Code, Chapter 25 of the General Statutes of North Carolina, as amended, or any successor statutes.

“Variable Rate Indebtedness” means any portion of Indebtedness the interest rate on which is not established at the time of incurrence at a fixed or constant rate.

SUMMARY OF THE MASTER INDENTURE

The following is a summary of certain provisions of the Master Indenture to which reference is made for a full and complete statement of its provisions.

Obligations, Authorization, Issuance and Terms of Obligations

There is no limit on the principal amount or number of Obligations that may be issued under the Master Indenture, except as limited by the provisions of the Master Indenture or of any Supplement, but no Obligations may be issued unless the provisions of the Master Indenture are followed. Except for the Existing Obligations, any Member of the Obligated Group must give written notice to the other Members of the Obligated Group and to the Master Trustee before it can incur any Indebtedness or Derivative Obligations to be evidenced and secured by an Obligation. Each Member of the Obligated Group is jointly and severally liable for each and every Obligation.

Any Member of the Obligated Group and the Master Trustee may from time to time enter into a Supplement in order to create an Obligation under the Master Indenture. Such Supplement will, with respect to an Obligation created thereby, set forth the date of such Obligation, the date or dates on which the principal of, redemption premium, if any, and interest or other payments on such Obligation will be payable, the form of such Obligation and such other terms and provisions that conform with the provisions of the Master Indenture.

Nature of Obligations; Payment of Principal and Interest; Security; Further Assurances; Deposit of Gross Receipts

(a) Each Obligation issued pursuant to the Master Indenture will be a general, joint and several obligation of each Member of the Obligated Group and will be equally and ratably secured by the Master Indenture, except as provided to the contrary in the Master Indenture or a Supplement with respect to a Debt Service Reserve Fund. Each Member of the Obligated Group covenants to pay or cause to be paid the principal of, redemption premium, if any, and interest on each Obligation issued under the Master Indenture, and any other payments, including the purchase or redemption price of Put Indebtedness,

required to be made under the Supplement creating such Obligation and under such Obligation, at the place, on the dates and in the manner provided in the Master Indenture, in the Supplement creating such Obligation and in the Obligation according to the terms thereof whether at maturity, upon proceedings for redemption, by acceleration or otherwise.

(b) To secure (i) the prompt payment of the principal of, redemption premium, if any, and the interest on the Obligations and any other payments, including the purchase or redemption price of Put Indebtedness, required to be made under the Supplements creating the Obligations and under the Obligations, and (ii) the performance by each Member of the Obligated Group of its other obligations under the Master Indenture and under the Deeds of Trust and Collateral Assignments, each Member of the Obligated Group grants to the Master Trustee a security interest in its Pledged Assets, the Corporation has executed and delivered the Corporation Deed of Trust, and each Member of the Obligated Group covenants to execute and deliver a Deed of Trust or notice of extension to the extent required under the Master Indenture as described below under the caption "After-Acquired, Replacement or Substituted Real Property." The Master Trustee will, upon written request of a Member of the Obligated Group, execute any document, instrument or agreement necessary to cause its lien or security interest in the Pledged Assets, Mortgaged Property or other Property of such Member of the Obligated Group to be subordinate to Liens permitted under the Master Indenture as described below in paragraph (ix) under the caption "Limitation on Creation of Liens" and to be pari passu with Liens permitted under the Master Indenture as described below in paragraph (xix) under the caption "Limitation on Creation of Liens," provided that such document, instrument or agreement contains provisions satisfactory in form and substance to the Master Trustee to the effect that any holder of a pari passu Lien permitted under the Master Indenture as described below in paragraph (xix) under the caption "Limitation on Creation of Liens" will not be entitled to exercise any remedy with respect to the collateral encumbered by such Lien unless the Master Trustee is concurrently exercising such remedy. So long as no Event of Default has occurred and is continuing, any Member of the Obligated Group may Transfer all or any part of its Pledged Assets and all or any portion of its Mortgaged Property, free of such security interest and free of the Lien of the Deed of Trust encumbering such Mortgaged Property, respectively, subject to the limitations of the Master Indenture described below under the captions "Transfers of Property, Plant and Equipment; Transfers of Cash and Investments" and "Consolidation, Merger, Sale or Conveyance" and in such Deed of Trust. If any Pledged Assets or Mortgaged Property is Transferred pursuant to the terms of the Master Indenture and the Deed of Trust encumbering such Mortgaged Property, upon written request of a Member of the Obligated Group, the Master Trustee will execute a release of its security interest with respect to the Pledged Assets or Mortgaged Property so Transferred. Upon the request of any Member of the Obligated Group (which request may not be made more frequently than quarterly), the Master Trustee will provide to such Member of the Obligated Group a written certification as to whether the Master Trustee has knowledge of an Event of Default that has occurred and is continuing.

(c) Each Member of the Obligated Group will execute and deliver to the Master Trustee from time to time such Supplements as may be necessary or appropriate to include its Pledged Assets as security under the Master Indenture. Each Member of the Obligated Group covenants that it will prepare and file such UCC financing statements as are necessary to comply with applicable law or as are required pursuant to the Master Indenture. Each Member of the Obligated Group also covenants to file continuation statements of existing UCC financing statements to maintain the perfection of the security interests of the Master Trustee in the Pledged Assets.

(d) If an Event of Default has occurred and is continuing, the Master Trustee may require that each Member of the Obligated Group deliver all Gross Receipts to it. Each Member of the Obligated Group covenants that, if an Event of Default under the Master Indenture has occurred and is continuing, it will, immediately upon receipt of a written request from the Master Trustee, deliver or direct to be delivered to the Master Trustee all Gross Receipts thereafter received until such Event of Default has been cured, such

Gross Receipts to be applied pursuant to the Master Indenture as described under the caption “Defaults and Remedies--Application of Gross Receipts and Other Moneys After Default.” If the Master Trustee has required that all Gross Receipts be delivered to it pursuant to the Master Indenture as described in the preceding sentence and thereafter the State Commissioner of Insurance obtains an order pursuant to Section 58-64-45 of the General Statutes of North Carolina, as amended, or any successor statute or provision, directing or authorizing the Commissioner to rehabilitate or liquidate the Facilities, the Master Trustee will, if required by such order, deliver and direct the Members of the Obligated Group to deliver all Gross Receipts to said Commissioner or any other Person specified in such order.

Tax Exempt Status

So long as the Master Indenture remains in effect, each Member of the Obligated Group which is a Tax-Exempt Organization at the time it becomes a Member of the Obligated Group agrees, so long as all amounts due or to become due on any Related Bond have not been fully paid to the holder thereof, that it will not take any action or fail to take any action which action or failure to act (including any action or failure to act which would result in the alteration or loss of its status as a Tax-Exempt Organization), or which would, in the Opinion of Bond Counsel, result in the interest on any Related Bond which is not includable in the gross income of the holder thereof for federal income tax purposes becoming included in the gross income of the holder thereof for federal income tax purposes.

Limitation on Creation of Liens

Each Member of the Obligated Group agrees that it will not create or suffer to be created or permit the existence of any Lien upon Pledged Assets, Mortgaged Property or any other Property now owned or hereafter acquired by it other than Permitted Liens.

Permitted Liens consist of the following:

(i) Liens on Pledged Assets, Mortgaged Property or other Property created by the Master Indenture, the Deeds of Trust or the Collateral Assignments;

(ii) Any Lien on the Property of the Corporation which existed on the date of authentication and delivery of any of the Existing Obligations, was disclosed to the Master Trustee in the Corporation Deed of Trust, the title insurance policy insuring the Corporation Deed of Trust or in an Officer’s Certificate; provided, however, that no such Lien may be increased, extended, renewed or modified to apply to any Property of any Member of the Obligated Group not subject to such Lien on such date or to secure Indebtedness not Outstanding as of the date of the Master Indenture, unless such Lien as so extended, renewed or modified otherwise qualifies as a Permitted Lien;

(iii) Any Lien on the Property of a Person in existence as of the date such Person becomes a Member of the Obligated Group that is disclosed to the Master Trustee in an Officer’s Certificate; provided, however, that no such Lien may be increased, extended, renewed or modified to apply to any Property of any Member of the Obligated Group not subject to such Lien on such date, unless such Lien as so extended, renewed or modified otherwise qualifies as a Permitted Lien;

(iv) Liens arising by reason of good faith deposits with any Member of the Obligated Group in connection with leases of real estate, bids or contracts (other than contracts for the payment of money), deposits by any Member of the Obligated Group to secure public or statutory obligations, or to secure, or in lieu of, surety, stay or appeal bonds, and deposits as security for the payment of taxes or assessments or other similar charges;

(v) Any Lien arising by reason of deposits with, or the giving of any form of security to, any governmental agency or any body created or approved by law or governmental regulation for any purpose at any time as required by law or governmental regulation as a condition to the transaction of any business or the exercise of any privilege or license, or to enable any Member of the Obligated Group to maintain self insurance or to participate in any funds established to cover any insurance risks or in connection with workers' compensation, unemployment insurance, pension or profit sharing plans or other social security, or to share in the privileges or benefits required for companies participating in such arrangements;

(vi) Any judgment Lien against any Member of the Obligated Group so long as such judgment is being contested in good faith and execution thereon is stayed or the liability of such Member of the Obligated Group under such judgment is adequately covered by insurance;

(vii) (A) Rights reserved to or vested in any municipality or public authority by the terms of any right, power, franchise, grant, license, permit or provision of law, affecting any Property; (B) any Liens on any Property for taxes, assessments, levies, fees, water and sewer rents, and other governmental and similar charges and any Liens of mechanics, materialmen, laborers, suppliers or vendors for work or services performed or materials furnished in connection with such Property, which are not due and payable or which are not delinquent or which, or the amount or validity of which, are being contested and execution thereon is stayed or, with respect to Liens of mechanics, materialmen, laborers, suppliers or vendors, have been due for less than 90 days; (C) easements, rights-of-way, servitudes, restrictions, oil, gas or other mineral reservations and other minor defects, encumbrances, and irregularities in the title to any Property which, if such Lien arises after a Member of the Obligated Group has acquired such Property, do not, in the Opinion of Counsel to the Obligated Group, materially impair the use of such Property or materially and adversely affect the value thereof; and (D) landlord's liens;

(viii) (A) Liens on Mortgaged Property securing Indebtedness so long as such Lien is, by its terms, specifically junior to the Lien on such Mortgaged Property created by a Deed of Trust and (B) Liens on real property comprising a part of the Property, Plant and Equipment securing Indebtedness and not subject to the Lien of a Deed of Trust; provided, however, that the aggregate principal amount of Indebtedness so secured by Liens permitted under this clause (B) will not exceed ten percent (10%) of Total Revenue for the most recent Fiscal Year for which Financial Statements are available at the time of the incurrence of such Indebtedness;

(ix) So long as no Event of Default exists under the Master Indenture at the time such Lien is created, (A) any Lien, including a security interest superior to the security interest in Equipment created under the Master Indenture, incurred for the purpose of financing Equipment; provided, however, that at the time the Indebtedness is incurred, the aggregate principal amount of the Indebtedness secured by Liens permitted under this clause (A) shall not exceed the greater of \$500,000 or fifteen percent (15%) of Total Revenue for the most recent Fiscal Year for which Financial Statements are available at the time of the incurrence of such Indebtedness; and that such Lien attaches only to the Equipment with respect to which such Indebtedness was incurred; or (B) any security interest in Pledged Assets other than Equipment securing Short-Term Indebtedness permitted under the Master Indenture as described below in paragraph (d) under the heading "Limitations on Indebtedness";

(x) Any consensual Lien on the Pledged Assets other than Equipment owned as of the date of the Master Indenture or thereafter acquired by any Member of the Obligated Group so long as such Lien is, by its terms, specifically junior to the security interest in such Pledged Assets created pursuant to the Master Indenture;

- (xi) Any Lien securing all Obligations on a parity basis;
- (xii) Any Lien in favor of a trustee on the proceeds of Indebtedness prior to the application of such proceeds;
- (xiii) Liens on Property received by any Member of the Obligated Group through gifts, grants or bequests, such Liens being due to restrictions on such gifts, grants, or bequests of Property or the income thereon;
- (xiv) Any Lien on pledges, gifts or grants to be received in the future, including any income derived from the investment thereof;
- (xv) Liens on moneys deposited by residents, patients or others with any Member of the Obligated Group as security for or as prepayment for the cost of care;
- (xvi) Liens on Property due to rights of third party payors for recoupment of amounts paid to any Member of the Obligated Group;
- (xvii) Any Lien securing Non-Recourse Indebtedness permitted under the Master Indenture;
- (xviii) Any lease of Property other than the Mortgaged Property or any lease of the Mortgaged Property that is by its terms subordinate to the Lien created by a Deed of Trust;
- (xix) Any Lien on the Pledged Assets, Mortgaged Property or any other Property securing the Obligations created under the Master Indenture, the Deed of Trust or the Collateral Assignments securing the obligations of a Member of the Obligated Group under a Derivative Agreement which, if required by the provider of such Derivative Agreement, may be pari passu with the Liens on the Pledged Assets, Mortgaged Property and any other Property securing the Obligations created under the Master Indenture, the Deed of Trust and the Collateral Assignments, so long as the notional amount of all Derivative Agreements secured by such pari passu Liens does not at any time exceed the aggregate amount of Obligations then Outstanding;
- (xx) So long as no Event of Default exists under the Master Indenture at the time such Lien is created, any Lien on cash and investments (including, without limitation, Liens on deposit accounts of Members of the Obligated Group) if such cash and investments could be Transferred pursuant to the Master Indenture as described below in paragraph (b) under the caption “Transfers of Property, Plant and Equipment; Transfers of Cash and Investments;” and
- (xxi) Any Lien on all or any part of the Excluded Real Property.

Limitations on Indebtedness

Each Member of the Obligated Group covenants and agrees that it will not incur any Additional Indebtedness if, after giving effect to all other Indebtedness incurred by the Obligated Group, such Indebtedness could not be incurred pursuant to paragraphs (a) to (g), inclusive, below. Any Indebtedness may be incurred only in the manner and pursuant to the terms and conditions set forth below:

- (a) Long-Term Indebtedness may be incurred if, prior to the incurrence thereof, one of the following conditions is met:

(i) there is delivered to the Master Trustee an Officer's Certificate certifying that the Long-Term Debt Service Coverage Ratio, taking into account all Outstanding Long-Term Indebtedness and the Long-Term Indebtedness proposed to be incurred, for the most recent Fiscal Year preceding the date of delivery of the Officer's Certificate for which the Financial Statements are available, is not less than 1.20; or

(ii) there is delivered to the Master Trustee (A) an Officer's Certificate certifying that the Long-Term Debt Service Coverage Ratio, taking into account all Outstanding Long-Term Indebtedness, but not the Long-Term Indebtedness then proposed to be incurred, for the most recent Fiscal Year preceding the date of delivery of the Officer's Certificate for which the Financial Statements are available, is not less than 1.20; and (B) a report of a Management Consultant stating that the forecasted Long-Term Debt Service Coverage Ratio, taking the proposed Long-Term Indebtedness into account, for (1) in the case of Long-Term Indebtedness (other than a Guaranty) to finance capital improvements, the Fiscal Year immediately succeeding the year in which substantially all of such capital improvements are forecasted to be placed in service (except that with respect to capital improvements consisting, in whole or in part, of independent or assisted living units or health care beds, such forecast will be for the earlier to occur of (x) the first full Fiscal Year next succeeding the Fiscal Year in which the occupancy of such independent or assisted living units or health care beds is forecasted to reach 90% or (y) the first full Fiscal Year following the Fiscal Year in which occurs that date which is 18 months from the date set forth in the forecast upon which substantially all of such independent or assisted living units or health care beds are forecasted to be placed in service), or (2) in the case of Long-Term Indebtedness not financing capital improvements or in the case of a Guaranty, the Fiscal Year immediately succeeding the year in which the Long-Term Indebtedness is incurred, is not less than 1.20, accompanied by a statement of the relevant assumptions upon which such forecast is based; or

(iii) there is delivered to the Master Trustee a report of a Management Consultant stating that the forecasted Long-Term Debt Service Coverage Ratio, taking the proposed Long-Term Indebtedness into account, for (1) in the case of Long-Term Indebtedness (other than a Guaranty) to finance capital improvements, the Fiscal Year immediately succeeding the year in which substantially all of such capital improvements are forecasted to be placed in service (except that with respect to capital improvements consisting, in whole or in part, of independent or assisted living units or health care beds, such forecast will be for the earlier to occur of (x) the first full Fiscal Year next succeeding the Fiscal Year in which the occupancy of such independent or assisted living units or health care beds is forecasted to reach 90% or (y) the first full Fiscal Year following the Fiscal Year in which occurs that date which is 18 months from the date set forth in the forecast upon which substantially all of such independent or assisted living units or health care beds are forecasted to be placed in service), or (2) in the case of Long-Term Indebtedness not financing capital improvements or in the case of a Guaranty, the Fiscal Year immediately succeeding the year in which the Long-Term Indebtedness is incurred, is not less than 1.25, accompanied by a statement of the relevant assumptions upon which such forecast is based; or

(iv) the principal amount of additional Long-Term Indebtedness proposed to be incurred does not exceed 10% of Total Revenue for the most recent Fiscal Year for which Financial Statements are available at the time such Long-Term Indebtedness is incurred; provided, however, that the total amount of the Long-Term Indebtedness incurred under this clause (iv) and Outstanding without compliance with one of the tests mentioned in clause (i), (ii) or (iii) above may not in the aggregate exceed at any time the amount calculated in accordance with the provisions of this clause (iv); provided, further, that no Event of Default has occurred and is continuing with respect to the covenants described under the heading "Long-Term Debt Service Coverage Ratio" below.

(b) Qualifying Intermediate-Term Indebtedness may be incurred if no Event of Default has occurred and is continuing with respect to the covenants described under the heading “Long-Term Debt Service Coverage Ratio” below.

(c) Long-Term Indebtedness may be incurred to refund any Outstanding Long-Term Indebtedness if prior to the incurrence thereof: (i) either (A) the Master Trustee receives an Officer’s Certificate stating that, taking into account the Long-Term Indebtedness proposed to be incurred, the existing Long-Term Indebtedness to remain Outstanding after the refunding and the refunding of the existing Long-Term Indebtedness to be refunded, Maximum Annual Debt Service will not be increased by more than 10%, or, in the case of a refunding of Qualifying Intermediate-Term Indebtedness only, a report of a Management Consultant which forecasts a Long-Term Debt Service Coverage Ratio of 1.20 for each of the two Fiscal Years next succeeding the Fiscal Year in which such refunding takes place or (B) one of the conditions described in paragraph (a) above is met with respect to such proposed Long-Term Indebtedness, and (ii) the Master Trustee receives an Opinion of Counsel stating that upon the incurrence of such proposed Long-Term Indebtedness and the application of the proceeds thereof, the Outstanding Long-Term Indebtedness to be refunded will no longer be Outstanding.

(d) Short-Term Indebtedness may be incurred if, immediately after the incurrence of such Short-Term Indebtedness the aggregate principal amount of Outstanding Short-Term Indebtedness does not exceed 15% of Total Revenue for the most recent Fiscal Year for which Financial Statements are available; provided, however, that for a period of at least thirty (30) consecutive calendar days in each Fiscal Year Short-Term Indebtedness will not exceed the greater of (i) \$250,000 or (ii) 50% of the amount by which the Reserve Ratio exceeds 0.35, calculated as of the end of the most recent Fiscal Year for which Financial Statements are available.

(e) Non-Recourse Indebtedness may be incurred: (i) up to but not in excess of an aggregate of 5% of Total Revenue for the most recent Fiscal Year for which Financial Statements are available; or (ii) in excess of the aggregate limit mentioned in clause (i) above, if the Master Trustee will have first received the report of a Management Consultant to the effect that the long-term debt service coverage ratio (determined in a manner as nearly as possible as the Long-Term Debt Service Coverage Ratio is determined) with respect to the capital assets being financed with the proceeds of such Non-Recourse Indebtedness for the Fiscal Year immediately following the year that such capital assets are forecasted to be placed in service (if such capital assets are being constructed) or following the year the acquisition of such capital assets is completed (if such capital assets are being acquired) is forecasted to be not less than 1.20; or (iii) without limit with respect to the Excluded Real Property.

(f) Indebtedness may be incurred without limitation under a line of credit, letter of credit, standby bond purchase agreement or similar liquidity or credit enhancement facility established in connection with the incurrence of any Indebtedness; provided, however, that any liabilities resulting from the use of or drawing under such liquidity or credit enhancement facility will be included in Indebtedness for all purposes of the Master Indenture. If a liquidity facility is used or drawn upon to purchase, but not retire, Indebtedness, then the principal amount of such Indebtedness so purchased will be excluded from Indebtedness.

(g) Put Indebtedness may be incurred if, prior to the incurrence of such Put Indebtedness, (i) the conditions described in clause (a)(i), (a)(ii) or (a)(iii) above are met and (ii) either (A) a binding commitment from a bank or other financial institution exists to provide financing sufficient to pay the purchase or redemption price of such Put Indebtedness on any date on which the owner of such Put Indebtedness may demand payment thereof pursuant to the terms of such Put Indebtedness or (B) the obligation to pay the purchase or redemption price of such Put Indebtedness on any date on which the owner

of such Put Indebtedness may demand payment thereof pursuant to the terms of such Put Indebtedness are contingent upon the availability of Excess Funds.

(h) Completion Indebtedness may be incurred if there is delivered to the Master Trustee: (i) an Officer's Certificate of the Member of the Obligated Group for whose benefit such Indebtedness is being incurred stating that at the time the original Indebtedness for the Facilities to be completed was incurred, such Member of the Obligated Group had reason to believe that the proceeds of such Indebtedness together with other moneys then expected to be available would provide sufficient moneys for the completion of such Facilities, (ii) a statement of an Independent Architect or other similar expert selected by the Obligated Group setting forth the amount estimated to be needed to complete the Facilities, and (iii) an Officer's Certificate of such Member of the Obligated Group stating that the proceeds of such Completion Indebtedness to be applied to the completion of the Facilities, together with a reasonable estimate of investment income to be earned on such proceeds and available to pay such costs, the amount of moneys, if any, committed to such completion from available cash or marketable securities and reasonably estimated earnings thereon, enumerated loans from Affiliates or bank loans (including letters or lines of credit) and federal or state grants reasonably expected to be available, will be in an amount not less than the amount set forth in the statement of an Independent Architect or other expert, as the case may be, referred to in (ii), which amount shall be no more than 10% of Indebtedness originally incurred to finance the construction of such Facilities.

After-Acquired, Replacement or Substituted Real Property

In the event any Member of the Obligated Group acquires or constructs in Chatham County, North Carolina, real property, buildings, improvements or fixtures as an addition to or in replacement of or substitution for the Existing Facilities, such Member of the Obligated Group covenants and agrees that it will, upon closing of such acquisition or prior to commencement of such construction, record in the office of the Register of Deeds of Chatham County, North Carolina, either (a) a Deed of Trust containing a description of the property being acquired or constructed, if such Member of the Obligated Group has not previously executed and delivered a Deed of Trust to the Master Trustee that is recorded in the office of the Register of Deeds of such county or (b) a notice of extension as specified in Section 47-20.5 of the General Statutes of North Carolina, as amended, containing a description of the property covered thereby relating to a Deed of Trust previously executed and delivered by such Member of the Obligated Group to the Master Trustee that is recorded in the office of the Register of Deeds of such county. For purposes of the Master Indenture as described under this caption, real property, buildings, improvements and fixtures will be deemed to be an addition to the Existing Facilities if they comprise facilities that are functionally related to, and operated on an integrated basis with, the Existing Facilities.

In the event any Obligation is issued pursuant to the Master Indenture to acquire or finance real property or improvements to real property, the Member of the Obligated Group acquiring or financing such real property or improvements covenants and agrees that it will cause to be recorded in the office of the register of deeds of the county in which such real property is located either a Deed of Trust containing a description of the real property or improvements being acquired or financed or a notice of extension as specified in Section 47-20.5 of the General Statutes of North Carolina, as amended, containing a description of the property covered thereby relating to a Deed of Trust previously executed and delivered by such Member of the Obligated Group to the Master Trustee that is recorded in the office of the register of deeds of such county.

Any Member of the Obligated Group executing and delivering such Deed of Trust or notice of extension pursuant to the Master Indenture as described under this caption will (a) in the case of a Deed of Trust, (i) cause a mortgagee title insurance policy, together with a tie-in endorsement to such policy and each other mortgagee title insurance policy previously issued to the Master Trustee under the terms of the

Master Indenture, to be issued and delivered to the Master Trustee in an amount equal to the principal amount of any Obligation to be issued in connection with acquiring or financing the real property or improvements to the real property described in such Deed of Trust (less any amount required to be deposited initially into Reserve Fund No. 1 or any other debt service reserve fund for such Obligation or any Related Bonds related to such Obligation), insuring that such Deed of Trust is a first priority Lien, subject to Permitted Liens, on the Mortgaged Property described therein, or (ii) cause an endorsement to a mortgagee title insurance policy previously issued to the Master Trustee under the terms of the Master Indenture to be issued to the Master Trustee, that (A) amends the effective date and time of such policy to be the date and time of the recording of such Deed of Trust, (B) amends the description of the land insured by such policy to include the real property described in such Deed of Trust, (C) increases the amount of such policy by an amount equal to the principal amount of any Obligation issued in connection with acquiring or financing the real property or improvements to the real property described in such Deed of Trust (less any amount deposited or to be deposited initially into Reserve Fund No.1 or any other debt service reserve fund for such Obligation or any Related Bonds related to such Obligation) and (D) continues to insure that the Deed(s) of Trust initially secured by such policy and the new Deed of Trust are first priority Liens on the Mortgaged Property described therein, subject to Permitted Liens, or (b) in the case of a notice of extension, cause an endorsement to the mortgagee title insurance policy previously issued to the Master Trustee insuring the priority of the Deed of Trust to which such notice of extension relates to be issued and delivered to the Master Trustee that (i) amends the effective date and time of such policy to be the date and time of the recording of the notice of extension, (ii) amends the description of the land insured by such policy to include the real property described in the notice of extension, (iii) increases the amount of such policy by an amount equal to the principal amount of any Obligation issued in connection with acquiring or financing the real property or improvements to the real property described in such Deed of Trust (less any amount to be deposited into a debt service reserve fund for such Obligation or any Related Bonds related to such Obligation), and (iv) continues to insure that such Deed of Trust, giving effect to the notice of extension, is a first priority Lien on the Mortgaged Property described therein, subject to Permitted Liens. Each title insurance policy or endorsement delivered to the Master Trustee pursuant to the Master Indenture as described under this caption will be issued by a title insurance company.

Long-Term Debt Service Coverage Ratio

(a) Each Member of the Obligated Group covenants to set rates and collect charges for its facilities, services and products such that the Long-Term Debt Service Coverage Ratio, calculated as of the end of each Fiscal Year, will not be less than 1.20; provided, however, that in any case where Long-Term Indebtedness has been incurred to acquire or construct capital improvements, the Long-Term Debt Service Requirement with respect thereto will not be taken into account in making the foregoing calculation until the first full Fiscal Year commencing after substantially all of such capital improvements are placed in service (except that with respect to capital improvements consisting, in whole or in part, of independent or assisted living units or health care beds, the Long-Term Debt Service Requirement with respect thereto will not be taken into account until the earlier to occur of (i) the first full Fiscal Year next succeeding the Fiscal Year in which the occupancy of such independent or assisted living units or health care beds reaches 90% or (ii) the first full Fiscal Year following the Fiscal Year in which occurs that date which is 18 months following the date upon which substantially all such independent or assisted living units or health care beds are placed in service; in either case, the Obligated Group agrees that it will notify the Master Trustee of such event within ten (10) days following its occurrence).

(b) In the event the Long-Term Service Debt Coverage Ratio, calculated as of the end of any Fiscal Year, is less than 1.20 but greater than 1.10 and the Reserve Ratio as of the end of such Fiscal Year is not less than 0.35, no Event of Default will be deemed to have occurred and no further action need be taken.

(c) In the event the Long-Term Debt Service Coverage Ratio, calculated as of the end of any Fiscal Year, is less than 1.20 but greater than 1.10 and the Reserve Ratio as of the end of such Fiscal Year is less than 0.35, the Obligated Group will retain a Management Consultant to analyze the reasons for the failure to achieve a Long-Term Debt Service Coverage Ratio of 1.20 and to make recommendations to increase the Long-Term Debt Service Coverage Ratio for the following Fiscal Year to such amount. If for two successive Fiscal Years, the Long-Term Debt Service Coverage Ratio is less than 1.20 but greater than 1.10 and the Reserve Ratio as of the end of each such Fiscal Year is less than 0.35, it will be an Event of Default.

(d) In the event the Long-Term Debt Service Coverage Ratio, calculated as of the end of any Fiscal Year, is less than 1.10, the Obligated Group will retain a Management Consultant to make recommendations to increase the Long-Term Debt Service Coverage Ratio for the following Fiscal Year to the amount required by subsection (a) above. If the Long-Term Debt Service Coverage Ratio is less than 1.10 for two successive Fiscal Years, it will be an Event of Default.

(e) In the event the Obligated Group fails to make a selection of a Management Consultant and fails to give notice of such selection to the Master Trustee within thirty (30) days after its receipt of Financial Statements for a Fiscal Year referred to in paragraphs (c) or (d) above, as the case may be (or such later date as permitted in the Master Indenture, see “SELECTED COVENANTS – Master Trust Indenture Covenants – *Approval of Management Consultants*” in the front part of this Official Statement), the Master Trustee shall notify the Obligated Group Representative of such failure and request the Obligated Group to select such Management Consultant within five (5) days. A copy of such recommendations must be filed with the Master Trustee within ninety (90) days after the date the Management Consultant is selected unless the Master Trustee extends, by prior written consent, the time within which such recommendations must be so filed.

(f) The Obligated Group agrees that it will, to the extent permitted by law and consistent with the status of any Member of the Obligated Group as a Tax-Exempt Organization, follow any recommendations of the Management Consultant pursuant to subsection (c) or subsection (d) above.

Transfers of Property, Plant and Equipment; Transfers of Cash and Investments

(a) The Obligated Group agrees that it will not Transfer in any Fiscal Year Property, Plant and Equipment except for Transfers:

(i) to another Member of the Obligated Group, without limit;

(ii) so long as no Event of Default has occurred and is continuing, to any Person of Property, Plant and Equipment (excluding Mortgaged Property) if the Net Book Value of the Property, Plant, and Equipment does not exceed three quarters of one percent (3/4%) of the Net Book Value of Property, Plant and Equipment, as shown on the Financial Statements for the most recent Fiscal Year for which Financial Statements are available;

If the Long-Term Debt Service Coverage Ratio for the most recent Fiscal Year for which Financial Statements are available is not less than 1.30, the foregoing percentage of the Property, Plant and Equipment may be increased as follows under the following conditions:

(1) to 5%, if Days' Cash on Hand for the most recent Fiscal Year for which Financial Statements are available would not be less than 300 after the effect of such sale, lease or disposition of Property, Plant and Equipment; or

(2) to 7.5%, if Days' Cash on Hand for the most recent Fiscal Year for which Financial Statements are available would not be less than 400 after the effect of such sale, lease or disposition of Property, Plant and Equipment; or

(3) to 10%, if Days' Cash on Hand for the most recent Fiscal Year for which Financial Statements are available would not be less than 500 after the effect of such sale, lease or disposition of Property, Plant and Equipment;

(iii) to any Person of Equipment if, prior to the Transfer, the Master Trustee receives an Officer's Certificate stating that, in the judgment of the signer, such Equipment has become inadequate, obsolete, worn out, unsuitable, unprofitable, undesirable or unnecessary and the sale, lease, removal or other disposition thereof will not impair the structural soundness or materially impair the revenue producing capacity of the remaining Property, Plant and Equipment; provided, however, that no Officer's Certificate will be required to be delivered to the Master Trustee with respect to any Equipment having a Net Book Value in the aggregate of less than \$150,000 in any Fiscal Year;

(iv) in addition to the Transfers described in clauses (i) to (iii), inclusive, above and subject to the provisions of a Deed of Trust which permit the release of a parcel or interest in land constituting part of the Mortgaged Property from the Lien and security of such Deed of Trust (including the provisions described under the caption "SUMMARY OF THE CORPORATION DEED OF TRUST—Release of Land from Lien of Corporation Deed of Trust" below), to any Person of real property or Equipment for the fair market value thereof, provided that (A) the proceeds of such Transfer are used to purchase additional real property which, if functionally related to, and operated on an integrated basis with, the Facilities, will be subjected to the Lien of a Deed of Trust, or to purchase Equipment which will become subject to the security interest granted pursuant to the Master Indenture or to prepay, in whole or in part, pro rata, Outstanding Obligations and (B) in the case of real property, ingress to and egress from the Facilities is not materially impaired; provided further, however, that in the case of Mortgaged Property released from the security of a Deed of Trust pursuant to provisions of such Deed of Trust that allow a release of Mortgaged Property without the delivery of a survey and an appraisal, the proceeds of such Transfer may be used for any purpose; and

(v) of Excluded Real Property.

(b) The Obligated Group may in any Fiscal Year Transfer cash and investments:

(i) to any Member of the Obligated Group, without limit; and

(ii) so long as there are no deficiencies in a bond fund or a debt service reserve fund created with respect to Related Bonds, to any Person in an amount not exceeding five percent (5%) of Total Revenue for the most recent Fiscal Year for which Financial Statements are available.

(c) Notwithstanding the foregoing provisions, nothing described under this caption will be construed as limiting the ability of any Member of the Obligated Group to (i) pay its expenses of operation, including, without limitation, state and local taxes or payments in lieu of taxes, (ii) provide charity care and community benefits and make charitable donations and donations and voluntary payments to government agencies, (iii) purchase or sell Property (other than Property and Equipment used in the operation of the Facilities) in the ordinary course of business, (iv) Transfer cash, securities and other investment properties in connection with ordinary investment transactions and payment for goods and services provided where such purchases, sales and Transfers are for substantially equivalent value or (v) lease any Property not being

used in operation of the Facilities, subject to the provisions set forth in the Master Indenture as described above under the caption “Limitation on Creation of Liens”.

Consolidation, Merger, Sale or Conveyance

(a) Each Member of the Obligated Group covenants that it will not merge or consolidate with, or sell or convey all or substantially all of its assets to any Person that is not a Member of the Obligated Group unless:

(i) either a Member of the Obligated Group will be the successor corporation, or, if the successor corporation is not a Member of the Obligated Group, such successor corporation will execute and deliver to the Master Trustee an appropriate instrument, satisfactory to the Master Trustee, containing the agreement of such successor corporation (A) to become a Member of the Obligated Group under the Master Indenture and thereby become subject to compliance with all provisions of the Master Indenture pertaining to a Member of the Obligated Group, including the security interest provided for in the Master Indenture and the performance and observance of all covenants and obligations of a Member of the Obligated Group thereunder, and (B) unconditionally and irrevocably guaranteeing to the Master Trustee and each other Member of the Obligated Group that all Obligations issued and then Outstanding or to be issued and Outstanding thereunder will be paid in accordance with the terms thereof and of the Master Indenture when due;

(ii) the successor corporation has met all licensing requirements necessary for the operation of any Facilities and is qualified to do business in the State or consents to service of process in the State;

(iii) the Obligated Group Representative has delivered to the Master Trustee a report of a Management Consultant, dated not more than 90 days prior to such consolidation, merger or transfer, to the effect that (i) the forecasted Long-Term Debt Service Coverage Ratio for each of the two full Fiscal Years immediately following such merger, consolidation or transfer will be not less than 1.20 or will be greater than it would have been if such merger, consolidation or transfer had not taken place and (ii) upon completion of such consolidation, merger or transfer, the Obligated Group will not be in violation of any of the limitations on the incurrence of Indebtedness contained in the Master Indenture; provided, however, that if capital improvements consisting, in whole or in part, of independent or assisted living units or health care beds are under construction or available for initial occupancy on the date of such merger, consolidation or transfer, such forecast will be for the earlier to occur of (x) the first full Fiscal Year next succeeding the Fiscal Year in which the occupancy of such independent or assisted living units or health care beds is forecasted to reach 90% or (y) the first full Fiscal Year following the Fiscal Year in which occurs that date which is 18 months from the date set forth in the forecast upon which substantially all of such independent or assisted living units or health care beds are forecasted to be placed in service;

(iv) if all amounts due or to become due on any Related Bond, the interest on which is not includable in the gross income of the holder thereof for purposes of federal income taxation, have not been fully paid to the holder thereof, there has been delivered to the Master Trustee an Opinion of Bond Counsel, in form and substance satisfactory to the Master Trustee, to the effect that, under then existing law, the consummation of such merger, consolidation, sale or conveyance would not adversely affect the exclusion from gross income for purposes of federal income taxation of interest payable on such Related Bond; and

(v) the Obligated Group Representative has delivered to the Master Trustee an Officer’s Certificate and an Opinion of Counsel, each of which will state that such consolidation,

merger, conveyance or transfer and such instrument comply with the Master Indenture, and that all conditions precedent provided in the Master Indenture relating to such transaction have been satisfied.

(b) In case of any such consolidation, merger, sale or conveyance and upon any such assumption by the successor corporation, such successor corporation will succeed to and be substituted for its predecessor, with the same effect as if it had been named in the Master Indenture as such predecessor or had become a Member of the Obligated Group pursuant to the Master Indenture, as the case may be. Such successor corporation thereupon may cause to be signed, and may issue Obligations under the Master Indenture in its own name; and upon the order of such successor corporation and subject to all the terms, conditions and limitations in the Master Indenture, the Master Trustee will authenticate and will deliver Obligations that such successor corporation has caused to be signed and delivered to the Master Trustee. All Outstanding Obligations so issued by such successor corporation will in all respects have the same security position and benefit under the Master Indenture as Outstanding Obligations theretofore or thereafter issued in accordance with the terms of the Master Indenture as though all of such Obligations had been issued under the Master Indenture without any such consolidation, merger, sale or conveyance having occurred.

Insurance

(a) Each Member of the Obligated Group will maintain, or cause to be maintained, the following types of insurance (including one or more self-insurance programs) in such amounts as, in its judgment, are adequate to protect it and its Property, Plant and Equipment and operations: (i) comprehensive general public liability insurance, including blanket contractual liability and automobile insurance including owned or hired automobiles (excluding collision and comprehensive coverage thereon), (ii) fire, lightning, windstorm, hail, explosion, riot, riot attending a strike, civil commotion, damage from aircraft, smoke and uniform standard coverage and vandalism and malicious mischief endorsements and business interruption insurance, (iii) professional liability or medical malpractice insurance, (iv) workers' compensation insurance, and (v) boiler insurance. The Members of the Obligated Group may not self-insure for items covered under clauses (ii) and (v) of the preceding sentence.

(b) The Obligated Group will employ an Insurance Consultant to review the insurance coverages required by the Master Indenture as described in paragraph (a) above and the insurance requirements of the Members of the Obligated Group from time to time (but not less frequently than biennially with respect to risks covered by insurance companies and not less frequently than annually with respect to risks for which the Members of the Obligated Group are self insured). If the Insurance Consultant makes recommendations for the increase of any coverage required by the Master Indenture, the Obligated Group will increase, or cause to be increased, such coverage in accordance with such recommendations, subject to a good faith determination of the Obligated Group Representative that such recommendations, in whole or in part, are in the best interests of the Obligated Group. Notwithstanding the provisions described above, each Member of the Obligated Group will have the right, without giving rise to an Event of Default solely on such account, (i) to maintain insurance coverage below that most recently recommended by the Insurance Consultant, if the Obligated Group furnishes to the Master Trustee a report of the Insurance Consultant to the effect that the insurance so provided affords either the greatest amount of coverage available for the risk being insured against at rates which in the judgment of the Insurance Consultant are reasonable in connection with reasonable and appropriate risk management, or the greatest amount of coverage necessary by reason of state or federal laws now or hereafter in existence limiting medical and malpractice liability, or (ii) to adopt alternative risk management programs which the Insurance Consultant determines to be reasonable, including, without limitation, to self-insure (other than for items covered under clauses (ii) and (v) in subsection (a) above) in whole or in part individually or in connection with other institutions, to participate in programs of captive insurance companies, to participate with other institutions

in mutual or other cooperative insurance or other risk management programs, to participate in state or federal insurance programs, to take advantage of state or federal laws now or hereafter in existence limiting medical and malpractice liability, or to establish or participate in other alternative risk management programs; all as may be approved by the Insurance Consultant as reasonable and appropriate risk management by the Obligated Group. If any Member of the Obligated Group is self-insured for any coverage required by the Master Indenture as described in subsection (a) above, the report of the Insurance Consultant mentioned above will state whether the anticipated funding of any self-insurance fund is actuarially sound, and, if not, the required funding to produce such result. The Obligated Group agrees to provide the funding recommended in any such report.

Insurance and Condemnation Proceeds

Proceeds received by any Member of the Obligated Group for casualty losses or condemnation awards may be used for such lawful corporate purposes as the recipient determines, including, but not limited to, the replacement or repair of the damaged or taken Property, Plant and Equipment and the application of such proceeds to the payment or repayment of any Indebtedness in accordance with the terms thereof; provided, however, if the amount received exceeds 5% of the Net Book Value of the Property, Plant and Equipment, the Obligated Group Representative will immediately notify the Master Trustee, deposit the amount received with the Master Trustee and within 12 months after the casualty loss or taking and prior to expending such funds, deliver to the Master Trustee (a) an Officer's Certificate certifying the expected Long-Term Debt Service Coverage Ratio for each of the two full Fiscal Years following the expected date of application of such proceeds will not be less than 1.30 as shown by pro forma financial statements for each such period and a statement of relevant assumptions, including assumptions as to the use of such proceeds or awards upon which such pro forma statements are based, or (b) a written Management Consultant's report stating recommendations, including recommendations as to the use of such proceeds or awards, to cause the Long-Term Debt Service Coverage Ratio for each of such periods described in clause (i) of this paragraph to be not less than 1.20, or, if in the opinion of the Management Consultant the attainment of such level is impracticable, to the highest practicable level. Each Member of the Obligated Group agrees that it will use such proceeds or awards, to the extent permitted by law, only in accordance with the assumptions referred to in clause (a) above or the recommendations referred to in clause (b) above.

Filing of Financial Statements, Certificate of No Default and Other Information

The Obligated Group covenants that it will:

(a) As soon as possible but in no event later than one hundred twenty (120) days after the end of each Fiscal Year or other period for which an audit has been performed, file with the Master Trustee and with each Holder who may have so requested in writing or on whose behalf the Master Trustee may have so requested, a copy of the Financial Statements as of the end of such Fiscal Year or other period accompanied by the report of an Accountant.

(b) Simultaneously with filing the Financial Statements for a Fiscal Year or other period as required under the Master Indenture and described in paragraph (a) above, file with the Master Trustee and with each Holder who may have so requested in writing or on whose behalf the Master Trustee may have so requested, an Officer's Certificate stating the Long-Term Debt Service Coverage Ratio and the Reserve Ratio as of the end of such Fiscal Year or such other period, and stating whether, to the best knowledge of the signer of such Officers' Certificate, any Member of the Obligated Group is not in compliance with any covenant contained in the Master Indenture and, if so, specifying each such failure to comply of which such signer may have knowledge and the steps that are being taken by the Obligated Group to cure such non-compliance.

(c) If an Event of Default has occurred and is continuing, (i) file with the Master Trustee such other financial statements and information concerning its operations and financial affairs, including any Member of the Obligated Group, as the Master Trustee may from time to time reasonably request, excluding, specifically, donor records, patient records, personnel records and records subject to attorney-client privilege and (ii) provide access to the Facilities, the Pledged Assets and the Mortgaged Property for the purpose of inspection by the Master Trustee during regular business hours or at such other times as the Master Trustee may reasonably request.

(d) Unless required to be delivered at an earlier time, within thirty (30) days after its receipt thereof, file with the Master Trustee a copy of each report which any provision of the Master Indenture requires to be prepared by a Management Consultant or an Insurance Consultant.

(e) Notwithstanding any provision of the Master Indenture to the contrary, if the Obligated Group fails to file the Financial Statements for any Fiscal Year with the Master Trustee within the time period specified in paragraph (a) above, no Liens may be created pursuant to the provisions of the Master Indenture described herein in paragraphs (viii), (ix) or (xx) under the caption “Limitations on Creation of Liens” above, no Indebtedness may be incurred pursuant to the provisions of the Master Indenture described herein in paragraphs (a)(i), (a)(ii), (a)(iv), (d) or (e) under the caption “Limitations on Indebtedness” above, no Property may be transferred pursuant to the provisions of the Master Indenture described herein in paragraphs (a)(iii) or (b)(ii) under the caption “Transfers of Property, Plant and Equipment; Transfers of Cash and Investments” above until the Obligated Group has cured such default by filing the Financial Statements for the most recently ended Fiscal Year with the Master Trustee.

(f) The Obligated Group shall be deemed to have satisfied its obligations to file information with a Holder who requests such information by making such information accessible electronically.

Other Covenants of the Corporation

Additionally, the Master Indenture contains covenants of the Corporation relating to the liquidity and operating income of the Corporation, the marketing of the Project Independent Living Units, the occupancy of the Independent Living Units, obtaining a credit rating and selecting Management Consultants. See “SELECTED COVENANTS – Master Trust Indenture Covenants” in the front part of this Official Statement.

Parties Becoming Members of the Obligated Group

Persons which are not Members of the Obligated Group may, with the prior written consent of the current Members of the Obligated Group, become Members of the Obligated Group, if:

(a) The Person which is becoming a Member of the Obligated Group will execute and deliver to the Master Trustee an appropriate instrument, satisfactory to the Master Trustee containing the agreement of such Person (i) to become a Member of the Obligated Group under the Master Indenture and thereby become subject to compliance with all provisions of the Master Indenture pertaining to a Member of the Obligated Group, including the security interest provided for in the Master Indenture and the performance and observance of all covenants and obligations of a Member of the Obligated Group under the Master Indenture, and (ii) unconditionally and irrevocably guaranteeing to the Master Trustee and each other Member of the Obligated Group that all Obligations issued and then Outstanding or to be issued and Outstanding under the Master Indenture will be paid in accordance with the terms thereof and of the Master Indenture when due.

(b) The Obligated Group Representative will have delivered to the Master Trustee an Officer's Certificate which will state that (i) such admission and such instrument comply with the Master Indenture and that all conditions precedent provided in the Master Indenture relating to such admission have been complied with and (ii) immediately after giving effect to such admission, no Event of Default under the Master Indenture will have occurred and be continuing.

(c) Each instrument executed and delivered to the Master Trustee in accordance with the provisions of the Master Indenture described in paragraph (a) above, will be accompanied by an Opinion of Counsel, addressed to and satisfactory to the Master Trustee, to the effect that such instrument has been duly authorized, executed and delivered by such Person or successor corporation and constitutes a valid and binding obligation of such Person enforceable in accordance with its terms, except as enforceability may be limited by bankruptcy laws, insolvency laws, other laws affecting creditors' rights generally, equity principles and laws dealing with fraudulent conveyances.

(d) There is filed with the Master Trustee a report of a Management Consultant to the effect that the forecasted Long-Term Debt Service Coverage Ratio for each of the two (2) Fiscal Years immediately succeeding the date of such action is greater than 1.20 or greater than it would have been if such action had not taken place and that such action will not reduce by more than twenty-five percent (25%) the forecasted Long-Term Debt Service Coverage Ratio for each of such periods assuming that such action had not taken place; provided, however, that if capital improvements consisting, in whole or in part, of independent or assisted living units or health care beds are under construction or available for initial occupancy on the date of such action, such forecast will be for the earlier to occur of (x) the first full Fiscal Year next succeeding the Fiscal Year in which the occupancy of such independent or assisted living units or health care beds is forecasted to reach 90% or (y) the first full Fiscal Year following the Fiscal Year in which occurs that date which is 18 months from the date set forth in the forecast upon which substantially all of such independent or assisted living units are forecasted to be placed in service.

(e) If all amounts due or to become due on any Related Bond, the interest on which is not includable in the gross income of the holder thereof for purposes of federal income taxation, have not been fully paid to the holder thereof, there is filed with the Master Trustee, an Opinion of Bond Counsel to the effect that the admission of such Person to the Obligated Group would not adversely affect the exclusion of the interest on any such Related Bond from gross income of the holder thereof for purposes of federal income taxation.

Withdrawal from the Obligated Group

(a) No Member of the Obligated Group may withdraw from the Obligated Group unless, prior to the taking of such action, there is delivered to the Master Trustee:

(i) (A) An Officer's Certificate demonstrating that (I) all Obligations issued by such Member are no longer Outstanding, or (II) an amount of cash or Defeasance Obligations, which together with the interest earned thereon, will be sufficient (with respect to Defeasance Obligations, as verified by a nationally recognized independent certified public accountant or such other Person whose verification reports are generally accepted by public finance participants) to accomplish the requirement of the Master Indenture described in clause (A)(I) of this paragraph has been transferred by such Member to the Master Trustee or all Outstanding Obligations issued by such Member have been assumed by another Member of the Obligated Group, and (B) in either case, if all amounts due or to become due on any Related Bond, the interest on which is not includable in the gross income of the holder thereof for purposes of federal income taxation, have not been fully paid to the holder thereof, there is delivered to the Master Trustee an Opinion of Bond Counsel to the effect that such Member's withdrawal from the Obligated Group would not adversely affect the

exclusion from gross income for purposes of federal income taxation of the interest on any such Related Bond;

(ii) The report of a Management Consultant to the effect that the forecasted Long-Term Debt Service Coverage Ratio for each of the two (2) Fiscal Years immediately succeeding the date of such action is greater than 1.20 or greater than it would have been if such action had not taken place and that such action will not reduce by more than twenty-five percent (25%) the forecasted Long-Term Debt Service Coverage Ratio for each of such periods assuming that such action had not taken place; and

(iii) An Officer's Certificate which will state that (A) all conditions precedent provided in the Master Indenture relating to such withdrawal have been complied with and (B) immediately after giving effect to such withdrawal, no Event of Default under the Master Indenture will have occurred and be continuing.

(b) Upon the withdrawal of any Member from the Obligated Group pursuant to the Master Indenture as described in paragraph (a) above, and all liability of such Member of the Obligated Group with respect to all Obligations Outstanding under the Master Indenture will cease, any guaranty by such Member pursuant to the provisions of the Master Indenture described above under the caption "Parties Becoming Members of the Obligated Group" will be released and discharged in full, the Master Trustee and the Deed of Trust Trustee will execute and deliver to such Member of the Obligated Group a release of any Deed of Trust or Collateral Assignments given by such Member of the Obligated Group, and the Master Trustee will execute and deliver to such Member of the Obligated Group all UCC-3 termination statements necessary to terminate the security interest in the Pledged Assets of such Member of the Obligated Group pursuant to the Master Indenture.

Debt Service Reserve Funds

General

(a) The Master Trustee will establish and maintain one or more Debt Service Reserve Funds as security for one or more Obligations issued under the Master Indenture pursuant to the Master Indenture as described under this caption and any Supplement directing that a Debt Service Reserve Fund be established or maintained as security for the Obligation issued thereunder.

(b) Each Debt Service Reserve Fund may serve as security for only one Obligation issued under the Master Indenture or may serve as security for more than one Obligation issued under the Master Indenture, in which case all Obligations secured by such Debt Service Reserve Fund will be secured equally and ratably by the amounts on deposit in such Debt Service Reserve Fund; provided, however, that no Debt Service Reserve Fund will serve as security for one or more Obligations that secure Tax-Exempt Related Bonds and one or more Obligations that evidence or secure taxable Indebtedness or Related Bonds.

(c) Upon establishment of a Debt Service Reserve Fund, the Members of the Obligated Group will transfer, or cause to be transferred, money in an amount equal to the Debt Service Reserve Fund Requirement to the Master Trustee for deposit into such Debt Service Reserve Fund. After the establishment of a Debt Service Reserve Fund, if a Supplement provides that the Obligation issued thereunder will be secured by such Debt Service Reserve Fund, the Members of the Obligated Group will transfer, or cause to be transferred, to the Master Trustee for deposit into such Debt Service Reserve Fund money in an amount equal to the difference between the Debt Service Reserve Fund Requirement (after giving effect to the issuance of such Obligation) and the amount then on deposit in such Debt Service Reserve Fund.

(d) If a Debt Service Reserve Fund secures more than one Obligation, the Master Trustee will establish an account within such Debt Service Reserve Fund for each source of money deposited in such fund, such as proceeds of Related Bonds secured by, or Indebtedness evidenced by, an Obligation or other money of Members of the Obligated Group, and deposit the money obtained from each such source in the appropriate account. Such accounts will be established solely for the convenience of the Members of the Obligated Group in maintaining an accounting of the uses and applications of such funds under the provisions of applicable federal and state law, and will equally and ratably secure all Obligations for which such Debt Service Reserve Fund has been established.

(e) If the Holder of an Obligation secured by a Debt Service Reserve Fund delivers a written notice to the Master Trustee to the effect that the amount of principal or interest paid by the Obligated Group or the amount otherwise available to the Holder of such Obligation is less than the amount of principal or interest then due on such Obligation and specifying the amount of such deficiency of principal, interest or both, the Master Trustee, without further direction, will immediately withdraw moneys from such Debt Service Reserve Fund in the amount of such deficiency and transfer such moneys to such Holder. If such Debt Service Reserve Fund secures more than one Obligation, the Master Trustee will withdraw the amount of such deficiency from each account within such Debt Service Reserve Fund on a pro rata basis based on the amounts then on deposit in each such account. Amounts on deposit in any Debt Service Reserve Fund shall not be applied to pay principal of or interest on any Obligation other than the Obligation or Obligations secured thereby. The Master Trustee will promptly provide written notice to the Members of the Obligated Group of any such withdrawal from any Debt Service Reserve Fund.

(f) Unless otherwise provided in the Supplement directing that a Debt Service Reserve Fund be established and maintained, beginning on the 25th day of the month following a month in which money is withdrawn from a Debt Service Reserve Fund, the Members of the Obligated Group jointly and severally covenant in the Master Indenture to promptly pay or cause to be paid to the Master Trustee for deposit into such Debt Service Reserve Fund, one-twelfth (1/12) of the amount or amounts so withdrawn until the amount then on deposit in such Debt Service Reserve Fund is equal to the Debt Service Reserve Fund Requirement. If an additional withdrawal is made from such Debt Service Reserve Fund prior to the restoration of the initial withdrawal, such additional withdrawal will be restored by the Members of the Obligated Group in equal monthly installments over the remainder of the restoration period for the initial withdrawal. If such Debt Service Reserve Fund secures more than one Obligation, the Master Trustee will deposit each amount paid to restore such Debt Service Reserve Fund into each account within such Debt Service Reserve Fund on a pro rata basis based on the amounts withdrawn from each such account.

(g) If on any date of valuation pursuant to subparagraph (l) below the money held in a Debt Service Reserve Fund exceeds the Debt Service Reserve Fund Requirement, including any excess created in whole or in part by the interest earnings on such Debt Service Reserve Fund, an amount equal to such excess will be transferred by the Master Trustee to the Holder of the Obligation secured by such Debt Service Reserve Fund or, if more than one Obligation is secured by such Debt Service Reserve Fund, such excess will be withdrawn from each account within such Debt Service Reserve Fund on a pro rata basis based on the amounts then on deposit in each such account and the amount withdrawn from each account will be paid to the Holder of the Obligation that secures the Related Bonds or Indebtedness that were the source of the moneys deposited in such account or to the Members of the Obligated Group if they were the source of the moneys deposited in such account; provided, however, that any excess created by a refunding (or other payment or defeasance) of a portion of any Tax-Exempt Related Bonds may be applied in any manner which, in an Opinion of Bond Counsel, will not cause the interest on such Tax-Exempt Related Bonds to be includable in the gross income of the owners thereof under the Code. Any such excess transferred to a Holder will be credited against future amounts payable to such Holder by the Members of the Obligated Group, unless transferred to cure deficiencies therein.

(h) All money deposited with the Master Trustee under the Master Indenture in excess of the amount guaranteed by the Federal Deposit Insurance Corporation or other federal agency will be continuously secured, for the benefit of the Holders, either (a) by lodging with a bank or trust company chosen by the Master Trustee or custodian or, if then permitted by law, by setting aside under control of the trust department of the bank holding such deposit, as collateral security, Government Obligations or other marketable securities eligible as security for the deposit of trust funds under regulations of the Comptroller of the Currency of the United States or applicable State law or regulations, having a market value (exclusive of accrued interest) not less than the amount of such deposit, or (b) if the furnishing of security as provided in clause (a) above is not permitted by applicable law, then in such other manner as may then be required or permitted by applicable State or federal laws and regulations regarding the security for, or granting a preference in the case of, the deposit of trust funds; provided, however, that it shall not be necessary for the Master Trustee to give security for any money that is represented by obligations purchased under the provisions of the Master Indenture as an investment of such money.

(i) Unless otherwise provided in the Supplement directing that a Debt Service Reserve Fund be established and maintained, money held for the credit of a Debt Service Reserve Fund will be continuously invested and reinvested by the Master Trustee in Investment Obligations to the extent practicable in accordance with the written instructions of an Obligated Group Representative or, if no such instruction is given, in Government Obligations having a maturity of 30 days from the date of such investment. If accounts have been established within a Debt Service Reserve Fund, the Master Trustee may invest the money within each account separately or may use money from each account to purchase a proportionate share of an investment based on the balance then on deposit in each such account. Unless otherwise provided in the Supplement directing that a Debt Service Reserve Fund be established and maintained, Investment Obligations deposited in a Debt Service Reserve Fund shall mature not later than ten (10) years from the date on which such Investment Obligations were deposited therein. Notwithstanding the foregoing, no Investment Obligations in a Debt Service Reserve Fund may mature beyond the latest maturity date of any Related Bonds Outstanding that are secured by an Obligation that is secured by such Debt Service Reserve Fund at the time such Investment Obligations are deposited unless irrevocable instructions have been given to redeem such Investment Obligations on a date or dates not later than the latest maturity date of any such Related Bonds Outstanding. For the purposes of the Master Indenture as described under this caption, the maturity date of repurchase agreements for Government Obligations or other obligations is the maturity date of such repurchase agreements and not the maturity date of the underlying Government Obligations or other obligations.

(j) Investment Obligations credited to any Debt Service Reserve Fund established under the Master Indenture will be held by or under the control of the Master Trustee and while so held will be deemed at all times to be part of such fund or account in which such money was originally held, and the interest accruing thereon and any profit or loss realized upon the disposition or maturity of such investment will be credited to or charged against such fund or account. The Master Trustee will sell at the price available or reduce to cash a sufficient amount of such Investment Obligations whenever it is necessary so to do in order to provide moneys to make any payment or transfer of moneys from any such fund or account. The Master Trustee will not be liable or responsible for any loss resulting from any such investment.

(k) For the purpose of determining the amount on deposit in any Debt Service Reserve Fund or account therein, Investment Obligations in which money in such fund or account is invested will be valued (a) at face value if such Investment Obligations mature within six months from the date of valuation thereof, and (b) if such Investment Obligations mature more than six months after the date of valuation thereof at the price at which such Investment Obligations are redeemable by the holder at such holder's option if so redeemable, or, if not so redeemable, at the lesser of (i) the cost of such Investment Obligations minus the amortization of any premium or plus the amortization of any discount thereon and (ii) the market value of such Investment Obligations.

(l) The Master Trustee will value the Investment Obligations in each Debt Service Reserve Fund and accounts therein established under the Master Indenture and held by the Master Trustee three (3) Business Days prior to each January 1 and July 1 and at such times as are required in order for the Members of the Obligated Group to comply with federal income tax law applicable to any Related Bonds. In addition, the Investment Obligations will be valued by the Master Trustee at any time requested by an Obligated Group Representative on reasonable notice to the Master Trustee (which period of notice may be waived or reduced by the Master Trustee); provided, however, that the Master Trustee will not be required to value the Investment Obligations more than once in any calendar month other than as provided in the Master Indenture.

(m) If upon valuation of a Debt Service Reserve Fund, the balance in such fund, including accrued interest to the date of valuation, is less than 90% of the Debt Service Reserve Fund Requirement, the Master Trustee will compute the amount by which the Debt Service Reserve Fund Requirement exceeds such balance and will promptly give the Members of the Obligated Group notice of such deficiency and the amount necessary to cure the same.

(n) Unless otherwise provided in the Supplement directing that a Debt Service Reserve Fund be established and maintained, beginning on the 25th day of the month following a valuation made in accordance with the Master Indenture in which the amount on deposit in such Debt Service Reserve Fund is less than ninety percent (90%) of the Debt Service Reserve Fund Requirement due to a loss resulting from a decline in the value of Investment Obligations held for the credit of such Debt Service Reserve Fund, each Member of the Obligated Group covenants in the Master Indenture to promptly pay or cause to be paid to the Master Trustee for deposit into such Debt Service Reserve Fund, one-sixth (1/6) of the amount by which the Debt Service Reserve Fund Requirement exceeds such balance until the amount on deposit to the credit of such Debt Service Reserve Fund is equal to the Debt Service Reserve Fund Requirement.

(o) The Members of the Obligated Group covenant and agree in the Master Indenture that money on deposit in any Debt Service Reserve Fund, whether or not such money was derived from the proceeds of the sale of any Tax-Exempt Related Bonds or from any other sources, and whether or not any Tax-Exempt Related Bonds are Outstanding, (i) will not be used in a manner that would cause any Tax-Exempt Related Bonds to be “arbitrage bonds” within the meaning of Section 148 of the Code and (ii) will be used in a manner that will cause any Tax-Exempt Related Bonds not to be “arbitrage bonds” within the meaning of Section 148 of the Code; provided, however, that the Master Trustee will have no obligation to pay any amounts necessary to comply with this covenant other than from money received by the Master Trustee from the Members of the Obligated Group. The Master Trustee will observe and not violate the requirements of Section 148 of the Code, provided that in fulfilling such obligation, the Master Trustee will be fully protected in relying upon any written investment instruction given by an Obligated Group Representative.

Reserve Fund No. 1

A Debt Service Reserve Fund known as Reserve Fund No. 1 has been established in accordance with the provisions of the Master Indenture. Reserve Fund No. 1 will secure Obligation No. 5 and Obligation No. 6 on an equal and ratable basis. Upon the issuance of Obligation No. 6, the amount on deposit in Reserve Fund No. 1 will equal the Debt Service Reserve Fund Requirement (determined pursuant to clause (i) of that definition). Reserve Fund No. 1 will also secure any other Obligation securing Tax-Exempt Related Bonds issued under the Master Indenture if so provided in the Supplement pursuant to which such Obligation is issued.

Defaults and Remedies

Events of Default

An Event of Default under the Master Indenture is any of the following events:

(a) the failure by the Members of the Obligated Group to make any payment of the principal of, the redemption premium, if any, or interest on any Obligations issued and Outstanding under the Master Indenture, and any other payments, including the purchase or redemption price of Put Indebtedness, required to be made under the Supplements creating such Obligations and under such Obligations, when and as the same become due and payable, whether at maturity, by proceedings for redemption, by acceleration or otherwise in accordance with the terms thereof, of the Master Indenture or any Supplement;

(b) the failure by any Member of the Obligated Group to perform, observe or comply with any covenant, or agreement under the Master Indenture, other than as described in clause (a), and such failure continues for a period of thirty (30) days after the date on which written notice of such failure, requiring the same to be remedied, has been given to the Members of the Obligated Group by the Master Trustee or to the Members of the Obligated Group and the Master Trustee by Holders having at least twenty-five percent (25%) in aggregate principal amount of Obligations then Outstanding, provided, however, that if said failure is such that it cannot be corrected within such thirty (30) day period, no Event of Default will exist if corrective action is instituted within such thirty (30) day period and diligently pursued until the Event of Default is corrected;

(c) an Event of Default under a Deed of Trust or a Related Bond Indenture or upon a Related Bond;

(d) failure by any Member of the Obligated Group to pay promptly or otherwise satisfy and discharge any Outstanding Indebtedness (other than Obligations issued and Outstanding under the Master Indenture and Related Bonds), the principal amount of which as of the date of such default is in excess of one-half of one percent (1/2%) of Income Available for Debt Service for the most recent Fiscal Year for which Financial Statements are available, whether such Indebtedness exists as of the date of the Master Indenture or will thereafter be created, as and when the same becomes due and payable and any period of grace with respect thereto will have expired, or another event of default as defined in any instrument, indenture or mortgage evidencing or securing such Indebtedness will occur, which event of default will not have been waived by the holder of such instrument, indenture or mortgage, and as a result of such failure to pay or other event of default such Indebtedness will have been accelerated; provided, however, that such default will not constitute an Event of Default if the validity, amount or collectability of such Indebtedness is being contested in good faith and such Member of the Obligated Group establishes and maintains reserves for the payment of such Indebtedness pending the outcome of such contest;

(e) the entry of a decree or order by a court having jurisdiction in the premises for an order for relief against any Member of the Obligated Group, or approving as properly filed a petition seeking reorganization, arrangement, adjustment or composition of or in respect of such Member under the United States Bankruptcy Code or any other applicable federal or state law, or appointing a receiver, liquidator, custodian, assignee, or sequestrator (or other similar official) of such Member or of any substantial part of its Property, or ordering the winding up or liquidation of its affairs, and the continuance of any such decree or order unstayed and in effect for a period of ninety (90) consecutive days; and

(f) the institution by any Member of the Obligated Group of proceedings for an order for relief, or the consent by it to an order for relief against it, or the filing by it of a petition or answer or consent seeking reorganization, arrangement, adjustment, composition or relief under the United States Bankruptcy Code or any other similar applicable federal or state law, or the consent by it to the filing of any such petition or

to the appointment of a receiver, liquidator, custodian, assignee, trustee or sequestrator (or other similar official) of such Member of the Obligated Group or of any substantial part of its Property, or the making by it of an assignment for the benefit of creditors, or the admission by it in writing of its inability to pay its debts generally as they become due, or the taking of corporate action by any Member of the Obligated Group in furtherance of any such action.

Acceleration; Annulment of Acceleration

Upon the occurrence and during the continuation of any Event of Default under the Master Indenture, the Master Trustee may and, upon the written request of (i) the Holders of not less than twenty-five percent (25%) in aggregate principal amount of Obligations Outstanding or (ii) any Person properly exercising the right given to such Person under any Supplement to require acceleration of the Obligations issued pursuant to such Supplement, will, by notice to the Members of the Obligated Group, declare all Obligations Outstanding immediately due and payable, whereupon such Obligations will become and be immediately due and payable, anything in the Obligations or in any other provision of the Master Indenture to the contrary notwithstanding, provided, however, that if the terms of any Supplement give a Person the right to consent to acceleration of the Obligations issued pursuant to said Supplement, the Obligations issued pursuant to such Supplement may not be accelerated by the Master Trustee unless such consent is properly obtained pursuant to the terms of such Supplement. In the event Obligations are accelerated, there will be due and payable on such Obligations an amount equal to the total principal amount of all such Obligations, plus all interest accrued on such principal amount to the date of payment of such principal.

If, at any time after the Obligations have been declared to be immediately due and payable and before the entry of final judgment or decree in any suit, action or proceeding instituted on account of such Event of Default, (i) the Obligated Group has paid or caused to be paid or deposited with the Master Trustee moneys sufficient to pay all matured installments of interest or other payments and all principal or redemption prices then due (other than the principal then due only because of such declaration) of all Obligations Outstanding; (ii) the Obligated Group has paid or caused to be paid or deposited with the Master Trustee moneys sufficient to pay the charges, compensation, expenses, disbursements, advances, fees and liabilities of the Master Trustee; (iii) all other amounts then payable by the Obligated Group under the Master Indenture have been paid or a sum sufficient to pay the same have been deposited with the Master Trustee; and (iv) every Event of Default (other than a default in the payment of such Obligations then due only because of such declaration) has been remedied, then the Master Trustee may, and upon the written request of Holders of not less than a majority in aggregate principal amount of the Obligations Outstanding will, annul such declaration and its consequences with respect to any Obligations or portions thereof not then due by their terms. No such annulment will extend to or affect any subsequent Event of Default or impair any right consequent thereon.

Additional Remedies and Enforcement of Remedies

Upon the occurrence and continuance of any Event of Default, the Master Trustee may, and upon the written request of the Holders of not less than twenty-five percent (25%) in aggregate principal amount of the Obligations Outstanding, together with indemnification of the Master Trustee to its satisfaction, will, proceed forthwith to protect and enforce its rights and the rights of such Holders by such suits, actions or proceedings as the Master Trustee being advised by counsel will deem expedient, including but not limited to: (i) enforcement of the right of the Holders to collect and enforce the payment of amounts due or becoming due under the Obligations; (ii) suit upon all or any part of the Obligations; (iii) civil action to require any Person holding moneys, documents or other property pledged to secure payment of amounts due or to become due on the Obligations to account as if it were the trustee of an express trust for the Holders; (iv) civil action to enjoin any acts or things, which may be unlawful or in violation of the rights of the Holders; (v) enforcement of its rights as a secured party under the UCC; (vi) enforcement of any

other right of the Holders conferred by law or the Master Indenture; and (vii) enforcement of any of its rights as beneficiary under the Deeds of Trust.

Regardless of the happening of an Event of Default, the Master Trustee, if requested in writing by the Holders of not less than twenty-five percent (25%) in aggregate principal amount of the Obligations then Outstanding, will, when indemnified to its satisfaction, institute and maintain such suits and proceedings necessary or expedient (i) to prevent any impairment of the security under the Master Indenture by any acts which may be unlawful or in violation thereof, or (ii) to preserve or protect the interests of the Holders, provided that such request and action to be taken by the Master Trustee are not in conflict with any applicable law or the Master Indenture and, in the Master Trustee's sole judgment, are not unduly prejudicial to the interest of the Holders not making such request.

Application of Gross Receipts and Other Moneys After Default

During the continuance of an Event of Default all Gross Receipts and other moneys received by the Master Trustee, after payment of (i) the costs and expenses of the proceedings resulting in the collection of such moneys and of the expenses and advances incurred or made by the Master Trustee with respect thereto and all other fees and expenses of the Master Trustee under the Master Indenture and (ii) in the sole discretion of the Master Trustee (provided, however, that in exercising such discretion the Master Trustee may take action, or refrain from taking action, consistent with the report of a Management Consultant), the payment of the expenses of operating any Member of the Obligated Group, will be applied as follows:

(a) Unless the principal of all Outstanding Obligations has become or has been declared due and payable: First: to the payment of all installments of interest then due on Obligations in the order of the maturity of such installments, and, if the amount available is not sufficient to pay in full all installments maturing on the same date, then to the payment thereof ratably, according to the amounts due, without discrimination or preference; Second: to the payment of the unpaid principal installments of any Obligations then due, whether at maturity or by call for redemption, in the order of their due dates, and if amounts available are not sufficient to pay in full all Obligations due on any date, then to the payment thereof ratably, according to the amounts of principal installments due on such date, without any discrimination or preference, except Derivative Obligations evidenced and secured by an Obligation that are subordinate to other Obligations; and Third: to the payment of any unpaid Derivative Obligations evidenced and secured by an Obligation that are subordinate to other Obligations which have become due, in the order of their due dates, and if the amounts available are not sufficient to pay in full all such unpaid Derivative Obligations due on any date, then to the payment thereof ratably, according to the amounts of unpaid Derivative Obligations due on such date without discrimination or preference.

(b) If the principal of all Outstanding Obligations has become or has been declared to be due and payable, First: to the payment of the principal and interest then due and unpaid upon Obligations without preference or priority of principal over interest or of interest over principal, or of any installment of interest over any other installment of interest, or of any Obligation over any other Obligation, ratably, according to the amounts due respectively for principal and interest, without discrimination or preference, except Derivative Obligations evidenced and secured by an Obligation that are subordinate to other Obligations; and Second: to the payment of Derivative Obligations evidenced and secured by an Obligation that are subordinate to other Obligations.

(c) If the principal of all Outstanding Obligations has been declared due and payable, and if such declaration has thereafter been rescinded and annulled under the provisions of the Master Indenture, then, subject to the provisions of the Master Indenture described in paragraph (b) above, in the event that the principal of all Outstanding Obligations will later become due or be declared due and payable, the

moneys will be applied in accordance with the provisions of the Master Indenture described in subparagraph (a) above.

Moneys to be applied by the Master Trustee during the continuance of an Event of Default will be applied as the Master Trustee will determine, having due regard for the amount of such moneys available for such application and the likelihood of additional moneys becoming available for such application in the future. Whenever the Master Trustee will apply such moneys, it will fix the date upon which such application is to be made and upon such date interest on the amounts of principal to be paid on such dates will cease to accrue. The Master Trustee will give notice as it may deem appropriate of the deposit with it of any such moneys and of the fixing of any such date, and will not be required to make payment to the Holder of any unpaid Obligation until such Obligation is presented to the Master Trustee for appropriate endorsement of any partial payment or for cancellation if fully paid.

Notwithstanding any provision of the Master Indenture to the contrary, for the purpose of determining the amount of unpaid principal of and interest on any Outstanding Obligation, the amount paid or available to be paid to the Holder of such Obligation from a Debt Service Reserve Fund securing such Obligation will be deducted.

Notwithstanding any provision of the Master Indenture as described under this caption to the contrary, for purposes of the information described under this caption, “interest” on Obligations that evidence and secure Derivative Obligations will mean regularly scheduled payments under the applicable Derivative Agreement and “principal” of such Obligations shall mean termination payments and any other payment except regularly scheduled payments under the applicable Derivative Agreement. For the purpose of determining the amount of unpaid principal of and interest on any Derivative Obligation, the Master Trustee may conclusively rely on a written statement from the Holder of such Derivative Obligation as to such amount. Unless otherwise provided in the Supplement creating an Obligation that evidences and secures Derivative Obligations, payment of the portion of such Obligation that evidences and secures termination payments and any other payments except regularly scheduled payments under a Derivative Agreement will be subordinate to payment of other Obligations.

Holders’ Control of Proceedings

If an Event of Default has occurred and is continuing, the Holders of a majority in aggregate principal amount of Obligations then Outstanding will have the right, subject to the terms of the Master Indenture, to direct the method and place of conducting any enforcement proceedings.

Waiver of Event of Default

No delay or omission of the Master Trustee or of any Holder of the Obligations to exercise any right or power accruing upon any Event of Default will impair any such right or power or will be construed to be a waiver of any such Event of Default or an acquiescence therein. Every power and remedy given to the Master Trustee and the Holders of the Obligations, respectively, may be exercised from time to time and as often as may be deemed expedient by them. The Master Trustee may waive any Event of Default which in its opinion has been remedied before the entry of final judgment or decree in any suit, action or proceeding instituted by it under the provisions of the Master Indenture or before the completion of the enforcement of any other remedy under the Master Indenture. The Master Trustee, upon the written request of the Holders of a majority of the aggregate principal amount of Obligations then Outstanding, will waive any Event of Default under the Master Indenture and its consequences (except payment defaults which have not been cured, which may be waived only by Holders of all the Obligations then Outstanding with respect to which such payment default exists). In case of any waiver of an Event of Default under the Master

Indenture, all parties will be restored to their former positions but no such waiver will extend to any subsequent or other Event of Default.

Appointment of Receiver

Upon the occurrence of any Event of Default, the Master Trustee will be entitled to the appointment of a receiver or receivers of any or all of the Property of the Obligated Group with such powers as the court making such appointment will confer.

Notice of Default

Promptly after obtaining knowledge of any Event of Default, each Member of the Obligated Group will deliver to the Master Trustee and, so long as any Commission Bonds are outstanding, the Commission and the Local Government Commission, a written notice specifying the nature and period of existence of such Event of Default and the action the Obligated Group is taking and proposes to take with respect thereto.

The Master Trustee will, within thirty (30) days after it has knowledge of the occurrence of an Event of Default, mail to all Holders as the names and addresses of such Holders appear upon the books of the Master Trustee, notice of such Event of Default known to the Master Trustee, unless such Event of Default has been cured before the giving of such notice; provided that, except in the case of default in the payment of the principal of, redemption premium, if any, or interest or other payment on any of the Obligations and the Events of Default specified above in clauses (e) and (f) under the caption “Defaults and Remedies - Events of Default” above, the Master Trustee will be protected in withholding such notice if and so long as the board of directors, the executive committee, or a trust committee of directors or any responsible officer of the Master Trustee in good faith determines that the withholding of such notice is in the interests of the Holders.

Removal and Resignation of Master Trustee

The Master Trustee may resign on its own motion or may be removed at any time by a written instrument signed by the Holders of not less than a majority of the principal amount of Obligations then Outstanding or, if no Event of Default will have occurred and be continuing, or no event has occurred or is continuing that, after notice or passage of time or both, would become an Event of Default, by an instrument in writing signed by the Obligated Group Representative; provided, however, if any Commission Bonds are outstanding, the Commission will have the right to object to such removal pursuant to the terms of the Master Indenture.

Supplements and Amendments

Supplements Not Requiring Consent of Holders

The Master Indenture may be supplemented or amended without the consent of or notice to any of the Holders, for one or more of the following purposes: (a) to cure any ambiguity or formal defect or omission in the Master Indenture which will not materially and adversely affect the interests of the Holders; (b) to correct or supplement any provision which may be inconsistent with any other provision, or to make any other provisions with respect to matters or questions arising under the Master Indenture and which will not materially and adversely affect the interests of the Holders; (c) to grant or confer ratably upon all Holders any additional rights, remedies, powers or authority that may lawfully be granted or conferred upon them subject to the provisions of the Master Indenture described below under the caption “Supplements Requiring Consent of Holders”; (d) to qualify the Master Indenture under the Trust Indenture Act of 1939, as amended, or corresponding provisions of federal laws from time to time in effect; (e) to create and

provide for the issuance of Obligations as permitted under the Master Indenture; (f) to obligate a successor to any Member of the Obligated Group; (g) to comply with the provisions of any state or federal securities law; and (h) to modify any term in the Master Indenture to mitigate the effect of any changes in accounting rules and/or principles.

Supplements Requiring Consent of Holders

Other than Supplements referred to in the preceding paragraph and subject to the consent of the Commission if any Commission Bonds are outstanding, the Holders of not less than a majority in aggregate principal amount of the Obligations then Outstanding will have the right to consent to and approve the execution by each Member of the Obligated Group, of Supplements modifying, altering, amending, adding to or rescinding, in any particular any of the terms or provisions contained in the Master Indenture, except a Supplement which would:

- (i) Effect a change in the times, amounts or currency of payment of the principal of, redemption premium, if any, and interest or other payment on any Obligation or a reduction in the principal amount or redemption price of any Obligation or the rate of interest thereon, without the consent of the Holder of such Obligation;
- (ii) Permit the preference or priority of any Obligation over any other Obligation, without the consent of the Holders of all Obligations then Outstanding; or
- (iii) Reduce the aggregate principal amount of Obligations then Outstanding the consent of the Holders of which is required to authorize such Supplement without the consent of the Holders of all Obligations then Outstanding.

All Supplements executed pursuant to the Master Indenture will be binding on all Holders of Obligations.

Satisfaction and Discharge of Indenture

If (i) the Obligated Group Representative delivers to the Master Trustee for cancellation all Obligations theretofore authenticated and not cancelled, or (ii) all Obligations not cancelled or delivered to the Master Trustee for cancellation have become due and payable and money sufficient to pay the same has been deposited with the Master Trustee or (iii) all Obligations that have not become due and payable and have not been cancelled or delivered to the Master Trustee for cancellation will be Defeased Obligations, and if in all cases the Members of the Obligated Group will also pay or cause to be paid all other sums payable under the Master Indenture by the Members of the Obligated Group, then the Master Indenture will cease to be of further effect, and the Master Trustee, on demand of the Members of the Obligated Group and, if requested by the Master Trustee, on being furnished an Opinion of Counsel to the effect that all conditions precedent to the satisfaction and discharge of the Master Indenture have been satisfied, and at the cost and expense of the Members of the Obligated Group, will execute proper instruments acknowledging satisfaction of and discharging the Master Indenture.

Evidence of Acts of Holders

In the event that any request, direction or consent is requested or permitted under the Master Indenture of the Holders, (i) the registered owners of Related Bonds then Outstanding will be deemed to be such Holders for the purpose of any such request, direction or consent in the proportion that the aggregate principal amount of Related Bonds then Outstanding held by each such owner of Related Bonds bears to the aggregate principal amount of all Related Bonds then outstanding; provided, however, if the Related

Bond Indenture so provides, if at any time a letter of credit or bond insurance policy secures payment of the principal of and interest on such Related Bonds, then the provider of such letter of credit or bond insurance policy shall be deemed to be the Holders of such Related Bonds except during any period when such provider has failed to honor its obligations under such letter of credit or bond insurance policy; and (ii) the principal amount of any Obligation that evidences and secures Derivative Obligations will be deemed to be zero and such Obligation will be disregarded for purposes of any request, direction or consent of the Holders requested or permitted hereunder unless the related Derivative Agreement has terminated, in which case the principal amount of such Obligation will be deemed to be the amount of any termination payment owed to the Holder of such Obligation: provided, however, that no Supplement that would alter the priority of such Obligation with respect to the Pledged Assets or application of moneys under the Master Indenture as described above under the caption “—Defaults and Remedies--Application of Gross Receipts and Other Moneys After Default” will be permitted without the consent of the Holder of such Obligation.

In connection with the initial offering and sale of Related Bonds, the underwriters (or their representative) of such Related Bonds will be deemed to be the initial Holders thereof or, if such Related Bonds so provide, may be appointed as attorney-in-fact by the initial purchasers of such Related Bonds for the purpose of consenting to any request, direction, consent or other instrument to be signed and executed by the Holders.

Governing Law; Jurisdiction

The Master Indenture and Obligations issued under it are contracts made under the laws of the State of North Carolina and are intended to be governed by and construed in accordance with such laws. To the extent permitted by applicable law, jurisdiction for the resolution of any conflict arising from the Master Indenture will lie exclusively with the General Court of Justice of the State of North Carolina, Chatham County, or the U.S. District Court for the Eastern District of North Carolina, Western Division. Any attempt to contravene this provision will be an express violation of the Master Indenture.

SUMMARY OF THE LOAN AGREEMENT

The following is a summary of certain provisions of the Loan Agreement to which reference is made for a full and complete statement of its provisions.

Loan Repayments; Required Payments Under the Agreement

The Corporation is required to make the Total Required Payments under the Loan Agreement when due. Loan Repayments and certain Required Payments under the Agreement are required to be paid, when due and payable, directly to (i) the Bond Trustee for deposit in the Bond Fund or the Redemption Fund and (ii) any Person entitled to such payments.

Loan Repayments are required to be sufficient in the aggregate to repay the Loan and interest thereon and to pay in full all Bonds issued under the Trust Agreement, together with the total interest and redemption premium, if any, thereon. The Corporation is required to repay the Loan in installments as provided in the Loan Agreement, each installment being deemed a Loan Repayment.

The Loan Repayments are due and payable as follows:

(i) to the credit of the Interest Account, on November 25, 2019 and December 25, 2019, an amount equal to one-half (1/2) of the interest payable on the Bonds on January 1, 2020 and beginning on January 25, 2020 and continuing on the 25th day of each month thereafter, an amount equal to one-sixth (1/6) of the interest payable on the Bonds on the next ensuing Interest Payment Date;

(ii) to the credit of the Principal Account, beginning on January 25, 2020 and continuing on the 25th day of each month thereafter, an amount equal to one-twelfth (1/12) of the principal of all Serial Bonds due on the next ensuing January 1;

(iii) to the credit of the Sinking Fund Account, beginning on January 25, 20__, and continuing on the 25th day of each month thereafter, an amount equal to one-twelfth (1/12) of the amount required to retire the Term Bonds to be called pursuant to mandatory sinking fund redemption or to be paid at maturity on the next ensuing January 1 in accordance with the Sinking Fund Requirement therefor; and

(iv) to the credit of the Interest Account or the Redemption Fund, as applicable, any amount that may from time to time be required to enable the Bond Trustee to pay the interest on and Redemption Price of Bonds as and when Bonds are called for redemption other than mandatory redemption in accordance with the Sinking Fund Requirement therefor.

The Corporation will pay, when due and payable, as Required Payments under the Agreement, certain fees and costs, exclusive of fees and costs payable from the proceeds of the Bonds, as provided in the Loan Agreement.

Absolute Obligation to Make Total Required Payments

The obligation of the Corporation to make the Loan Repayments, the Required Payments under the Agreement and all other payments due under the Loan Agreement and Obligation No. 6 and to perform and observe the other agreements contained in the Loan Agreement is absolute and unconditional and will not be abated, diminished or deducted, regardless of any cause or circumstances whatsoever including any

defense, set-off, recoupment or counterclaim that the Corporation may have or assert against the Commission or the Bond Trustee or any other Person.

Other Covenants of the Corporation

The Loan Agreement provides that the Corporation will comply with each covenant, condition and agreement set forth in the Master Indenture and in the Loan Agreement. The Loan Agreement also sets forth certain other covenants of the Corporation with respect to: merger, sale and transfer of assets; examination of books and records of the Obligated Group; furnishing the Financial Statements and certain other information required to be furnished under the Master Indenture to the Commission, the Local Government Commission, the Bond Trustee, the Underwriters and the Municipal Securities Rulemaking Board; the execution, acknowledgment and delivery of supplements, amendments and other corrective instruments as may reasonably be required with respect to the performance of the Loan Agreement; inspection of any Property, Plant and Equipment by the Commission, the Bond Trustee and the Holders of not less than twenty-five percent (25%) in aggregate principal amount of the Outstanding Bonds; the investment of funds; withdrawal from the Obligated Group; use and operation of the Facilities; and secondary market disclosure. Additionally, the Loan Agreement contains covenants of the Corporation relating to furnishing monthly and quarterly information to certain parties relating to the occupancy statistics of the Facilities, incurrence of additional debt and future construction projects. See “ADDITIONAL DISCLOSURE” in the front part of this Official Statement.

Defaults and Remedies

Events of Default are defined in the Loan Agreement to include: (a) failure of the Corporation to make any payment required under the Loan Agreement or Obligation No. 6 when due, whether at maturity, redemption, acceleration or otherwise, (b) failure of the Corporation to perform, observe or comply with any covenant, condition or agreement on its part under the Loan Agreement (other than a failure to make any payments under clause (a) of this paragraph), including any covenant, condition or agreement in the Master Indenture applicable to the Corporation and incorporated by reference in the Loan Agreement, and such failure continues for a period of thirty (30) days after the date on which written notice of such failure, requiring the same to be remedied, has been given to the Corporation by the Bond Trustee or to the Corporation and the Bond Trustee by the Holders of at least twenty-five percent (25%) in aggregate principal amount of the Bonds then Outstanding, provided, however, that if such performance, observation or compliance requires work to be done, action to be taken or conditions to be remedied, which by their nature cannot reasonably be done, taken or remedied, as the case may be, within such 30-day period, no Event of Default will be deemed to have occurred or to exist if, and so long as, the Corporation will commence such performance, observation or compliance within such period and will diligently and continuously prosecute the same to completion, or (c) the Master Trustee has declared the aggregate principal amount of Obligation No. 6 and all interest due thereon immediately due and payable in accordance with the Master Indenture.

Upon the happening and continuance of an Event of Default under the Loan Agreement, the Commission may take the following remedial steps: (i) in the case of an Event of Default described in clause (a) of the preceding paragraph, take whatever action at law or in equity is necessary or desirable to collect the payments then due; (ii) in the case of an Event of Default described in clause (b) of the preceding paragraph, take whatever action at law or in equity is necessary or desirable to enforce the performance, observance or compliance by the Corporation with any covenant, condition or agreement by the Corporation under the Loan Agreement or under the Master Indenture; and (iii) in the case of an Event of Default described in clause (c) of the preceding paragraph, take such action or cease such action as the Master Trustee will direct, but only to the extent such directions are consistent with the provisions of the Master Indenture.

Prepayment of the Loan

The Corporation has the option to prepay, together with accrued interest, all or any portion of the unpaid aggregate amount of the Loan in accordance with the Trust Agreement. Such prepayment will be made by the Corporation taking, or causing the Commission to take, the actions required (i) for payment of the Bonds, whether by redemption or purchase prior to maturity or by payment at maturity, or (ii) to effect the purchase, redemption or payment at maturity of less than all of the Outstanding Bonds according to their terms.

The Corporation has the option to prepay all or a portion of the unpaid aggregate amount of the Loan, together with accrued interest to the date of prepayment, from amounts received by any Member of the Obligated Group as insurance proceeds with respect to any casualty loss or failure of title or as condemnation awards pursuant to the Loan Agreement, provided that such prepayment will not be less than \$100,000, and upon the occurrence of the following events: damage or destruction of all or any part (if such damage or destruction causes the Facilities as a whole to be impracticable to operate, as evidenced by an Officer's Certificate filed with the Commission and the Bond Trustee) of the Facilities by fire or casualty, or loss of title to or use of all or any part (if such loss of title causes the Facilities as a whole to be impracticable to operate, as evidenced by an Officer's Certificate filed with the Commission and the Bond Trustee) of the Facilities as a result of the failure of title or as a result of Eminent Domain proceedings or proceedings in lieu thereof, provided, however, that in the event an amount greater than ten percent (10%) of the aggregate principal amount of Obligation No. 6 and all other Obligations is prepaid, the Corporation will file with the Commission, the Local Government Commission and the Bond Trustee (i) an Officer's Certificate to the effect that the forecasted Long-Term Debt Service Coverage Ratio for the Fiscal Year next succeeding the Fiscal Year in which such prepayment is made will be not less than 1.30 or (ii) a report of a Management Consultant to the effect that the forecasted Long-Term Debt Service Coverage Ratio for the Fiscal Year next succeeding the Fiscal Year in which such prepayment is made will be not less than 1.20.

The Corporation has the option to prepay all of the unpaid aggregate amount of the Loan, together with accrued interest to the date of prepayment, upon the occurrence of the following events: changes in the Constitution of the United States of America or of the State or legislation or administrative action or failure of administrative action by the United States of America or the State or any agency or political subdivision of either, or any judicial decision, to the extent that, in the opinion of the Board of Directors of the Corporation (expressed in a resolution) and in the opinion of a Management Consultant, both filed with the Commission and the Bond Trustee, (i) the Loan Agreement is impossible to perform without unreasonable delay or (ii) unreasonable burdens or excessive liabilities not being imposed on the date of the Loan Agreement are imposed on the Corporation.

Amendments to Loan Agreement

The Loan Agreement may be amended, without the consent of or notice to any of the Holders, as will be consistent with the terms of the Trust Agreement and the Loan Agreement and, in the opinion of the Bond Trustee, who may rely upon a written Opinion of Counsel, will not materially and adversely affect the Holders, to cure any ambiguity or formal defect or omission therein or in any supplement thereto, to correct or supplement any provisions therein which may be inconsistent with any other provisions therein or make any other amendments with respect to matters or questions arising thereunder, to grant to or confer upon the Bond Trustee for the benefit of the Holders any additional rights, remedies, powers, authority or security that may lawfully be granted or conferred upon the Holders or the Bond Trustee, and to add conditions, limitations and restrictions on the Corporation to be observed thereafter. Any other amendments to the Loan Agreement require approval of the Holders of not less than a majority in aggregate principal

amount of the Bonds then Outstanding, except for certain amendments which would require consent of the Holders of all Bonds then Outstanding.

Members, Officers and Employees of the Commission, the Corporation and the Local Government Commission Not Liable

Neither the members, officers and employees of the Commission or the Local Government Commission nor the members of the Board of Directors or the officers and employees of the Corporation will be personally liable for any costs, losses, damages, or liabilities caused or subsequently incurred by the Corporation or any officer, director or agent thereof in connection with or as a result of the Loan Agreement.

Exclusion from Gross Income Covenant

The Corporation covenants that it will not take any action which will, or fail to take any action which failure will, cause interest on the Bonds to become includable in the gross income of the Holders for federal income tax purposes pursuant to the provisions of the Code; provided, however, that the Commission will have no obligation to pay any amounts necessary to comply with this covenant other than from money received by the Commission from the Corporation for such purposes.

SUMMARY OF THE TRUST AGREEMENT

The following is a summary of certain provisions of the Trust Agreement to which reference is made for a full and complete statement of its provisions.

Various Funds and Accounts Created by the Trust Agreement

The Trust Agreement creates the following funds and accounts: the Bond Fund and three separate accounts therein designated as the Interest Account, the Principal Account and the Sinking Fund Account, and the Redemption Fund. The Trust Agreement also creates the Issuance Account.

The money and securities in each of the aforementioned funds and accounts will be held in trust by the Bond Trustee and will be subject to a lien and charge in favor of the Holders of the Bonds until paid out or transferred as provided in the Trust Agreement.

In addition to the foregoing funds and accounts, Reserve Fund No. 1 has been established under the Master Indenture for the further benefit and security of the Holders. See “SUMMARY OF THE MASTER INDENTURE—Debt Service Reserve Funds” above.

Issuance Account

The Bond Trustee will make the deposits to the Issuance Account required by the provisions of the Trust Agreement. All money received by the Commission from any source, including the Corporation, for the payment of issuance costs will be deposited immediately upon its receipt to the credit of the Issuance Account.

All issuance costs, within the meaning of Section 147(g) of the Code (“Issuance Costs”), incurred in connection with the Bonds and to be financed from the proceeds of the sale of the Bonds will be paid only from the Issuance Account. Requisitions signed by an Obligated Group Representative will be filed with the Bond Trustee before payments from the Issuance Account are made in accordance with the Trust Agreement. Upon receipt of such requisition, the Bond Trustee will pay the obligations set forth in such requisition out of money in the Issuance Account.

Any balance in the Issuance Account on December 15, 2019 will be transferred by the Bond Trustee to the Interest Account and applied to the payment of the interest payable on the Bonds on January 1, 2020.

Funds Received

The Bond Trustee will deposit all amounts received as Loan Repayments in the following order, subject to the credits as provided in the Trust Agreement:

(a) to the credit of the Interest Account, on November 25, 2019 and December 25, 2019, an amount equal to one-half (1/2) of the interest payable on the Bonds on January 1, 2020 and beginning on January 25, 2020 and continuing on the 25th day of each month thereafter, an amount equal to one-sixth (1/6) of the interest payable on the Bonds on the next ensuing Interest Payment Date;

(b) to the credit of the Principal Account, beginning on January 25, 2020 and continuing on the 25th day of each month thereafter, an amount equal to one-twelfth (1/12) of the principal of all Serial Bonds due on the next ensuing January 1;

(c) to the credit of the Sinking Fund Account, beginning on January 25, 20__, and continuing on the 25th day of each month thereafter, an amount equal to one-twelfth (1/12) of the amount required to retire the Term Bonds to be called pursuant to mandatory sinking fund redemption or to be paid at maturity on the next ensuing January 1 in accordance with the Sinking Fund Requirement therefor; and

(d) to the credit of the Interest Account or the Redemption Fund, as applicable, any amount that may from time to time be required to enable the Bond Trustee to pay the interest on and Redemption Price of Bonds as and when Bonds are called for redemption other than mandatory redemption in accordance with the Sinking Fund Requirement therefor.

If, after giving effect to the credits specified below, any installment of Total Required Payments should be insufficient to enable the Bond Trustee to make the deposits required above, the Bond Trustee will give the Corporation telephonic notice thereof, promptly confirmed in writing, and request that each future installment of the Total Required Payments be increased as may be necessary to make up any previous deficiency in any of the required payments and to make up any deficiency or loss in any of the above-mentioned accounts and funds.

To the extent that investment earnings are credited to the Interest Account, the Principal Account or the Sinking Fund Account in accordance with the Trust Agreement or amounts are credited thereto as a result of the application of the proceeds of the Bonds or a transfer of investment earnings on any other fund or account held by the Bond Trustee, or otherwise, future deposits to such accounts will be reduced by the amount so credited, and the Loan Repayments due from the Corporation in the months following the date upon which such amounts are credited will be reduced by the amounts so credited.

All amounts received by the Bond Trustee as principal of or interest accruing on the Bonds to be redeemed as a result of a prepayment of Obligation No. 6 shall be deposited in the Redemption Fund and the Interest Account, respectively, when received. All amounts received by the Bond Trustee as redemption premiums as a result of a prepayment of Obligation No. 6 shall be deposited in the Redemption Fund when received.

Bond Fund Accounts

If the Bonds are not in a Book Entry System, not later than 10:00 A.M. on each Interest Payment Date, or date for the payment of Defaulted Interest, or date upon which Bonds are to be redeemed, the Bond Trustee will withdraw from the Interest Account and remit by mail, or as permitted by the Trust Agreement by wire transfer the amount required for paying interest on such Bonds when due and payable.

If the Bonds are in a Book Entry System, at such time as to enable the Bond Trustee to make payments of interest on the Bonds in accordance with any existing agreement between the Bond Trustee and any Securities Depository, the Bond Trustee will withdraw from the Interest Account and remit by wire transfer, in Federal Reserve or other immediately available funds, the amounts required to pay to any Holder which is a Securities Depository Nominee interest on the Bonds on the next succeeding Interest Payment Date; provided, however, that in no event will the Bond Trustee be required to make such wire transfer prior to the Business Day next preceding each Interest Payment Date, and provided further that such wire transfer will be made not later than 10:00 A.M. on each Interest Payment Date.

In the event the balance in the Interest Account on the 25th day of the month next preceding an Interest Payment Date or date upon which Bonds are to be redeemed is insufficient for the payment of interest becoming due on the Bonds on the next ensuing Interest Payment Date or date upon which Bonds are to be redeemed, the Bond Trustee will notify the Corporation of the amount of the deficiency. Upon notification, the Corporation will immediately deliver to the Trustee an amount sufficient to cure the same.

If the amount so delivered is not sufficient to cure the deficiency in the Interest Account, the Bond Trustee will deliver a written notice to the Master Trustee to the effect that the amount available to the Bond Trustee to pay interest on the Bonds is less than the amount of interest becoming due and specifying the amount of such deficiency. The Bond Trustee will deposit into the Interest Account all amounts received from Reserve Fund No. 1 to cure such deficiency.

Not later than 10:00 A.M. on each January 1, the Bond Trustee will set aside from the Principal Account the amount necessary to pay the principal of all Serial Bonds maturing on such January 1.

In the event that the balance in the Principal Account on any December 25 is insufficient for the payment of principal becoming due on the next ensuing January 1, the Bond Trustee will notify the Corporation of the amount of the deficiency. Upon notification, the Corporation will immediately deliver to the Bond Trustee an amount sufficient to cure the same. If the amount so delivered is not sufficient to cure the deficiency in the Principal Account, the Bond Trustee will, not later than the Business Day next preceding such January 1, deliver a written notice to the Master Trustee to the effect that the amount available to the Bond Trustee to pay principal on the Serial Bonds is less than the amount of principal becoming due and specifying the amount of such deficiency. The Bond Trustee will deposit into the Principal Account all amounts received from Reserve Fund No. 1 to cure such deficiency for the Serial Bonds.

Money held for the credit of the Sinking Fund Account will be applied during each Bond Year to the retirement of Term Bonds then Outstanding as provided in the Trust Agreement.

In the event the balance in the Sinking Fund Account on any December 25 is insufficient for the payment of the Sinking Fund Requirement on the Term Bonds on the next ensuing January 1, the Bond Trustee will notify the Corporation of the amount of such deficiency. Upon notification, the Corporation will, not later than the Business Day prior to such January 1, deliver to the Bond Trustee an amount sufficient to cure the same. If the amounts so delivered are not sufficient to cure the deficiency in the Sinking Fund Account, the Bond Trustee will, not later than the Business Day next preceding such January 1, deliver a written notice to the Master Trustee to the effect that the amount available to the Bond Trustee to pay the Sinking Fund Requirement is less than the amount of the Sinking Fund Requirement and specifying the amount of such deficiency. The Bond Trustee will deposit into the Sinking Fund Account all amounts received from Reserve Fund No. 1 to cure such deficiency for the Term Bonds.

Redemption Fund

Money held for the credit of the Redemption Fund will be applied to the purchase or redemption of Bonds as provided in the Trust Agreement.

Reserve Fund No. 1

Whenever and to the extent that the money on deposit in the Interest Account, the Principal Account or the Sinking Fund Account is insufficient to pay interest on or principal of (whether at maturity, by acceleration or in satisfaction of the Sinking Fund Requirement therefor) the Bonds, the Bond Trustee will attempt to obtain funds from Reserve Fund No. 1 by delivering written notice to the Master Trustee to the effect that the amount available to the Bond Trustee to pay interest on or principal of the Bonds is less than the interest or principal coming due and specifying the amount of such deficiency. The Bond Trustee will deposit into the Interest Account, the Principal Account and the Sinking Fund Account, as the case may be, all amounts received from Reserve Fund No. 1 to cure such deficiency.

The Bond Trustee will deposit any amounts received from the Reserve Fund No. 1 pursuant to the Master Indenture as described above in paragraph (g) under the caption “SUMMARY OF THE MASTER INDENTURE—Debt Service Reserve Funds--General” that are not needed to cure a deficiency as described in the preceding paragraph, to the Interest Account, the Principal Account, the Sinking Fund Account or the Redemption Fund, as directed in writing by the Corporation. Any deposit of such amounts not needed to cure a deficiency will be credited by the Bond Trustee against future Loan Repayments or Required Payments under the Agreement to be made by the Corporation.

Investment of Money

Money held for the credit of all funds and accounts created under the Trust Agreement and held by the Bond Trustee will be continuously invested and reinvested by the Bond Trustee in Investment Obligations to the extent practicable in accordance with the written instructions of the Corporation. Any such Investment Obligations will mature not later than the respective dates when the money held for the credit of such funds or accounts will be required for the purposes intended.

No Investment Obligations in any fund or account may mature beyond the latest maturity date of any Bonds Outstanding at the time such Investment Obligations are deposited unless irrevocable instructions have been given to redeem such Investment Obligations on a date or dates not later than the latest maturity date of any Bonds Outstanding.

Investment Obligations credited to any fund or account established under the Trust Agreement will be held by or under the control of the Bond Trustee and will be deemed at all times to be part of such fund or account in which such money was originally held, and the interest accruing thereon and any profit or loss realized upon the disposition or maturity of such investment will be credited to or charged against such fund or account. The Bond Trustee will sell at the price available or reduce to cash a sufficient amount of such Investment Obligations whenever it is necessary to provide money to make any payment or transfer of money from any such fund or account. The Bond Trustee will not be liable or responsible for any loss resulting from any investment made in accordance with the provisions of the Trust Agreement.

Valuation

For the purpose of determining the amount on deposit in any fund or account, Investment Obligations in which money in such fund or account is invested will be valued (a) at face value if such Investment Obligations mature within six months from the date of valuation, and (b) if such Investment Obligations mature more than six months after the date of valuation, at the price at which such Investment Obligations are redeemable by the holder at such holder’s option if so redeemable or, if not so redeemable, at the lesser of (i) the cost of such Investment Obligations minus the amortization of any premium or plus the amortization of any discount thereon and (ii) the market value of such Investment Obligations.

The Bond Trustee will value the Investment Obligations in the funds and accounts established under the Trust Agreement and held by the Bond Trustee three Business Days prior to each January 1 and July 1 and at such times as is required in order for the Corporation to comply with the Tax Certificate. In addition, the Investment Obligations will be valued by the Bond Trustee at any time requested by the Commission Representative on reasonable notice to the Bond Trustee (which period of notice may be waived or reduced by the Bond Trustee), except that the Bond Trustee will not be required to value the Investment Obligations more than once in any calendar month other than as provided in the Trust Agreement.

Events of Default

Each of the following events is an Event of Default under the Trust Agreement:

- (a) payment of any installment of interest on any Bond is not made when due and payable;
- (b) payment of the principal or the redemption premium, if any, of any Bond is not made by the Commission when due and payable, whether at maturity or by proceedings for redemption or pursuant to a Sinking Fund Requirement or otherwise;
- (c) default in the due and punctual performance of any other of the covenants, conditions, agreements and provisions contained in the Trust Agreement or any agreement supplemental thereto and such default continues for thirty (30) days or such further time as may be granted in writing by the Bond Trustee after receipt by the Commission, of a written notice from the Bond Trustee specifying such default and requiring the same to be remedied; provided, however, if prior to the expiration of such 30-day period the Commission institutes action reasonably designed to cure such default, no Event of Default will be deemed to have occurred upon the expiration of such 30-day period for so long as the Commission pursues such curative action with reasonable diligence and provided that such curative action can be completed within a reasonable time; or
- (d) an Event of Default has occurred under the Loan Agreement, the Master Indenture or the Corporation Deed of Trust, and such Event of Default has not been remedied or waived.

Remedies on Default

Upon the happening and continuance of any Event of Default under the Trust Agreement, the Bond Trustee may, and upon the written request of the Holders of not less than twenty-five percent (25%) in aggregate principal amount of the Bonds then Outstanding will, by notice in writing to the Commission and the Corporation, declare the principal of all Bonds then Outstanding to be due and payable. Such declaration may be rescinded under the circumstances specified in the Trust Agreement.

Upon the happening and continuance of any Event of Default specified above under the caption "Events of Default", then and in every such case the Bond Trustee may, and upon the written request of the Holders of not less than twenty-five percent (25%) in aggregate principal amount of Bonds then Outstanding will, proceed, subject to the indemnification provisions of the Trust Agreement, to protect and enforce its rights and the rights of the Holders under the laws of the State or under the Trust Agreement by such suits, actions or special proceedings in equity or at law, or by proceedings in the office of any board or officer having jurisdiction, either for the specific performance of any covenant or agreement contained in the Trust Agreement or in aid or execution of any power granted in the Trust Agreement or for the enforcement of any proper legal or equitable remedy, as the Bond Trustee, being advised by counsel chosen by the Bond Trustee, will deem most effectual to protect and enforce such rights.

No Holder may institute any suit, action or proceeding on any Bond or for any remedy under the Trust Agreement unless such Holder previously has given to the Bond Trustee written notice of the Event of Default on account of which suit, action or proceeding is to be instituted, and unless the Holders of not less than twenty-five percent (25%) in aggregate principal amount of the Bonds then Outstanding have made a written request of the Bond Trustee to act and have furnished indemnity to the Bond Trustee, as required in the Trust Agreement, and the Bond Trustee has refused or neglected to comply with such request within a reasonable time. Notwithstanding the foregoing, the Holders of not less than twenty-five percent (25%) in aggregate principal amount of the Bonds Outstanding may institute any such suit, action or proceeding in their own names for the benefit of all Holders. Except as provided in the Trust Agreement,

no Holder will have any right in any manner whatsoever to enforce any right thereunder, and any individual rights given to such Holders by law are restricted by the Trust Agreement to the rights and remedies therein provided. The Trust Agreement does not, however, impair the right of any Holder to enforce the payment of the principal of and interest on his Bond according to its terms.

Notice of Default

Except as described below, notice of any Event of Default will be given by first class mail, postage prepaid, to the Commission, the Corporation, the Local Government Commission, and all Holders within thirty (30) days after the Bond Trustee receives notice of the same. The Bond Trustee will not be subject to any liability to any Holder by reason of its failure to send any such notice.

Except upon the happening of an Event of Default with respect to the payment of the principal of or interest or any premium on the Bonds, when due, or any payment due under the Loan Agreement or on Obligation No. 6, the Bond Trustee may withhold notice of such Event of Default to the Holders if in its opinion such withholding is in the interest of the Holders.

Payment of Bond Trustee's Fees

If the Commission fails to cause required payments to be made to the Bond Trustee for compensation and expenses, the Bond Trustee may make such payment from any moneys in its possession and will be entitled to a preference therefor over any Bonds Outstanding under the Trust Agreement.

Removal and Resignation of Bond Trustee

The Bond Trustee may be removed (i) at any time, by an instrument or concurrent instruments in writing, executed by the Holders of not less than a majority in aggregate principal amount of Bonds then Outstanding and filed with the Commission or (ii) so long as no Event of Default has occurred and is continuing, by a written instrument executed by the Corporation, subject to the prior written consent of the Commission, and filed with the Commission not less than sixty (60) days before such removal is to take effect as stated in such instrument or instruments.

The Bond Trustee may also be removed at any time for acting or proceeding in violation of, or for failing to act or proceed in accordance with, any provisions of the Trust Agreement with respect to the duties and obligations of the Bond Trustee by any court of competent jurisdiction upon the application of the Commission or the Holders of not less than twenty-five percent (25%) in aggregate principal amount of Bonds then Outstanding.

Subject to the acceptance of appointment by a successor Bond Trustee, the Bond Trustee may resign by giving written notice to the Commission, the Master Trustee and the Corporation, and mailing such notice, postage prepaid, at the Bond Trustee's expense, to each Holder, not less than sixty (60) days before such resignation is to take effect, but such resignation will take effect immediately upon the appointment of a new Bond Trustee if such new Bond Trustee is appointed before the time limited by such notice and then accepts the trusts of the Trust Agreement.

Appointment of Successor Bond Trustee

If at any time the Bond Trustee resigns, is removed, dissolved or otherwise becomes incapable of acting, or the bank or trust company acting as Bond Trustee is taken over by any governmental official, agency, department or board, the position of Bond Trustee will thereupon become vacant. If the position of Bond Trustee becomes vacant for any reason, the Corporation will recommend and the Commission will

appoint a Bond Trustee to fill such vacancy. A successor Bond Trustee will not be required if the Bond Trustee sells or assigns substantially all of its corporate trust business and the vender or assignee continues in the corporate trust business, or if a transfer of the corporate trust department of the Bond Trustee is required by operation of law, provided that such vendee, assignee or transferee is (i) a bank or trust company having the powers of a trust company as to trusts, qualified to do and doing trust business in one or more states of the United States, (ii) of good standing, (iii) having a combined capital and surplus aggregating not less than One Hundred Million Dollars (\$100,000,000) and (iv) approved by the Commission and the Corporation.

At any time within one year after any such vacancy has occurred, the Holders of not less than twenty five percent (25%) in principal amount of Bonds then Outstanding, by an instrument or concurrent instruments in writing, executed by such Holders and filed with the Commission, may nominate a successor Bond Trustee, which the Commission will appoint and which will supersede any Bond Trustee theretofore appointed by the Commission.

If no appointment of a successor Bond Trustee is made pursuant to the provisions described above, any Holder or any retiring Bond Trustee (irrespective of whether the one-year period referred to in the preceding paragraph has elapsed in the case of a retiring Bond Trustee) may apply to any court of competent jurisdiction to appoint a successor Bond Trustee. Such court may thereupon, after such notice, if any, as such court may deem proper and prescribe, appoint a successor Bond Trustee.

Any successor Bond Trustee hereafter appointed will be (i) a bank or trust company having the powers of a trust company as to trusts, qualified to do and doing trust business in one or more states of the United States, (ii) of good standing, (iii) having a combined capital and surplus aggregating not less than One Hundred Million Dollars (\$100,000,000) and (iv) approved by the Commission and the Corporation.

Holders of Bonds Deemed Holders of Obligation No. 6

In the event that any request, direction or consent is required or permitted by the Master Indenture to be given the registered owners of Obligations issued thereunder, including Obligation No. 6, the Holders of Bonds then Outstanding will be deemed to be registered owners of Obligation No. 6 for the purpose of any such request, direction or consent in the proportion that the aggregate principal amount of Bonds then Outstanding held by each such Holder of Bonds bears to the aggregate principal amount of all Bonds then Outstanding.

Modification of the Trust Agreement

The Commission and the Bond Trustee may, from time to time and at any time, enter into agreements supplemental to the Trust Agreement, without the consent of or notice to any Holder, to effect any one or more of the following: (a) cure any ambiguity or defect or omission, correct or supplement any provision in the Trust Agreement or any supplemental trust agreement to the Trust Agreement, (b) grant to or confer upon the Bond Trustee for the benefit of the Holders any additional rights, remedies, powers, authority or security that may lawfully be granted to or conferred upon the Holders or the Bond Trustee which are not contrary to or inconsistent with the Trust Agreement as then in effect or to subject to the pledge and lien of the Trust Agreement additional revenues, properties or collateral, including Defeasance Obligations, (c) add other conditions, limitations and restrictions to the Trust Agreement which are not contrary to or inconsistent with the Trust Agreement as then in effect, (d) add other covenants and agreements to be observed by the Commission to the Trust Agreement or surrender any right or power reserved to or conferred upon the Commission under the Trust Agreement which are not contrary to or inconsistent with the Trust Agreement as then in effect, (e) comply with any federal or state securities law, (f) make any other change that is determined by the Bond Trustee, who may rely upon an Opinion of

Counsel, to be not materially adverse to the interests of the Holders, (g) if all of the Bonds are Book Entry Bonds, amend, modify, alter or replace the Letter of Representations as provided in the Trust Agreement or other provisions relating to Book Entry Bonds, or (h) facilitate the issuance and delivery of certificated Bonds to Beneficial Owners if the book entry system for the Bonds is discontinued.

The Holders of not less than a majority in aggregate principal amount of the Bonds Outstanding have the right to consent to and approve the execution by the Commission and the Bond Trustee of supplemental trust agreements as will be deemed necessary or desirable by the Commission for the purpose of modifying, altering, amending, adding to or rescinding, in any particular, any of the terms or provisions contained in the Trust Agreement, provided that nothing contained in the Trust Agreement will permit or be construed as permitting (a) an extension of the maturity of principal of or interest on any Bonds issued under the Trust Agreement without the consent of the Holders of such Bonds, (b) a reduction in the principal amount of or the redemption premium or the rate of interest on any Bonds without the consent of the Holders of such Bonds, (c) the creation of a pledge of receipts and revenues to be received by the Commission under the Loan Agreement superior to the pledge created under the Trust Agreement without the consent of the Holders of all Bonds Outstanding, (d) a preference or priority of any Bond over any other Bond without the consent of the Holders of all Bonds Outstanding, or (e) a reduction in the aggregate principal amount of Bonds required for consent to such supplemental trust agreement without the consent of the Holders of all Bonds Outstanding.

Defeasance

When, among other things, the principal, premium, if any, and interest due on all of the Bonds will be paid and, with respect to Bonds not yet due and payable, sufficient money or Defeasance Obligations or a combination thereof are held by the Bond Trustee for such payment, then the right, title and interest of the Bond Trustee in the funds and accounts created in the Trust Agreement will cease and the Bond Trustee will release the Trust Agreement.

No Recourse Against Members, Officers or Employees of Commission and Local Government Commission

The members, officers and employees of the Commission and the Local Government Commission are not personally liable for any costs, losses, damages or liabilities caused or incurred by the Commission or the Local Government Commission in connection with the Trust Agreement, or for the payment of any sum or for the performance of any obligation under the Trust Agreement.

SUMMARY OF THE CORPORATION DEED OF TRUST

The following is a summary of certain provisions of the Corporation Deed of Trust to which reference is made for a full and complete statement of its provisions.

Grant of Lien on the Mortgaged Property

As security for the payment of the principal of, premium, if any, and interest on all existing Obligations, including Obligation No. 5 and Obligation No. 6, and any additional Obligations, the Corporation has granted to the Beneficiary a first lien on the Mortgaged Property, including all buildings, equipment and fixtures thereon, subject to Permitted Liens, including certain encumbrances and matters of title set forth in the Corporation Deed of Trust.

Replacement of Deed of Trust Trustee

The Beneficiary, with or without cause, may remove the Deed of Trust Trustee and appoint a substitute trustee. In the event of death or resignation of the Deed of Trust Trustee, the Beneficiary will appoint a successor trustee and any trustee so appointed will be vested with title to the Mortgaged Property and will possess all the powers, duties and obligations of its predecessor.

Events of Default; Foreclosure

Each of the following events constitutes an Event of Default under the Corporation Deed of Trust: (i) an Event of Default under the Master Indenture, and (ii) the failure of the Corporation to perform, observe or comply with any covenant or agreement on its part under the Corporation Deed of Trust for a period of thirty (30) days after the date on which written notice of such failure, requiring the same to be remedied, will have been given to the Corporation by the Beneficiary; provided, however, that if said failure be such that it cannot be corrected within thirty (30) days after the receipt of such notice, it will not constitute an Event of Default if corrective action is instituted within such thirty (30) day period and diligently pursued until the Event of Default is corrected.

Upon the occurrence of an Event of Default, all of the Obligations secured by the Corporation Deed of Trust will immediately become due and payable, after notice to the Corporation as provided in the Master Indenture, at the option of the Beneficiary, and the Deed of Trust Trustee will sell all or any part or parts of the property subject to the lien of the Corporation Deed of Trust at public auction for cash after first having given notice as to commencement of foreclosure proceedings and otherwise having complied with applicable law. No delay or omission of the Deed of Trust Trustee or the Beneficiary to exercise any right or power accruing upon any Event of Default will impair such right or power or will be construed to be a waiver of any such Event of Default or acquiescence therein. The Corporation waives any and all rights to require marshalling of assets in connection with the exercise of any remedies provided in the Corporation Deed of Trust or as permitted by law.

Release of Land from Lien of Corporation Deed of Trust

So long as any Obligations remain outstanding or sufficient funds for their payment in full are not held in trust by the Beneficiary or a Related Bond Trustee, a parcel of or interest in land constituting part of the Mortgaged Property (and the Improvements and Fixtures located thereon as such terms are defined in the Corporation Deed of Trust) will be released from the lien and security of the Corporation Deed of Trust when and if the following requirements have been fulfilled:

(a) The Corporation has delivered to the Deed of Trust Trustee, the Beneficiary and each Holder of an Obligation, including any Related Bond Trustee, a certified survey of the land to be released, a certified survey of the land to remain as the Mortgaged Property and a revised legal description of the land to remain as Mortgaged Property;

(b) The Corporation has delivered to the Deed of Trust Trustee, the Beneficiary and each Holder of an Obligation, including any Related Bond Trustee, an architect's or engineer's certificate to the effect that the release of the land will not cause any damage to the structural soundness of the Facilities or impair ingress to or egress from the Mortgaged Property;

(c) The Corporation has delivered to the Deed of Trust Trustee, the Beneficiary and each Holder of an Obligation, including any Related Bond Trustee, evidence satisfactory to them that such release does not violate any applicable land use restrictions;

(d) The Corporation represents in writing to the Deed of Trust Trustee, the Beneficiary and each Holder of an Obligation, including any Related Bond Trustee, that it will make no use, and will permit no use by others, of the land to be released that would create a nuisance or diminish materially, in the opinion of a consultant knowledgeable in the operation of facilities similar to the Facilities, the attractiveness of the Facilities to potential residents; and

(e) The Corporation will either (i) acquire additional land or Equipment having a fair market value equal to the fair market value of the land to be released and grant the Beneficiary a first priority Lien, subject to Permitted Liens, thereon, or (ii) will pay to the Beneficiary or any Related Bond Trustee, for the redemption of the Obligations and any Related Bonds, pro rata, the fair market value of the land to be released, which value in each case will be evidenced by an appraisal prepared by an appraiser acceptable to the Beneficiary; provided, however, if the fair market value of the Mortgaged Property remaining after such release, as evidenced by an appraisal prepared as of a date not earlier than sixty (60) days prior to the date of such proposed release by an appraiser acceptable to the Beneficiary, is not less than 120% of the principal amount of all Obligations then Outstanding, the release of such land will be permitted without restriction; provided, further, that if the cost of obtaining (x) a certified survey and a revised legal description of the land to remain as the Mortgaged Property as required by subsection (a) above and (y) an appraisal of the portion of the Mortgaged Property to be released as required by this subsection (e) exceed the amount of the Corporation will receive from the sale or other disposition of the portion of the Mortgaged Property the Corporation has requested to be released from the lien in the Corporation Deed of Trust and if such release will not materially adversely affect the Corporation's ability to operate the Facilities or the value of the remaining Mortgaged Property, as certified by the Corporation to the Deed of Trust Trustee and the Beneficiary, then such portion of the Mortgaged Property may be released without the Corporation's delivery of the items referenced in clauses (x) and (y) above.

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APPENDIX D

PROPOSED FORM OF BOND COUNSEL OPINION

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October __, 2019

North Carolina Medical Care Commission
Raleigh, North Carolina

Re: \$_____ North Carolina Medical Care Commission Retirement Facilities First
Mortgage Revenue Refunding Bonds (Galloway Ridge) Series 2019A (the “Bonds”)

Ladies and Gentlemen:

We have acted as bond counsel to the North Carolina Medical Care Commission (the “Commission”) in connection with the issuance by the Commission of the referenced Bonds. In such capacity, we have examined such law and such certified proceedings, certifications and other documents as we have deemed necessary to render this opinion.

The Bonds are issued pursuant to a Trust Agreement dated as of October 1, 2019 (the “Trust Agreement”) between the Commission and The Bank of New York Mellon Trust Company, N.A., as bond trustee (the “Bond Trustee”). The Commission will lend the proceeds of the Bonds to Galloway Ridge, Inc. (the “Corporation”) under a Loan Agreement dated as of October 1, 2019 (the “Loan Agreement”) between the Commission and the Corporation. The Bonds are secured by, among other things, payments to be made by the Corporation on Obligation No. 6 dated as of the date hereof (“Obligation No. 6”) issued by the Corporation to the Commission under the Master Trust Indenture dated as of October 1, 2010 (as supplemented and amended, the “Prior Master Indenture”) between the Corporation and The Bank of New York Mellon Trust Company, N.A., as master trustee (the “Master Trustee”), as evidence of the obligation of the Corporation to repay the loan of the proceeds of the Bonds and assigned by the Commission to the Bond Trustee as security for the payment of the Bonds.

Simultaneously with the issuance of Obligation No. 6, the Prior Master Indenture will be amended and restated in its entirety pursuant to the terms of an Amended and Restated Master Trust Indenture, dated as of October 1, 2019 (as amended, supplemented or restated from time to time in accordance with its terms, the “Master Indenture”), between the Corporation and the Master Trustee, and Obligation No. 6 will be deemed to be issued under the Master Indenture. As provided in the Master Indenture, each Member of the Obligated Group (as defined in the Master Indenture) is jointly and severally liable for Obligation No. 6 and all other Obligations (as defined in the Master Indenture) issued under the Master Indenture. Upon the issuance of the Bonds and Obligation No. 6, the Corporation will be the sole Member of the Obligated Group.

As security for all Obligations issued under the Master Indenture, the Corporation has granted to the Master Trustee a security interest in its Pledged Assets, subject to Permitted Liens (both as defined in the Master Indenture). As additional security for all Obligations issued under the Master Indenture, the Corporation has, pursuant to a Deed of Trust, dated as of October 1, 2010, as amended by a First Amendment thereto dated as of September 1, 2014 and a Second Amendment thereto dated as of October 1, 2019 (as amended, the “Corporation Deed of Trust”), granted to a trustee for the benefit of the Master Trustee a lien on the Mortgaged Property (as defined in the Corporation Deed of Trust), subject to Permitted Liens and encumbrances and matters of title as set forth therein. The Corporation Deed of

Trust has been recorded and a financing statement with respect to the fixtures relating to the Mortgaged Property has been filed in the Office of the Register of Deeds of Chatham County, North Carolina, and a financing statement with respect to the security interest in the Pledged Assets of the Corporation has been filed in the office of the Secretary of State of the State of North Carolina.

We have not examined title to the Mortgaged Property or any official records with respect to prior security interests in the Pledged Assets of the Corporation. All statements made with regard to the title to, and the priority of the lien of the Corporation Deed of Trust on, the Mortgaged Property are based exclusively upon a mortgagee title insurance policy issued by Stewart Title Guaranty Company to the Master Trustee.

As to questions of fact material to our opinion, we have relied upon representations of the Commission and the Corporation contained in various documents, certified proceedings and other certifications of public officials furnished to us, and certifications furnished to us by and on behalf of the Corporation without undertaking to verify the same by independent investigation.

Based on the foregoing, we are of the opinion that, under existing law:

1. The Bonds have been duly authorized and executed by the Commission and are valid and binding limited obligations of the Commission, payable in accordance with their terms from payments to be made by the Corporation or any other Member of the Obligated Group pursuant to Obligation No. 6 and the Loan Agreement, certain funds held by the Bond Trustee under the Trust Agreement, certain funds held by the Master Trustee under the Master Indenture and certain other sources.

2. The Trust Agreement has been duly authorized, executed, and delivered by the Commission and is a valid and binding obligation of the Commission, enforceable against the Commission. The Trust Agreement creates a valid lien on the rights and property described in the granting clause thereof.

3. The Loan Agreement has been duly authorized, executed, and delivered by the Commission and the Corporation, and is a valid and binding obligation of the Commission and the Corporation, enforceable against the Commission and the Corporation.

4. The Master Indenture has been duly authorized, executed, and delivered by the Corporation, and is a valid and binding obligation of the Corporation, enforceable against the Corporation. Obligation No. 6 has been duly authorized, executed and issued by the Corporation, and is a valid and binding obligation of the Corporation, enforceable against the Corporation.

5. The Corporation Deed of Trust has been duly authorized, executed, and delivered by the Corporation and grants to the trustee thereunder for the benefit of the Master Trustee a lien on the Mortgaged Property, subject to Permitted Liens and encumbrances and matters of title as set forth therein.

6. The Master Indenture is effective to create in favor of the Master Trustee a security interest in the Pledged Assets of the Corporation to the extent that a security interest in such assets may be created under North Carolina's version of Article 9 of the Uniform Commercial Code (the "UCC"), which security interest has been perfected to the extent it could be perfected by the filing of financing statements under the UCC. Continuation statements meeting the requirements of the UCC must be filed as required

by law to continue the perfection of such security interest. The security interest in certain items constituting Pledged Assets is subject to exceptions under the UCC and may be limited by the powers of the State of North Carolina and the federal government to restrict assignment of the right to payment from such entities.

7. Interest on the Bonds is excludable from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax. The opinion set forth in this paragraph is subject to the condition that the Commission and the Corporation comply with all requirements of the Internal Revenue Code of 1986, as amended (the "Code"), that must be satisfied subsequent to the issuance of the Bonds in order that interest thereon be, and continue to be, excludable from gross income for federal income tax purposes. The Commission and the Corporation have covenanted to comply with all such requirements. Failure to comply with certain of such requirements may cause interest on the Bonds to be included in gross income for federal income tax purposes retroactively to the date of issuance of the Bonds. In rendering the opinion set forth in the first sentence of this paragraph, we have relied on the opinion of Womble Bond Dickinson (US) LLP, Winston-Salem, North Carolina, counsel to the Corporation, that the Corporation has been determined by the Internal Revenue Service to be an organization that is exempt from federal income taxes under Section 501(a) of the Code by virtue of being an organization described in Section 501(c)(3) of the Code and is not currently classified as a "private foundation" as defined in Section 509(a) of the Code.

8. Interest on the Bonds is exempt from State of North Carolina income taxes.

The rights of the holders of the Bonds and the enforceability of the Bonds, the Trust Agreement, the Loan Agreement, the Master Indenture, Obligation No. 6 and the Corporation Deed of Trust are limited by bankruptcy, insolvency, fraudulent conveyance, reorganization, moratorium, and other similar laws affecting creditors' rights generally and by equitable principles, whether considered at law or in equity.

We express no opinion herein (a) regarding the accuracy, adequacy, or completeness of the Official Statement relating to the Bonds, or (b) except as stated above, regarding federal, state, or local tax consequences arising with respect to the Bonds.

In rendering this opinion, we have relied upon the opinion of Womble Bond Dickinson (US) LLP with respect to the due authorization, execution and delivery by the Corporation of the Loan Agreement, the Master Indenture, Obligation No. 6 and the Corporation Deed of Trust.

This opinion is given as of the date hereof, and we assume no obligation to revise or supplement this opinion to reflect any facts or circumstances that may hereafter come to our attention or any changes in law that may hereafter occur.

Respectfully submitted,

[To be signed "Robinson, Bradshaw & Hinson, P.A."]

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APPENDIX E

BOOK ENTRY ONLY SYSTEM

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APPENDIX E

BOOK-ENTRY ONLY SYSTEM

The description that follows of the procedures and recordkeeping with respect to beneficial ownership interests in the Bonds, payments of principal of and interest on the Bonds to The Depository Trust Company ("DTC"), its nominee, Direct Participants (defined below) or Beneficial Owners (defined below), confirmation and transfer of beneficial ownership interests in the Bonds and other bond-related transactions by and between DTC, the Direct Participants and Beneficial Owners is based solely on information furnished by DTC.

DTC will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee), or such other name as may be requested by an authorized representative of DTC. One fully-registered bond certificate will be issued for each maturity of the Bonds, each in the aggregate principal amount of such issue, and will be deposited with DTC.

The Bonds initially will be issued solely in book-entry form to be held in the book-entry only system maintained by DTC. So long as such book-entry system is used, only DTC will receive or have the right to receive physical delivery of the Bonds and, except as otherwise provided herein with respect to tenders by beneficial owners of beneficial ownership interests, beneficial owners will not be or be considered to be, and will not have any rights as, owners or holders of the Bonds under the Trust Agreement.

The following information about the book-entry only system applicable to the Bonds has been supplied by DTC. Neither the Commission, the Corporation nor the Bond Trustee makes any representations, warranties or guarantees with respect to its accuracy or completeness.

DTC will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Bond certificate will be issued in the aggregate principal amount of each maturity, and, if a maturity has more than one interest rate, interest rate, of the Bonds and will be deposited with DTC at the office of the Bond Trustee on behalf of DTC utilizing the DTC FAST system of registration.

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 100 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly

or indirectly ("Indirect Participants"). DTC is rated "AA+" by S&P. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at <http://www.dtcc.com>

Purchases of the Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' (jointly, the "Participants") records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all of the Bonds deposited by Direct Participants with DTC (or the Bond Trustee on behalf of DTC utilizing the DTC FAST system of registration) are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of the Bonds with DTC (or the Bond Trustee on behalf of DTC utilizing the DTC FAST system of registration) and their registration in the name of Cede & Co. or such other DTC nominee do not affect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such the Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of the Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the bond documents. For example, Beneficial Owners of the Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the Bond Trustee and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Bonds are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Commission as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal of, premium, if any, and interest payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Bond Trustee, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary

practices, as is the case with the Bonds held for the accounts of customers in bearer form or registered in "street name" and will be the responsibility of such Participant and not of DTC or its nominee, the Bond Trustee or the Commission, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal of and premium, if any, and interest payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Bond Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the Bonds at any time by giving reasonable notice to the Commission or the Bond Trustee. Under such circumstances, in the event that a successor depository is not obtained, Bond certificates are required to be printed and delivered.

The Commission may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, Bond certificates will be printed and delivered.

Neither the Commission nor the Bond Trustee will have any responsibility or obligation to any direct participant, indirect participant or any beneficial owner or any other person not shown on the registration books of the Bond Trustee as being a holder with respect to: (1) the Bonds; (2) the accuracy of any records maintained by DTC or any direct participant or indirect participant; (3) the payment by DTC or any direct participant or indirect participant of any amount due to any beneficial owner in respect of the principal or interest on the Bonds; (4) the delivery by any direct participant or indirect participant of any notice to any beneficial owner which is required or permitted under the terms of the Trust Agreement to be given to holders; (5) the selection of the beneficial owners to receive payment in the event of any partial redemption of the Bonds; or (6) any consent given or other action taken by DTC as holder.

Each Beneficial Owner for whom a Direct Participant or Indirect Participant acquires an interest in the Bonds, as nominee, may desire to make arrangements with such Direct Participant or Indirect Participant to receive a credit balance in the records of such Direct Participant or Indirect Participant, to have all notices of redemption, elections to tender the Bonds or other communications to or by DTC which may affect such Beneficial Owner forwarded in writing by such Direct Participant or Indirect Participant, and to have notification made of all debt service payments.

Beneficial Owners may be charged a sum sufficient to cover any tax, fee, or other governmental charge that may be imposed in relation to any transfer or exchange of their interests in the Bonds.

The Commission cannot and does not give any assurances that DTC, Direct Participants, Indirect Participants or others will distribute payments of debt service on the Bonds made to DTC or its nominee as the registered owner, or any redemption or other notices, to the beneficial owners, or that they will do so on a timely basis, or that DTC, Direct Participants or Indirect Participants will serve and act in the manner described in this Official Statement.

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