



*Trusted Guidance to the Senior Living Industry*

---

**Consultant's Report  
Financial Feasibility Analysis**

**Of**

**Westchester Meadows  
Valhalla, NY**

**Prepared for Bethel Methodist Home, Inc.  
October 2016**

**TABLE OF CONTENTS**

---

Introduction .....	1
Projected Financial Statements:	
Projected Statement of Operations and Changes in Net Assets (Deficit) .....	6
Projected Statement of Cash Flows .....	7
Projected Statement of Financial Position .....	8
Projected Financial Ratios .....	9
Summary of Significant Projection Assumptions	
Background & Description of the Community .....	10
Summary of Bethel Business Plan .....	12
Summary of Financing .....	13
Description of Residency Agreements .....	14
Residency Agreement Amendments – Existing Residents .....	15
Summary of Revenue and Entrance Fee Assumptions .....	16
Summary of Operating Expense Assumptions .....	20
Other Financial Assumptions .....	22

Bethel Methodist Home, Inc.  
67 Springvale Road  
Croton-On-Hand, NY 10520

SK Advisors (“SK”) was engaged by Bethel Methodist Home (“Bethel”) to conduct an independent analysis of Westchester Meadows, a CCRC located in Valhalla, NY. This analysis is intended for the purposes of evaluating the potential acquisition of Westchester Meadows by Bethel.

Westchester Meadows is a continuing care retirement community located in Valhalla, NY and consisting of 120 independent living units, 10 enriched housing units and 20 skilled nursing beds. Westchester Meadows has experienced declining occupancy for several years, putting significant strain on its operations and cash flows. In December 2015, Westchester Meadows filed for bankruptcy with the intent of selling itself to another operator.

Bethel engaged SK to evaluate the opportunity, including an analysis of the market positioning and financial feasibility if Bethel were to acquire the community. Work conducted by SK included the following:

- (1) **Strategic Positioning Analysis:** SK analyzed both the current and future market positioning of Westchester Meadows. This exercise first looked at how the community is currently positioned, helping to inform us as to the reasons for its recent challenges. It then examined the competitiveness and marketability of the community as a product taking into account our knowledge of and familiarity with other CCRCs in the market and across the region, and also broader industry trends. The end result is a set of recommendations regarding pricing and product positioning for moving forward. This analysis, referred to as the Strategic Positioning Analysis, has been distributed under separate cover.
- (2) **Financial Feasibility:** Based on the market positioning work, a set of detailed revenue projections were developed. SK also analyzed the current expenses of Westchester Meadows, and worked with Bethel Management to develop a set of expense assumptions. The end result is a detailed set of financial projections illustrating the feasibility of Westchester Meadows if it were to be acquired by Bethel and repositioned as recommended.

This report includes financial projections and a summary of the assumptions which SK and Bethel Management believes are significant to the financial projections. Based on the assumptions developed by SK and Management, it is SK’s conclusion that Westchester Meadows (post-acquisition) can be a successful CCRC, and that the projected cash flows of are sufficient to generate strong credit metrics going forward.

It should be noted, however, that there will usually be differences between the forecasted results and actual results as events and circumstances often do not occur as expected. It is possible that those differences could be material.

This report is not prepared in accordance with the American Institute of Certified Public Accounting's generally accepted accounting principles or accounting or auditing standards.

This report, including the accompanying projections, is intended for the sole use of Management and the Board of Directors of Bethel Methodist Home, Inc. and should not be used for any other purpose.



# **PROJECTED FINANCIAL STATEMENTS**



Trusted Guidance to the Senior Living Industry

**Westchester Meadows**

Projected Statements of Activities and Changes in Net Assets (Deficit)

For the Fiscal Years Ending December 31st

(in thousands of dollars)

	<i>Partial Year</i>									
	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
<b>Revenue, gains, and other support</b>										
Net resident service revenues										
Independent Living - Existing Residents	\$ 781	\$ 4,582	\$ 4,224	\$ 3,789	\$ 3,274	\$ 2,687	\$ 2,032	\$ 1,305	\$ 494	\$ -
Independent Living - New Residents	-	683	2,112	3,580	4,444	5,197	6,016	6,904	7,872	8,595
Enriched Housing	32	501	710	748	778	809	849	883	919	967
Health care	86	1,837	2,579	2,668	2,876	2,974	3,182	3,287	3,597	3,719
Amortization of deferred entrance fees	744	1,415	1,412	1,398	1,341	1,258	1,179	1,104	1,034	967
Investment and interest income, net	-	132	288	361	468	548	631	726	830	931
Other support	37	313	397	444	469	481	498	510	531	547
<b>Total revenue, gains, and other support</b>	<b>1,680</b>	<b>9,463</b>	<b>11,722</b>	<b>12,988</b>	<b>13,650</b>	<b>13,954</b>	<b>14,387</b>	<b>14,719</b>	<b>15,277</b>	<b>15,726</b>
<b>Expenses</b>										
Health Care Services	285	1,976	2,144	2,230	2,319	2,412	2,508	2,608	2,713	2,821
Dietary Services	279	1,881	2,159	2,394	2,520	2,621	2,726	2,835	2,948	3,065
Administrative Services	405	2,137	2,218	2,176	2,008	2,089	2,172	2,259	2,350	2,444
Housekeeping and Laundry Services	75	494	552	602	632	657	683	711	739	768
Insurance	32	203	211	219	228	237	247	256	267	277
Maintenance and Security Services	139	991	1,205	1,382	1,464	1,522	1,583	1,646	1,712	1,780
Property Taxes	130	811	844	877	912	949	987	1,026	1,067	1,110
Interest expense	260	1,732	1,560	1,365	1,345	1,327	1,308	1,288	1,266	1,242
Depreciation	18	600	600	600	634	703	774	847	922	999
Amortization	57	347	297	43	43	43	43	43	43	43
<b>Total expenses</b>	<b>1,680</b>	<b>11,172</b>	<b>11,790</b>	<b>11,888</b>	<b>12,105</b>	<b>12,560</b>	<b>13,031</b>	<b>13,519</b>	<b>14,027</b>	<b>14,549</b>
<b>Change in net (deficits)</b>	<b>-</b>	<b>(1,709)</b>	<b>(68)</b>	<b>1,100</b>	<b>1,545</b>	<b>1,394</b>	<b>1,356</b>	<b>1,200</b>	<b>1,250</b>	<b>1,177</b>
Equity contribution	2,000	-	-	-	-	-	-	-	-	-
<b>Change in net (deficits)</b>	<b>2,000</b>	<b>(1,709)</b>	<b>(68)</b>	<b>1,100</b>	<b>1,545</b>	<b>1,394</b>	<b>1,356</b>	<b>1,200</b>	<b>1,250</b>	<b>1,177</b>
<b>Net assets (deficits), beginning of year</b>	<b>-</b>	<b>2,000</b>	<b>291</b>	<b>223</b>	<b>1,323</b>	<b>2,868</b>	<b>4,262</b>	<b>5,618</b>	<b>6,818</b>	<b>8,068</b>
<b>Net assets (deficits), end of year</b>	<b>\$ 2,000</b>	<b>\$ 291</b>	<b>\$ 223</b>	<b>\$ 1,323</b>	<b>\$ 2,868</b>	<b>\$ 4,262</b>	<b>\$ 5,618</b>	<b>\$ 6,818</b>	<b>\$ 8,068</b>	<b>\$ 9,245</b>

**Bethel Methodist Home – Westchester Meadows**  
**Financial Feasibility Analysis**  
**Ten Years Ending December 31, 2025**



**Westchester Meadows**

Projected Statements of Cash Flows

For the Fiscal Years Ending December 31st

(in thousands of dollars)

*Partial Year*

	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
<b>Cash flows from operating activities:</b>										
Change in net (deficits)	\$ 2,000	\$ (1,709)	\$ (68)	\$ 1,100	\$ 1,545	\$ 1,394	\$ 1,356	\$ 1,200	\$ 1,250	\$ 1,177
Adjustments to reconcile change in net (deficits)										
to net cash provided by (used in) operating activities:										
Depreciation	18	600	600	600	634	703	774	847	922	999
Amortization expense	57	347	297	43	43	43	43	43	43	43
Amortization of earned entrance fees	(744)	(1,415)	(1,412)	(1,398)	(1,341)	(1,258)	(1,179)	(1,104)	(1,034)	(967)
Net change in current assets and liabilities	(22)	(280)	(138)	(77)	(42)	(8)	(19)	(7)	(24)	(16)
(Decrease) increase in accrued interest	260	612	(184)	(11)	(9)	(9)	(10)	(10)	(11)	(12)
Entrance fees received from resident turnover	-	-	4,900	7,542	3,761	4,024	4,243	4,535	4,837	5,030
Entrance fees refunded - existing contracts	(1,686)	(1,710)	(1,829)	(1,952)	(2,048)	(2,096)	(2,145)	(2,192)	(2,242)	(2,264)
(Decrease) increase in contingent refund liability	1,560	1,583	1,692	(3,040)	512	524	536	548	561	566
<b>Net cash provided by (used in) operating activities</b>	<b>1,443</b>	<b>(1,972)</b>	<b>3,858</b>	<b>2,807</b>	<b>3,055</b>	<b>3,317</b>	<b>3,599</b>	<b>3,860</b>	<b>4,302</b>	<b>4,556</b>
<b>Cash flows from investing activities:</b>										
Purchase of property and equipment	(1,091)	(4,909)	-	-	(675)	(696)	(716)	(738)	(760)	(783)
(Increase) decrease in assets limited as to use	(4,894)	(1,263)	211	(2,471)	(2,318)	(753)	(764)	(775)	(784)	(804)
(Increase) decrease in assets limited as to use, current	-	-	-	(1,584)	(2)	3	-	1	(2)	-
(Increase) decrease in investments	(16,335)	(4,061)	(1,171)	1,508	187	(1,588)	(1,820)	(2,027)	(2,413)	(2,601)
<b>Net cash provided by (used in) investing activities</b>	<b>(22,320)</b>	<b>(10,233)</b>	<b>(960)</b>	<b>(2,547)</b>	<b>(2,808)</b>	<b>(3,034)</b>	<b>(3,300)</b>	<b>(3,539)</b>	<b>(3,959)</b>	<b>(4,188)</b>
<b>Cash flows from financing activities:</b>										
Initial entrance fees received	-	9,061	4,302	-	-	-	-	-	-	-
Issuance of long term debt	22,575	6,110	-	-	-	-	-	-	-	-
Deferred financing costs	(1,768)	(129)	-	-	-	-	-	-	-	-
Principal payments	-	(2,250)	(6,950)	(215)	(230)	(250)	(265)	(285)	(305)	(330)
(Decrease) increase in resident deposits	181	-	(181)	-	-	-	-	-	-	-
<b>Net cash provided by (used in) financing activities</b>	<b>20,988</b>	<b>12,792</b>	<b>(2,829)</b>	<b>(215)</b>	<b>(230)</b>	<b>(250)</b>	<b>(265)</b>	<b>(285)</b>	<b>(305)</b>	<b>(330)</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>\$ 111</b>	<b>\$ 587</b>	<b>\$ 69</b>	<b>\$ 45</b>	<b>\$ 17</b>	<b>\$ 33</b>	<b>\$ 34</b>	<b>\$ 36</b>	<b>\$ 38</b>	<b>\$ 38</b>
<b>Beginning balance of cash and cash equivalents</b>	<b>-</b>	<b>111</b>	<b>698</b>	<b>767</b>	<b>812</b>	<b>829</b>	<b>862</b>	<b>896</b>	<b>932</b>	<b>970</b>
<b>Ending balance of cash and cash equivalents</b>	<b>\$ 111</b>	<b>\$ 698</b>	<b>\$ 767</b>	<b>\$ 812</b>	<b>\$ 829</b>	<b>\$ 862</b>	<b>\$ 896</b>	<b>\$ 932</b>	<b>\$ 970</b>	<b>\$ 1,008</b>

**Bethel Methodist Home – Westchester Meadows**  
**Financial Feasibility Analysis**  
**Ten Years Ending December 31, 2025**



**Westchester Meadows**

Projected Statements of Financial Position  
 For the Fiscal Years Ending December 31st  
 (in thousands of dollars)

	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
<b>Assets</b>										
Current assets:										
Cash and cash equivalents	\$ 111	\$ 698	\$ 767	\$ 812	\$ 829	\$ 862	\$ 896	\$ 932	\$ 970	\$ 1,008
Assets limited as to use - Series Bonds	-	-	-	1,584	1,586	1,583	1,583	1,582	1,584	1,584
Accounts receivable	77	651	824	923	973	998	1,034	1,059	1,102	1,137
Prepaid expenses and other assets	55	349	384	406	414	431	448	466	485	504
<b>Total current assets</b>	<b>243</b>	<b>1,698</b>	<b>1,975</b>	<b>3,725</b>	<b>3,802</b>	<b>3,874</b>	<b>3,961</b>	<b>4,039</b>	<b>4,141</b>	<b>4,233</b>
Investments	221	4,282	5,453	3,945	3,758	5,346	7,166	9,193	11,606	14,207
Assets limited as to use:										
Project Fund	1,105	-	-	-	-	-	-	-	-	-
Funded Interest Fund	1,814	1,975	-	-	-	-	-	-	-	-
Debt service reserve fund - permanent debt	1,294	2,202	2,202	2,202	2,202	2,202	2,202	2,202	2,202	2,202
Refund Escrow	-	500	1,000	1,500	2,000	2,500	3,000	3,500	4,000	4,500
Operating Reserve Fund	500	1,299	2,744	4,715	6,533	6,786	7,050	7,325	7,609	7,913
Resident deposits	181	181	-	-	-	-	-	-	-	-
<b>Total assets limited as to use</b>	<b>4,894</b>	<b>6,157</b>	<b>5,946</b>	<b>8,417</b>	<b>10,735</b>	<b>11,488</b>	<b>12,252</b>	<b>13,027</b>	<b>13,811</b>	<b>14,615</b>
Property and equipment	49,228	54,137	54,137	54,137	54,812	55,508	56,224	56,962	57,722	58,505
less accumulated depreciation	(16,822)	(17,422)	(18,022)	(18,622)	(19,256)	(19,959)	(20,733)	(21,580)	(22,502)	(23,501)
<b>Net property and equipment</b>	<b>32,406</b>	<b>36,715</b>	<b>36,115</b>	<b>35,515</b>	<b>35,556</b>	<b>35,549</b>	<b>35,491</b>	<b>35,382</b>	<b>35,220</b>	<b>35,004</b>
Other assets										
Goodwill	13,141	13,141	13,141	13,141	13,141	13,141	13,141	13,141	13,141	13,141
Deferred financing costs	1,711	1,493	1,196	1,153	1,110	1,067	1,024	981	938	895
<b>Total assets</b>	<b>\$ 52,616</b>	<b>\$ 63,486</b>	<b>\$ 63,826</b>	<b>\$ 65,896</b>	<b>\$ 68,102</b>	<b>\$ 70,465</b>	<b>\$ 73,035</b>	<b>\$ 75,763</b>	<b>\$ 78,857</b>	<b>\$ 82,095</b>
<b>Liabilities and Net (Deficits)</b>										
Current liabilities:										
Accounts payable	\$ 55	\$ 349	\$ 384	\$ 406	\$ 414	\$ 431	\$ 448	\$ 466	\$ 485	\$ 504
Accrued expenses	55	349	384	406	414	431	448	466	485	504
Accrued interest payable	260	872	688	677	668	659	649	639	628	616
Current maturities of long term debt	-	-	215	230	250	265	285	305	330	355
Resident deposits	181	181	-	-	-	-	-	-	-	-
<b>Total current liabilities</b>	<b>551</b>	<b>1,751</b>	<b>1,671</b>	<b>1,719</b>	<b>1,746</b>	<b>1,786</b>	<b>1,830</b>	<b>1,876</b>	<b>1,928</b>	<b>1,979</b>
Long-term debt, less current maturities	22,575	26,435	19,270	19,040	18,790	18,525	18,240	17,935	17,605	17,250
Contingent payment amount	1,560	3,143	4,835	1,795	2,307	2,831	3,367	3,915	4,476	5,042
Deferred revenue from advance fees, net of amortization	25,930	31,866	37,827	42,019	42,391	43,061	43,980	45,219	46,780	48,579
<b>Total liabilities</b>	<b>50,616</b>	<b>63,195</b>	<b>63,603</b>	<b>64,573</b>	<b>65,234</b>	<b>66,203</b>	<b>67,417</b>	<b>68,945</b>	<b>70,789</b>	<b>72,850</b>
Net (deficits):										
Undesignated	2,000	291	223	1,323	2,868	4,262	5,618	6,818	8,068	9,245
<b>Net (deficits)</b>	<b>2,000</b>	<b>291</b>	<b>223</b>	<b>1,323</b>	<b>2,868</b>	<b>4,262</b>	<b>5,618</b>	<b>6,818</b>	<b>8,068</b>	<b>9,245</b>
<b>Total liabilities and net assets (deficits)</b>	<b>\$ 52,616</b>	<b>\$ 63,486</b>	<b>\$ 63,826</b>	<b>\$ 65,896</b>	<b>\$ 68,102</b>	<b>\$ 70,465</b>	<b>\$ 73,035</b>	<b>\$ 75,763</b>	<b>\$ 78,857</b>	<b>\$ 82,095</b>



**Bethel Methodist Home – Westchester Meadows**  
**Financial Feasibility Analysis**  
**Ten Years Ending December 31, 2025**



**Westchester Meadows**

Projected Schedule of Financial Ratios  
 For the Fiscal Years Ending December 31st  
 (in thousands of dollars)

<b>Long-Term Debt Service Coverage Ratio</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>	<b>2023</b>	<b>2024</b>	<b>2025</b>
Change in net deficits	\$ (68)	\$ 1,100	\$ 1,545	\$ 1,394	\$ 1,356	\$ 1,200	\$ 1,250	\$ 1,177	
Deduct:									
Entrance fee amortization		(1,412)	(1,398)	(1,341)	(1,258)	(1,179)	(1,104)	(1,034)	(967)
Add:									
Depreciation		600	600	634	703	774	847	922	999
Amortization		297	43	43	43	43	43	43	43
Interest expense		1,560	1,365	1,345	1,327	1,308	1,288	1,266	1,242
Entrance fees received from resident turnover		4,900	7,542	3,761	4,024	4,243	4,535	4,837	5,030
Entrance fees refunded - existing contracts		(1,829)	(1,952)	(2,048)	(2,096)	(2,145)	(2,192)	(2,242)	(2,264)
(Decrease) increase in contingent refund liability		1,692	(3,040)	512	524	536	548	561	566
<b>Income Available for Debt Service</b>	<b>\$ 5,740</b>	<b>\$ 4,260</b>	<b>\$ 4,451</b>	<b>\$ 4,661</b>	<b>\$ 4,936</b>	<b>\$ 5,165</b>	<b>\$ 5,603</b>	<b>\$ 5,826</b>	
Annual Debt Service	\$ 1,744	\$ 1,591	\$ 1,584	\$ 1,586	\$ 1,583	\$ 1,583	\$ 1,582	\$ 1,584	
<b>Annual Debt Service Coverage Ratio</b>	<b>n.a.</b>	<b>3.29x</b>	<b>2.68x</b>	<b>2.81x</b>	<b>2.94x</b>	<b>3.12x</b>	<b>3.26x</b>	<b>3.54x</b>	<b>3.68x</b>
Revenues-Only Income Available for Debt Service	\$ 977	\$ 1,710	\$ 2,226	\$ 2,209	\$ 2,302	\$ 2,274	\$ 2,447	\$ 2,494	
<b>Revenues-Only Debt Service Coverage Ratio</b>	<b>n.a.</b>	<b>0.56x</b>	<b>1.07x</b>	<b>1.41x</b>	<b>1.39x</b>	<b>1.45x</b>	<b>1.44x</b>	<b>1.55x</b>	<b>1.57x</b>

<b>Days Cash on Hand</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>	<b>2023</b>	<b>2024</b>	<b>2025</b>
Cash and cash equivalents	\$ 698	\$ 767	\$ 812	\$ 829	\$ 862	\$ 896	\$ 932	\$ 970	\$ 1,008
Investments	4,282	5,453	3,945	3,758	5,346	7,166	9,193	11,606	14,207
Operating Reserve Fund	1,299	2,744	4,715	6,533	6,786	7,050	7,325	7,609	7,913
Cash on hand	\$ 6,279	\$ 8,964	\$ 9,472	\$ 11,120	\$ 12,994	\$ 15,112	\$ 17,450	\$ 20,185	\$ 23,128
Total expenses	\$ 11,172	\$ 11,790	\$ 11,888	\$ 12,105	\$ 12,560	\$ 13,031	\$ 13,519	\$ 14,027	\$ 14,549
Less:									
Depreciation	(600)	(600)	(600)	(634)	(703)	(774)	(847)	(922)	(999)
Amortization	(347)	(297)	(43)	(43)	(43)	(43)	(43)	(43)	(43)
Total expenses less depreciation and amortization	\$ 10,225	\$ 10,893	\$ 11,245	\$ 11,428	\$ 11,814	\$ 12,214	\$ 12,629	\$ 13,062	\$ 13,507
Daily operating expenses <sup>(a)</sup>	\$ 28	\$ 30	\$ 31	\$ 31	\$ 32	\$ 33	\$ 35	\$ 36	\$ 37
Days cash on hand	224	299	306	359	406	458	499	561	625

(a) Daily operating expenses are equal to total operating expenses less depreciation and amortization divided by 365 days.

<b>Funds Available for Debt Service to Long-Term Indebtedness</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>	<b>2023</b>	<b>2024</b>	<b>2025</b>
Cash and cash equivalents	\$ 698	\$ 767	\$ 812	\$ 829	\$ 862	\$ 896	\$ 932	\$ 970	\$ 1,008
Investments	4,282	5,453	3,945	3,758	5,346	7,166	9,193	11,606	14,207
Operating Reserve Fund	1,299	2,744	4,715	6,533	6,786	7,050	7,325	7,609	7,913
Funds Available for Debt Service	\$ 8,481	\$ 11,166	\$ 11,674	\$ 13,322	\$ 15,196	\$ 17,314	\$ 19,652	\$ 22,387	\$ 25,330
Long-Term Indebtedness Outstanding	\$ 26,435	\$ 19,485	\$ 19,270	\$ 19,040	\$ 18,790	\$ 18,525	\$ 18,240	\$ 17,935	\$ 17,605
<b>Funds available for debt service to Long-Term Indebtedness</b>	<b>0.32x</b>	<b>0.57x</b>	<b>0.61x</b>	<b>0.7x</b>	<b>0.81x</b>	<b>0.93x</b>	<b>1.08x</b>	<b>1.25x</b>	<b>1.44x</b>

### ***Summary of Significant Projection Assumptions***

#### **Background & Description of the Community**

##### **Bethel Methodist Home**

Bethel Methodist Home (“Bethel”) is a nonprofit senior living provider with campuses in Ossining and Croton-on-Hudson, NY. Bethel has been serving the Westchester County community for more than 100 years, having been originally founded in 1911. Although founded by Methodists, Bethel is a non-sectarian provider of senior care and services. Bethel provides a full continuum of care on both of its campuses, ranging from independent living to assisted living and skilled nursing. Bethel also provides adult day services, home care, respite and hospice.

Bethel has become the area’s leader in senior care due to its excellent reputation for providing outstanding care and services. This reputation for excellence is recognized throughout the Northern Westchester community.

##### **Westchester Meadows**

Westchester Meadows is a nonprofit CCRC located in Valhalla, NY and consists of 120 independent living units, 10 enriched housing units and 20 skilled nursing beds. Opened in 2002, Westchester Meadows was sponsored by the Hebrew Hospital Home, an elder service health system. The following table details Westchester Meadows’ current unit mix:

### Unit Mix and Square Footage

Unit Type	Number of Units	Square Footage
<u>Independent Living Apartments</u>		
One bedroom (Bayberry)	24	701
One bedroom w/den (Elmwood)	32	879
Two bedroom (Hawthorne)	32	1,047
Two bedroom deluxe/bay (Whitney)	8	1,146
Two bedroom deluxe (Montgomery)	8	1,173
Two bedroom deluxe (Knollwood)	8	1,320
Two bedroom w/den (Winthrop)	8	1,589
<b>Independent Living Total Units / Average Sq. Ft.</b>	<b>120</b>	<b>1,002</b>
<b>Enriched Housing Units / Average Sq. Ft.</b>	<b>10</b>	<b>377</b>
<b>Skilled Nursing Beds / Average Sq. Ft.</b>	<b>20</b>	<b>277</b>
<b>Total Units and Beds</b>	<b>150</b>	

Westchester Meadows enjoyed a period of full occupancy following its opening in 2002. In 2008, however, Westchester Meadows began to experience financial difficulty as its initial population began to age and create vacancies. Simultaneously, the overall economy experienced a significant financial downturn that exacerbated Westchester Meadows' occupancy challenges. As a result, census began to drop and operations weakened. Over the past several years, Westchester Meadows has continued to experience a decline in occupancy. The following details the occupancy of Westchester Meadows as of July 2016:

Unit Type	Occupied	Available	% Occupied
Independent Living	72	120	60.0%
Enriched Housing	3	10	30.0%
Skilled Nursing	9	20	45.0%
<b>Total</b>	<b>84</b>	<b>150</b>	<b>56.0%</b>

The challenges faced by Westchester Meadows were compounded as its sponsoring entity, Hebrew Hospital Home, experienced similar difficulties over the same timeframe, leading to significant management challenges. In December 2015, Westchester Meadows filed for bankruptcy with the intent of selling itself to another operator. In August 2016, Westchester Meadows completed its sales process, pursuant to Chapter 363 of the U.S. Bankruptcy Code, culminating with a court ruling Bethel as the winning bidder.

## **Summary of Bethel Business Plan**

Bethel and its advisors have conducted extensive due diligence on Westchester Meadows' operations, as well as its positioning in the market. Through its due diligence of Westchester Meadows' market positioning, Bethel found that the community's primary challenge was its pricing and positioning, which did not compare favorably to its competition. In addition to its market positioning, Bethel believes that Westchester Meadows' reputation was negatively impacted as a result of the financial challenges experienced by both Westchester Meadows and its sponsoring entity, Hebrew Hospital Home. It is Bethel's belief that these marketing and reputational challenges combined to lead to occupancy deficiencies.

Bethel believes that correcting the market position of Westchester Meadows through pricing will, over time, eviscerate the challenges it currently faces. To that end, Bethel has determined that the optimal strategy going forward would be to revisit both the contract and pricing structure for independent living units, which would facilitate positioning the community for success in the market. Specifically, Bethel intends to introduce a new Type C (Fee-For-Service) contract for independent living residents, while maintaining a more appropriately priced Type B (Modified Lifecare) contract.

Westchester Meadows had initially offered a Type A (Lifecare) contract, but began offering a Type B (Modified Lifecare) contract in recent years. The Type A contract provides for full coverage of the costs of healthcare with no (or limited) change to the monthly fees being paid. The Type B contract provides for a discount on the costs of healthcare, but not full coverage. A Type C contract provides for guaranteed access to the health center (enhanced living and skilled nursing) but does not provide residents with an explicit healthcare benefit. As a result, pricing for a Type C contract is lower when compared to the Type A and Type B contracts. This strategy will allow Bethel to position Westchester Meadows as a moderately priced CCRC in the region, which would give it a competitive edge. As described in the Market Positioning Analysis (distributed under separate cover), there is significant potential for Westchester Meadows to fill a niche in the moderate price range as at present there are no other continuing care/independent living providers in that space. Furthermore, given the cost of land and construction in the market, it would be difficult for a new community to be built with a cost structure that would allow it to compete effectively in Westchester Meadows' price range.

Once the campus is appropriately positioned and investments are made in the physical plant, Bethel projects the campus will be financially strong.

Highlights of Bethel's business plan for Westchester Meadows include:

- Reposition the price point and contracts;
- Rebrand the campus, with Bethel providing stable sponsorship from a 100+ year old organization;
- Invest heavily in marketing (at levels consistent with a start-up community);

- Invest in the physical plant;
- Reduce operating costs;
- Enhance services offered to residents (meals program, wellness, etc.); and
- Structure the acquisition conservatively so as to mitigate risk and promote long-term stability.

### Summary of Financing

Bethel has received a commitment to finance the acquisition from Hamlin Capital Management, a New York-based investment firm with more than 30 years of experience financing nonprofit senior living transactions. The acquisition is proposed to be financed with taxable short-term debt, taxable permanent debt, tax-exempt permanent debt, and an equity contribution from Bethel. The financing is assumed to close in October 2016. The taxable short-term debt is projected to be repaid with excess cash flow; it is anticipated that the taxable short-term debt would be fully repaid by October 2018. The projection includes an amortization period of 30 years for the permanent debt.

Proceeds of the financing will be used to fund (a) the acquisition price, (b) working capital needs, (c) planned capital expenditures, and (d) certain reserves and closing costs. The planned sources and uses of funds for the project are detailed below:

<u>Uses</u>	<u>\$000s</u>	<u>Sources</u>	<u>\$000s</u>
(1) Acquisition	16,114	(7) Taxable - ST	9,200
(2) Capex	6,000	(7) Taxable - LT	4,675
(3) WC Fund	3,972	(8) Tax Ex - LT	14,810
(4) Oper Reserve	500		
(5) COI	1,897	(9) Bethel - Equity	2,000
(6) DSRF	2,202		
Total	30,685		30,685

- (1) Bethel will acquire Westchester Meadows for \$16.114 million, pursuant to the Asset Purchase Agreement.
- (2) Bethel has identified approximately \$6.0 million of capital expenditures necessary to improve the physical plant of Westchester Meadows and enhance its marketability. Capital expenditures will consist of certain physical plant improvements to both the interior and exterior of the building, i.e. new carpeting, finishes, unit upgrades, exterior trim, siding, etc. Proceeds allocated for capital expenditures would be deposited into a trustee-held account and requisitioned to pay for approved purposes.
- (3) Westchester Meadows is currently running a deficit operation. As such, a certain amount of working capital will be required to fund operations initially. Bethel has projected the total

working capital need to be approximately \$3.97 million, inclusive of capitalized interest of approximately \$3.1 million.

- (4) The New York Department of Financial Services requires that a CCRC maintain certain liquid reserves. Bethel will fund an initial \$500,000 towards satisfying the reserve requirement.
- (5) Cost of Issuance is estimated at approximately \$1.9 million, consisting of various legal fees, issuance fees, and advisor costs.
- (6) Hamlin Capital Management will purchase the bonds. As part of its commitment, Hamlin requires that Debt Service Reserve Funds be established, equal to one-year's debt service on the bonds, or approximately \$2.2 million.
- (7) Bethel intends to issue two series of taxable debt – a Temporary series and Long Term series. The Temporary series is intended to be short-term in nature, repaid from the accumulated entrance fees in 2018. The Long Term series represents a permanent component of the capital structure, to be repaid from operating cash flow. The interest rate on the Temporary Series and Long Term Series is 6.50% and 7.50%, respectively. Both series are at a fixed rate of interest.
- (8) Bethel intends to issue tax-exempt financing to fund allowable costs, i.e. capital expenditures and an allocation (to be determined) of the acquisition price (the "Tax-Exempt Series"). The tax-exempt financing represents a permanent component of the capital structure, to be repaid from operating cash flow. The interest rate on the Tax-Exempt Series is a fixed rate of 7.00%.
- (9) Bethel will contribute \$2.0 million of equity toward the acquisition. These funds are being committed for the benefit of the project. There will be no claim on the funds being contributed by any third party.

*Note: Bethel and its advisors are currently working with bond counsel to review the final allocation of the bonds between taxable and tax-exempt. Any deviation from the above is expected to be immaterial.*

### **Description of Residency Agreements**

Each new resident shall execute a residency agreement prior to assuming occupancy of their selected unit. The residency agreement describes the entrance and monthly service fees that will be paid by the resident and the services and benefits that will be provided by Westchester Meadows.

Westchester Meadows will offer two types of entrance fee contracts with different refund provisions: (1) Type C Fee-For-Service Contract, and (2) Type B Modified Lifecare Contract. Under a Type C Fee-For-Service contract, a resident will have priority access to the enriched housing and skilled nursing facility, but services in those settings shall be payable at the private rate then applicable. Under the Type B Modified Lifecare Contract, a resident shall be entitled to sixty (60) days of care in enriched

housing and sixty (60) days of care in skilled nursing for the same monthly service fee a resident is paying for their independent living apartment.

For both the Type C and Type B contracts, Westchester Meadows will offer two refund options: (1) 90% refundable, or (2) Declining Balance. Under the 90% refundable contract, a 4% processing fee is charged after the first ninety (90) days, after which the refund is then amortized equally at 2% per month for three (3) months. Under a Declining Balance contract, the same 4% processing fee is applied after ninety (90) days. Thereafter, the refund is amortized equally at 2% per month until the refund is fully amortized.

To reserve a vacant unit, prospective residents would pay a deposit equal to 10% of the entrance fee for the unit selected. Prospective residents select their entrance fee contract prior to move-in, when they execute their residency agreement.

The residency agreement provides residents with access to many services and amenities at Westchester Meadows, including: (1) dining services for residents; (2) payment of utilities (except telephone) and basic cable television service; (3) independent living and enriched housing apartment maintenance; (4) maintenance of all common areas; (5) weekly flat linen service; (6) weekly housekeeping plus annual heavy cleaning; (7) scheduled transportation; (8) optional activities; (9) use of the exercise center including an indoor swimming pool and fitness center; (10) access to short-term and intermittent home health care as defined by and paid for by the Medicare program or by the resident directly through contract with a certified or licensed home health agency; and (11) various administrative services. In addition, The Bethel Methodist Home will provide access to physician services, prescription drugs and rehabilitation services.

In addition, certain healthcare benefits may be offered to new residents, depending on the contract type they choose (Type C or Type B).

#### **Residency Agreement Amendments – Existing Residents**

Existing residents at Westchester Meadows will enter into an amended residency agreement prior to closing. The amendment will maintain all access to services, as well as the residents' healthcare benefit, per their existing residency agreement. Monthly service fees will remain consistent with the existing agreement as well. The amended terms will be related the amounts owed to the residents upon move-out and the structure of those payments (the "Refund").

Under the terms of the revised residency agreements, the Refund shall be redefined as follows:

- I. Seventy-five percent (75%) of the Refund owed will be paid in two separate payments:

- a. Ten percent (10%) will be paid upon the earlier of resale of the vacated unit or one (1) year from vacancy;
  - b. Ninety percent (90%) will be paid upon achievement of the established financial targets (300 Days Cash on Hand and 1.35x Debt Service Coverage).
- II. Twenty-five percent (25%) of the Refund owed will be paid out of an interest bearing escrow account that will be established by Bethel.

The escrow account will be an interest bearing account established to accumulate funds over time until the entire balance of the remaining 25% owed to current residents has been accumulated. Bethel shall fund the escrow account by making annual contributions out of operating cash flow. Once the balance in the escrow account is sufficient to fully repay the remaining 25% owed to current residents, and provided the community is in full compliance with its lending terms and established financial targets, the escrow will be released. Upon release of the escrow, beneficiaries will receive the 25% owed plus interest that has accrued.

As stated above, there will be no change to residents' access to services or their healthcare benefit.

### **Summary of Revenue and Entrance Fee Assumptions**

Revenues are driven by improved occupancy at all levels of Westchester Meadows: independent living, enhanced housing and skilled nursing. Current occupancy is 56.0% (as of July 6, 2016). Stabilized occupancy is assumed to 92.0%. See below for detail regarding occupancy by level of care:

#### **Stabilized Occupancy and Fill Up**

##### *Independent Living*

- Ending occupancy at 12/31/15 was 75 units, or 62.5%.
- 92.0% (or 110.4 units) is projected to be reached in December 2019.

##### *Enhanced Housing*

- Ending occupancy at 12/31/15 was 3.0 units, or 30%.
- The average occupancy is projected to be stabilized at 80.0% by July 2017.

##### *Skilled Nursing*

- Ending occupancy at 12/31/15 was 6.0 beds, or 30.0%.
- The projected average occupancy for FY2016 is 6.7 beds, or 33.5%, increasing to stabilized occupancy of 92.0% (or 18.4 beds) by August 2017.

The first fully stabilized year of occupancy is FY2020.



Management anticipates fill-up will commence approximately two months following closing of the acquisition. Fill-up is projected at an average rate of 1.3 net units (new move-ins less attrition) per month over a 36 month period.

### Monthly/Daily Service Fees

It is assumed that residents of the Community will pay a Monthly/Daily Service Fee. Existing residents are projected to pay their contracted rates inflated annually. For new private pay residents, the fees shown below would be effective beginning November 1, 2016. Beginning in January 2017, all monthly and daily private fees are assumed to inflate at 4.0% annually. Service fees are presented below.

<b>Unit Type</b>	<b>Number of Units</b>	<b>Service Fees (FY2016 \$)</b>
<b>Independent Living Apartments</b>		
One bedroom (Bayberry)	24	\$3,190
One bedroom w/den (Elmwood)	32	3,790
Two bedroom (Hawthorne)	32	4,750
Two bedroom deluxe/bay (Whitney)	8	4,850
Two bedroom deluxe (Montgomery)	8	5,021
Two bedroom deluxe (Knollwood)	8	5,509
Two bedroom w/den (Winthrop)	8	5,950
<b>Independent Living Total Units/Average Monthly Fees</b>	<b>120</b>	<b>\$4,337</b>
<b>Enriched Housing Total Units/Average Monthly Fees</b>	<b>10</b>	<b>\$7,625</b>
<b>Skilled Nursing Total Beds/Average Monthly Fees</b>	<b>20</b>	<b>\$13,680</b> <b>(\$450.00 per diem)</b>
<b>Total Units</b>	<b>150</b>	

### Entrance Fees

It is assumed that new residents of the Community will pay an upfront Entrance Fee. The entrance fees shown below would be effective beginning November 1, 2016.

Westchester Meadows Type C Fee-For-Service Contract							
Unit Type	#	BR	BA	Size	Entrance Fee		Monthly Fee
					90% Refund	Declining	Type C
<b>Apartment Residences</b>							
One-Bedroom (Bayberry)	24	1	1	701	\$265,500	\$151,700	\$3,190
One-Bedroom w/ Den (Elmwood)	32	1/D	1.5	879	\$375,500	\$214,600	\$3,790
Two-Bedroom (Hawthorne)	32	2	2	1,047	\$440,500	\$251,700	\$4,750
Two-Bedroom Deluxe/Bay (Whitney)	8	2	2	1,146	\$469,500	\$268,300	\$4,890
Two-Bedroom Deluxe (Montgomery)	8	2	2	1,173	\$475,500	\$271,700	\$4,990
Two-Bedroom Deluxe (Knollwood)	8	2	2	1,320	\$530,500	\$303,100	\$5,490
Two-Bedroom w/ Den (Winthrop)	8	2/D	2	1,589	\$624,500	\$356,900	\$5,955
<b>Apartment Total/Average</b>	<b>120</b>			<b>1,002</b>	<b>\$410,700</b>	<b>\$234,687</b>	<b>\$4,337</b>
<b>Second Person Fee</b>							<b>\$1,000</b>

Westchester Meadows Type B Modified (60 Day) Health Benefit Contract							
Unit Type	#	BR	BA	Size	Entrance Fee		Monthly Fee
					90% Refund	Declining	Type B
<b>Apartment Residences</b>							
One-Bedroom (Bayberry)	24	1	1	701	\$285,500	\$171,700	\$3,390
One-Bedroom w/ Den (Elmwood)	32	1/D	1.5	879	\$395,500	\$234,600	\$3,990
Two-Bedroom (Hawthorne)	32	2	2	1,047	\$460,500	\$271,700	\$4,950
Two-Bedroom Deluxe/Bay (Whitney)	8	2	2	1,146	\$489,500	\$288,300	\$5,090
Two-Bedroom Deluxe (Montgomery)	8	2	2	1,173	\$495,500	\$291,700	\$5,190
Two-Bedroom Deluxe (Knollwood)	8	2	2	1,320	\$550,500	\$323,100	\$5,690
Two-Bedroom w/ Den (Winthrop)	8	2/D	2	1,589	\$644,500	\$376,900	\$6,155
<b>Apartment Total/Average</b>	<b>120</b>			<b>1,002</b>	<b>\$430,700</b>	<b>\$254,687</b>	<b>\$4,537</b>
<b>Second Person Fee</b>					<b>\$20,000</b>	<b>\$20,000</b>	<b>\$1,200</b>

### Contract Mix and Payer Mix

#### Independent Living Contract Mix

Historically, various Lifecare and Modified entrance fee contracts were offered ranging from 0% refundable to 90% refundable. Going forward, two contract types will be offered to new residents (Type C and Type B), both with different refundable options (90% refundable or Declining Balance). The following contract mix is assumed for new entrants to independent living:

Type C Plan – 90% Refund	75%
Type C Plan – Declining Balance	15%
Type B Plan – 90% Refund	5%
Type B Plan – Declining Balance	5%

The independent living existing and new resident mix projection is based on turnover rates as provided in the actuarial projections, as well as, historical experience. Second persons mix projection for existing and new independent living residents is 20.0% based on actual current data.

*Enriched Housing Payer Mix and Contract Mix*

Management has assumed that approximately 50% of the projected 8.0 residents of the enriched housing will be comprised of internal transfers, with the remainder being direct admits. The projection assumes direct admits to enriched housing for the first seven years; direct admits will begin to taper off in year six and year seven, such that there are no direct admits to enriched housing after the seventh year following closing of the acquisition. The ability to take direct admits into the Enriched Housing over the first seven years is a critical component to the overall financial feasibility for the project as it helps improve cash flows in the early years following the acquisition, at a time when the Enriched Housing units would largely be vacant.

*Skilled Nursing Payer Mix*

The skilled nursing payer mix is based on historical experience and actuarial projections that were obtained from Westchester Meadows. As was assumed in enriched housing, the projection assumes direct admits to skilled nursing for the first seven years; direct admits will then begin to taper off in year six and year seven, such that there are no direct admits to skilled nursing after the seventh year following closing of the acquisition. The ability to take direct admits into the Skilled Nursing Facility over the first seven years is a critical component to the overall financial feasibility for the project as it helps improve cash flows in the early years following the acquisition, at a time when the Skilled Nursing beds would largely be vacant.

**Monthly Service Fee & Entrance Fee Inflation Rates**

The following annual revenue inflation rates are applied in January of each year:

Independent living monthly fees	4.00%
Enhanced housing monthly fees	4.00%
Skilled nursing private pay rates	4.00%
Skilled nursing Medicare rates	2.00%
Skilled nursing Medicaid rates	2.00%
Entrance fees	4.00%

### **Other Revenue & Investment Income**

Other income is projected at 4.12% of Net Resident Services Revenue, based on Management’s 2015 actual results. The total in 2019 is \$408,000. Other income is mainly comprised of additional resident meals, guest meals, parking, and other ancillary services that are over and above those included in the residency agreement.

Investment income earnings projected at the following rates:

Cash	1.0%
Investments	3.0%
Long-term trustee held funds	3.0%

### **Turnover Rates**

Entrance fee receipts from attrition and refunds are based on turnover rates averaging 11% per year during the projection period. Turnover rates were based on the actuarial projections that were obtained from Westchester Meadows.

### **Summary of Operating Expense Assumptions**

Projected operating expenses are based on the historical experience of Westchester Meadows, with adjustments that Management expects to make post-acquisition.

Management expects to reduce operating expenses by approximately \$2.0 million following the closing of the acquisition. The expense reductions are primarily related to: (a) the rejection of certain contracts for services, such as dining and maintenance, (b) overhead allocation adjustments due to new ownership structure, and (c) property taxes/PILOT payments.

Following closing of the acquisition, variable costs, such as utilities and food costs, are projected to fluctuate with occupancy. Overall staffing is projected to increase in 2016 to prepare for the projected increase in occupancy and then remain stable throughout the projection period, as detailed below:

<b>Staffing Summary</b>	
<b>Department</b>	<b>2016 Projection</b>
Health Care Services	23.92
Dietary Services	17.38
Administrative Services	9.38
Maintenance and Security Services	3.00
Housekeeping and Laundry Services	6.24
<b>Total</b>	<b>59.92</b>

Staffing costs (wages and benefits) comprise 43% of total operating expenses, or approximately \$4,027,000 in 2019. Benefits are assumed to equal 43.0% of wages during the projection period.

Non-staffing costs comprise 57% of total operating expenses, or approximately \$5,357,000 in 2019. Included in this is approximately \$1,060,000 for utilities, \$844,000 for property taxes, and \$211,000 for insurance.

Property taxes are projected to be reduced from the existing levels. The 2015 property tax expense was \$1,200,000. It is assumed that a reduction to \$750,000 in 2015\$ would be achieved.

Operating expenses are assumed to inflate 4.0% annually.

### **Capital Expenditures**

As previously described, Bethel will fund approximately \$6.0 million of capital expenditures from proceeds of the financing. The proceeds from the financing allocated to capital expenditures will be deposited in a trustee-held account and are expected to be spent within the first three years following closing. Management also assumes routine capital expenditures, which are projected at \$675,300 beginning in 2020. Beginning in 2021, this amount is inflated 3.0% annually. Property, plant and equipment includes the following additions during the projection period:

<b>Capital Spending Schedule in (\$000)s</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>	<b>2023</b>	<b>2024</b>	<b>2025</b>
PP&E Balance										
Beginning Balance PP&E	48,137	48,804	50,804	52,804	54,137	54,812	55,508	56,224	56,962	57,722
Disposal of Assets	-	-	-	-	-	-	-	-	-	-
Capital additions	-	-	-	-	675	696	716	738	760	783
Construction expenditures	667	2,000	2,000	1,333	-	-	-	-	-	-
Ending Balance PP&E	48,804	50,804	52,804	54,137	54,812	55,508	56,224	56,962	57,722	58,505

### **Statutory Operating Reserve**

It is projected that the Statutory Operating Reserve would be funded gradually over the fill-up years reaching 100% funding in FY2020. The reserve is projected to be initially funded with a \$500,000 deposit as part of the financing. The reserve is projected to be funded at 25% in FY2017, 50% in FY2018, 75% in FY2019, and 100% in FY2020 and thereafter.

### **Other Financial Assumptions**

Assets whose use is limited includes a debt service reserve fund, as required by the loan agreement with Hamlin. The sizing of the debt service reserve fund is equal to one year’s annual debt service, or approximately \$2.2 million.

As previously described, the project is expected to be financed by \$28.685 million of bond proceeds from Hamlin (excluding debt service reserve funds), combined with \$2.0 million from Bethel. Under the terms provided by Hamlin, the bonds will be structured as “draw down bonds”, which means that the bonds will be put in place as the proceeds are needed. At closing, an initial draw on the bonds will be used to fund (i) the acquisition price, (ii) working capital needs (including capitalized interest), and (iii) costs of issuance. Future draws will be made to fund capital expenditures as they are implemented. This structure is a more efficient alternative to a traditional bond financing, whereby all of the bonds are issued at closing. The benefit to Bethel is reduced interest costs during the initial term of the bonds.

### **Timeline**

October 2016	Close on financing
October 2016 – September 2017	Capital expenditures
July 2017	Enhanced Housing reaches stabilized occupancy of 80.0%
August 2017	Skilled Nursing reaches stabilized occupancy of 92.0%
December 2019	Independent living reaches stabilized occupancy of 92.0%