



THE WATERMARK
AT EAST HILL

***Financial Filing
As of December 31, 2014***

The Watermark East Hill
611 East Hill Road
Southbury, Connecticut 06488



THE WATERMARK
AT EAST HILL
FINANCIAL FILING
As of December 31, 2014

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Cross Reference to Connecticut CCRC Regulations Section 17b-527 & 17b-528

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Current Entrance Fees and Monthly Fees Effective April 1, 2014

Entrance Fees

Pricing is based upon the size of the apartment selected, the number of occupants and the type of Continuing Care Contract selected. The two Continuing Care Contracts offered by the Community are an 80% Refund Contract Plan and Traditional Declining Refund Contract Plan. The Declining Refund Contract Plan amortizes to zero refund at the rate of ten percent (10%) for the first month or partial month of residency and two percent (2%) per month thereafter.

| <i>Apartment Type</i> | <i>80% Refundable Plan</i> | <i>Traditional Declining Plan</i> |
|---|----------------------------|-----------------------------------|
| One Bedroom Standard | Starting at \$149,850 | Starting at \$99,900 |
| One Bedroom Deluxe | Starting at \$225,000 | Starting at \$150,000 |
| Two Bedroom Standard/One Bedroom with Den | Starting at \$283,500 | Starting at \$189,000 |
| Two Bedroom Deluxe | Starting at \$475,000 | Starting at \$316,500 |
| Two Bedroom Combo | Starting at \$525,000 | Starting at \$350,000 |

The Entrance Fee for a second occupant is \$13,000 for the Life Care plan (non-refundable).

Monthly Service Fee

The Monthly Service Fee includes services as outlined in the Community's Disclosure Statement.

| <i>Apartment Type</i> | <i>Life Care First Person Monthly Service Fee</i> | <i>Fee for Service First Person Monthly Service Fee</i> |
|---|---|---|
| One Bedroom Standard | \$3,495 | \$2,295 |
| One Bedroom Deluxe | \$3,895 | \$2,695 |
| Two Bedroom Standard/One Bedroom with Den | \$4,450 | \$3,250 |
| Two Bedroom Deluxe | \$4,625 | \$3,425 |
| Two Bedroom Combo | \$5,195 | \$3,995 |

The Monthly Service Fee for a second occupant is \$1,637 for Life Care or \$1,237 for Fee for Service. Rates effective 4/1/14

* All fees are subject to change as necessary to maintain the viability of the Community.

Other Service Charges Effective May 2014

Dining Services

| Item or Service | Charge | Billed |
|------------------------------------|-------------------|----------------------|
| Additional meals | \$8.00 per meal | |
| Guest meals | \$17.00 per meal | |
| Meal delivery/pick up service | \$5.00 per meal | |
| Boxed Meal Paper Goods | \$3.00 per box | |
| A La Carte Items | | |
| Entree | \$12.50 | |
| Salad | \$2.50 | |
| Soup-cup/bowl | \$2.50/\$3.00 | |
| Dessert | \$3.00 | |
| Coffee or tea | \$1.50 | |
| Juice – small/large | \$1.50/\$ 1.75 | |
| Sandwich | \$8.00 | |
| Fruit Cup | \$2.50 | |
| W Lounge | Priced per market | See menu for pricing |
| Mark of Elegance – Specialty Items | Priced per market | See menu for pricing |
| Parties or Special Events | Priced per market | See menu for pricing |

Ancillary Charges – Independent Living

| Item or Service | Charge | Billed |
|--|--------------------|----------------------------|
| <i>Additional services such as medication management and assurance checks are available through Watermark at Home, a licensed Assisted Living Services Agency (ALSA)</i> | | |
| Item or Service | Charge | Billed |
| INDEPENDENT LIVING: Miscellaneous Fees | | |
| Nurse Visit | \$70.00 per visit | 15 minute increments |
| Dressing Supplies | \$6.50 per supply | In addition to Nurse Visit |
| One-time charge to start ongoing care or services | \$100.00 | One-time |
| Certified Nurses Assistant | \$25.00 per hour | 15 minute increments |
| Medication Management by Nurse | \$400.00 | Per month |
| Medication Reminder – phone call or visit from Certified Nursing Assistant | \$525.00 per month | Once a Day |
| Medication Reminder – phone call or visit from Certified Nursing Assistant | \$670.00 per month | Twice a Day |
| Vitamin B-12 injections | \$15.00 | Per injection |
| Registered Dietician Assessment and Consultation | \$60.00 | Per hour |
| Wheel chair or scooter rental | \$5.00 | Per day |
| Pet Fee - non-refundable | \$750.00 | Two pet limit |

Ancillary Charges – Independent Living, cont.

| Item or Service | Charge | Billed |
|---|------------|-----------|
| INDEPENDENT LIVING: ALSA PACKAGES | | |
| All packages include R.N. management of care plan, which will be reviewed at regular intervals | | |
| ALSA 1 Basic: Aide will visit twice weekly Assist with bathing, dressing, apartment tidying, assist as needed with care, laundry once weekly (as needed), meal management (if needed) | \$360.00 | Per month |
| ALSA 1 with Medications: Aide will visit twice weekly Assist with bathing twice weekly Assist with dressing, apartment tidying, assist as needed with care, laundry once weekly (as needed), meal management (if needed) Medication visit once weekly, resident will take own meds. R.N. will manage all aspects of medications i.e. doctor's orders and updates, ordering refills, implementing new orders. | \$600.00 | Per month |
| ALSA 2 Basic: Aide will visit daily Assist with bathing twice a week Assist with dressing, apartment tidying, assist as needed with care, laundry once weekly (as needed), meal management (if needed) | \$850.00 | Per month |
| ALSA 2 with Medications: Aide will visit daily Assist with bathing twice a week. Assist with dressing, apartment tidying, assist as needed with care, laundry once weekly (as needed), meal management (if needed) Medication visit once weekly, ALSA will assist with administration once a day. R.N. will manage all aspects of medications i.e. doctor's orders and updates, ordering refills, implementing new orders | \$1,085.00 | Per month |

| | | |
|--|------------|-------------------------|
| <p>ALSA 2 with Evening Med Visit: Aide will visit daily Assist with bathing twice a week Assist with dressing, apartment tidying, assist as needed with care, laundry once weekly (as needed), meal management (if needed) Medication pre poured once weekly Morning and evening visits will assist with medication administration R.N. will manage all aspects of medications i.e. doctor's orders and updates, ordering refills, implementing new orders</p> | \$1,340.00 | Per month |
| <p>ALSA 3 Basic: Aide will visit daily Assist with dressing, apartment tidying, assist as needed with care, laundry once weekly (as needed), meal management (if needed) Assist with bathing twice a week ALSA will visit every evening to assist with evening care, i.e.. getting ready for bed, washing, etc.</p> | \$1,370.00 | Per month |
| <p>ALSA 3 with Medication: Aide will visit every morning Assist with dressing, apartment tidying, assist as needed with care, laundry once weekly (as needed), meal management (if needed) Assist with bathing twice a week ALSA will visit every evening to assist with evening care, i.e. getting ready for bed, washing, etc. Medications will be pre poured weekly and administered twice daily R.N. Will manage all aspects of medications i.e. doctor's orders and updates, ordering refills, implementing new orders</p> | \$1,610.00 | Per month |
| <p>INDEPENDENT LIVING MEDICATION PLANS. All Medication Plans include the following:</p> <ul style="list-style-type: none"> • Assessments: Initial assessment upon admission; quarterly assessments thereafter • Plan of Care development with revision as indicated • Bi-weekly pre pour of medication • Prescription renewals and/or refills • Consultations with physicians, pharmacists, and families | | |
| <p>Medication Plan A Medication set-up (pre pour)</p> | \$400.00 | Bi-weekly |
| <p>Medication Plan B Medication set-up (pre pour) Medication administration or reminder</p> | \$525.00 | Bi-weekly Once daily |

| | | |
|---|----------|--------------------------|
| Medication Plan C Independent Living & Assisted Living Medication set-up (pre pour) Medication administration or reminder | \$670.00 | Bi-weekly Twice daily |
| <i>Note: Medication Plan charges do not apply to residents with ALSA 1 with Medications, ALSA 2 with Medications, or ALSA 3 with Medications described above.</i> | | |

Private Duty (Independent Living and Assisted Living)

| Item or Service | Charge | Notes |
|---|-------------------------------|------------------|
| <i>Note: For residents with any of the ALSA packages described above, the following private duty charges apply only to the extent the resident requests services beyond those covered by the package.</i> | | |
| CNA to provide assistance with bathing, dressing, grooming, other ADL's, meal management, laundry, light tidying | \$25.00 per hour | Two hour minimum |
| Companion/Escort to provide assistance with short shopping trips and doctor's visit | \$30.00 per trip plus mileage | One hour maximum |

Ancillary Services – Assisted Living at The Inn at Cherrywood

| Item or Service | Charge | Notes |
|---|--|--|
| Non-refundable Entrance Fee If not moving from Independent Living | Monthly Service Fee for selected suite | Upon move in, per person |
| Meal and Miscellaneous Charge Covers two additional meals per day, two snacks per day, referral services, wellness education, dietician, daily housekeeping, social services, laundry and maintenance | \$35.00 | Per day, applicable only to Life Care Contract |
| Additional assisted living services beyond seven (7) hours per week. Available through a tiered system. The tiered rates are based on individual needs and determined through a personal assessment by Watermark staff | | |
| Tier One | \$600.00 per person | Per month |
| Tier Two | \$1,200.00 per person | Per month |
| Tier Three | \$1,800.00 per person | Per month |
| Tier Four | \$2,400.00 per person | Per month |
| Tier Five | \$3,000.00 per person | Per month |
| Custom Tier | Custom | Per month |
| Respite Stay at The Inn at Cherrywood for Life Care Residents | \$150.00 per person | Per day basis |
| Respite Stay at The Inn at Cherrywood for Non-Life Care Residents | \$175.00 per person | Per day basis |
| Market Rate for The Inn at Cherrywood | \$4,200 per month | Not Applicable to Life Care Contract |

| | | |
|-------------------------------------|------------|-----------|
| Private Apartment- Non Suite | \$1,050.00 | Per month |
|-------------------------------------|------------|-----------|

Ancillary Services –Memory Care at The Villa

| Item or Service | Charge | Notes |
|--|--|---|
| Non-refundable Community Fee If not moving from Independent Living | Monthly Service Fee for selected suite | Upon move in, per person |
| Second Occupant Fee | Second Occupant Monthly Service Fee | Applicable only to life care contract, effective 9/1/13 |
| Additional Rate for Specific Rooms Villa Rooms 4, 5, 6, 7, 8, 9 Villa Rooms 10,11 | \$95.00 \$195.00 | Per Month, applicable only to Life Care Contract |
| Miscellaneous Charge Covers two additional meals per day, two snacks per day, referral services, wellness education, dietician, daily housekeeping, social services, laundry and maintenance | \$33.00 | Per day, applicable only to life care contract |
| Additional Villa Services. Available through a tiered system. The tiered rates are based on individual needs and determined through a personal assessment by Watermark staff | | |
| Tier One | \$750.00 per person | Per month |
| Tier Two | \$1,500.00 per person | Per month |
| Tier Three | \$2,250.00 per person | Per month |
| Custom Tier | Custom per point | Per month |
| Respite Stay at The Villa | \$200.00 | Per day |
| Market Rate for The Villa (varies per room) | \$6,235-\$6,443 | Per Month |

Ancillary Services – Skilled Nursing

| Item or Service | Charge | Notes |
|---|---------|--|
| Meal and Miscellaneous Charge Covers two additional meals per day, two snacks per day, referral services, wellness education, dietician, daily housekeeping, social services, laundry and maintenance | \$35.00 | Per day, applicable only to Life Care Contract |
| Health Care Supplies – Bundled Packages (non-Medicare Residents) | | |
| Admission Kit | \$20.00 | Per admission |
| Daily Hygiene | \$15.00 | Per month |
| Gloves | \$20.00 | Per month |

| | | |
|--|---------------------|-------------------|
| Incontinent Supplies: Briefs/liners, Frequent Use (6-10 briefs daily) | \$217.00 | Per month |
| Incontinent Supplies: Briefs/liners, Occasional Use (1-5 briefs daily) | \$115.00 | Per month |
| Incontinent Supplies: Pull-Ups, Frequent Use (6-10 pull-ups daily) | \$235.00 | Per month |
| Incontinent Supplies: Pull Ups, Occasional Use (1-5 pull-ups daily) | \$145.00 | Per month |
| Incontinent Care Products | \$45.00 | Per month |
| Fingerstick Glucose Testing | \$180.00 | Per month |
| Pulse Oximetry | \$8.00 | Per day |
| IV Start Supplies | \$33.00 | Per IV start |
| IV Maintenance Supplies (not including fluids and medications) | \$28.00 | Per day |
| Dietary Supplement Program: Fortified Shake/Ice Cream | \$45.00 | Per month |
| Dietary Supplement: Standard | \$1.50 | Per can |
| Dietary Supplement: Enhanced | \$1.75 | Per can |
| Isolation Supplies | \$15.00 | Per day |
| Urological Supplies | \$38.00 | Per month |
| Wound Care – General | \$6.50 | Per treatment |
| Wound Care – Specialty (per designated supplies) | Varies | Per treatment |
| Escort to Appointment | \$30.00 + mileage | One hour maximum |
| Safety Items | | |
| Bed Mats | \$25.00 | Per month |
| Bed Alarm | \$25.00 | Per month |
| Chair Alarm | \$25.00 | Per month |
| Wander Alert System | \$35.00 | Per month |
| Pressure Relieving Cushion | Varies | Per type |
| Alarming Seatbelt | \$25.00 | Per month |
| Ambulation/Positioning | | |
| Wheelchair | \$30.00 | Per month |
| Foot Cradle/Heels Up Cushion | \$10.00 | Per month |
| Geri Chair | \$30.00 | Per month |
| Mechanical Sling-Lift | \$30.00 | Per month |
| Specialty Beds/Mattresses | | |
| Air Mattress | Per mattress type | Per order |
| Air/gel Overlay Mattress Pad | Per type of overlay | Per order |
| Miscellaneous | | |
| Foot pillows (pair) | \$25.00 pair | Per order |
| Geri gloves/ Geri legs | \$18.00 pair | Per order |
| Thermometer rectal plus probe covers | \$15.00 each | Per order |
| Over-the-counter Medications/Items | Varies | Per order/Per use |
| Ready Bath Body/ Shampoo (Bath in a Bag) | \$5.00 | Per order |
| Glucose Testing Strips | Market | Per box |
| Miscellaneous Items per special order | Varies | Per order |

| | | |
|--|---------------|--|
| Market Rate for The Springs (semi-private room) | \$425 per day | Not applicable to Life Care Contract only to Fee for |
| Market Rate for The Springs (private room) | \$475 per day | Not applicable to Life Care Contract only to Fee for |

Parking and Transportation (Independent Living, Assisted Living and Memory Care)

| Item or Service | Charge | Notes |
|---|---------------------------------------|----------------------|
| To medical facilities within a local radius of the community on scheduled medical appointment days | No charge | |
| To medical facilities within a local radius of the community that are NOT on scheduled medical appointment days | \$0.60 plus \$30.00 Associate Time | Per mile Per hour |
| To medical facilities in Waterbury or Danbury | \$0.60 plus \$25.00 Associate Time | Per mile Per hour |
| Daily transportation to/from meals | \$150.00 | Per month |
| Garage Parking | \$55.00 | Per month |
| Mileage for trips to Danbury or Waterbury | \$0.60 | Per mile |
| Mileage for local transportation | \$0.60 | Per mile |

Plant Operations/Maintenance

| Item or Service | Charge | Notes |
|--|---------------------------------|----------------|
| Additional basic maintenance services | \$27.00 per hour | Per associate |
| Moving furniture | \$27.00 per hour | Per associate |
| Replacement keys | \$8.00 | Per key |
| Life Line <ul style="list-style-type: none"> • Supply and Install • Transfer Life Line to another location • Replacement- Pendant or Bracelet | \$400.00 \$100.00 \$75.00 | Per occurrence |

Housekeeping and Laundry

| Item or Service | Charge | Notes |
|--|-------------------|-------------------|
| Additional basic housekeeping services | \$27.00 per hour | 30 minute minimum |
| Additional trash/newspaper pickup | \$5.50 per pickup | |
| Additional specific housekeeping services, including: mattress turning, bed making, dish washing, carpet cleaning/extraction | \$27.00 per hour | 30 minute minimum |

| | | |
|--|---|--|
| Personal laundry: wash, dry and folding Half Load (1-15 items) One Load (15-20 items) Bedspreads Blankets Electric Blankets | \$7.50 per load \$10.50 per load \$10.00 each \$6.50 each \$8.50 each | |
| Personal laundry: wash, dry and ironing Pants, Shirts, Skirts Dresses Sheet sets | \$6.00 each \$6.00 each \$6.00 per set | |

Miscellaneous

| Item or Service | Charge | Notes |
|---|---|---|
| Fuel Surcharge | \$1.00 | Per day |
| Late Payment of Monthly Service Fee: Must be paid by fifteenth (15 th) day of the month | \$25.00 \$5.00 | First day late Each subsequent day |
| Long Term Care Insurance Assistance | \$25.00 | Per hour 15 minute minimum |
| ACH Payment Decline | \$25.00 | Per occurrence |
| Guest Suite: Single or Double Occupancy Rollaway Cot or Crib | \$100.00 per night \$10.00 per night | |
| Faxes, sending and receiving: Domestic International | \$0.50 per page \$2.50 per page | \$5.00 maximum for domestic faxes |
| Copies | \$0.10 per page | |
| Typing | \$2.50 per page | |
| Beauty/Barber services | Prices vary – see posting | |
| Telephone | Based on usage | |
| Admission to off-site events/outings | Prices vary – see calendar | |
| Internal move fee to a different apartment with the same program | \$6,000.00 | In addition to outside mover costs, etc |
| Parking Fines for private duty caregivers parking in designated visitor, resident and/or handicapped spaces | \$10.00 | Per day |
| Clean up canine feces | \$10.00 | Per incident |

Watermark shall have the right to add, delete and modify the services and corresponding charges above at its sole discretion; provided however, Watermark shall give you at least thirty (30) days prior written notice of any such addition, deletion or modification.

Statistical Information

| | <i>2008 Actual</i> | <i>2009 Actual</i> | <i>2010 Actual</i> | <i>2011 Actual</i> | <i>2012 Actual</i> | <i>S</i> |
|---------------------------------|------------------------|------------------------|------------------------|------------------------|------------------------|----------|
| Residential Turnover | | | | | | |
| Units | 22 | 20 | 23 | 22 | 22 | 24 |
| Percentage (of IL units) | 13% | 13% | 15% | 13% | 13% | 15% |
| Average Age of Residents | | | | | | |
| Females | 87.4 | 88.1 | 87.7 | 87.5 | 88.0 | 89.0 |
| Males | 86.6 | 86.7 | 88.0 | 86.2 | 85.0 | 88.0 |
| Health Care Utilization | | | | | | |
| Patients | 44 | 27 | 52 | 55 | 56 | 54 |
| Percentage (of total units) | 20% | 12.6% | 24.7% | 25.3% | 25.5% | 25.4% |
| Admission Rates | | | | | | |
| Independent Living | 17 | 26 | 19 | 16 | 20 | 24 |
| Assisted Living | 25 | 14 | 12 | 23 | 22 | 20 |
| Health Care Center | 60 | 97 | 98 | 74 | 81 | 93 |
| Days per 100 Residents | | | | | | |
| Independent | 434 | 514 | 427 | 510 | 520 | 525 |
| Assisted Living | 60 | 80 | 73 | 79 | 79 | 78 |
| Health Care Center | 106 | 99 | 109 | 117 | 119 | 118 |
| Occupancy Rates | | | | | | |
| Independent (of IL units) | 73% | 74% | 74% | 73% | 74% | 72% |
| Health Care Admissions | | | | | | |
| Continuing Care Contracts | 58 | 79 | 67 | 68 | 66 | 71 |
| Days of Care per Year | | | | | | |
| Health Care Center | 10,585 | 9,927 | 10,854 | 11,820 | 11,825 | 11,689 |
| Permanent Transfers | | | | | | |
| To Assisted Living | 5 | 7 | 10 | 7 | 5 | 7 |
| To Health Care Center | 2 | 6 | 3 | 3 | 6 | 8 |

Reflects most recently completed fiscal year and projections for upcoming years based on actuarial studies.

Income Statement and Cash Flow Projections

| The Watermark at East Hill | | | | | | |
|---|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| Cash Flow Statement | | | | | | |
| Projections | | | | | | |
| | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 |
| Operating Revenues | | | | | | |
| Entry Fee Amortization | 2,300,578 | 2,906,374 | 3,371,183 | 3,829,247 | 3,933,024 | 3,853,100 |
| Independent Living Revenues | 6,048,498 | 7,413,585 | 8,317,608 | 9,196,756 | 10,044,018 | 10,835,401 |
| Assisted Living Revenues | 1,269,798 | 1,304,247 | - | - | - | - |
| Assisted Living Villa Revenues | - | - | 827,995 | 857,091 | 888,927 | 922,998 |
| Memory Care Revenues | - | - | 882,646 | 1,070,589 | 1,113,413 | 1,157,949 |
| Health Center Revenues | 2,262,866 | 2,537,504 | 2,620,059 | 2,715,252 | 2,814,061 | 2,916,623 |
| Total Operating Revenue | 11,881,741 | 14,161,711 | 16,019,490 | 17,668,935 | 18,793,443 | 19,686,071 |
| Operating Expenses | | | | | | |
| Administration | 2,846,693 | 3,044,284 | 3,223,560 | 3,405,073 | 3,561,960 | 3,708,368 |
| Maintenance | 1,665,496 | 1,787,798 | 1,870,046 | 1,985,258 | 2,098,141 | 2,206,669 |
| Housekeeping/Laundry | 381,565 | 399,808 | 415,303 | 433,639 | 452,130 | 470,634 |
| Community Service | 275,652 | 287,288 | 296,312 | 308,163 | 320,240 | 332,492 |
| Transportation | 55,150 | 57,553 | 59,713 | 62,172 | 64,670 | 67,194 |
| Food Service | 1,341,061 | 1,448,611 | 1,507,204 | 1,606,660 | 1,703,626 | 1,796,190 |
| Nursing-IL | 207,192 | 1,127,115 | 1,138,150 | 1,192,357 | 1,246,382 | 1,299,574 |
| Nursing-AL/ALZ | 452,949 | 255,236 | 249,370 | 254,053 | 259,365 | 265,472 |
| Nursing-SNF | 1,497,733 | 876,440 | 871,015 | 891,623 | 914,086 | 938,823 |
| Marketing/Sales | 928,528 | 969,195 | 1,006,372 | 1,048,065 | 1,090,391 | 1,133,118 |
| Operating Expenses Before Interest | 9,652,020 | 10,253,328 | 10,637,045 | 11,187,064 | 11,710,991 | 12,218,535 |
| Tax NOI | 2,229,721 | 3,908,383 | 5,382,445 | 6,481,870 | 7,082,453 | 7,467,536 |
| Less Amortized Entry Fees | (2,300,578) | (2,906,374) | (3,371,183) | (3,829,247) | (3,933,024) | (3,853,100) |
| Plus Net Entry Fees | 4,038,953 | 5,338,467 | 10,913,245 | 8,834,960 | 6,643,670 | 6,432,930 |
| Less Routine Capex | (152,869) | (158,984) | (170,701) | (177,530) | (184,631) | (192,016) |
| Cash NOI Before Debt Service | 3,815,226 | 6,181,492 | 12,753,806 | 11,310,054 | 9,608,468 | 9,855,351 |
| Less Debt Service | (1,782,887) | (2,310,469) | (2,655,634) | (2,662,500) | (2,662,500) | (2,662,500) |
| Cash NOI After Debt Service | 2,032,339 | 3,871,023 | 10,098,172 | 8,647,554 | 6,945,968 | 7,192,851 |
| Interest Income from Reserves | 123,175 | 123,175 | 123,175 | 123,175 | 123,175 | 123,175 |
| Net Increase in Cash | 2,155,514 | 3,994,198 | 10,221,347 | 8,770,729 | 7,069,143 | 7,316,026 |

Assumptions used in Projections

Fees

All Entry Fees and Monthly Fees are based on projected occupancy and a 4.5% increase each year starting in 2009.

Amortization of Life Care Fees

Amortization of Life Care Fees is projected based on occupancy, Continuing Care Contract type, and the actuarially determined remaining lifespan of the residents holding Continuing Care Contracts dated prior to October 31, 2007.

Other Income

Other Income includes laundry, housekeeping, additional meals, ancillary services, and Assisted Living Services Agency (ALSA) revenue. Other Income is forecasted based on the Community's historical three-year average adjusted for the elimination of extraordinary items, trended by an annual 4.5% inflation rate.

Operating Expenses

Operating expenses and benefits are projected to increase 4.5% per annum.

Interest

Interest expenses are based on senior debt secured by a first mortgage on the property.

Basis for Amortization/Depreciation of Capital Cost

| <i>Asset Type</i> | <i>Useful Life</i> | <i>Depreciation Method</i> |
|--------------------------------|--------------------|----------------------------|
| Land | n/a | Not depreciated |
| Building and Land Improvements | 25-40 years | Straight Line |
| Fixed Equipment | 5-25 years | Straight Line |
| Movable Equipment | 5-15 years | Straight Line |

Assessment of Actuarial Soundness

The Community began operations as a continuing care retirement community (“CCRC”) in 1983. It has been in continued operation since that time. The statistical projections contained in this filing are based on the past several years of actual operating data obtained from the prior management of the Community and the future service obligation report prepared by Milliman & Robertson, Financial Consultants. The financial projections contained in this filing are based on the past several years of actual operating data obtained from the prior management of the Community and on the experience of the team of individuals representing Watermark LLC in the preparation of this filing.

The following facts refer specifically to Watermark LLC and the Community:

1. Resident turnover was based on the actual turnover experienced at the Community for the past five years.
2. Occupancy in the apartments at the Community will steadily and moderately increase in each of the following five (5) years.
3. Cash inflows (primarily from new Entry Fee deposits) will exceed cash outflows in the first twelve (12) months of the Community’s operation.
4. Adequate funding in the way of operating reserves will be funded by Watermark LLC to cover shortfalls in operating cash flow in the first months of operation of the Community, as needed.
5. Adequate funding will be made available to Watermark LLC to provide ample funds for the renovation and expansion of the Community to help make it competitive in the market.
6. Investments by Watermark LLC will comply with the reserve requirements established by the State of Connecticut for CCRCs.
7. The current Continuing Care Contract with residents provides that refunds of Entrance Fees will be made only after an apartment is reoccupied.
8. Debt service in the Watermark LLC will be the Community’s primary long term liability. During the next five (5) years, the cash flow generated by operations at the Community is projected to be sufficient to service the debt of the organization.



THE WATERMARK
AT EAST HILL
FINANCIAL FILING

Appendix A – Audited/Certified Financial Statements

**Watermark East Hill
Woods, LLC**
Financial Statements
(Income Tax Basis)
December 31, 2013 and 2012

Watermark East Hill Woods, LLC
Index
(Income Tax Basis)
December 31, 2013 and 2012

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Independent Auditor's Report

To Management of
Watermark East Hill Woods, LLC

We have audited the accompanying financial statements of Watermark East Hill Woods, LLC (the "Company"), which comprise the statements of assets, liabilities, and members' deficit (income tax basis) as of December 31, 2013 and 2012, and the related statements of revenue and expenses (income tax basis), members' deficit (income tax basis) and of cash flows (income tax basis) for the years then ended.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the basis of accounting the Company uses for income tax purposes as described in Note 2; this includes determining that the income tax basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the 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 of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our 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, we consider internal control relevant to the Company'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 Company'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 assets, liabilities, and members' deficit of Watermark East Hill Woods, LLC as of December 31, 2013 and 2012, its revenue and expenses, members' deficit and its cash flows for the years then ended, in accordance with the basis of accounting the Company uses for income tax purposes as described in Note 2.

Emphasis of Matter

We draw attention to Note 2 of the financial statements, which describes the basis of accounting. The financial statements are prepared on the basis of accounting the Company uses for federal income tax purposes, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

PricewaterhouseCoopers LLP

March 31, 2014

Watermark East Hill Woods, LLC
Statements of Assets, Liabilities and Members' Deficit
(Income Tax Basis)
December 31, 2013 and 2012

| | 2013 | 2012 |
|---|----------------------|----------------------|
| Assets | | |
| Property and equipment, net | \$ 36,308,548 | \$ 37,388,904 |
| Cash | 1,721,835 | 1,129,247 |
| Restricted cash | 5,079,763 | 4,860,174 |
| Accounts receivable | 485,787 | 911,163 |
| Prepaid expenses and other | 173,046 | 259,360 |
| Goodwill, net | <u>6,678,881</u> | <u>7,434,981</u> |
| Total assets | <u>\$ 50,447,860</u> | <u>\$ 51,983,829</u> |
| Liabilities and Members' Deficit | | |
| Accounts payable and accrued expenses | \$ 1,148,335 | \$ 1,289,479 |
| Notes payable, related party | 56,479,166 | 55,984,820 |
| Unearned entry fees | 1,254,756 | 1,260,608 |
| Resident refund liabilities | 18,668,611 | 16,657,609 |
| Refundable deposits | <u>27,750</u> | <u>148,357</u> |
| Total liabilities | 77,578,618 | 75,340,873 |
| Commitments and contingencies (note 9) | | |
| Total members' deficit | <u>(27,130,758)</u> | <u>(23,357,044)</u> |
| Total liabilities and members' deficit | <u>\$ 50,447,860</u> | <u>\$ 51,983,829</u> |

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

Watermark East Hill Woods, LLC
Statements of Revenues and Expenses
(Income Tax Basis)
Years Ended December 31, 2013 and 2012

| | 2013 | 2012 |
|--|-----------------------|-----------------------|
| Revenue | | |
| Resident | \$ 8,081,707 | \$ 7,519,675 |
| Healthcare | 4,139,128 | 3,279,730 |
| Amortization of resident refund and entry fees | 1,669,697 | 1,365,376 |
| Other | <u>104,176</u> | <u>170,811</u> |
| Total revenue | <u>13,994,708</u> | <u>12,335,592</u> |
| Operating expenses | | |
| Wages and benefits | 5,006,431 | 4,641,850 |
| Management fee | 744,169 | 655,760 |
| General and administrative | 229,869 | 267,254 |
| Professional services | 642,120 | 787,766 |
| Repairs and maintenance | 605,001 | 534,400 |
| Occupancy costs | 1,716,708 | 1,837,220 |
| Supplies | 565,036 | 509,307 |
| Ancillaries/therapies | 1,089,341 | 743,844 |
| Amortization | 756,100 | 756,100 |
| Depreciation | <u>1,963,506</u> | <u>2,359,267</u> |
| Total operating expenses | <u>13,318,281</u> | <u>13,092,768</u> |
| Excess of revenue over operating expenses (operating expenses over revenue) | <u>676,427</u> | <u>(757,176)</u> |
| Other (expense) income | | |
| Interest expense | (4,455,874) | (4,295,410) |
| Interest income | 5,733 | 8,738 |
| Gain on sale of assets | <u>-</u> | <u>1,500</u> |
| Total other (expense) income | <u>(4,450,141)</u> | <u>(4,285,172)</u> |
| Excess of expenses over revenue | <u>\$ (3,773,714)</u> | <u>\$ (5,042,348)</u> |

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

Watermark East Hill Woods, LLC
Statements of Members' Deficit
(Income Tax Basis)
Years Ended December 31, 2013 and 2012

| | FSPPII East Hill, LLC | Watermark East Hill Investments, LLC | Total |
|--|----------------------------------|---|------------------------|
| Balances at December 31, 2011 | \$ (12,820,289) | \$ (5,494,407) | \$ (18,314,696) |
| Excess of expenses over revenue | (3,529,644) | (1,512,704) | (5,042,348) |
| Reallocation of excess expenses over revenue | <u>(1,200,296)</u> | <u>1,200,296</u> | <u>-</u> |
| Balances at December 31, 2012 | (17,550,229) | (5,806,815) | (23,357,044) |
| Excess of expenses over revenue | <u>(3,249,307)</u> | <u>(524,407)</u> | <u>(3,773,714)</u> |
| Balances at December 31, 2013 | <u>\$ (20,799,536)</u> | <u>\$ (6,331,222)</u> | <u>\$ (27,130,758)</u> |

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

Watermark East Hill Woods, LLC
Statements of Cash Flows
(Income Tax Basis)
Years Ended December 31, 2013 and 2012

| | 2013 | 2012 |
|---|---------------------|---------------------|
| Cash flows from operating activities | | |
| Excess of expenses over revenue | \$ (3,773,714) | \$ (5,042,348) |
| Adjustments to reconcile excess of expenses over revenue to net cash provided by (used in) operating activities | | |
| Amortization of resident refund and entry fees | (1,669,697) | (1,365,376) |
| Amortization | 756,100 | 756,100 |
| Depreciation | 1,963,506 | 2,359,267 |
| Gain on sale of assets | - | (1,500) |
| Amortization of deferred financing fees | - | 129,646 |
| Change in operating assets and liabilities | | |
| Accounts receivable | 371,667 | (237,625) |
| Prepaid expenses and other | 86,314 | (9,231) |
| Accounts payable and accrued expenses | (120,893) | 143,575 |
| Resident refund and entry fees received | 5,530,385 | 2,995,140 |
| Resident refund and entry fees refunded | (1,801,829) | (2,401,369) |
| Refundable deposits | (120,607) | (128,063) |
| Accrued interest, notes payable related party | 2,235,840 | 2,047,641 |
| Net cash flows provided by (used in) operating activities | <u>3,457,072</u> | <u>(754,143)</u> |
| Cash flows from investing activities | | |
| Property and equipment additions | (903,401) | (2,290,660) |
| Proceeds from the sale of assets | - | 1,500 |
| Changes in restricted cash | (216,948) | 332,211 |
| Net cash flows used in investing activities | <u>(1,120,349)</u> | <u>(1,956,949)</u> |
| Cash flows from financing activities | | |
| Changes in restricted cash for debt service | (2,641) | (34,094) |
| Proceeds from notes payable, related party | 758,506 | 2,045,559 |
| Principal payments on notes payable, related party | (2,500,000) | - |
| Net cash flows (used in) provided by financing activities | <u>(1,744,135)</u> | <u>2,011,465</u> |
| Net increase (decrease) in cash | 592,588 | (699,627) |
| Cash | | |
| Beginning of year | <u>1,129,247</u> | <u>1,828,874</u> |
| End of year | <u>\$ 1,721,835</u> | <u>\$ 1,129,247</u> |
| Supplemental cash flow information | | |
| Interest paid | \$ 2,239,594 | \$ 2,172,247 |
| Noncash investing activity | | |
| Property and equipment additions included in accounts payable and accrued expenses | 8,796 | 29,047 |
| Noncash financing activity | | |
| Refundable entry fees applied to accounts receivable | 53,709 | 115,636 |

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

Watermark East Hill Woods, LLC

Notes to Financial Statements

(Income Tax Basis)

December 31, 2013 and 2012

1. Organization and Business

Watermark East Hill Woods, LLC (the "Company" or "East Hill Woods") was organized on May 8, 2007 as a limited liability company ("LLC") pursuant to the laws of the State of Delaware. The purpose of the Company was to acquire, own and operate a residential retirement community in Southbury, Connecticut (the "Community"). The purchase was consummated on November 8, 2007 for total consideration of approximately \$34 million subject to liabilities assumed of approximately \$17 million. The Company is 70% owned by FSPP II East Hill Woods, LLC ("FSPP II"), a Delaware limited liability company and is 30% owned by Watermark East Hill Woods Investment, LLC ("Investments"), a Delaware limited liability company (collectively, the "Members").

Taxable income or loss generated by the Company shall be allocated in accordance with the Amended and Restated Limited Liability Company Agreement of the Company (the "LLC Agreement") which states that special allocations as defined in the LLC Agreement shall take effect, then allocations of net income or losses shall be allocated prior to reducing capital accounts for any distributions for that year. Special allocations include an allocation to the extent of member nonrecourse deductions, and a limitation of losses to the extent a member is in a negative members' deficit position. Thereafter, net income or loss shall be allocated among the Members to cause the adjusted capital account of each Member to equal the amounts that would be distributed to such Member if the Company distributed all net cash flows plus the amount that would be distributed if the Company liquidated its assets for their adjusted tax basis. The allocation of excess of expenses over revenue at December 31, 2012 has been corrected to properly account for special allocations, resulting in the allocation of additional excess of expenses over revenue in the amount of \$1,200,296 to FSPP II, resulting in a \$0 net impact to total members' deficit.

Distributions, as defined in the LLC Agreement, are made as follows:

- (1) First, to repay Protective Contributions, pro rata, based on total Protective Contributions, including, without limitation, a 20% Contribution Return thereon;
- (2) Second, (i) 70% to FSPP II and (ii) 30% to Investments, until the balance of their respective Contribution Accounts has been reduced to zero;
- (3) (i) 70% to FSPP II and (ii) 30% to Investments, until FSPP II shall have received distributions equal to FSPP II's accrued and unpaid 12% Contribution Return;
- (4) Fourth, (i) 60% to FSPP II and (ii) 40% to Investments, until FSPP II shall have received distributions equal to FSPP II's accrued and unpaid 16% Contribution Return; and
- (5) Last, (i) 50% to FSPP II and (ii) 50% to Investments.

2. Significant Accounting Policies

Basis of Presentation

The Company's policy is to present its financial statements on the same basis of accounting used for federal income tax purposes in the United States of America; consequently, the accompanying financial statements are not intended to present the Company's financial position and results of operations in conformity with accounting principles generally accepted in the United States of America ("GAAP"). For purpose of the financial statements, the principal differences between the income tax basis of accounting and GAAP relate to the timing of the recognition of certain revenue

Watermark East Hill Woods, LLC
Notes to Financial Statements
(Income Tax Basis)
December 31, 2013 and 2012

and expenses, the depreciation of property and equipment, the recognition of long lived asset impairments, the valuation of assets acquired and liabilities assumed in a business combination, amortization of goodwill and capitalization of interest expense.

The Company recognizes residential income as paid or due, whichever is earlier, under the terms of the related residency agreement. GAAP would require the Company to recognize minimum rent increases on a straight-line basis over the original term of the respective residency agreement.

The Company recognizes certain expenses and the related liability are recognized when they become fixed and determinable for income tax purposes whereas such amounts are recognized when incurred under GAAP.

The Company uses an accelerated depreciation method for rental property as set forth in the Internal Revenue Code ("IRC"). GAAP would require the Company to depreciate rental property on a straight-line basis over the useful life of the asset.

The Company does not assess their long-lived assets for impairment. GAAP would require the Company to review its long-lived assets for impairment whenever an event or changes in circumstances indicate the carrying value of the asset may not be recoverable. When an impairment is identified, the Company would be required to record an estimated impairment loss for the amount by which the carrying amount of the asset exceeds its fair value. For income tax purposes, any impairment of long-lived assets is disallowed.

The Company does not record assets acquired and liabilities assumed in a business combination at their fair values using the purchase method of accounting. GAAP would require the Company to recognize these amounts at their fair values using the purchase method of accounting.

The Company amortizes goodwill over a period of 15 years. GAAP would require the Company to assess the fair value of the reported amount of goodwill at each reporting date for impairment or earlier if events or circumstances indicate that the carrying amount may be impaired.

These accounting methods are subject to review and examination by taxing authorities. Because the application of tax laws and regulations to many types of transactions is susceptible to varying interpretations, amounts reported in the financial statements could be changed at a later date upon final determinations by taxing authorities.

Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the carrying value of assets and liabilities, disclosure of contingent assets and liabilities and the reported amounts of revenues and expenses. Actual results could differ from those estimates.

Property and Equipment, net

Property and equipment, obtained as part of the acquisition, is stated at the value determined by the allocation of the purchase price in the purchase agreement at the acquisition date. Property and equipment acquisitions from the date the Community was acquired are recorded at cost less accumulated depreciation. Depreciation is computed using the MACRS method over the tax determined lives of the assets. The tax useful lives are 27.5 years for buildings and improvements, seven years for furniture and five years for equipment.

Watermark East Hill Woods, LLC
Notes to Financial Statements
(Income Tax Basis)
December 31, 2013 and 2012

Routine maintenance and repairs are charged against operations as incurred. Expenditures that significantly change capacities or extend useful lives are capitalized and depreciated over their tax determined useful lives.

In connection with the Company's renovation projects, the Company capitalizes all related expenditures including capitalized interest to construction in progress. Capitalized costs are placed into service based on the date the work is substantially complete and available for use.

Cash

The Company invests its cash with high quality credit institutions. At times, such deposits may be in excess of the FDIC insurance limit; however, management does not believe it is exposed to any significant credit risk on cash.

Restricted Cash

Restricted cash consists of funds required by state regulations for continuing care retirement communities and amounts segregated for future capital improvements. The refurbishment/construction fund represents amounts funded from the Company's related party note payable which can only be used for the renovation project. The debt service reserve, the minimum liquid reserve and the escrow deposits were required to be established per the Connecticut Continuing Care Retirement Community regulations. The interest reserve was established at acquisition to fund unanticipated shortfalls and is currently designated to meet the Connecticut statutory reserve requirements of Watermark 3030 Park, LLC which is under common ownership. Entry fee deposits made by prospective residents are deposited into the escrow deposits account. Once the resident moves into the community, the funds are transferred into the operating account.

Accounts Receivable

Generally, accounts receivable are considered to be past due after 30 days. The Company does not provide for an allowance for doubtful accounts, rather uncollectible accounts are recognized as bad debt when actually written off. Doubtful accounts are periodically reviewed for collectibility and are written off when all collection efforts have been exhausted.

Goodwill, net

In connection with the acquisition of the Community, East Hill Woods recorded goodwill of \$11,341,497. In accordance with IRC section 197, goodwill is being amortized ratably over 15 years.

Unearned Entry Fees

Fees paid by a resident upon entering into a continuing care contract, net of the portion thereof that is refundable to the resident, are recorded as unearned entry fees and are amortized to revenue as amounts become nonrefundable using the straight-line method over the period specified in the declining entry fee resident contract.

Resident Refund Liabilities

Refundable entry fees are contingent upon re-occupancy, and are recorded as resident refund liabilities and are not amortized. In conjunction with the acquisition of the Community, East Hill Woods assumed certain resident refund liabilities which will be required to be repaid to the residents vacating the units, based on the terms of the resident agreement. As these liabilities are fully refundable, East Hill Woods has recorded these liabilities to the residents as a resident refund liability.

Watermark East Hill Woods, LLC
Notes to Financial Statements
(Income Tax Basis)
December 31, 2013 and 2012

Resident and Healthcare Revenue

Resident revenue generally includes the amounts due from residents based on residency days provided at the Company's independent and assisted living care centers and the rates established for the type of apartment or unit. Healthcare revenue includes the amounts due from patients or other third party payers based on the patient days and level of care provided to the patients at the Company's skilled nursing facility. The resident and healthcare revenue are reported at the contracted amounts due from the residents, Medicare or other third party payers based on the rates established for the level of care provided.

Laws and regulations governing the Medicare program are complex and subject to interpretation. The Company believes that it is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegation of potential wrongdoing. Compliance with such laws and regulations can be subject to future government review and interpretation as well as significant regulatory action including fines, penalties, and exclusion from the Medicare program.

Deferred Financing Fees

Deferred financing fees consist of 1.5% of the total loan commitment for the Mezzanine loan and 0.75% of the total loan commitment for the Senior loan. The fees were funded net of the initial loan proceeds. Deferred financing fees also include a fee of \$107,800 paid by the Company to enter into an interest rate swap to fix the interest rate relating to the Senior loan. The deferred financing fees were amortized using the straight-line method over five years, which are the terms of the notes. The fees were fully amortized in 2012.

Income Taxes

The Company is a limited liability company and is not subject to federal income tax. The Members are taxed on their share of the Company's taxable income, whether or not distributed, and are entitled to deduct their share of net losses to the extent of their tax basis. Accordingly, no provision for income taxes is provided in the accompanying financial statements.

Reclassification

Certain amounts in the financial statements and notes have been reclassified to conform to current year presentation.

3. Property and Equipment, net

Property and equipment, net at December 31, 2013 and 2012 consists of the following:

| | 2013 | 2012 |
|--------------------------------|----------------------|----------------------|
| Land | \$ 8,928,000 | \$ 8,928,000 |
| Buildings and improvements | 35,042,327 | 34,488,129 |
| Furniture and equipment | <u>9,455,253</u> | <u>9,172,276</u> |
| | 53,425,580 | 52,588,405 |
| Less: Accumulated depreciation | (17,380,217) | (15,416,711) |
| Construction in progress | <u>263,185</u> | <u>217,210</u> |
| | <u>\$ 36,308,548</u> | <u>\$ 37,388,904</u> |

Watermark East Hill Woods, LLC
Notes to Financial Statements
(Income Tax Basis)
December 31, 2013 and 2012

Interest capitalized to construction in progress totaled \$20,175 and \$95,249 for the years ended December 31, 2013 and 2012, respectively.

4. Restricted Cash

Restricted cash at December 31, 2013 and 2012 consists of the following:

| | 2013 | 2012 |
|---------------------------------|---------------------|---------------------|
| Refurbishment/construction fund | \$ 125,121 | \$ 115,684 |
| Debt service reserve | 2,203,865 | 2,201,224 |
| Interest reserve | 1,592,115 | 1,590,148 |
| Minimum liquid reserve | 961,413 | 819,961 |
| Escrow deposits | 197,249 | 133,157 |
| | <u>\$ 5,079,763</u> | <u>\$ 4,860,174</u> |

5. Prepaid Expenses and Other

Prepaid expenses and other consists of the following as of December 31, 2013 and 2012:

| | 2013 | 2012 |
|-----------------------|-------------------|-------------------|
| Prepaid insurance | \$ 90,430 | \$ 192,774 |
| Oil inventory | 67,661 | 51,941 |
| Other prepaid amounts | 14,955 | 14,645 |
| | <u>\$ 173,046</u> | <u>\$ 259,360</u> |

6. Goodwill, net

Goodwill, net consists of the following as of December 31, 2013 and 2012:

| | 2013 | 2012 |
|--------------------------------|---------------------|---------------------|
| Goodwill | \$ 11,341,497 | \$ 11,341,497 |
| Less: Accumulated amortization | (4,662,616) | (3,906,516) |
| | <u>\$ 6,678,881</u> | <u>\$ 7,434,981</u> |

Amortization expense was \$756,100 for the years ended December 31, 2013 and 2012.

Watermark East Hill Woods, LLC
Notes to Financial Statements
(Income Tax Basis)
December 31, 2013 and 2012

The annual estimated amortization expense for future years is as follows:

| Years ending December 31, | |
|----------------------------------|---------------------|
| 2014 | \$ 756,100 |
| 2015 | 756,100 |
| 2016 | 756,100 |
| 2017 | 756,100 |
| 2018 | 756,100 |
| Thereafter | <u>2,898,381</u> |
| | <u>\$ 6,678,881</u> |

7. Notes Payable, Related Party

Notes payable, related party at December 31, 2013 and 2012 consists of the following:

| | 2013 | 2012 |
|------------------------------------|----------------------|----------------------|
| Senior loan | \$ 29,713,963 | \$ 29,296,784 |
| Mezzanine loan | 19,311,425 | 18,970,097 |
| Accrued interest on Mezzanine loan | <u>7,453,778</u> | <u>7,717,939</u> |
| | <u>\$ 56,479,166</u> | <u>\$ 55,984,820</u> |

The Company has a Senior loan agreement with FSPP II EHW Senior Lender, LLC for up to \$35,500,000. Interest at 30 days LIBOR plus 2.5% (minimum of 7.5%) on a 360 day basis (rate at December 31, 2013 of 7.5%) is paid monthly. The loan is collateralized by the Community. The financing arrangement was to fund the purchase price and certain future capital expenditures to renovate the buildings. The loan contained an initial maturity date of November 7, 2012. On August 7, 2012, the loan agreement was amended to extend the maturity date to December 31, 2014. In February 2014, the loan was amended to extend the maturity date to May 1, 2015 at which time all remaining unpaid principal and accrued interest are due and payable.

The Company has a Mezzanine loan with FSPP II East Hill Woods Mezz Lender, LLC for up to \$26,800,000 with an interest rate of 8% compounded monthly, and accruing on any outstanding balance and unpaid interest. No interest or principal payments were scheduled to be paid during the initial loan term of five years, which was scheduled to mature on November 8, 2012. The note is collateralized by the Community. The financing arrangement was to fund the purchase price and certain future capital expenditures to renovate the buildings. FSPP II EHW Senior Lender, LLC and FSPP II East Hill Woods Mezz Lender, LLC are wholly owned subsidiaries of the parent of FSPP II East Hills Woods, LLC, which is the 70% entity member of the Company. In conjunction with the Senior loan amendments noted above, an amendment to the Mezzanine loan was executed August 7, 2012 to extend the maturity date to December 31, 2014 and in February 2014 to extend the maturity date to May 1, 2015 at which time all remaining unpaid principal and accrued interest are due and payable.

The Company entered into an agreement in 2008 with the Royal Bank of Canada to cap the variable interest rate on the Senior loan to 6% over a period of five years increasing by 0.5% each year after the first two years. This agreement expired in 2012.

Watermark East Hill Woods, LLC
Notes to Financial Statements
(Income Tax Basis)
December 31, 2013 and 2012

8. Related Party Transactions

Management fees of \$744,169 and \$655,760 for the years ended December 31, 2013 and 2012, respectively, were charged to the Company by an affiliate of Watermark East Hill Woods Investment, LLC, Watermark Retirement Communities, Inc. ("WRC"), which plays an integral role in the management of the day-to-day operations. The management agreement provides for a monthly fee to be charged at a rate of 5% of total net revenue with a minimum monthly fee of \$45,000. In addition to the management fee charged by WRC, the Company reimbursed WRC \$211,483 and \$113,274 for travel, marketing services and direct costs incurred by WRC on behalf of the Company during the years ended December 31, 2013 and 2012, respectively.

The Company entered into a Development Services Agreement ("DSA") ending September 2012, with The Freshwater Group (which is wholly owned by the single member of Watermark East Hill Investments, LLC which is the 30% equity partner of the Company) to provide certain services as defined in the DSA specific to deferred maintenance, to carry out targeted capital improvements and to stabilize the property as a full service continuing care retirement community. The total development fee to be paid over the course of the DSA was estimated to be \$1.9 million to be paid as the specified phases are completed. Development fees capitalized in construction in progress per this agreement were \$0 and \$54,091 during the years ended December 31, 2013 and 2012, respectively.

9. Commitments and Contingencies

Risk of Uninsured Losses

The Company carries comprehensive liability, environmental, fire, extended coverage and rental loss insurance with policy specifications, limits or deductibles customarily carried for similar properties. Should an uninsured loss occur, the Company could lose its investments in and anticipated profits and cash flows from the Community.

Litigation

The Company is party to various legal proceedings incidental to the normal course of business. Management does not expect the outcome of such litigation to have a material adverse effect on the financial position, results of operations or cash flows of the Company.

Construction Projects

At December 31, 2013 the Company has entered into approximately \$195,000 in firm commitments for the completion of construction projects.

10. Subsequent Events

Management of the Company has evaluated events occurring from December 31, 2013 through March 31, 2014, determining that no material subsequent events other than those referenced below have transpired requiring recognition and/or disclosure in the financial statements as of or for the year then ended December 31, 2013.

As referenced in Notes Payable, Related Party (Note 7) the maturity dates for both the Mezzanine and Senior loans were extended to May 1, 2015.



THE WATERMARK
AT EAST HILL
FINANCIAL FILING

Appendix B – Actuarial Report

Exhibit B

East Hill Woods

Future Service Obligation as of December 31, 2013

| | |
|---|----------------------|
| Present Value of Cash Outflows | \$ 51,267,764 |
| Minus: | |
| Present Value of Cash Inflows | 57,544,056 |
| Plus: | |
| Depreciation | 6,147,300 |
| Plus: | |
| Unamortized Initial Acquisition Costs | 0 |
| Minus: | |
| Unearned Entrance Fees (Net of projected future refunds) | 965,816 |
| Net Future Service Obligation | (\$1,432,090) |
| Amount to be booked in Financial Statement | \$0 |



THE WATERMARK
AT EAST HILL
FINANCIAL FILING

Appendix C – Statement of Material Differences

Watermark at East Hill Woods
Statement of Material Differences of Actual Versus Budget Income Statement
January 1, 2013 - December 31, 2013

| | Actual | Budget | Variance | % | Comments |
|-------------------------------|-----------------------|-----------------------|------------------|--------------|---|
| Revenue | | | | | |
| Resident | 8,081,707 | 8,822,074 | (740,367) | -8.4% | Occupancy was below budgeted levels in IL, AL and MC. AL and MC had favorable rates, while IL did not. |
| Health Care | 4,139,128 | 3,202,883 | 936,245 | 29.2% | Actual occupancy exceeded budgeted levels for Medicare census, in addition to the rates. Private Pay census was below budgeted levels with unfavorable rates. |
| Amortization of entry fees | 1,669,697 | 2,028,604 | (358,907) | -17.7% | Managed care revenue contributed as this was not a budgeted payor source. |
| Other | 104,176 | 79,607 | 24,569 | 30.9% | Lack of new sales due to economic conditions of the market. |
| Total revenue | <u>13,994,708</u> | <u>14,133,168</u> | <u>(138,460)</u> | <u>-1.0%</u> | Higher utilization of guest meal programs and convince store. |
| Operating Expenses | | | | | |
| Administration | 3,188,603 | 3,158,443 | (30,160) | -1.0% | |
| Security | - | - | - | 0.0% | |
| Maintenance | 1,700,354 | 1,708,973 | 8,619 | 0.5% | |
| Housekeeping | 389,374 | 390,558 | 1,184 | 0.3% | |
| Community Service | 251,462 | 318,014 | 66,552 | 20.9% | Primarily wage driven. Salaries and wages did not meet budgeted expectations. |
| Transportation | 59,662 | 59,935 | 273 | 0.5% | |
| Food Service | 1,428,320 | 1,543,197 | 114,877 | 7.4% | |
| Nursing | 1,701,762 | 1,450,644 | (251,118) | -17.3% | Excess SNF occupancy drove the overages and the budget did not support the needed staffing levels. |
| Ancillaries | 1,089,616 | 690,376 | (399,240) | -57.8% | Acuity levels and patient mix exceeded that of budget. |
| Sales & Marketing | 789,535 | 802,540 | 13,005 | 1.6% | |
| Depreciation and amortization | 2,719,601 | 3,303,743 | 584,142 | 17.7% | Budget not in line with actual activity |
| Total operating expenses | <u>13,318,289</u> | <u>13,426,423</u> | <u>108,134</u> | <u>0.8%</u> | |
| (Loss) income from operations | 676,419 | 706,745 | (30,326) | 4.3% | |
| Other income (expense) | | | | | |
| Interest Income | 5,733 | 8,760 | (3,027) | | |
| Gain on Asset Disposition | - | - | - | | |
| Interest expense | (4,455,873) | (4,245,408) | (210,465) | -5.0% | |
| Total other expense | <u>(4,450,140)</u> | <u>(4,236,648)</u> | <u>(213,492)</u> | <u>-5.0%</u> | |
| Net loss | <u>\$ (3,773,721)</u> | <u>\$ (3,529,903)</u> | <u>(243,818)</u> | <u>-6.9%</u> | |