UPSTATE SENIOR LIVING, INC.
d/b/a THE WOODLANDS
AT FURMAN

Financial Statements

December 31, 2011 and 2010

(with Independent Auditors'
Report thereon)

Upstate Senior Living, Inc.
d/b/a The Woodlands at Furman

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December 31, 2011 and 2010

Independent Auditors' Report

To the Board of Directors
Upstate Senior Living, Inc.
d/b/a The Woodlands at Furman
Greenville, South Carolina

We have audited the accompanying balance sheets of Upstate Senior Living, Inc. d/b/a The Woodlands at Furman (the "Organization") as of December 31, 2011 and 2010 and the related statements of operations and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Organization as of December 31, 2011 and 2010 and the results of its operations, changes in net assets and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that the Organization will continue as a going concern. As discussed in Note 11 to the financial statements, the Organization has depletions of cash that raise substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 11. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Dixon Hughes Goodman LLP

May 31, 2012

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UPSTATE SENIOR LIVING, INC.
d/b/a The Woodlands at Furman
Balance Sheets
December 31, 2011 and 2010

Assets

	2011	2010
Current assets:		
Cash and cash equivalents	$ 1,131,098	$ 331,374
Assets limited as to use, current portion	8,414,232	1,441,078
Accounts receivable, net of the allowance for doubtful accounts of approximately $37,000 and $25,000 for 2011 and 2010, respectively	552,502	488,190
Entrance fees receivable	2,266,359	2,325,892
Supplies	8,008	9,797
Interest receivable	18,883	28,897
Prepaid expenses	77,630	115,932
Total current assets	12,468,712	4,741,160
Noncurrent assets:		
Assets limited as to use, less current portion	446,882	9,030,829
Property and equipment, net	57,456,649	59,378,229
Deferred costs, net	7,000,688	6,237,459
Total noncurrent assets	64,904,219	74,646,517
Total assets	$ 77,372,931	$ 79,387,677

Liabilities and Net Assets

	2011	2010
Current liabilities:		
Accounts payable	$ 422,541	$ 646,368
Applicant deposits	852,289	640,305
Accrued expenses	420,015	223,854
Accrued interest	1,626,953	943,884
Total current liabilities	3,321,798	2,454,411
Long-term liabilities:		
Deferred revenue from advance fees, net of amortization of $613,665 in 2011 and $292,786 in 2010, respectively	3,587,334	2,098,166
Refundable entrance fees, net of amortization of $609,247 in 2011 and $348,355 in 2010, respectively	11,799,054	10,407,684
Derivative instruments payable	450,513	450,915
Long-term debt	77,453,982	78,012,600
Ground lease payable	752,333	598,470
Deferred ground lease payable	4,520,655	3,776,812
Total long-term liabilities	98,563,871	95,344,647
Total liabilities	101,885,669	97,799,058
Net assets:		
Unrestricted	(24,512,738)	(18,411,381)
Total net assets	(24,512,738)	(18,411,381)
Total liabilities and net assets	$ 77,372,931	$ 79,387,677

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

UPSTATE SENIOR LIVING, INC.
d/b/a The Woodlands at Furman
Statements of Operations and Changes in Net Assets
For the Years Ended December 31, 2011 and 2010

	2011	2010
Unrestricted revenues, gains and other support:		
Independent living monthly service fees	$ 1,483,366	$ 1,088,949
Assisted living monthly service fees	2,233,656	1,307,038
Skilled nursing monthly service fees	2,130,516	1,574,198
Second person fees	163,789	113,201
Monthly service fee credits	(364,750)	(269,469)
Net contractual adjustments	(328,652)	(477,452)
Ancillary and therapy revenue	1,433,133	1,356,549
Amortization of entrance fees	584,495	440,068
Other revenue	575,866	143,017
Interest income	211,227	304,006
Total revenues, gains and other support	8,122,646	5,580,105
Operating expenses:		
Adminstrative	1,295,960	1,454,458
Lifestyle services	171,368	174,933
Assisted living	584,865	481,260
Building maintenance	239,377	193,140
Dining services	972,070	965,557
Emergency system services	68,502	74,207
Grounds maintenance	56,710	53,590
Housekeeping	226,392	223,050
Skilled nursing	908,263	932,156
Ancillary and therapy	663,746	630,156
Transportation	32,736	28,725
Utilities	404,643	371,294
Insurance	129,688	134,487
Taxes	6,074	392,347
Depreciation	1,991,828	1,981,816
Amortization	582,825	505,091
Interest	3,623,192	3,542,294
Resident program fees	5,782	350
Management fees	265,935	258,005
Marketing expense	766,712	1,145,996
Other expenses	365,125	435,067
Deferred ground operating lease	862,612	862,612
Pre-opening expenses	-	15,422
Total operating expenses	14,224,405	14,856,013
Operating loss	(6,101,759)	(9,275,908)

(continued)

UPSTATE SENIOR LIVING, INC.
d/b/a The Woodlands at Furman
Statements of Operations and Changes in Net Assets, (continued)
For the Years Ended December 31, 2011 and 2010

	2011	2010
Other income:		
Unrealized gain on derivative instruments	$ 402	$ 273,120
Total other income	402	273,120
Change in unrestricted net assets	(6,101,357)	(9,002,788)
Net assets, beginning of year	(18,411,381)	(9,408,593)
Net assets, end of year	$ (24,512,738)	$ (18,411,381)

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

UPSTATE SENIOR LIVING, INC.
d/b/a The Woodlands at Furman
Statements of Cash Flows
For the Years Ended December 31, 2011 and 2010

	2011	2010
Cash flows from operating activities:		
Change in net assets	$ (6,101,357)	$ (9,002,788)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	1,991,828	1,981,816
Amortization	582,825	505,091
Proceeds from entrance fees	4,270,898	3,124,646
Amortization of entrance fees	(584,495)	(440,068)
Bad debt expense	12,000	25,000
Unrealized gain on derivative instruments	(402)	(273,120)
Deferred ground lease payable	897,706	889,017
Change in assets and liabilities:		
Accounts receivable	(76,312)	(506,289)
Entrance fees receivable	(333,799)	(295,942)
Supplies	1,789	(3,682)
Interest receivable	10,014	25,988
Prepaid expenses	38,302	(14,768)
Accounts payable	(223,827)	277,024
Applicant deposits	211,984	21,809
Accrued expenses	196,161	7,742
Accrued interest	683,069	96,800
Net cash provided by (used in) operating activities	1,576,384	(3,581,724)
Cash flows from investing activities:		
Property and equipment purchases	(70,248)	(225,375)
Change in assets limited as to use	1,610,793	4,015,677
Deferred marketing costs	-	(320,021)
Net cash provided by investing activities	1,540,545	3,470,281
Cash flows from financing activities:		
Proceeds from long-term debt	-	14,745
Principal payments on debt	(558,879)	-
Deferred financing costs	(1,345,793)	(50,000)
Entrance fees refunded	(412,533)	(379,810)
Net cash used in financing activities	(2,317,205)	(415,065)
Increase (decrease) in cash and cash equivalents	799,724	(526,508)
Cash and cash equivalents, beginning of year	331,374	857,882
Cash and cash equivalents, end of year	$ 1,131,098	$ 331,374
Supplemental disclosure of cash flow information:		
Cash paid during the year for interest	$ 2,940,123	$ 3,445,494
Entrance fee receivable adjustment	$ 393,332	$ 200,840
Noncash financing activity:		
Ground lease payable	$ 153,863	$ 141,157
Deferred ground lease payable	743,843	747,860
	$ 897,706	$ 889,017

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

1. **Description of Organization and Summary of Significant Accounting Policies**

Organization - Upstate Senior Living, Inc. d/b/a The Woodlands at Furman (the "Organization") was formed in October 2003 as a not-for-profit organization under the laws and regulations of the state of South Carolina. The Organization was formed to acquire real property and to develop, market and operate the property as a continuing care retirement community ("CCRC") in Greenville, South Carolina, known as The Woodlands at Furman (the "Project"). The Project consists of 132 new independent living apartments, 32 assisted living apartments, 16 memory care units, 30 private nursing beds and related common areas. The Project was substantially available for occupancy beginning in March 2009. Since its formation and through 2009, the Organization has devoted its efforts primarily to acquiring and developing the property, obtaining resident contracts, obtaining financing and administrative functions.

Basis of Presentation - The accompanying financial statements have been prepared on the accrual basis of accounting and in accordance with the principles contained in the American Institute of Certified Public Accountants Audit and Accounting Guide, *Health Care Entities*, and other pronouncements applicable to health care organizations.

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 during the reporting period. 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 debt instruments with original maturities of three months or less when purchased.

The Organization maintains bank accounts at various financial institutions covered by the Federal Deposit Insurance Corporation ("FDIC"). At times throughout the year, the Organization may maintain bank account balances in excess of the FDIC insured limit. It is management's opinion that the Organization is not exposed to any significant credit risk related to cash.

Assets Limited as to Use - Assets limited as to use primarily include assets held by a trustee which are limited as to use in accordance with the bond trust indenture and deposits of entrance fees paid by residents. Amounts required to meet current liabilities of the Organization have been reclassified in the balance sheets at December 31, 2011 and 2010.

The Organization adopted Accounting Standards Update ("ASU") 2010-06, "Improving Disclosures about Fair Value Measurements," which amends ASC 820, "Fair Value Measurements and Disclosures," to require enhanced disclosures about transfers into and out of Levels 1 and 2 as well as separate disclosures about purchases, sales, issuances, and settlements relating to Level 3 fair value measurements. The amendment also clarifies existing fair value disclosures about the level of disaggregation and about the inputs and valuation techniques used to measure fair value. The adoption of this amendment will impact the Organization's fair value disclosures only and does not have a material impact on Organization's financial position, results of operations, or cash flows.

Accounts Receivable - The Organization grants credit without collateral to its residents. The Organization provides an allowance for doubtful accounts that is based upon review of the outstanding receivable and historical collection information. Normal resident charges are due at the time of billing.

Entrance Fees Receivable - The Organization has established various payment plans for residents paying entrance fees. The residents are required to pay 10% of their entrance fee prior to moving in and the remaining entrance fee balance is due at a future period in time. The unpaid entrance fees are recorded as entrance fees receivable on the balance sheet. The Organization executes signed agreements with the residents and deems the accounts to be fully collectible. Therefore, no allowance has been recorded at December 31, 2011 and 2010.

Supplies - Supplies are recorded at the lower of cost (first-in, first-out) or market value.

Property and Equipment - Property and equipment acquisitions are recorded at cost. Expenditures which substantially increase the useful lives of existing assets are capitalized. Routine maintenance and repairs are expensed as incurred. The Organization capitalizes all assets over $500. Depreciation is computed using the straight-line method over the estimated useful lives of each class of depreciable assets, which range from 3 to 40 years.

Gifts of long-lived assets such as land, buildings or equipment are reported as unrestricted support based on their fair market value at the date of donation, unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

When capital assets are retired or otherwise disposed of, the cost of the assets and related allowances for depreciation are removed from the accounts, and any resulting gain or loss is recognized in operating loss in the statement of operations.

Interest costs incurred on borrowed funds during the period of construction of capital assets are capitalized as a component of the cost of acquiring those assets.

Deferred Costs - The Organization defers the cost 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, direct response advertising costs, and the costs of the Project model. The costs are amortized on a straight-line basis over the average expected remaining lives of the residents under the contract or the contract term, if shorter. Accumulated amortization related to the cost of acquiring initial contracts was $924,309 and $423,287 at December 31, 2011 and 2010, respectively. The Organization has also capitalized debt issuance costs that will be amortized over the life of the debt using the straight line method which approximates the effective interest method. Accumulated amortization related to the debt issuance costs was $346,558 and $265,016 at December 31, 2011 and 2010, respectively.

Applicant Deposits - Each prospective resident is required to pay an entrance fee deposit. Entrance fee deposits are maintained in an escrow account at a bank. The escrowed funds are recorded as assets limited as to use. These funds will be applied to each prospective resident's total entrance fee due upon occupancy. Each prospective resident's entrance fee deposit is subject to refund at any time prior to occupying their unit.

Deferred Revenue from Advance Fees - Each resident pays an entrance fee subject to the size of the apartment rented. The entrance fee permits the resident to remain in a specific apartment so long as rent and other fees are paid. Fees are refundable to the resident based on the terms of the residency agreement, provided that an entrance fee is received from a successor tenant. These fees are recognized as income by use of the straight-line method over the remaining depreciable life of the buildings. The unrecognized portion is classified as a noncurrent liability. The non-refundable portion is recognized as income over the remaining average life expectancy of the resident. The gross amount of contractually refundable entrance fees under contracts existing at December 31, 2011 and 2010 is $14,094,099 and $11,755,593, respectively.

Derivative Instruments Payable - The Organization entered into derivatives, specifically interest rate swap agreements, to manage interest rate exposures on the variable rate Series 2007 bonds. Interest rate swaps allow the Organization to swap variable interest rates on a stated notional amount for fixed rates. The fair value of the interest rate swap instruments are presented in the balance sheets as follows:

	Liability Derivatives			
	December 31, 2011		December 31, 2010	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Derivatives not designated as hedging instruments				
Interest rate swaps	Derivative instruments payable	$ 450,513	Derivative instruments payable	$ 450,915

The unrealized gain or loss for the period associated with the fair market value of the agreements is included in the statements of operations as follows:

Derivatives not designated as hedging instruments	**Location of unrealized gain recognized as income on derivatives**	**Amount of unrealized gain recognized as income on derivatives** 2011	2010
Interest rate swaps	Unrealized gain on derivative instruments	$ 402	$ 273,120

The Organization is exposed to credit loss in the event of nonperformance by the counterparty in relation to its interest rate swap agreements. Management believes that the counterparty will be able to fully satisfy its obligations under the agreements. Credit exposure exists in relation to all the Organization's financial instruments, and is not unique to derivatives.

Net Assets - The Organization reports its net assets using the following three classes; unrestricted, temporarily restricted and permanently restricted depending on the presence and type of donor-imposed restrictions limiting the Organization's ability to use or dispose of specific contributed assets or the economic benefits embodied in those assets. Unrestricted net assets 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. Temporarily restricted net assets are those net assets whose use by the Organization has been limited by donors (a) to later periods of time or after specified dates or (b) to specified purposes. Permanently restricted net assets are those net assets subject to donor-imposed stipulations that they be maintained in perpetuity by the Organization. There are currently no temporarily or permanently restricted net assets.

Revenue Recognition - Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law. Expiration of temporary restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets. Contributions whose restrictions are met in the same reporting period are reported as unrestricted.

Continuing-Care Contracts - The Organization enters into continuing-care contracts with various residents. A continuing-care contract is an agreement between a resident and the Organization specifying the services and facilities to be provided to a resident over his or her remaining life. Under the contracts, the Organization has the ability to increase fees as deemed necessary. No obligation for future costs associated with these contracts has been provided by the Organization because management believes that future cash inflows will be sufficient to cover such costs.

Operating Loss - The statements of operations includes operating loss. Changes in unrestricted net assets which are excluded from operating loss, consistent with industry practice, include unrealized gains and losses on derivative instruments. The Organization considers the overall change in unrestricted net assets to be its performance indicator.

Income Tax Status - The Organization is tax-exempt under Section 501(c)(3) of the Internal Revenue Code and under similar state statutes. Accordingly, no provision for income taxes has been recorded in the accompanying financial statements. The Organization has determined that it does not have any material unrecognized tax benefits or obligations as of December 31, 2011. Fiscal years ending on or after December 31, 2008 remain subject to examination by federal and state tax authorities.

2. Assets Limited as to Use

Assets limited as to use are recorded at fair value based upon quoted market rates and consist of the following at December 31:

	2011	2010
Deposits in escrow on behalf of residents	$ 3,193,971	$ 657,975
Held by trustee	5,667,143	9,813,932
	8,861,114	10,471,907
Less current portion	8,414,232	1,441,078
Asset limited as to use, less current portion	$ 446,882	$ 9,030,829
Cash and cash equivalents	$ 523,759	$ 657,975
Money market mutual funds	5,455,901	5,387,580
Guaranteed investment contracts	2,881,454	4,426,352
	$ 8,861,114	$ 10,471,907

3. **Property and Equipment**

Property and equipment at December 31 follows:

	2011	2010
Land improvements	$ 5,287,345	$ 5,287,345
Buildings	55,631,328	55,622,090
Equipment	2,004,492	1,968,955
Vehicles	115,954	115,954
	63,039,119	62,994,344
Accumulated depreciation	(5,607,943)	(3,616,115)
	57,431,176	59,378,229
Construction in progress	25,473	-
	$ 57,456,649	$ 59,378,229

4. **Deferred Costs**

Deferred costs consist of:

	2011	2010
Marketing costs, net	$ 3,083,861	$ 3,584,883
Financing costs, net	3,916,827	2,652,576
	$ 7,000,688	$ 6,237,459

5. **Long-Term Debt**

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

	2011	2010
Unsecured note payable to The Cliffs Communities, Inc.	$ 500,000	$ 500,000
Series 2007A Bonds		
$560,000, 5.1% term bonds due November 15, 2013	560,000	560,000
$590,000, 5.125% term bonds due November 15, 2014	590,000	590,000
$620,000, 5.2% term bonds due November 15, 2015	620,000	620,000
$650,000, 5.3% term bonds due November 15, 2016	650,000	650,000
$685,000, 5.35% term bonds due November 15, 2017	685,000	685,000
$9,535,000, 6% term bonds due November 15, 2027	9,535,000	9,535,000
$17,085,000, 6% term bonds due November 15, 2037	17,085,000	17,085,000
$15,205,000, 6% term bonds due November 15, 2042	15,205,000	15,205,000
Series 2007B Bonds		
$2,000,000, extendable rate adjustable securities with initial interest rate of 5.15% due November 15, 2042	2,000,000	2,000,000

Series 2007C Bonds		
$25,000,000, variable term bonds due November 15, 2042	$ 25,000,000	$ 25,000,000
Series 2007D Bonds		
$5,000,000, variable term bonds due November 15, 2042	5,000,000	5,000,000
Series 2007E Bonds		
$735,000, variable term bonds due October 17, 2012	40,731	599,610
	77,470,731	78,029,610
Discount on 2007 Bonds	(16,749)	(17,010)
	$ 77,453,982	$ 78,012,600

The Cliffs Communities, Inc. ("The Cliffs") is a real estate development company and a builder of luxury residential golf communities in the United States and around the world. In 2005, The Cliffs loaned $500,000 to pre-finance capital requirements which is subordinate to the debt service related to the Series 2007 Bonds and is assumed to be repaid after the first year of stabilized occupancy for the Organization. The note is to accrue interest at 15%. In March 2012, as part of restructuring payment on certain outstanding obligations, payment on the outstanding balance due to the Cliffs was negotiated to be $.14 per dollar owed.

The Series 2007A bonds were issued at a net discount of $18,292, which is being amortized over the life of the bonds.

Interest on the Series 2007A and B bonds is due semi-annually on each May 15 and November 15, beginning with May 15, 2008. Interest on the Series 2007C, D and E bonds is payable on the first business day each month. Through October 17, 2011, the variable interest rate for the Series C and D bonds reset weekly based on current market conditions and was set at a rate such that would allow the bonds to be remarketed at par. However, in October 2011, when the letters of credit were terminated, the interest rate became prime plus .5%. Since October 2011, the Series D bonds are also charged an additional default interest rate of 3%. The variable interest rate for the Series E loan resets based on LIBOR plus the applicable margin.

The Organization entered into interest rate swap agreements in October 2007 to stabilize the cash outflows associated with the interest on the Series 2007C and D bonds. The Series 2007C agreement stipulates the Organization receive interest at the SIFMA Municipal Swap Index rate (.10% and .34% at December 31, 2011 and 2010, respectively) and pay a fixed interest rate of 3.3% on an original notional amount of $25,000,000 with a final maturity date of March 1, 2011. Upon maturity in March 2011, the Organization did not renew the interest rate swap agreement and is required to pay interest at the variable interest rate. The Series 2007D agreement stipulates that the Organization receive interest at the SIFMA Municipal Swap Index rate (.10% and .34% at December 31, 2011 and 2010, respectively) and pay a fixed interest rate of 3.665% on an original notional amount of

$5,000,000 with a final maturity date of November 15, 2014. In March 2012, as part of restructuring payment on certain outstanding obligations, the Series 2007D agreement was terminated.

The bonds are collateralized by substantially all of the assets of the Organization. The Series 2007 C and D bonds are secured by letters of credit in the amount of $25,349,316 and $5,069,864, respectively. The Series C and D bondholders have the ability to put the bonds back to the remarketing agent on each weekly reset date, and the letters of credit are available to provide proceeds, if needed, for the purpose of paying the purchase price coming due and payable on the bonds. The letters of credit expire October 17, 2012, but were terminated in October 2011. As such, the Series 2007 C and D bonds were delivered to the Bond Trustee. The bond agreements contain various covenants. The Organization was not in compliance with their debt covenants at December 31, 2011. As of April 14, 2011, the Organization entered into a forbearance agreement with U.S. Bank National Association and Sovereign Bank which was effective until the earlier of October 1, 2011 or an event of default. On December 21, 2011, the Organization entered into a restructuring agreement which extends the terms of the forbearance agreement to the earlier of January 31, 2012 or the date the debt is restructured. All events of default were waived in March 2012 when the restructuring agreement became effective.

The Series 2007B, C, D and E bonds are to be repaid with proceeds from the initial entrance fees received.

In March 2012, as part of restructuring payment on certain outstanding obligations, the Organization issued Series 2012 Bonds as a way to restructure the outstanding amounts on Series 2007 A, B, C, D, and E bonds. As part of this agreement, $31,794,463 of Series 2012A bonds, $13,626,128 of Series 2012B bonds, $21,213,222 of Series 2012C bonds, and $8,962,809 of Series 2012D bonds were issued with $2,075,000 of Series 2007A bonds and $250,000 of Series 2007B bonds still outstanding. The Series 2012 bonds (including the remaining balances on Series 2007 A and B bonds) are secured by all gross revenues of the Organization, all cash proceeds and receipts arising out of or in connection with the sale of the bonds and all moneys held by Trustee, and all property held by the Organization.

The remaining Series 2007A bonds bear interest at rates ranging from 5.1% to 6% and mature at varying dates beginning November 2013 through November 2042. Interest payments are due annually beginning November 2012. The remaining Series 2007B bonds bear interest at 5.15% and mature in November 2042. Interest payments are due annually beginning November 2012. The Series 2012A bonds bear interest at rates ranging from 5.1% to 6% and mature at varying dates beginning November 2018 through November 2047. Interest payments are payable monthly. The Series 2012B bonds accrue interest at a rate of 2% per year beginning March 2012 through November 15, 2047. All principal and interest is due in full on November 15, 2047. The Series 2012C bonds bear interest at the SIFMA rate plus 2% payable monthly, and mature in March 2017 unless such maturity is extended at the request of the bond holders and Master Trustee. The Organization entered into an interest rate swap agreement to stabilize the cash outflows related to the interest on the Series 2012C bonds. Under this agreement, the maximum interest rate is 4% on an original notional amount of $21,123,222. The agreement terminates in March 2017. The Series 2012D bonds accrue interest at 2%, and all outstanding principal and interest are due in full in March 2022 unless extended. If the maturity date of the Series 2012C Bonds is extended, the maturity date of the 2012D Bonds is automatically extended for the same period of time. The Series 2012 bond agreements contain various covenants and require the Organization to establish numerous funds that are held by Trustee, including the Gross Revenue Fund into which the Organization must deposit on a daily basis all forms of cash, checks, or negotiable instruments. The Organization is allowed to access these funds for operations, but prior to receiving the funds, the Trustee must grant permission to the Organization.

Future aggregate annual principal maturities of long-term debt are as follows:

Year ending December 31,	
2012	$ -
2013	315,000
2014	275,000
2015	150,000
2016	175,000
Thereafter	77,006,622
	$ 77,921,622

6. **Lease Commitments**

The Organization entered into an Amended and Restated Ground Lease Agreement (the "Ground Lease Agreement") with the Furman University Foundation, Inc. (the "Landlord") dated August 21, 2007. Pursuant to the Ground Lease Agreement, the Landlord has leased approximately 22.5 acres of unimproved real property to the Organization for an initial term ending December 31, 2104. Under the Ground Lease Agreement, the Organization is obligated to pay rent in equal monthly installments beginning in fiscal year 2006 of approximately $100,000 per annum and thereafter increases annually by an inflationary factor of 3.5 percent. Pursuant to the Ground Lease Agreement, rent payments are to be deferred until fiscal year 2014 and accrue interest as described in the Ground Lease Agreement. Any such suspended lease payments and interest are assumed to be subordinate to payment of debt service on the Series 2007 Bonds. As of December 31, 2011 and 2010, the ground lease payable is approximately $752,000 and $598,000, respectively.

Scheduled rent increases such as those under the Ground Lease Agreement shall be recognized on a straight-line basis and charged to expense over the lease term. However, management has determined that the costs of the ground lease are project costs associated with the construction of the Organization, and as such, should be capitalized to property and equipment during the period of development. As a result, through December 31, 2009, approximately $2,750,000 of the costs of the ground lease was capitalized as part of the building. These costs will be depreciated over the estimated useful life of the building. Beginning in March 2009, costs associated with the ground lease were expensed. As a result, approximately $863,000 was charged to expense as of December 31, 2011 and 2010. Because the Organization is not required to make payments on a straight-line basis, a deferred ground lease liability of approximately $4,521,000 and $3,777,000 has been recorded on the balance sheets as of December 31, 2011 and 2010, respectively. This includes the portion of the land lease that was capitalized as well as the portion that has been expensed.

In March 2012, as part of restructuring payment on certain outstanding obligations, a revised payment schedule was established, and the Organization must fund an escrow account held by the Landlord for the sole purpose of applying payment of any rent as it comes due.

Future minimum payments required under the Ground Lease Agreement are:

Year ending December 31,	
2012	$ -
2013	-
2014	92,177
2015	95,403
2016	98,742
Thereafter	83,485,930
	$ 83,772,252

7. **Development and Management Agreements**

The Organization initiated development activities for the Project in October 2005 with the engagement of a development team led by Greystone Development Company II, LP (the “Development Consultant”). The Development Consultant is an affiliate of Greystone Communities, Inc. (collectively referred as “Greystone”). The Organization additionally engaged Greystone Management Services Company, LLC (also referred to as “Greystone”). Greystone is to provide development consulting, marketing and management of the Organization’s operations as well as the marketing and admissions for the Project and provide other accounting and administrative support.

The Organization and Greystone entered into a Development Services Agreement dated October 13, 2005, as amended on October 13, 2005 (the “Development Consulting

Agreement”). The Development Consulting Agreement provides that Greystone is required to provide development, consulting, marketing and pre-opening activities related to the Project. Pursuant to the Development Consulting Agreement, Greystone is also to be responsible for the marketing and initial leasing program of the Project until 90 percent occupancy of the independent living apartments, assisted living apartments, memory support suites and health center is achieved (“Stabilized Occupancy”).

As compensation for services rendered pursuant to the Development Consulting Agreement, Greystone has been and is to be paid a development fee consisting of a “Base Development Fee”, a “Marketing Fee” and an “Incentive Occupancy Fee”. The Base Development Fee consists of two components, the “Fixed Base Fee” and the “Variable Base Fee”. The Fixed Base Fee is equal to 75% of Greystone’s Contribution to Development Costs, plus an administrative fee equal to 1% of Greystone’s Contribution to Development Costs. The Variable Base Fee shall equal 4.93% of Project Costs included in the Final Project Budget. At the time permanent financing of the Project was obtained, 65% of the Variable Base Fee and 100% of the Fixed Base Fee was deemed to be earned by Greystone. The Base Development Fee will be paid as follows: (i) an amount equal to 10% of the Variable Base Fee upon commencement of development services; (ii) an amount equal to 10% of the Variable Base Fee to be paid in twelve equal monthly installments commencing on the first day of the month following the commencement of development services; (iii) an amount equal to 5% of the Variable Base Fee paid in three equal installments as certain presales thresholds are met; (iv) an amount equal to 30% of the Variable Base Fee, plus an amount equal to the cumulative percentage of the Variable Base Fee paid to date times the difference between the Variable Base Fee in the Initial Project Budget and the Variable Base Fee in the Final Project Budget, plus the Fixed Base Fee upon the closing of permanent financing; (v) an amount equal to 10% of the Variable Base Fee during the construction period paid in monthly installments; (vi) an amount equal to 10% of the Variable Base Fee upon obtaining a Certificate of Occupancy for initial resident occupancy; and (vii) an amount equal to 15% of the Variable Base Fee paid on a pro-rata basis as the Project achieves each 5% increment in occupancy up to and including 90% occupancy on the Independent Living Units.

Greystone will also be paid a Marketing Fee equal to 2% of the gross entrance fees collected up to and including 95% occupancy of the independent living units, including both refundable and non-refundable entrance fees. The Marketing Fee will be paid as follows: (i) upon occupancy of each independent living unit, on a pro-rata basis up to 90% occupancy of the independent living units, an amount equal to 25% of the Marketing Fee; (ii) upon the Project achieving 65% occupancy of the independent living units, an amount equal to 25% of the Marketing Fee; (iii) upon the Project achieving 90% occupancy of the independent living units, an amount equal to 25% of the Marketing Fee; and (iv) upon the Project achieving 95% occupancy of the independent living units, an amount equal to the Marketing Fee less amounts previously paid.

Greystone may also be paid an additional amount as an Incentive Occupancy Fee based upon the combined level of occupancy of independent and assisted living apartments and the nursing beds in the Project, with the time line beginning at receipt of the final Certificate of Occupancy of the Project, and if the specified occupancy level is achieved within specific time frames after the date of the final Certificate of Occupancy. The Incentive Occupancy Fee can range from $100,000 to $490,000.

Pursuant to the terms of the Development Consulting Agreement, the Organization is also expected to reimburse Greystone for all reasonable out-of-pocket travel expenses for personnel employed by Greystone, and a three and a half percent (3.5%) administrative fee on the total Development Fees to cover miscellaneous office expenses.

In March 2012, as part of restructuring payment on certain outstanding obligations, Greystone agreed to settle any amounts accrued and unpaid as of February 29, 2012 for 70% of the amount owed. In addition, payment of the Marketing Fee was revised as follows: $75,000 due upon attaining 50% occupancy of the independent living units, $87,500 due upon attaining 65% occupancy of the independent living units, $112,500 due upon attaining 75% occupancy of the independent living units, and $250,000 due upon attaining 90% occupancy of the independent living units provided that $125,000 of such fee shall be deferred until the Organization reaches 95% occupancy of the independent living units. The payment terms of the Incentive Occupancy Fee were also revised as follows: $275,000 payable if occupancy of the independent living units is achieved by September 30, 2015; $225,000 payable if occupancy of the independent living units is achieved by March 31, 2016; and $175,000 if occupancy of the independent living units is achieved by September 30, 2016. The Development Consulting Agreement will terminate upon the earlier of the date that the Organization reaches 90% occupancy of the independent living units or February 28, 2018. However, the agreement may be terminated by Greystone upon 90 days written notice if the Organization has less than 30 days cash on hand at the end of any calendar month or by the Organization if Greystone fails to perform its obligations or cure those within a period of 30 days.

The Organization also entered into a Management Services Agreement (the "Management Consulting Agreement") with Greystone dated October 12, 2005, under which Greystone is to serve as manager of the Project (the "Manager"). Pursuant to the terms of the Management Consulting Agreement, the Manager is required to provide all management services necessary for the day-to-day operations and supervision of the Project, including but not limited to, financial management, purchasing, public relations, recruitment of personnel, and supervision of the day-to-day operations and programs of the Project.

The Management Consulting Agreement is to commence on a date to be established by mutual agreement of the Organization and Greystone (the "Commencement Date"), which shall be no later than nine months prior to the first day of scheduled occupancy of the Project and shall terminate six years after the Commencement Date, subject to cancellation for cause with 90 days' written notice. The Management Consulting Agreement may be renewed annually upon the mutual consent of Greystone and the Organization. At the termination of the Management Consulting Agreement, the Organization anticipates an affiliate of the Organization to manage the Project assuming that stabilization of occupancy has been attained.

As compensation for services rendered pursuant to the Management Consulting Agreement, the Organization is expected to pay the Manager a monthly management fee (the "Base Management Fee") of $20,500 per month from the Commencement Date throughout the term of the Management Consulting Agreement. On each anniversary date of the Management Consulting Agreement, the Base Management Fee shall be adjusted for inflation based on the United States Consumer Price Index for All Urban Consumers published by the U.S. Bureau of Labor Statistics. In the event that the Project is unable to meet its Series 2007 debt service requirements in any month, the Manager agrees that payment of 50 percent of the Base Management Fee shall be deferred until, and due within, the next month. Such deferral of the Base Management Fee does not imply that the fee has not been earned by the Manager, only that the Manager has agreed to defer payment.

In addition to the Management Fee, a Management Incentive Fee could be earned and paid each month that the Project achieves or maintains an aggregate occupancy as follows: 80% - 89.9% is $3,700 and greater than 90% is $5,200. The monthly Management Fee and the Incentive Fee are collectively referred to as the "Management Fee". For the year ended December 31, 2011 and 2010, management fees were approximately $266,000 and $258,000, respectively.

According to the Management Consulting Agreement, the Manager is to be an independent contractor in the performance of the delegated duties described above.

In addition to the Management Fee, the Manager is entitled to reimbursable costs and expenses for the Manager's office overhead expenses related to the Project equal to approximately three and one-half percent of the Management Fees on a monthly basis.

In March 2012, as part of restructuring payment on certain outstanding obligations, the Manager agreed to settle any amounts accrued and unpaid as of February 29, 2012 for 70% of the amount owed. In addition, if at the end of any month, there are less than 30 days cash on hand, 50% of the Base Management Fee shall be deferred until there are at least 30 days cash on hand. The Management Consulting Agreement will terminate on February 28, 2018.

8. **Professional Liability Insurance**

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

9. **Concentration of Credit Risk**

The Organization grants credit without collateral to its residents, most of whom are third party payors. The mix of receivables from payors was as follows at December 31:

	2011	2010
Medicare	58%	63%
Residents and other	42%	37 %
	100%	100%

10. **Fair Value Disclosures**

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 Organization'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.

Following is a description of the valuation methodologies used for assets and liabilities measured at fair value. There have been no changes in the methodologies used at December 31, 2011 and 2010.

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 investment securities include money market mutual funds.

Under the terms of the existing interest rate swap agreements, the Organization pays a fixed payment to the counterparty in exchange for receipt of a variable payment that is determined based on the SIFMA Municipal Swap Index rate. The fair value of the interest rate swaps are therefore based on the projected SIFMA Municipal Swap Index rates for the duration of the swap, values that, while observable in the market, are subject to adjustment due to pricing considerations for the specific instrument and the resulting fair values are shown in the "Level 2 input" column.

Due to significant unobservable inputs included in the valuation model for the guaranteed investment contracts, the resulting fair values are classified as Level 3. The fair value was estimated by discounting the related cash flows based on current yields of similar instruments with comparable durations considering the credit worthiness of the issuer.

The following tables set forth by level within the fair value hierarchy the Organization's assets and liabilities accounted for at fair value on a recurring basis as of December 31, 2011 and 2010:

		Fair value measurements at December 31, 2011 using:		
	Fair value at December 31, 2011	Quoted prices in active markets for identical assets and liabilities (Level 1 inputs)	Quoted prices for similar assets and liabilities (Level 2 inputs)	Significant unobservable inputs (Level 3 inputs)
Assets measured at <u>fair value</u>:				
Money market mutual funds	$ 5,455,901	$ 5,455,901	$ -	$ -
Guaranteed investment contracts	2,881,454	-	-	2,881,454
	$ 8,337,355	$ 5,455,901	$ -	$ 2,881,454
Liabilities measured <u>at fair value</u>:				
Derivative instruments	$ 450,513	$ -	$ 450,513	$ -

Assets limited as to use, described in Note 2, are held at fair value and included in the table above except for cash and cash equivalents totaling $523,759.

		Fair value measurements at December 31, 2010 using:		
	Fair value at December 31, 2010	Quoted prices in active markets for identical assets and liabilities (Level 1 inputs)	Quoted prices for similar assets and liabilities (Level 2 inputs)	Significant unobservable inputs (Level 3 inputs)
Assets measured at fair value:				
Money market mutual funds	$ 5,387,580	$ 5,387,580	$ -	$ -
Guaranteed investment contracts	4,426,352	-	-	4,426,352
	$ 9,813,932	$ 5,387,580	$ -	$ 4,426,352
Liabilities measured at fair value:				
Derivative instruments	$ 450,915	$ -	$ 450,915	$ -

Assets limited as to use, described in Note 2, are held at fair value and included in the table above except for cash and cash equivalents totaling $657,975.

The following table illustrates the activity of Level 3 assets measured at fair value on a recurring basis from December 31, 2010 to December 31, 2011:

	Guaranteed Investment Contracts
Fair value at December 31, 2010	$ 4,426,352
Interest income	219,601
Transfers	(219,601)
Sales	(1,544,898)
Fair value at December 31, 2011	$ 2,881,454

11. **Liquidity**

The recent economic downturn had a significant adverse impact on the Organization. Many factors, including the steep decline in the residential real estate market, which impaired the ability of some potential residents to sell their houses and then move into the Organization, resulted in the Organization not attracting initial residents as quickly as projected in the financial feasibility study dated September 28, 2007.

Other unforeseen events and expenses affecting the Organization added to a slower initial occupancy and lower revenues than originally projected. This slower initial occupancy and the resulting unanticipated utilization of funded interest reserves meant less revenue for the Organization to pay operating expenses and to prepay certain outstanding indebtedness as described in the feasibility study. Together, these factors resulted in the depletion of the operating reserves and funded interest reserves of the Organization.

In February of 2011, after examining multiple alternatives, the Organization began steps towards restructuring of the then current bond debt. The Organization executed a forbearance agreement relating to the then current bond debt on April 14, 2011, allowing the Organization to defer debt service payments. The forbearance was extended via a restructuring support agreement dated December 21, 2011.

On February 6, 2012, the Offer to Tender and Exchange was initiated by the Organization, of which owners of the Series 2007A and B Bonds were invited to tender their bonds to the Organization in exchange for Series 2012 Bonds. Series 2007 A and B Bonds in the aggregate outstanding principal amount of $2,325,000 were not tendered and shall remain outstanding. The Organization further restructured the payment obligations of $31,312,173 under the Series 2007C and D reimbursement agreement, the Series 2007 C and D interest rate swap agreements, and the Series 2007E obligations of which the Organization issued new 2012 Bank Obligations.

On March 1, 2012, the successful restructuring of debt, per the Amended and Restated Master Trust Indenture, created significant savings on interest expense which allows the Organization additional time for fill-up of the independent living units, which is more consistent with the current economic downturn. Furthermore, prior Series 2007 debt covenants were cured and replaced with new 2012 covenants, which are consistent with the Organization's performance over the prior years.

Liquidity provisions were also added per the Amended and Restated Master Trust Indenture. Per Section 428, the Master Trustee shall maintain a separate fund to be known as the "Gross Revenue Fund" into which the Organization shall deposit on a daily basis all forms of cash, checks or negotiable instruments. The Organization will obtain access to the funds for the current month's operations and obligations on the first business day of each calendar month. At which time approved amounts in the Gross Revenue Fund shall be transferred or deposited, by the Master Trustee in accordance to the "Distribution Waterfall".

Management expects that the liquidity and debt restructuring is sufficient to improve the financial performance and increase its ability to generate sufficient cash flow to pay its debt service and meet its obligations, thereby reducing the previous risk of a default without disposition of assets beyond the normal course of business or significant revisions of the Organization's operations and responsibility to residents. These improvements have become apparent during the first four months of 2012 as it relates to marketing activity, occupancy and financial performance, as the Organization is exceeding all of the covenants under the Amended and Restated Master Trust Indenture.

12. Subsequent Events

In March 2012, the Organization signed a restructuring agreement to restructure payment on certain outstanding obligations. See information included in Notes 5, 6, and 7 for details of the restructuring agreement and changes made.

The Organization evaluated the effect subsequent events would have on the financial statements through May 31, 2012, which is date the financial statements were available to be issued.