

DISCLOSURE STATEMENT

February 28, 2022

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, 2023;**
- **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.**

TABLE OF CONTENTS

I. ORGANIZATION INTRODUCTION AND INFORMATION	3
BOARD OF TRUSTEES.....	3
MANAGEMENT/ADMINISTRATIVE STAFF	5
AFFILIATIONS	6
II. COMMUNITY INTRODUCTION AND INFORMATION	6
III. POLICIES	6
ADMISSIONS	6
HEALTH CRITERIA	6
FINANCIAL AND INSURANCE CRITERIA	7
MOVES	7
RESCISSION/TERMINATION OF RESIDENCE AND CARE AGREEMENT	7
MARRIAGES/NEW SECOND OCCUPANT	8
INABILITY TO PAY	9
IV. SERVICES	9
STANDARD SERVICES	9
SERVICES AVAILABLE AT EXTRA CHARGE	10
V. FEES	10
APPLICATION FEE	10
ENTRANCE FEE	10
MONTHLY FEE.....	12
FEE CHANGE POLICIES	13
VI. FINANCIAL INFORMATION.....	13
FINANCIAL OVERVIEW	13
RESERVES, ESCROW AND TRUST	14
OPERATING RESERVE	14
DEBT SERVICE RESERVE	14
TRUST FUNDS	14
RESIDENT ASSISTANCE FUND.....	14
VII. OTHER MATERIAL INFORMATION	15
PLANNED EXPANSION AND RENOVATIONS	15
EXPLANATION OF MATERIAL DIFFERENCES	16
CURRENT CERTIFIED FINANCIAL STATEMENTS (<i>SEE EXHIBIT A ATTACHED</i>)	18
FIVE YEAR FORECASTED STATEMENTS (<i>SEE EXHIBIT B ATTACHED</i>)	18
RESIDENCE AND CARE AGREEMENT (<i>SEE EXHIBIT C ATTACHED</i>)	18
ACTUARIAL SUMMARY REPORT (<i>See Exhibit D attached</i>).....	18
UNAUDITED INTERIM FINANCIAL STATEMENTS (<i>SEE EXHIBIT E ATTACHED</i>)	18

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:

<u>Board Members</u>	<u>Term Expires</u>	<u>Principal Business Affiliation</u>
Reggie Beeson 925 New Garden Road Greensboro, NC 27410	2024	Vice President CBRE Commercial Real Estate
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	2024	Retired Clergy; former journalist; former music teacher and church musician
Pete Cross 925 New Garden Road Greensboro, NC 27410	2024	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	2024	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	2024	Resident of Friends Homes - West Campus
Betty Turner Kane 925 New Garden Road Greensboro, NC 27410	2024	Retired, Guilford College Business Professor
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	2024	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
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 21 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 38 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)

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 208 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 prospective 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, 2022 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	\$ 71,000
1 bedroom	Deluxe	Full Kitchen	\$ 76,000
2 bedroom	Standard	Partial Kitchen	\$ 64,000
2 bedroom	Deluxe	Full Kitchen	\$ 87,000
Hobbs Hall (refundable)			
1 bedroom	Standard	Full Kitchen	\$ 113,000
2 bedroom	Standard	Full Kitchen	\$ 164,000
2 bedroom	Deluxe	Full Kitchen	\$ 175,000
Expansion Townhomes (refundable)			
2 bedroom	Townhome		\$ 277,000
2 bedroom	Townhome	w/ Den	\$ 310,000
West Campus (refundable)			
1 bedroom	Standard	Full Kitchen	\$ 113,000
2 bedroom	Standard	Full Kitchen	\$ 157,000
2 bedroom	Balcony	Full Kitchen	\$ 163,000
2 bedroom	Deluxe	Full Kitchen	\$ 169,000
Assisted living			\$ 3,000
Nursing Center			\$ 3,000

* **New Independent Living Units** – Expected to be completed in phased and ready for occupancy beginning in October 2022:

Campus	Unit	Type		Entrance Fee
West:				
	2 bedroom	Villa		\$299,000
	2 bedroom	Villa	w/ Den	\$338,000
	2 bedroom	Villa	Deluxe w/ Den	\$390,000
	2 bedroom	Townhome		\$277,000
	2 bedroom	Townhome	w/ Den	\$310,000
	3 bedroom	Cottage		\$370,000

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, 2022 follow:

<u>Unit</u>	<u>Type</u>	<u>One Person</u>
Independent Living		
Woolman and Fox		
Studio	Standard	\$ 1,719
1 bedroom	Standard	\$ 2,622
1 bedroom	Deluxe	\$ 3,116
2 bedroom	Standard	\$ 3,465
Hobbs		
1 bedroom	Standard	\$ 2,762
2 bedroom	Standard	\$ 3,674
2 bedroom	Deluxe	\$ 3,927
Expansion Townhomes		
2 bedroom	Townhome	\$ 3,586
2 bedroom	Townhome w/ Den	\$ 3,751
West Campus		
1 bedroom	Standard	\$ 2,712
2 bedroom	Standard	\$ 3,607
2 bedroom	Balcony	\$ 3,725
2 bedroom	Deluxe	\$ 3,836
Second person fee (existing)		\$ 638
Second person fee (expansion)		\$ 857
Assisted Living		
Private	Standard	\$ 4,378
Private	Deluxe	\$ 5,349
Nursing Center		
Private		\$ 320
Semi-Private		\$ 306

* **New Independent Living Units (West Campus)** – Expected to be completed in phases and ready for occupancy beginning in October 2022:

Campus	Unit	Type	Monthly Fee
West:			
	2 bedroom	Villa	\$3,862
	2 bedroom	Villa w/ Den	\$4,085
	2 bedroom	Villa Deluxe w/ Den	\$4,304
	2 bedroom	Townhome	\$3,586
	2 bedroom	Townhome w/ Den	\$3,751
	3 bedroom	Cottage	\$3,856
Second person fee			\$ 857

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.

	<u>1/1/2018</u>	<u>1/1/2019</u>	<u>1/1/2020</u>	<u>1/1/2021</u>	<u>1/1/2022</u>
<u>Living Accommodation</u>					
Independent	\$75	\$78	\$80	\$82	\$90
Assisted Living	\$144	\$149	\$154	\$160	\$168
Skilled Nursing	\$9 / day	\$10 / day	\$10 / day	\$10 / day	\$11/ 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 2021 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.

	2022	2023	2024	2025	2026
	Forecast	Forecast	Forecast	Forecast	Forecast
Projected Expenses	35,395	40,129	41,544	42,589	43,260
Plus long-term debt payment	646	676	699	10,549	7,921
Less depreciation / amortization	(3,988)	(4,928)	(5,305)	(5,397)	(5,317)
Projected operating costs	32,053	35,877	36,938	47,741	45,864
Occupancy Factor	25%	25%	25%	25%	25%
Reserve Requirement	8,014	8,969	9,235	11,936	11,465

The aforementioned operating reserves are held, along with other investments, by UBS and Friends Fiduciary. 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, 2021, had a fair market value of \$15,279,411.

VII. OTHER MATERIAL INFORMATION

A. Planned Expansion and Renovation

Management is currently renovating and expanding its West campus. Presales have begun. 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. The financing for the West renovation and expansion was completed in October 2020. The funds borrowed in October 2020 included \$53,010,000 for the West campus. The construction of the third villa is projected to cost \$ 8,778,000 and will be funded from operating reserves. Construction on the West campus began in September 2020 and it is anticipated that residents will begin moving in, starting in October 2022.

Project Costs:

Construction and Site Work cost related to the project	\$65,798,000
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:	\$71,851,000

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 73 units will be occupied by couples.

Management assumes that the existing residences (IL, AL, and SN) would maintain a 90% occupancy level and the West expansion independent living units will begin fill-up in October 2022 and achieve 95% occupancy in September 2023 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	
2022	352	379	93%	0	73	0	93%
2023	355	379	94%	69	73	95%	94%
2024	355	379	94%	69	73	95%	94%
2025	355	379	94%	69	73	95%	94%
2026	355	379	94%	69	73	95%	94%

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
2023			
October 2022	17	17	23%

November 2022	0	17	23%
December 2022	0	17	23%
January	13	30	41%
February	11	41	56%
March	10	51	70%
April	3	54	74%
May	3	57	78%
June	3	60	82%
July	3	63	86%
August	3	66	90%
September	3	69	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)

[THE REMAINDER OF THIS PAGE IS INTENTIONALLY LEFT BLANK]

(in thousands of dollars)	2021 Forecast	2021 Audit	Difference	Explanation (\$1,000)
Statement of Balance Sheets				
Current Assets:				
Cash and cash equivalents	1,000	4,862	(3,862)	Includes deposits for expansion units that are held in escrow
Accounts receivable, net	1,201	1,762	(561)	
Other receivables	108	440	(332)	
Assets limited as to use, required for current liabilities	349	240	109	
Interest receivable	-	53	(53)	
Unconditional promises to give (net)	-	405	(405)	
Inventories and prepaid expenses	270	180	90	
Investments limited as to use:				
Under bond agreement	30,855	47,962	(17,107)	Construction draws of the West expansion slower than forecasted due to rock issues and material and weather delays
Reserves required by state statute	7,334	7,480	(146)	
Investments	48,448	49,961	(1,513)	Result of strong investment market
Property and equipment, net	100,818	80,453	20,365	Construction draws of the West expansion slower than forecasted due to rock issues and material and weather delays
Total assets	190,383	193,798	(3,415)	
Liabilities and net assets:				
Current maturities of long-term debt	646	645	1	
Notes payable	545	420	125	
Accounts payable	3,854	3,917	(63)	
Accrued expenses	3,305	1,813	1,492	Forecasted included construction draws that were actually paid before year-end.
Occupancy deposits	219	3,551	(3,332)	Includes deposits for expansion units held in escrow
Noncurrent liabilities and deferred credits:				
Long-Term Debt, Less current maturities	105,371	105,478	(107)	
Refundable fees	11,842	10,692	1,150	Deposits included in the occupancy deposit until the West unit is occupied. Will collect remaining entry fees in fye 2023 and we will begin amortizing the fees at that time.
Deferred revenue from advance fees	13,313	8,814	4,499	
Deferred revenue rent reduction	77	38	39	
Net Assets:				
Undesignated	46,474	52,451	(5,977)	Due to excess revenue and changes in the investment market
With donor or board restrictions	4,737	5,979	(1,242)	Includes capital campaign receipts and other donations throughout the year
Total liabilities and net assets	190,383	193,798	(3,415)	
Statements of Operations				
Operating Revenue				
Amortization of entrance fees	2,533	2,605	72	
Service fees, residential	12,266	11,548	(718)	
Service fees, assisted living	4,220	4,372	152	
Service fees, nursing	11,257	12,130	873	
Reimbursed medical	1,173	1,429	256	
Contributions	120	742	622	
Investment Income	2,283	1,581	(702)	
Realized gain on sales of investments	-	1,382	1,382	We do not forecast for changes in the investment market
Net unrealized gain on investments	-	7,193	7,193	We do not forecast for changes in the investment market
Other	166	120	(46)	
Operating Expenses				
Resident Care	8,150	8,053	97	
Dining services	5,327	5,586	(259)	
Environmental services	2,255	1,507	748	
Resident Services	1,101	1,023	78	
Maintenance and Grounds	3,425	3,931	(506)	
Marketing	710	578	132	
Administration	4,724	5,772	(1,048)	Includes excess expenses related to COVID - testing and p p and e and excess group health insurance claims under our self-insured health plan.
Bond and note interest	1,748	1,672	76	
Depreciation, amortization and other charges	2,813	3,153	(340)	
Management fees	1,376	1,394	(18)	
Miscellaneous, net	409	1,143	(734)	
Excess of revenues and gains over expenses and losses	1,980	9,290	(7,310)	Mostly due to realized and unrealized investment gains.
Statement of Cash Flows				
Change in net assets	1,980	9,290	(7,310)	
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:				
Entrance fees received	15,855	8,693	7,162	Have not yet opened the West expansion. Fees to be received in 2023.
Amortization of entrance fees	(2,533)	(2,605)	72	
Realized gain on sales of investments (net)	-	(1,382)	1,382	We do not forecast for changes in the investment market
Depreciation	2,991	3,055	(64)	
Amortization of deferred revenue - rent reduction	78	(39)	117	
Amortization of bond premium	(256)	(434)	178	
Amortization of bond issuance cost	-	97	(97)	
Contributions	-	550	(550)	
(Gain) loss on disposal of equipment	-	4	(4)	
Net unrealized (gain) loss on investments	-	(7,193)	7,193	We do not forecast for changes in the investment market
Increase in promises to give	-	(32)	32	
Increase in government grant	-	194	(194)	
Changes in working capital components:				
(Increase) decrease in:				
Trade and other receivables	824	(871)	1,695	Better collection of outstanding balances especially from third party payors
Other assets	(6)	(29)	23	
Increase (decrease) in accounts payable and accrued expenses	401	(2,086)	2,487	Forecasted included construction draws that were actually paid before year-end.
Net cash provided (used) by operating activities	19,334	7,212	12,122	
Cash Flows From Investing Activities				
Purchase of property and equipment	(50,283)	(29,075)	(21,208)	Slower than anticipated start on expansion due to excess site work.
Proceeds from sales and maturities of investments	-	9,896	(9,896)	Realized gains are reinvested in the market and not forecasted.
Purchase of investments	(24,799)	(17,054)	(7,745)	Financing for the West expansion not closed until October 2020.
Net cash provided (used) by investing activities	(75,082)	(36,233)	(38,849)	
Cash Flows From Financing Activities				
Principal payments on long-term borrowings	(460)	(460)	-	
Proceeds from long-term borrowings	53,990	55,199	(1,209)	Bonds issued at a premium
Payment of debt issuance costs	-	(944)	944	
Reduction in short-term debt	-	(125)	125	
Refunds of refundable fees	(470)	(1,470)	1,000	Includes refunds of expansion depositors and several residents who moved out before their entry fees were earned.
Net cash provided (used) by financing activities	53,060	52,200	860	
Net increase (decrease) in cash and cash equivalents	(2,688)	23,179	(25,867)	

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 2021 and 2020. 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, 2026 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, 2021 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, 2021 and 2020

TABLE OF CONTENTS

	<u>PAGE</u>
INDEPENDENT AUDITORS' REPORT	1 - 2
FINANCIAL STATEMENTS	
STATEMENTS OF FINANCIAL POSITION	3
STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS	4
STATEMENTS OF CASH FLOWS	5
NOTES TO FINANCIAL STATEMENTS	6 - 18



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, 2021 and 2020, 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, 2021 and 2020, and the results of its operations, changes in its net assets, and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

509 East Center Street • Post Office Box 1697 • Lexington, North Carolina 27293-1697

Office: 336-249-6856 • Facsimile: 336-248-8697

1338 Westgate Center Drive • Winston-Salem, North Carolina 27103

Office: 336-765-2410 • Facsimile: 336-765-6241

www.turlingtonandcompany.com

INDEPENDENT AUDITORS' REPORT (CONTINUED)

Emphasis of Matter

As discussed in Note 2 to the financial statements, effective October 1, 2020, the Organization adopted Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers: (Topic 606)*. Our opinion is not modified with respect to this matter.

Furlington and Company, L.L.P.

Lexington, North Carolina
November 23, 2021

FRIENDS HOMES, INC.

STATEMENTS OF FINANCIAL POSITION

	September 30	
	2021	2020
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 4,862,331	\$ 3,676,703
Assets limited as to use, required for current liabilities	239,358	586,472
Accounts receivable:		
Patients and residents - net of allowance for uncollectible accounts of \$175,000 for 2021 and 2020	1,761,618	1,169,592
Interest receivable	52,988	40,721
Government grant receivable	-	481,287
Other	440,383	180,748
Unconditional promises to give (net)	183,981	198,648
Inventories and prepaid expenses	180,512	151,565
	<u>7,721,171</u>	<u>6,485,736</u>
Assets limited as to use, net of amount required for current liabilities:		
Restricted cash	42,802,147	20,461,680
Restricted investments	5,160,006	-
By donors for permanent endowment funds	150,681	60,100
Reserved by State Statute	7,480,231	7,228,750
	<u>55,593,065</u>	<u>27,750,530</u>
Investments	<u>49,810,007</u>	<u>39,517,778</u>
Unconditional promises to give (net)	<u>221,434</u>	<u>174,346</u>
Property and equipment:		
Cost	103,802,980	88,810,385
Less, accumulated depreciation	45,393,196	42,358,881
	<u>58,409,784</u>	<u>46,451,504</u>
Other assets:		
Construction in process	22,042,618	7,072,629
	<u>\$ 193,798,079</u>	<u>\$ 127,452,523</u>
LIABILITIES AND NET ASSETS		
Current liabilities:		
Current maturities on long-term debt	\$ 645,000	\$ 460,000
Notes payable	420,000	545,000
Accounts payable - trade	3,816,918	3,846,103
Accrued expenses	1,813,116	2,347,315
Prepaid rent	10,825	17,999
Application deposits - new facility	2,579,900	1,591,600
Occupancy deposits	970,725	448,369
	<u>10,256,484</u>	<u>9,256,386</u>
Long-term debt, less current maturities	105,478,381	52,204,400
Refundable fees	10,691,567	8,441,607
Deferred revenue from advance fees	8,814,195	7,956,763
Deferred revenue - rent reduction	36,913	75,689
Deferred revenue - government grant	-	286,815
	<u>135,277,540</u>	<u>78,221,660</u>
Net assets:		
Without donor restrictions:		
Undesignated	52,541,034	44,434,749
Board designated for special projects	4,544,559	3,748,516
With donor restrictions	1,434,946	1,047,598
	<u>58,520,539</u>	<u>49,230,863</u>
	<u>\$ 193,798,079</u>	<u>\$ 127,452,523</u>

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	
	<u>2021</u>	<u>2020</u>
Unrestricted revenues, gains, and other support:		
Resident services, including amortization of advance fees of \$2,605,543 in 2021 and \$2,326,189 in 2020	\$ 31,391,371	\$ 31,024,923
Government grants	1,135,065	694,570
Contributions	3,449	4,361
Dividends and interest	1,529,178	1,455,223
Loss on disposal of equipment	(4,334)	(143,604)
Realized gain on sales of investments (net)	1,382,177	798,017
Net assets released from restrictions used for operations	206,318	146,447
	<u>35,643,224</u>	<u>33,979,937</u>
Expenses:		
Salaries and benefits	13,437,152	13,254,394
Health insurance	2,044,667	1,749,676
Food costs	1,794,758	1,616,599
Utilities	1,276,071	1,326,773
Repairs and maintenance	1,845,191	1,745,568
Contractual medical	1,155,005	1,316,664
Other supplies	1,283,454	1,126,046
Medical supplies and drugs	607,397	596,784
General insurance	441,668	332,810
Contractual dietary	960,724	909,125
Charitable care	319,674	232,892
Professional fees	165,886	208,425
Management fees	1,394,232	1,345,363
COVID-19 expenses	880,404	525,718
Charitable contributions	669,177	500,000
Other	843,934	739,557
Interest expense	1,662,352	1,917,696
Depreciation and amortization	3,055,490	2,928,172
Amortization of bond issue costs	97,101	124,141
	<u>33,934,337</u>	<u>32,496,403</u>
Operating income	1,708,887	1,483,534
Changes in net unrealized gains and losses on investments	<u>7,193,441</u>	<u>1,993,717</u>
Increase in net assets without donor restrictions	<u>8,902,328</u>	<u>3,477,251</u>
Changes in net assets with donor restrictions:		
Contributions	593,666	664,418
Net assets released from restrictions used for operations	(206,318)	(146,447)
Increase in net assets with donor restrictions	<u>387,348</u>	<u>517,971</u>
Increase in net assets	9,289,676	3,995,222
Net assets - beginning of years	<u>49,230,863</u>	<u>45,235,641</u>
Net assets - end of years	<u>\$ 58,520,539</u>	<u>\$ 49,230,863</u>

The accompanying notes are an integral part of the financial statements

FRIENDS HOMES, INC.

STATEMENTS OF CASH FLOWS

	Years Ended September 30	
	2021	2020
Cash flows from operating activities:		
Change in net assets	\$ 9,289,676	\$ 3,995,222
Adjustments to reconcile change in net assets to net cash provided by (used for) operating activities:		
Contributed stock	(60,981)	(1,264)
Donation of land	609,177	-
Termination income and amortization of advance fees	(2,605,543)	(2,326,189)
Realized gain on sales of investments (net)	(1,382,177)	(798,017)
Amortization of bond issue costs	97,101	124,141
Amortization of bond premium	(434,060)	(257,167)
Depreciation and amortization	3,055,490	2,928,172
Amortization of deferred revenue - rent reduction	(38,776)	(73,980)
Loss on disposal of equipment	4,334	143,604
Net unrealized gain on investments	(7,193,441)	(1,993,717)
Increase in promises to give	(32,421)	(372,994)
(Increase) decrease in government grant receivable	481,287	(481,287)
Increase (decrease) in deferred revenue - government grant	(286,815)	286,815
Changes in assets and liabilities:		
Accounts receivable	(871,102)	(25,031)
Inventories and prepaid expenses	(28,947)	58,888
Accounts payable and other accrued liabilities	(2,085,790)	2,755,937
Net cash provided by (used for) operating activities	(1,482,988)	3,963,133
Cash flows from investing activities:		
Proceeds from sales and maturities of investments	9,896,134	7,354,512
Proceeds from sale of property and equipment	500	44,000
Purchase of investments	(17,053,832)	(10,752,295)
Purchase of property and equipment	(29,075,364)	(6,605,871)
Net cash used for investing activities	(36,232,562)	(9,959,654)
Cash flows from financing activities:		
Proceeds from advance fees and deposits	5,519,489	3,584,444
Proceeds from application deposits - new facility	3,173,867	1,591,600
Proceeds from bond premium	2,109,446	4,823,527
Proceeds from issuance of long-term debt	53,090,000	21,950,000
Payment for termination of interest rate swap	-	(144,130)
Payment of debt issuance costs	(943,506)	(694,462)
Reduction in long-term debt	(460,000)	(690,000)
Reduction in short-term debt	(125,000)	(182,500)
Refunds of advance fees and deposits	(1,469,765)	(660,906)
Net cash provided by financing activities	60,894,531	29,577,573
Net increase in cash, cash equivalents, and restricted cash	23,178,981	23,581,052
Cash, cash equivalents, and restricted cash - beginning of years	24,724,855	1,143,803
Cash, cash equivalents, and restricted cash - end of years	\$ 47,903,836	\$ 24,724,855
Cash paid during the years for interest net of amount capitalized of \$2,124,327 and \$218,823 for 2021 and 2020, respectively	\$ 1,973,910	\$ 2,029,712

The accompanying notes are an integral part of the financial statements

FRIENDS HOMES, INC.

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended September 30, 2021 and 2020

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, 20 townhomes, 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 statements 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.

FRIENDS HOMES, INC.

NOTES TO FINANCIAL STATEMENTS

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

Significant Accounting Policies (Continued)

Investments - Investments, which consist of corporate stocks, bonds, and US Government Issues, 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.

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 Woolman 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.

FRIENDS HOMES, INC.

NOTES TO FINANCIAL STATEMENTS

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 reduced 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.

Bond Issue Costs - Bond issue costs (consisting of legal, feasibility, and consulting fees) incurred with the 2019 Bonds and 2020 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.

Revenue Recognition - In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customer: (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 majority of the Resident Services revenue for the Organization consists of Entrance Fees, Health Care Services (Medicare/Medicaid payments and insurance providers), and Monthly Service Fees. Revenues are recognized when control of the promised services are transferred to the Organization's residents in an amount that reflects the consideration the Organization expects to be entitled to in exchange for those services.

Entrance Fees:

The nonrefundable entrance fees are recognized as deferred revenue upon receipt of the payment under the life care contract and are included in liabilities in the statements of financial position until the performance obligations are satisfied over time. These deferred amounts are then 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 as the performance obligation is associated with access to future services.

The refundable portion of an entrance fee is not considered part of the transaction price and as such is recorded as a liability in the statements of financial position.

Health Care Services:

The Organization also provides assisted and nursing care to residents who are covered by government and commercial payers. The Organization is paid fixed rates from government and commercial payers. These fixed rates are billed in arrears monthly when the service is provided. The monthly fees represent the most likely amount to be received from the third-party payors. Health Care Service Revenues are recognized at a point in time when the performance obligation of providing the requested service is rendered to the resident.

FRIENDS HOMES, INC.

NOTES TO FINANCIAL STATEMENTS

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

Significant Accounting Policies (Continued)

Revenue Recognition (Continued) -

Health Care Services (Continued):

The Organization has agreements with third-party payors that provide for payments to the Organization at amounts different from their established rates. Payment arrangements include prospectively determined per diem payments. Revenue under third-party payor agreements are subject to audit and retroactive adjustment. Provisions for estimated third-party payor settlements are provided in the period the related services are rendered. Differences between the estimated amounts accrued and interim and final settlements are reported in operations in the year of settlement.

Monthly Service Fees:

The life care contracts that residents select require an advance fee and monthly fee based upon the type of space they are applying for. Resident fee revenue for recurring and routine monthly services is generally billed monthly in advance. Payment terms are usually due within thirty days. The services provided encompass social, recreational, dining, along with assisted living and nursing care and these performance obligations are satisfied at a point in time each month. Resident fee revenue for non-routine or additional services are billed monthly in arrears and recognized when the service is provided.

Government Grants

The Organization also receives government grants that are subject to certain barriers that preclude the Organization from recognizing grant revenue at the time the funds are awarded. These grants are treated as conditional contributions and the related grant revenue is recognized when the barrier has been satisfied, which is generally when the related expenses have been incurred by the Organization. The Organization accounts for government grants in accordance with FASB ASC 958-605. Funds received are initially deferred and recognized as revenue as grant criteria are met.

Disaggregation of Revenue

In the following table, resident services revenue is disaggregated by satisfaction of performance obligations for the year ended September 30, 2021.

	<u>2021</u>
Performance obligations satisfied at a point in time	\$ 28,785,828
Performance obligations satisfied over time	2,605,543
	<u>\$ 31,391,371</u>

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, 2021 and 2020, 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 benevolent assistance and community service provided, management believes that it will qualify for a full property tax exemption.

FRIENDS HOMES, INC.

NOTES TO FINANCIAL STATEMENTS

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

Significant Accounting Policies (Continued)

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, 2021, the Organization's cash balances exceeded the FDIC insured amount by \$47,582,776.

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, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Cash and cash equivalents	\$ 4,862,331	\$ 3,676,703
Assets limited as to use, required for current liabilities	239,358	586,472
Restricted cash	<u>42,802,147</u>	<u>20,461,680</u>
	<u>\$ 47,903,836</u>	<u>\$ 24,724,855</u>

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, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Restricted for Campus Bridge Connector	\$ 333,318	\$ 326,000
Resident Financial Assistance Endowment	114,830	81,500
Total	<u>\$ 448,148</u>	<u>\$ 407,500</u>
Receivable in less than one year	\$ 205,658	\$ 213,815
Receivable in one to five years	<u>242,490</u>	<u>193,685</u>
Total unconditional promises to give	448,148	407,500
Less, discounts for net present value	(20,325)	(16,631)
Less, allowance for uncollectible promises	<u>(22,408)</u>	<u>(17,875)</u>
Net unconditional promises to give	<u>\$ 405,415</u>	<u>\$ 372,994</u>
Current	\$ 183,981	\$ 198,648
Noncurrent	<u>221,434</u>	<u>174,346</u>
Net unconditional promises to give	<u>\$ 405,415</u>	<u>\$ 372,994</u>

Unconditional promises to give are discounted at 2%.

FRIENDS HOMES, INC.

NOTES TO FINANCIAL STATEMENTS

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, 2021 and 2020 are as follows:

	2021		2020	
	Cost	Fair Value	Cost	Fair Value
Common stocks	\$ 75,191	\$ 705,825	\$ 141,328	\$ 578,036
Mutual funds	30,403,374	40,308,419	29,424,472	34,011,536
ETFs	6,011,399	9,418,194	4,720,907	6,290,180
Bonds	6,833,345	7,008,481	5,629,799	5,926,876
US Government Issues	5,194,054	5,160,006	-	-
	\$ 48,517,363	\$ 62,600,925	\$ 39,916,506	\$ 46,806,628

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, 2021			
	Total	Level 1	Level 2	Level 3
Assets:				
Investments:				
Common stocks	\$ 705,825	\$ 705,825		
Mutual funds	40,308,419	40,308,419		
ETFs	9,418,194	9,418,194		
Bonds	7,008,481	7,008,481		
US Government Issues	5,160,006	5,160,006		
	\$ 62,600,925	\$ 62,600,925		
	Assets at Fair Value as of September 30, 2020			
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		

FRIENDS HOMES, INC.

NOTES TO FINANCIAL STATEMENTS

Note 7 - Property and Equipment:

A summary of property and equipment at September 30, 2021 and 2020 is as follows:

	<u>2021</u>	<u>2020</u>
Land and land improvements	\$ 10,123,231	\$ 6,893,759
Buildings and improvements	85,972,325	75,379,755
Furniture and equipment	7,130,045	6,074,657
Vehicles	577,379	462,214
	<u>\$ 103,802,980</u>	<u>\$ 88,810,385</u>

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, 2021 and 2020 was \$420,000 and \$545,000, respectively.

Note 9 - Long-Term Debt:

Long-term borrowings as of September 30, 2021 and 2020 included certain restrictions described below and consisted of the following:

	<u>2021</u>	<u>2020</u>
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%	\$ 2,020,000	\$ 2,480,000
Term bonds due September 1, 2029 at 4%	3,950,000	3,950,000
Term bonds due September 1, 2039 at 5%	11,150,000	11,150,000
Term bonds due September 1, 2049 at 5%	18,175,000	18,175,000
Term bonds due September 1, 2054 at 5%	13,005,000	13,005,000
	<u>48,300,000</u>	<u>48,760,000</u>
North Carolina Medical Care Commission Retirement Facilities Revenue Bond (Friends Homes, Inc.), Series 2020A with the following maturities and rates:		
Serial bonds due September 1, 2027 at 4%	2,600,000	
Serial bonds due September 1, 2030 at 5%	2,960,000	
Serial bonds due September 1, 2035 at 4%	1,750,000	
Serial bonds due September 1, 2040 at 4%	11,285,000	
Serial bonds due September 1, 2043 at 3.625%	2,685,000	
Serial bonds due September 1, 2050 at 4%	16,525,000	
	<u>37,805,000</u>	
North Carolina Medical Care Commission Retirement Facilities Entrance Fee Revenue Bond (Friends Homes, Inc.), Series 2020B-1 with the following maturities and rates:		
Term bonds due September 1, 2026 at 2.55%	6,300,000	
North Carolina Medical Care Commission Retirement Facilities Entrance Fee Revenue Bond (Friends Homes, Inc.), Series 2020B-2 with the following maturities and rates:		
Term bond due September 1, 2025 at 2.30%	8,985,000	
	<u>101,390,000</u>	<u>48,760,000</u>
Less, current maturities	<u>645,000</u>	<u>460,000</u>
	100,745,000	48,300,000
Add, unamortized bond premium	6,241,744	4,566,359
Less, unamortized bond issuance costs	(1,508,363)	(661,959)
	<u>\$ 105,478,381</u>	<u>\$ 52,204,400</u>

FRIENDS HOMES, INC.

NOTES TO FINANCIAL STATEMENTS

Note 9 - Long-Term Debt (Continued):

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

<u>Year Ending September 30</u>	<u>Amount</u>
2022	\$ 645,000
2023	675,000
2024	700,000
2025	10,550,000
2026	7,920,000
Thereafter	<u>80,900,000</u>
	<u>\$ 101,390,000</u>

For the year ended September 30, 2021 and 2020, the net amortization expense for bond premium was \$434,060 and \$257,169, respectively.

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.

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.

Note 10 - Net Assets with Donor Restrictions:

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

	<u>2021</u>	<u>2020</u>
Quaker Benevolent Fund	\$ 198,644	\$ 215,521
Benevolent Fund - Guilford	184,785	129,959
Benevolent Fund - West	34,726	29,392
Resident Appreciation Fund - Guilford	64,438	62,076
Resident Appreciation Fund - West	14,032	16,855
Campus Bridge Connector	550,657	338,795
Resident Financial Assistance Endowment	216,664	84,699
Chapel Fund - Guilford	30,000	30,000
Clinard Fund	36,913	36,813
Education Assist Program	17,263	17,163
Nursing - West	10,000	10,000
Other	11,824	11,325
Restricted in perpetuity - Benevolent Fund - Guilford	50,000	50,000
Restricted in perpetuity - Resident Appreciation Fund - Guilford	<u>15,000</u>	<u>15,000</u>
	<u>\$ 1,434,946</u>	<u>\$ 1,047,598</u>

FRIENDS HOMES, INC.

NOTES TO FINANCIAL STATEMENTS

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:

	2021	2020
Quaker Benevolent Fund	\$ 20,944	\$ 8,750
Benevolent Fund - Guilford	36,294	16,554
Benevolent Fund - West	35,975	23,239
Resident Appreciation Fund - Guilford	62,086	57,712
Resident Appreciation Fund - West	47,510	35,095
Other funds	3,509	5,097
	\$ 206,318	\$ 146,447

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.

FRIENDS HOMES, INC.

NOTES TO FINANCIAL STATEMENTS

Note 11 – Endowments (Continued):

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

Changes in endowment net assets as of September 30, 2021 and 2020 are as follows:

	<u>2021</u>	<u>2020</u>
Endowment net assets, beginning	\$ 134,699	\$ 50,000
Contributions	131,965	84,699
Investment income	2,508	2,508
Appropriated	(2,508)	(2,508)
Endowment net assets, ending	<u>\$ 266,664</u>	<u>\$ 134,699</u>

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. For the years ended September 30, 2021 and 2020, the Organization has received \$180,825 and \$901,465, respectively, of Provider Relief Fund Payments, of which \$0 and \$286,815, respectively, 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 \$667,425 and \$79,920 from North Carolina Medicaid for reimbursement of COVID-19 testing expenses incurred for the years ended September 30, 2021 and 2020, respectively.

Note 13 - Classification of Expenses:

Classification of expenses for the years ended September 30, 2021 and 2020 are as follows:

	<u>2021</u>		
	<u>Total</u>	<u>Program Services</u>	<u>General and Administrative</u>
Expenses:			
Salaries and benefits	\$ 13,437,152	\$ 12,013,495	\$ 1,423,657
Health insurance	2,044,667	1,799,307	245,360
Food costs	1,794,758	1,794,758	-
Utilities	1,276,071	1,223,112	52,959
Repairs and maintenance	1,845,191	1,836,741	8,450
Contractual medical	1,155,005	1,155,005	-
Other supplies	1,283,454	998,048	285,406
Medical supplies and drugs	607,397	607,397	-
General insurance	441,668	350,302	91,366
Contractual dietary	960,724	960,724	-
Charitable care	319,674	319,674	-
Professional fees	165,886	97,247	68,639
Management fees	1,394,232	697,116	697,116
COVID-19 expenses	880,404	880,404	-
Charitable contribution	669,177	-	669,177
Other	843,934	617,139	226,795
Interest expense	1,662,352	1,462,870	199,482
Depreciation and amortization	3,055,490	2,902,716	152,774
Amortization of bond issue costs	97,101	97,101	-
Total expenses	<u>\$ 33,934,337</u>	<u>\$ 29,813,156</u>	<u>\$ 4,121,181</u>

FRIENDS HOMES, INC.

NOTES TO FINANCIAL STATEMENTS

Note 13 - Classification of Expenses (Continued):

	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	1,745,568	1,640,338	10,764
Contractual medical	1,316,664	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	<u>\$ 32,496,403</u>	<u>\$ 28,788,753</u>	<u>\$ 3,707,650</u>

Note 14 - Retirement Plan:

Employees are eligible to participate in the 401(k) plan 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 \$152,409 and \$103,810 for 2021 and 2020, 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, 2021 and 2020 are as follows:

	<u>2021</u>	<u>2020</u>
Cash and cash equivalents	\$ 4,862,331	\$ 3,676,703
Accounts receivable	2,254,989	1,872,348
Unconditional promises to give (net)	183,981	198,648
Assets limited as to use	55,832,423	28,337,002
Investments	<u>49,810,007</u>	<u>39,517,778</u>
Total financial assets available within one year	112,943,731	73,602,479
Less, amounts unavailable for general expenditures within one year due to:		
Deposits held in custody for others	7,925	9,695
Restricted cash - construction funds	43,033,580	21,038,457
Restricted investments	5,160,006	-
Government grant receivable	-	481,287
Restricted by donors with purpose restrictions	<u>1,434,946</u>	<u>1,047,598</u>
Total financial assets available to management for general expenditures within one year	<u>\$ 63,307,274</u>	<u>\$ 51,025,442</u>

FRIENDS HOMES, INC.

NOTES TO FINANCIAL STATEMENTS

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 2021. 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 2021 (unaudited) is as follows:

Total forecasted operating expenses	\$ 32,602,206
Depreciation and amortization expense	(3,141,284)
Annual principal payments	<u>460,000</u>
	29,920,922
	x 25%
Estimated reserve required	<u>\$ 7,480,231</u>

Note 17 - Commitments:

At September 30, 2021, the remaining construction commitments outstanding for the Communities are:

Construction Contractor	\$ 36,319,000
Architect and Engineering	381,000
Other	<u>690,000</u>
	<u>\$ 37,390,000</u>

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 \$3,172,376 in aggregate claims, fees, and premiums for the year less employee contributions of \$281,741. The Organization has third-party coverage for any losses in excess of such amounts. The total accrued liability for self-insurance medical costs was \$351,388 and \$350,000 as of September 30, 2021 and 2020, respectively.

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, 2021 and 2020.

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, 2021 and 2020. 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, 2018 remain open for examination.

FRIENDS HOMES, INC.

NOTES TO FINANCIAL STATEMENTS

Note 19 - Income Taxes (Continued):

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, 2021 and 2020.

Note 20 - Recently Issued Accounting Standards:

In February 2016, FASB issued ASU 2016-02, *Leases (Topic 842)*. Under this update, a lessee will be required to recognize assets and liabilities for leases with lease terms of more than twelve months. Consistent with current GAAP, the recognition, measurement, and presentation of expenses and cash flows arising from a lease by a lessee primarily will depend on its classification as a finance or operating lease. However, unlike current GAAP, which requires only capital leases to be recognized on the statements of financial position, this ASU will require both types of leases to be recognized on the statements of financial position. The ASU also will require disclosures to help financial statement users better understand the amount, timing, and uncertainty of cash flows arising from leases. These disclosures include qualitative and quantitative requirements, providing additional information about the amounts recorded in the financial statements. The update was effective for annual periods beginning after December 15, 2020, and interim periods thereafter, but has been delayed due to the impact of COVID-19. Early adoption is permitted.

Note 21 - Reclassification:

Certain items in the September 30, 2020 financial statements have been reclassified to conform to the September 30, 2021 presentation.

Note 22 - Novel Coronavirus (COVID-19):

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). The COVID-19 pandemic remains a rapidly evolving situation. The extent of the impact of COVID-19 on the Organization and operating results will depend on future developments including the duration and spread of the outbreak within the activities in which the Organization operates.

Note 23 - Subsequent Events:

The Organization's management has evaluated all subsequent events through November 23 2021, the date the financial statements were available to be issued.

Exhibit B

FRIENDS HOMES, INC.

**FORECAST WITH SUMMARY OF
SIGNIFICANT ASSUMPTIONS**

**AS OF AND FOR THE YEARS ENDING
SEPTEMBER 30, 2022, 2023, 2024, 2025, AND 2026**

AS OF FEBRUARY 24, 2022



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, 2022, 2023, 2024, 2025, and 2026, 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. We do not express an opinion, a conclusion, nor provide any form of assurance on this financial forecast.

The forecasted 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 were 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.

Turlington and Company, L.L.P.

Lexington, North Carolina
February 24, 2022

FRIENDS HOMES, INC.

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

	S e p t e m b e r 3 0				
	2022	2023	2024	2025	2026
ASSETS					
Current assets:					
Cash and cash equivalents	\$ 1,000	\$ 1,000	\$ 1,000	\$ 1,000	\$ 1,000
Accounts receivable, net	1,798	1,832	1,872	1,907	1,945
Other receivables	167	167	167	167	167
Other current assets	517	527	537	548	558
	<u>3,482</u>	<u>3,526</u>	<u>3,576</u>	<u>3,622</u>	<u>3,670</u>
Investments limited as to use:					
Under bond agreement	3,008	3,008	3,008	3,008	3,008
Reserves required by State Statute	8,014	8,969	9,235	11,936	11,465
	<u>11,022</u>	<u>11,977</u>	<u>12,243</u>	<u>14,944</u>	<u>14,473</u>
Investments	<u>58,747</u>	<u>60,149</u>	<u>62,208</u>	<u>52,343</u>	<u>48,277</u>
Property and equipment:					
Land, buildings, equipment and CIP	<u>178,910</u>	<u>194,603</u>	<u>196,748</u>	<u>198,743</u>	<u>200,828</u>
Less, accumulated depreciation	<u>49,557</u>	<u>54,659</u>	<u>60,138</u>	<u>65,668</u>	<u>71,127</u>
	<u>\$ 202,604</u>	<u>\$ 215,596</u>	<u>\$ 214,637</u>	<u>\$ 203,984</u>	<u>\$ 196,121</u>
LIABILITIES AND NET ASSETS					
Current liabilities:					
Current maturities on long-term debt	\$ 676	\$ 700	\$ 10,549	\$ 7,921	\$ 1,690
Notes payable	420	420	420	420	420
Accounts payable	3,817	3,816	3,820	3,814	3,815
Accrued payroll and related expenses	1,797	1,796	1,797	1,797	1,797
Occupancy deposits	43	43	43	43	43
Accrued interest	950	915	908	903	903
	<u>7,703</u>	<u>7,690</u>	<u>17,537</u>	<u>14,898</u>	<u>8,668</u>
Long-term debt, less current maturities	<u>104,628</u>	<u>103,754</u>	<u>93,030</u>	<u>84,981</u>	<u>83,155</u>
Deferred revenue:					
Deferred revenue from entrance fees	13,120	18,154	16,736	15,138	13,345
Deferred revenue from entrance fees - refundable	19,439	26,338	24,347	22,104	19,588
Deferred revenue - rent reduction	37	37	37	37	37
	<u>32,596</u>	<u>44,529</u>	<u>41,120</u>	<u>37,279</u>	<u>32,970</u>
	<u>144,927</u>	<u>155,973</u>	<u>151,687</u>	<u>137,158</u>	<u>124,793</u>
Net assets:					
Assets without donor restrictions	52,940	54,886	58,213	62,089	66,591
Assets with donor restrictions	4,737	4,737	4,737	4,737	4,737
	<u>57,677</u>	<u>59,623</u>	<u>62,950</u>	<u>66,826</u>	<u>71,328</u>
	<u>\$ 202,604</u>	<u>\$ 215,596</u>	<u>\$ 214,637</u>	<u>\$ 203,984</u>	<u>\$ 196,121</u>

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

FRIENDS HOMES, INC.

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

	Y e a r s E n d i n g S e p t e m b e r 3 0				
	2022	2023	2024	2025	2026
Changes in net assets without donor restrictions:					
Operating revenues:					
Amortized entry fees	\$ 3,233	\$ 6,335	\$ 6,747	\$ 7,179	\$ 7,647
Service fees, residential	12,961	15,866	17,666	18,201	18,753
Service fees, assisted living	4,611	4,721	4,887	5,058	5,236
Service fees, nursing	10,964	11,297	11,630	12,004	12,350
Food service income	63	63	63	63	63
Contributions	162	162	162	162	162
Reimbursed medical	1,173	1,173	1,173	1,173	1,173
Investment income	1,300	2,373	2,457	2,540	2,290
Other	85	85	86	85	88
	34,552	42,075	44,871	46,465	47,762
Operating expenses:					
Resident care	8,351	8,585	8,828	9,078	9,338
Dining services	5,864	6,443	6,745	6,957	7,176
Environmental services	1,636	1,752	1,815	1,872	1,932
Resident services	1,320	1,574	1,627	1,679	1,733
Maintenance and grounds	4,346	4,699	4,941	5,110	5,285
Marketing	723	742	763	784	805
Administration	5,025	5,165	5,328	5,496	5,670
Bond and note interest	2,356	4,040	4,202	4,174	3,904
Depreciation, amortization, and other charges	3,988	4,927	5,305	5,392	5,318
Management fees	1,495	1,909	1,709	1,763	1,817
Miscellaneous, net	291	293	281	284	282
	35,395	40,129	41,544	42,589	43,260
Operating income (loss)	(843)	1,946	3,327	3,876	4,502
Net assets, beginning	58,520	57,677	59,623	62,950	66,826
Net assets, ending	\$ 57,677	\$ 59,623	\$ 62,950	\$ 66,826	\$ 71,328

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				
	2022	2023	2024	2025	2026
Cash flows from operating activities:					
Changes in net assets	(\$ 843)	\$ 1,946	\$ 3,327	\$ 3,876	\$ 4,502
Adjustments to reconcile changes in net assets to net cash provided by operating activities:					
Entrance fees received	14,130	18,692	3,761	3,772	3,767
Amortization of entrance fees	(3,233)	(6,335)	(6,747)	(7,179)	(7,647)
Depreciation	4,164	5,101	5,479	5,530	5,460
Amortization of deferred costs	78	78	78	68	62
Amortization of bond premium	(254)	(252)	(252)	(206)	(204)
Changes in working capital:					
Increase (decrease) in:					
Trade and other receivables	372	(34)	(40)	(35)	(38)
Other current assets	(12)	(10)	(10)	(11)	(10)
Increase in accounts payable and accrued expenses	(2,584)	(36)	(3)	(11)	1
Total adjustments	<u>12,661</u>	<u>17,204</u>	<u>2,266</u>	<u>1,928</u>	<u>1,391</u>
Net cash provided by operating activities	<u>11,818</u>	<u>19,150</u>	<u>5,593</u>	<u>5,804</u>	<u>5,893</u>
Cash flows from investing activities:					
Purchase of property and equipment	(39,562)	(15,693)	(2,145)	(1,995)	(2,085)
Net proceeds (purchases) of investments	<u>24,952</u>	<u>(2,357)</u>	<u>(2,325)</u>	<u>7,164</u>	<u>4,537</u>
Net cash provided by (used for) investing activities	<u>(14,610)</u>	<u>(18,050)</u>	<u>(4,470)</u>	<u>5,169</u>	<u>2,452</u>
Cash flows from financing activities:					
Principal payments on long-term debt	(646)	(676)	(699)	(10,549)	(7,921)
Refunds of refundable fees	<u>(424)</u>	<u>(424)</u>	<u>(424)</u>	<u>(424)</u>	<u>(424)</u>
Net cash used for financing activities	<u>(1,070)</u>	<u>(1,100)</u>	<u>(1,123)</u>	<u>(10,973)</u>	<u>(8,345)</u>
Net decrease in cash and cash equivalents	(3,862)	-	-	-	-
Cash and cash equivalents - beginning	<u>4,862</u>	<u>1,000</u>	<u>1,000</u>	<u>1,000</u>	<u>1,000</u>
Cash and cash equivalents - ending	<u>\$ 1,000</u>	<u>\$ 1,000</u>	<u>\$ 1,000</u>	<u>\$ 1,000</u>	<u>\$ 1,000</u>
Supplemental disclosure of cash flow information:					
Cash payments for interest	<u>\$ 2,356</u>	<u>\$ 4,040</u>	<u>\$ 4,202</u>	<u>\$ 4,174</u>	<u>\$ 3,904</u>

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, 2022, 2023, 2024, 2025, and 2026**

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 February 24, 2022, 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 2026 were developed using management's understanding of markets and circumstances as of the forecast date.

Facility Changes:

Management has completed the expansion of its Guilford independent living townhomes. The last of the 20-unit expansion was occupied in November 2021. Management is currently renovating and expanding its West campuses. 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. Presales for the West campus began in December 2021. The financing for the West renovation and expansion was completed in October 2020. It is anticipated that the residents for the West campus expansion will begin to move-in during October 2022. 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 \$390,000 with monthly fees ranging from \$3,551 to \$4,304 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.
- Nursing and assisted living revenues reflect a 3.5% increase annually, with an additional adjustment for an increase in occupancy.
- Expenses are expected to increase at approximately 3.5% 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	\$113,000
Two bedrooms	\$157,000 - \$175,000

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

One bedroom	\$ 26,000 - \$ 76,000
Two bedrooms	\$ 62,000 - \$ 87,000

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 be earned at a rate of 3.5% per year throughout 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, 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%
October 1, 2025 to September 2026	5.00%

FRIENDS HOMES, INC.

SUMMARY OF SIGNIFICANT FORECAST ASSUMPTIONS

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 to 20 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 are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Debt Service</u>
2022	\$ 646,000	\$ 2,356,000	\$ 3,002,000
2023	676,000	4,040,000	4,715,000
2024	700,000	4,202,000	4,902,000
2025	10,549,000	4,174,000	14,724,000
2026	7,921,000	3,904,000	11,825,000

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.
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) **Termination During Residency Trial Period.** 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) **Termination After Trial Period.** 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) **Termination Upon Death.** 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) **Termination By FHI.** 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):

Print Name: _____ (Seal)

Witness

RESIDENT(S):

Print Name: _____ (Seal)

Witness

Current Address (Number and Street)

City, State, Zip Code

Telephone Number



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.

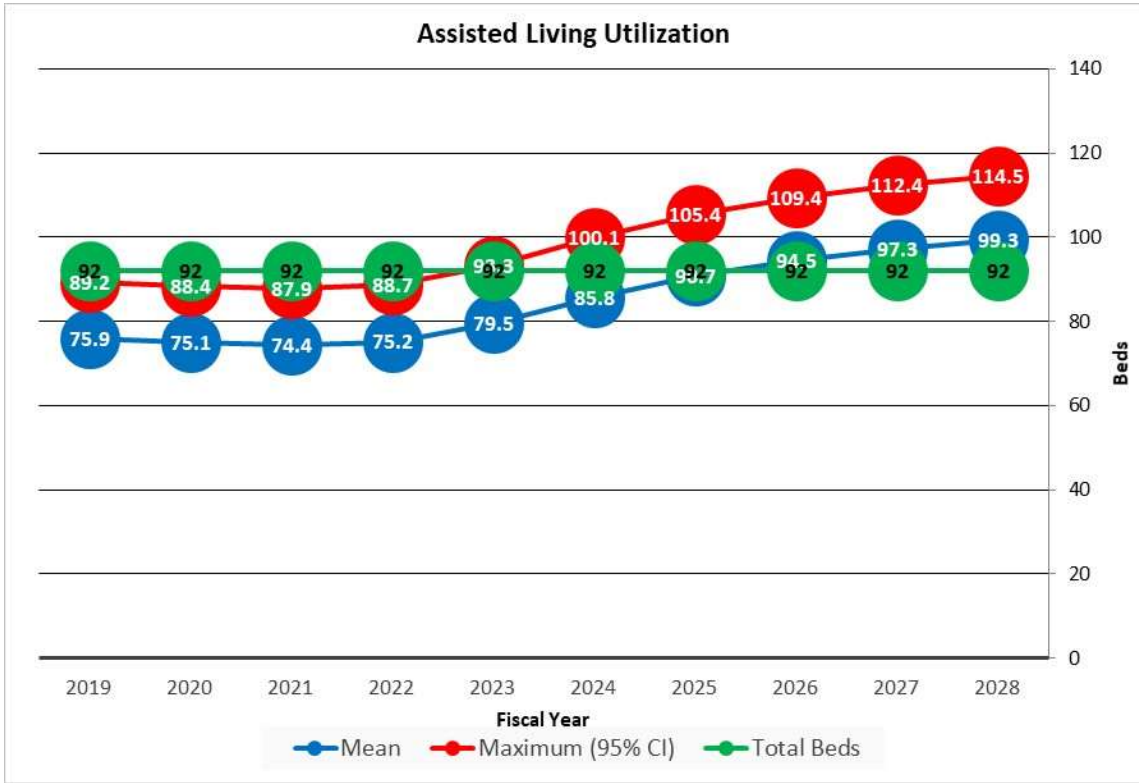
Section V presents a summary of the financial assumptions incorporated in the analysis and the cash flow projection.

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.

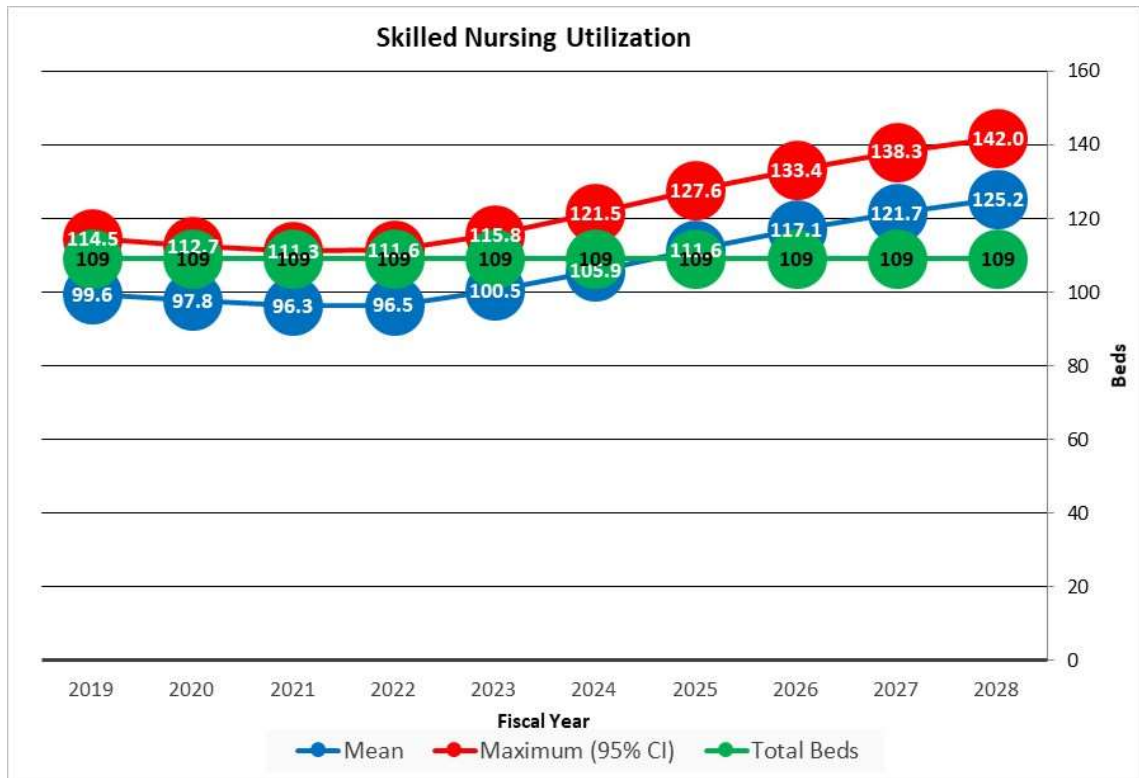
Summary of Findings and Notes

- 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.

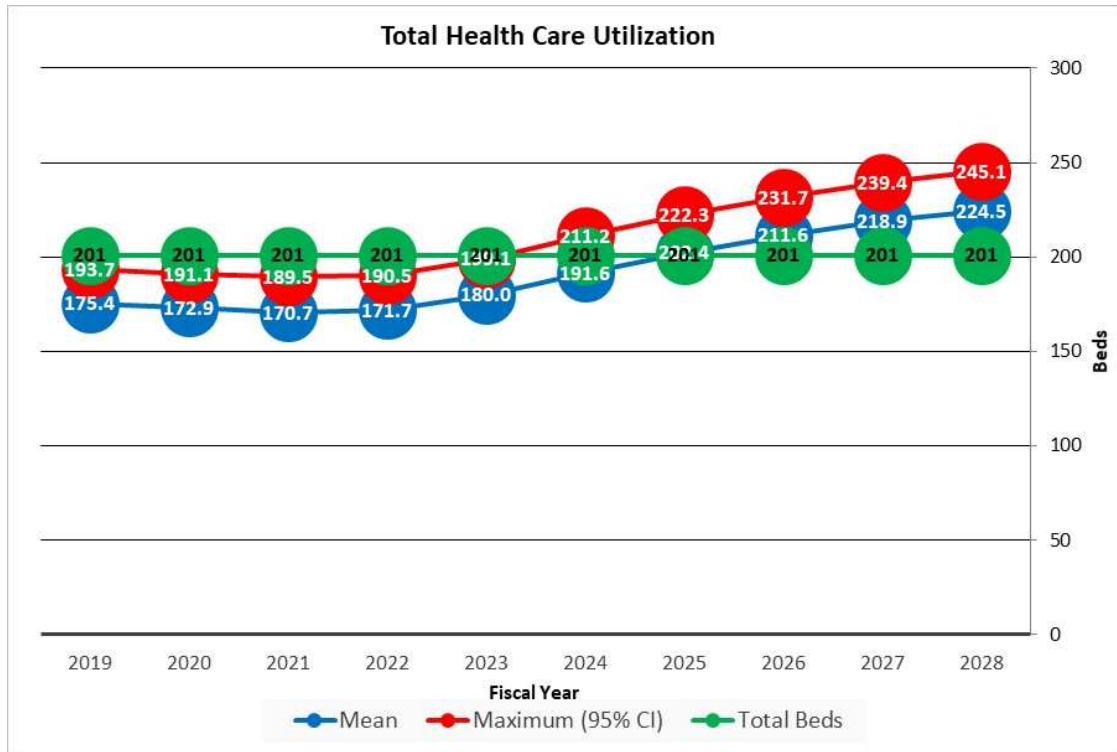
- 2) Below is the projected occupancy of the Assisted Living Units, by Life Care residents, with the 95% confidence interval.



- 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.



Dave Bond, F.S.A., M.A.A.A.
Managing Partner
Continuing Care Actuaries
415 Main Street
Reisterstown, MD 21136
410-833-4220

ASSETS	
Current Assets:	
Operating Cash	\$ 6,333,626
Trustee Held Funds for Construction	40,225,267
Investment Cash	890,413
Accounts Receivable:	
Patient and residents net of allowance for uncollectible accounts	1,530,458
Interest receivable	43,665
Other	504,631
Charitable receivable - promises to give	272,080
Inventories and prepaid expenses	58,479
Total Current Assets	49,858,619
Investments limited as to use Reserved By State Statute	7,526,481
Investments	51,426,751
Property and equipment (net)	57,577,523
Other assets:	
Construction in progress	30,680,350
Interest rate swap	-
Total Other Assets	147,211,105
Total assets	\$197,069,724
LIABILITIES AND NET ASSETS	
Current liabilities:	
Current maturities on long-term debt	\$ 645,000
Notes payable	405,000
Accounts payable - trade	3,254,487
Accrued expenses	2,683,553
Occupancy deposits	2,155,937
Total Current Liabilities	9,143,977
Long-term debt, less current maturities	105,397,496
Refundable fees	13,110,430
Deferred revenue from advance fees	9,223,259
Deferred Revenue - Rent Reduction	31,003
Total Liabilities	136,906,165
Net Assets:	
Unrestricted	
Undesignated	58,689,101
Board restricted	-
Restricted Funds	1,474,458
Total Net Assets	60,163,559
Total Liabilities and Net Assets	\$197,069,724

FRIENDS HOMES, INC
SUMMARY STATEMENT OF OPERATIONS
FOR THE THREE MONTH PERIOD ENDED DECEMBER 30, 2021

	Actual
Operating Income - Daily Business Activities	
Resident Services	\$ 6,806,781
Reimbursed Medical	369,911
Dining Revenue	7,308
Housekeeping Service Fees	5,369
	<u>7,189,369</u>
Expenses:	
Administration	319,740
Human Resources	197,506
Employee Benefits & Liability Insurance	511,629
Management Services	373,248
Environmental Services	467,674
Resident Services	260,921
Dining	1,595,480
Maintenance	845,587
Nursing	1,876,343
Purchased Medical Services	320,515
Marketing	150,058
Bad Debt	64,325
Wellness	43,741
IT	262,835
Transportation	206,235
	<u>7,495,837</u>
	<u>(306,468)</u>
Daily Business Activities Total	
Strategic Business Activities	
Revenue	
Entry Fee Amortization	754,845
Investment Income	1,914,005
Realized Gain / (Loss)	5,261,060
Donations	151,076
Other Income	13,825
	<u>8,094,811</u>
Expense	
Depreciation and Amortization	907,310
Interest Expense	412,868
Other Expense	42,872
	<u>1,363,050</u>
Strategic Business Activities	<u>6,731,761</u>
Operating Income	6,425,293
Increase (decrease) in temporarily restricted funds	-
Unrealized gains and losses on swap agreements	-
Unrealized gains and losses on investments	(4,821,784)
	<u>(4,821,784)</u>
Increase in unrestricted net assets	<u>\$ 1,603,509</u>

FRIENDS HOMES, INC
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE THREE MONTH PERIOD ENDED DECEMBER 31, 2021

Cash flows from operating activities:	
Increase in net assets:	\$ 1,603,509
Adjustments to reconcile excess of revenues over expenses to net cash provided by operating activities:	
Amortization of entrance fees	(742,435)
Realized (gain)loss on sales of investments (net)	(5,261,060)
Amortization of deferred bond issue cost	22,897
Depreciation expense	884,414
Amortization of deferred revenue	(5,910)
Net unrealized loss(gain) on investments	4,821,784
Net unrealized loss(gain) on swap agreements	-
Increase (decrease) in promises to give	133,335
Changes in assets and liabilities	
Accounts receivable	176,234
Inventory and prepaid expenses	122,033
Accounts payable and other accrued expenses	218,710
Total adjustments	<u>370,002</u>
Net cash provided(Used) by operating activities	<u>1,973,511</u>
Cash flows from investing activities:	
Proceeds from sales and maturities of investments	18,671,801
Purchase of investments	(13,055,849)
Purchase of property and equipment	(8,689,885)
(Increase)decrease in liability under trust agreements	-
Net cash used in investing activities	<u>(3,073,933)</u>
Cash flows from financing activities:	
Proceeds from advance fees and deposits	2,214,312
Proceeds from issuance of long-term debt	-
Payment of principle on long-term debt	-
Payments of short-term debt	(15,000)
Bond issue cost	(103,782)
Refunds of advance fees and deposits	(38,638)
Net cash provided by financing activities	<u>2,056,892</u>
Net increase(decrease) in cash and cash equivalents	<u>956,470</u>
Cash and cash equivalents at beginning of year	<u>6,149,587</u>
Cash and cash equivalents at end of reporting period	<u>\$ 7,106,057</u>
Cash Paid During the periods for Interest	<u>\$ 412,868</u>