DISCLOSURE STATEMENT

February 28, 2021

FRIENDS HOMES, Inc.

925 New Garden Road
Greensboro, North Carolina 27410-3299
(336) 369-2559

In accordance with Chapter 58, Article 64 of the North Carolina General Statutes of the State of North Carolina:

- **This Disclosure Statement may be delivered until revised, but not after July 27, 2022;**
- **Delivery of the Disclosure Statement to a contracting party before the execution of a contract for continuing care is required;**
- **This Disclosure Statement has not been reviewed or approved by any government agency or representative to ensure accuracy or completeness of the information set out.**

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I. ORGANIZATION INTRODUCTION AND INFORMATION

Friends Homes, Inc. is a nonstock, nonprofit corporation chartered in 1958. It currently owns and operates a continuing care retirement center (CCRC) in Greensboro, North Carolina with two campuses that serve a total of 610 residents. The Guilford campus is located at 925 New Garden Road and the West campus is about one-half mile to the west at 6100 W. Friendly Avenue.

Board of Trustees - The by-laws of Friends Homes, Inc. calls for the Board of Trustees to have no less than twelve or more than twenty-four members, with up to 4 seats allocated to residents of our campuses; to serve as the governing body for the organization. The Board of Trustees meets at least two times per year and is made up of five committees that meet and bring recommendations to the full Board. The members of the 2021 Board of Trustees are as follows:

Board Members	Term Expires	Principal Business Affiliation
Jay Bumm 925 New Garden Road Greensboro, NC 27410	2022	Retired Executive Director Friends Homes - West Campus
Kathy Coe 925 New Garden Road Greensboro, NC 27410	2021	Retired Clergy; former journalist; former music teacher and church musician
Pete Cross 925 New Garden Road Greensboro, NC 27410	2021	Board Chair of Cross Technologies, Inc. and retired CEO of Cross Technologies, Inc.
Annemarie Dloniak* 925 New Garden Road Greensboro, NC 27410	2023	Truist Bank Commercial Portfolio Manager
Don Farlow* 925 New Garden Road Greensboro, NC 27410	2022	Retired Business Executive and Clerk of the board of North Carolina’s Yearly Meeting, Inc.
Nancy Glenz 925 New Garden Rd. Greensboro, NC 27410	2021	Resident of Friends Homes – Guilford Campus
George Harris 925 New Garden Road Greensboro, NC 27410	2022	Wealth Advisor, GCG Wealth Management
Marshall Hurley 925 New Garden Road Greensboro, NC 27410	2023	Attorney, Marshall Hurley PLLC
Yvonne Johnson 925 New Garden Road Greensboro, NC 27410	2022	Executive Director, One Step Further

Barbara Jones 925 New Garden Road Greensboro, NC 27410	2021	Resident of Friends Homes - West Campus
Ted Lide 925 New Garden Road Greensboro, NC 27410	2023	Resident of Friends Homes - West Campus
Hector McEachern 925 New Garden Road Greensboro, NC 27410	2021	President, The McEachern Group, Human Capital Advisors
Brent McKinney 925 New Garden Road Greensboro, NC 27410	2023	NC A&T – Transportation Engineer/Professor
Bill McNeil 925 New Garden Road Greensboro, NC 27410	2023	Urban and Regional Planning
Elwood Parker 925 New Garden Road Greensboro, NC 27410	2022	Retired, Guilford College Math Professor
Joy Reavis* 925 New Garden Road Greensboro, NC 27410	2023	Pfizer Pharmaceutical Sales
Judy Ritter 925 New Garden Road Greensboro, NC 27410	2021	Retired Social Worker in state and federal program management
Carl Semmler* 925 New Garden Road Greensboro, NC 27410	2021	Counsel for Lincoln Financial Group
Ray Treadway 925 New Garden Road Greensboro, NC 27410	2022	Resident of Friends Homes – Guilford Campus

* Denotes a member of the Executive Committee

Management - Presbyterian Management Services, LLC. is contracted by the Board of Trustees of Friends Homes, Inc. to manage Friends Homes, Inc. The original contract ran from May 1, 2016 and through December 31, 2018 and was renewed in December 28, 2018 for five years ending December 31, 2023. PHI Management Services, LLC is wholly owned by Presbyterian Homes, Inc. (PHI). PHI began managing The Presbyterian Home of High Point in 1985 (through its sale in June 2011). It opened its Scotia Village community in Laurinburg in 1988, its Glenaire community in Cary in 1993 and its River Landing at Sandy Ridge community in High Point in 2003.

The Presbyterian Management Services principal management staff is as follows:

Mr. Timothy J. Webster is President and Chief Executive Officer, and Assistant Secretary with The Presbyterian Homes, Inc. He has been with the company since April of 1994. During his tenure he has held the positions of Assistant Controller, Controller, Director of Finance, Director of Operations, and Vice President and Chief Operating Officer. Mr. Webster is a Certified Public Accountant. Mr. Webster is active in LeadingAge North Carolina and currently serves on its Foundation Board. Additionally, he is a member of the Healthcare Advisory Board at Appalachian State University.

Mr. Hank Lovvorn is Vice President and Director of Operations with The Presbyterian Homes, Inc. He has been with the company since June 2008. Prior to joining The Presbyterian Homes, Inc. he served as Regional Vice President of operations for a multi-community retirement organization in Florida.

Mrs. Julia F. Hanover is Vice President and Chief Financial Officer and Assistant Treasurer with The Presbyterian Homes, Inc. She has been with the company since March of 1998. She has served as Controller and Director of Finance. Mrs. Hanover is a Certified Public Accountant.

Mr. Mark Collins is Vice President and Director of Human Resources. He has been with the company since September 2012. Prior to joining the Presbyterian Homes, he was employed by Burlington Industries for 32 years in various human resources management positions.

Administrative Staff - The day-to-day operations of the Community are the responsibility of the Administrative Staff, whose principal members are listed below:

Arnie Thompson is the Executive Director of Friends Homes, Inc. since August 1, 2016. He is a licensed Nursing Home Administrator in North Carolina as well as a Certified Public Accountant. He has 20 years of long-term care experience, which included roles as Controller for the Presbyterian Homes, Inc. and Associate Director for River Landing at Sandy Ridge. He received a Bachelor of Science in Business Administration from Appalachian State University. (Employed by Presbyterian Management Services, LLC)

Donna B. Sprinkle, Associate Executive Director, West Campus, joined the Community February 18, 2013. She is licensed as a Nursing Home Administrator in North Carolina. Before coming to Friends Homes West, she had been the Executive Director of Piedmont Crossing for over six years. She received a BA degree from Guilford College and a Master of Science in Public Policy and Public Administration from Purdue University. Her career has included 37 years' experience in various aspects of healthcare management and senior housing. Her family has been and continues to be in leadership roles in the Religious Society of Friends (Quakers) throughout Friends United Meeting. She has continued her connection with the Society of Friends and attends Archdale Friends Meeting. (Employed by Presbyterian Management Services, LLC)

Missy McGinnis, Associate Executive Director, Guilford Campus, joined the Community April 17, 2017. She is licensed as a Nursing Home Administrator in North Carolina. Missy came to Friends Homes with 24 years of experience in long term care management. She received a Bachelor's Degree in Public Administration from Drake University and a Master's Degree in Health Care Administration from Des Moines University of Osteopathic Medicine. (Employed by Presbyterian Management Services, LLC)

There are no other professional service firms, associations, trusts, partnerships, or corporations in which the Officers, Trustees or Administrative Staff has, or which has in these persons, a ten percent (10%) or greater interest and which it is presently intended shall currently or in the future provide goods, leases, or services to the community, or to residents of the community, of an aggregate value of five hundred dollars ($500.00) or more within any year. No Trustee or Administrative Staff person has been convicted of a felony or pleaded nolo contendere to a felony charge, or been held liable or enjoined in a civil action by final judgment, if the felony or civil action involved fraud, embezzlement, fraudulent conversion, or misappropriation of property; or is subject to a currently effective injunctive or restrictive court order, or within the past five years, had any State or Federal license or permit suspended or revoked as a result of action brought by a governmental agency or department.

Affiliations - Friends Homes, Inc. was formed by the North Carolina Yearly Meeting of the Religious Society of Friends and is affiliated with North Carolina Yearly Meeting of the Religious Society of Friends, Inc. The North Carolina Yearly Meeting of the Religious Society of Friends, Inc. has no responsibility for the financial and contractual obligations of the corporation and provides no substantive support for the corporation. Although not required, the Board of Trustees of Friends Homes, Inc. is comprised mainly of members from the Quaker community. Friends Homes, Inc. is exempt from Federal income tax under Section 501(c)(3) of the Internal Revenue Code and is also classified as a non-private foundation under Code Section 509(a)(2). Friends Homes, Inc. is certified by the North Carolina Department of Health and Human Resources as an SNF/ICF/HA community. Friends Homes, Inc. is a member of LeadingAge North Carolina and LeadingAge.

II. COMMUNITY INTRODUCTION AND INFORMATION

Friends Homes owns and operates a continuing care retirement community (CCRC) located on two campuses in Greensboro, North Carolina. Both the Guilford and West campus offer a continuum of care. This means that residents are able to have access to three different levels of care within the community, but the monthly rate changes with a change in level of care. Entering at the independent living level, a resident pays an entry fee, the size of which is determined by the size of the apartment or cottage. Each resident will pay monthly fees for basic services and may purchase additional services as desired. Services included and available are listed in the services section on page 9.

The Guilford campus is located at 925 New Garden Road. This campus has a total of 188 independent living units, 52 private and semi-private rooms for assisted living and 69 private and semi-private rooms for nursing care.

The West campus is about one-half mile to the west of the Guilford campus and is located at 6100 W. Friendly Avenue. This campus has a total of 171 independent living units, 40 private assisted living rooms and 40 private rooms for nursing care.

The nursing centers at both campuses accept Medicare and Medicaid as a payer source.

III. POLICIES

Admissions - The admission requirements for residence at Friends Homes are nondiscriminatory except as to age, and Friends Homes is open to both married and single men and women of all races and religions and without regard to place of former residence. Admission is restricted to persons sixty-two (62) years of age or older, except that in the case of a married couple or roommates, one spouse/roommate must have attained the age of at least sixty-two (62) years old and the other spouse/roommate must have attained the age of at least fifty-five (55) years old.

Health Criteria - In order to be admitted to independent living, an individual must demonstrate the ability to perform all the routine tasks of daily living without assistance. This is determined through personal interviews and from a Health History form completed by the individual's personal physician.

Financial and Insurance Criteria - An individual wishing to reserve an independent living unit must, through a disclosure of income and assets, prove adequate monthly income to cover the cost of independent living and sufficient assets and/or Long Term Care Insurance to fund future health care expenses. Friends Homes requires that residents maintain Medicare Part A, Medicare Part B, and one supplemental health insurance policy or equivalent insurance coverage.

Moves - If a resident is no longer able to live safely in independent living he/she agrees that Friends Homes shall have the authority to determine whether the Resident should be transferred from the Resident's living accommodation to the Health Center or from one level of care to another level of care within the Health Center. Such determination shall be based on the professional opinion of Friends Homes' Medical Director and the Executive Director of Friends Homes and shall be made only after consultation to the extent practical with the Resident, a representative of the Resident's family or the sponsor of the Resident, and Resident's attending physician. After a resident has completed the move, vacated the independent living unit and turned in the keys, the rent for the independent living unit ceases and credit is given for any unused monthly fees.

If it is determined by the attending physician that the Resident needs care beyond that which can be provided by the community and personnel of Friends Homes, the Resident may be transferred to a hospital, center or institution equipped to give such care, which care will be at the expense of the Resident. Such transfer of the Resident will be made upon orders from Friends Homes' Medical Director after consultation to the extent possible with the Resident, a representative of the Resident's family or the sponsor of the Resident and the Resident's attending physician.

If a determination is made by Friends Homes that any transfer described above is permanent, the Resident agrees to surrender the living accommodation or the accommodation in the Health Center occupied by the Resident upon thirty (30) days prior written notice from Friends Homes to Resident. If Friends Homes subsequently determines upon the opinion of the Medical Director and the Executive Director that the Resident can resume occupancy in accommodations comparable to those occupied by the Resident prior to such transfer, the Resident shall have priority to such accommodations as soon as they become available.

Transfers within Independent Living - Moves from one independent living unit to another are not frequent but are sometimes requested. Friends Homes will evaluate and consider a Resident's request to move within independent living. The determination to allow a Resident to move is within the sole discretion of Friends Homes and will be administered under the guidelines of Friends Homes' transfer policy in effect at the time of the Resident's request to move.

Resident acknowledges and agrees that any transfer between one independent living unit and another or from one level of care to another within Friends Homes (including without limitation a transfer from Resident's current Living Unit to assisted or skilled nursing) shall not be deemed a termination of this Agreement nor entitle Resident to a refund or partial refund of their Entrance Fee.

Rescission of Residence and Care Agreement - Resident may rescind the Residence and Care Agreement within thirty (30) days after the later of the execution of the contract or receipt of a disclosure statement, in which event any money or property transferred to the community will be returned in full, less any standard customary charges made by the community to the Resident prior to rescission, which charges shall be applicable only for the period a living accommodation was actually occupied by the Resident. A Resident is not required to move into an accommodation before the expiration of the aforesaid thirty-day period. If the Resident moves into an accommodation during the thirty (30) day period and rescinds the contract during the thirty (30) day period the Resident will receive a refund of any money paid to the Corporation less a service charge not to exceed the greater of one thousand dollars ($1,000) or two percent (2%) of the entrance fee. Any refund due shall be paid within sixty (60) days.

Termination of Residence and Care Agreement - The Residence and Care Agreement may be terminated by Resident at any time for any reason after the rescission period and prior to the sixty-first (61) day of occupancy by giving written notice to Friends Homes. In the event of such termination, Resident shall receive a refund of the Entrance Fee paid less an administrative fee of 4% of the total Entrance Fee. However, if the Resident or the Resident's spouse or roommate dies prior to occupancy, or if on account of illness, injury, incapacity, or financial reversal is precluded from occupying the living accommodation, the contract is automatically terminated. Additionally, Friends Homes shall have the right to terminate the Residence and Care Agreement during the first sixty (60) days of occupancy based on Friends Homes determination that Resident's physical or mental condition or emotional adjustment will not permit adaptation to the living environment at Friends Homes. In the event of such terminations the full amount of the Entrance Fee paid will be refunded. Any refund due shall be paid within sixty (60) days of termination of this agreement.

At any time after the expiration of the first sixty (60) days of residence at Friends Homes, the Resident may terminate the Agreement by giving Friends Homes thirty (30) days prior written notice of such termination. Residents electing Woolman/Fox Entrance Fee Option are not entitled to an Entrance Fee refund under this section.

Residents electing the Standard Entrance Fee Option may be entitled to receive a partial refund of their entrance fee. Any partial refund shall be determined and paid as follows: Resident shall receive a refund in an amount equal to the Entrance Fee paid to Friends Homes less an amortization percentage of 1.6% per month for each full calendar month or portion thereof which has elapsed from Resident's Admission Date to the effective date of termination and less four percent (4%) of the total Entrance Fee, which is the nonrefundable portion of the Entrance Fee. For avoidance of doubt, all Entrance Fee refunds are calculated assuming and based upon full calendar months. Any portion of a calendar month (whether relating to the month of Resident's Admission Date or the month of Resident's termination date of this Agreement) shall be deemed to be full and separate calendar months for purposes of calculating any Entrance Fee refund. Any refund due the Resident will be made at such time as such Resident's living accommodation shall have been reserved by a prospective Resident and such prospective Resident shall have paid to Friends Homes such prospective Resident's Entrance Fee. No interest shall be due or payable on any amount refunded.

Friends Homes may terminate the Residence and Care Agreement at any time if there has been a material misrepresentation or omission made by the Resident in the Resident's Application for Admission, Personal Health History or Confidential Financial Statement; if a material change in the Resident's health takes place before occupancy (Admission Date); if the Resident fails to make payment to Friends Homes of any fees or charges due Friends Homes within sixty (60) days of the date when due; if the Resident does not abide by the rules and regulations adopted by Friends Homes as determined by Friends Homes; or Resident breaches any of the terms and conditions of this Agreement. In the event of termination for any of such causes the Resident may be entitled to a partial refund of the Entrance Fee paid by the Resident determined in accordance and paid in the same manner as provided in the preceding paragraph.

Marriages/New Second Occupant - If a Resident, while occupying a living accommodation, marries another Resident or elects to share a living accommodation with a person who is also a Resident, the two Residents may occupy the living accommodation of either Resident and shall surrender the living accommodation not to be occupied by them. No refund will be payable with respect to the living accommodation surrendered. Such Residents will pay the Monthly Charge for double occupancy associated with the living accommodation occupied by them.

In the event that a Resident shall marry or elect to share a living accommodation with a person who is not a Resident of Friends Homes, the non-resident spouse/cohabitant may become a Resident if such spouse/cohabitant meets all of the then current requirements for admission to Friends Homes, enters into a then current version of the Residence and Care Agreement with Friends Homes and pays an Entrance Fee in an amount determined by Friends Homes in its discretion but in any event no more than two-thirds (2/3) of the then current Entrance Fee associated with the type of living accommodation to be occupied by the Resident and non-resident spouse/cohabitant.

Inability to Pay - Each perspective resident is screened to determine ability to pay at the time of admission. The resident contract will not be terminated solely because of the Resident's financial inability to continue to pay the financial obligations to Friends Homes by reasons of circumstances beyond the Resident's control. In the event that a Resident presents facts which in the sole opinion of Friends Homes justify special financial consideration, Friends Homes will give careful consideration to subsidizing in whole or in part the Monthly Charge and other charges payable by the Resident hereunder so long as such subsidy can be made without impairing the ability of Friends Homes to attain its objectives while operating on a sound financial basis. Any grant of financial assistance shall be within the sole discretion of Friends Homes as set forth under a separate written agreement between Friends Homes and the Resident regarding such financial assistance. Friends Homes may request Resident to apply for Medicaid, public assistance, or any other reasonably available public benefit program to offset Resident's Monthly Charge or other charges payable hereunder.

IV. SERVICES

Friends Homes provides services that Resident can pay for on a fee-for-service basis. These optional services offered by Friends Homes may be increased or reduced at Friends Homes' discretion, and the related fees are based on the then current published fees. Fees for such services will be included on Resident's monthly statement.

Friends Homes provides a service allowance of $230 per month per individual Resident. This allowance is already a part of the monthly charge. If Resident exceeds the service allowance in any given month, the additional costs above the allowance will be added to Resident's next monthly statement. Resident is allowed to carry over any unused service allowance to the following month. The cumulative monthly carryover shall not exceed $230. The service allowance may be utilized for the following items:

- Meals in any of Friends Homes dining venues, excluding items offered through Friends Homes convenience store
- Additional housekeeping services beyond those included in monthly fee
- Medical transportation services
- Utilization of Friends Homes' guest quarters for Resident's personal guests
- Personal maintenance service requests beyond the normal scope of services offered by Friends Homes

Standard Services Included in Monthly Fee

- use of living unit, common spaces and grounds
- water, electricity, heat and air conditioning (apartment and villa apartments only)
- maintenance of living unit and all fixtures and appliances provided
- monthly housekeeping
- security
- parking

- emergency call system in living accommodation
- emergency medical care/routine blood pressure checks

Standard Services Included in a separate Monthly Fee

- communication services (cable television and wireless internet access)

Services Available at Extra Charge

- transportation for medical appointments
- beauty/barber shop
- meals in dining room
- nursing services such as lab work
- dental services
- physical therapy
- pharmacy
- personal housekeeping/laundry services
- guest rooms

V. FEES

Application Fee - An application fee of $1,200 is required for an applicant to be placed on the waiting list for future admission. The fee is comprised of a $200 nonrefundable administrative charge and the remaining $1,000 is deductible from the entry fee or refunded on withdrawal from the waiting list. The fee is the same for a single person or a couple. The application fee is waived for all active members of the Society of Friends.

Entrance Fee - An entrance fee is a payment that assures a Resident a place in a community for a term of years or for life. To reserve a living accommodation a qualified applicant executes a Residence and Care Agreement ("Agreement") with Friends Homes and places a deposit of 10% of the entrance fee for that living accommodation. The balance of the entrance fee is due and payable on the date of occupancy, but in no event later than ninety (90) days after the execution of the Agreement.

If Resident is prevented from occupying the living accommodation within ninety (90) days after execution of the Agreement, due to reasons beyond his/her control, an additional deposit representing 15% of the required entrance fee shall be paid. Resident further understands that Friends Homes reserves exclusive rights in determining the legitimacy of Resident request for an extension and that; in any event, the living accommodation must be occupied within one hundred eighty (180) days of the date of this Agreement. Furthermore, Resident understands that after the first 90-day period and prior to occupancy during the second 90-day period, Friends Homes will charge and Resident will pay the Monthly Charge for the living accommodation, less a monthly meal credit determined by Friends Homes.

If Resident elects not to occupy the apartment within ninety (90) days, or one hundred eighty (180) days in the event an additional deposit is made, Resident shall be relieved of the obligation to pay the balance of the entrance fee. Friends Homes shall receive 50% of the deposited funds, and the remainder shall be refunded to Resident. If each Resident is prevented from occupying the apartment by reason of death or disability, Resident shall be relieved of the obligation to pay the balance of the entrance fee, and the deposited funds shall be refunded in full.

A summary of the Entrance Fees in effect as of January 1, 2021 follows:

Unit	**Type**		**Entrance Fee**
Independent Living			
Woolman and Fox (non-refundable)			
Studio	Standard	Partial Kitchen	$ 26,000
1 bedroom	Standard	Partial Kitchen	$ 46,000
1 bedroom	Standard	Full Kitchen	$ 69,000
1 bedroom	Deluxe	Full Kitchen	$ 74,000
2 bedroom	Standard	Partial Kitchen	$ 62,000
2 bedroom	Deluxe	Full Kitchen	$ 84,000
Hobbs Hall (refundable)			
1 bedroom	Standard	Full Kitchen	$ 110,000
2 bedroom	Standard	Full Kitchen	$ 159,000
2 bedroom	Deluxe	Full Kitchen	$ 170,000
West Campus (refundable)			
1 bedroom	Standard	Full Kitchen	$ 110,000
2 bedroom	Standard	Full Kitchen	$ 152,000
2 bedroom	Balcony	Full Kitchen	$ 158,000
2 bedroom	Deluxe	Full Kitchen	$ 164,000
Assisted living			$ 3,000
Nursing Center			$ 3,000

*** New Independent Living Units –** Expected to be completed and ready for occupancy by May 2021:

Campus	**Unit**	**Type**		**Entrance Fee**
Guilford:				
	2 bedroom	Townhome		$269,000
	2 bedroom	Townhome	w/ Den	$301,000

*** New Independent Living Units –** Expected to be completed in phased and ready for occupancy beginning in July 2021:

Campus	**Unit**	**Type**		**Entrance Fee**
West:				
	2 bedroom	Villa		$290,000
	2 bedroom	Villa	w/ Den	$328,000

2 bedroom	Villa	Deluxe w/ Den	$379,000
2 bedroom	Townhome		$269,000
2 bedroom	Townhome	w/ Den	$301,000
3 bedroom	Cottage		$359,000

Monthly Fee - Monthly fees cover the cost of services provided as well as provide a service allowance to be utilized on services that are provided on a fee-for-service basis. Current monthly fee rates as of January 1, 2021 follow:

Unit	Type	One Person
Independent Living		
Woolman and Fox		
Studio	Standard	$ 1,653
1 Bedroom	Standard	$ 2,521
1 Bedroom	Deluxe	$ 2,996
2 Bedroom	Standard	$ 3,332
Hobbs		
1 Bedroom	Standard	$ 2,656
2 Bedroom	Standard	$ 3,533
2 Bedroom	Deluxe	$ 3,776
West Campus		
1 Bedroom	Standard	$ 2,608
2 Bedroom	Standard	$ 3,468
2 Bedroom	Balcony	$ 3,582
2 Bedroom	Deluxe	$ 3,688
Second person fee		$ 613
Assisted Living		
Private	Standard	$ 4,189
Private	Deluxe	$ 5,119
Nursing Center		
Private		$ 306
Semi-Private		$ 293

*** New Independent Living Units –** Expected to be completed and ready for occupancy by May 2021:

Campus	Unit	Type		Monthly Fee
Guilford:				
	2 bedroom	Townhome		$3,448
	2 bedroom	Townhome	w/ Den	$3,607
Second person fee				$ 824

*** New Independent Living Units –** Expected to be completed in phases and ready for occupancy beginning in July 2021:

Campus	Unit	Type		Monthly Fee
West:				
	2 bedroom	Villa		$3,713
	2 bedroom	Villa	w/ Den	$3,925
	2 bedroom	Villa	Deluxe w/ Den	$4,138
	2 bedroom	Townhome		$3,448
	2 bedroom	Townhome	w/ Den	$3,607
	3 bedroom	Cottage		$3,819
Second person fee				$ 824

The Resident is responsible for all television, telephone, and internet installation charges and all related monthly service charges (collectively "Communication Services"). If any Communication Services are provided by Friends Homes on behalf of Resident, Resident agrees to pay Friends Homes' standard monthly service charges applicable for such services which Resident agrees are subject to adjustment from time to time. Any Communication Services not included within Friends Homes' standard package shall be the sole responsibility of Resident.

Fee Change Policies - Once each year the monthly fees are reviewed by the administration and recommendations for adjustments are brought to the Board of Trustees, which gives final approval. Rate increases are announced to residents at least one month prior to implementation for independent living and 60 days for assisted living and nursing residents. In accordance with the non-profit status and philosophy of Friends Homes, Inc., continual efforts are made to contain rate increases.

The chart below shows the average monthly dollar increase for one occupant per unit in independent living, Assisted Living and Nursing. Rate changes are effective on the dates noted.

Living Accommodation	10/1/2016	1/1/2018	1/1/2019	1/1/2020	1/1/2021
Independent	$73	$75	$78	$80	$82
Assisted Living	$139	$144	$149	$154	$160
Skilled Nursing	$9 / day	$9 / day	$10 / day	$10 / day	$10 / day

VI. FINANCIAL INFORMATION

A. Financial Overview Statement

Friends Homes, Inc. operates on a sound financial basis as will be evident from the financial information herein. The North Carolina Yearly Meeting of the Religious Society of Friends, Inc. bears no financial responsibility for Friends Homes, Inc. Friends Homes, Inc. is supported entirely from the fees, investment income and donations from residents and friends.

B. Reserves, Escrow and Trusts

Operating Reserve - Under N.C.G.S. 58-64-33, Friends Homes is required to have an operating reserve equal to 25% of the total operating costs projected for the twelve-month operating period of the first year of the financial forecast. The operating reserve of 25% assumes an occupancy level of 90%. Friends Homes maintained an occupancy rate above 90% throughout 2020 and expects its occupancy to continue at a level above 90% for the remainder of the forecast period. The chart below reflects the projected operating reserve requirement for the next 5 years.

	2021 Budget	2022 Forecast	2023 Forecast	2024 Forecast	2025 Forecast
Projected Expenses	32,038	35,268	39,469	41,274	42,130
Plus long-term debt payment	460	646	675	699	10,550
Less depreciation / amortization	(2,813)	(3,046)	(3,997)	(4,825)	(4,884)
Assets Ltd	(349)	(346)	(409)	(505)	(508)
Projected operating costs	29,336	32,522	35,738	36,643	47,288
Occupancy Factor	25%	25%	25%	25%	25%
Reserve Requirement	7,334	8,131	8,935	9,161	11,822

The aforementioned operating reserves are held, along with other investments, by UBS, Vanguard, Friends Fiduciary and Ameritrade. The balance of these holdings will not drop below the 25% requirement and will not be released without approval of the North Carolina Commissioner of Insurance. Policies and investment decisions are managed by the Finance and Investment Committee of the Board of Trustees and day to day decisions are made by contracted fund managers. Funds are invested in government securities and investment grade or higher corporate bonds, a Money Market Fund and securities.

C. **Debt Service Reserve Fund –** In connection with the issuance of the Series 2019 and Series 2020 bonds a debt service reserve fund of $ 5,744,000 is maintained.

D. **Trust Funds -** Trust Funds can only be spent with approval of the Board of Trustees. Trust funds are not used for operating expenses but may be used for capital expenditures if necessary. Management of the Operating and Trust Funds for Friends Homes, Inc. is the responsibility of the Investment Committee of the Board of Trustees. Investment decisions are made by the contracted fund managers under the guidance of the committee.

E. **Resident Assistance Funds -** Resident Assistance Funds have been established by Friends Homes to supplement residents who have depleted their financial resources. To qualify for assistance through the Resident Assistance Funds, a resident must furnish a current financial disclosure, may not have given away substantial assets while a resident of Friends Homes and must have been a resident for a period of at least three years. A request for assistance must be approved by the Executive Director. In support of this effort, the Board of Trustees has set aside investments over the years which on December 31, 2020, had a fair market value of $13,981,495.

VII. OTHER MATERIAL INFORMATION

A. Planned Expansion and Renovation

Management is currently renovating and expanding its Guilford and West campuses. Presales have begun at both campuses. The Guilford campus expansion consists of 20 independent living units. The West campus expansion and renovation consists of the construction of 73 independent living units, a renovation to the main dining room and current wellness center as well as the addition of a bistro dining area. Financing for the Guilford expansion was completed in October 2019 and the financing for the West renovation and expansion was completed in October 2020. The funds borrowed in October 2019 and October 2020 included $12,000,000 for the Guilford expansion and $53,010,000 for the West campus, respectively. The construction of the third villa is projected to cost $ 8,778,000 and will be funded from operating reserves. Construction began on the Guilford campus in June 2020 and it is anticipated residents will begin moving in May 2021. Construction on the West campus began in September 2020 and it is anticipated that residents will begin moving in starting in July 2021.

Project Costs:

Construction and Site Work cost related to the project		$64,533,000
Contingency		$3,202,000
Architectural & Engineering Expenses		$3,366,000
Furniture, Fixtures & Equipment		$1,079,000
Development Consulting fees		$900,000
Permits, Surveys and Other Expenses		$708,000
	Total:	**$73,788,000**

It is anticipated that a portion of the new units will be occupied by residents currently on our waitlist. It is anticipated that 47 of the 93 units will be occupied by couples.

Management assumes that the existing residences (IL, AL, and SN) would maintain 95% occupancy level and the Guilford expansion independent living units would begin fill-up in May 2021 and achieve 95% occupancy in November 2021 and remain at 95% occupancy through the forecast period. The West expansion independent living units will begin fill-up in July 2021 and achieve 95% occupancy in December 2022 and remain at 95% occupancy through the forecasted period, The following table summarizes the existing and forecasted residences in independent living (IL).

Years ended September 30	Existing Residences			Expansion Residences			Total IL Occupancy
	Occupied	Available	% Occupied	Occupied	Available	% Occupied	
2021	341	359	95%	20	20	100%	95%
2022	341	359	95%	80	93	86%	93%
2023	341	359	95%	88	93	95%	95%
2024	341	359	95%	88	93	95%	95%
2025	341	359	95%	88	93	95%	95%

The assumed turnover of independent living units for Friends Homes due to death, withdrawal, or transfer to Assisted Living, or Skilled Nursing is projected to average 11% based on history of the community. For the new units it is expected that no units will turnover during the forecast period.

Assumed Monthly Move-in Pattern for Projected Expansion ILU's (Net of Move-outs)

Fiscal Year/Month	Monthly Total	Cumulative Total	Occupancy Percentage
2021			
May	2	2	2%
June	4	6	6%
July	3	9	10%
August	7	16	17%
September	4	20	21%
2022			
October 2021	6	26	28%
November 2021	3	29	31%
December 2021	1	30	32%
January	-	30	32%
February	2	32	34%
March	2	34	36%
April	3	37	40%
May	14	51	55%
June	11	62	67%
July	8	70	75%
August	6	76	82%
September	4	80	86%
2023			
October 2022	3	83	89%
November 2022	3	86	92%
December 2022	2	88	95%

All assumptions are incorporated into the Five-Year Projection Statements in Exhibit B.

B. Explanation of Material Differences

The threshold for materiality is $1,000,000. (Continued on Page 17)

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(in thousands of dollars)	2020 Forecast	2020 Audit	Difference	Explanation ($1,000)
Statement of Balance Sheets				
Current Assets:				
Cash and cash equivalents	1,000	4,263	(3,263)	Includes deposits for expansion units held in escrow
Accounts receivable, net	1,163	1,169	(6)	
Other receivables	100	661	(561)	
Interest receivable	-	41	(41)	
Unconditional promises to give (net)	-	373	(373)	
Inventories and prepaid expenses	325	152	173	
Investments limited as to use:				
Under bond agreement	36,508	20,462	16,046	Financing for the West expansion not closed until October 2020.
Reserves required by state statute	7,196	7,229	(33)	
Investments	42,033	39,578	2,455	Result of strong investment market
Property and equipment, net	82,605	53,525	29,080	Slower than anticipated start on expansion. Very little activity on the West
Total assets	170,930	127,453	43,477	expansion before 9/30/2020.
Liabilities and net assets:				
Current maturities of long-term debt	460	460	-	
Notes payable	728	545	183	
Accounts payable	1,575	3,846	(2,271)	Includes construction contractors unpaid draw at year-end.
Accrued expenses	1,862	2,347	(485)	
Occupancy deposits	238	2,058	(1,820)	Includes deposits for expansion units held in escrow
Noncurrent liabilities and deferred credits:				
Long-Term Debt. Less current maturities	103,072	52,204	50,868	Financing for the West expansion not closed until October 2020.
Refundable fees	9,267	8,442	825	
Deferred revenue from advance fees	8,455	7,957	498	
Deferred revenue rent reduction	150	76	74	
Deferred revenue - other	-	287	(287)	
Net Assets:				
Undesignated	41,156	44,435	(3,279)	Due to excess revenue, expense savings, and changes in the investment market
With donor or board restrictions	3,967	4,796	(829)	
Total liabilities and net assets	170,930	127,453	43,477	
Statements of Operations				
Operating Revenue				
Amortization of entrance fees	2,227	2,326	99	
Service fees, residential	11,784	11,483	(301)	
Service fees, assisted living	4,225	4,110	(115)	
Service fees, nursing	10,183	11,708	1,525	High occupancy and includes CARES funds received and recognized.
Reimbursed medical	1,012	1,391	379	
Contributions	80	668	588	
Investment Income	1,200	1,455	255	
Realized gain on sales of investments	-	798	798	
Net unrealized gain on investments	-	1,994	1,994	We do not forecast for changes in the investment market
Other	244	551	307	
Operating Expenses				
Resident Care	7,721	8,017	(296)	
Dining services	5,017	5,014	3	
Environmental services	2,120	1,982	138	
Resident Services	1,155	976	179	
Maintenance and Grounds	3,680	3,466	214	
Marketing	672	681	(9)	
Administration	4,617	5,160	(543)	
Bond and note interest	1,550	1,918	(368)	
Depreciation, amortization and other charges	2,701	3,052	(351)	
Management fees	1,231	1,345	(114)	
Miscellaneous, net	462	878	(416)	
Loss on interest rate swap	(141)	-	(141)	
Excess of revenues and gains over expenses and losses	(112)	3,995	(4,107)	
Statement of Cash Flows				
Change in net assets	(112)	3,995	(4,107)	
Adjustments to reconcile change in net assets to net cash				
provided (used) by operating activities:				
Entrances fees received	4,238	5,176	(938)	
Amortization of entrance fees	(2,227)	(2,326)	99	
Realized gain on sales of investments (net)	-	(798)	798	
Depreciation	2,929	2,928	1	
Amortization of deferred revenue - rent reduction	30	(74)	104	
Amortization of bond premium	(258)	(257)	(1)	
Amortization of bond issuance cost	-	124	(124)	
Change in value of interest rate swap agreement	(144)	-	(144)	
(Gain) loss on disposal of equipment	-	144	(144)	
Net unrealized (gain) loss on investments	-	(1,994)	1,994	We do not forecast for changes in the investment market
Increase in promises to give	-	(373)	373	
Increase in government grant	-	(194)	194	
Changes in working capital components:				
(Increase) decrease in:				
Trade and other receivables	(23)	(25)	2	
Other assets	(7)	59	(66)	
Increase (decrease) in accounts payable				
and accrued expenses	-	2,756	(2,756)	Includes construction contractors unpaid draw at year-end.
Net cash provided (used) by operating activities	4,426	9,141	(4,715)	
Cash Flows From Investing Activities				
Purchase of property and equipment	(35,500)	(6,606)	(28,894)	Slower than anticipated start on expansion.
Proceeds from sale of property and equipment	-	44	(44)	
Proceeds from sales and maturities of investments	-	7,354	(7,354)	Realized gains are reinvested in the market.
Purchase of investments	(45,121)	(10,752)	(34,369)	Financing for the West expansion not closed until October 2020.
Net cash provided (used) by investing activities	(80,621)	(9,960)	(70,661)	
Cash Flows From Financing Activities				
Principal payments on long-term borrowings	(27,969)	(690)	(27,279)	The 2011 debt was rolled into the October 2019 financing.
Proceeds from long-term borrowings	104,320	26,774	77,546	Financing for the West expansion not closed until October 2020.
Payment of debt issuance costs	-	(694)	694	
Reduction in short-term debt	-	(183)	183	
Refunds of refundable fees	(300)	(661)	361	
Payment for interest rate swap termination	-	(144)	144	
Net cash provided (used) by financing activities	76,051	24,402	51,505	
Net increase (decrease) in cash and cash equivalents	(144)	23,583	(23,871)	

C. Current Certified Financial Statements *(See **Exhibit A** attached)*

Included with this document is the annual audit of Friends Homes prepared by Turlington and Co., C.P.A.'s for Fiscal Years 2020 and 2019. See Exhibit A.

D. Five Year Forecasted Statements *(See **Exhibit B** attached)*

The Five Year Forecasted Statements, including details of all significant assumptions, for the five years ending September 30, 2025 are contained in Exhibit B.

E. Residence and Care Agreement *(See **Exhibit C** attached)*

Exhibit C contains copies of the Residence and Care contract for Independent Living and the Health Center.

F. Actuarial Report Summary *(See **Exhibit D** attached)*

Exhibit D contains the summary report of an actuary that estimates the capacity of Friends Homes, Inc. to meet its contractual obligations to its residents.

G. Unaudited Interim Financial Statements *(See **Exhibit E** attached)*

Interim Financial Statements for the period ended December 31, 2020 are attached as Exhibit E.

Exhibit A

FRIENDS HOMES, INC.
Greensboro, North Carolina

INDEPENDENT AUDITORS' REPORT
AND
FINANCIAL STATEMENTS

As of and for the Years Ended
September 30, 2020 and 2019

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Turlington and Company, L.L.P.
Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

To the Board of Trustees
Friends Homes, Inc.
Greensboro, North Carolina

We have audited the accompanying financial statements of Friends Homes, Inc. (a nonprofit organization), which comprise the statements of financial position as of September 30, 2020 and 2019, and the related statements of activities and changes in net assets, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Friends Homes, Inc. as of September 30, 2020 and 2019, and the results of its operations, changes in their net assets, and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Turlington and Company, L.L.P.

Lexington, North Carolina
December 9, 2020

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FRIENDS HOMES, INC.

STATEMENTS OF FINANCIAL POSITION

	September 30 2020	September 30 2019
ASSETS		
Current assets:		
Cash and cash equivalents	$ 3,676,703	$ 920,451
Assets limited as to use, required for current liabilities	586,472	214,342
Accounts receivable:		
Patients and residents - net of allowance for uncollectible accounts of $175,000 for 2020 and 2019	1,169,592	1,140,053
Interest receivable	40,721	33,797
Government grant receivable	481,287	-
Other	180,748	174,181
Unconditional promises to give (net)	198,648	-
Inventories and prepaid expenses	151,565	210,453
	6,485,736	2,693,277
Assets limited as to use, net of amount required for current liabilities:		
Restricted cash	20,461,680	9,010
By donors for permanent endowment funds	60,100	50,000
Reserved by State Statute	7,228,750	7,209,412
	27,750,530	7,268,422
Investments	39,517,778	33,356,435
Unconditional promises to give (net)	174,346	-
Property and equipment:		
Cost	88,810,385	88,891,301
Less, accumulated depreciation	42,358,881	40,686,584
	46,451,504	48,204,717
Other assets:		
Construction in process	7,072,629	1,829,321
	$ 127,452,523	$ 93,352,172
LIABILITIES AND NET ASSETS		
Current liabilities:		
Current maturities on long-term debt	$ 460,000	$ 1,565,000
Notes payable	545,000	727,500
Accounts payable - trade	3,846,103	1,574,336
Accrued expenses	2,347,315	1,863,145
Prepaid rent	17,999	-
Application deposits - new facility	1,591,600	-
Occupancy deposits	448,369	238,425
	9,256,386	5,968,406
Long-term debt, less current maturities	52,204,400	25,843,361
Interest rate swap	-	144,130
Refundable fees	8,441,607	8,424,628
Deferred revenue from advance fees	7,956,763	7,586,337
Deferred revenue - rent reduction	75,689	149,669
Deferred revenue - government grant	286,815	-
	78,221,660	48,116,531
Net assets:		
Without donor restrictions:		
Undesignated	44,434,749	41,267,747
Board designated for special projects	3,748,516	3,438,267
With donor restrictions	1,047,598	529,627
	49,230,863	45,235,641
	$ 127,452,523	$ 93,352,172

The accompanying notes are an integral part of the financial statements

FRIENDS HOMES, INC.

STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS

	Years Ended September 30 2020	2019
Unrestricted revenues, gains, and other support:		
Resident services, including amortization of advance fees of $2,326,189 in 2020 and $2,308,737 in 2019	$ 31,024,923	$ 29,590,499
Government grants	694,570	-
Contributions	4,361	48,824
Dividends and interest	1,455,223	1,527,700
Loss on disposal of equipment	(143,604)	(6,978)
Realized gain on sales of investments (net)	798,017	698,781
Net assets released from restrictions used for operations	146,447	165,372
	33,979,937	32,024,198
Expenses:		
Salaries and benefits	13,254,394	12,757,557
Health insurance	1,749,676	1,353,548
Food costs	1,616,599	1,495,198
Utilities	1,326,773	1,354,092
Repairs and maintenance	1,651,102	1,646,045
Contractual medical	1,411,130	1,273,088
Other supplies	1,126,046	1,185,376
Medical supplies and drugs	596,784	528,653
General insurance	332,810	391,873
Contractual dietary	909,125	844,369
Charitable care	232,892	487,812
Professional fees	208,425	260,076
Management fees	1,345,363	1,242,852
COVID-19 expenses	525,718	-
Charitable contributions	500,000	-
Other	739,557	886,561
Interest expense	1,917,696	1,110,524
Depreciation and amortization	2,928,172	2,709,092
Amortization of bond issue costs	124,141	20,545
	32,496,403	29,547,261
Operating income	1,483,534	2,476,937
Changes in net unrealized gains and losses on investments	1,993,717	(1,445,784)
Unrealized loss on interest rate swap	-	(417,283)
Increase in net assets without donor restrictions	3,477,251	613,870
Changes in net assets with donor restrictions:		
Contributions	664,418	207,030
Net assets released from restrictions used for operations	(146,447)	(165,372)
Increase in net assets with donor restrictions	517,971	41,658
Increase in net assets	3,995,222	655,528
Net assets - beginning of years	45,235,641	44,580,113
Net assets - end of years	$ 49,230,863	$ 45,235,641

The accompanying notes are an integral part of the financial statements

FRIENDS HOMES, INC.

STATEMENTS OF CASH FLOWS

	Years Ended September 30 2020	2019
Cash flows from operating activities:		
Change in net assets	$ 3,995,222	$ 655,528
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Contributed stock	(1,264)	-
Termination income and amortization of advance fees	(2,326,189)	(2,308,737)
Realized gain on sales of investments (net)	(798,017)	(698,781)
Amortization of bond issue costs	124,141	20,545
Amortization of bond premium	(257,167)	-
Depreciation and amortization	2,928,172	2,709,092
Amortization of deferred revenue - rent reduction	(73,980)	(85,872)
Loss on disposal of equipment	143,604	6,978
Net unrealized (gain) loss on investments	(1,993,717)	1,445,784
Unrealized loss on interest rate swap	-	417,283
Increase in promises to give	(372,994)	-
Increase in government grant receivable	(481,287)	-
Increase in deferred revenue - government grant	286,815	-
Changes in assets and liabilities:		
Accounts receivable	(25,031)	26,586
Inventories and prepaid expenses	58,888	103,646
Accounts payable and other accrued liabilities	2,755,937	501,244
Net cash provided by operating activities	3,963,133	2,793,296
Cash flows from investing activities:		
Proceeds from sales and maturities of investments	7,354,512	10,754,335
Proceeds from sale of property and equipment	44,000	-
Purchase of investments	(10,752,295)	(10,242,897)
Purchase of property and equipment	(6,605,871)	(4,939,410)
Net cash used for investing activities	(9,959,654)	(4,427,972)
Cash flows from financing activities:		
Proceeds from advance fees and deposits	3,584,444	3,512,800
Proceeds from application deposits - new facility	1,591,600	-
Proceeds from bond premium	4,823,527	-
Proceeds from issuance of long-term debt	21,950,000	-
Payment for termination of interest rate swap	(144,130)	-
Payment of debt issuance costs	(694,462)	-
Reduction in long-term debt	(690,000)	(1,495,000)
Reduction in short-term debt	(182,500)	(145,000)
Refunds of advance fees and deposits	(660,906)	(317,046)
Net cash provided by financing activities	29,577,573	1,555,754
Net increase (decrease) in cash, cash equivalents, and restricted cash	23,581,052	(78,922)
Cash, cash equivalents, and restricted cash - beginning of years	1,143,803	1,222,725
Cash, cash equivalents, and restricted cash - end of years	$ 24,724,855	$ 1,143,803
Cash paid during the years for interest net of amount capitalized of $218,823 and $0 for 2020 and 2019, respectively	$ 2,029,712	$ 1,116,565

The accompanying notes are an integral part of the financial statements

Note 1 - Description of Organization and Summary of Significant Accounting Policies:

Organization - Friends Homes, Inc. is a nonprofit corporation that provides housing, health care, and other related services to residents through the operation of two healthcare communities containing 3 cottages, 355 apartments, 100 assisted care beds, and 109 nursing beds located in Greensboro, North Carolina.

Significant Accounting Policies - The financial statements of Friends Homes, Inc. (the Organization) have been prepared in accordance with accounting principles generally accepted in the United States of America. The more significant of these principles used are described below:

Basis of Accounting - The Organization uses the accrual basis of accounting for financial reporting purposes.

Financial Presentation - The Organization maintains the following two divisions for bookkeeping and managerial purposes:

Guilford Community
West Community

At year-end, these divisions are combined in order for the Organization to present its financial statements in accordance with accounting principles generally accepted in the United States of America applicable to continuing care retirement communities. Interdivisional transactions have been eliminated.

The Organization records resources for accounting and reporting purposes into two net asset categories: net assets without donor restrictions and net assets with donor restrictions, based on the existence or absence of donor-imposed restrictions.

Net assets without donor restrictions - Net assets without donor restrictions are available for any purpose consistent with the Organization's mission. From time-to-time, the Organization's Board of Trustees may designate a portion of these assets for specific purposes which makes them unavailable for use at management's discretion.

Net assets with donor restrictions - Net assets subject to specific, donor-imposed restrictions that must be met by actions of the Organization and/or passage of time. When a restriction expires, the net assets are reclassified to net assets without donor restrictions and are reported in the statement of activities as net assets released from restrictions. Restricted contributions received in the same year in which the restrictions are met are recorded as an increase to net assets without donor restrictions. Some net assets may include donor-imposed restrictions that the assets be held in perpetuity, while permitting the Organization to expend the income generated by those assets.

Cash and Cash Equivalents - The Organization's cash and cash equivalents, as stated for purposes of the statements of cash flows, consists of interest and noninterest-bearing cash accounts, petty cash, and money market mutual funds. The Organization has no other assets that are considered cash equivalents.

Accounts Receivable - The Organization carries its accounts receivable at cost less an allowance for uncollectible accounts. Periodically, the Organization evaluates its accounts receivable and establishes an allowance for uncollectible accounts based on historical experience with bad debts and collections, as well as current credit conditions.

Inventories - Inventories, consisting of items for the residents' store, are stated at the lower of cost or net realizable value with cost determined by use of the first-in, first-out method.

Note 1 - Description of Organization and Summary of Significant Accounting Policies (Continued):

Significant Accounting Policies (Continued)

Investments - Investments, which consist of corporate stocks and bonds, are measured at fair value in the balance sheets. Investment income (including realized gains and losses on investments, interest, and dividends) is included in operating income unless the income (loss) is restricted by donor or law. Unrealized gains and losses on investments, if any, are excluded from operating income.

Property, Equipment, and Depreciation - Purchased property and equipment are stated at cost, and contributed property is stated at estimated fair value on the date of receipt. It is the Organization's policy to capitalize expenditures for these items in excess of $3,000.

Depreciation is computed by use of the straight-line method over the estimated useful lives as follows:

Buildings and residences	40 to 50 Years
Furniture and equipment	5 to 10 Years
Vehicles	3 to 5 Years
Land improvements	10 to 20 Years

Contributions – The Organization accounts for contributions in accordance with *Accounting for Contributions Received and Contributions Made.* Contributions, including unconditional promises to give, are recognized as revenues in the period received. Contributions received are recorded as an increase in either net assets with donor restrictions or net assets without donor restrictions, depending on the existence and/or nature of any donor restrictions. Contributions that are restricted by the donor are reported as increases in net assets without donor restrictions if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the revenue is recognized. All other donor-restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions. Effective October 1, 2019, the Organization adopted Accounting Standards Update (ASU) 2018-08, *Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made.* This update provides further guidance on distinguishing non-reciprocal contributions, including conditional contributions, from exchange transactions. The Organization implemented this standard on a retrospective basis. As a result of the adoption of ASU 2018-08, there were no material changes to the Organization's financial position as of September 30, 2020 and 2019, or the results of its operations or cash flows for the years then ended.

Gifts of property and equipment (or other long-lived assets) are reported as net assets without donor restrictions unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as net assets with donor restrictions. Absent explicit donor stipulations about how long those long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

Donated Assets - Donated securities and equipment are valued at fair market value on the date of the gift.

Deferred Revenue on Entrance Fees - Deferred revenue arises from entrance fees paid by residents for admission under the residency agreement. The Organization currently offers two Entrance Fee plans. The non-refundable plan relates to units in the Wollman and Fox building of the Guilford campus. The refundable plan offered relates to all other independent living units and the entry fee paid is subject to a sixty-month straight-line declining refund.

Deferred revenue is shown as refundable and non-refundable and is initially recorded as refundable and moved to non-refundable as the refund expires under the particular financial agreement.

Note 1 - Description of Organization and Summary of Significant Accounting Policies (Continued):

Significant Accounting Policies (Continued)

Deferred Revenue on Entrance Fees (Continued) – Residents who make a non-refundable payment under a rent reduction arrangement are entitled to a monthly reduction rent based on the type of unit occupied. These resources were accounted for as deferred revenue at the present value of the rent reduction over the expected life of the resident. Any unamortized amounts upon relinquishing occupancy of the apartment are transferred to revenue. Contracts are no longer made under this arrangement.

Revenue from entrance fees is recognized on an annual actuarial computation based on a joint and last survivor basis for these residents. Entrance fees are amortized over the projected joint and last survivor life expectancy of the residents under each financial arrangement on a straight-line basis and are recomputed annually. The full amount of the entrance fees is amortized since the contracts with the residents do not provide for any refund after the refund period.

Interest Rate Swap - Interest rate swap contracts designated and qualifying as cash flow hedges are reported at fair value. The gain or loss on the effective portion of the hedge initially is included as a component of unrestricted net assets and is subsequently reclassified into earnings when interest on the related debt is paid.

Bond Issue Costs – Bond issue costs (consisting of legal, feasibility, and consulting fees) incurred with the 2011 Bonds and 2019 Bonds are amortized over the life of the bond issue using the effective interest method.

Bond Premium - Bond premium is being amortized to interest expense on the statements of operations over the term of the loan.

Sales Tax - The Organization collects sales tax. The amount received is credited to a liability account and as payments are made, this account is charged. At any point in time, this account represents the net amount owed to the taxing authority for amounts collected but not yet remitted.

Obligation to Provide Future Services - The Organization annually calculates the present value of the net cost of future services and use of facilities to be provided to current residents, and compares that amount with the balance of deferred revenue from entrance fees. If the present value of the net cost of future services and use of facilities exceeds the deferred revenue from entrance fees, a liability is recorded (obligation to provide future services and use of facilities) with the corresponding charge to income. At September 30, 2020 and 2019, deferred revenue from entrance fees exceeded the present value of the net cost of future services and use of facilities, thus no obligation is recorded.

Property Tax Exemption - During 2001, the state of North Carolina passed legislation which provided a property tax exemption for continuing care retirement communities (CCRCs) that expend 5% or more of their operating revenues on benevolent assistance and community service or CCRCs that have financed their facilities with tax-exempt bond financing. Partial exemptions are available for CCRCs which provide some benevolent assistance and community service and CCRCs that have facilities which are partially financed with tax-exempt bond financing. The property tax exemption must be requested each year. Based on the combination of the partial exemptions described above, management believes that it will qualify for a full property tax exemption.

Benevolent Assistance - The Organization provides care to residents who meet certain criteria under its benevolent assistance policy without charge or at amounts less than its established rates.

Use of Estimates - The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and notes. Actual results could differ from those estimates.

Note 2 - Concentration of Credit Risk:

The Organization grants credit for services to its residents for generally no more than one month of service.

The Organization places its cash and cash equivalents on deposit with financial institutions insured by the Federal Deposit Insurance Corporation (FDIC). Deposits held in noninterest-bearing transaction accounts are aggregated with any interest-bearing deposits the owner may hold in the same ownership category, and the combined total is insured up to at least $250,000. During the years, the Organization from time to time may have had amounts on deposit in excess of the insured limit. As of September 30, 2020, the Organization's cash balances exceeded the FDIC insured amount by $24,413,220.

Note 3 - Cash, Cash Equivalents, and Restricted Cash:

The following table provides a reconciliation of cash, cash equivalents, and restricted cash reported within the balance sheets that sum to the total of the same such amounts shown in the statements of cash flows as of September 30, 2020 and 2019:

	2020	2019
Cash and cash equivalents	$ 3,676,703	$ 920,451
Assets limited as to use, required for current liabilities	586,472	214,342
Restricted cash	20,461,680	9,010
	$ 24,724,855	$ 1,143,803

Amounts included in assets limited as to use, required for current liabilities represent cash required for debt service payments within the next year. Amounts included in restricted cash represent cash that is held for construction needs as well as funds that are held in trust for resident's personal needs.

Note 4 - Unconditional Promises to Give:

The Organization has unconditional promises to give representing the following at September 30, 2020:

	2020
Restricted for Campus Bridge Connector	$ 326,000
Resident Financial Assistance Endowment	81,500
Total	$ 407,500
Receivable in less than one year	$ 213,815
Receivable in one to five years	193,685
Total unconditional promises to give	407,500
Less, discounts for net present value	(16,631)
Less, allowance for uncollectible promises	(17,875)
Net unconditional promises to give	$ 372,994
Current	$ 198,648
Noncurrent	174,346
Net unconditional promises to give	$ 372,994

Unconditional promises to give are discounted at 2%.

Note 5 - Investments:

Investments are reflected in the financial statements at fair value. Cost is determined by actual cost on the date of purchase or at fair market value on the date of donation. Investments, stated at fair value, at September 30, 2020 and 2019 are as follows:

	2020		2019	
	Cost	Fair Value	Cost	Fair Value
Common stocks	$ 141,328	$ 578,036	$ 145,643	$ 498,678
Mutual funds	29,424,472	34,011,536	25,620,887	28,506,307
EFTs	4,720,907	6,290,180	5,179,865	6,721,489
Bonds	5,629,799	5,926,876	4,498,445	4,614,570
Money market instruments	-	-	274,602	274,803
	$ 39,916,506	$ 46,806,628	$ 35,719,442	$ 40,615,847

Note 6 - Fair Value Information:

Accounting guidance for fair value measurements established a fair value hierarchy to prioritize the inputs of valuation techniques used to measure fair value. Outlined below is the application of the fair value hierarchy established by the accounting guidance for fair value measurements to Friends Homes, Inc.'s assets and liabilities that are carried at fair value:

Level 1 - Inputs to the valuation methodology are quoted prices for identical assets in active markets.

Level 2 - Inputs to the valuation methodology include quoted prices for similar assets in active markets; quoted prices for identical or similar assets in inactive markets; inputs other than quoted prices that are observable for the asset; inputs that are derived principally from or corroborated by observable market data by correlation or other means. The market approach is the valuation technique used to determine Level 2 fair value measurements.

Level 3 - Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

Assets and liabilities measured at fair value on a recurring basis were as follows:

Description	Assets at Fair Value as of September 30, 2020			
	Total	Level 1	Level 2	Level 3
Assets:				
Investments:				
Common stocks	$ 578,036	$ 578,036		
Mutual funds	34,011,536	34,011,536		
ETFs	6,290,180	6,290,180		
Bonds	5,926,876	5,926,876		
	$ 46,806,628	$ 46,806,628		

	Assets at Fair Value as of September 30, 2019			
Assets:				
Investments:				
Common stocks	$ 498,678	$ 498,678		
Mutual funds	28,506,307	28,506,307		
ETFs	6,721,489	6,721,489		
Bonds	4,614,570	4,614,570		
Money market instruments	274,803	274,803		
	$ 40,615,847	$ 40,615,847		
Liabilities:				
Interest rate swap	$ 144,130		$ 144,130	

Note 7 - Property and Equipment:

A summary of property and equipment at September 30, 2020 and 2019 is as follows:

	2020	2019
Land and land improvements	$ 6,893,759	$ 6,567,446
Buildings and improvements	75,379,755	75,631,218
Furniture and equipment	6,074,657	6,265,365
Vehicles	462,214	427,272
	$ 88,810,385	$ 88,891,301

Note 8 - Notes Payable:

The holders of notes are paid interest semi-annually on June 30 and December 31 at 4% annually. The balance of these notes at September 30, 2020 and 2019 was $545,000 and $727,500, respectively.

Note 9 - Long-Term Debt:

Long-term borrowings as of September 30, 2020 and 2019 included certain restrictions described below and consisted of the following:

	2020	2019
Health Care Facilities First Mortgage Revenue Refunding Bonds (Friends Homes, Inc.), Series 2011:		
Principal maturing in varying amounts monthly beginning December 1, 2011 through September 1, 2033, with interest payable monthly at a variable rate; collateralized by a pledge of the Organization's property, equipment, and all other assets -		
Amount of issue at variable rate		$ 13,750,000
Amount of issue covered by interest rate swap		13,750,000
		27,500,000
Public Finance Authority Retirement Facilities Revenue Bond (Friends Homes, Inc.), Series 2019 with the following maturities and rates:		
Term bonds due September 1, 2024 at 4%	$ 2,480,000	
Term bonds due September 1, 2029 at 4%	3,950,000	
Term bonds due September 1, 2039 at 5%	11,150,000	
Term bonds due September 1, 2049 at 5%	18,175,000	
Term bonds due September 1, 2054 at 5%	13,005,000	
	48,760,000	
Less, current maturities	460,000	1,565,000
	48,300,000	25,935,000
Add, unamortized bond premium	4,566,359	-
Less, unamortized bond issuance costs	(661,959)	(91,639)
	$ 52,204,400	$ 25,843,361

Combined aggregate amounts of maturities and bond sinking fund requirements for the next five years are as follows:

Year Ending September 30	Amount
2021	$ 460,000
2022	645,000
2023	675,000
2024	700,000
2025	730,000
Thereafter	45,550,000
	$ 48,760,000

Note 9 - Long-Term Debt (Continued):

For the year ended September 30, 2020, the net amortization expense for bond premium was $257,169.

On November 1, 2011, the Organization entered into a loan agreement with the North Carolina Medical Care Commission under which the North Carolina Medical Care Commission agreed to issue $37,745,000 North Carolina Medical Care Commission Health Care Facilities First Mortgage Revenue Refunding Bonds (Friends Homes, Inc.), Series 2011 and lend the Organization the proceeds to refund the 2003 bond issue. In addition, the Organization entered into a covenant agreement with Truist Financial Corporation whereby Truist Financial Corporation agreed to purchase the bonds from the North Carolina Medical Care Commission and to hold them for a period of ten years. The Organization would pay an interest rate of 78% of one-month LIBOR plus 160 basis points on the bonds. On May 1, 2018 the bond rate was amended to 68% of LIBOR plus 160 basis points multiplied times a tax law adjustment of 1.21538.

On May 1, 2018, the Organization amended its swap agreement with Truist Financial Corporation whereby the Organization would essentially stabilize the interest rate on one-half of the outstanding principal value of its Health Care Facilities First Mortgage Revenue Refunding Bonds at a fixed rate of 3.633%. Beginning June 1, 2018, this agreement obligated Truist Financial Corporation to pay the Organization monthly interest at 82.646% of the one-month LIBOR plus 194.461 basis points in exchange for the Organization's interest payment at 3.633%. The Organization recognized the net payment as an increase or decrease to interest expense in the period paid. This agreement terminates on November 1, 2021. The fair market value of the interest rate swap liability at September 30, 2019 was $144,130. The change in fair market value was recognized as an decrease in unrestricted net assets. On October 1, 2019, the Organization terminated the Interest Rate Swap Agreement.

On October 16, 2019, the Organization entered into a loan agreement with the Public Finance Authority under which the Public Finance Authority agreed to issue $49,320,000 Public Finance Authority Retirement Facilities Revenue Bond (Friends Homes, Inc.), Series 2019 and lend the Organization the proceeds to refund the Health Care Facilities First Mortgage Revenue Refunding Bonds (Friends Homes, Inc.), Series 2011 issue and finance the costs related to capital improvement at the Communities, and to pay the expenses incurred in connection with the issuance of the bonds.

Note 10 - Net Assets with Donor Restrictions:

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

	2020	2019
Quaker Benevolent Fund	$ 215,521	$ 221,953
Benevolent Fund - Guilford	129,959	65,052
Benevolent Fund - West	29,392	8,172
Resident Appreciation Fund - Guilford	62,076	55,055
Resident Appreciation Fund - West	16,855	8,639
Campus Bridge Connector	338,795	-
Resident Financial Assistance Endowment	84,699	-
Chapel Fund - Guilford	30,000	30,000
Clinard Fund	36,813	36,813
Education Assist Program	17,163	17,138
Nursing - West	10,000	10,000
Other	11,325	11,805
Restricted in perpetuity - Benevolent Fund – Guilford	50,000	50,000
Restricted in perpetuity - Resident Appreciation Fund - Guilford	15,000	15,000
	$ 1,047,598	$ 529,627

Note 10 - Net Assets with Donor Restrictions (Continued):

Net assets were released from donor restrictions as follows by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors:

	2020	2019
Quaker Benevolent Fund	$ 8,750	$ -
Benevolent Fund - Guilford	16,554	12,288
Benevolent Fund - West	23,239	55,896
Resident Appreciation Fund - Guilford	57,712	52,087
Resident Appreciation Fund - West	35,095	44,604
Other funds	5,097	497
	$ 146,447	$ 165,372

Note 11 - Endowments:

The Organization has two endowments for a variety of purposes. The endowments are donor-restricted funds. As required by U.S. GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The Board of Trustees has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Organization classifies as net assets with donor restrictions (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulation to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The portion of the donor-restricted endowment fund that is above the original gift amount is appropriated for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the various funds, (2) the purposes of the donor-restricted endowment funds, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation of investments, (6) other resources of the Organization, and (7) the Organization's investment policies.

Investment return objectives, risk parameters, and strategies – The Organization has adopted investment policies, approved by the Board of Trustees, for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment funds, while also maintaining the purchasing power of those endowment assets over the long-term. Accordingly, the investment process seeks to achieve an after-cost total real rate of return, including investment income as well as capital appreciation, which exceeds the annual distribution with acceptable levels of risk. Endowment assets are invested in a well-diversified asset mix, which includes equity and debt securities, that is intended to result in a consistent inflation-protected rate of return.

Investment risk is measured in terms of the total endowment fund; investment assets and allocation between asset classes and strategies are managed to not expose the fund to unacceptable levels of risk.

Spending policy – The maximum allowable spending rate for the Board restricted Residents Assistance Fund shall be reviewed and set periodically by the Finance and Investment Committee. In setting the spending rate, the Finance and Investment Committee shall take into consideration general economic conditions, the possible effects of inflation or deflation, the expected total return from income and the appreciation of investments and the Investment Policy. Friends Homes, Inc. has a policy of appropriating for distribution 3.0% of its invested funds based on the average market value of the trailing twelve quarters at June 30 each year. The intent of using a twelve-quarter average is to minimize the likelihood of the principal of the fund being invaded. Any unspent distributable amounts remaining at the end of the fiscal year, which have not been granted or distributed, will be available for expenditure in the following fiscal year. However, in no year should more than 6% be distributed without Board approval. Invested funds include Board restricted Residents Assistance Funds.

Endowment net assets are composed of donor-restricted endowment funds whose original gift amounts are required to be maintained in perpetuity by the donors.

Note 11 – Endowments (Continued):

Changes in endowment net assets as of September 30, 2020 are as follows:

	2020
Endowment net assets, beginning	$ 50,000
Contributions	84,699
Investment income	2,508
Appropriated	(2,508)
Endowment net assets, ending	$ 134,699

Note 12 – Government Grants:

In March 2020, a pandemic was declared by the World Health Organization as a result of the outbreak and spread of a novel coronavirus (COVID-19).

On March 27, 2020, President Trump signed into law the "Coronavirus Aid, Relief, and Economic Security (CARES) Act". Under the CARES Act, the federal government has allocated $175 billion in payments to be distributed through the Provider Relief Fund. Qualified providers of health care, services, and support may receive Provider Relief Fund payments for healthcare-related expense or lost revenue due to COVID-19. Separately, the COVID-19 Uninsured Program reimburses providers for testing and treating uninsured individuals with COVID-19. These distributions do not need to be repaid to the US Government, assuming providers comply with the terms and conditions. As of September 30, 2020, the Organization has received $901,465 of Provider Relief Fund Payments, of which $286,815 is reflected in deferred revenue. Management believes the distributions will not be repaid as the Organization has complied with the terms and conditions.

In addition, the Organization received $79,920 from North Carolina Medicaid for reimbursement of COVID-19 testing expenses incurred as of September 30, 2020.

Note 13 - Classification of Expenses:

Classification of expenses for the years ended September 30, 2020 and 2019 are as follows:

	2020		
	Total	Program Services	General and Administrative
Expenses:			
Salaries and benefits	$ 13,254,394	$ 12,065,380	$ 1,189,014
Health insurance	1,749,676	1,539,714	209,962
Food costs	1,616,599	1,616,599	-
Utilities	1,326,773	1,271,709	55,064
Repairs and maintenance	1,651,102	1,640,338	10,764
Contractual medical	1,411,130	1,411,130	-
Other supplies	1,126,046	863,890	262,156
Medical supplies and drugs	596,784	596,784	-
General insurance	332,810	222,631	110,179
Contractual dietary	909,125	909,125	-
Charitable care	232,892	232,892	-
Professional fees	208,425	130,419	78,006
Management fees	1,345,363	672,682	672,681
COVID-19 expenses	525,718	525,718	-
Charitable contribution	500,000	-	500,000
Other	739,557	496,265	243,292
Interest expense	1,917,696	1,687,572	230,124
Depreciation and amortization	2,928,172	2,781,764	146,408
Amortization of bond issue costs	124,141	124,141	-
Total expenses	$ 32,496,403	$ 28,788,753	$ 3,707,650

Note 13 - Classification of Expenses (Continued):

	2019		
	Total	Program Services	General and Administrative
Expenses:			
Salaries and benefits	$ 12,757,557	$ 11,524,794	$ 1,232,763
Health insurance	1,353,548	1,191,122	162,426
Food costs	1,495,198	1,495,198	-
Utilities	1,354,092	1,297,895	56,197
Repairs and maintenance	1,646,044	1,644,275	1,769
Contractual medical	1,273,088	1,273,088	-
Other supplies	1,185,376	974,387	210,989
Medical supplies and drugs	528,653	528,653	-
General insurance	391,873	270,737	121,136
Contractual dietary	844,369	844,369	-
Charitable care	487,812	487,812	-
Professional fees	260,076	176,426	83,650
Management fees	1,242,852	621,426	621,426
Other	886,561	666,496	220,065
Interest expense	1,110,524	977,261	133,263
Depreciation and amortization	2,709,092	2,573,638	135,454
Amortization of bond issue costs	20,546	20,546	-
Total expenses	$ 29,547,261	$ 26,568,123	$ 2,979,138

Note 14 - Retirement Plan:

The Organization has a defined-contribution pension plan covering all eligible employees. The plan was established effective January 1, 1994. Annual contributions to the plan amount to 3% of eligible salaries. Pension expense for the year ended September 30, 2019 was $242,918.

Effective May 23, 2019, the Organization added a 401(k) feature to their defined-contribution plan to promote employee tax-deferred savings. Employees are eligible to participate when they have completed 90 days of service and have attained age 18. The Organization contributes a match of 1%. The Organization's contributions to the plan were $103,810 and $107,803 for 2020 and 2019, respectively.

Note 15 - Liquidity and Availability of Resources:

The Organization's financial assets that are available for general expenditures within one year of September 30, 2020 and 2019 are as follows:

	2020	2019
Cash and cash equivalents	$ 3,676,703	$ 920,451
Accounts receivable	1,872,348	1,348,031
Unconditional promises to give (net)	372,994	-
Assets limited as to use	28,236,425	7,482,764
Investments	39,618,355	33,356,435
Total financial assets available within one year	73,776,825	43,107,681
Less, amounts unavailable for general expenditures within one year due to:		
Deposits held in custody for others	9,695	9,010
Restricted cash - construction funds	21,038,457	214,342
Government grant receivable	481,287	-
Restricted by donors with purpose restrictions	1,047,598	529,627
Total financial assets available to management for general expenditures within one year	$ 51,199,788	$ 42,354,702

Note 15 - Liquidity and Availability of Resources (Continued):

The Organization maintains a general policy of structuring its financial assets to be available as its recurring expenditures, liabilities, and other obligations come due.

Note 16 - Statutory Operating Reserve:

North Carolina General Statutes Chapter 58, Article 64 requires the Organization to maintain an operating reserve equal to 25% of the total operating costs projected for the twelve-month operating period ending September 2020. The operating reserve of 25% assumes an occupancy level of 90%. The Organization currently exceeds the 90% occupancy level and expects to continue to do so.

The forecasted operating reserve for 2020 (unaudited) is as follows:

Total forecasted operating expenses	$ 30,926,000
Depreciation and amortization expense	(2,701,000)
Annual principal payments	690,000
	28,915,000
	x 25%
Estimated reserve required	$ 7,228,750

Note 17 - Commitments:

At September 30, 2020, the remaining construction commitments outstanding for the Communities are:

Construction Contractor	$ 58,018,000
Architect and Engineering	433,000
Survey and Testing	177,000
Other	328,000
	$ 58,956,000

Note 18 - Contingencies:

The Organization maintains a self-insurance program for its employees' health care costs. The Organization is liable for losses on claims up to $80,000 per specific claim and $2,869,108 in aggregate claims, fees, and premiums for the year less employee contributions of $278,095. The Organization has third-party coverage for any losses in excess of such amounts. The total accrued liability for self-insurance medical costs was $350,000 as of September 30, 2020 and 2019.

The Organization also maintains a self-insurance program for its employees' dental costs. Self-insurance costs are accrued based on claims reported as of the date of the balance sheets as well as an estimated liability for claims incurred but not reported. The total accrued liability for self-insurance dental costs was $20,000 as of September 30, 2020 and 2019.

Note 19 - Income Taxes:

The Organization has been recognized by the Internal Revenue Service as a nonprofit corporation as described in Sec. 501(c)(3) of the Internal Revenue Code (IRC) and is exempt from federal income taxes pursuant to Sec. 501(a) of the IRC. The Organization is also exempt from state income taxes. Information returns are filed with the appropriate taxing authorities, as required by law.

The Organization has determined that it has no uncertain income tax positions as of September 30, 2020 and 2019. Also, the Organization does not anticipate any increase or decrease in unrecognized tax benefits during the next twelve months that would result in a material change in its financial position. The Organization's income tax returns for years ended after September 30, 2017 remain open for examination.

The Organization includes interest and penalties in the financial statements as a component of income tax expense. No interest or penalties are included in the Organization's income tax expense for the years ended September 30, 2020 and 2019.

Note 20 – Accounting Pronouncement Adopted:

In November 2016, the FASB issued *ASU 2016-18 Statements of Cash Flows (Topic 230): Restricted Cash.* ASU 2016-18 requires entities to show the changes in the total of cash, cash equivalents, restricted cash and restricted cash equivalents in the statements of cash flows. As a result, entities will not longer present transfers between cash and cash equivalents and restricted cash and restricted cash equivalents in the statements of cash flows. The ASU requires changes in the Organization's restricted cash to be classified as either operating activities, investing activities or financing activities in the Statements of Cash Flows, depending on the nature of the activities that gave rise to the restriction. The new standard is effective for annual reporting periods beginning after December 15, 2018. The Organization adopted ASU 2016-18 effective October 1, 2019. The adoption of this guidance had no impact on Friends Homes, Inc.'s financial statements. In August 2016, the FASB issued ASU 2016-15, *Statements of Cash Flows (topic 230): Classification of Certain Cash Receipts and Cash Payments.* ASU 2016-15 provides clarification with respect to classification of several cash flow issues on the Statements of Cash Flows including debt prepayment or extinguishment costs, proceeds from the settlement of insurance claims, and distributions received from equity method investees. The new standard is effective for fiscal years beginning after December15, 2018. The Organization adopted ASU 2016-15 effective October 1, 2019. The adoption of this guidance had no impact on Friends Homes, Inc.'s financial statements.

Note 21 – Recently Issued Accounting Standards:

In May 2014, the FASB issued ASU 2014-09*, Revenue from Contracts with Customers: (Topic 606)* which provides a five-step analysis of contracts to determine when and how revenue is recognized and replaces most existing revenue recognition guidance in accounting principles generally accepted in the United States of America. The core principle of the new guidance is that an entity should recognize revenue to reflect the transfer of goods and services to customers in an amount equal to the consideration the entity receives or expects to receive. The amendments in this ASU are effective for annual reporting periods beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019. In June 2020, the FASB issued ASU 2020-05, *Revenues from Contracts with Customers: (Topic 606)* which allows private companies and not-for-profits who have not yet issued their financial statements to delay their implementation for the Revenue Recognition Standard (Topic 606) by one year. The Organization has elected to delay the adoption pursuant to ASU 2020-05.

Note 22 - Reclassification:

Certain items in the September 30, 2019 financial statements have been reclassified to conform to the September 30, 2020 presentation.

Note 23 - Subsequent Events:

On October 7, 2020, the Organization entered into a loan agreement with the North Carolina Medical Care Commission under which the North Carolina Medical Care Commission agreed to issue $53,090,000 North Carolina Medical Care Commission First Mortgage Retirement Facilities Revenue Bonds (Friends Homes, Inc.), Series 2020A, Series 2020B-1, and Series 2020B-2 Bonds and lend the Organization the proceeds to finance the costs related to capital improvements at the Communities, and to pay the expenses incurred in connection with the issuance of the bonds.

The following table summarizes the sources and uses of funds related to the bond issuance.

Sources of funds:	
Par amount:	
Series 2020A	$ 37,805,000
Series 2020B-1	6,300,000
Series 2020B-2	8,985,000
Total par amount	53,090,000
Premium	2,109,446
Total sources of funds	$ 55,199,446

Note 23 - Subsequent Events (Continued):

Uses of funds:	
Construction Account	$ 47,712,550
Debt Service Reserve Fund	2,367,731
Reserve Fund No. 2	160,650
Reserve Fund No. 3	206,655
Funded Interest Fund	3,798,073
Underwriter's Discount	473,787
Cost of Issuance	480,000
Total uses of funds	$ 55,199,446

The Organization's management has evaluated the effects subsequent events would have on the financial statements through December 9, 2020, the date the financial statements were available for issuance.

Exhibit B

FRIENDS HOMES, INC.

FORECAST WITH SUMMARY OF SIGNIFICANT ASSUMPTIONS

AS OF AND FOR THE YEARS ENDING

SEPTEMBER 30, 2021, 2022, 2023, 2024, AND 2025

AS OF MARCH 2, 2021

Turlington and Company, L.L.P.
Certified Public Accountants

INDEPENDENT ACCOUNTANTS' COMPILATION REPORT

To the Board of Trustees
Friends Homes, Inc.
Greensboro, North Carolina

Management is responsible for the accompanying financial forecast of Friends Homes, Inc. which comprises the forecasted combined statements of financial position as of September 30, 2021, 2022, 2023, 2024, and 2025, and the related forecasted combined statements of operations and changes in net assets, and cash flows for the years then ending, and the related summary of significant forecast assumptions in accordance with guidelines for the presentation of a financial forecast established by the American Institute of Certified Public Accountants (AICPA). We have performed a compilation engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. We did not examine or review the financial forecast nor were we required to perform any procedures to verify the accuracy or completeness of the information provided by management, and we do not express an opinion, a conclusion, nor provide any form of assurance on the financial forecast.

The forecast results may not be achieved as there will usually be differences between the forecasted and actual results, because events and circumstances frequently do not occur as expected, and these differences may be material. We have no responsibility to update this report for events and circumstances occurring after the date of this report.

Management has elected to omit the summary of significant accounting policies and the statement of functional expenses required under established guidelines for presentation of prospective financial statements. If the omitted summary of significant accounting policies and the statement of functional expenses was included in the financial forecast, they might influence the user's conclusions about Friends Homes, Inc.'s forecasted financial position, forecasted changes in net assets, forecasted results of operations, and forecasted cash flows. Accordingly, the financial forecast is not designed for those who are not informed about such matters.

The accompanying supplementary information contained in Schedule 1 – Forecasted Calculation of Debt Service Ratio, Schedule 2 – Forecasted Calculation of EBITDA, and Schedule 3 – Forecasted Calculation of Days Cash on Hand is presented for purposes of additional analysis and is not a required part of the financial forecast. Such information is the responsibility of management. The supplementary information was subject to our compilation engagement. We have not audited or reviewed the supplementary information and do not express an opinion, a conclusion, nor provide any assurance on such information.

Turlington and Company, L.L.P.

Lexington, North Carolina
March 2, 2021

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FRIENDS HOMES, INC.

FORECASTED COMBINED STATEMENTS OF FINANCIAL POSITION
(In Thousands of Dollars)

	September 30				
	2021	2022	2023	2024	2025
ASSETS					
Current assets:					
Cash and cash equivalents	$ 1,000	$ 1,000	$ 1,000	$ 1,000	$ 1,000
Assets limited as to use, required for current liabilities	349	346	409	505	508
Accounts receivable, net	1,201	1,323	1,550	1,793	2,047
Other receivables	108	108	108	108	108
Other current assets	270	304	349	398	450
	2,928	3,081	3,416	3,804	4,113
Investments limited as to use:					
Under bond agreement	30,855	32,623	22,452	5,693	5,693
Reserves required by State Statute	7,334	8,131	8,933	9,161	11,821
	38,189	40,754	31,385	14,854	17,514
Investments	48,448	48,641	63,771	83,231	74,037
Property and equipment:					
Land, buildings, equipment and CIP	146,166	168,854	170,859	172,809	174,819
Less, accumulated depreciation	45,348	48,570	52,741	57,717	62,737
	$ 190,383	$ 212,760	$ 216,690	$ 216,981	$ 207,746
LIABILITIES AND NET ASSETS					
Current liabilities:					
Current maturities on long-term debt	$ 646	$ 675	$ 699	$ 10,550	$ 7,921
Notes payable	545	545	545	545	545
Accounts payable	3,854	3,922	3,963	3,965	3,968
Accrued payroll and related expenses	2,351	2,458	2,517	2,523	2,529
Occupancy deposits	219	219	219	219	219
Accrued interest	954	950	915	909	903
	8,569	8,769	8,858	18,711	16,085
Long-term debt, less current maturities	105,371	104,519	103,645	92,944	84,897
Deferred revenue:					
Deferred revenue from entrance fees	11,842	20,267	20,638	19,648	18,519
Deferred revenue from entrance fees - refundable	13,313	24,377	24,661	23,175	21,554
Deferred revenue - rent reduction	77	77	77	77	77
	25,232	44,721	45,376	42,900	40,150
	139,172	158,009	157,879	154,555	141,132
Net assets:					
Assets without donor restrictions	46,474	50,014	54,074	57,689	61,877
Assets with donor restrictions	4,737	4,737	4,737	4,737	4,737
	51,211	54,751	58,811	62,426	66,614
	$ 190,383	$ 212,760	$ 216,690	$ 216,981	$ 207,746

FRIENDS HOMES, INC.

FORECASTED COMBINED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS
(In Thousands of Dollars)

	Years Ending September 30				
	2021	**2022**	**2023**	**2024**	**2025**
Changes in net assets without donor restrictions:					
Operating revenues:					
Amortized entry fees	$ 2,533	$ 4,027	$ 5,335	$ 5,725	$ 5,999
Service fees, residential	12,266	15,638	18,551	19,174	19,756
Service fees, assisted living	4,220	4,370	4,526	4,688	4,855
Service fees, nursing	11,257	10,964	11,297	11,630	12,017
Food service income	67	67	67	67	67
Contributions	120	120	120	120	120
Reimbursed medical	1,173	1,173	1,173	1,173	1,173
Investment income	2,283	2,350	2,361	2,213	2,232
Other	99	99	99	99	99
	34,018	38,808	43,529	44,889	46,318
Operating expenses:					
Resident care	8,150	8,329	8,513	8,701	8,894
Dining services	5,327	6,046	6,357	6,539	6,723
Environmental services	2,255	2,625	2,941	3,028	3,111
Resident services	1,101	1,276	1,332	1,370	1,409
Maintenance and grounds	3,425	3,887	4,221	4,326	4,427
Marketing	710	732	748	764	780
Administration	4,724	5,015	5,191	5,336	5,482
Bond and note interest	1,748	2,356	4,040	4,202	4,174
Depreciation, amortization and other charges	2,813	3,046	3,997	4,825	4,884
Management fees	1,376	1,548	1,719	1,775	1,832
Miscellaneous, net	409	408	410	408	414
	32,038	35,268	39,469	41,274	42,130
Operating income	1,980	3,540	4,060	3,615	4,188
Net assets, beginning	49,231	51,211	54,751	58,811	62,426
Net assets, ending	$ 51,211	$ 54,751	$ 58,811	$ 62,426	$ 66,614

See accompanying summary of significant forecast assumptions
and independent accountants' compilation report

FRIENDS HOMES, INC.

FORECASTED COMBINED STATEMENTS OF CASH FLOWS
(In Thousands of Dollars)

	Years Ending September 30				
	2021	2022	2023	2024	2025
Cash flows from operating activities:					
Changes in net assets	$ 1,980	$ 3,540	$ 4,060	$ 3,615	$ 4,188
Adjustments to reconcile changes in net assets to net cash provided by operating activities:					
Entrance fees received	15,855	23,986	6,460	3,719	3,719
Amortization of entrance fees	(2,533)	(4,027)	(5,335)	(5,725)	(5,999)
Depreciation	2,991	3,222	4,171	4,976	5,020
Amortization of deferred costs	78	78	78	78	68
Amortization of bond premium	(256)	(254)	(252)	(229)	(204)
Changes in working capital:					
Increase (decrease) in:					
Trade and other receivables	824	(124)	(229)	(242)	(253)
Other current assets	(6)	(33)	(49)	(50)	(44)
Increase in accounts payable and accrued expenses	401	173	67	3	4
Total adjustments	17,354	23,021	4,911	2,530	2,311
Net cash provided by operating activities	19,334	26,561	8,971	6,145	6,499
Cash flows from investing activities					
Purchase of property and equipment	(50,283)	(22,688)	(2,005)	(1,950)	(2,010)
Net proceeds (purchases) of investments	(24,799)	(2,757)	(5,821)	(3,026)	6,531
Net cash provided by (used for) investing activities	(75,082)	(25,445)	(7,826)	(4,976)	4,521
Cash flows from financing activities:					
Principal payments on long-term debt	(460)	(646)	(675)	(699)	(10,550)
Proceeds from long-term borrowings	53,990	-	-	-	-
Refunds of refundable fees	(470)	(470)	(470)	(470)	(470)
Net cash provided by (used for) financing activities	53,060	(1,116)	(1,145)	(1,169)	(11,020)
Net decrease in cash and cash equivalents	(2,688)	-	-	-	-
Cash and cash equivalents - beginning	3,688	1,000	1,000	1,000	1,000
Cash and cash equivalents - ending	$ 1,000	$ 1,000	$ 1,000	$ 1,000	$ 1,000
Supplemental disclosure of cash flow information:					
Cash payments for interest	$ 1,748	$ 2,356	$ 4,040	$ 4,202	$ 4,174

See accompanying summary of significant forecast assumptions
and independent accountants' compilation report

FRIENDS HOMES, INC.

SUMMARY OF SIGNIFICANT FORECAST ASSUMPTIONS
As of and for the Years Ending September 30, 2021, 2022, 2023, 2024, and 2025

This financial forecast presents, to the best of management's knowledge and belief, the financial position, results of operations, and cash flows for the forecast period. The forecast reflects management's judgment as of March 2, 2021, the date of the forecast. The preparation of prospective financial information requires management to make assumptions about the future. Those assumptions considered by management to be significant to the forecast are presented below. There will usually be differences between the forecasted and actual results because events and circumstances frequently do not occur as expected, and those differences may be material.

Statutory Requirements:

North Carolina General Statutes Chapter 58, Article 64 requires Friends Homes, Inc. (the Organization) to maintain an operating reserve equal to 25% of the total operating costs projected for the twelve-month operating period of the first year of the financial forecast. The operating reserve of 25% assumes an occupancy level of 90%. The forecast assumes an occupancy rate exceeding 90% occupancy in the forecast period. Years 2022 through 2025 were developed using management’s understanding of markets and circumstances as of the forecast date.

Facility Changes:

Management is currently renovating and expanding its Guilford and West campuses. Presales have begun at Guilford for their planned 20 independent living expansion. The West campus expansion and renovation consists of the construction of 73 independent living units, a renovation to the main dinning room and current wellness center as well as the addition of a bistro dining area. Presales for the West campus began in December 2020. Financing for the Guilford expansion was completed in October 2019 and the financing for the West renovation and expansion was completed in October 2020. The funds borrowed in October 2019 included $12,000,000 for the Guilford expansion and it is projected that the West expansion and renovation will require financing of $55,000,000 plus an equity contribution of $8,778,000. The construction of the Guilford campus began in the Spring of 2020 and the West campus in the Summer of 2020. It is anticipated that residents on the Guilford campus will begin to move-in during May 2021 and the residents for the West campus expansion will begin to move-in during July 2021. The current financial projections include the revenue and costs associated with the planned expansion. The projected entry fees for the expansion range from $259,000 to $372,000 with monthly fees ranging from $3,551 to $4,262 per month.

Resident Mix:

Resident mix is adjusted for the expansion and is assumed to be constant for revenue forecasting after the expansion fill-up.

Inflation Rate Assumptions:

- Residential Service Fee revenues are expected to increase 3.0% annually, with an additional adjustment for an increase in occupancy.
- Nursing revenues reflect a 3.5% increase annually, with an additional adjustment for an increase in occupancy.
- Expenses are expected to increase at approximately 2.0% and salary and wages to increase at approximately 3.0%.

FRIENDS HOMES, INC.

SUMMARY OF SIGNIFICANT FORECAST ASSUMPTIONS

Revenues:

Entrance Fees

Deferred revenue historically results from the receipt of entrance fees which are realized through straight-line amortization into income over the resident's life expectancy adjusted annually.

Through December 2017, contracts were for each level of care, and entrance fees subject to refund started with 75% in the first year and declined in percent refundable through the eighth year of residency to zero.

After December 2017, all contracts applied to all levels of care and for those containing a refund provision, it will be amortized straight-line over sixty months. Refunds under the new contracts are refundable only upon leaving Friends Homes.

Entrance fees for West and the Hobbs apartments at Guilford are expected to be:

One bedroom	$110,000
Two bedrooms	$159,000 - $170,000

Entrance fees for Fox and Woolman on the Guilford Campus are non-refundable:

One bedroom	$ 26,000 - $ 74,000
Two bedrooms	$ 62,000 - $ 84,000

Service Fees

In all levels of care, Service fees are recognized as services provided on a monthly basis.

Investment Income

Investment income is assumed to remain constant over the forecast period.

Medicare and Medicaid

Medicare and Medicaid reimbursements received by Friends Homes, Inc. consist of two components:

Part A Medicare payments are an all-inclusive per diem rate and must be spent on patient related costs.

The forecast assumes that Medicaid pays a flat rate for Skilled Care with the current rate at $165 at Guilford and $163 at West. This Medicaid rate is not expected to increase over the forecast period. Management's forecast assumes the Medicaid beds to stay constant; however, there is the possibility that due to rising fees more residents will qualify for Medicaid in the future.

Management Fees

In May of 2016, Friends Homes, Inc. entered into a management contract with Presbyterian Management Services which was renewed for five years on December 28, 2018. The fee is calculated as a percent of Resident revenue less entrance fee amortization, multiplied by the fee rate in the table below.

October 1, 2020 to September 2021	4.85%
October 1, 2021 to September 2022	5.00%
October 1, 2022 to September 2023	5.00%
October 1, 2023 to September 2024	5.00%
October 1, 2024 to September 2025	5.00%

Capital Expenditures:

Depreciation

Depreciation is computed using the straight-line method over estimated lives as follows:

Buildings and residences	40 to 50 Years
Furniture and fixtures	5 to 10 Years
Vehicles	3 to 5 Years
Land improvements	10 Years

Long-term Debt, Notes Payable, and Interest Expense:

Long-term Debt

On October 16, 2019, Friends Homes, Inc. entered into a loan agreement with the Public Finance Authority under which the Public Finance Authority issued fixed rate debt of $49,320,000 Public Finance Authority Retirement Facilities Revenue Bonds (Friends Homes, Inc.), Series 2019. The bonds bear interest rates of 4% to 5% and mature September 1, 2024 to September 1, 2054.

On October 7, 2020, Friends Homes, Inc. entered into a loan agreement with the North Carolina Medical Care Commission under which the North Carolina Medical Care Commission agreed to issue $53,090,000 North Carolina Medical Care Commission First Mortgage Retirement Facilities Revenue Bonds (Friends Homes, Inc.), Series 2020A, Series 2020B-1, and Series 2020B-2. The proceeds will be used to finance the costs related to the West 55-unit expansion and renovation project. The bonds were issued at a premium of $2,109,446 and bear interest rates of 2.3% to 5.0% and mature September 1, 2025 to September 1, 2050. An additional 18-unit villa apartment building will be constructed on the West Campus at a cost of $8,778,000. The cost of construction will be funded from operating reserves.

Forecasted annual interest and principal payments during the forecast period for the outstanding debt and planned financing of the West renovation and expansion are as follows:

	Principal	Interest	Debt Service
2021	$ 460,000	$ 1,748,000	$ 2,208,000
2022	646,000	2,356,000	3,002,000
2023	675,000	4,040,000	4,715,000
2024	699,000	4,202,000	4,901,000
2025	10,550,000	4,174,000	14,724,000

Notes Payable

Notes payable consist of demand notes paying 4% interest semi-annually payable to both current residents and nonresidents of Friends Homes, Inc. These notes are due sixty (60) days after Friends Homes, Inc. receives written notice of redemption. Friends Homes discontinued offering notes for entrance beginning in 2017. Current notes will be called as agreements requiring notes end.

FRIENDS HOMES, INC.

FORECASTED CALCULATION OF DEBT SERVICE RATIO
(In Thousands of Dollars)

	September 30				
	2021	**2022**	**2023**	**2024**	**2025**
Changes in net assets without donor restrictions	$ 1,980	$ 3,540	$ 4,060	$ 3,615	$ 4,188
Deduct:					
Amortization of entrance fees	(2,533)	(4,027)	(5,335)	(5,725)	(5,999)
Entrance fees received - expansion	(12,136)	(20,778)	(2,741)		
Add:					
Depreciation and amortization	2,813	3,046	3,997	4,825	4,884
Interest	1,748	2,356	4,040	4,202	4,174
Entrance fees received - net of refunds	15,385	23,516	5,990	3,249	3,249
Income available for debt service	$ 7,257	$ 7,653	$ 10,011	$ 10,166	$ 10,496
Maximum annual debt service	3,008	3,008	3,008	3,008	3,008
Debt service coverage ratio	2.41	2.54	3.33	3.38	3.49

See accompanying summary of significant forecast assumptions
and independent accountants' compilation report

Schedule 2

FRIENDS HOMES, INC.

FORECASTED CALCULATION OF EBITDA
(In Thousands of Dollars)

	Years Ending September 30				
	2021	2022	2023	2024	2025
Operating revenue	$ 34,018	$ 38,808	$ 43,529	$ 44,889	$ 46,318
Amortization of entry fees	(2,533)	(4,027)	(5,335)	(5,725)	(5,999)
Investment income	(2,283)	(2,350)	(2,361)	(2,213)	(2,232)
	29,202	32,431	35,833	36,951	38,087
Operating expenses	32,038	35,268	39,469	41,274	42,130
Depreciation	(2,813)	(3,046)	(3,997)	(4,825)	(4,884)
Interest expense	(1,748)	(2,356)	(4,040)	(4,202)	(4,174)
	27,477	29,866	31,432	32,247	33,072
EBITDA	$ 1,725	$ 2,565	$ 4,401	$ 4,704	$ 5,015
EBITDA %	5.91%	7.91%	12.28%	12.73%	13.17%

See accompanying summary of significant forecast assumptions
and independent accountants' compilation report

Schedule 3

FRIENDS HOMES, INC.

FORECASTED CALCULATION OF DAYS CASH ON HAND
(In Thousands of Dollars)

	Years Ending September 30				
	2021	**2022**	**2023**	**2024**	**2025**
Cash available:					
Cash	$ 1,000	$ 1,000	$ 1,000	$ 1,000	$ 1,000
Investments (net of restricted)	55,782	56,772	72,704	92,392	85,858
	56,782	57,772	73,704	93,392	86,858
Daily operating expenses:					
Operating expenses	32,038	35,268	39,469	41,274	42,130
Less, depreciation and amortization	(2,813)	(3,046)	(3,997)	(4,825)	(4,884)
	29,225	32,222	35,472	36,449	37,246
Daily cost	80	88	97	100	102
Days cash on hand	709	654	758	935	851

See accompanying summary of significant forecast assumptions
and independent accountants' compilation report

FRIENDS HOMES, INC.
RESIDENCE AND CARE AGREEMENT

THIS RESIDENCE AND CARE AGREEMENT ("Agreement"), is made and entered into this _____________ day of ______________________, 20_____ by and between ____ residents of _____________________ County, State of ____________________, hereinafter referred to as "Resident" (if husband and wife, or two other persons enter into this Agreement, the term "Resident" shall apply to them collectively unless the context otherwise requires, and the masculine pronoun shall include the feminine or plural) and FRIENDS HOMES, INC., a North Carolina non-profit corporation, hereinafter referred to as "FHI."

WITNESSETH:

WHEREAS, FHI owns and operates a licensed continuing care retirement community, hereinafter referred to as "Guilford Campus," located at 925 New Garden Road, and "West Campus", located at 6100 West Friendly Avenue, both in Greensboro, North Carolina;

WHEREAS, Resident desires to utilize the services of FHI and desires to occupy the Living Unit listed in paragraph 1(a) below at FHI (the "Living Unit," which shall also include any cottage, villa, townhome, apartment, assisted living or skilled nursing room, as may be applicable), subject to the terms and conditions of this Agreement;

WHEREAS, the Resident agrees to pay to FHI an initial entrance fee and other fees upon the terms and conditions as provided in this Agreement; and

WHEREAS, FHI is currently certified in the Medicare/Medicaid Programs, although FHI reserves the right to withdraw from one or both programs if it deems advisable in its sole discretion.

NOW, THEREFORE, Resident and FHI agree as follows:

1. **ACCOMMODATIONS AND SERVICES**

Subject to the terms and conditions set forth in this Agreement including FHI's right to change such Living Unit as provided herein, FHI agrees to provide the Resident the Living Unit, services and programs as described as follows:

(a) **Living Unit**.
Campus: ____
Apartment/Cottage No.: _____________________________________
Description: ____

Resident has had an opportunity to inspect the Living Unit, and Resident accepts the Living Unit "AS IS" and in its present condition, subject only to the items attached as an addendum to this Agreement.

Initials ________

(b) **Service Plan.** FHI provides services that Resident can pay for on a fee-for-service basis. These optional services offered by FHI may be increased or reduced at FHI's discretion, and the related fees are based on the then current published fees. Fees for such services will be included on Resident's monthly statement

FHI provides a service allowance of $_____ per month per individual Resident. This allowance is already a part of the monthly charge set forth in paragraph 2.(b) below. If Resident exceeds the service allowance in any given month, the additional costs above the allowance will be added to Resident's next monthly statement. Resident is allowed to carry over any unused service allowance to the following month. The cumulative monthly carryover shall not exceed $_________. The service allowance may be utilized for the following items:

- Meals in any of Friends Homes dining venues, excluding items offered through Friends Homes convenience store
- Additional housekeeping services beyond 1.(e) below
- Medical transportation services
- Utilization of FHI's guest quarters for Resident's personal guests
- Personal maintenance service requests beyond the normal scope of services offered by FHI

(c) **Utilities**. FHI will furnish reasonable heating, air conditioning, water, sewer, electricity and trash removal to all apartment and villa apartment Residents. Residents in cottages and town homes will be responsible for the cost of heating, air conditioning, water and sewer. Trash removal will be provided by FHI. The Resident is responsible for all television, telephone, and internet installation charges and all related monthly service charges (collectively "Communication Services"). If any Communication Services are provided by FHI on behalf of Resident, Resident agrees to pay FHI's standard monthly service charges applicable for such services which Resident agrees are subject to adjustment from time to time. Any Communication Services not included within FHI's standard package shall be the sole responsibility of Resident.

(d) **Furnishings**. FHI will provide, in the Living Unit, standard flooring, emergency signal equipment and other fixtures and appliances as described in the literature published by FHI. All other furniture and furnishings for the Living Unit shall be provided by the Resident.

(e) **Housekeeping Services.** FHI will provide housekeeping services such as vacuum cleaning, dusting and cleaning of baths and kitchens to Resident on a monthly basis. Resident may request additional services on an as needed basis. A charge will apply for these additional services.

(f) **Laundry**. FHI will provide free access to laundry facilities within the Resident's Living Unit or within the Resident's apartment building.

(g) **Maintenance and Repairs**. FHI will maintain and keep in repair the improvements, furnishings and equipment owned by FHI. The Resident will be responsible for the cost of repairing any damage to property of FHI caused by the negligence or other act of the Resident or any guest or invitee of the Resident, ordinary wear and tear excepted. Any structural or physical change or redecoration of any kind to the Living Unit will require the written approval of FHI.

The cost of any change, including any subsequent cost to return the Living Unit to its original condition in the event of such change, or cost of redecoration, will be paid by the Resident upon ten (10) days written notice. Any such improvement or change will be owned by FHI and will not be considered in determining the amount of any refund to the Resident upon termination of this Agreement.

(h) **Groundskeeping**. FHI will furnish basic groundskeeping service for the grounds of its two campuses, including lawn, tree, and shrubbery care. Subject to approval by FHI, Resident may plant and maintain certain areas designated by FHI for such purpose.

(i) **Parking**. FHI will provide parking areas for Resident's personal vehicle (limited to one vehicle for each individual Resident) and parking for guests.

(j) **Common Facilities**. FHI will provide common facilities for the use and benefit of all Residents such as a dining room, living room, post office, multi-purpose room, lounges, and sitting areas.

(k) **Transportation.** FHI will provide limited local transportation for residents on a regular, scheduled basis. Certain charges may apply, depending upon the destination or other circumstances. Additional charges may be made for transportation for special, personal, or group trips.

(l) **Activities**. Subject to medical or other restrictions, Resident may participate in social, recreational, spiritual, educational, and cultural activities which are planned and offered by FHI for its residents generally.

(m) **Nursing and Health Care**. FHI will provide nursing and health care for each Resident as follows:

(i) A Health Center will be provided for the benefit of FHI residents. The Health Center will consist of accommodations, equipment, and staffing necessary for assisted living and skilled nursing care. FHI will use its best efforts to provide private accommodations when the Resident requires assisted living care. Depending on availability, private or semi-private accommodations will be provided when Resident requires skilled nursing care. Notwithstanding the foregoing, FHI reserves the right from time to time to temporarily place Resident in reasonably comparable healthcare facilities outside of FHI in the event either assisted living or skilled nursing accommodations are not currently available due to demand.

(ii) A twenty-four (24) hour nursing staff will be maintained in the Health Center. The Health Center is staffed to provide general duty nursing care, which means that nurses and other staff must attend to multiple residents with various needs. The nursing care is not intended to provide exclusive individual attention to any one specific resident on a regular basis or for prolonged periods of time. Resident, subject to approval of FHI, is responsible for acquiring (hiring, termination, and compensation) the assistance of private duty sitters or nurses if the Resident requires or prefers individual and/or full-time care and assistance. Private duty sitters, nurses, or other third parties hired by Resident must abide by all rules and regulations of FHI and FHI reserves the right to bar any such parties from FHI's facilities at any time.

(iii) The overall coordination and provision of health care services by FHI will be provided by a Medical Director who will be a licensed physician selected by FHI.

(iv) Charges for Health Care accommodations and services in this Paragraph shall be set forth in Paragraph 2(e) of this Agreement. Other health care services will be made available to the Resident at the Resident's expense including, but not limited to, pharmacy services, laboratory tests, physical therapy, occupational therapy, speech therapy and rehabilitative treatments.

(v) FHI has open staff privileges and a Resident may select a duly licensed physician of his choice; however, a Medical Director is provided by the community for those wishing to use such services. Resident is responsible for all charges for services provided by the Medical Director or any other physicians.

(vi) Resident has the right by law (N.C. Gen. Stat. § 90-21.16(6)) to elect the officially recognized "Do Not Resuscitate Order" as certified by the Resident's attending physician.

2. FINANCIAL ARRANGEMENTS

(a) **Entrance Fee Options.** Resident agrees to pay FHI an Entrance Fee as a condition of becoming a Resident at FHI. Resident shall choose one of the following options, amounts, and amortization schedules as to the Entrance Fee to be paid:

Entrance Fee Option	Amount of Entrance Fee	Amortization Schedule
1. Standard	$__________________	1.6% per month for 60 months less a 4% non-refundable fee
2. Woolman / Fox	$__________________	Nonrefundable

Resident agrees to pay FHI an Entrance Fee deposit of $_________________ which shall be ten percent (10%) of the required Entrance Fee as designated above. The Entrance Fee deposit is due and payable upon signing of this Agreement. Except as provided below, the balance of the Entrance Fee of $____________is due and payable on the date of occupancy, but in no event later than ninety (90) days after your execution of this Agreement.

If Resident is prevented from occupying the Living Unit within ninety (90) days after execution of this agreement, due to reasons beyond his control, an additional deposit of $_______________ representing 15% of the required Entrance Fee shall be paid. Resident further understands that FHI reserves exclusive rights in determining the legitimacy of Resident's request for an extension and that, in any event, the Living Unit must be occupied within one hundred eighty (180) days of the date of this Agreement. Furthermore, Resident understands that after the first 90-day period and prior to occupancy during the second 90-day period, FHI will charge and Resident will pay the Monthly Charge for the Living Unit, less a monthly service allowance credit determined by FHI.

If Resident elects not to occupy the apartment within ninety (90) days, or one hundred eighty (180) days in the event an additional deposit is made, Resident shall be relieved of the obligation to pay the balance of the Entrance Fee. FHI shall receive 50% of the deposited funds, and the remainder shall be refunded to Resident. If each Resident is prevented from occupying the apartment by reason of death or disability, Resident shall be relieved of the obligation to pay the balance of the Entrance Fee, and the deposited funds shall be refunded in full.

(b) **Monthly Charge**. During the term of this Agreement, in addition to the Entrance Fee and any other charges provided for herein, Resident agrees to pay a monthly charge ("Monthly Charge"), which shall be payable in advance by the 10th day of each month. As of the date of this Agreement, FHI projects that the Monthly Charge associated with the Living Unit will be approximately $________ per month, and an additional $_______ per month if a second Resident occupies the Living Unit. The Monthly Charge may be adjusted by FHI prior to occupancy of the Living Unit by the Resident if changes in the projected costs of providing the services at FHI so require. The Monthly Charge is also subject to change during the term of this Agreement as described in Paragraph 2(c) below.

(c) **Adjustments in the Monthly Charge**. The Monthly Charge is assessed to provide the Living Units, facilities, meals, programs and services described in this Agreement and is intended to meet the cost of insurance, maintenance, administration, *ad valorem* taxes and bed taxes, if any, health care facilities and operation, staffing, and other expenses including debt service associated with the operation and management of FHI. FHI shall have the right to adjust the Monthly Charge from time to time during the term of this Agreement as FHI in its discretion deems necessary in order to reflect changes in the costs of providing the facilities, programs and services described herein consistent with operating on a sound financial basis and maintaining the quality of services called for herein. FHI shall have the right to adjust the Monthly Charge pursuant to this Agreement notwithstanding Resident's voluntary or involuntary absence from the community. In the event that it should be determined that FHI is required to pay ad valorem taxes upon its property, the Monthly Charge may be adjusted to reflect the amount of such taxes. Any increase in the Monthly Charge may be made by FHI upon thirty (30) days written notice to the Resident.

(d) **Monthly Statement.** FHI will furnish the Resident with a monthly statement on or about the fifth business day of each month showing the total amount of fees and other charges owed by the Resident, and which shall be paid by the 10th day of the month. FHI may charge interest at the rate of 1½% per month (18 % APR) or the maximum annual rate as allowed by law on any unpaid balance owed by the Resident thirty (30) days after the monthly statement is furnished.

(e) **Health Center Fees and Charges**

(i) FHI shall establish and publish per diem rates for accommodations and services in the Health Center, such rates will take into account rates being charged in other comparable nursing centers and the costs of operation of FHI.

(ii) If a Resident is transferred to the Health Center for assisted living or nursing care, Resident shall continue to pay the Monthly Charge associated with the type of Living Unit described in Paragraph 1(a) of this Agreement. In addition, Resident will pay the published per diem rate for assisted living or nursing care accommodation occupied by the Resident, plus charges for other services not included in such per diem rate. Resident shall have the option of surrendering the Living Unit described in Paragraph 1(a), in which case the Monthly Charge terminates once the Living Unit is vacated of the Resident's possessions.

If the Living Unit is not surrendered, the Resident shall be responsible for both the Living Unit Monthly Charge and the applicable per diem rate for the assisted living or nursing care accommodations. The Resident shall have no right to occupy the Living Unit more than ninety (90) days after admission into the health center without the approval of FHI. Resident agrees to surrender the Living Unit to FHI upon request on or after such ninety (90) day period unless otherwise approved by FHI. If required to vacate the Living Unit, as determined in the sole discretion of FHI, Resident agrees to fully cooperate in relocating his/her personal property and effects from such residence. Should FHI subsequently determine upon the opinion of the Medical Director and the Executive Director of FHI that Resident can resume occupancy in a residential Living Unit; the Resident will have priority to a comparable accommodation, as determined by FHI, as soon as it becomes available. When one of two Residents occupying the same Living Unit is transferred to the Health Center, the Resident remaining in the Living Unit shall continue to pay the Monthly Charge in effect associated with such Living Unit based on single occupancy.

(f) **Non-Refundable Pet Fee.** Resident agrees to abide by Friends Homes guidelines concerning pets as amended or adopted from time to time. Resident agrees that if Resident is entitled to have a pet in their Living Accommodation and elects to do so, Resident agrees to pay FHI a $500.00 non-refundable pet fee (“Pet Fee”). The Pet Fee shall be due and payable at the time Resident is required to pay the balance of their Entrance Fee. FHI may require the Resident to maintain a policy of liability insurance which covers Resident's liability for damages or injury caused by Resident's pet.

3. **ADMISSIONS REQUIREMENTS**

Resident will become qualified for admission to FHI upon satisfaction of the following provisions:

(a) **Age**. The admission requirements for residence at FHI are nondiscriminatory except as to age, and FHI is open to both married and single men and women of all races and religions and without regard to place of former residence. Admission is restricted to persons sixty-two (62) years of age or older, except that in the case of a married couple or roommates, one spouse/roommate must have attained the age of at least sixty-two (62) years old and the other spouse/roommate must have attained the age of at least fifty-five (55) years old.

(b) **Personal Interview**. Resident agrees to interview with representatives of FHI prior to consideration for residency at FHI. Upon review of all information required to be furnished under this Agreement, additional personal interviews may be requested by FHI and Resident agrees to fully cooperate with FHI’s representatives and employees during such process.

(c) **Application, Health History, and Financial Statement**. Resident shall submit within 30 days of the execution of this Agreement for review by the Admissions Committee appointed by FHI, an Application for Admission, a Personal Health History, and a Confidential Financial Statement, all on forms furnished by FHI. During the term of this Agreement, FHI reserves the right to require Resident and Resident agrees to provide FHI with an updated Confidential Financial Statement within 60 days upon written request, provided however, FHI will not require Resident to provide an updated Confidential Financial Statement more than once in any 12 month period.

(d) **Notification**. FHI shall review the Application for Admission, the Personal Health History, the Confidential Financial Statement, and the results of the personal interviews and will notify Resident whether Resident meets the admission requirements as determined in FHI’s sole discretion. If Resident does not meet FHI’s admissions requirements, this Agreement shall be null and void and Resident shall receive a refund of any Entrance Fee deposit previously paid.

(e) **Health Requirements**. Prior to admission for residency at FHI, Resident shall submit a report of a physical examination of the Resident made by a physician selected by the Resident within sixty (60) days of the projected occupancy date. Such report shall include a statement by such physician that the Resident is in good health and is able to take care of himself or herself in normal living activities. FHI may require the Resident to have another physical examination by the Medical Director or by another physician approved by FHI. The Resident shall be responsible for the costs of such additional physical examination. If the health of Resident as disclosed by such physical examination differs materially from that disclosed in any Resident's Application for Admission or Personal Health History, FHI shall have the right to decline admission of the Resident and/or to terminate this Agreement, or at the discretion of FHI, permit Resident to take occupancy at FHI in suitable accommodations to the needs of Resident.

(f) **Financial Requirements**. The Resident must have assets and income which will be sufficient under foreseeable circumstances to pay the financial obligations of the Resident under this Agreement and to meet ordinary living expenses of the Resident. FHI may require the Resident to furnish current financial information at any time prior to occupancy.

(g) **Representations**. The Resident affirms that the representations made in the Application for Admission, Personal Health History and Confidential Financial Statement are true, correct, and complete and will be relied upon by FHI as a basis for entering into this Agreement.

4. TERMS OF RESIDENCY

(a) **Rights of Resident**. The Resident has the right to occupy and enjoy the Living Unit described in Paragraph 1(a) of this Agreement subject to Resident's transfer to the Health Center pursuant to Paragraphs 2(e) and 5(a), or the termination provisions of this Agreement, or any other term or condition of this Agreement. It is understood that this Agreement does not transfer or grant any interest in the real or personal property owned by FHI other than the right to use or occupy the Living Unit in accordance with the terms hereof. The Resident agrees that the rights of the Resident under this Agreement are subject to and subordinate to the rights of a lender under any mortgage or deed of trust now or hereafter executed by FHI or its affiliates creating a lien on any property of FHI.

(b) **Rules and Regulations**. Resident acknowledges the receipt of a copy of the Resident's Handbook. The Resident will abide by FHI's rules and regulations and such reasonable amendments, modifications, and changes of the rules and regulations as may hereafter be adopted by FHI in the exercise of its sole discretion. In the event of changes or amendments to the rules and regulations, receipt of such changes or amendments by any one of the persons listed as Resident in this Agreement shall be deemed receipt by the other listed Resident. Resident acknowledges that FHI has a "Tobacco Free Campus Policy" which prohibits the use of tobacco products anywhere on FHI's campuses including Resident's Living Unit.

(c) **Changes in Living Units**. FHI has the right to change the Living Unit to meet the requirements of any applicable statutes, laws, rules or regulations. The Living Unit may not be used in any manner in violation of any zoning ordinances or other governmental law or regulation.

(d) **Visitors**. Except for short term visitors or guests, no person other than the Resident may reside in the Living Unit without the written approval of FHI.

(e) **Loss of Property**. FHI shall not be responsible for the loss of any property belonging to the Resident due to theft, mysterious disappearance, fire or any other cause. It is understood that the Resident will have the responsibility of providing any desired insurance protection covering any such loss.

(f) **Occupancy by Two Residents**. In the event that two Residents occupy a Living Unit under the terms of this Agreement, upon the permanent transfer to the Health Center or the death of one such Resident, or in the event of the termination of this Agreement with respect to one of such Resident, the Agreement shall continue in effect as to the remaining or surviving Resident. The remaining Resident may request a transfer to another type of Living Unit, subject to availability, pursuant to Paragraph 5(e) of this Agreement. The remaining or surviving Resident will thereafter pay the Monthly Charge for one Resident associated with the independent Living Unit occupied by the Resident.

(g) **Medical Insurance**. The Resident shall maintain Medicare Part A, Medicare Part B, and one supplemental health insurance policy or equivalent insurance coverage acceptable to FHI with evidence of such coverage to be provided to FHI upon execution of this Agreement and thereafter from time to time upon request.

(h) **Marriage During Occupancy**. If a Resident while occupying a Living Unit marries another Resident or elects to share a Living Unit with a person who is also a Resident, the two Residents may occupy the Living Unit of either Resident and shall surrender the Living Unit not to be occupied by them. No refund will be payable with respect to the Living Unit surrendered. Such Residents will pay the Monthly Charge for double occupancy associated with the Living Unit occupied by them. In the event that a Resident shall marry or elect to share a Living Unit with a person who is not a Resident of FHI, the non-resident spouse/cohabitant may become a Resident if such spouse/cohabitant meets all of the then current requirements for admission to FHI, enters into a then current version of the Residence and Care Agreement with FHI and pays an Entrance Fee in an amount determined by FHI in its discretion but in any event no more than two-thirds (2/3) of the then current Entrance Fee associated with the type of Living Unit to be occupied by the Resident and non-resident spouse/cohabitant. If the Resident's spouse/cohabitant shall not meet the requirements of FHI for admission as a Resident, the current Resident may terminate this Agreement pursuant to Paragraph 7.

(i) **Right of Entry**. Resident hereby authorizes FHI, including its employees and agents of FHI, to enter the Living Unit for purposes of housekeeping, repairs, maintenance, inspection, and in the event of an emergency.

5. **TRANSFER OR CHANGES IN LEVELS OF CARE**

(a) **Transfer to Health Center**. The Resident agrees that FHI shall have the authority to determine whether the Resident should be transferred from the Resident's Living Unit to the Health Center or from one level of care to another level of care within the Health Center. Such determination shall be based on the professional opinion of FHI's Medical Director and the Executive Director of FHI and shall be made only after consultation to the extent practical with the Resident, a representative of the Resident's family or the sponsor of the Resident, and Resident's attending physician.

(b) **Transfer to Hospital or Other Facility**. If it is determined that the Resident needs care beyond that which can be provided by the community and personnel of FHI, the Resident may be transferred to a hospital, center or institution equipped to give such care, which care will be at the expense of the Resident. Such transfer of the Resident will be made upon orders from FHI's Medical Director after consultation to the extent possible with the Resident, a representative of the Resident's family or the sponsor of the Resident and the Resident's attending physician.

(c) **Surrender of Living Unit**. If a determination is made by FHI that any transfer described in Paragraph 5(a) or 5(b) is permanent, the Resident agrees to surrender the Living Unit or the accommodation in the Health Center occupied by the Resident upon thirty (30) days prior written notice from FHI to Resident. If FHI subsequently determines upon the opinion of the Medical Director and the Executive Director that the Resident can resume occupancy in accommodations comparable to those occupied by the Resident prior to such transfer, the Resident shall have priority to such accommodations as soon as they become available.

(d) **No Refund for Changes in Levels of Care**. Resident acknowledges and agrees that any transfer from one level of care to another within FHI (including without limitation a transfer from Resident's current Living Unit to assisted or skilled nursing) shall not be deemed a termination of this Agreement nor entitle Resident to a refund or partial refund of their Entrance Fee.

(e) **Requests for Moves Within Independent Living**. FHI will evaluate and consider a Resident's request to move from one Living Unit to another within Independent Living. The determination to allow a Resident to move is within the sole discretion of FHI and will be administered under the guidelines of FHI's transfer policy in effect at the time of the Resident's request to move.

6. **RIGHT OF RESCISSION**

(a) **First Thirty Days**. Notwithstanding anything herein to the contrary, Resident may rescind this Agreement within thirty (30) days following the execution of this Agreement (the "Rescission Period"), in which event Resident shall receive a refund of any money paid to FHI except for any such other nonstandard charges the Resident and FHI agree in advance shall be nonrefundable. Resident acknowledges that he/she has received, prior to execution of this Agreement, a copy of FHI's current Disclosure Statement that meets the requirements of Section 58-64-20, et seq. of the North Carolina General Statutes. Resident is not required to move into the Living Unit before the expiration of the Rescission Period. If Resident moves into the Living Unit during the Rescission Period and rescinds this Agreement during such thirty (30) day period, Resident will receive a refund of any money paid to FHI less a service charge as follows:

(i) **Entrance Fee**. Resident shall receive a refund of the Entrance Fee paid to FHI less a service charge as determined by FHI not to exceed the greater of one thousand dollars ($1,000) or two percent (2%) of the Entrance Fee.

(ii) **Monthly Charge**. Resident's refund shall be further reduced by the prorated Monthly Charge applicable for the period Resident occupied his/her Living Unit.

(iii) **Nonstandard Costs**. Resident's refund shall be further reduced by any nonstandard costs, if any, specifically incurred by FHI at the request of Resident consistent with terms and conditions of this Agreement.

Any refund due under this paragraph 6(a), shall be paid within sixty (60) days of termination of this agreement.

7. **TERMINATION AND REFUND PROVISIONS**

(a) **Termination After Rescission Period, Prior to Occupancy**. This Agreement may be terminated by Resident at any time for any reason prior to Resident taking occupancy at FHI and after the Rescission Period as set forth in Paragraph 6 by Resident giving written notice to FHI. This Agreement may be terminated by FHI at any time prior to the date that the Resident takes occupancy if FHI determines that the Resident does not meet the physical, mental, or financial requirements for admission. In the event of such termination, Resident shall receive a refund of the Entrance Fee paid less an administrative fee of 4% of the total Entrance Fee. However, if the Resident or the Resident's spouse or roommate dies prior to occupancy, or if on account of illness, injury, incapacity, or financial reversal is precluded from occupying the Living Unit, the contract is automatically terminated. In the event of such termination the full amount of the Entrance Fee paid will be refunded. Any refund due under this paragraph 7(a), shall be paid within sixty (60) days of termination of this Agreement.

(b) **<u>Termination During Residency Trial Period</u>**. The first sixty (60) days of residency at FHI will be considered to be on a trial basis. During such sixty (60) day period, the Resident will have the right to terminate this Agreement by giving FHI written notice of such termination and Resident shall receive a refund of the Entrance Fee paid less an administrative fee of 4% of the total Entrance Fee. During such sixty (60) day period, FHI shall have the right to terminate this Agreement based on FHI's determination that Resident's physical or mental condition or emotional adjustment will not permit adaptation to the living environment at FHI. In the event of such termination by FHI as previously described, FHI will refund the full Entrance Fee paid to FHI within sixty (60) days after the Living Unit has been vacated.

(c) **<u>Termination After Trial Period</u>**. At any time after the expiration of the first sixty (60) days of residence at FHI, the Resident may terminate the Agreement by giving FHI thirty (30) days prior written notice of such termination. In the event of such termination, Residents electing the Standard Entrance Fee Option may be entitled to receive a partial refund.

Any partial refund shall be determined and paid as follows: Resident shall receive a refund in an amount equal to the Entrance Fee paid to FHI less the applicable Amortization percentage set forth in Paragraph 2(a) for the Standard Entrance Fee Option selected by Resident thereof for each full calendar month or portion thereof which has elapsed from Resident's Admission Date to the effective date of termination and less four percent (4%) of the total Entrance Fee, which is the nonrefundable portion of the Entrance Fee. For avoidance of doubt, all Entrance Fee refunds are calculated assuming and based upon full calendar months. Any portion of a calendar month (whether relating to the month of Resident's Admission Date or the month of Resident's termination date of this Agreement) shall be deemed to be a full calendar month for purposes of calculating any Entrance Fee refund.

Residents electing Woolman/Fox Entrance Fee Option are not entitled to an Entrance Fee refund under this section.

The refund shall be made in accordance with the terms set forth in Paragraph 7(f) below.

(d) **<u>Termination Upon Death</u>**. This Agreement shall automatically terminate upon the death of the Resident, provided, however, in the event that two Residents occupy a Living Unit under the terms of this Agreement, the Agreement shall continue in effect as to the remaining or surviving Resident. A refund, if applicable, shall be determined in accordance with Paragraph 7(c) above and shall be paid to the Estate of the Resident in accordance with Paragraph 7(f) below.

(e) **<u>Termination By FHI</u>**. FHI may terminate this Agreement at any time if there has been a material misrepresentation or omission made by the Resident in the Resident's

Application for Admission, Personal Health History or Confidential Financial Statement; if a material change in the Resident's health takes place before occupancy (Admission Date); if the Resident fails to make payment to FHI of any fees or charges due FHI within sixty (60) days of the date when due; if the Resident does not abide by the rules and regulations adopted by FHI as determined by FHI; or Resident breaches any of the terms and conditions of this Agreement. In the event of termination for any of such causes the Resident may be entitled to a partial refund of the Entrance Fee paid by the Resident determined in accordance and paid in the same manner as provided in Paragraph 7(c) above.

(f) **Refund After Living Unit Reserved.** Any refund due the Resident under Paragraphs 7(c), 7(d), or 7(e) above will be made at such time as such Resident's Living Unit shall have been reserved by a prospective Resident and such prospective Resident shall have paid to FHI such prospective Resident's Entrance Fee. No interest shall be due or payable on any amount refunded pursuant to this Paragraph 7.

(g) **Monthly Charge & Nonstandard Costs**. Resident's refund under Paragraphs 7(a) through 7(e) shall be reduced and offset by the amount of all unpaid Monthly Charges and other amounts due and owing FHI applicable for the period Resident occupied his/her Living Unit. Resident's refund shall also be reduced by any nonstandard costs, if any, specifically incurred by FHI at the request of Resident consistent with terms and conditions of this Agreement. Notwithstanding the termination of this Agreement, Resident (including a deceased Resident) shall be deemed to occupy his Living Unit so long as Resident's possessions remain in his Living Unit and Resident's Monthly Charge shall continue to accrue as normal. Resident's family or sponsor shall remove Resident's possessions from the Living Unit within sixty (60) days of the date of Resident's death.

(h) **Condition of Accommodation**. At the effective date of termination of this Agreement, the Resident shall vacate the Living Unit and shall leave it in good condition, normal wear and tear excepted. The Resident shall be liable to FHI for any cost incurred in restoring the Living Unit to good condition, except for normal wear and tear, and such cost may at the election of FHI be offset against any refund due, if any.

(i) **Additions and/or Renovations to Community; Community Closing**. From time to time, FHI may require additions and/or renovations to the FHI community. FHI will use reasonable efforts to minimize the disturbance to its residents, provided however, Resident agrees to cooperate with FHI in such efforts and if necessary relocate to substantially comparable Living Units under the terms and conditions of this Agreement. In addition, if it shall become necessary to close or otherwise cease ordinary operations at the FHI community, as determined in the sole discretion of FHI's Board of Trustees, Resident agrees to allow FHI to relocate Resident to substantially comparable communities managed by FHI within the same general locality and Resident agrees that this Agreement shall remain in full force and effect with respect to such continuing care retirement facility. Resident agrees that any transfer of residency under this paragraph 7(i) shall not cause a termination of this Agreement nor entitle Resident to a full or partial refund of their Entrance Fee.

8. FINANCIAL ASSISTANCE

(a) **Policy**. FHI declares that it is the current policy, but not a guarantee, of FHI that this Agreement will not be terminated solely because of the Resident's financial inability to continue to pay the Monthly Charge or other charges payable hereunder by reasons of circumstances beyond the Resident's control, provided, however, this declaration shall not be construed as qualifying the right of FHI to terminate this Agreement in accordance with the terms hereof. In the event that a Resident presents facts which in the sole opinion of FHI justify special financial consideration, FHI will give careful consideration to subsidizing in whole or in part the Monthly Charge and other charges payable by the Resident hereunder so long as such subsidy can be made without impairing the ability of FHI to attain its objectives while operating on a sound financial basis. Any grant of financial assistance shall be within the sole discretion of FHI as set forth under a separate written agreement between FHI and the Resident regarding such financial assistance. If FHI requests, Resident agrees to apply for Medicaid, public assistance, or any other reasonably available public benefit program to offset Resident's Monthly Charge or other charges payable hereunder.

(b) **Endowment**. FHI has an endowment fund, the income of which will be used to assist Residents who would otherwise not be able to live at FHI because of financial considerations. The income from such fund may be used for the purposes of providing financial assistance in accordance with the provisions of this section.

9. MISCELLANEOUS PROVISIONS

(a) **Will, Durable Power of Attorney**. Resident is responsible for having made and executed a valid will providing for the distribution of his/her assets and personal effects, such will or other document of instruction shall include adequate provisions regarding proper burial or cremation. Resident shall notify the Executive Director of FHI as to the name, address, and telephone number of his/her personal representative. Resident further agrees to execute a valid continuing durable Power-of-Attorney and a health care Power-of-Attorney. Resident shall notify the Executive Director as to the name, address, and telephone number of such designated Attorney(s)-in-Fact.

(b) **Long Term Care Insurance**. If Resident elects to purchase Long Term Care insurance through an insurance company recommended by FHI or for which FHI has acted as agent or broker, either directly or indirectly, Resident understands that FHI is not a party to such insurance contract, and that FHI had not and does not guarantee the performance or obligation of the insurer under any such policy of Long Term Care.

(c) **Assignment**. The rights and privileges of the Resident under this Agreement to the facilities, services and programs of FHI are personal to the Resident and may not be transferred or assigned by the Resident or otherwise. FHI reserves the right to transfer or assign this Agreement without the consent of Resident. Except as set forth herein, this Agreement shall bind and inure to the benefit of the successors and assigns of FHI and the heirs, executors, personal representatives, any Attorney-In-Fact, and administrators of the Resident.

(d) **Management of FHI**. The absolute rights of management of FHI are reserved by FHI, its Board of Trustees and its administrators as delegated by said Board of Trustees. FHI reserves the right to accept or reject any person for residency. Residents do not have the right to determine admissions or terms of admission of any other Resident.

(e) **Entire Agreement**. This Agreement constitutes the ENTIRE AGREEMENT between FHI and Resident relating to the subject matter hereof and supersedes all prior negotiations and agreements relative thereto. This Agreement may not be modified or amended except in writing signed by each of the parties. FHI shall not be liable or bound in any manner by any statements, representations or promises made by any person representing or assuming to represent FHI, unless such statements, representations or promises are set forth in this Agreement.

(f) **Waiver**. Any provision herein may be waived only in writing signed by the party or parties against whom or which enforcement of such waiver is sought. The failure of either party at any time to require the performance by the other party of any provision shall in no way affect the full right to require such performance at any time thereafter, nor shall the waiver by either party of a breach of any provision be taken or held to be a waiver of any succeeding breach of such provision or a waiver of the provision itself or a waiver of any other provision of this Agreement.

(g) **Guardianship**. If Resident becomes legally incompetent, or is unable to properly care for himself or herself or his or her property, and if the Resident has made no other designation of a person or legal entity to serve as his or her guardian or attorney-in-fact, then Resident hereby agrees that FHI or its designee may initiate legal proceedings relating to Resident’s competence and may act as Resident’s legal guardian when qualified according to law. Resident agrees to pay to FHI and its designee any attorneys’ fees and other expenses incurred in connection with any such guardianship upon demand.

(h) **Transfer of Property**. The Resident agrees not to make any gift or other transfer of property for less than adequate consideration for the purpose of evading the Resident’s obligations under this Agreement or if such gift or transfer would render such Resident unable to meet such obligations.

(i) **Attorney's Fees, Costs of Collection**. Resident acknowledges and agrees that he/she shall be obligated to reimburse FHI for all costs associated with collection of any charges or fees due pursuant to this Agreement, including the cost of reasonable attorney's fees incurred by FHI as allowed by applicable law.

(j) **Savings Clause**. If any provision of this Agreement in any way contravenes the laws of this state or applicable jurisdiction, such provision shall be deemed not to be a part of this Agreement in that jurisdiction, and Resident agrees to remain bound by all remaining provisions. If any portion of this Agreement shall be deemed to be illegal or should it violate public policy, it is agreed that it shall be interpreted to be legally binding and enforceable to the maximum reasonable extent allowed by law.

(k) **Survival**. The termination of this Agreement shall not affect the rights and remedies of FHI and the obligations of Resident under this Agreement incurred prior to such termination, all of the foregoing shall survive such termination including but not limited to all payment obligations of Resident.

(l) **Governing Law; Venue**. This Agreement shall be governed by the laws of the State of North Carolina. Resident agrees that venue for any legal action or proceeding relating to this Agreement shall be solely in the state or federal courts sitting in Guilford County, North Carolina, and Resident hereby knowingly and voluntarily submits to the jurisdiction of each such court in any such action or proceeding.

(m) **Notices**. Any notices, consents, or other communications to FHI or FHI (collectively "notices") shall be in writing and addressed as follows:

Friends Homes, Inc.
Attn: Executive Director
925 New Garden Road
Greensboro, NC 27410

The address of Resident for purposes of giving notice is the address appearing after the signature of the Resident below prior to Resident taking occupancy of the Living Unit. Following occupancy, Resident's notice address shall be the address of the Living Unit as set forth in Paragraph 1(a).

(n) The provisions of this Agreement are subject to changes in state of federal law applicable to FHI and Resident, and the parties agree that FHI may amend this Agreement to make it consistent with applicable laws.

[THE REMAINDER OF THIS PAGE IS INTENTIONALLY LEFT BLANK]

IN WITNESS WHEREOF, the parties have executed this Agreement as of the day and year above written.

FRIENDS HOMES, INC.

By:___________________________________
Name: _________________________
Title: __________________________

____
Witness

RESIDENT(S):

_____________________________________(Seal)
Print Name:____________________________

____
Witness

RESIDENT(S):

_____________________________________(Seal)
Print Name:____________________________

____
Witness

____
Current Address (Number and Street)

____
City, State, Zip Code

____
Telephone Number

Exhibit D

CONTINUING CARE ACTUARIES

Friends Homes

Comprehensive Actuarial Study
As of September 30, 2018

Report Date: OCTOBER 11, 2019

YOUR ACTUARIES FOR THE LONG-TERM!

SECTION I - EXECUTIVE SUMMARY

Continuing Care Actuaries was retained by the management of Friends Homes, to conduct a Comprehensive Actuarial Study for their community Friends Homes ("Friends Homes") located in Greensboro, North Carolina. The purpose of the actuarial analysis was to:

- Review the resident demographic experience,
- Provide a population projection of current and prospective residents,
- Calculate Friends Homes' cash flow projection and Actuarial Balance Sheet, and
- Conduct an Actuarial Pricing Analysis of the current residential lifecare contract.

Friends Homes is a Continuing Care Retirement Community consisting of 355 independent living units, 92 assisted living units and 109 skilled nursing beds of September, 30 2018. A planned expansion will add 93 independent living units. The basic cost of residents at Friends Homes consists of the initial Entrance Fee and Monthly Service Fee. Residents requiring permanent or temporary health care are able to transfer to the needed level of care as determined appropriate by Friends Homes medical and management staff in conjunction with residents and their physicians and family. Collectively, Monthly Service Fees and Entrance Fees are intended to cover the cost of constructing and operating the community and providing health care and other services to contract residents, as well as a portion of all other costs related to the operation of the community. Entrance Fees held by Friends Homes are subject to refund requirements.

The scope of our study consisted of: (1) an evaluation of the actual resident demographic movements observed at Friends Homes from September 1993 to September 30, 2018; (2) development of population projections based on the current demographic characteristics of the resident population and the assumptions used in the financial model for Friends Homes; (3) development of projected statements of cash flows and actuarial balance sheet; and (4) preparation of an actuarial pricing analysis. This comprehensive actuarial study and review was performed under the guidelines contained in the American Academy of Actuaries' Actuarial Standard of Practice No. 3, "Practices Relating to Continuing Care Retirement Communities."

In order to perform the actuarial analysis, we projected first generation residents and subsequent residents through various levels of care until move-out or death. The rates using permanent and temporary nursing transfers, deaths and withdrawals were developed Continuing Care Actuaries' demographic database for CCRC residents. This database comprises over 500,000 CCRC residential life-years of demographic experience. The database assumptions used in this analysis reflect experience of communities similar to Friends Homes. The population projections were combined with expense and revenue assumptions to develop projected cash flows and contingent assets and liabilities. A by-product of these cash flow projections is the Actuarial Pricing Analysis that examines the financial adequacy of the fiscal year 2023 residential fee structures and the Actuarial Balance Sheet which is used as an indicator of the adequacy of historical residential fee structures as of September 30, 2022.

Section II presents the key assumptions used in this study.

Section III presents the summary of the current residential contracts including the financial requirements of residents. This section also includes a summary of the configuration of the community.

Section IV presents a summary of the open group population projection and an analysis of the historical information at Friends Homes. This section includes an analysis of the expected demographic distribution and demographic characteristics of new entrants.

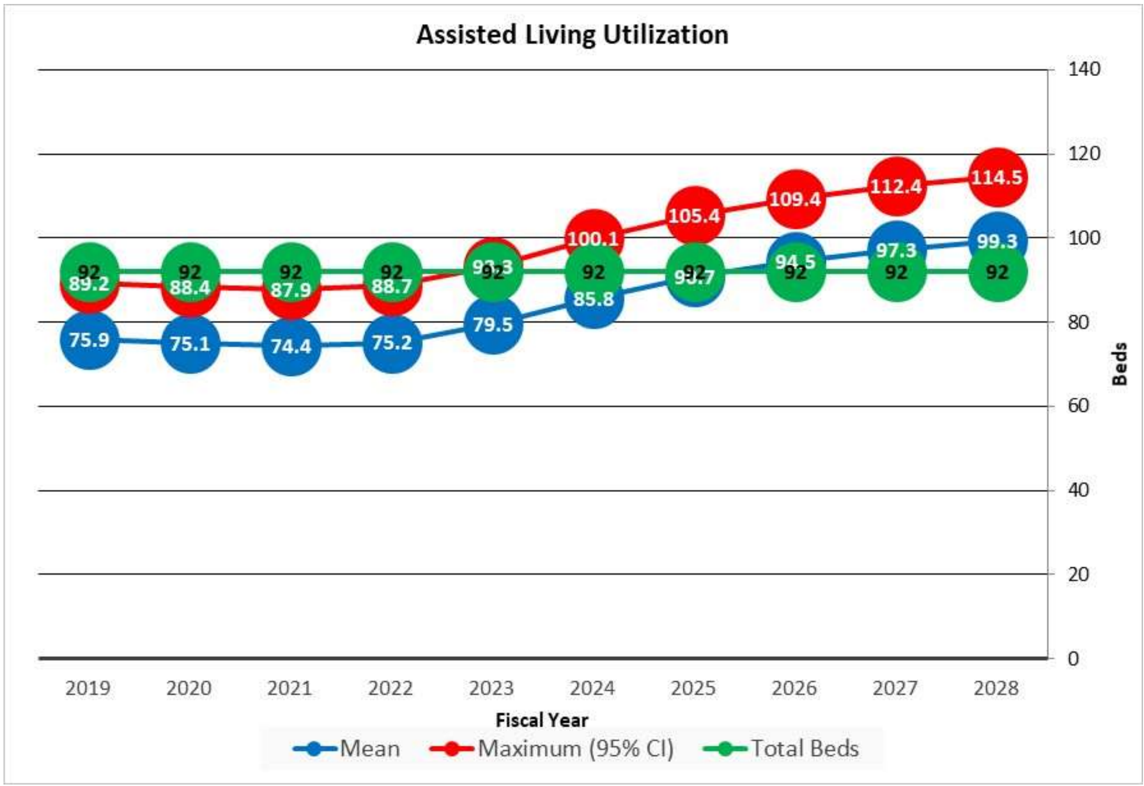
Section V presents a summary of the financial assumptions incorporated in the analysis and the cash flow projection.

Section VI presents the results of the Actuarial Balance Sheet as of September 30, 2022, the Actuarial Pricing Analysis of the residential contracts, and the Cash Flow statements.

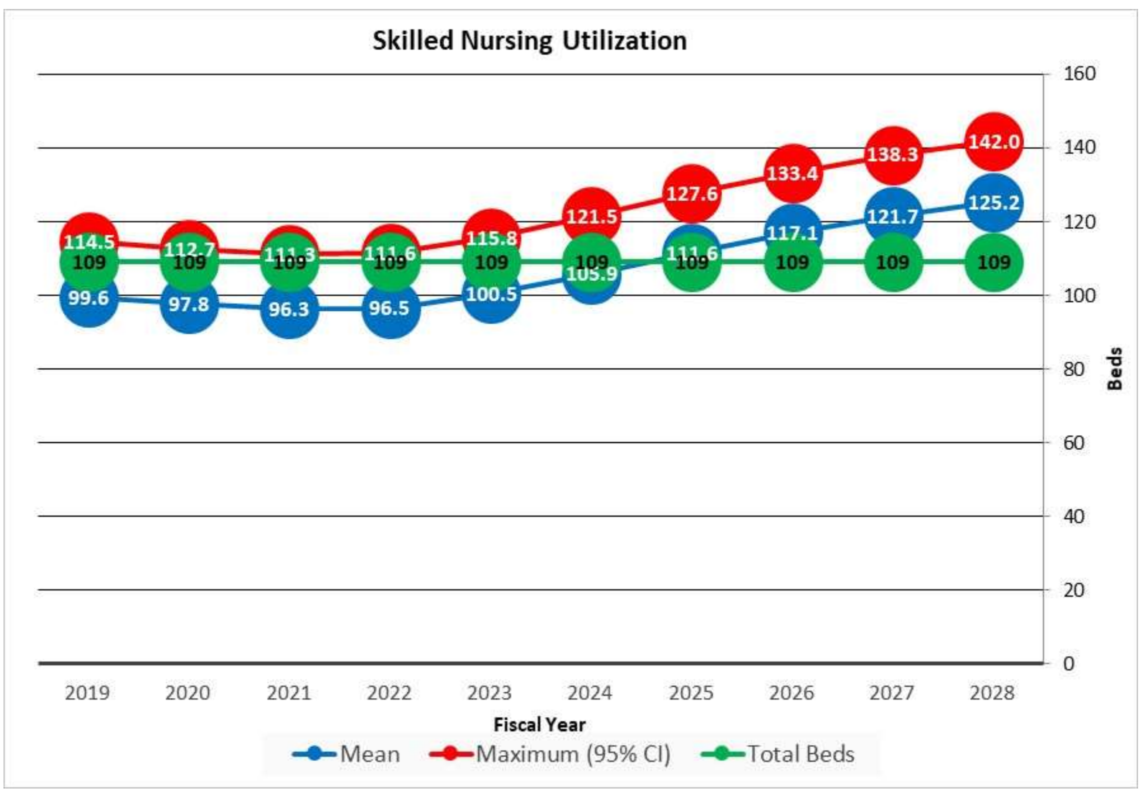
Summary of Findings and Notes

1) The data and assumptions used for the population and financial projections in this report form a reasonable basis for the projections. The methods used to produce the projections are consistent with sound actuarial principles and practices as prescribed by the Society of Actuaries and the American Academy of Actuaries.

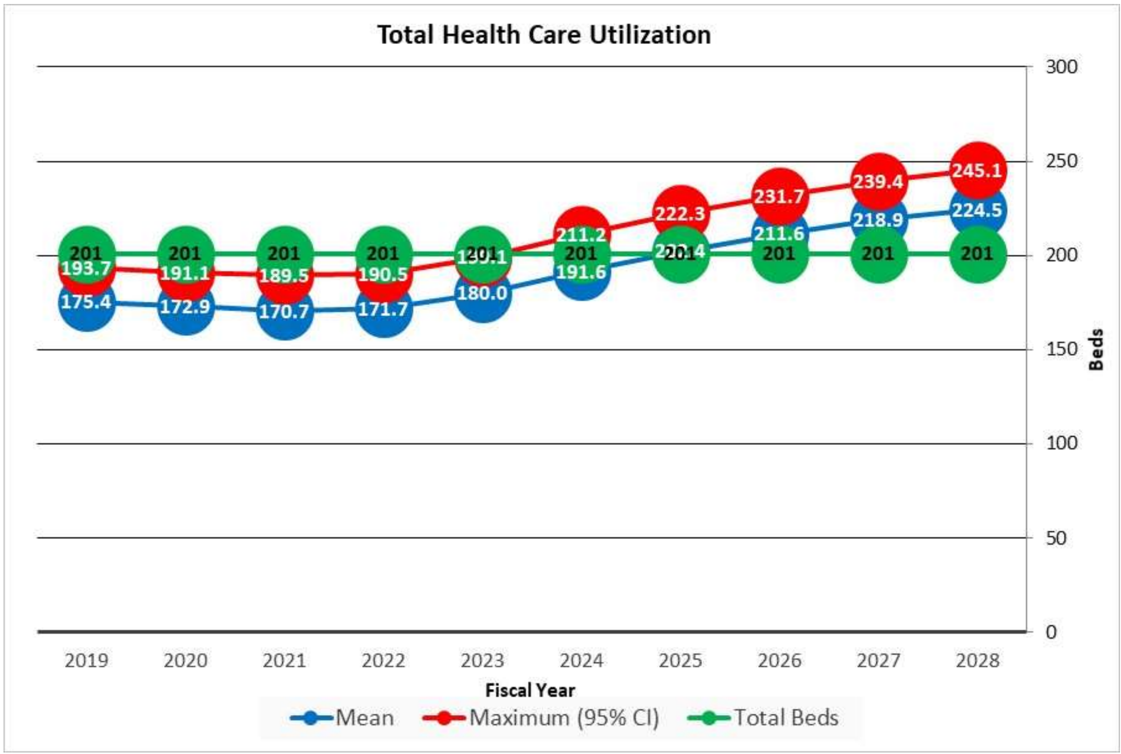
2) Below is the projected occupancy of the Assisted Living Units, by Life Care residents, with the 95% confidence interval.



3) Below is the projected occupancy of the Skilled Nursing Beds with the 95% confidence interval.



4) The projected occupancy of the Assisted Living Units and Skilled Nursing Beds with the 95% confidence interval is detailed below.



5) The financial projection indicates that Friends Homes will generate positive annual cash flow throughout the projection, with the exception of 2021 when half of the construction expense is realized; 2022 when the remaining construction occurs; and 2023, when the short term debt is repaid.

6) Based on the result of the Actuarial Balance Sheet as of September 30, 2022, our analysis concluded that Friends Homes has current and future assets of $335,489,000 with current and future liabilities of $199,378,000. Based on these projected assets and liabilities, Friends Homes' funded status is 168.3%, which is above our recommended target of 110% for a mature community.

   The actuarial ratio determines the percent of future expenses that are expected to be covered by future revenues for the expected group of residents as of September 30, 2022. This measure is important in that it represents Friends Homes' ability to deal with adverse experience. This ratio was calculated at 98.1%. The detail of the Actuarial Balance Sheet can be seen on page 22.

7) The actuarial pricing analysis for the 60 Month Declining Refund indicated that this plan is expected to produce an average surplus of $98,232 at entry for new residents as of September 30, 2022, which represents a margin of 17.9% of the present value of contractual liabilities. This is shown in detail on pages 27, 28 and 29.

   Generally, it is our recommendation for a mature community to target a margin of approximately 10% in order to cover possible adverse fluctuations that may occur in the future. These adverse fluctuations can include both changes in economic assumptions, such as expected inflation, and changes in demographic assumptions, such as nursing care utilization. In aggregate, based on new entrant contract distribution assumptions, the Actuarial Pricing Analysis for new entrants at Friends Homes is expected to cover the risk of adverse fluctuation, with a margin of 17.9%.

8) In conclusion, Friends Homes is in ***adequate financial condition*** to meet its obligations as defined by Actuarial Standard of Practice No. 3 (ASOP 3). ASOP 3 defines adequacy based on the meeting of three required actuarial standards, which consist of the actuarial cash flow, the actuarial balance sheet, and the actuarial pricing analysis.

This study assumes that management will continue to operate under the original actuarial assumptions. That is, morbidity and mortality rates have remained unchanged. In practice, it is likely that a different philosophy of care will be adopted in regard to home health services and acuity levels in higher levels of care. The results in this report serve as a conservative projection, representing the need for outside nursing due to increased demand associated with the expansion.

The results of our study are based on estimates of the demographic and economic assumptions of the most likely outcome. Considerable uncertainty and variability are inherent in such estimates. Accordingly, the subsequent emergence of actual residential movements and of actual revenues and expenses may not conform to the assumptions used in our analysis. Consequently, the subsequent development of these items may vary considerably from expected results.

Management should scrutinize future developments that may have a negative impact on these projections. These developments include lower Independent Living occupancy than assumed, higher apartment vacancy rates, higher expense inflation, higher health care utilization and longer life expectancies than assumed in the current projection.

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FRIENDS HOMES, INC.

UN-AUDITED FINANCIAL REPORTS

FOR THE THREE MONTHS ENDED DECEMBER 31, 2020

FRIENDS HOMES, INC.
CONSOLIDATED BALANCE SHEETS

Assets	December 31, 2020	December 31, 2019
Current Assets:		
Operating Cash	3,908,065	4,753,749
Trustee Held Funds	68,444,882	21,327,594
Investment Cash	1,307,980	73,900
Accounts Receivable:		
Patient and residents net of allowance for uncollectible accounts	1,696,598	1,318,733
Interest receivable	27,800	18,938
Other	127,059	120,582
Promises to give	426,062	-
Inventories and prepaid expenses	27,234	201,340
Total Current Assets	75,965,679	27,814,837
Investments limited as to use Reserved By State Statute	7,526,481	7,228,750
Investments	44,599,188	36,078,750
Property and equipment (net)	45,901,944	47,487,968
Other assets:		
Construction in progress	10,437,200	2,769,870
Total Other Assets	10,437,200	2,769,870
Total Assets	**184,430,491**	**121,380,175**

Liabilities and Net Assets

Current liabilities:		
Current maturities on long-term debt	460,000	560,000
Notes payable	530,000	687,500
Accounts payable - trade	856,485	527,787
Accrued expenses	2,279,774	2,068,922
Occupancy deposits	2,101,525	736,375
Total Current Liabilities	6,227,784	4,580,584
Long-term debt, less current maturities	106,615,511	52,827,055
Refundable fees	8,583,072	8,246,803
Deferred revenue from advance fees	8,120,167	7,493,445
Deferred Revenue - Rent Reduction	64,649	133,574
Total Liabilities	129,611,182	73,281,461
Net Assets:		
Unrestricted		
Undesignated	49,673,367	43,946,423
Board restricted	4,177,275	3,654,051
Restricted Funds	968,668	498,239
Total Net Assets	54,819,309	48,098,714
Total Liabilities and Net Assets	**184,430,491**	**121,380,175**

FRIENDS HOMES, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS

FOR THE THREE MONTHS MONTHS ENDED

	Actual December 31, 2020	Actual December 31, 2019
Operating Revenues		
Resident fees earned, including amortization of entrance fees	8,168,939	7,689,622
Gain(loss) on sale of investments	484,525	139,220
Dividends and interest	1,072,779	948,151
Net assets released from restrictions used for operations	-	102,089
Unrestricted donations	199,631	45
Total Operating Center Services	9,925,874	8,879,127
Operating Expenses:		
Salaries and benefits	3,668,697	3,422,828
Health Insurance	571,588	422,751
Raw Food	447,215	403,694
Utilities	310,091	331,614
Repairs and Maintenance	309,403	330,961
Contractual Medical	342,515	328,974
Other supplies	504,144	300,504
Medical supplies and drugs	164,150	113,707
General Insurance	174,889	12,644
Contractual Dietary	230,325	215,300
Charity Care	21,350	(806)
Professional Fees	91,417	83,541
Management Services	341,232	311,404
Other	361,489	235,994
Interest expense	326,836	282,693
Depreciation and amortization	733,474	720,991
Amortization of bond issue cost	7,441	-
Total Operating Expenses	8,606,255	7,516,794
Operating Revenue Over(Under) Expenses	1,319,619	1,362,334
Unrealized Gain(Loss) Current Year on Investments	4,060,943	1,631,955
Excess(Deficit) of Revenues Over Expenses	5,380,562	2,994,288

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FRIENDS HOMES,INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

	FOR THE THREE MONTHS MONTHS ENDED	
	December 31, 2020	**December 31, 2019**
Cash flows from operating activities:		
Increase in net assets:	5,380,562	2,870,769
Adjustments to reconcile excess of revenues over expenses to net cash provided by operating activities:		
Amortization of entrance fees	(643,631)	(587,738)
Realized (gain)loss on sales of investments (net)	(484,525)	(139,220)
Amortization of deferred bond issue cost	7,441	29,629
Depreciation expense	733,474	720,991
Amortization of deferred revenue	(11,040)	(16,095)
Net unrealized loss(gain) on investments	(4,060,943)	(1,631,955)
Net unrealized loss(gain) on swap agreements	-	(144,131)
Increase(decrease) in promises to give	(53,068)	-
Changes in assets and liabilities		
Accounts receivable	20,891	(110,221)
Inventory and prepaid expenses	124,332	9,113
Accounts payable and other accrued expenses	(3,154,089)	(848,467)
Total adjustments	(7,521,158)	(2,718,093)
Net cash provided(Used) by operating activities	(2,140,597)	152,676
Cash flows from investing activities:		
Proceeds from sales and maturities of investments	3,189,218	3,074,963
Purchase of investments	(52,613,686)	(25,323,035)
Purchase of property and equipment	(3,548,485)	(944,793)
Net cash used in investing activities	(52,972,953)	(23,192,866)
Cash flows from financing activities:		
Proceeds from advance fees and deposits	1,107,056	1,074,950
Proceeds from Issuance of LTD	53,090,000	54,143,526
Payment of principle on long-term debt	-	(27,500,000)
Payments of short-term debt	(15,000)	(40,000)
Bond issue cost	1,313,671	(694,461)
Refunds of advance fees and deposits	(97,000)	(259,979)
Net cash provided by financing activities	55,398,727	26,724,036
Net increase(decrease) in cash and cash equivalents	285,177	3,683,846
Cash and cash equivalents at beginning of year	4,930,867	1,143,802
Cash and cash equivalents at end of reporting period	5,216,045	4,827,648
Cash Paid During the periods for Interest	**326,836**	**352,891**