



Disclosure Statement

Friends Homes

Provider: Friends Homes, Inc.

Date of Disclosure Statement: 9/30/2025

Last Date for Delivery: 3/08/2027

- This Disclosure Statement must be delivered to a contracting party before the execution of a binding reservation agreement, continuing care contract, or continuing care at home contract.
- This Disclosure Statement has not been reviewed or approved by any government agency or representative to ensure the accuracy of the information provided.
- This Disclosure Statement has been filed with, and recorded by, the North Carolina Department of Insurance in accordance with Article 64A of Chapter 58 of the North Carolina General Statutes (“Article 64A”).
- This Disclosure Statement contains all information required by Article 64A and is correct in all material respects. Knowingly delivering a disclosure statement that contains an untrue statement or omits a material fact may subject Friends Homes, Inc. to penalties under Article 64A.

Financial Snapshot: Key Ratios for Friends Homes, Inc.

Fiscal Year Ended: September 30, 2025 (FY)

Ratio	FY-2	FY-1	FY	FY+1	FY+2	FY+3	NC 25 th % ¹	NC 50 th % ¹	NC 75 th % ¹
DCOH	674	792	741	669	617	609	—	—	—
CUSH	15.2x	17.5x	17.1x	14.3x	13.9x	14.1x	—	—	—
OR	93.30%	92.15%	93.77%	95.88%	95.03%	94.61%	—	—	—
NOM	6.70%	7.85%	6.23%	4.12%	7.97%	5.39%	—	—	—
NOM-A	36.08%	21.65%	20.54%	17.11%	18.05%	18.61%	—	—	—
DSCR	3.90x	2.56x	2.50x	2.15x	2.33x	2.41x	—	—	—
CD	.69x	.83x	.91x	.93x	.97x	1.01x	—	—	—
CED	1.58x	.69x	.70x	.70x	.92x	.82x	—	—	—

Liquidity Ratios:

- **Days Cash on Hand (DCOH).** Number of days the provider could pay its normal cash operating expenses using unrestricted cash and investments. More days generally means stronger liquidity.
- **Cushion Ratio (CUSH).** Number of times the provider's unrestricted cash and investments could cover one year of debt service. Higher values mean more resources to pay debt service.

Profitability Ratios:

- **Operating Ratio (OR).** Compares current operating expenses (excluding depreciation and amortization) to current operating revenues (excluding entrance fee amortization). Lower percentages mean operating revenues are more easily covering cash operating expenses.
- **Net Operating Margin (NOM).** Shows the result from core resident services. Higher values mean a stronger operating result from resident services.
- **Adjusted Net Operating Margin (NOM-A).** Shows the operating result after also counting net entrance fee cash received during the year. Higher values mean the result is improved when net entrance fee cash is included.

Capital Structure Ratios:

- **Debt Service Coverage (DSCR).** Measures the provider's ability to pay annual debt service from operations and net entrance fee cash. Higher values indicate greater ability to pay debt service.
- **Unrestricted Cash & Investments to Long-Term Debt (CD).** Compares unrestricted cash and investments to long-term debt. Higher values indicate more unrestricted cash and investments relative to debt.
- **Capital Expenditures to Depreciation (CED).** Compares what the provider is spending on capital improvements to the amount its assets are wearing out. Values at or above 1.0x usually mean the provider is reinvesting enough to keep up.

See Appendix E for full statutory definitions of how ratios are derived.

¹ **NC Provider Quartiles.** Values will be compiled annually by the North Carolina Department of Insurance, stratified by community model (Entrance Fee, Rental, Equity), and are expected to be available in late 2026.

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1. Provider Identification and Basic Information

Item	Information
Provider Name:	Friends Homes, Inc.
Business Address:	925 New Garden Road, Greensboro, NC 27410
Telephone Number:	(336) 369-4313
Legal Entity Type:	Nonprofit corporation organized under the laws of North Carolina
For-Profit / Nonprofit Status:	Nonprofit
Federal Tax Status:	Tax-exempt under Section 501(c)(3) of the Internal Revenue Code
Ownership Type:	Privately owned and controlled nonprofit organization. The provider is not part of any publicly held or publicly traded corporate system.
Tax Filing Status:	Current on all required federal and state tax filings
Ownership / Control:	The Board of Trustees of Friends Homes, Inc. Has contracted with PHI Management Services, LLC. to manage Friends Homes, Inc.

2. Organizational Structure

2.1 Multi-Entity Organization Status

Friends Homes, Inc. contracts with PHI Management Services, LLC to provide management services. The original agreement started in May 1, 2016, has been renewed several times, and in December 2022, the contract was extended through December 2030, with a no-cause termination option for either party after December 2028.

PHI Management Services, LLC is wholly owned by Presbyterian Homes, Inc. (PHI). PHI managed The Presbyterian Home of High Point from 1985 until its sale in June 2011 and developed several continuing care retirement communities, including Scotia Village (Laurinburg, 1988), Glenaire (Cary, 1993), and River Landing at Sandy Ridge (High Point, 2003).

2.2 Consolidation of Financial Statements

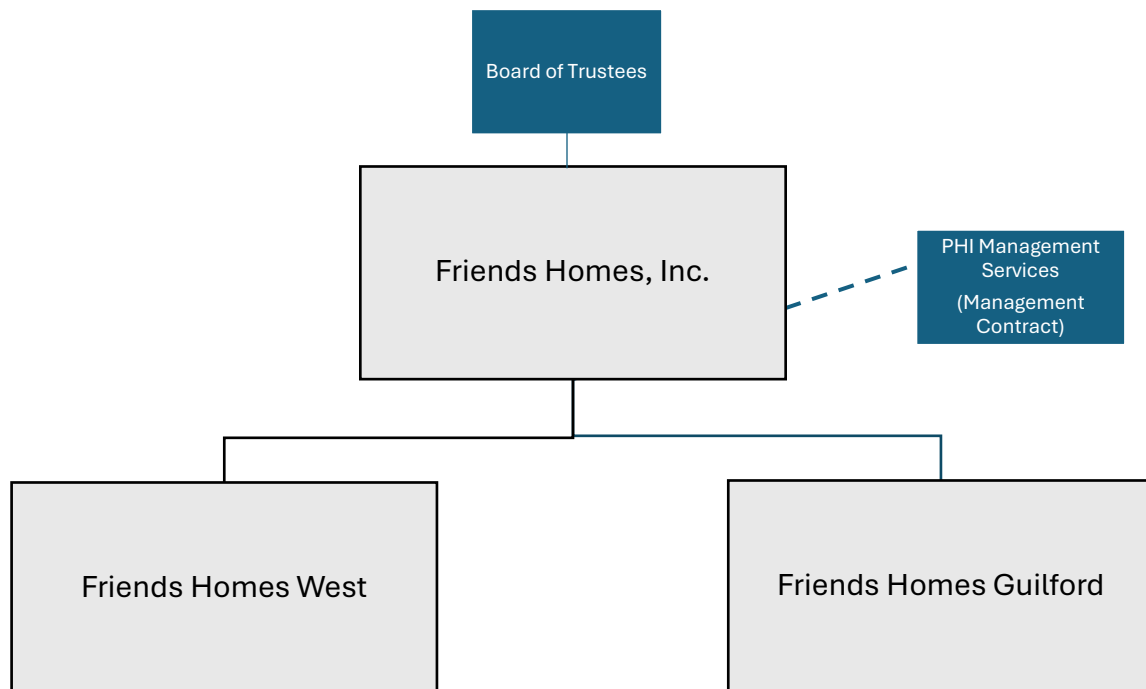
Audited financial statements are prepared on a consolidated basis for Friends Homes, Inc.

2.3 Controlling Person

Item	Information
Name:	Friends Homes, Inc.
Business Address:	925 New Garden Road, Greensboro, NC 27410
Telephone Number:	(336) 369-4313

2.4 Company Structure Chart

The organizational structure of Friends Homes, Inc. and its related entities is illustrated below:



Accessible Text Equivalent:

- **Friends Homes, Inc.** (parent and controlling person; nonprofit corporation)
 - **Friends Homes, Inc.** - provider of continuing care contracts; operator of Friends Home Guilford and Friends Homes West Campuses (Greensboro, NC)
 - **Board of Trustees** - Friends Homes, Inc. is governed by a Board of Trustees, which serves as the organization's governing body and holds ultimate responsibility for oversight of operations, financial condition, and resident welfare.
 - **PHI Management Services, LLC.** - nonprofit supporting organization providing management, staffing, and administrative services to Friends Homes, Inc.

3. Key Persons and Management

Definitions (for purposes of this Section):

- **Outside Interests:** Any professional service firm, association, trust, partnership, or corporation in which the individual has, or which has in the individual, a ten percent (10%) or greater interest and that currently provides, or is expected to provide, goods, leases, or services to the provider of an aggregate value of \$5,000 or more. If none, the provider discloses "None."
- **Adverse Disclosures:** Any conviction of or plea of nolo contendere to a felony charge; any final judgment in a civil action for fraud, embezzlement, fraudulent conversion, or misappropriation of property; any currently effective injunctive or restrictive court order; or any suspension or revocation within the past five years of a state or federal license or permit as a result of governmental action. If none, the provider discloses "None."

3.1 Senior Officers of Friends Homes, Inc. and PHI Management Services, LLC

Name / Role	Education	Experience	Length of Service
Timothy J. Webster – Chief Executive Officer	BSBA Accounting, Appalachian State University; Certified Public Accountant; Licensed Nursing Home Administrator	31+ years in senior living operations – held positions as Assistant Controller, Controller, Director of Finance, Director of Operations, and Vice President and Chief Operating Officer and Chief Executive Officer	31+ years with The Presbyterian Homes (which became Brightspire and is now Kintura); serves as Chief Executive Officer of Kintura; employed by Kintura (which operates PHI Management Services, LLC).
Hank Lovvorn – Chief Operating Officer	BS Economics, Florida State University; Licensed Nursing Home Administrator	29+ years in senior living operations – held positions as Regional Vice President of Operations, Vice President and Director of Operations and Chief Operating Officer	8 years with Westminster Retirement Communities of Florida; 17+ years with The Presbyterian Homes (which became Brightspire and is now Kintura); serves as Chief Operating Officer of Kintura; employed by Kintura (which operates PHI Management Services, LLC).

Name / Role	Education	Experience	Length of Service
K. Alan Tutterow – Chief Financial Officer	Accounting degree, University of North Carolina at Chapel Hill; Certified Public Accountant; licensed North Carolina Nursing Home Administrator; Certified Aging Services Professional; Financial Surveyor for CARF/CCAC	32+ years in senior living operations – held positions as Executive Director, Chief Operating Officer, Director of Philanthropy and Chief Financial Officer	32+ years with Well-Spring Retirement Community and The Well Spring Group (which is now Kintura); serves as Chief Financial Officer of Kintura; employed by Kintura (which operates PHI Management Services, LLC).
Mark Collins – EVP of Human Resources	University of North Carolina at Chapel Hill; B.S. in Industrial Engineering, B.A. in Psychology	13+ in senior living operations, VP & EVP of Human Resources experience	13 years with The Presbyterian Homes (which became Brightspire and is now Kintura); employed by Kintura (which operates PHI Management Services, LLC).

Business Address: 5603 New Garden Village Drive, Greensboro, NC 27410

Disclosure: None of the above listed officers have reported any Outside Interests or Adverse Disclosures.

3.2 Community Management – Friends Homes, Inc.

Name / Role	Education	Experience	Length of Service
Jordan Scardigno – Executive Director	B.A. Gerontology, Health Services Administration, University of Central Florida	20 years in the senior living industry, served as Executive Director at Moorings Park Institute in Naples, FL prior to Friends Homes Inc.	2 years 3 months (since October 2023); employed by Kintura (which operates PHI Management Services, LLC).; serves the provider under a management agreement
Matt Beam – Associate Executive Director for Friends Home West	B.S. Business Administration, with an entrepreneurship concentration - Licensed NHA	9 years of LTC experience, served in multiple capacities at Trinity Oaks Retirement Community including Healthcare Administrator, Director of Marketing & Sales and Associate Executive Director of Marketing & Sales, prior to Friends Home, Inc.	3 years and 8 months (since May 2022); employed by Kintura (which operates PHI Management Services, LLC); serves the provider under a management agreement
Steve Minter – Associate Executive Director at Friends Homes Guilford	M.H.A., Central Michigan University, B.S. Business Administration, East Carolina University ; Licensed NHA	30 years in the senior living profession; served as ED at a retirement community in VA; volunteer board member for Shell Point Village (large CCRC) and chairman of the Board of Medical Assistance Services (Medicaid) in VA.	1 year and approximately 9 months (since April 2024); employed by Kintura (which operates PHI Management Services, LLC); serves the provider under a management agreement
Jim Newman – Director of Health Care Services	B.S., Communications and Management, Appalachian State University	Licensed NHA for over 30 years, served in a variety of settings and locations in the Triad of NC.	1 year and 5 months (since August 2024); employed by Kintura; serves the provider under a management agreement

Business Address: 925 New Garden Road, Greensboro, North Carolina 27410

Disclosure: The Executive Director and other community management have reported no Outside Interests or Adverse Disclosures.

3.3 Board of Trustees — Friends Homes, Inc.

Name / Role	Education	Experience	Length of Service
Kathy Adams – Chair of Nominating Committee	B.S. - UNCG M.A. - App State PhD - UNCG	Retired middle school teacher; teacher educator at UNCG and Salem College	3 years (since 2023)
Reggie Beeson – Chair of Facilities & Services Committee	B.S. in Agricultural Economics - NC State	VP of CBRE Commercial Real Estate	4 years (since 2022)
Geraldine Brannon – Member of Facilities & Services Committee	A.S. - Winston-Salem Business College	Retired Secretary in exceptional children's department of Yadkin County Board of Education	2 years (since 2024)
Alice Carroll - Secretary of the Board; Member of Facilities & Services Committee	B.A. in Sociology & Political Science - NC State Certification in Child Care - UNC-Chapel Hill B.S. in Social Work - UNCG	Retired from Friends Homes, Inc.	2 years (since 2024)
AnneMarie Dloniak - Member of Facilities & Services Committee	B.A. in Business Mgmt. - NC State M.S. in Sport Psychology - UNCG	Senior Portfolio Manager in Commercial Real Estate with First Citizens Bank	New 2026 Board Member, as of 1/1/2026
Dan Fisher - Member of Facilities & Services Committee	B.A. - Upsala College M.A. - Long Island University Ph.D. - Iowa State University	Friends Homes-West Resident Representative	2 years (since 2024)

Name / Role	Education	Experience	Length of Service
Nancy Glenz – Member of Facilities & Services Committee	B.S. in Health & PE - Trenton State College M.A. and PhD in Secondary Education - Michigan State Univ. M.S. in Graphic Comm. & Tech. Studies - NC A&T Univ.	Friends Homes-Guilford Resident Representative	1 year (since 2025)
Anthony Gurley – Member of Finance & Investment Committee	B.S. – Guilford College	Retired from Guilford College where he served in many roles (Financial Aid Director, Associate Dean of Enrollment and Student Financial Services Coordinator).	New 2026 Board Member, as of 1/1/2026
Marshall Hurley – Chairman of the Board	B.A. – UNC J.D.– Wake University School of Law	Attorney	2 years (since 2024)
Mark Morgan – Member of Finance & Investment Committee	B.A., UNC- Wilmington MBA, UNC- Greensboro	Controller at Techimark in Asheboro	1 year (since 2025)
Jay Osbourne – Member of Marketing & Philanthropy Committee	B.A. in Speech Communication, UNC-CH J.D., UNC-CH	Assistant Attorney of Holly Hill	1 year (since 2025)
Richard Parker - Member of Finance & Investment Committee	B.S. – Guilford College	Retired CFO of Columbia Forest Products, Inc.	New 2026 Board Member, as of 1/1/2026

Name / Role	Education	Experience	Length of Service
Maria Rosales - Member of Marketing & Philanthropy and Nominating Committees	B.A. in Poli. Sci - Cal. State-Stanislaus M.A. in Poli. Sci. - UC-Berkley PhD in Poli. Sci. - UC-Berkley	Executive Director of Faith Action International; former staff member at Guilford College for 20 years, first as a professor then moving up to Provost and Chief Academic Officer.	New 2026 Board Member, as of 1/1/2026
Jenny Ross – Chair of Marketing & Philanthropy Committee	Diploma in Nursing - Atlantic Christian College	Retired Nurse	1 year (since 2025)
John Setchfield – Member of Marketing & Philanthropy Committee	Graduate of Clemson University and Midwestern Baptist Theological Seminary	FH-Guilford Resident Representative; served as a church administrator, religious educator and pastor.	New 2026 Board Member, as of 1/1/2026
Richard Shope - Member of Marketing & Philanthropy Committee	B.A. - UNC-CH J.D. - UNC-CH	FH-West Resident Representative; retired attorney.	1 year (since 2025)
Betty Turner – Chair of Finance & Investment Committees	B.A. - Vanderbilt MBA - Univ. of Tennessee J.D. - Vanderbilt	Retired Guilford College business professor	4 years (since 2022)
Terry Venable – Member of Nominating Committee	Graduate of Guilford College and Earham School of Religion	Sr. VP of Operations & Finance at High Point Market Authority (HPMA)	New 2026 Board Member, as of 1/1/2026

Business Address: 925 New Garden Road, Greensboro, North Carolina 27410

Disclosure: No one on the Board of Trustees has reported Outside Interests or Adverse Disclosures.

3.4 Management Entity — PHI Management Services, LLC.

- **Nature of Role:** In May of 2016, Friends Homes, Inc. entered into a management contract with PHI Management Services, LLC. In December 2022, the management contract was renewed until December 2030. There is an out clause for no cause for Friends Homes, Inc. or PHI Management Services, LLC. after December 2028. The fee is calculated as 5% of Resident revenue less entrance fee amortization. PHI Management Services, LLC employs the Executive Director, Associate Executive Director for Friends Homes West, Associate Executive Director for Friends Homes Guilford, and Director of Health Care Services; provides on-site management and centralized administrative services to Friends Homes, Inc.
- **Business Address:** 5603 New Garden Village Drive, Greensboro, NC 27410
- **Key Officers:** Timothy Webster (President & CEO), Hank Lowvorn (COO), K. Alan Tutterow (CFO), and Mark Collins (EVP, HR) — see Senior Officers of Friends Homes, Inc. and PHI Management Services, LLC for education, experience, and length of service.

3.5 Individuals Holding ≥10% Equity or Beneficial Interest in Provider or Controlling Person

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.

4. Governing Body and Oversight

4.1 Provider Governing Body

Friends Homes, Inc. is governed by a Board of Trustees, which serves as the organization's governing body and holds ultimate responsibility for oversight of operations, financial condition, and resident welfare. The Board's primary duties include:

- **Financial Oversight:** Reviewing and approving budgets, monitoring financial performance, and ensuring fiscal integrity.

- **Compliance:** Ensuring adherence to applicable laws, regulations, and contractual obligations.
- **Resident Welfare:** Overseeing the quality of resident care and services, including safety and satisfaction.
- **Risk Management:** Monitoring risks to solvency and operational stability.

4.1.1 Selection of Members

The Board of Trustees consists of 12 to 24 members, with the exact number set by the Board. Trustees are elected by the Board at the annual meeting and, as needed, at other regular or special meetings. Trustees serve three-year staggered terms and may serve up to two consecutive full terms, after which a one-year break is required before re-election. Officers of the Board (Chair, Vice-Chair, Secretary, and Treasurer) are elected annually by the Board from among its members.

The Board strives to maintain a majority of Trustees affiliated with the Religious Society of Friends, though this is not a strict eligibility requirement. Resident associations (Friends Homes West and Friends Homes Guilford) may each recommend up to two resident representatives for Board consideration.

4.1.2 Oversight of Management and Operations

The Board has entered into a management contract with PHI Management Services, LLC, for day-to-day management of the campuses. PHI Management Services, LLC provides an Executive Director, who serves as the general manager of the corporation. The Executive Director through the management agreement oversees all employees, implements Board policies, and manages operations. The Board maintains oversight through:

- Regular review of financial and operational reports.
- Approval of major contracts, capital projects, and debt issuances.
- Quarterly Board meetings and committee reports.
- Evaluation of management performance and compliance with corporate policies.

4.1.3 Committees

The Board maintains an Executive Committee (6–10 members, including the four officers) and may establish additional standing or special committees. Committees assist with governance but cannot exercise certain powers reserved to the full Board, such as electing Trustees, approving dissolution or mergers, or amending bylaws. The Friends Homes, Inc. Board maintains the following standing committees with the following descriptions:

- **Executive Committee:** The Executive Committee of the Friends Homes Board of Trustees is composed of the officers of the Board and chairs of the standing committees. In accordance with the bylaws, it reviews and acts on behalf of the Board of Trustees on matters referred to it by the Board. The Executive Committee also receives committee reports and recommendations for the purpose of reviewing and making appropriate recommendations to the full Board.

- **Finance and Investment Committee:** The Finance and Investment Committee supports sound financial management to ensure long-term sustainability of Friends Homes. In close cooperation with management, external auditors, and investment advisors, the Committee makes periodic recommendations to the Board. The Committee reviews and evaluates annual operating and capital budgets and quarterly financial statements and monitors all aspects of revenues and expenses. The Committee meets with Friends Homes's investment advisors semi-annually to oversee all aspects of corporate investments, considering asset allocation, performance, risk management and compliance with the Board's investment policy. The Committee also evaluates major financial transactions and reviews the annual audit reports for Friends Homes.
- **Marketing & Philanthropy Committee:** The Marketing and Development Committee oversees and supports communications to potential residents by building relationships and publicizing information about the resources of the Friends Homes community. In a competitive marketplace, the Committee works to attract and retain residents by understanding and meeting important residential needs. The Committee carefully monitors occupancy rates and market trends to plan accordingly. Further, the Committee assists management with on-going philanthropy efforts to increase donations to support residents and community improvements.
- **Facilities and Services Committee:** The Facilities and Services Committee monitors all physical aspects of the Friends Homes campus, seeking improvements through new construction, renovation, improvements, and on-going maintenance. The Committee reviews management proposals for capital expenditures to meet these needs. In addition, the Committee assists management and outside contractors in developing and implementing plans for expansion projects. Proposals to enhance landscaping, updating common spaces, furnishings, dining, communications, health and wellness, transportation and security and many other improvements of residents' experience are presented to the Committee for evaluation and recommendations to the full Board.
- **Nominating Committee:** The Nominating Committee identifies and recommends the selection of new members of the Board to fill vacancies. The Committee also recommends the assignment of members to serve as Board officers and committee members, subject to full Board approval. The Committee assures that its recommendations meet the number, eligibility, composition, and terms of service required by the bylaws. The Committee generally begins its work in May of each year to have a full slate of nominations prepared for the December Board meeting at which time the recommendations are submitted for approval.

4.2 Controlling Person Governing Body

Friends Homes, Inc. does not identify a separate controlling person in its bylaws. If applicable, the governing body of any controlling entity would be responsible for system-level strategy, appointment of Trustees, and consolidated financial oversight.

5. Related Parties

Since May 2016, Friends Homes, Inc. has had a management contract with PHI Management Services, LLC. PHI Management Services, LLC. employs the Executive Director, Director of Independent Living for Friends Homes West, Associate Executive Director for Friends Homes Guilford, and Director of Health Care Services; provides on-site management and centralized administrative services to Friends Homes, Inc.

5.1 PHI Management Services, Inc.

- **Nature of Relationship:** nonprofit supporting organization providing management, staffing, and administrative services to Friends Homes, Inc.
- **Goods/Leases/Services Provided:** employs the Executive Director, Associate Executive Director for Friends Homes West, Associate Executive Director for Friends Homes Guilford, and Director of Health Care Services and provides on-site management, human resources, information technology services, and centralized administrative services to Friends Homes, Inc. under a management agreement.
- **Actual/Probable Cost:** The cost was \$2 million in FY2025, based on a percentage of operating revenue, less entry fee amortization.

6. Relationships with Religious, Charitable, or Other Organizations

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.

7. Other Persons Responsible for Provider Obligations

No other person or entity is responsible for the financial or contractual obligations of Friends Homes, Inc.

8. Obligated Groups

Friends Homes, Inc. is a member of its own obligated group for financing purposes.

9. Debt Covenants and Compliance

The debt covenant requirements are 120 Days' Cash on Hand and 1.20 Debt Service Coverage as established by the Master Indenture.

10. Third-Party Management

Friends Homes, Inc. contracts with PHI Management Services, LLC to provide management services to aid day-to-day operations of Friends Homes West and Friends Homes Guilford campuses.

11. Leases of Real Property

Friends Homes, Inc. does not lease any of the real property that makes up Friends Homes West and Friends Homes Guilford campuses.

12. Endowment Funds

Friends Homes, Inc. has a Residents Financial Assistance Endowment Fund. The income of which is used to assist residents who would otherwise not be able to live at either Friends Homes campuses due to financial considerations.

Friends Homes, Inc. has two endowments that are from donor-restricted funds; Benevolent Fund Endowment and Employee Scholarship Fund Endowment. As outlined in the audited financials:

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, Friends Homes, Inc. 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 Friends Homes, Inc. in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, Friends Homes Inc. 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 Friends Homes, Inc., and (7) the Friends Homes Inc.'s investment policies.

13. Description and Location of Property

Friends Homes, Inc. is a nonstock, nonprofit corporation chartered in 1958. It currently owns and operates a continuing care retirement community (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.

In 1968, Friends Homes opened its first 24 apartments for seniors on New Garden Road and gradually expanded into a Life Plan Community offering independent living, assisted living, skilled nursing, and memory care. In 1993, Friends Homes West opened on the same property. Key milestones include a 2018 renovation for both campuses, the 2021 addition of 20 townhomes and a redesigned entrance, and a 2022 capital campaign raising \$1.245 million, which funded a wellness center, renovated dining room, and a connecting bridge between campuses. In 2023, the West Campus expansion added 54 villa apartments, 8 townhomes, and 11 cottages.

Today, Friends Homes is a friendly, welcoming community where residents enjoy a rich and fulfilling lifestyle filled with opportunities for social interaction, wellness, recreational pursuits, lifelong learning, and more.

14. Number of Living Units

As of September 30, 2025, The Friends Homes Guilford Campus included a total of 199 independent living units, 48 private and semi-private rooms for assisted living and 69 private and semi-private rooms for nursing care. The Friends Homes West campus has a total of 243 independent living units, 40 private assisted living rooms and 40 private rooms for nursing care.

15. Continuing Care at Home Program

Friends Homes, Inc. does not have nor operate a Continuing Care at Home (CCaH) program.

16. Resident Population

As of September 30, 2025, the census at Friends Homes Inc. was:

- 424 residents at in independent living
- 82 residents in assisted living
- 90 residents in skilled living

17. Occupancy Rates

The 12-month daily average occupancy rates for Friends Homes for the past five fiscal years were as follows:

Table 17.1 – Historical Occupancy Rates (12-Month Daily Average)

Fiscal Year-End	Independent Living (%)	Assisted Living (%)	Skilled Nursing (%)
9/30/2025	99.0%	92.0%	84.0%
9/30/2024	98.0%	94.0%	91.0%
9/30/2023	95.0%	93.0%	94.0%
9/30/2022	92.0%	89.0%	89.0%
9/30/2021	92.0%	87.0%	90.0%

18. Semiannual Resident Meetings

Friends Homes, Inc. holds meetings with residents of Friends Homes Guilford & West Campuses monthly. These monthly “town hall meetings” are typically held on the 3rd Wednesday of every month with all residents. A budget presentation is also given each October to the residents.

Most Recent Meeting Dates

- November 12, 2025
- December 3, 2025
- January 6, 2026

19. Resident Property Rights

Residents do not hold ownership or property rights in the real estate of Friends Homes Guilford or West Campuses. Friends Homes, Inc. retains full ownership and control of the property.

20. Services Provided

Friends Homes, Inc. offers services under a continue care contract. The following disclosures describe the services included in the contract, as well as those available for additional charge.

20.1 Health Care Services

Friends Homes, Inc. provides assisted and nursing care privately and to residents who are covered by government and commercial payers. Friends Homes, Inc. 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. has agreements with third-party payors that provide for payments Friends Homes, Inc. 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.

20.2 Continuing Care Contracts (CCRC)

Friends Homes, Inc. provides a service allowance of \$230 per month per individual resident. This allowance is already a part of the monthly charge. If the resident exceeds the service allowance in any given month, the additional costs above the allowance will be added to the resident's next monthly statement. Residents are 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

20.2.1 Services Included in Monthly Fees

- 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
- Service Allowance (meals, transportation, etc.)

20.2.2 Services Available at Additional Charge

- Transportation for medical appointments
- Beauty/barber shop
- Meals beyond service allowance
- Nursing services such as lab work
- Dental services
- Physical therapy
- Pharmacy
- Personal housekeeping/laundry services
- Guest rooms

20.3 Delivery of Services

Core residential, assisted living, and skilled nursing services are provided directly by Friends Homes, Inc. Certain therapies (physical, occupational, and speech) are furnished under contract with independent third parties.

21. Resident Fees

Nonancillary fees at Friends Homes, Inc. Guilford & West Campuses consist of required, ongoing fees such as entrance fees, monthly service fees, and transfer fees. The following tables show Friends Homes, Inc.'s current fee schedules, along with historical information on entrance fee and monthly fee increases over the past five fiscal years. Narrative explanations of household composition changes, transfer fees, and resale fees are also included.

21.1.1 CCRC Contracts (Residence & Care Agreement)

CCRC contracts represent the Residence & Care Agreement for residents who live at the Friends Homes West & Guilford campuses.

Table 21.1: Current Monthly Fees for Friends Homes

Unit Type	Single Occupant	Double Occupant
Independent Living (IL) – 1 Bedroom Apartment	\$3,343	\$4,129
IL– 2 Bedroom Standard Apartment	\$4,446	\$5,232
IL – 2 Bedroom with Balcony/Patio Apartment	\$4,592	\$5,378
IL– 2 Bedroom Deluxe Apartment	\$4,729	\$5,515
IL – 2 Bedroom Villa Apartment	\$4,761	\$5,818
IL – 2 Bedroom Villa Deluxe Apartment	\$5,032	\$6,089
IL – 2 Bedroom Villa w/ Den Apartment	\$5,305	\$6,362
IL- 2 Bedroom Townhome	\$4,421	\$5,478
IL- 2 Bedroom Townhome/Den	\$4,625	\$5,682
IL – 3 Bedroom Cottage	\$4,753	\$5,810
Assisted Living – West	\$6,593	N/A
Skilled Nursing Private - West	\$388/day	N/A
Skilled Nursing Private Deluxe - West	\$388/day	N/A
Independent Living (IL) –Hobbs 1 Bedroom Apartment	\$3,405	\$4,191
IL– 2 Bedroom Hobbs Apartment	\$4,529	\$5,315
IL– 2 Bedroom Deluxe Hobbs Apartment	\$4,841	\$5,627

Unit Type	Single Occupant	Double Occupant
IL – Woolman & Fox Studio Apartment	\$2,119	N/A
IL – Woolman & Fox 1 Bedroom Partial Kitchen Apartment	\$3,233	\$4,019
IL – Woolman & Fox 1 Bedroom Full Kitchen Apartment	\$3,233	\$4,019
IL – Woolman & Fox 1 Bedroom Deluxe Apartment	\$3,842	\$4,628
IL – Woolman & Fox 2 Bedroom Partial Kitchen Apartment	\$4,271	\$5,057
IL – Woolman & Fox 2 Bedroom Full Kitchen Apartment	\$4,271	\$5,057
IL- Woolman & Fox 2 Bedroom Townhome	\$4,421	\$5,478
IL- Woolman & Fox 2 Bedroom Townhome/Den	\$4,625	\$5,682
IL – Woolman & Fox 2 Bedroom	\$4,625	\$5,682
Assisted Living Private - Guilford	\$5,396	N/A
Assisted Living Private Deluxe - Guilford	\$6,593	N/A
Assisted Living (1 Bedroom)	\$8,013	N/A
Skilled Living (Semi-Private)	\$388/day	N/A
Skilled Living (Private)	\$398/day	N/A

Monthly fees are reviewed annually and may be adjusted to reflect changes in operating costs, staffing, health care expenses, and capital needs. Adjustments are subject to board approval, with no contractual cap on increases.

Table 21.3: Historical Increases in Monthly Fees

Fiscal Year-End	Average % Increase	Average \$ Increase	Frequency
9/30/2026	4.3%	\$179	Annual
09/30/2025	4.5%	\$178	Annual
09/30/2024	5.8%	\$215	Annual
09/30/2024	7.0%	\$244	Annual
09/30/2023	4.0%	\$123	Annual

Table 21.4: Current Entrance Fees for Friends Homes

Unit Type	Entrance Fee
Independent Living (IL) – 1 Bedroom Apartment	\$139,000
IL– 2 Bedroom Standard Apartment	\$202,000
IL – 2 Bedroom with Balcony/Patio Apartment	\$209,000
IL– 2 Bedroom Deluxe Apartment	\$216,000
IL – 2 Bedroom Villa Apartment	\$392,000
IL – 2 Bedroom Villa Deluxe Apartment	\$442,000
IL – 2 Bedroom Villa w/ Den Apartment	\$510,000
IL- 2 Bedroom Townhome	\$363,000
IL- 2 Bedroom Townhome/Den	\$416,000
IL – 3 Bedroom Cottage	\$485,000
Assisted Living - West	\$3,000
Skilled Nursing Private - West	\$3,000
Skilled Nursing Private Deluxe - West	\$3,000
Independent Living (IL) –Hobbs 1 Bedroom Apartment	\$139,000
IL– 2 Bedroom Hobbs Apartment	\$202,000

Unit Type	Entrance Fee
IL– 2 Bedroom Deluxe Hobbs Apartment	\$216,000
IL – Woolman & Fox Studio Apartment	\$30,000
IL – Woolman & Fox 1 Bedroom Partial Kitchen Apartment	\$59,000
IL – Woolman & Fox 1 Bedroom Full Kitchen Apartment	\$89,000
IL – Woolman & Fox 1 Bedroom Deluxe Apartment	\$95,000
IL – Woolman & Fox 2 Bedroom Partial Kitchen Apartment	\$80,000
IL – Woolman & Fox 2 Bedroom Full Kitchen Apartment	\$109,000
IL- Woolman & Fox 2 Bedroom Townhome	\$363,000
IL- Woolman & Fox 2 Bedroom Townhome/Den	\$416,000
IL – Woolman & Fox 2 Bedroom	\$416,000
Assisted Living (Private) - Guilford	\$3,000
Assisted Living (Private Deluxe) - Guilford	\$3,000
Assisted Living (1 Bedroom) - Guilford	\$3,000
Skilled Living (Semi-Private) - Guilford	\$3,000
Skilled Living (Private) - Guilford	\$3,000

Refundability terms are disclosed in Section 22.

Table 21.6: Historical Increases in Entrance Fees

Fiscal Year-End	Average % Increase	Average \$ Increase	Frequency
9/30/2026	8.50%	\$21,250	Annual
9/30/2025	5.60%	\$13,300	Annual
9/30/2024	5.00%	\$11,350	Annual
9/30/2023	8.00%	\$16,800	Annual
9/30/2022	3.00%	\$3,455	Annual

21.2 Household Composition Changes

According to the Friends Homes, Inc. Residence and Care Agreement, 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 Friends Homes, the non-resident spouse/cohabitant may become a resident if such spouse/cohabitant meets all of the then current requirements for admission and enters into a then current version of the Residence and Care Agreement 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 Unit to be occupied by the resident and non-resident spouse/cohabitant. If the resident's spouse/cohabitant shall not meet the requirements of Friends Homes for admission as a resident, the current resident may terminate the Agreement.

21.3 Transfer Fees and Resale Fees

Friends Homes, Inc. 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 Friends Homes, Inc. and will be administered under the guidelines of Friends Homes transfer policy in effect at the time of the resident's request to move. No resale fees are charged because residents do not hold ownership rights in their units.

22. Refundable Entrance Fees

22.1 Conditions for Refunds

During the first thirty days a Friends Homes resident shall receive a refund of the Entrance Fee paid less a service charge as determined by Friends Homes, Inc. Not to exceed the greater of one thousand dollars (\$1,000) or two percent (2%) of the Entrance Fee paid.

After the first thirty days a Friends Homes resident shall receive a refund of the Entrance Fee paid to Friends Homes, Inc. depending on the entrance fee option selected:

- Standard – Refund of entrance fee paid less a 4% non-refundable fee less 1.6% per month for 60 months.
- Woolman/Fox - Nonrefundable

22.2 Refund Obligations as of September 30, 2025

Category	Number of Contracts	Aggregate Amount
Refunds due once all contractual conditions are met	0	\$0
Refunds currently due (including amounts 30+ days past due)	0	\$0
Resident now in non-independent living unit – unit not resold	0	\$0
Resident now in non-independent living unit – unit resold	0	\$0

As of September 30, 2025, Friends Homes, Inc. had \$25,208,559 in total contractual refund obligations on non-refundable contracts in the event of move-out, death, or a termination.

23. Policies for Residents in Financial Hardship

23.1 Policies for Residents Unable to Pay

It is the policy of Friends Homes, Inc. to screen each prospective resident at the time of admission to determine their ability to pay. A resident's contract will not be terminated solely due to the resident's inability to continue meeting financial obligations as a result of circumstances beyond the resident's control. If a resident presents information that, in the

sole judgment of Friends Homes, warrants special financial consideration, Friends Homes will carefully consider providing a full or partial subsidy of the resident's monthly charges and other applicable fees. Any such subsidy will be provided only if it does not impair Friends Homes' ability to meet its objectives while maintaining sound financial operations. Any financial assistance granted will be entirely at the discretion of Friends Homes and will be governed by a separate written agreement between Friends Homes and the resident. Friends Homes, Inc. may require the resident to apply for Medicaid, public assistance, or any other reasonably available public benefit programs to help offset the resident's monthly charges or other fees.

23.2 Sources of Financial Support

- **Benevolent Assistance Endowment Fund** – Friends Homes, Inc. has an endowment fund, the income of which will be used to assist Residents who would otherwise not be able to live at Friends Homes because of financial considerations. The income from the fund may be used for the purposes of providing financial assistance in accordance with the provisions of this section.

23.3 Conditions or Limitations

- Friends Homes, Inc. will not terminate a resident's CCRC contract solely due to the resident's inability to continue paying the monthly charge or other charges payable under the contract due to circumstances beyond the resident's control. This declaration shall not be construed to limit or qualify Friends Homes right to terminate this Agreement in accordance with its terms.
- If a resident presents information that, in the sole judgment of Friends Homes, warrants special financial consideration, Friends Homes will carefully consider subsidizing, in whole or in part, the monthly charge and other charges payable by the resident, provided that such subsidy does not impair Friends Homes ability to achieve its objectives while operating on a sound financial basis.
- Any financial assistance granted shall be entirely within the sole discretion of Friends Homes and shall be governed by a separate written agreement between Friends Homes and the resident. If requested by Friends Homes, the resident agrees to apply for Medicaid, public assistance, or any other reasonably available public benefit programs to help offset the monthly charge or other charges payable under this agreement.

23.4 Narrative

In 2025, Friends Homes, Inc. distributed \$503,000 in benevolent care support to Friends Homes Guilford & West Community residents.

24. Contract Cancellation and Refund Policies

24.1 Provider-Initiated Cancellation

Friends Homes, Inc. may terminate the Residence and Care Agreement at any time upon the occurrence of any of the following:

- A material misrepresentation or omission by the Resident in the Application for Admission, Personal Health History, or Confidential Financial Statement;
- A material change in the Resident's health occurring prior to occupancy (the Admission Date);
- The Resident's failure to pay any fees or charges due to Friends Homes within sixty (60) days of the date such payment is due;
- The Resident's failure to comply with the rules and regulations adopted by Friends Homes, as determined by Friends Homes; or
- The Resident's breach of any term or condition of this Agreement.

24.2 Resident-Initiated Cancellation

A resident may cancel the Residence and Care Agreement under the following circumstances:

- Cancellation within the rescission period and within the first sixty (60) days of occupancy
 - A resident may cancel the agreement at any time after the rescission period and prior to the sixty-first (61st) day of occupancy by providing written notice to Friends Homes.
 - In such cases, the Resident shall receive a refund of the Entrance Fee paid, less an administrative fee of four percent (4%) of the total Entrance Fee.
 - If the Resident, the Resident's spouse, or a roommate dies prior to occupancy, or if illness, injury, incapacity, or financial reversal prevents occupancy, the contract is automatically terminated, and the full Entrance Fee paid will be refunded.
- Cancellation after the first sixty (60) days of occupancy
 - After the initial sixty (60) days, the Resident may terminate the Agreement by providing thirty (30) days' prior written notice to Friends Homes.
 - Residents electing the Woolman/Fox Entrance Fee Option are not entitled to any refund under this section.

24.3 Refunds Upon Cancellation

- Refundable entrance fees are returned in accordance with Section 22 – Refundable Entrance Fees. Refunds will be made once the Resident’s living accommodation has been reserved by a prospective Resident who has paid their Entrance Fee.
- No interest shall accrue or be payable on any refunded amount.

24.4 Refunds Upon Death

The Friends Homes, Inc. Residence and Care Agreement shall automatically terminate upon the death of the resident. 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 the provisions set forth in section 7 of the Residence and Care agreement, and shall be paid to the Estate of the deceased Resident.

25. Re-occupancy of Vacated Living Units

A Living Unit at Friends Homes, Inc. is considered vacated for re-occupancy only after one of the following:

- Death of the Resident
- Voluntary termination with notice
- Termination by Friends Homes
- Permanent transfer to Health Center with surrender of unit

Until termination, the Resident still holds occupancy rights.

25.1 Temporary Absences

Hospitalizations, rehabilitative stays, or other temporary absences do not constitute a vacating of the living unit and do not permit re-occupancy by a new resident.

25.2 Refunds

Refunds associated with the vacating of a living unit are handled in accordance with Section 22 – Refundable Entrance Fees.

26. Resident Relocation to Another Living Unit

Residents of Friends Homes, Inc. Guilford or West campuses may be required to relocate from their current living unit to another living unit within the community under the following circumstances:

26.1 Resident Needs

- **Health-Related Transfer:** When a resident's medical condition requires a move to a more supportive level of care, such as assisted living or skilled nursing.
- **Safety and Accessibility:** When the current living unit no longer meets the resident's safety or accessibility needs (for example, due to mobility limitations or inability to safely navigate stairs).

26.2 Provider Needs

- **Renovation or Construction:** When construction, renovation, or repair work requires temporary or permanent relocation.
- **Operational Necessity:** When the continued occupancy of a living unit materially interferes with the orderly operation of the community and no reasonable alternative exists. This provision is applied only in limited circumstances.

26.3 Process

- From time to time, Friends Homes, Inc. may undertake additions and/or renovations to the Friends Homes community. Friends Homes will use reasonable efforts to minimize any disturbance to residents.
- The resident agrees to cooperate with Friends Homes in these efforts and, if necessary, to relocate to a substantially comparable Living Unit under the terms and conditions of the agreement.
- In the event it becomes necessary to close or otherwise cease ordinary operations at the Friends Homes community, as determined in the sole discretion of Friends Homes' Board of Trustees, the resident agrees to allow Friends Homes to relocate them to a substantially comparable community managed by Friends Homes within the same general locality. The Agreement shall remain in full force and effect with respect to the continuing care retirement facility.
- The Resident further agrees that any transfer of residency shall not terminate the Residence & Care Agreement nor shall it entitle the Resident to a full or partial refund of their Entrance Fee.

26.4 Financial Obligations

All entrance fee and monthly fee obligations continue in accordance with the terms of the resident's contract, regardless of relocation.

27. Health and Financial Admission / Continuation Standards

27.1 Admission Requirements

Admission to Friends Homes Guilford or West Campuses is subject to both health and financial screening at the time of application.

27.1.1 CCRC Contracts (Residence & Care Agreement)

- **Financial Standards:** The resident must have assets and income sufficient, under foreseeable circumstances, to meet the financial obligations under the Agreement and to cover ordinary living expenses. Friends Homes may require the resident to provide current financial information at any time prior to occupancy.
- **Health Standards:** Prior to admission, the resident shall submit a physical examination report completed by a physician of the resident's choice within sixty (60) days of the projected occupancy date. The report must include a statement that the resident is in good health and able to perform normal activities of daily living. Friends Homes may require an additional physical examination by the Medical Director or another physician approved by Friends Homes. The resident shall be responsible for the cost of any such additional examination. If the results of any physical examination materially differ from the information provided in the resident's Application for Admission or Personal Health History, Friends Homes, Inc. reserves the right to:
 - Decline admission;
 - Terminate the Residence & Care Agreement; or
 - Permit the Resident to take occupancy in accommodations suitable to the Resident's needs.

27.2 Continuation Requirements

- Once admitted, residents may remain at the community regardless of changes in health or financial status, subject to the hardship policies described in Section 23 – Policies for Residents in Financial Hardship. Residents may be required to relocate to a higher level of care (see Section 26 – Resident Relocation to Another Unit) if their health needs can no longer be met safely in their current living unit.

27.3 Changes in Condition Before Occupancy or Commencement of Services

- If a resident's health materially declines between signing a contract and the date of initial occupancy, the provider may re-evaluate eligibility for independent living and may require admission to a higher level of care, if available. If no suitable accommodation is available or if the applicant no longer meets entry requirements, the contract may be canceled and entrance fees refunded in accordance with Section 24 – Contract Cancellation and Refund Policies. If a material change in financial condition occurs before occupancy (such as loss of income or assets needed to pay monthly fees), the provider will re-evaluate eligibility. If standards are no longer met, the contract may be canceled and entrance fees refunded.

28. Age and Insurance Requirements for Admission

28.1 Age Requirements

- The admission requirements for residence at Friends Homes, Inc. 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.

28.2 Insurance Requirements

Applicants for CCRC contracts must:

- The Resident shall maintain Medicare Part A, Medicare Part B, and one supplemental health insurance policy or equivalent insurance coverage acceptable to Friends Homes with evidence of such coverage to be provided to Friends Homes upon execution of this Agreement and thereafter from time to time upon request.

Long-term care insurance is not required but may be considered in satisfaction of certain financial eligibility criteria on a case-by-case basis.

28.3 Special Conditions

- None

29. Reserve Funding and Refund Security

29.1 Cash and Investments

As of September 30, 2025, Friends Homes, Inc. held \$83,700,000 in unrestricted cash and investments.

At year-end, unrestricted cash and investments supported a Days Cash on Hand of 736 days, representing approximately twenty four months of projected operating expenses without new revenues.

29.2 Investment Management and Oversight

- **Oversight Body:** Finance Committee of the Board of Trustees of Friends Homes, Inc.
- **Day-to-Day Management:** Chief Executive Officer (CEO), Chief Financial Officer (CFO) and Executive Director (ED)
- **Experience:** Management has over 83 combined years of experience in senior living. CEO and CFO have combine over 60 years experiences as CPA.
- **Policy and Controls:** Investments are managed under a Board-approved policy . The policy recognizes that the strategic allocations of Portfolios assets across broadly defined financial asset and sub-asset categories with varying degrees of risk, return, and return correlation will be the most significant determinant of long-term investment returns and Portfolio asset value stability. Diversification across and within asset classes is the primary means by which the Committee expects the Portfolios to avoid undue risks of large losses over long time periods. To protect the Portfolios against unfavorable outcomes within an asset class due to the assumption of large risks, the Committee will take reasonable precautions to avoid excessive investment concentrations.

29.3 Statutory Operating Reserve Requirement

North Carolina General Statutes Chapter 58, Article 64A requires Friends Homes, Inc. (the Organization) to maintain an operating reserve equal to 12.5% of the total operating costs projected for the twelve-month operating period of the first year of the financial forecast. The operating reserve of 12.5% assumes an occupancy level of 93% and a debt service coverage ratio in excess of 2 as of the most recent fiscal year. The forecast assumes an occupancy rate exceeding 93% occupancy in the forecast period. Years 2026 through 2030 were developed using management's understanding of markets and circumstances as of the forecast date.

Table 29.1: Statutory Operating Reserve Calculation (as of September 30, 2026)

Component	Amount
Total projected operating expenses	\$50,452
Add: Debt service (principal and interest)	\$7,920
Less: Depreciation and amortization	(\$7,410)
Projected operating costs	\$50,962
Applicable reserve percentage based on occupancy	12.5%
Required operating reserve	\$6,371

Summary: As of September 30, 2026, Friends Homes, Inc. needs \$6,371 set aside as an operating reserve, which is 12.5% of the total projected costs of \$50,962.

29.4 Refund Security (Entrance Fee Refunds)

Entrance fee refund obligations are supported by unrestricted liquidity, including:

- \$77,308,000 of unrestricted liquidity above the statutory operating reserve.

The statutory operating reserve cannot be used for any purpose, including refund payments, without prior regulatory approval.

Friends Homes, Inc. is not required by statute to escrow entrance fees and none are maintained in escrow.

Table 29.2: Unrestricted Cash and Investment Summary as of September 30, 2025

Category	Amount	Notes
Total unrestricted cash & investments	\$83,679,000	All liquid balances (cash and investments)
Less: Required operating reserve	(\$6,371,000)	Must be maintained; release requires regulatory approval
Excess unrestricted cash and investments above operating reserve and board designated refund reserve	\$77,308,000	Available for operations and refund needs (outside of designated reserves)

30. Expansion or Renovation Plans

The Friends Homes, Inc. Board of Trustees has approved an updated Master Plan, and management is currently working with designers on the two focus areas of the plan:

- A new Independent Living apartment building with approximately 50 apartments over parking.
- A new Assisted Living building with 76 one-bedroom apartments, including 16 new memory care beds. The building will also house updated amenities for therapy, salon services, dining, and multi-purpose space.

At best, construction would begin in late 2026 after the design; financial due diligence and pre-sales (IL apartments) are completed.

31. Audit Opinion and Timeliness

The consolidated financial statements of Friends Homes, Inc., for the fiscal year ended September 30, 2025, were audited by Turlington & Company L.L.P. CPAs, (Lexington, NC).

- **Timeliness:** The audit was completed and issued within 142 days of fiscal year-end, meeting statutory requirements.
- **Audit Opinion:** The independent auditor issued an unqualified opinion (a “clean” audit opinion) on the consolidated financial statements.

32. Audited Financial Statements

The audited consolidated financial statements of Friends Homes Inc., for the fiscal year ended September 30, 2025, are attached hereto as Appendix A and form an integral part of this Disclosure Statement. These statements include the balance sheet, statement of operations, statement of cash flows, and accompanying notes, and have been prepared by Turlington & company L.L.P. CPAs in accordance with generally accepted accounting principles.

33. Five-Year Prospective Financial Statements

The five-year prospective financial statements of Friends Homes, Inc. for the period 2026 through 2030 are attached hereto as Appendix B. These statements were prepared and compiled by Turlington and Company, L.L.P. and include a summary of significant assumptions and accounting policies.

34. Explanation of Variances from Projections

For the fiscal year ending September 30, 2025, management reviewed the results of operations for Friends Homes, Inc. against the prospective financial statements filed in the prior year. Variances included both financial line items and key assumptions, such as occupancy, used in preparing the projections. The following material variances were identified:

Table 34.1: Variance Analysis - Fiscal Year Ended 09/30/25

Category	Projected Amount (in millions)	Actual Amount (in millions)	Variance (in millions)	Explanation
Cash and cash equivalents	1.0	7.6	6.6	Projection held cash constant at 1 million remainder is invested
Assets limited as to use, required for current liabilities	0	1.5	1.5	Audit reclassified assets held for debt service payments
Assets limited as to use, under bond agreement	0	5.8	5.8	Audit reclassified assets held for debt service payments
Investments	68.1	63.1	(5.0)	Projection held cash constant at 1 million remainder is invested
Property and equipment, net	119.6	117.9	(1.7)	Not all forecasted capital were started in 2025.
Current maturities of long-term debt	10.6	7.9	(2.7)	Audit reclassified assets held for debt service payments
Accounts payable	1.1	2.2	1.1	Variance is due to timing of vendor payments at year end
Accrued expenses	2.8	1.7	(1.1)	Variance is due to less expenses needed to be accrued at year end than anticipated
Occupancy deposits	0.0	1.2	1.2	Forecast includes all in refundable fees.

Category	Projected Amount (in millions)	Actual Amount (in millions)	Variance (in millions)	Explanation
Long-Term Debt. Less current maturities	81.9	84.4	2.5	Audit has reclassified the assets held for current debt service payments
Refundable fees	30.4	50.0	19.6	Need to look at refundable fees, occupancy deposits and deferred revenue together.
Deferred revenue from advance fees	19.8	0	(19.8)	Resident life expectancy is greater than that which was forecasted. Younger resident move-ins.
Service fees, residential	19.8	38.3	18.5	Services fees for all levels of care were separated out in forecast and combined in the audit
Service fees, assisted living	5.1	0	(5.1)	Services fees for all levels of care were separated out in forecast and combined in the audit
Service fees, nursing	13.2	0	(13.2)	Services fees for all levels of care were separated out in forecast and combined in the audit
Investment Income	1.5	3.2	1.7	Variance is due to stronger than projected investment returns
Net unrealized gain on investments	0	4.2	4.2	Projection does not include changes in the investment market
Routine Services (Resident Care)	10.5	9.3	(1.2)	Audit breaks out purchased medical services from Routine Services
Purchased medical services	0	1.0	1.0	Audit breaks out purchased medical services from Routine Services
Entrances fees received	6.9	8.1	1.2	Entrance fees collected more than expected

Category	Projected Amount (in millions)	Actual Amount (in millions)	Variance (in millions)	Explanation
Net unrealized (gain) loss on investments	0	4.2	4.2	Projection does not include changes in the investment market
Purchase of property and equipment	6.8	5.1	(1.7)	Not all forecasted capital were started in 2025.
Independent Living Occupancy	94%	91.5%	-2.5%	Slower-than-expected absorption of units following campus renovations.
Entrance Fee Receipts	\$20.0 million	\$18.2 million	-\$1.8 million	Lower receipts due to reduced occupancy.
Staffing Costs	\$15.0 million	\$16.1 million	+\$1.1 million	Increased reliance on contract nursing staff to cover shortages.
Debt Service	\$7.5 million	\$7.0 million	-\$0.5 million	Refinancing of variable-rate debt at more favorable terms.

35. Key Financial Metrics

This section presents the eight statutory financial ratios required under N.C. Gen. Stat. § 58-64A-150(a)(39). Historical values are based on audited financial statements; prospective values are derived from the provider's five-year prospective financial statements. Comparative statewide medians will be published by the North Carolina Department of Insurance beginning in late 2026.

For the tables below, FY = the most recent fiscal year end.

Full statutory text of definitions is provided in Appendix E.

35.1 Liquidity Ratios

Days Cash on Hand (DCOH). Number of days the provider (obligated group) could pay its normal cash operating expenses using unrestricted cash and investments. More days generally means stronger liquidity.

Cushion Ratio (CUSH). Number of times unrestricted cash and investments could cover one year of debt service. Higher values mean more resources to pay debt service.

Table 35.1: Liquidity Ratios – Provider Only

Ratio	FY-2	FY-1	FY	FY+1	FY+2	FY+3
DCOH	674	792	741	669	617	609
CUSH	15.2x	17.5x	17.1x	14.3x	13.9x	14.1x

Narrative – Provider Only:

DCOH peaked in FY-1 and is projected to decline steadily through FY+3, reflecting deliberate cash deployment while maintaining strong liquidity. CUSH follows a similar path, normalizing from elevated levels to approximately 14x, indicating improved cash efficiency with continued solid coverage.

35.2 Profitability Ratios

Operating Ratio (OR). Compares current operating expenses (excluding depreciation and amortization) to current operating revenues (excluding entrance fee amortization). Lower percentages mean operating revenues are more easily covering cash operating expenses.

Net Operating Margin (NOM). Shows the result from core resident services. Higher values mean a stronger operating result from resident services.

Adjusted Net Operating Margin (NOM-A). Shows the operating result after also counting net entrance fee cash received during the year. Higher values mean the result is improved when net entrance fee cash is included.

Table 35.2: Profitability Ratios – Provider Only

Ratio	FY-2	FY-1	FY	FY+1	FY+2	FY+3
OR	93.30%	92.15%	93.77%	95.88%	95.03%	94.61%
NOM	6.70%	7.85%	6.23%	4.12%	7.97%	5.39%
NOM-A	36.08%	21.65%	20.54%	17.11%	18.05%	18.61%

Narrative – Provider Only:

Operating Ratio (OR) improved in FY-1 before rising in FY and is projected to remain elevated in the mid-90% range through FY+3, reflecting sustained cost pressure. Net Operating Margin (NOM) compresses in FY and FY+1, then partially rebounds, while NOM-A continues to normalize from historically high levels, indicating tighter but stabilizing profitability over the forecast period.

35.3 Capital Structure Ratios

Debt Service Coverage (DSCR). Measures ability to pay annual debt service from operations and net entrance fee cash. Higher values indicate greater ability to pay debt service.

Unrestricted Cash & Investments to Long-Term Debt (CD). Compares unrestricted cash and investments to long-term debt. Higher values indicate more unrestricted cash and investments relative to debt.

Capital Expenditures to Depreciation (CED). Indicates reinvestment relative to depreciation expense. Values at or above 1.0x usually mean the provider is reinvesting enough to keep up.

Table 35.3: Capital Structure Ratios – Provider Only

Ratio	FY-2	FY-1	FY	FY+1	FY+2	FY+3
DSCR	3.90x	2.56x	2.50x	2.15x	2.33x	2.41x
CD	.69x	.83x	.91x	.93x	.97x	1.01x
CED	1.58x	.69x	.70x	.70x	.92x	.82x

Narrative – Provider Only:

Debt coverage strengthens significantly after FY-2 and remains solid through the forecast period, indicating improved ability to meet debt obligations. Liquidity and cash coverage measures improve steadily, though they fluctuate year to year, overall showing a more stable and manageable debt position over time.

35.4 Overall Summary

The provider, Friends Homes, Inc. demonstrate sound liquidity, profitability ratio compare favorably to industry benchmarks, and capital structure demonstrate the ability to add debt in the future if desired.

36. Actuarial Opinion and Balance

The opinion of a qualified independent actuary is attached as Appendix C. The actuarial report evaluates Friends Homes, Inc.'s projected financial position and assesses whether Friends Homes, Inc. is in satisfactory actuarial balance.

The most recent actuarial report is dated October 11, 2019, and is based on a comprehensive study as of September 30, 2018. The data and assumptions used for population and financial projections provide a reasonable basis for the projections. The methods used to develop the projections are consistent with sound actuarial principles and practices as prescribed by the Society of Actuaries and the American Academy of Actuaries. Based on this analysis, Friends Homes, Inc. was found to be in adequate

financial condition to meet its obligations, as defined by Actuarial Standard of Practice No. 3 (ASOP 3).

37. Most Recent Examination Report

The North Carolina Department of Insurance has not conducted an examination of Friends Homes, Inc. pursuant to Article 64A of the North Carolina General Statutes.

38. Other Material Information

Management has reviewed whether there are any additional facts, circumstances, risks, or events that could reasonably be expected to influence a prospective or current resident's decision to contract with Friends Homes, Inc. Other than the disclosures provided in prior sections of this Disclosure Statement, management has determined that no additional material information requires disclosure at this time.

39. Continuing Care Contract

Friends Homes, Inc. only offers one continuing care contract, known as the Residence & Care Agreement, attached hereto as Appendix D.

39.1 Continuing Care Contracts

Friends Homes, Inc. offers one continuing care contract, known as the Residence & Care Agreement. The contract offers the following recission of the agreement:

- A resident may cancel the agreement within 30 days of signing or receiving the disclosure statement and receive a full refund, minus any standard charges for the time they actually lived in the community. If the resident moves in and then cancels within the 30 days, the refund may be reduced by a service fee of up to the greater of \$1,000 or 2% of the entrance fee, and any refund will be paid within 60 days. A representative form of this contract is included in Appendix D.

40. Appendix Index

The following Appendices are incorporated into and form an integral part of this Disclosure Statement. Each Appendix begins on a separate page.

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FRIENDS HOMES, INC.
Greensboro, North Carolina
INDEPENDENT AUDITORS' REPORT
AND
FINANCIAL STATEMENTS
As of and for the Years Ended
September 30, 2025 and 2024

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

INDEPENDENT AUDITORS' REPORT

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

Opinion

We have audited the financial statements of Friends Homes, Inc. (a nonprofit organization), which comprise the statements of financial position as of September 30, 2025 and 2024, 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.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Friends Homes, Inc. as of September 30, 2025 and 2024, and the 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.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Friends Homes, Inc. and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Friends Homes, Inc.'s ability to continue as a going concern for one year after the date that the financial statements are issued.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and, therefore, is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

INDEPENDENT AUDITORS' REPORT (CONTINUED)

Auditors' Responsibilities for the Audit of the Financial Statements (Continued)

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Friends Homes, Inc.'s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Friends Homes, Inc.'s ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Furlington and Company, L.L.P.

Lexington, North Carolina
November 21, 2025

FRIENDS HOMES, INC.

STATEMENTS OF FINANCIAL POSITION

	September 30	
	2025	2024
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 7,645,278	\$ 7,390,290
Assets limited as to use, required for current liabilities	1,531,883	1,917,116
Accounts receivable, net	964,701	1,507,535
Refundable sales tax	214,448	60,939
Unconditional promises to give (net)	8,890	22,347
Inventory	7,000	7,000
Prepaid expenses	305,772	357,997
	<u>10,677,972</u>	<u>11,263,224</u>
Assets limited as to use, net of amount required for current liabilities:		
Residents' cash deposits	50	623
Under bond agreement	5,815,276	5,230,388
By donors for permanent endowment funds	933,585	866,744
Reserves required by state statute	12,940,000	10,056,000
	<u>19,688,911</u>	<u>16,153,755</u>
Investments	<u>63,094,304</u>	<u>68,493,623</u>
Property, plant, and equipment:	<u>117,851,713</u>	<u>119,983,408</u>
	<u><u>\$ 211,312,900</u></u>	<u><u>\$ 215,894,010</u></u>
LIABILITIES AND NET ASSETS		
Current liabilities:		
Current maturities on long-term debt	\$ 7,920,000	\$ 10,550,000
Accounts payable - trade	2,176,786	2,004,100
Other accrued liabilities:		
Accrued payroll	598,547	514,375
Accrued PTO	670,386	871,214
Accrued personnel costs and withholdings	413,995	504,730
Accrued interest	325,357	347,795
Occupancy deposits	1,200,825	1,072,525
	<u>13,305,896</u>	<u>15,864,739</u>
Long-term debt, less current maturities	84,389,936	92,596,400
Residents' cash deposits	50	623
Deferred revenue from entrance fees	49,969,530	49,430,858
	<u>147,665,412</u>	<u>157,892,620</u>
Net assets:		
Without donor restrictions:		
Undesignated	56,885,064	51,722,543
Board designated for special projects	5,512,468	5,117,583
With donor restrictions	1,249,956	1,161,264
	<u>63,647,488</u>	<u>58,001,390</u>
	<u><u>\$ 211,312,900</u></u>	<u><u>\$ 215,894,010</u></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	
	2025	2024
Changes in net assets without donor restrictions:		
Operating revenues:		
Resident fees, including amortization of entrance fees of \$6,274,063 in 2025 and \$5,941,918 in 2024	\$ 44,575,462	\$ 42,912,933
Food service income	201,233	191,800
Reimbursed medical	1,167,483	1,166,231
Other	143,795	100,736
Total operating revenues	<u>46,087,973</u>	<u>44,371,700</u>
Operating expenses:		
Routine services	9,305,612	8,094,421
Special services	1,154,951	1,571,887
Dining services	8,038,680	7,354,422
Environmental services	2,503,234	2,622,264
Maintenance	5,273,331	4,880,503
Marketing	598,727	716,186
Administrative	6,081,870	5,647,630
Depreciation	7,268,251	6,917,563
Bond interest and amortization	3,864,634	3,885,145
Purchased medical services	1,035,970	1,015,036
Management company contract services	1,990,639	1,921,342
Miscellaneous, net	1,351,348	1,588,977
Total operating expenses	<u>48,467,247</u>	<u>46,215,376</u>
Decrease in net assets without donor restrictions from operations	(2,379,274)	(1,843,676)
Nonoperating revenues (expenses):		
Contributions	410	11,815
Net realized investment income	3,110,339	3,657,534
Net unrealized appreciation of investments	4,165,124	9,831,971
Net assets released from restrictions	666,440	302,057
Loss on disposal of equipment	(5,633)	-
Total nonoperating revenues	<u>7,936,680</u>	<u>13,803,377</u>
Increase in net assets without donor restrictions	<u>5,557,406</u>	<u>11,959,701</u>
Changes in net assets with donor restrictions:		
Contributions	755,132	421,014
Net assets released from restrictions used for operations	(666,440)	(302,057)
Increase (decrease) in net assets with donor restrictions	<u>88,692</u>	<u>118,957</u>
Increase in net assets	<u>5,646,098</u>	<u>12,078,658</u>
Net assets - beginning of years	<u>58,001,390</u>	<u>45,922,732</u>
Net assets - end of years	<u>\$ 63,647,488</u>	<u>\$ 58,001,390</u>

The accompanying notes are an integral part of the financial statements

FRIENDS HOMES, INC.

STATEMENTS OF CASH FLOWS

	Years Ended September 30	
	<u>2025</u>	<u>2024</u>
Cash flows from operating activities:		
Change in net assets	\$ 5,646,098	\$ 12,078,658
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Contributed stock	-	(202,295)
Termination income and amortization of advance fees	(6,274,063)	(5,941,918)
Proceeds from entrance fees and deposits	8,119,468	8,234,400
Realized (gain) loss on sales of investments (net)	93,062	(1,583,618)
Realized loss on sale of equipment	5,633	-
Amortization of bond issue costs	78,637	89,861
Amortization of bond premium	(365,101)	(403,919)
Depreciation	7,268,251	6,917,563
Amortization of deferred revenue - rent reduction	(1,137)	(2,932)
Net unrealized gain on investments	(4,165,124)	(9,831,971)
Decrease in promises to give	13,457	57,376
Changes in assets and liabilities:		
Accounts receivable-net, refundable sales tax	159,125	778,051
Inventory and prepaid expenses	52,225	(44,572)
Accounts payable, other accrued liabilities, residents cash deposits	(126,286)	(199,641)
Net cash provided by operating activities	<u>10,504,245</u>	<u>9,945,043</u>
Cash flows from investing activities:		
Proceeds from sales and maturities of investments	17,876,118	15,255,870
Proceeds from sale of equipment	1,500	-
Purchase of investments	(11,940,466)	(32,593,564)
Purchase of property and equipment	(5,075,119)	(4,534,113)
Net cash provided by (used for) investing activities	<u>862,033</u>	<u>(21,871,807)</u>
Cash flows from financing activities:		
Proceeds from application deposits - new facility	-	1,066,000
Reduction in long-term debt	(10,550,000)	(700,000)
Refunds of advance fees and deposits	(947,096)	(1,464,364)
Net cash used for financing activities	<u>(11,497,096)</u>	<u>(1,098,364)</u>
Net decrease in cash, cash equivalents, and restricted cash	(130,818)	(13,025,128)
Cash, cash equivalents, and restricted cash - beginning of years	<u>9,308,029</u>	<u>22,333,157</u>
Cash, cash equivalents, and restricted cash - end of years	<u>\$ 9,177,211</u>	<u>\$ 9,308,029</u>
Cash paid during the years for interest	<u>\$ 4,173,536</u>	<u>\$ 4,201,536</u>

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, 2025 and 2024

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 continuing care retirement communities containing 14 cottages, 28 townhomes, 350 apartments, 54 villa 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 accounting 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. 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 the net realizable value consisting of the carrying amount less the allowance for credit losses, as needed.

The contract asset balances were as follows as of September 30:

	<u>2025</u>	<u>2024</u>	<u>2023</u>
Accounts receivable:			
Residents	\$ 1,237,843	\$ 1,485,782	\$ 1,936,875
Entrance fees	-	230,200	90,000
Interest	82,387	138,662	31,317
Other	5,620	-	8,019
Allowance for credit losses	(361,149)	(347,109)	(175,000)
Accounts receivable, net	<u>\$ 964,701</u>	<u>\$ 1,507,535</u>	<u>\$ 1,891,211</u>

FRIENDS HOMES, INC.

NOTES TO FINANCIAL STATEMENTS

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

Significant Accounting Policies (Continued)

Accounts Receivable (Continued) -

The contract liability balances were as follows as of September 30:

	<u>2025</u>	<u>2024</u>	<u>2023</u>
Application deposits - new facility	\$ -	\$ -	\$ 162,700
Occupancy deposits	1,200,825	1,072,525	462,425
Deferred revenue from entrance fees	49,969,530	49,430,858	47,995,072

The Organization accounts for credit losses in accordance with ASC 326, *Financial Instruments - Credit Losses*. ASC 326 generally provides that an allowance for credit losses, which includes all expected losses during the life of the financial asset, should be reflected upon initial recognition of the financial asset and the allowance should be revalued at each reporting period based on historical, current, and future facts and circumstances. Certain financial assets held by the Organization, including patients and residents accounts receivable fall within the scope of ASC 326.

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

Prepaid expenses - consists of prepaid insurance and maintenance agreements.

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 improvements	10 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.

FRIENDS HOMES, INC.

NOTES TO FINANCIAL STATEMENTS

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

Significant Accounting Policies (Continued)

Contributions (Continued) - 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 from 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.

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. Total contractual refund obligations in the event of move-out, death, or a termination at September 30, 2025 and 2024 were \$25,208,559 and \$29,929,342, respectively.

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.

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) -

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.

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.

Disaggregation of Revenue

In the following table, resident services revenue is disaggregated by satisfaction of performance obligations for the years ended September 30, 2025 and 2024.

	<u>2025</u>	<u>2024</u>
Performance obligations satisfied at a point in time	\$ 39,813,910	\$ 38,429,782
Performance obligations satisfied over time	6,274,063	5,941,918
	<u>\$ 46,087,973</u>	<u>\$ 44,371,700</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, 2025 and 2024, 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.

FRIENDS HOMES, INC.

NOTES TO FINANCIAL STATEMENTS

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

Significant Accounting Policies (Continued)

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.

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, 2025, the Organization's cash balances exceeded the FDIC insured amount by \$8,672,882.

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, 2025 and 2024:

	<u>2025</u>	<u>2024</u>
Cash and cash equivalents	\$ 7,645,278	\$ 7,390,290
Assets limited as to use, required for current liabilities	1,531,883	1,917,116
Residents' cash deposits	50	623
	<u>\$ 9,177,211</u>	<u>\$ 9,308,029</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 in trust for resident's personal needs.

FRIENDS HOMES, INC.

NOTES TO FINANCIAL STATEMENTS

Note 4 - Unconditional Promises to Give:

The Organization has unconditional promises to give representing the following at September 30, 2025 and 2024:

	<u>2025</u>	<u>2024</u>
Restricted for Campus Bridge Connector	\$ 2,356	\$ 6,650
Resident Financial Assistance Endowment	10,089	17,039
Total	<u>\$ 12,445</u>	<u>\$ 23,689</u>
Receivable in less than one year	\$ 12,445	23,689
Less, discounts for net present value	(55)	(158)
Less, allowance for uncollectible promises	(3,500)	(1,184)
Net unconditional promises to give	<u>\$ 8,890</u>	<u>\$ 22,347</u>

Unconditional promises to give are discounted at 2%.

Note 5 - Investments:

Investments are reflected in the financial statements at fair value. Cost is determined by actual cost on the date of purchase or at fair market value on the date of donation. Investments, stated at fair value, at September 30, 2025 and 2024 are as follows:

	<u>2025</u>		<u>2024</u>	
	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>
Common stocks	\$ 473,395	\$ 1,137,738	\$ 386,255	\$ 888,806
Mutual funds	49,536,535	58,707,244	47,539,613	53,564,813
ETFs	2,001,719	3,243,457	1,646,507	2,468,115
Bonds	6,814,633	6,837,826	5,644,713	5,351,495
US Government Issues	12,114,414	12,353,803	20,428,445	20,547,755
Brokered CD's	239,520	241,714	989,505	990,496
Money Market Funds	261,383	261,383	835,275	835,275
	<u>\$ 71,441,599</u>	<u>\$ 82,783,165</u>	<u>\$ 77,470,313</u>	<u>\$ 84,646,755</u>

Net realized investment income consists of (\$93,062) and \$1,583,618 of realized gains (losses), and \$3,203,401 and \$2,073,916 of interest and dividends for the years ended September 30, 2025 and 2024, respectively.

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.

FRIENDS HOMES, INC.

NOTES TO FINANCIAL STATEMENTS

Note 6 - Fair Value Information (Continued):

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

Description	Assets at Fair Value as of September 30, 2025			
	Total	Level 1	Level 2	Level 3
Assets:				
Investments:				
Common stocks	\$ 1,137,738	\$ 1,137,738		
Mutual funds	58,707,244	58,707,244		
ETFs	3,243,457	3,243,457		
Bonds	6,837,826	6,837,826		
US Government Issues	12,353,803	12,353,803		
Brokered CD's	241,714	241,714		
Money Market Funds	261,383	261,383		
	<u>\$ 82,783,165</u>	<u>\$ 82,783,165</u>		
	Assets at Fair Value as of September 30, 2024			
Assets:				
Investments:				
Common stocks	\$ 888,806	\$ 888,806		
Mutual funds	53,564,813	53,564,813		
ETFs	2,468,115	2,468,115		
Bonds	5,351,495	5,351,495		
US Government Issues	20,547,755	20,547,755		
Brokered CD's	990,496	990,496		
Money Market Funds	835,275	835,275		
	<u>\$ 84,646,755</u>	<u>\$ 84,646,755</u>		

Note 7 – Property, Plant, and Equipment:

A summary of property, plant, and equipment at September 30, 2025 and 2024 is as follows:

	2025	2024
Land and land improvements	\$ 22,217,659	\$ 22,203,659
Buildings and improvements	142,044,573	138,372,413
Furniture and equipment	19,142,004	18,674,663
Vehicles	774,710	727,368
Construction in process	1,109,534	2,045,254
	<u>185,288,480</u>	<u>182,023,357</u>
Less, accumulated depreciation	<u>67,436,767</u>	<u>62,039,949</u>
	<u>\$ 117,851,713</u>	<u>\$ 119,983,408</u>

Note 8 - Long-Term Debt:

Long-term borrowings as of September 30, 2025 and 2024 consisted of the following:

	2025	2024
Public Finance Authority Retirement Facilities Revenue Bond (Friends Homes, Inc.), Series 2019 with the following maturities and rates:		
Term bonds due September 1, 2029 at 4%	\$ 3,220,000	\$ 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%	<u>13,005,000</u>	<u>13,005,000</u>
	<u>45,550,000</u>	<u>46,280,000</u>

FRIENDS HOMES, INC.

NOTES TO FINANCIAL STATEMENTS

Note 8 - Long-Term Debt (Continued):

	<u>2025</u>	<u>2024</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%	\$ 1,765,000	\$ 2,600,000
Serial bonds due September 1, 2030 at 5%	2,960,000	2,960,000
Serial bonds due September 1, 2035 at 4%	1,750,000	1,750,000
Serial bonds due September 1, 2040 at 4%	11,285,000	11,285,000
Serial bonds due September 1, 2043 at 3.625%	2,685,000	2,685,000
Serial bonds due September 1, 2050 at 4%	<u>16,525,000</u>	<u>16,525,000</u>
	36,970,000	37,805,000
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	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%	<u>-</u>	<u>8,985,000</u>
	88,820,000	99,370,000
Less, current maturities	<u>7,920,000</u>	<u>10,550,000</u>
	80,900,000	88,820,000
Add, unamortized bond premium	4,647,069	5,012,170
Less, unamortized bond issuance costs	(<u>1,157,133</u>)	(<u>1,235,770</u>)
	<u>\$ 84,389,936</u>	<u>\$ 92,596,400</u>

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>
2026	\$ 7,920,000
2027	1,690,000
2028	1,765,000
2029	1,835,000
2030	1,920,000
Thereafter	<u>73,690,000</u>
	<u>\$ 88,820,000</u>

For the years ended September 30, 2025 and 2024, the net amortization expense for bond premium was \$365,101 and \$403,919, 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.

FRIENDS HOMES, INC.

NOTES TO FINANCIAL STATEMENTS

Note 9 - Net Assets with Donor Restrictions:

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

	<u>2025</u>	<u>2024</u>
Quaker Benevolent Fund	\$ 133,416	\$ 157,201
Employee Appreciation Fund	109,152	119,345
Benevolent Fund Endowment	500,252	495,989
Employee Scholarship Fund Endowment	209,393	201,457
Employee Relief Fund	24,752	-
Chapel Fund - Guilford	30,000	30,000
Clinard Fund	35,963	35,963
Education Assist Program	55,335	34,010
Nursing - West	10,000	10,000
Other	16,693	12,299
Restricted in perpetuity - Employee Scholarship	30,000	-
Restricted in perpetuity - Benevolent Fund - Guilford	80,000	50,000
Restricted in perpetuity - Resident Appreciation Fund - Guilford	15,000	15,000
	<u>\$ 1,249,956</u>	<u>\$ 1,161,264</u>

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:

	<u>2025</u>	<u>2024</u>
Quaker Benevolent Fund	\$ 24,270	\$ 35,681
Benevolent Fund	432,067	81,346
Employee Appreciation Fund	178,179	155,381
Benevolent Endowment	23,421	19,183
Other funds	8,503	10,466
	<u>\$ 666,440</u>	<u>\$ 302,057</u>

Note 10 - 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.

FRIENDS HOMES, INC.

NOTES TO FINANCIAL STATEMENTS

Note 10 - Endowments (Continued):

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 4.0% of its invested funds based on the average market value of the trailing twelve quarters at June 30 each year. The intent of using a twelve-quarter average is to minimize the likelihood of the principal of the fund being invaded. Any unspent distributable amounts remaining at the end of the fiscal year, which have not been granted or distributed, will be available for expenditure in the following fiscal year. However, in no year should more than 6% be distributed without Board approval. Invested funds include Board restricted Residents Assistance Funds.

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

Changes in endowment net assets as of September 30, 2025 and 2024 are as follows:

	<u>2025</u>	<u>2024</u>
Endowment net assets, beginning	\$ 747,446	\$ 540,666
Contributions	64,263	206,662
Investment income	34,558	21,809
Appropriated	(26,622)	(21,691)
Endowment net assets, ending	<u>\$ 819,645</u>	<u>\$ 747,446</u>

Note 11 - Retirement Plan:

Employees are eligible to participate in the 401(k) plan when they have completed 90 days of service and have attained age eighteen (18). The Organization contributes a match of 1%. The Organization's contributions to the plan were \$139,704 and \$109,651 for 2025 and 2024, respectively.

Note 12 - Liquidity and Availability of Resources:

The Organization's financial assets that are available for general expenditures within one year of September 30, 2025 and 2024 are as follows:

	<u>2025</u>	<u>2024</u>
Cash and cash equivalents	\$ 7,645,278	\$ 7,390,290
Assets limited as to use, required for current liabilities	1,531,883	1,917,116
Accounts receivable, net	964,701	1,507,553
Refundable sales tax	214,448	60,921
Unconditional promises to give (net)	8,890	22,347
Assets limited as to use	19,688,911	16,153,755
Investments	<u>63,094,304</u>	<u>68,493,623</u>
Total financial assets available within one year	93,148,415	95,545,605
Less, amounts unavailable for general expenditures within one year due to:		
Residents' cash deposits	50	623
Restricted cash - debt service and construction funds	1,531,883	1,917,116
Restricted investments - under bond agreement	5,815,276	5,230,388
Restricted by donors with purpose restrictions	<u>1,249,956</u>	<u>1,161,264</u>
Total financial assets available to management for general expenditures within one year	<u>\$ 84,551,250</u>	<u>\$ 87,236,214</u>

FRIENDS HOMES, INC.

NOTES TO FINANCIAL STATEMENTS

Note 12 - 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 13 - 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 2023. 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 2025 (unaudited) is as follows:

Total forecasted operating expenses	\$ 48,310,000
Depreciation and amortization expense	(7,099,000)
Annual principal payments	<u>10,550,000</u>
	51,761,000
	<u>x 25%</u>
Estimated reserve required	<u>\$ 12,940,000</u>

Note 14 - Commitments:

At September 30, 2025, the remaining construction commitments outstanding for the Communities are:

Engineering	\$ 296,000
Interior Design	105,000
Architectural, Mechanical, Engineering, and Plumbing	<u>2,511,438</u>
Total commitments	<u>\$ 2,912,438</u>

Note 15 - 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 \$3,120,425 in aggregate claims, fees, and premiums for the year less employee contributions of \$338,306. The Organization has third-party coverage for any losses in excess of such amounts. The total accrued liability for self-insurance medical costs was \$350,000 as of September 30, 2025 and 2024.

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, 2025 and 2024.

Note 16 - 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, 2025 and 2024. 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, 2022 remain open for examination.

FRIENDS HOMES, INC.

NOTES TO FINANCIAL STATEMENTS

Note 16 - 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, 2025 and 2024.

Note 17 - Functional Expenses:

Expenses by Nature and Function (excluding depreciation, bond interest and amortization, management company contract services, and miscellaneous) for the years ended September 30, 2025 and 2024 are summarized as follows:

	<u>Routine Services</u>	<u>Special Services</u>	<u>Dining Services</u>	<u>Environmental Services</u>	<u>Maintenance</u>
<u>2025:</u>					
Salaries and benefits	\$ 8,559,404	\$ 902,827	\$ 3,992,282	\$ 1,815,376	\$ 1,007,975
Health Insurance					
Food costs			2,486,279		
Utilities					1,925,282
Repairs and maintenance	18,099	5,644	111,061	437,411	1,089,526
Contractual medical	106,945				
Outside consulting	7,009		7,785		1,042,896
Other supplies	349,231	42,421	434,587	203,195	161,722
Medical supplies and drugs	53,767				
General insurance					
Contract services			987,443		
Professional fees					
Other	211,157	204,059	19,243	47,252	45,930
Total expenses	<u>\$ 9,305,612</u>	<u>\$ 1,154,951</u>	<u>\$ 8,038,680</u>	<u>\$ 2,503,234</u>	<u>\$ 5,273,331</u>

	<u>Marketing</u>	<u>Administrative</u>	<u>Purchased Medical Services</u>	<u>Total</u>
<u>2025 (continued):</u>				
Salaries and benefits	\$ 436,233	\$ 1,143,220		\$ 17,857,317
Health Insurance		1,930,038		1,930,038
Food costs				2,486,279
Utilities				1,925,282
Repairs and maintenance				1,661,741
Contractual medical			\$ 955,773	1,062,718
Outside consulting	25,464	1,811,328		2,894,482
Other supplies	41,687	34,938	2,379	1,270,160
Medical supplies and drugs			66,790	120,557
General insurance		803,024		803,024
Contract services				987,443
Professional fees		76,427		76,427
Other	95,343	282,895	11,028	916,907
Total expenses	<u>\$ 598,727</u>	<u>\$ 6,081,870</u>	<u>\$ 1,035,970</u>	<u>\$ 33,992,375</u>

FRIENDS HOMES, INC.

NOTES TO FINANCIAL STATEMENTS

Note 17 - Functional Expenses (Continued):

	<u>Routine Services</u>	<u>Special Services</u>	<u>Dining Services</u>	<u>Environmental Services</u>	<u>Maintenance</u>
<u>2024:</u>					
Salaries and benefits	\$ 7,406,894	\$ 1,261,181	\$ 3,649,630	\$ 1,708,142	\$ 947,928
Health Insurance					
Food costs			2,363,834		
Utilities					1,776,979
Repairs and maintenance	11,549	2,395	58,833	383,829	931,421
Contractual medical	117,620				
Outside consulting	10,558	275			978,144
Other supplies	344,785	179,550	413,026	269,286	172,400
Medical supplies and drugs	70,600				
General insurance					
Contract services			807,011	216,048	
Professional fees					
Other	132,415	128,486	62,088	44,959	73,631
Total expenses	<u>\$ 8,094,421</u>	<u>\$ 1,571,887</u>	<u>\$ 7,354,422</u>	<u>\$ 2,622,264</u>	<u>\$ 4,880,503</u>

	<u>Marketing</u>	<u>Administrative</u>	<u>Purchased Medical Services</u>	<u>Total</u>
<u>2024 (continued):</u>				
Salaries and benefits	\$ 471,548	\$ 1,148,148		\$ 16,593,471
Health Insurance		1,435,767		1,435,767
Food costs				2,363,834
Utilities				1,776,979
Repairs and maintenance				1,388,027
Contractual medical			\$ 947,039	1,064,659
Outside consulting		1,669,436		2,658,413
Other supplies	58,315	51,845	320	1,489,527
Medical supplies and drugs			58,435	129,035
General insurance		600,126		600,126
Contract services				1,023,059
Professional fees		393,568		393,568
Other	186,323	348,740	9,242	985,884
Total expenses	<u>\$ 716,186</u>	<u>\$ 5,647,630</u>	<u>\$ 1,015,036</u>	<u>\$ 31,902,349</u>

Note 18 - Reclassification:

Certain items in the September 30, 2024 financial statements have been reclassified to conform to the September 30, 2025 presentation.

Note 19 - Subsequent Events:

The Organization's management has evaluated all subsequent events through November 21, 2025, the date the financial statements were available to be issued.

FRIENDS HOMES, INC.

**FORECAST WITH SUMMARY OF
SIGNIFICANT ASSUMPTIONS**

**AS OF AND FOR THE YEARS ENDING
SEPTEMBER 30, 2026, 2027, 2028, 2029, AND 2030**

AS OF DECEMBER 8, 2025



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, 2026, 2027, 2028, 2029, and 2030, and the related forecasted combined statements of operations and changes in net assets, and cash flows for the years then ending, and the related summary of significant forecast assumptions in accordance with guidelines for the presentation of a financial forecast established by the American Institute of Certified Public Accountants (AICPA). We have performed a compilation engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. We did not examine or review the financial forecast nor were we required to perform any procedures to verify the accuracy or completeness of the information provided by management, and we do not express an opinion, a conclusion, nor provide any form of assurance on 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
December 8, 2025

FRIENDS HOMES, INC.

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

	S e p t e m b e r 3 0				
	2026	2027	2028	2029	2030
ASSETS					
Current assets:					
Cash and cash equivalents	\$ 1,000	\$ 1,000	\$ 1,000	\$ 1,000	\$ 1,000
Assets limited as to use, required for current liabilities	1,532	1,532	1,532	1,532	1,532
Accounts receivable, net	1,004	1,044	1,086	1,129	1,174
Refundable sales tax	223	232	241	251	261
Unconditional promises to give (net)	9	9	9	9	9
Inventory	7	7	7	7	7
Prepaid expenses	318	331	344	358	372
	<u>4,093</u>	<u>4,155</u>	<u>4,219</u>	<u>4,286</u>	<u>4,355</u>
Assets limited as to use, net of amount required for current liabilities:					
Under bond agreement	5,282	3,672	3,676	3,667	3,668
By donors for permanent endowment funds	934	934	934	934	934
Reserves required by State Statute	12,741	11,440	11,814	12,199	12,602
	<u>18,957</u>	<u>16,046</u>	<u>16,424</u>	<u>16,800</u>	<u>17,204</u>
Investments	<u>65,069</u>	<u>67,999</u>	<u>69,064</u>	<u>71,203</u>	<u>73,942</u>
Property and equipment, net	<u>115,714</u>	<u>115,146</u>	<u>113,835</u>	<u>112,511</u>	<u>111,877</u>
	<u>\$ 203,833</u>	<u>\$ 203,346</u>	<u>\$ 203,542</u>	<u>\$ 204,800</u>	<u>\$ 207,378</u>
LIABILITIES AND NET ASSETS					
Current liabilities:					
Current maturities on long-term debt	\$ 7,920	\$ 1,690	\$ 1,765	\$ 1,835	\$ 1,920
Accounts payable - trade	2,264	2,177	2,177	2,177	2,177
Other accrued liabilities:					
Accrued payroll	623	599	599	599	599
Accrued PTO	697	671	670	670	670
Accrued personnel costs and withholdings	431	415	414	414	414
Accrued interest	307	301	294	294	294
Occupancy deposits	1,249	1,299	1,351	1,405	1,461
	<u>13,491</u>	<u>7,152</u>	<u>7,270</u>	<u>7,394</u>	<u>7,535</u>
Long-term debt, less current maturities	76,470	81,010	79,170	77,265	75,260
Deferred revenue from entrance fees	50,932	52,130	53,537	55,126	56,872
	<u>127,402</u>	<u>133,140</u>	<u>132,707</u>	<u>132,391</u>	<u>132,132</u>
	<u>140,893</u>	<u>140,292</u>	<u>139,977</u>	<u>139,785</u>	<u>139,667</u>
Net assets:					
Without donor restrictions:					
Undesignated	56,178	56,292	56,803	58,253	60,949
Board designated for special projects	5,512	5,512	5,512	5,512	5,512
With donor restrictions	1,250	1,250	1,250	1,250	1,250
	<u>62,940</u>	<u>63,054</u>	<u>63,565</u>	<u>65,015</u>	<u>67,711</u>
	<u>\$ 203,833</u>	<u>\$ 203,346</u>	<u>\$ 203,542</u>	<u>\$ 204,800</u>	<u>\$ 207,378</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				
	2026	2027	2028	2029	2030
Changes in net assets without donor restrictions:					
Operating revenues:					
Resident fees, including amortization of entrance fees of \$5,437 in 2026, \$5,585 in 2027, \$5,783 in 2028, \$6,032 in 2029, and \$6,333 in 2030	\$ 45,121	\$ 46,956	\$ 48,912	\$ 50,994	\$ 53,206
Food service income	215	215	215	215	215
Reimbursed medical	558	558	558	558	558
Other	361	361	361	361	361
	<u>46,255</u>	<u>48,090</u>	<u>50,046</u>	<u>52,128</u>	<u>54,340</u>
Operating expenses:					
Routine services	9,304	9,584	9,967	10,366	10,781
Dining services	8,540	8,881	9,236	9,606	9,990
Environmental services	2,587	2,681	2,789	2,900	3,016
Special services	1,578	1,638	1,700	1,768	1,838
Maintenance	5,650	5,830	6,052	6,282	6,521
Marketing	601	622	643	666	690
Administration	6,860	7,071	7,320	7,577	7,845
Purchased medical services	737	737	737	737	737
Bond interest and amortization	3,904	3,680	3,612	3,531	3,448
Depreciation	7,410	7,532	7,672	7,404	6,942
Management company contract services	2,041	2,107	2,195	2,287	2,382
Miscellaneous, net	1,240	1,240	1,240	1,240	1,240
	<u>50,452</u>	<u>51,603</u>	<u>53,163</u>	<u>54,364</u>	<u>55,430</u>
Decrease in net assets without donor restrictions from operations	(4,197)	(3,513)	(3,117)	(2,236)	(1,090)
Nonoperation revenues (expenses):					
Contributions	165	165	165	165	165
Net realized investment income	3,325	3,462	3,463	3,521	3,621
	<u>3,490</u>	<u>3,627</u>	<u>3,628</u>	<u>3,686</u>	<u>3,786</u>
Increase (decrease) in net assets without donor restrictions	(707)	114	511	1,450	2,696
Net assets, beginning	<u>63,647</u>	<u>62,940</u>	<u>63,054</u>	<u>63,565</u>	<u>65,015</u>
Net assets, ending	<u>\$ 62,940</u>	<u>\$ 63,054</u>	<u>\$ 63,565</u>	<u>\$ 65,015</u>	<u>\$ 67,711</u>

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)

	Y e a r s E n d i n g S e p t e m b e r 3 0				
	2026	2027	2028	2029	2030
Cash flows from operating activities:					
Changes in net assets	(\$ 707)	\$ 114	\$ 511	\$ 1,450	\$ 2,696
Adjustments to reconcile changes in net assets to net cash provided by operating activities:					
Termination income and amortization of entrance fees	(5,437)	(5,585)	(5,783)	(6,032)	(6,333)
Proceeds from entrance fees and deposits	6,899	7,313	7,752	8,217	8,710
Depreciation	7,349	7,472	7,613	7,346	6,886
Changes in assets and liabilities:					
Accounts receivable-net, refundable sales tax	(48)	(49)	(51)	(53)	(55)
Inventory and prepaid expenses	(12)	(13)	(13)	(14)	(14)
Accounts payable, other accrued liabilities, residents cash deposits	185	(109)	43	54	56
Total adjustments	8,936	9,029	9,561	9,518	9,250
Net cash provided by operating activities	8,229	9,143	10,072	10,968	11,946
Cash flows from investing activities:					
Proceeds from sales and maturities of investments	(1,243)	(19)	(1,443)	(2,515)	(3,143)
Purchase of property and equipment	(5,211)	(6,904)	(6,302)	(6,022)	(6,252)
Net cash used for investing activities	(6,454)	(6,923)	(7,745)	(8,537)	(9,395)
Cash flows from financing activities:					
Reduction in long-term debt	(7,920)	(1,690)	(1,765)	(1,835)	(1,920)
Refunds of entrance fees and deposits	(500)	(530)	(562)	(596)	(631)
Net cash used for financing activities	(8,420)	(2,220)	(2,327)	(2,431)	(2,551)
Net decrease in cash and cash equivalents	(6,645)	-	-	-	-
Cash and cash equivalents - beginning	7,645	1,000	1,000	1,000	1,000
Cash and cash equivalents - ending	\$ 1,000	\$ 1,000	\$ 1,000	\$ 1,000	\$ 1,000
Supplemental disclosure of cash flow information:					
Cash payments for interest	\$ 3,904	\$ 3,680	\$ 3,612	\$ 3,531	\$ 3,448

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, 2026, 2027, 2028, 2029, and 2030**

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 December 8, 2025, 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 2026 through 2030 were developed using management's understanding of markets and circumstances as of the forecast date.

Resident Mix:

Resident mix is assumed to be constant for revenue forecasting.

Inflation Rate Assumptions:

- Residential Service Fee, Nursing, and Assisted Living revenues are expected to increase 4.25% annually.
- Expenses, including salaries and wages, are expected to increase at approximately 4%.

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.

FRIENDS HOMES, INC.

SUMMARY OF SIGNIFICANT FORECAST ASSUMPTIONS

Revenues (Continued):

Entrance Fees (Continued)

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

One bedroom	\$139,000
Two bedrooms	\$202,000 - \$216,000

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

One bedroom	\$ 30,000 - \$ 95,000
Two bedrooms	\$109,000

Entrance fees for townhomes on the Guilford and West Campus: \$363,000 - \$416,000

Entrance fees for the expansion cottages and villa apartments on the West Campus:

Cottage	\$485,000
Villa Apartments	\$392,000 - \$510,000

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 4.0% 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 \$280. 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.

Note, only the skilled nursing beds at Guilford are certified to participate in the Medicare and Medicaid program.

Management Fees

In May of 2016, Friends Homes, Inc. entered into a management contract with Presbyterian Management Services. In December 2022, the management contract was renewed until December 2030. There is an out clause for no cause for Friends Homes or Presbyterian Management Services after December 2028. The fee is calculated as 5% of Resident revenue less entrance fee amortization.

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 improvements	10 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 were 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.

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>
2026	\$ 7,920,000	\$ 3,904,000	\$ 11,824,000
2027	1,690,000	3,680,000	5,370,000
2028	1,765,000	3,612,000	5,377,000
2029	1,835,000	3,531,000	5,366,000
2030	1,920,000	3,448,000	5,368,000



Comprehensive Actuarial Study
As of September 30, 2018

Report Date: OCTOBER 11, 2019

YOUR ACTUARIES FOR THE LONG-TERM!

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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.

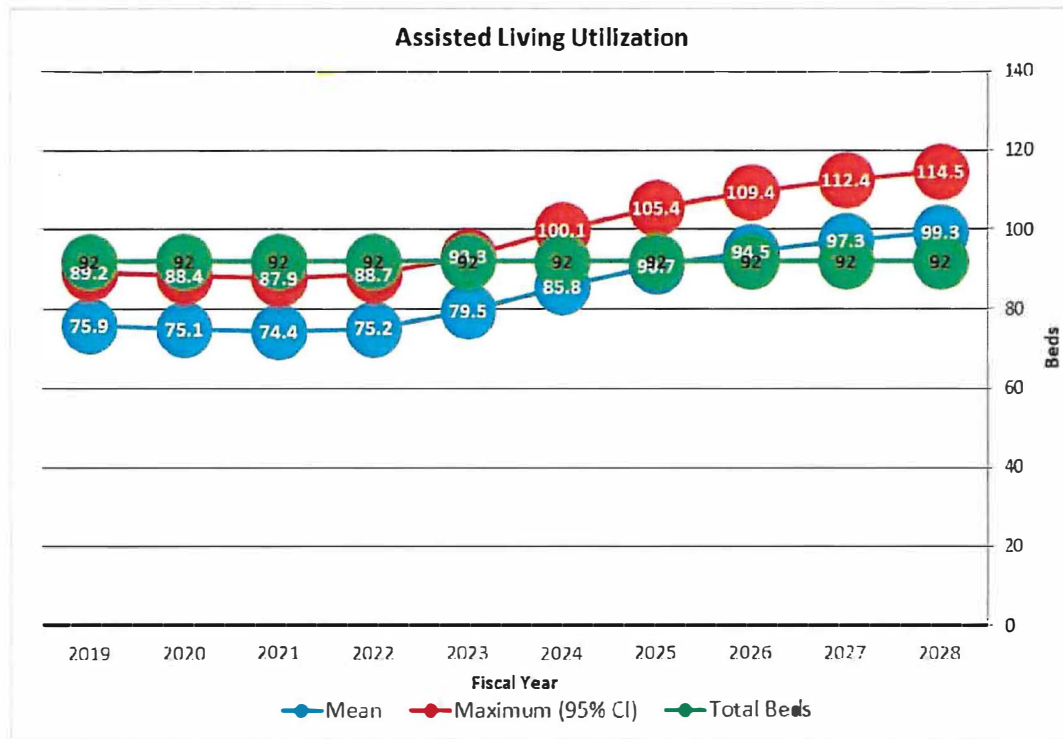
Section V presents a summary of the financial assumptions incorporated in the analysis and the cash flow projection.

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.

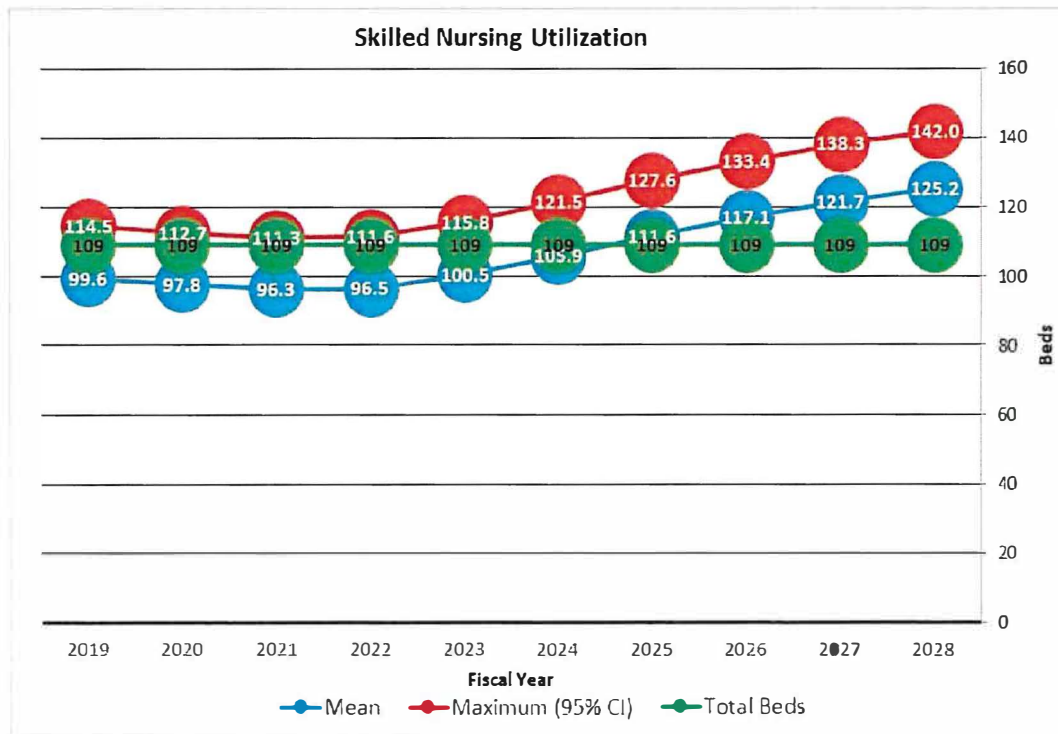
Summary of Findings and Notes

- 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.

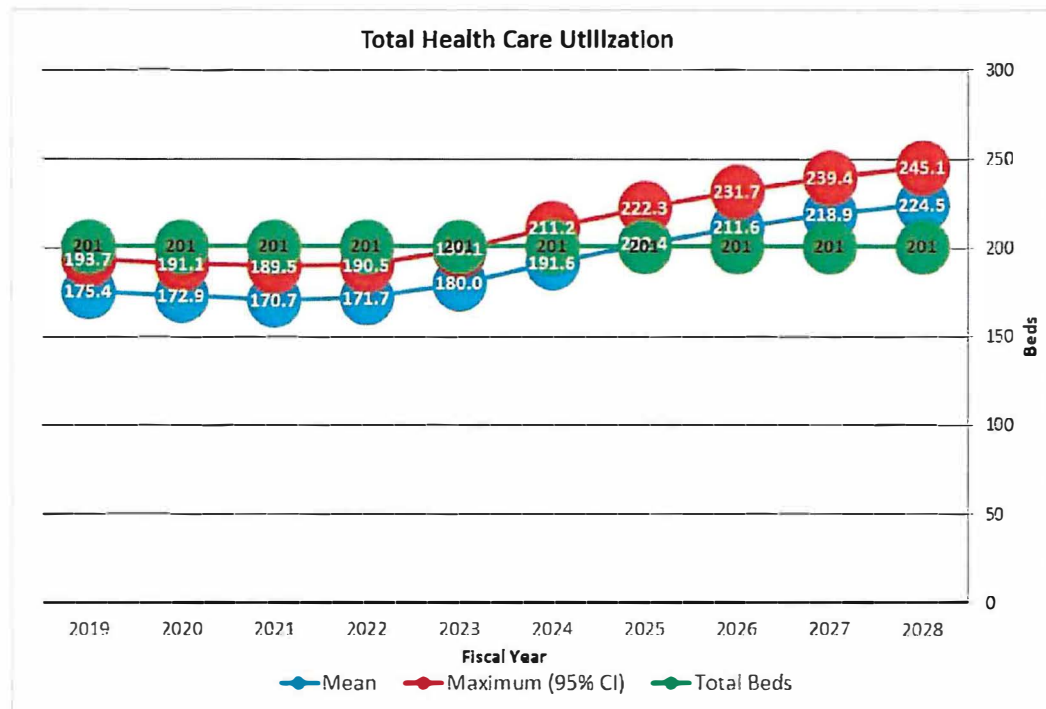
- 2) Below is the projected occupancy of the Assisted Living Units, by Life Care residents, with the 95% confidence interval.



- 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

SECTION II – KEY ASSUMPTIONS

Continuing Care Actuaries has utilized the following assumptions for Friends Homes throughout the projection:

Revenue and Expense Assumptions:

Entrance Fee Inflation	3.0% (2.0% for Expansion EF's)
Monthly Fee Inflation	3.0%
General Expense Inflation	3.0%
Medical Expense Inflation	3.0%
Investment Income Rate	3.0%
Discount Rate	5.0%

Occupancy Assumptions:

Independent Living Units	Stabilizes at 340.8 units, 96.0%
Independent Living Units – Expansion	Stabilizes at 88.0 units, 94.6%
Assisted Living	Stabilizes at 103.5 units, 112.5%
Skilled Nursing	Stabilizes at 133.9 units, 122.8%

Distribution of New Residents by Contract Type:

60 Month Declining Refund	100.0%
60 Month Declining Refund – Expansion	100.0%

Distribution of New Residents by Gender/Couple/Age:

<u>Type of New Entrant</u>	<u>Assumed Distribution</u>	<u>Male Age</u>	<u>Female Age</u>
Single Male	12%	82	
Single Female	48%		84
Couple	40%	84	82

Distribution of New Residents by Gender/Couple/Age – Expansion:

<u>Type of New Entrant</u>	<u>Assumed Distribution</u>	<u>Male Age</u>	<u>Female Age</u>
Single Male	11%	82	
Single Female	39%		84
Couple	50%	84	82

SECTION III — RESIDENTIAL CONTRACT INFORMATION

Friends Homes is a senior retirement community located in Greensboro, North Carolina. Under the terms of all contracts, the resident agrees to pay an initial Entrance Fee and a Monthly Service Fee, which entitles the resident to lifetime occupancy of a residential unit, subject to contractual conditions. Under these plans, residents pay the Monthly Service Fee that corresponds to their unit in Independent Living. Friends Homes is currently offering one plan type to potential new residents: 60 Month Declining Refund. If a resident temporarily transfers to Friends Homes' Healthcare Center, the resident is forecasted to be required to pay both the Monthly Service Fee for their Independent Living unit and the applicable current private daily rate at the Healthcare Center. If a resident is permanently transferred to the Healthcare Center, the resident will pay the per diem rates.

Under the 60 Month Declining Refund, Friends Homes will refund the Entrance Fee without interest to the resident upon reoccupancy with the following amortization schedule: a 1.67% reduction for each month of occupancy thereafter for up to 60 months until termination at which point the Entrance Fee is no longer refundable.

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 Corporation an Entrance Fee deposit of \$_____ which shall be ten percent (10%) of the required Entrance Fee as designated above. The Entrance Fee deposit will be due and payable upon signing of this Agreement. The balance of the Entrance Fee will be due and payable no later than ten (10) days prior to Residents projected Admission Date. Residents projected Admission Date is_____, 20____. Resident must take occupancy of the Living Accommodation no later than **thirty (30)** days after the projected Admission Date.

- (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 15th 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.

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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

Appendix E— Statutory Ratio and Supporting Definitions

Adjusted Net Operating Margin Ratio. *“A profitability ratio that measures the margin generated from the core operations of a provider and net cash proceeds from entrance fees. The quotient shall be calculated by dividing the sum of resident operating income and net proceeds from entrance fees by the sum of resident revenue and net cash proceeds from entrance fees.”* (G.S. 58-64A-145(1))

Annual Debt Service. *“The current year’s capitalized interest cost plus interest expense and scheduled principal payments, excluding any balloon principal payment amounts and any portion of the annual debt service that has been or will be funded by debt for the payment of debt service.”* (G.S. 58-64A-5(7))

Average Daily Cash Operating Expenses. *“The total expenses of a provider incurred in the conduct of the provider’s business over a defined period of time, divided by the number of days in that period. For purposes of this definition, ‘total expenses’ includes interest expense, but excludes depreciation expense, amortization expense, realized or unrealized nonoperating losses or expenses, bad debt expense, and other noncash expenses.”* (G.S. 58-64A-145(2))

Capital Expenditures as a Percentage of Depreciation Ratio. *“A capital structure ratio that indicates the level of capital reinvestment by a provider. The quotient shall be computed by dividing total purchases of property, plant, and equipment by total depreciation expense.”* (G.S. 58-64A-145(3))

Cushion Ratio. *“A liquidity ratio that measures a provider’s ability to pay its annual debt service using its unrestricted cash and investments. The quotient shall be computed by dividing unrestricted cash and investments by annual debt service.”* (G.S. 58-64A-145(4))

Days Cash on Hand Ratio. *“A liquidity ratio that measures the number of days of cash operating expenses a provider could cover using its existing unrestricted cash and investments. The quotient shall be computed by dividing unrestricted cash and investments by average daily cash operating expenses.”* (G.S. 58-64A-145(5))

Debt Service Coverage Ratio. *“A capital structure ratio that measures a provider’s ability to pay annual debt service with cash flow from net cash revenues and net entrance fee receipts. The quotient shall be calculated by dividing the sum of total excess of revenues over or under expenses plus interest expense, depreciation expense, amortization expense, other noncash operating losses or expenses, and net cash proceeds from entrance fees, minus entrance fee amortization, entrance fee refunds contractually past due, and other noncash operating gains or revenues divided by annual debt service. Entrance fees received from the initial residents of independent living units at a continuing care retirement community that have been financed in whole or in part with the proceeds of indebtedness shall be excluded from the net proceeds from entrance fees up to an amount equal to the aggregate of the principal amount of the indebtedness.”* (G.S. 58-64A-5(17))

Net Cash Proceeds from Entrance Fees. *“Total entrance fees received less entrance fees refunded, and less initial entrance fees received for new independent living units.”* (G.S. 58-64A-5(30))

Net Operating Margin Ratio. *“A profitability ratio that measures the margin generated from the core operations of a provider. The quotient shall be calculated by dividing resident operating income by resident revenue.”* (G.S. 58-64A-145(7))

Operating Ratio. *“A profitability ratio that measures whether current year cash operating revenues are sufficient to cover current year cash operating expenses without the inclusion of cash from entrance fee receipts. The quotient shall be computed by dividing total operating expenses, excluding depreciation expense and amortization expense, by total operating revenues, excluding amortization of entrance fees and other deferred revenue.”* (G.S. 58-64A-145(8))

Prospective Financial Statements. *“Financial forecasts or financial projections, including the summaries of significant assumptions and accounting policies prepared by an independent certified public accountant.”* (G.S. 58-64A-5(38))

Resident Expense. *“Total operating expenses excluding interest expense, depreciation expense, amortization expense, and income taxes.”* (G.S. 58-64A-145(10))

Resident Revenue. *“Total operating revenue excluding interest and dividend income, entrance fee amortization, and contributions.”* (G.S. 58-64A-145(11))

Unrestricted Cash and Investments. *“The sum of the provider's unrestricted cash, cash equivalents and investments, and any provider restricted funds that are available to pay debt or to pay operating expenses. For purposes of this definition, the assets serving as the operating reserve required by G.S. 58-64A-245 shall be considered unrestricted.”* (G.S. 58-64A-145(12))

Unrestricted Cash and Investments to Long-Term Debt Ratio. *“A capital structure ratio that (i) measures a provider's position in available cash and marketable securities in relation to its long-term debt and (ii) measures a provider's ability to withstand annual fluctuations in cash. The quotient shall be calculated by dividing unrestricted cash and investments by total long-term debt, less the current portion of long-term debt.”* (G.S. 58-64A-145(13))

Source: N.C. Gen. Stat. §§ 58-64A-5 and 58-64A-145 (Session Law 2025-58). Subsequent amendments, if enacted, supersede the text reproduced herein.