ILLINOIS FINANCE AUTHORITY
MEMORANDUM

To: IFA Board of Directors

From: Pam Lenane & Nora O'Brien

Date: December 20, 2012

Re: **Clare Oaks Plan of Reorganization and Bond Restructuring**

Clare Oaks, an Illinois not-for-profit corporation (the "**Borrower**"), was formed in 2002 and received a determination letter dated June 15, 2005, from the Internal Revenue Service determining that it is exempt from federal income tax under Section 501(a) of the Internal Revenue Code of 1986, as amended (the "**Code**"), as an organization described in Section 501(c)(3) of the Code. The Borrower was formed for the purpose of developing the continuing care retirement community known as "**Clare Oaks**" (the "**Project**" or the "**Community**"), at its incorporation, the Borrower was a sponsored institution of the Sisters of St. Joseph of the Third Order of St. Francis, a Roman Catholic congregation of women represented principally in the Archdioceses of Chicago and Detroit and the Dioceses of LaCrosse and Cleveland. The Community is located on approximately 41 acres land in Bartlett, Illinois, owned by The Sisters of St. Joseph of the Third Order of St. Francis, Inc, an Indiana nonprofit corporation (the "**SSJ-TOSF**"), and leased to the Borrower under a ground lease. The Community provides a comprehensive continuum of care to its residents and consists of 164 independent living units, 17 assisted living units, 16 specialty care (memory support) units and 120 skilled nursing beds.

In 2006 the Illinois Finance Authority issued $112,725,000 of revenue bonds (the "**Series 2006 Bonds**") to finance a portion of the costs of the Project. The issue was allocated among the following series designations:

1. Series 2006A Bonds – Fixed Rate Revenue Bonds ($5,000 Denominations)
2. Series 2006B-1 Bonds – EXTRAS ($5,000 Denominations)
3. Series 2006B-2 Bonds – EXTRAS ($5,000 Denominations)
4. Series 2006C Bonds – Variable Rate Revenue Bonds ($100,000 Denominations)
5. Series 2006D Bonds – Variable Rate Revenue Bonds ($100,000 Denominations)

The senior housing market has been adversely affected over the past approximately five years by the housing market crisis, the economic recession and a weakened credit environment, including limited access to capital, falling real estate values and reduced liquidity due to realized and unrealized losses on investments. Many senior living facilities have experienced material declines in occupancy as a result of the market changes. Specifically, prospective residents are faced with (i) difficulty selling their homes due to the sluggish real estate market, (ii) significant declines in their home equity value and (iii) declines in their investment portfolio values. These economic circumstances have made it difficult for seniors to move into retirement housing facilities such as the Community, as many older adults rely on the proceeds from the sale of their homes to fund the upfront entrance fee required by many continuing care retirement communities. In addition, many seniors are further challenged to pay their monthly living expenses, including monthly service fees payable to these communities, following declines in the value of their investment portfolios and current low rates on fixed income investments.

The Community, which opened in 2007, was affected by these challenging market conditions and experienced a slower than anticipated fill up of the Project, which resulted in reduced revenue and caused the Corporation to default on its obligations relating to the Series 2006 Bonds. On December 5, 2011, the Corporation filed a voluntary petition for relief (the "Chapter 11 Case") under chapter 11 of title II of United States Code (the "Bankruptcy Code"). The Corporation continued to operate the Community as a debtor in possession during the Chapter 11 Case. As of November 30, 2012, occupancy of the Community was 130 independent living units, 31 assisted living and specialty care units, and 97 skilled nursing beds.

During the Chapter 11 Case, the Corporation pursued a sale of substantially all of its assets. The Corporation was obligated to satisfy certain sale milestones under its debtor-in-possession loan (the "DIP Loan") and the order of the Bankruptcy Court permitting the Corporation to use cash collateral, and the Corporation engaged B.C. Ziegler and Company to conduct a sale process within those sale milestones. After conducting a solicitation process over a period of several months, the Corporation announced that it had negotiated a stalking horse asset purchase agreement with a for-profit buyer for an aggregate purchase price of approximately $16 million. The proposed sale, after payment of the DIP Loan and transaction costs, would have yielded a return to secured creditors of approximately $10 million. Given the anticipated low recovery to creditors under the Corporation's proposed sale of assets, the Master Trustee and Sovereign Bank, N.A. objected to the Corporation's sale procedures.

The Borrower engaged in negotiations regarding a bond restructuring with an informal steering committee of bondholders and Sovereign Bank, which provided letters of credit supporting the Series 2006C Bonds and the Series 2006D Bonds and is now the owner of such bonds. The bond restructuring would be accomplished pursuant to a plan of reorganization (the "**Plan**"), which has been confirmed by the Bankruptcy Court. Under the Plan, up to $14 million of tax-exempt and taxable bonds (the "**Series 2012A Bonds**") would be issued by the IFA to certain existing bondholders and Sovereign Bank to pay certain costs of emerging from bankruptcy protection, including repaying the Borrower's debtor-in-possession ("**DIP**") financing, financing the costs of certain capital expenditures, funding certain operating, debt service and lease payment reserves, paying certain expenses of the bond restructuring, and financing the acquisition by the Borrower of a fee simple purchase option on the underlying land for the Project.

In addition, the Plan contemplates the exchange of the outstanding Series 2006 Bonds for approximately $40 million of current interest paying tax-exempt bonds (the "**Series 2012B Bonds**") and approximately $35 million of tax-exempt capital appreciation bonds (the "**Series 2012C Bonds**"). Upon the satisfaction of certain conditions, $5 million of Series 2012C Bonds would convert to current interest paying bonds after six years from the date of issuance and an additional $5 million of Series 2012C Bonds would convert to current interest paying bonds after 11 years from the date of issuance.

Upon the closing of the transaction, a feasibility study prepared by CliftonLarsenAllen (the "**Feasibility Study**") will be delivered in connection with the issuance of the Series 2012A Bonds. The Feasibility Report will conclude that the revenue generated by the project is expected to be sufficient to pay the debt service on the Series 2012A Bonds and the operating expenses of the project during the forecast period as of June 30, 2013, 2014 and 2015, and for each of the three years then ending. Financial projections from the draft Feasibility Study relating to the debt service coverage of the Series 2012A Bonds and the Series 2012B Bonds is included in the Confidential Information section of this report.

ILLINOIS FINANCE AUTHORITY
BOARD SUMMARY
December 20, 2012

Project: Clare Oaks

STATISTICS

Project Number: H-SL-TE-CD-8580
Type: 501(c)(3) Bonds
County/Region: Cook/Northeast

Amount: $90,000,000 (Not-to-Exceed)
IFA Staff: Pam Lenane and Nora O'Brien
City: Bartlett

BOARD ACTION

Final Bond Resolution (*One-time consideration*)
Bond Exchange and New Issue Resolution
Credit Review Committee Recommends

No IFA funds at risk
Request Waiver of the Board policy for non-rated debt

VOTING RECORD

Original financing for this project was approved by the Board in May 2006. This is the first time this restructuring transaction has been brought before the Board.

PURPOSE

The objective of the Plan of Reorganization is to restructure the Borrower's debt obligations by reducing its annual debt service to a level that can be sustained by present and anticipated future operations. The Series 2012B Bonds and the Series 2012C Bonds will be exchanged for the outstanding Series 2006 Bonds. The Series 2012A Bonds will be used to refinance the Borrower's existing DIP facility, finance certain capital expenditures, provide a portion of the funds for certain operating, debt service and lease payment reserve funds, pay certain costs of issuance and financing the acquisition by the Borrower of a fee simple purchase option on the underlying land for the Project.

IFA PROGRAM AND CONTRIBUTION

501(c)(3) Bonds are a form of municipal bonds that 501(c)(3) corporations can use to finance capital projects that will be used to further their charitable mission. IFA's issuance will convey federal income tax-exempt status on interest earned on the Bonds paid to bondholders and thereby reducing the Borrower's interest expense.

VOLUME CAP

501(c)(3) bond issues do not require Volume Cap.

JOBS

Current employment:	188 FTE's	Projected additional new jobs:	0 FTE's
Jobs retained:	188 FTE's	Construction jobs:	0 FTE's

ESTIMATED SOURCES AND USES OF FUNDS

Sources:	Series 2012A	$14,000,000	Uses:	Series 2006 Refunding	$75,000,000
	Series 2012B*	$40,000,000		Repay DIP Loan	$5,724,000
	Series 2012C*	$35,000,000		Capital Expenditures	$1,250,000
				Operating Reserves	$2,550,000
	Borrower funds	$2,825,801		Debt Service & Rent Reserves	$2,275,000
	Trustee held funds	$1,600,000		Issuance Costs	$1,826,801
				Liquidity Support Fund	$2,000,000
				Alternative WC Fund	$1,000,000
	Total	$93,425,801		Fee Simple Option Fee	$1,500,000
				Total	$93,425,801

*approximately

FINANCING SUMMARY/STRUCTURE

Security:	The Bonds will be secured by a gross revenues pledge provided under the Borrower's Master Indenture and by a first mortgage lien provided under the Borrower's Leasehold Mortgage and Security Agreement.
Structure:	The plan of finance contemplates that the Series 2012A Bonds will include tax-exempt fixed rate bonds and taxable fixed rate bonds. The outstanding Series 2006 Bonds will be exchanged for approximately $40 million of current interest paying tax-exempt bonds (the "Series 2012B Bonds") and approximately $35 million of tax-exempt capital appreciation bonds (the "Series 2012C Bonds"). Capital appreciation bonds don't pay interest on a current basis but appreciate in value based on a specified accretion rate until final maturity. The Series 2012B Bonds will be secured by a second priority lien on the assets of the Reorganized Debtor pari passu with the Series 2012C Bonds but junior to the Series 2012A Bonds until such time as the Series 2012A Bonds are repaid in full. The Series 2012C Bonds will be issued in three tranches. The Series 2012C-1 Bonds will have an aggregate principal amount of approximately $25 million, compounding semi-annually at a 2% yield through final maturity at 40 years from the Effective Date. The Series 2012C-2 Bonds will have an aggregate principal amount of approximately $5 million, compounding semi-annually at a 2% yield through year 6 from the Effective Date, at which time the payment terms relating to the Series 2012C-2 Bonds will be identical to the payment terms of the Series 2012B Bonds, to the extent certain conditions listed below are satisfied. The Series 2012C-3 Bonds will have an aggregate principal amount of approximately $5 million, compounding semi-annually at a 2% yield through year 11 from the Effective Date, at which time the payment terms relating to the Series 2012C-3 Bonds will be identical to the payment terms of the Series 2012B Bonds, to the extent certain conditions listed below are satisfied. The Series 2012 Supplemental Bond Documents will provide that upon the satisfaction of the following conditions precedent, the terms and conditions of the Series 2012C-2 Bonds and Series 2012C-3 Bonds shall automatically reflect the terms and conditions of the Series 2012B Bonds: (i) historical certificated of the Reorganized Debtor demonstrating that, after giving effect to the conversion, the Debt Service Coverage Ratio for the preceding 12 months for which financial statements are available was not less than 1.15; and (ii) an Opinion of Bond Counsel to the effect that such conversion will not adversely affect the validity of the Series 2012A Bonds or the Series 2012B Bonds or any exemption from federal income taxation to which such Series 2012A bonds or Series 2012B Bonds would otherwise be entitled.
Interest Rates:	Interest rates on the Series 2012A Bonds will not exceed 7% per annum. The Series 2012B Bonds will bear interest initially at 4% per annum for years 1 through 15 and at 6% thereafter until final maturity. The Series 2012C Bonds will accrue at 2% per annum compounded semi-annually.
Maturity:	Not later than 2052
Rating:	Not rated
Estimated Closing Date:	December, 2012

PROJECT SUMMARY

The proceeds of the Series 2012A Bonds will be used to (i) refinance the Borrower's debtor-in-possession ("**DIP**") financing; (ii) pay or reimburse the Borrower for the payment of certain costs of acquiring, constructing and equipping certain "projects" (as such term is defined in the Act) relating to the Community; (iii) fund operating, debt service and lease payment reserves; (iv) finance the acquisition by the Borrower of a fee simple purchase option on the underlying land for the Project; and (vi) pay certain expenses incurred in connection with the issuance of the Bonds.

Upon the effective date of the Plan of Reorganization, the outstanding Series 2006 Bonds will be exchanged for approximately $40 million of Series 2012B Bonds and approximately $35 million of Series 2012C Bonds.

BUSINESS SUMMARY

Description of Business: Clare Oaks**,** an Illinois not-for-profit corporation (the "**Borrower**"), was formed in 2002 and received a determination letter dated June 15, 2005, from the Internal Revenue Service determining that it is exempt from federal income tax under Section 501(a) of the Internal Revenue Code of 1986, as amended (the "**Code**"), as an organization described in Section 501(c)(3) of the Code. The Borrower was formed for the purpose of developing the continuing care retirement community known as "**Clare Oaks**" (the "**Project**" or the "**Community**") as a sponsored institution of the Sisters of St. Joseph of the Third Order of St. Francis ("**SSJ-TOSF**"), a Roman Catholic congregation of women represented principally in the Archdioceses of Chicago and Detroit and the Dioceses of LaCrosse and Cleveland. The Community commenced operations in 2007.

The Community is located on approximately 41 acres land in Bartlett, Illinois, owned by The Sisters of St. Joseph of the Third Order of St. Francis, Inc, an Indiana nonprofit corporation (the "**SSJ-TOSF**"), and leased to the Borrower under a ground lease. The land on which the Community was constructed was the location of the Congregation's Immaculata Congregational Home and parts of that existing building (the infirmary and the kitchen facilities) became part of the Project. The Community provides a comprehensive continuum of care to its residents and consists of 164 independent living units, 17 assisted living units, 16 specialty care (memory support) units and 120 skilled nursing beds. The SSJ-TOSF and the Corporation have entered into Residency Agreements for 20 independent living apartments (the "**SSJ-TOSF Units**"), pursuant to which the SSJ-TOSF has paid to Clare Oaks the initial entrance fees and will pay monthly service fees associated with such units. Currently there are 45 Sisters living in the Community (23-Independent Living, 14-Skilled Nursing, 6-Assisted Living and 2-Memory Care).

Management:

The Corporation has contracted the day-to-day management of the Community to Life Care Services LLC, an Iowa liability company ("LCS"). LCS is based in Des Moines, Iowa, and the core of its business involves the operation and management of retirement communities similar to the Community. The relationship between the Board and LCS is an arm's-length relationship. No member of the Board has any financial interest in, or compensation arrangement with, LCS or any LCS affiliates.

The initial development, marketing and management of the Project was under the direction of CRSA Management, LLC, a subsidiary of CRSA Holdings, Inc. ("CRSA Holdings"). Effective April 30, 2010, LCS acquired the assets of CRSA Holdings and assumed management of the Community through its affiliate CRSA/LCS Management LLC, an Iowa limited liability company. On or before the effective date of the Plan of Reorganization, the Corporation will enter into a Management Agreement (the "Management Agreement") with LCS for the management of the Community.

LCS will serve as the manager of the Community and, in connection therewith, will recommend and regularly evaluate policies and goals of the Community; implement the policies, budgets, directives and goals for the Community established by the Corporation; market the Community; manage the day-to-day operations of the Community in accordance with the Corporation's policies, directives and goals; provide the Corporation with relevant information as to past operations; and make recommendations as to the future operation of the Community.

In support of the Community, LCS will recommend personnel policies and procedures for the employees of the Community; recommend appropriate employee compensation and benefit plans; as necessary or appropriate, recruit employees to be employed at the Community; and utilize personnel policies, procedures and guidelines adopted by the Corporation, implement the recruitment, hiring, training, retention and termination of the Community staff members. LCS will hire, train and supervise the chief administrative officer of the Community, who will be an employee of LCS.

LCS will provide the Corporation with monthly, quarterly and annual financial statements and annual budgets for operating revenue and expense, capital expenditures and cash flow projections for the Community and recommend a schedule of resident entrance fees, monthly services fees and other charges.

The Board retains the ultimate control over the retention of LCS, evaluates its performance and also monitors the operating costs, wages, salaries, expenses and overall fiscal viability of the Community.

As of December 1, 2012, LCS or its affiliates or subsidiaries managed approximately 89 retirement communities, including the following retirement communities (in addition to the Community) located in Illinois:

Illinois Retirement Communities Managed by LCS	**Living Units**	**Nursing Beds**	**Personal Care**
Illinois, Godfrey – United Methodist Village	177	0	44
Illinois, Lincolnshire – Sedgebrook	469	88	44
Illinois, Naperville – Monarch Landing	367	0	0
Illinois, Plainfield – Cedarlake Village	186	0	0
Illinois, Wheaton – Wyndemere	237	156	65

OWNERSHIP / ECONOMIC DISCLOSURE STATEMENT

Applicant: Clare Oaks
Location: West Bartlett Road, Bartlett, IL
Project name: Clare Oaks
Organization: 501(c)(3) Not-for-Profit Corporation
State: Illinois
Present Board Members*: Michael D. Hovde*, President
Dan Walsh, Vice President and Secretary
Paul Clemens*, Treasurer
Edward (Ted) Otto
Therese Malm*
Sister Denise Seymour
Sister Marcella Nowakowski

*Board Members of the Borrower upon emergence from bankruptcy. An additional Board Member upon emergence will be Sister Jeanne Conzemius along with three additional Board Members with CCRC operational experience yet to be determined. Bylaws of the Borrower will become effective upon emergence from bankruptcy as described in the Restructuring Term Sheet included in the Plan of Reorganization.

Upon the emergence from bankruptcy, the Community will not be a sponsored institution of the Sisters of St. Joseph of the Third Order of St. Francis. Certain members of the Order will continue to act as members of Clare Oaks in accordance with and subject to the Amended Bylaws. SSJ-TOSF is not and will not be obligated to make any contributions, loans, donations or other financial commitments to Clare Oaks, or to extend any form of credit or credit support to Clare Oaks.

PROFESSIONAL & FINANCIAL

Borrower's Counsel:	Ungaretti & Harris LLP	Chicago	James Broeking
Accountant/Feasibility Consultant:	CliftonLarsonAllen	Chicago	Chad Kunze
Bond Counsel:	Jones Day	Chicago	John Bibby
Bank:	Sovereign Bank	Chicago	Naomi O'Dell
Bank Counsel:	Duane Morris LLP	Chicago	John Weiss
Restructuring Agent:	Alvarez & Marsal, LLC	Chicago	Paul Rundell
Underwriter:	B.C. Ziegler & Company	Chicago	Kevin Carden
Underwriter's Counsel:	Katten Muchin Rosenman	Chicago	Janet Goelz Hoffman
Bond Trustee:	Wells Fargo Bank, N.A.	Chicago	
Bond Trustee's Counsel:	Mintz Levin	Boston	Daniel Bleck
Issuer's Counsel:	Charity & Associates, P.C.	Chicago	Alan Bell
IFA Advisor:	Acacia Financial Group	Chicago	Courtney Shea

LEGISLATIVE DISTRICTS

Congressional:	6^{th}
State Senate:	28^{th}
State House:	55^{th}

SERVICE AREA

The Community's service area remains the same as described in the feasibility study prepared in connection with the original financing. The Community is located on an approximately 41-acre site on West Bartlett Road, Bartlett, Illinois, which is approximately 37 miles northwest of Chicago near Cook County's border with DuPage County. The primary market area ("PMA") includes 8 zip codes (60103, 60123, 60007, 60188, 60101, 60120, 60108 and 60194) that fall within a 10-mile radius of the Project.