Friendship LIVING
397 Hershberger Rd. NW
Roanoke, VA 24012
Phone: (540) 777-7599
friendship.us

October 24, 2023

Ms. Daryl Hepler
Insurance Financial Analyst
State Corporation Commission
Bureau of Insurance
P. O. Box 1157
Richmond, VA 23218-1157

RE: Annual Disclosure Statement

Dear Ms. Hepler:

Enclosed please find the 2023 Disclosure Statement for Friendship Apartment Village Corporation.

If you have any questions or need further information, feel free to contact me at (540) 777-4044.

Sincerely,

Michael Shannon
Chief Financial Officer

/RAO

Enclosures

FILED
Commonwealth of Virginia
State Corporation Commission
Bureau of Insurance
January 23, 2024
Commissioner of Insurance
BY: Sarowar Jahan

FRIENDSHIP APARTMENT VILLAGE CORPORATION

FOR YEAR ENDING 6/30/2023 DISCLOSURE STATEMENT

FRIENDSHIP APARTMENT VILLAGE CORPORATION

DISCLOSURE STATEMENT

This Disclosure Statement provides information about Friendship Apartment Village Corporation, a residential retirement community ("Provider"). The Provider was incorporated in 1967 as Friendship Manor Apartment Village Corporation, commenced operations in 1967, and has been in continuous operation since that date. The Provider is dedicated to providing independent living accommodations for residents who wish to live in close proximity to services they may need presently or in the future.

This Disclosure Statement has been filed with the Commonwealth of Virginia, State Corporation Commission, pursuant to the Continuing Care Provider Registration and Disclosure Act, Chapter 49, Code of Virginia, 1950 as amended. The filing of this Disclosure Statement with the State Corporation Commission does not constitute approval, recommendation, or endorsement of the Facility by the State Corporation Commission.

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FRIENDSHIP APARTMENT VILLAGE CORPORATION

DISCLOSURE STATEMENT

CONTINUING CARE PROVIDER

The Provider is Friendship Apartment Village Corporation ("Provider"). The Provider was incorporated in the Commonwealth of Virginia in 1967 as Friendship Manor Apartment Village Corporation, and changed its name to Friendship Apartment Village Corporation effective February 8, 2005. The Provider's principal business address is 367 Hershberger Road, N. W., Roanoke, Virginia 24012. The Provider is a non-stock, non-profit Virginia Corporation whose sole member is Friendship Foundation, and was organized to establish and operate residential accommodations with convenient access to health care and other allied retirement services. Friendship Apartment Village Corporation, as Provider, furnishes independent housing accommodations.

OFFICERS, DIRECTORS, TRUSTEES, MANAGING AND GENERAL PARTNERS AND CERTAIN PERSONS WHO MAY HOLD EQUITY OR BENEFICIAL INTERESTS

(a) **Officers and Directors.**

(1) The Officers and Directors of Friendship Foundation and Friendship Apartment Village Corporation are as follows:

Glen C. Combs	Director
Joseph Hoff	President & CEO
Michael Shannon	Chief Financial Officer/ Treasurer
Cindy Mitchell	Corporate Secretary
N. L. Bishop D. Min.	Director
Edward R. Feinour	Director
Lucian Y. Grove, Jr., M. D.	Director
Cynda A. Johnson	Director
Robert C. Lawson, Jr.	Director/Chairman
Kathryn K. Oelschlager	Director/Vice Chairman
Robert H. Sandel	Director
John Williamson	Director

The business address for all of the Officers and Directors is 367 Hershberger Road, N. W., Roanoke, Virginia 24012. The Provider has no experience in the operation or management of similar facilities at other locations. The Directors named above have served on the Board for periods ranging from 2 year to 33 years. Their experience relates to Friendship Foundation Board membership. The business experience of the Board Members is briefly discussed below.

(b) <u>Trustees, Managing and General Partners and Certain Persons.</u>

(1) Friendship Foundation has no trustees, managing or general partners or certain persons who may hold equity or beneficial interest as defined, except as follows: Trustees may be appointed in real estate Deeds of Trust relative to short or long term financing as required by lender.

(2) Friendship Apartment Village Corporation has no trustees, managing or general partners or certain persons who may hold equity or beneficial interest as defined, except as follows: Trustees may be appointed in real estate Deeds of Trust relative to short or long term financing as required by lender.

<u>**BUSINESS EXPERIENCE OF; ACQUISITION OF GOODS AND SERVICES FROM; AND CRIMINAL, CIVIL AND REGULATORY PROCEEDINGS AGAINST THE PROVIDER, ITS OFFICERS, DIRECTORS, TRUSTEES, MANAGING AND GENERAL PARTNERS; CERTAIN PERSONS WHO HOLD EQUITY OR BENEFICIAL INTERESTS; AND THE MANAGEMENT.**</u>

(a) <u>Business Experience.</u> The Provider, Friendship Apartment Village Corporation, operates a residential retirement facility in Roanoke, Virginia, and has been operating continuously since 1967.

The business experience of the Provider's Officers and Directors is set out below.

Glen C. Combs – Mr. Combs has served on the Board of Directors since January 1999 and is a retired vice president of Acosta Sales. Mr. Combs assumed duties as Chairman of the Board of Directors in June 2020 and served as Chairman thru June 2022 He had previously served as Vice Chairman of the Board from April 2016 to June 2020. As of 7/1/2022, he is no longer Chairman of the Board.

Joseph Hoff – Mr. Hoff is the President & CEO of Friendship Apartment Village Corporation and affiliated corporations. Mr. Hoff assumed his duties in July 2017.

Michael Shannon – Mr. Shannon is the CFO and Treasurer of the Board of Friendship Apartment Village Corporation and affiliated corporations. He has been with Friendship Retirement Community since November 2004.

Cindy Mitchell – Ms. Mitchell has been with Friendship Retirement Community since April 2012. She became Secretary of the Board in April 2016.

Nathaniel L. (N. L.) Bishop, D. Min. – Dr. Bishop, Senior Vice President for Carilion Clinic and Chief Diversity Officer, joined the Board on July 1, 2021.

Edwin R. Feinour – Mr. Feinour joined the board in December 1990. Mr. Feinour works for DHFB, a subsidiary of Atlantic Union Bank, the entity that manages the Friendship Apartment Village Corporation investments. He previously served as Chairman of the Board of Directors from 1998 to June 2020.

Lucian Y. Grove, Jr., M. D. – Dr. Grove is an internist in Salem, Virginia. Dr. Grove joined the Board of Directors in January 1999.

Cynda A. Johnson, M.D. – Dr. Johnson is the Founding Dean of the Virginia Tech Carilion School of Medicine and joined the Board in July 2011.

Robert C. Lawson – Mr. Lawson assumed duties as Chairman of the Board of Directors as of July 1 2022. He had previously served as Vice Chairman from June 2020 thru June 2022. He is the retired President and CEO of SunTrust Bank Western Virginia and has served on the Board of Directors since March 2007.

Kathryn K. Oelschlager – Ms. Oelschlager is an independent businesswoman and joined the Board in July 2011. As of 7/1/2022, she assumed the duties of Vice Chairman of the Board.

Robert H. Sandel – Mr. Sandel is President of Virginia Western Community College and joined the Board of Directors in March 2007.

***John B.* Williamson, III** – Mr. Williamson, who previously served on the Board from 2000 – 2016, rejoined the Board on July 1, 2021.

(b) **Equity or Beneficial Interests.** – Friendship Foundation and Friendship Apartment Village Corporation do not have a ten percent or greater interest in any professional service, firm, association, foundation, trust, partnership or corporation or any other business or legal entity. No person named in section (a)(1) above has a ten percent or greater interest in Friendship Apartment Village Corporation, nor does any person named in section (a)(1) above have a ten percent or greater interest in any professional service, firm, association, foundation, trust, partnership or corporation or any other business or legal entity which has or will provide goods, leases or services to Friendship Apartment Village Corporation with a value of $500 or more within any year. No Officer, director, trustee, managing or general partner or any other person has a ten percent or greater equity or beneficial interest in the Provider.

(c) **Criminal, Civil and Regulatory Proceedings.**

(1) Neither the Provider, nor any person identified above has been convicted of a felony or pleaded nolo contendere to a felony charge, or has been held liable or enjoined by final judgment in civil action involving fraud, embezzlement, fraudulent misappropriation of property or moral turpitude.

(2) Neither the Provider, nor any person identified above is subject to an injunctive or restrictive order of a Court of record, or within the past five years had any State or Federal license or permit suspended or revoked as a result of an action brought by a governmental agency or department, arising out of or relating to

business activity or health care, including without limitation, actions affecting a license to operate a foster care facility, nursing home, retirement, home for the aged or facility registered under Chapter 49 of the Laws of the Commonwealth of Virginia or similar laws in any other State.

(3) Neither the Provider, nor any person identified above is currently the subject of any State or Federal prosecution or administrative investigation involving allegations of fraud, embezzlement, fraudulent conversion, or misappropriation of property.

OWNERSHIP OF REAL PROPERTY

The land and buildings upon and in which the facilities known are operated and owned in fee simple by Friendship Apartment Village Corporation. There is no indirect ownership of the Provider's real estate assets.

On July 1, 2014 Friendship Foundation issued $16,850,478 in Virginia Small Business Financing Authority (VSBFA) Tax Exempt Adjustable Mode Facilities Revenue bonds. The proceeds were used for refunding the principal of the outstanding Revenue Bonds of $16,253,183, and funding the costs of issuance. The loan is secured by land and buildings of Friendship Health and Rehab Center, Inc. and Friendship Apartment Village Corp. (Wellington I, Wellington II, Wellington III and Wellington IV). These bonds were refinanced and the balance at 6/30/23 was $0.

On July 1, 2014 Friendship Foundation also issued $19,649,522 in VSBFA Tax Exempt Adjustable Mode Facilities Revenue bonds. The proceeds were used to fund the construction of a 120 bed Skilled Nursing Facility, and the loan is secured by land and buildings of

Friendship Health and Rehab Center South, Inc. These bonds have been refinanced and the balance at 6/30/23 was $0.

In September 2022, the Foundation issued $37,873,103 in Virginia Small Business Financing Authority (VSBFA) Residential Care Facilities Revenue and Refunding Bonds (Friendship Foundation and Subsidiaries Project) Series 2022 Bonds. The proceeds from the bonds were used for refunding the principal and accrued interest of the Foundation's outstanding Revenue Bonds of $20,315,641 (Series 2014A and 2014B Bonds), payment of closing costs and interest for this loan totaling $757,462 and $16,800,000 to retire the acquired debt of Friendship Salem Terrace, LLC. The bonds are secured by real estate owned by Friendship Health and Rehab Center, Inc., Friendship Health and Rehab Center South Inc. and Friendship Salem Terrace, LLC.

In April 2021, Wellington I-IV, LLC entered into a deed of trust insured by the Federal Housing Administration. The note of $14,456,000 is secured by Wellington I-IV, LLC. $9,000,000 of the proceeds were used to pay down the $16,850,478 debt. Apartment buildings Wellington I-IV were released as collateral on the two existing VSBFA bonds. The balance at 6/30/23 was $13,164,957.

LOCATION AND DESCRIPTION OF REAL PROPERTY

Friendship Apartment Village Corporation buildings are located on various tracts of land lying north of Hershberger Road in Roanoke County and south of Hershberger Road in Roanoke City.

A listing of existing buildings, and the numbers of units contained therein appears below:

North Hampton	54 Apartment Units
Regency I	26 Apartment Units
Regency II	28 Apartment Units
Westwood	63 Apartment Units
The Village	48 Apartment Units
Wellington I	24 Apartment Units
Wellington II	24 Apartment Units
Wellington III	24 Apartment Units
Wellington IV	34 Apartment Units
TOTAL	325

The apartments are a mixture of one- and two-bedroom independent living units with kitchens. Units are unfurnished, with the exception of one apartment for Friendship Health and Rehab Center and one for Friendship Health and Rehab Center South, Inc., affiliates of Friendship Apartment Village Corporation, for out-of-town weekend nursing staff.

Additional properties have been acquired on another campus in southwest Roanoke County, Virginia for future expansion and development. Seven properties have houses currently rented by the general public. One property has a house that is awaiting renovations before being suitable for rental. One additional property has a dwelling that are not rentable. Houses are rented unfurnished.

Friendship Apartment Village Corporation has a total of 325 Units.

AFFILIATIONS WITH RELIGIOUS, CHARITABLE OR OTHER NON-PROFIT ORGANIZATIONS: TAX STATUS OF PROVIDER

(a) Affiliations – The Provider, Friendship Apartment Village Corporation, is an affiliate of Friendship Foundation, a non-stock, non-profit Virginia Corporation. Friendship Foundation acts solely as a sponsor and member, and it is not responsible for the financial or contractual matters of the Provider. The Provider is responsible for the operation and management of all services. The Provider is also responsible for the establishment of all rules and regulations, operating policies and standards, and all financial and contractual obligations. The Provider's other non-profit affiliates are Friendship Health and Rehab Center, formerly Friendship Manor, Inc., Friendship Outpatient & Wellness Services, Inc., Eastwood Assisted Living, Inc, formerly Manor East, Inc., Friendship Health and Rehab Center South, Inc. and Friendship Salem Terrace, LLC. Friendship Health and Rehab Center operates a skilled nursing facility, Friendship Outpatient & Wellness Services operates an outpatient therapy clinic, and Eastwood Assisted Living, Inc. operates an assisted living facility on the same campus as the Provider. Friendship Health and Rehab Center South, Inc. operates a skilled nursing facility on a separate campus in SW Roanoke County. Friendship Salem Terrace, LLC (acquired in September 2022) operates an assisted living facility on a separate campus in Salem. Neither the provider nor any of its affiliates are legally affiliated with any other religious, charitable or other non-profit organizations.

The non-profit affiliates are legally distinct corporations. The nature of the affiliation is that each entity provides a service complimenting the others. Whereas the Provider under this Disclosure Statement offers independent living accommodations, the affiliates provide in-patient skilled nursing services, inpatient and outpatient therapy services, and assisted living accommodations. The services provided by the affiliates are available to the Provider's residents, but are not furnished, nor compensated for as part of the life lease or rental payments made by the Provider's residents. The affiliates are not legally responsible for the financial or contractual obligations of the Provider.

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(b) <u>Tax Status</u> – The Provider, Friendship Apartment Village Corporation, is a non-stock, non-profit Virginia Corporation established under Section 501(c)(3) of the U.S. Internal Revenue Code.

<u>SERVICES PROVIDED UNDER CONTINUING CARE CONTRACTS</u>

At June 30, 2023, Friendship Apartment Village Corporation had a combined total of approximately 278 units occupied. Of that total, 2 are life lessee units. None of the life lease units were owner occupied at 6/30/23.

The monthly fee paid by life lessees includes the following services. These services are also included in the monthly rental rates paid by residents of independent living accommodations who do not have life leases.

Community Security Personnel

Family Liaison Service

Visiting Nurse Response and Assessment Service

Housekeeping and Cleaning of Common Areas

Groundskeeping

Property Taxes; Payments In-Lieu Thereof

Water and Sewer Utilities

Management and Administrative Services

Legal and Professional Services

Electricity for Common Areas, Driveways and Parking

Maintenance of Buildings, Appliances, HVAC and Plumbing

Scheduled Bus Transportation

Pharmacy and Dietary Counseling

Financial Counseling

Group Activities

Parking Space and Maintenance

Insurance on Buildings

Garbage and Trash Removal

Other Services as from time to time provided (e.g., Wi-Fi)

Optional services not provided as part of the standard monthly rates for life lessees and renters are also available. These are listed in the section entitled, "Services Available but Not Provided under Continuing Care Contracts."

The Provider is not currently offering life leases and has not done so since the last life lease building was completed in 1986. Because there are no current plans to market additional life leases, a current cost schedule has not been prepared.

SERVICES AVAILABLE BUT NOT PROVIDED UNDER CONTINUING CARE CONTRACTS

Generally, the description of services in the previous section describes items whose cost is paid by the Provider with revenues derived from monthly rental and monthly maintenance fee revenue. Other services are offered by the Provider for payment of additional fees. Services, which are optional, are billed to the residents on a monthly basis or paid for at the time rendered depending upon the nature of the service and the residents' preference. For example, beauty shop and transportation charges may be charged to monthly accounts or paid for at the time service is rendered. Optional care and medical service would always be charged to a monthly account. The following may not include every service that has ever been offered or provided. However, the items included are representative.

Meals. Residents occupying independent living units do not receive meals as part of monthly fees. Eastwood Assisted Living, Inc., an affiliate of the Provider, but not itself a provider pursuant to this Disclosure Statement or State Statute, operates a dining room. The Provider's residents have access to this dining room and may purchase meals there. Meals purchased in this manner are $10.00, including applicable taxes. The Provider no longer operates a restaurant in the Resident Center, however, a new restaurant was opened in the west wing of Friendship Health and Rebab that offers meals and beverages to the residents, visitors and employees of Friendship Retirement Community.

Barber/Beauty Shop. The Provider offers a full-service barber and beauty shop. All services are individually priced. These services are not included in the monthly fees.

Personal Laundry. The provider owns and maintains laundry facilities in certain apartment buildings. These facilities are coin operated.

Transportation Service. The Provider operates several transportation vehicles including buses and automobiles. Scheduled bus transportation to destinations for shopping and medical care is included in monthly fees. Auto transportation is available to any local destination for a charge, which varies with distance. These charges are not included in monthly fees.

Telephone Service. Telephone service is available to independent living facilities through individual resident contracts with various independent telephone companies.

Utilities. Electric and natural gas utilities are provided by American Electric Power Company and Roanoke Gas Company directly to independent living units in those buildings equipped with individual metering devices. In most buildings, there are "house" meters that contain the circuits for hallways, elevators, lobby and outdoor lighting, except for the Westwood building where utilities are paid for by the Provider, and these costs are included in the monthly fees paid by the residents of that building.

Medical Care/Alternative Housing. The Provider provides a visiting nurse response and assessment service to its residents, the cost of which is included in monthly fees. The purpose of this program is wellness, and to provide very limited assistance during periods of minor illness. The program also provides assessment and counseling related to medical conditions that are beyond the scope of this program. The Provider also provides Respite Care. Respite Care is available for independent living residents who may have short-term medical supervision needs, and meet the criteria for admission. In this program a resident temporarily relocates to the Eastwood facility during the period of need. This service is also available to non-residents. The cost is not included in the regular monthly fees and is priced at $180 per day.

Another alternative is Friendship Health and Rehab Center, Inc., an affiliate of the Provider. This facility is licensed by the State as a skilled nursing facility. The cost of service is not included in the monthly fees paid by the Provider's residents. Daily charges in the facility range from $300 to $405 in the Long Term/Skilled Care Areas and $310 to $346 in the Memory Care Areas. In addition to the room, board and nursing care normally associated with such a facility, the following are offered at additional charge: Physical Therapy, Speech Therapy, Occupational Therapy, Podiatry, Optometry, Restorative Care, Radiology, Lab, Pharmacy, EKG, Therapeutic Diets, Laundry, Barber/Beauty, Pain Management, IV Therapy, Stroke Rehabilitation, Wound Care, Ostomy Care, Alzheimer's Care, Dialysis and Injury Rehabilitation.

Education and Counseling. Education and counseling services are available through the Provider's affiliate, Friendship Health and Rehab Center, Inc. The various programs are offered to the Provider's residents and the general public, and they focus on issues surrounding the care and accommodation of the elderly and frail elderly by friends and family members. Some programs are offered without charge. When charges apply, they are not included in the monthly fees paid by the Provider's residents.

FEES REQUIRED OF RESIDENTS

(a) **Use of Life Lease Fees** – The Provider has used 100% of all life lease fees to offset the need for long term mortgages on its buildings, to make capital improvements, and/or to provide operating revenues.

(b) Escrow of Fees – The Provider has not employed an independent escrow account for the aforementioned payments for life leases. Funds collected for this purpose have been used for construction or as stated above.

(c) Refunds/Returns/Adjustments of Fees – A refund provision was employed for leases written after 1984, which allowed pro-rated refunds up to the fifth year of residency. Prior to that time, life lease fees were non-refundable. Prior to occupancy, any payment made toward life lease accommodation is 100% refundable. If after initial occupancy, a life lease resident elects, or is unable to continue to live in the unit leased, the Provider pays a quarterly fee, equivalent to 8% per year based on the original lease amount to the life lessee. This provision has been adopted by the Board of Directors as a uniform policy. Quarterly payments are made regardless of the length of time a resident occupied the unit before leaving and continues for the life (or lives) of the resident(s). If the lessee returns to the unit, the quarterly payments cease. No life lease fees are currently subject to refund.

(d) Fees Required of Residents – The Provider's independent living residents can be categorized into two groups: Those who enter into life leases and those who enter into monthly rental arrangements. Prospective residents may become residents by completing an application for admission and signing a lease. The Virginia State Statute, which requires this Disclosure Statement, encompasses organizations who offer accommodations pursuant to agreements which cover periods in excess of one year. All accommodations offered by the Provider are for a period of one year or less except for the life lease program.

The life lease program involves the payment of a non-recurring lump sum fee at inception and the payment of a recurring monthly maintenance fee. The initial fee, which ranged from approximately $9,000 to over $70,000, is considered to be pre-paid rent. This lump sum payment guarantees the availability and the right to occupy a living unit for the life or lives of the lessee(s) subject to terms of the lease. This payment is the only fund or property required to be transferred to the Provider prior to occupancy and its only proposed use is to pre-pay rent. The initial lump sum payment does not provide services of any kind.

There are no provisions for the escrow and/or return of the initial life lease fee or entrance fee. The fee is non-refundable except as noted in the section entitled "Refunds/Returns/Adjustments of Fees" in this document.

The life lease program also involves the payment of a monthly maintenance fee. This payment covers a wide range of services which are made available to life lease and rental residents alike. These services are described in the section entitled "Services Provided under Continuing Care Contracts". Neither the payment of the initial life lease fee, the monthly fee paid pursuant to the lease, nor the payment of monthly rent by residents who do not become life lessees include any direct medical care or service except the visiting nurse response and assessment service.

Individuals who enter into life lease agreements have recurring and non-recurring fees as indicated above. Non-recurring fees are limited to the cost of the life lease which is paid in full prior to initial occupancy. Historically, life lessees reserving space in buildings to be constructed have paid one-third of the total cost as a deposit; one-third of the total cost when the building is under roof; and the final one-third when the building is completed. Residents who decide to lease a residence after a building is completed have paid the full amount at one time prior to occupancy. After payment of the life lease fee, there are no other non-recurring fees.

The life lease monthly maintenance fee for the current fiscal year (2023) is $297 plus $10 for cable. The monthly fee is applied to the operating costs of the facility. For the last five years the monthly fee has been: $297 plus $10 for cable in 2022, $297 plus $10 for cable in 2021, $297 plus $10 for cable in 2020, $297 plus $10 for cable in 2019, and $297 plus $10 for cable in 2018. Exhibit B of this document describes changes in fees and rents from 2018 to 2023. Life lease maintenance fees are adjusted annually and implemented for individuals on their anniversary date of moving in during the year. The amount of adjustment for maintenance fees and monthly rental is determined by action of the Board of Directors based on the President's recommendation, taking into consideration operating requirements, costs and general economic conditions. There are no limitations on such adjustments outside of competitive market forces.

Individuals who decide to become residents without securing a life lease may do so by paying monthly rent. The monthly rental fee provides the right to occupy a living unit subject to the lease terms. Effective January 1, 2000, rental residents also pay a security deposit equal to one month's rent. All rental agreements as of the effective date of this Disclosure Statement are first year annual leases with automatic one-year renewals thereafter, unless notice is given at least 30 days prior to the end of the term.

Rental Residence Type	Monthly Rent		
One Bedroom Apartment	$1022	-	$ 1,353
Two Bedroom Apartments	$ 1,093	-	$ 2,064
Three Bedroom Apartments	$ 1,909	-	$1,971

Individual buildings vary with respect to size and features, and in addition to the monthly payments there are other services available which may require the payment of fees. This information is located in the section entitled "Services Available But Not Provided Under Continuing Care Contracts."

RESERVE FUNDING

The Provider's obligation under life lease contracts is limited to ensuring the availability of Lessee's apartment unit or a comparable unit if the unit is under a current lease agreement. There are no future health care requirements and therefore reserve funding for such was not necessary. No other escrow accounts or trusts have been established. The Provider maintains investment accounts for its accumulated cash and assets. Such assets are from time to time allocated to new construction, renovation, equipment purchase and other operating needs.

CERTIFIED FINANCIAL STATEMENTS

The Provider's Balance Sheets and Income Statements for the previous two fiscal years are included as exhibits to this Disclosure Statement. The Provider uses an accounting system which recognizes deferred rental income to account for its life leases.

PROFORMA INCOME STATEMENT

A Proforma income statement for Fiscal Year 2024 is included as an exhibit to this Disclosure Statement.

ADMISSION OF NEW RESIDENTS

The Provider's criteria for admission of new residents is as follows:

1) Completion of Application for Admission and payment of fees, if applicable.
2) Ability to live independently, or if not totally independent, with levels of support appropriate for the type of living accommodation selected.
3) Signature of a lease or admissions documents where required.
4) Payment of security deposit equal to one month's rent. Security Deposits may be applied to unpaid rent upon lease termination and/or to cover damages beyond normal wear and tear at the discretion of the provider.

The Provider may require financial information to ascertain a prospective resident's ability to make payment. Otherwise, there are no specific financial requirements for admission to the Provider's facilities. Payment of recurring fees is a general requirement for continued occupancy and the prospective resident acknowledges at admission that he/she will peacefully withdraw from the facility if requested to do so in the event there is any failure to conform to any facility regulations and requirements.

Each applicant is reviewed individually and decisions with regard to admission are generally made within one week or less.

ACCESS TO FACILITY BY NON-RESIDENTS

The Provider's housing accommodations and site amenities are available only to residents and their families/guests. There are no non-resident services associated with the apartment accommodations. Provider reserves the right to ban visitors to its campus.

ANTICIPATED SOURCE AND APPLICATION OF PURCHASE OR CONSTRUCTION FUNDS

This section is not applicable as the Provider is in operation. Facility expansions are funded with accumulated cash reserves and/or term debt.

PROCEDURE FOR RESIDENT TO FILE A COMPLAINT OR DISCLOSE CONCERN

Regular meetings are scheduled with residents and the senior management staff to discuss matters of mutual interest. These meetings are not designed as a complaint solicitation forum. They are designed to facilitate resolutions before complaints are necessary.

In the event resolution does not occur at this level, a resident may contact any member of the senior management staff. A resident may also contact the President of the Corporation who is authorized by the Board of Directors to resolve such matters, in the event resolution has not otherwise been achieved.

EXHIBITS

FRIENDSHIP APARTMENT VILLAGE CORPORATION
RESIDENTIAL LEASE AGREEMENT

THIS RESIDENTIAL LEASE AGREEMENT (the "Lease") is made by and between **FRIENDSHIP APARTMENT VILLAGE CORPORATION**, a Virginia non-stock corporation ("Landlord"), whose address is 397 Hershberger Rd, Roanoke, VA 24012; and ____ ("Tenant"). The effective date of this Lease is the last date on which this Lease is signed and dated by both Landlord and Tenant.

In consideration of the mutual promises and covenants set forth below, as well as other good and valuable consideration, the receipt of which is acknowledged, the parties hereto agree as follows:

1. REAL PROPERTY AND TERM OF OCCUPANCY. Landlord hereby leases to Tenant Apartment # ___ located in ____ (the "Premises"), for the term of one (1) year commencing at _____ a.m./p.m. (at noon if not otherwise indicated) on __________, 20____ (the Commencement Date), and expiring at 11:59 a.m. on __________, 20____. Notwithstanding the forgoing, this lease shall automatically renew for successive one (1) year periods on each anniversary of the Commencement Date unless terminated in accordance with Section 21 of this Lease (each a "Renewal Period").

2. USE OF PREMISES. The Premises will be used by Tenant as a private dwelling and for no other purpose. The Premises will be occupied by no persons other than persons who have signed this Lease as Tenant. Tenant acknowledges that Landlord intends for the Community, as hereinafter defined, to qualify as "housing for older persons" under Section 36-96.7 of the Code of Virginia (1950), as amended. Accordingly, the Premises are intended for, and are to be solely occupied by, persons fifty-five (55) years of age or older. Notwithstanding the foregoing, the spouse of a person fifty-five (55) years of age or older who is under the age of fifty-five (55) shall be permitted to occupy the Premises.

3. RENT. During the first twelve (12) months of this lease, Tenant agrees to pay as rent the total sum of $______________, due and payable in advance, without notice, demand, or offset, in monthly installments of $______________, except as follows: If the lease term begins on a day other than the first day of a calendar month, the first month's rent shall be prorated according to the number of days during which Tenant will occupy the Premises during said first month. If the lease term ends on a day other than the last day of the calendar month, the last month's rent shall be prorated according to the total number of days during which Tenant will occupy the Premises during said last month.

For each Renewal Period, Landlord shall notify Tenant in writing of any adjustment in the total rent and monthly rent due hereunder for the applicable Renewal Period not less than thirty (30) days prior to each anniversary of the Commencement. In addition, Landlord intends to post a notice listing the effective date of impending rate increases in a conspicuous place in the building in which the Premises are located, but Landlord's failure to post the notice shall not be deemed a default by Landlord under the terms of this Lease or excuse the Tenant from paying the new rental rate during any Renewal Period.

The first month's rent is due when Tenant signs this Lease. The monthly installment of rent due for each month thereafter shall be due on the first day of each month. Rent shall be paid to Residents' Center Business Office at P.O. Box 7587, Roanoke, Virginia 24019, or at such other place as Landlord may from time to time designate in writing.

If a monthly installment of rent is not received before the 15th day of the month, Tenant agrees to pay as additional rent a late fee of Fifty Dollars ($50.00) for each such month. The purpose of this late fee is to compensate Landlord for the expenses of processing a delinquent account.

Rent payments will be applied first to all past due balances of rent and other charges owing under this Lease. The remaining portion, if any, of such rent payments will be applied to current rent.

If there are two or more Tenants, Landlord shall have the option of requiring that only one check, cashier's check or money order will be accepted for each monthly installment of rent.

The Landlord reserves the right to include water, sewer, electrical, natural gas, or other such utilities in the amount of the rent, to be specified more particularly in this Lease.

Landlord and Tenant do hereby agree that Tenant may pay prepaid rent as provided for under applicable Virginia law.

4. BAD CHECKS. Tenant agrees to pay as additional rent a charge of Fifty Dollars ($50.00) for each check returned for insufficient funds, for each electronic funds transfer rejected for insufficient funds or for each stop-payment order placed in bad faith by the authorizing party. This charge will be in addition to any late fee which may be due. If any of Tenant's checks are returned to Landlord for insufficient funds, any of Tenant's electronic funds transfers are rejected for insufficient funds or any payment of rent is subject to a stop-payment order placed in bad faith by the authorizing party, Landlord will have the option of requiring that further payments must be paid by cash, cashier's check, certified check, money order or electronic funds transfer.

5. SECURITY DEPOSIT. Tenant agrees to pay a sum equal to the first month's rent as security deposit. This sum will be due when this Lease is signed by Tenant. The security deposit will be held by Landlord to secure Tenant's full compliance with the terms of this Lease. During the term, until thirty (30) days prior to the termination or expiration of this Lease, if Landlord determines that any deductions are to be made from the security deposit for charges arising under this Lease or by law, Landlord will give written notice to Tenant of such deduction and the reason for such deduction within thirty (30) days of the time Landlord determines that such deduction should be made, and Tenant agrees to pay Landlord such sums as may be necessary to offset such deductions to replenish and maintain the security deposit in the amount set forth above.

Within forty-five (45) days after the termination of this Lease and delivery of possession of the Premises to Landlord, Landlord may apply the security deposit and any interest required by law to the payment of any damages Landlord has suffered due to Tenant's failure to maintain the Premises, to surrender possession of the premises thoroughly cleaned and in good condition or to fully comply with the terms of this Lease, and any balance, if any, to unpaid rent. Landlord shall provide Tenant with a written statement showing all such deductions and the reasons for such deductions. Within this forty-five (45) day period, Landlord will give or mail to Tenant the security deposit, with any interest required by law and minus any deductions. To assist Landlord, Tenant shall give Landlord written notice of Tenant's new address before Tenant vacates the Premises.

Where there is more than one Tenant subject to this Lease, unless otherwise agreed to in writing by each of the Tenants, Landlord's disposition of the security deposit shall be made with one check being payable to all such Tenants and sent to a forwarding address provided by one of the Tenants. Landlord shall make the security deposit disposition within the forty-five (45)-day time period, but if no forwarding address is provided to Landlord, Landlord may continue to hold such security deposit in escrow. If Tenant fails to provide a forwarding address to Landlord to enable Landlord to make a refund of the security deposit, upon the expiration of one year from the date of the end of the forty-five (45)-day time period, Landlord may remit such sum to the State Treasurer of the Commonwealth of Virginia as unclaimed property on a form prescribed by the administrator that includes the name, social security number, if known, and the last known address of each Tenant on the Lease.

Notwithstanding the foregoing, provided that Landlord has given prior written notice in accordance with Section 55-248.15.1 of the Code of Virginia (1950), as amended, Landlord may withhold a reasonable portion of the security deposit to cover an amount of the balance due on the water, sewer, or other utility account that is an obligation of Tenant to a third-party provider under this Lease, and upon payment of such obligations Landlord shall provide written confirmation to Tenant within ten (10) days thereafter, along with payment to Tenant of any balance otherwise due to Tenant.

Tenant may provide Landlord with written confirmation of the payment of the final water, sewer, or other utility bill for the Premises, in which case Landlord shall refund the security deposit, unless there are other authorized deductions, within the forty-five (45)-day period, or if Tenant provides such written confirmation after the expiration of the forty-five (45)-day period, Landlord shall refund any remaining balance of the security deposit held to Tenant within ten (10) days following the receipt of such written confirmation provided by Tenant. If Landlord otherwise receives confirmation of payment of the final water, sewer, or other utility bill for the Premises, Landlord shall refund the security deposit, unless there are other authorized deductions, within the forty-five (45)-day period.

Landlord will maintain itemized records of all security deposit deductions and these records may be inspected by Tenant, his authorized agent or attorney, during normal business hours. However, when two years have passed from the time a deduction was made, Landlord may destroy the record of that deduction.

If Landlord sells or otherwise transfers all or any interest in the Premises during the term of this Lease, Tenant agrees that Landlord may transfer the security deposit, plus any interest required by law, to the purchaser who in such event shall be obligated to comply with the provisions of this section.

6. PARKING. The Tenant agrees that Landlord has the right to: (i) control the method and manner of parking in the parking spaces in and around entire complex owned by Landlord (the "Community"), including the Premises; (ii) designate what portions of these spaces may be used by Tenant, his/her family and visitors for parking; and (iii) tow and/or store at the Tenant's expense any vehicle parked by Tenant, his/her family or visitors, in spaces not authorized by the Landlord. With the prior approval of Landlord, campers and trailers of visitors may be accommodated for short durations at locations specified by Landlord.

7. PETS. Pets are only allowed in certain designated accommodations within the Community, which accommodations are identified in the "Pet Policy and Rules," a copy of which is attached to this **(see the Lease Addendum For Household Pets)**. Pets, as defined in the "Pet Policy and Rules," are deemed to be any domesticated animal of a species that is commonly kept as a household pet, such as a cat, dog, canary or small caged animals (limited to guinea pigs, hamsters and gerbils). Notwithstanding the forgoing, for accommodations within the Community where pets are not allowed, Landlord shall grant exceptions for any service animal required by Tenant, provided that Tenant provides to Landlord (i) all required documentation of the need for such service animal that Landlord is permitted by law to demand and (ii) Tenant pays to Landlord an additional sum of $_______ as a pet deposit, which sum shall be held by Landlord as part of the Security Deposit set forth in Section 5 of this Lease.

8. UTILITIES. Tenant agrees to provide, at Tenant's expense, any utilities and equipment required by Tenant to occupy the Premises not otherwise provided by Landlord, if any.

9. ALTERATIONS AND IMPROVEMENTS. Tenant agrees that no alterations, installations, repairs or decoration (including painting, staining and applying other finishes) shall be done without Landlord's written consent. Such consent will not be unreasonably withheld. However, Landlord may require Tenant to return the Premises to its original condition when this Lease terminates or expires. In addition, Landlord may require that any change, alteration or improvements to the Premises will become a permanent part of the Premises which may not be removed upon the termination or expiration of this Lease. Such changes or improvements will include, but not be limited to, locks, light fixtures, shutters, built-in shelves or bookcases, wall-to-wall carpeting, flowers and shrubs. Additionally, Tenant may install within the Premises carbon monoxide detection devices and fire detection devices that Tenant believes are necessary to insure Tenant's safety, provided, however, that such installation does not permanently damage any part of the Premises, Tenant provides Landlord with a duplicate of all keys and instructions of how to operate such devices and, upon termination of the Lease, Tenant is responsible for

payment to Landlord of the reasonable costs to remove all such devices and to repair all damaged areas of such removal.

10. INSPECTIONS AND ACCESS. Landlord and its representatives may enter the Premises to make inspections, repairs, decorations, alterations or improvements, and to show the Premises to prospective tenants, purchasers, mortgages, workers and contractors and shall have the right to erect or place "For Sale" or "For Rent" signs thereon. Unless impractical to do so, Landlord shall give Tenant at least twenty four (24) hours' notice of routine maintenance to be performed that has not been requested by Tenant. Except in case of emergency or when it is impractical to give notice, Landlord will give Tenant reasonable notice of Landlord's intent to enter and may enter the Premises only at reasonable times. Additionally, Landlord shall give Tenant written notice of not less than forty eight (48) hours prior to the application of any insecticide or pesticide in the Premises unless Tenant requests application of such insecticide or pesticide or Tenant agrees to a shorter notification period. If Tenant has a concern about the application of any insecticide or pesticide, Tenant shall notify Landlord in writing not less than twenty four (24) hours prior to the scheduled insecticide or pesticide application. Tenant shall prepare the Premises for the application of insecticides or pesticides in accordance with written instructions of Landlord, and if insects or pests are found to be present, Tenant shall follow any written instructions of Landlord to eliminate the insects or pests following the application of insecticides or pesticides.

11. MOVE-IN INSPECTION. Within five (5) days after Tenant takes possession of the Premises, Landlord agrees to provide Tenant with a Unit Inspection Report, in substantially the form attached hereto as Exhibit A (the "Unit Inspection Form), setting forth all of the defects and damages to the Premises, its equipment and appliances existing at the time Tenant took possession, including whether there is any visible evidence of mold in areas readily accessible within the interior of the Premises. The Unit Inspection Report shall be treated as correct unless Tenant objects to the it by written notice given to Landlord within five (5) days after Tenant receives the Unit Inspection Report. Landlord shall not be obligated to make any repairs unless required by law, set forth in the Unit Inspection Report or otherwise agreed to in writing signed by Landlord. If the Unit Inspection Report indicates that there is visible evidence of mold in the Premises, Tenant shall, within five (5) days after receiving the Unit Inspection Report, have the option to terminate the Lease and not take possession of or remain in the Premises. If Tenant chooses to not terminate the Lease, then Landlord shall promptly remediate the mold condition within five (5) business days thereafter and then re inspect the Premises to confirm there is no visible mold in the Premises and reflect such on a new Unit Inspection Report.

12. COVENANTS BY LANDLORD. Landlord covenants and agrees to make all repairs and do whatever is necessary to put and keep the Premises in a fit and habitable condition and to maintain all electrical, plumbing, sanitary, heating, ventilating, air conditioning and other facilities and appliances, including elevators, in good and safe working condition, subject to the covenants undertaken by Tenant in Section 13 below. Landlord further covenants and agrees to comply with applicable building and housing code requirements materially affecting health and safety.

Landlord covenants and agrees to maintain the Premises in such a condition as to prevent the accumulation of moisture and the growth of mold and to promptly respond to any notices from Tenant regarding any moisture accumulation or visible evidence of mold. Landlord shall provide Tenant with a copy of a summary of information related to mold remediation occurring during the tenancy and, upon request of Tenant, make available the full package of such information and reports not protected by attorney-client privilege.

Landlord covenants and agrees to provide and maintain appropriate receptacles and conveniences for the collection, storage, and removal of ashes, garbage, rubbish, and other waste incidental to the occupancy of the Premises and arrange for the removal of the same. Landlord covenants and agrees to supply running water and reasonable amounts of hot water at all times and reasonable air conditioning if provided and heat in season except where the Premises is so constructed that heat, air conditioning or hot water is generated by an installation within the exclusive control of Tenant or supplied by a direct public utility connection. Landlord further covenants and agrees to maintain any carbon monoxide alarm that has been installed by Landlord in the Premises.

Landlord's failure to comply with the above requirements will not be grounds for Tenant's termination of this Lease unless Tenant has given Landlord written notice of the defective condition and Landlord has failed to remedy the condition within twenty-one (21) days. However, Tenant may not terminate the Lease if Tenant, a member of Tenant's family or some other person on the Premises with Tenant's consent intentionally or negligently caused the defective condition. Such defective conditions will be repaired at Tenant's expense. Any termination by Tenant shall be made in accordance with the section of this lease concerning breach by Landlord.

13. COVENANTS BY TENANT. Tenant covenants and agrees to keep the Premises clean and safe; to use all electrical, plumbing, heating, ventilating and air-conditioning facilities and appliances in a reasonable manner; conduct himself and herself, and require guests to conduct themselves, in a manner that will not disturb Tenant's neighbors; and to take care not to intentionally or negligently litter, destroy, damage or remove any part of the Premises or the Community, and that he or she will not permit any person to do so.

Tenant agrees not to change or add locks without giving Landlord immediate notice and a duplicate of all keys.

Tenant covenants and agrees to care for the Premises, equipment, appliances and fixtures, including keeping the Premises free from insects and pests (as such terms are defined in Section 3.2-3900 of the Code of Virginia (1950), as amended, and promptly notifying Landlord of the existence of any insects or pests.

Upon the expiration or termination of this Lease, Tenant agrees to deliver the Premises in good and clean condition, ordinary wear and tear excepted. Tenant agrees to pay the cost of all repairs and cleaning required by wear and tear beyond the ordinary.

During the duration of this Lease, Tenant agrees to give Landlord prompt written notice of any defects, damage or required maintenance and repairs to the Premises, its equipment, appliances and fixtures. If further damage or required repairs occurs between the time Tenant learns that a defect or required repair exists and the time Landlord learns of such defect or required repair, Tenant will be liable for the costs of any repairs of such additional damage which might have been avoided had Tenant promptly notified Landlord of the defect.

Tenant agrees to pay all costs resulting from the intentional or negligent destruction, damage or removal of any part of the Premises or Community by Tenant or by any of Tenant's guests or other persons on the Premises or Community with Tenant's consent.

14. TENANT TO CLEAN PREMISES WHEN LEASE ENDS. Upon the termination or expiration of this Lease, Tenant will remove all of Tenant's property from the Premises and from any storage area provided by the Landlord and deliver possession of the Premises and such storage area, if any, thoroughly clean and in good condition, reasonable wear and tear excepted, with all carpets professionally cleaned, and in compliance with such reasonable conditions as may be set forth in Landlord's rules and regulations. Tenant will be liable for any damages Landlord may suffer due to Tenant's failure to leave the Premises and such storage area, if any, in the required condition, including any loss of rent from the next tenants. Tenant will surrender all keys to the Premises and storage area, if any, on the date Tenant vacates the Premises; failure to return all keys will result in a Seventy Five Dollar ($75.00) deduction from the security deposit. Additionally, failure to leave cable mini-box will result in a Sixty Dollar ($60.00) deduction from the security deposit.

15. MOVE-OUT INSPECTION. Upon the termination or expiration of this Lease Landlord will inspect the Premises to determine whether Tenant has properly maintained the Premises and has left the Premises thoroughly cleaned and in good condition, reasonable wear and tear excepted. Grease accumulation and unreasonable marks, holes, nicks or other injury to walls, ceilings, floors or appliances will not be considered ordinary wear and tear. This inspection will be made to determine what portion of the security deposit will be returned to Tenant and whether Tenant may be liable for damages exceeding the amount of the security deposit.

This inspection will be made within seventy-two (72) hours after the termination of Tenant's occupancy of the Premises and delivery of possession. For the purposes of this section, the termination of Tenant's occupancy of the Premises will not be deemed to have occurred until all or substantially all of Tenant's property has been removed from the Premises. Tenant will give Landlord not less than thirty (30) days prior written notice specifying the date on which Tenant intends to vacate the Premises.

Within five (5) days after Landlord receives notice of Tenant's intent to vacate, or upon request by Landlord for Tenant to vacate, Landlord shall provide written notice to the Tenant that Tenant will have the right to be present during this inspection, provided Tenant gives Landlord written notice of Tenant's desire to be present during the inspection. Upon receiving such notice, Landlord will notify Tenant of the time and date when the inspection will be made. However, Tenant's delay in notifying Landlord of Tenant's desire to attend the inspection will not require Landlord to delay making the inspection more than seventy-two (72) hours after the termination of Tenant's occupancy and delivery of possession. Following the move-out inspection, Landlord shall provide Tenant with a written security deposit disposition statement, including an itemized list of damages. If additional damages are discovered by Landlord after the security deposit disposition has been made, nothing herein shall be construed to preclude Landlord from recovery of such damages against Tenant, provided, however, that Tenant may present into evidence a copy of the move-out report to support Tenant's position that such additional damages did not exist at the time of the move-out inspection.

16. ABANDONMENT OF PREMISES OR PROPERTY. If all occupants of the Premises will be absent from the Premises for more than ten (10) days, Tenant will give prior written notice of such absence to Landlord. If Tenant fails to give such notice, Landlord may deem the Premises to be abandoned and may re-enter and re-let the Premises. Tenant will remain liable for all rent and any damages until the Premises are re-let or the term expires, whichever comes first. Any personal property Tenant leaves on the Premises after the termination or expiration of this Lease or the abandonment of the Premises may be treated by Landlord as abandoned property and disposed of as provided under Section 55-248.38:1 of the Code of Virginia (1950), as amended.

17. DAMAGE OR DESTRUCTION OF THE PREMISES. If the Premises are damaged or destroyed by fire or other cause, Tenant shall notify Landlord immediately. If the Premises are damaged or destroyed to the extent that Tenant's enjoyment is substantially impaired, Tenant may immediately vacate the Premises and within fourteen(14) days thereafter give written notice to Landlord of Tenant's intention to terminate this Lease. In such cases, the Lease will terminate as of the date of termination of Tenant's occupancy and Landlord will return Tenant's security deposit, any interest required by law, and prepaid rent covering the period after Tenant vacated the Premises, subject to any setoff for charges or damages Tenant owes to Landlord. Likewise, the Landlord may terminate the Lease by giving the Tenant fourteen (14) days' notice of its intention to terminate the Lease based upon the Landlord's determination that such damage requires the removal of the Tenant and the use of the premises is substantially impaired, in which case the Lease shall terminate upon the expiration of the fourteen (14) day notice period.

If the Premises are damaged to the extent that Tenant's enjoyment is somewhat impaired, though not substantially impaired, Landlord will have a reasonable period of time in which to repair the Premises. Landlord's duty to repair will not arise until Tenant gives Landlord written notice of the damage to the Premises. If Landlord fails to repair the Premises within a reasonable period of time after having received written notice from Tenant, Tenant will be entitled to a reduction in rent for that period of time beginning thirty (30) days after notice was given to Landlord and ending on the date Landlord successfully repairs the Premises.

If the Premises are damaged or destroyed as a result of the fault or negligence of Tenant, a member of Tenant's family or a guest of Tenant, Tenant shall not be entitled to terminate this Lease and shall remain liable for rent for the unexpired term, unless Landlord elects to release

Tenant from such liability. Landlord shall have the right to terminate this Lease in the event of damage or destruction which renders the Premises unfit for habitation, or if the damage or destruction was the result of the fault or negligence of Tenant, a member of Tenant's family, of a guest of Tenant.

In any dispute concerning Tenant's right to terminate this Lease or receive a rent reduction, Tenant will be required to prove that the condition of the Premises justifies such relief.

18. BODILY INJURY AND PROPERTY DAMAGE. Landlord is not an insurer of Tenant's person or property. Except to the extent provided by law, Landlord will not be liable to Tenant for any bodily injury or property damage suffered by Tenant or Tenant's guests or family members. Tenant assumes sole responsibility for all personal property brought onto the Premises by Tenant or any of Tenant's guests or other persons on the Premises or Community with Tenant's consent.

19. RULES AND REGULATIONS. Tenant agrees to comply with Landlord's reasonable and non-discriminatory rules and regulations which concern the use and occupancy of the Premises, which intend to promote the convenience, safety or welfare of tenants or preserve Landlord's property from abusive conduct. Landlord agrees to give Tenant reasonable notice of any new rules or regulations before enforcing such rules and regulations against Tenant.

20. EARLY TERMINATION OF OCCUPANCY. In the event Tenant is required to or requests a transfer to another facility owned and/or operated by Landlord, or any affiliate thereof, and is actually transferred thereto, this Lease shall automatically terminate as of the end of the month in which the transfer occurs. Upon termination, neither party hereto shall have any further obligation to the other under the terms of this Lease, except for matters or claims arising or occurring prior to the termination date. Otherwise, including but not limited to Tenant transferring to another facility that is not owned and/or operated by Landlord, or any affiliate thereof, Tenant will not be released from liability for all rent and other charges due under this Lease unless Landlord signs a written statement in which Landlord agrees to release Tenant from such liability.

21. TERMINATION OF LEASE. Either party may terminate this Lease by giving the other written notice not less than thirty (30) days prior to the anniversary of the Commencement Date that such party does not want this Lease to automatically renew as provided for in Section 1 of this Lease. Provided that such notice is properly given by one party to the other, this Lease will automatically terminate at the end of the then current lease term. The termination of this Lease will terminate Tenant's right to occupancy but it will not terminate any claims Tenant or Landlord may have arising out of events occurring during the lease term or during any holdover by Tenant.

No agreement renewing or extending this Lease will be effective unless that agreement is in writing and signed by Tenant and Landlord. If Tenant fails to sign a replacement lease or lease renewal or extension agreement which has been signed by Landlord and delivered to Tenant, Tenant's payment of rent as provided in such agreement shall give that agreement the same effect as if it had been signed by Tenant and delivered to Landlord.

If Tenant remains in possession of the Premises after the lease term is terminated or expires and Landlord consents to such holdover but does not enter into a written agreement extending this Lease or substituting a new written lease, Tenant shall have a month-to-month lease subject to termination by either party upon thirty (30) days written notice to the other party. The monthly rent during such holdover period shall be at the same rate as under this Lease or as otherwise agreed in writing. If Landlord does not consent to the holdover, the daily rent during such holdover period shall be equal to one hundred and fifty percent (150%) of the per diem monthly rent charged during the Lease term unless otherwise prohibited by law.

22. ASSIGNMENT OR SUBLET. Tenant will not assign this Lease or sublet the Premises.

23. BREACH BY TENANT.

A. Non-Payment of Rent. If rent or any other payment due to Landlord is unpaid when due, and Tenant fails to pay rent within five (5) days after service of written notice of non-payment and Landlord's intention to terminate the Lease if payment is not made within such five (5) day period, then Landlord may terminate this Lease and proceed to obtain possession of the Premises and recover damages, costs, and/or seek injunctive relief, together with reasonable attorney fees as may be permitted by law.

B. Non-Compliance with Lease. Landlord may terminate this Lease if there is a material non-compliance by Tenant with any provision of this Lease, other than a non-payment of rent or any other payment due Landlord, and Tenant shall fail to comply with such provision within twenty-one (21) days after Tenant's receipt of written notice from Landlord specifying the act(s) and/or omission(s) constituting the breach and stating that the Lease shall terminate on a date not less than thirty (30) days after Tenant's receipt of such notice if the breach is not remedied in twenty-one (21) days. If the breach is capable of remedy, and Tenant adequately remedies the breach prior to the date specified in the notice, this Lease shall not terminate. If Tenant fails to remedy the breach prior to the date specified in the notice, Landlord may proceed to obtain possession and recover damages, costs, and/or injunctive relief, together with reasonable attorneys' fees as may be permitted by law.

C. Non-Remediable, Criminal or Willful Breach. Notwithstanding the foregoing, (i) if Tenant commits a breach which is not remediable, or is a willful subsequent breach of a like nature as a previous breach which was remedied by Tenant following notice, Landlord may give written notice to Tenant specifying the act(s) and/or omission(s) constituting the breach (and, if applicable, that there was a breach of a like nature) and stating that the Lease shall terminate on a date not less than thirty (30) days after Tenant's receipt of such notice; and (ii) if Tenant commits a breach which involves a criminal or willful act which is not remediable and which poses a threat to health or safety, Landlord may terminate this Lease immediately. Following such termination, Landlord may proceed to obtain possession of the Premises and recover damages, costs, and reasonable attorneys' fees as may be permitted by law.

D. Damages. In the event of any breach of this Lease, if Landlord pursues any remedies set forth above (and regardless of whether such remedies are prosecuted to judgment), Tenant will be liable as follows:

1. For all past due rent and other charges;

2. For all additional rent (future rent) that would have accrued until the expiration of the term of this Lease or until a new lease term begins provided (i) that this will not affect Landlord's duty to minimize the damages by making reasonable efforts to enter into a new lease as soon as practical, and (ii) that if Landlord obtains a judgment for future rent, Landlord shall apply as a credit towards that judgment all funds received by Landlord as rent for the Premises for these months for which the judgment for future rent was awarded;

3. For all expenses Landlord may incur for cleaning, painting, and repairing the Premises due to Tenant's failure to leave the Premises thoroughly clean and in good condition, reasonable wear and tear excepted;

4. For any court costs incurred by Landlord;

5. Tenant shall be liable for reasonable attorneys' fees and court costs incurred by Landlord (i) in collecting rent, other charges or damages, (ii) in enforcing any other terms of said Lease, and/or (iii) in filing any action to recover any financial obligation due to Landlord by Tenant and/or to obtain possession of the Premises from Tenant; and

6. Where Landlord is not represented by an attorney, for a collection fee equal to 25% of the judgment amount for rent and other damages. Tenant understands and agrees that this amount represents damages Landlord will be likely to incur in efforts to obtain a judgment against Tenant (including time and effort spent in case investigation, correspondence, filing suit, discussions with lawyers, case preparation and court attendance) and to collect such judgment.

24. BREACH BY LANDLORD. If Landlord (a) commits a material breach of this Lease, or (b) fails to a substantial extent to comply with any laws with which Landlord must comply and which materially affect Tenant's health and safety, Tenant may give written notice to Landlord identifying the acts and omissions constituting a Landlord's breach and stating that this Lease will terminate upon a specific date not less than thirty (30) days from the date Landlord receives the notice, unless Landlord remedies the breach within twenty-one (21) days. If Landlord remedies the breach within that twenty-one (21)-day period, this Lease will not be subject to termination by Tenant in that instance. If Landlord's breach is not remediable, or if Landlord has been served with a prior written notice which required Landlord to remedy a breach, and Landlord did remedy such breach and then intentionally commits a subsequent breach of like nature as the prior breach, then Tenant may give written notice to Landlord specifying the acts and omissions constituting the breach and stating that this Lease will terminate on a specific date not less than thirty (30) days after Landlord's receipt of such notice.

Tenant will not have the right to terminate this Lease because of conditions caused by the intentional or negligent acts of Tenant or persons on the Premises with Tenant's consent.

In addition, Tenant will have the right to pursue all other remedies available, including injunctive relief to order Landlord to remedy the breach, and may recover damages and reasonable attorney's fees.

25. NOTICES. All notices in writing required or permitted by this Lease must be delivered in accordance with Virginia Code Section 55-248.6, as amended.

26. HEADINGS. The headings of the sections of this Lease are inserted for convenience only and do not alter or amend the provisions that follow such headings.

27. GOVERNING LAW. This Lease is entered into and shall be construed under the laws of the Commonwealth of Virginia.

28. SEVERABILITY. Any provision of this Lease which is prohibited by, or unlawful or unenforceable under, Virginia law shall be ineffective only to the extent of such prohibition without invalidating the remaining provisions of this Lease.

29. FAILURE TO ENFORCE LEASE NOT A WAIVER. Landlord's acceptance of rent payments or conduct not in compliance with Tenant's obligations under this Lease or waiver of a breach by Tenant shall not be interpreted as a waiver of any subsequent breach or non-compliance, and this Lease shall continue in full force and effect. Tenant is hereby notified that acceptance by Landlord of rent payments from Tenant with knowledge of a material non-compliance by Tenant shall not constitute a waiver of Landlord's right to terminate this Lease by reason of such non-compliance.

30. AGENTS COMMISSION. If Landlord appoints an Agent to manage the Premises and/or to collect rent for the Premises, then the Agent's compensation for services rendered in connection with this Lease shall be paid by Landlord in accordance with the terms contained in a separate agreement.

31. JOINT AND SEVERAL LIABILITY. If more than one Tenant signs this Lease, all persons signing as Tenant shall be jointly and severally liable for all obligations of Tenant set forth in this Lease.

32. DEATH OF TENANT OR LANDLORD. If Tenant shall die during the term of this Lease, the Lease and any personal property of Tenant shall be terminated and shall be disposed respectively in accordance with Virginia Code Section 55-248.38:3, as amended. If the Landlord shall die during the term of this Lease, the personal representative of the estate of the deceased Landlord may terminate this Lease by giving not less than thirty (30) days written notice to the Tenant. Such right of termination must be exercised within ninety (90) days of the date of death of the decedent Landlord.

33. WAIVER OF RIGHT TO JURY TRIAL. Both Landlord and Tenant hereby waive the right to trial by jury in any action, proceeding or counterclaim brought by either party against the other arising out of this Lease, the relationship as Landlord and Tenant, Tenant's use or occupancy of the Premises, and or any injury or damage on or about the Premises.

34. NO RECORDATION. This Lease shall not be recorded by Tenant.

35. AMENDMENTS. This Lease may be amended only by a writing signed by the parties, or by a change in Landlord's rules and regulations, provided that reasonable notice of such change is given to Tenant and provided that such changes do not substantially modify Tenant's arrangement with Landlord.

36. FIREARMS. The possession of a firearm by Tenant, or his/her family, invitee or guest, in, on or about the Premises or the Community is forbidden.

37. PERSONAL AND DOMESTIC SERVICES. In an effort to address any privacy and/or security concerns of the Community's residents and to better ensure that only approved visitors are accessing the Community and its facilities, Tenant must provide Landlord with the name and with the contact information of any person who will be providing in-home or domestic services to said Tenant while at the Community. Prior to being allowed access to the Community in order to provide such services to a Tenant, any in-home or domestic services provider must first pass a criminal background check to be conducted by Landlord and paid for by the Tenant.

38. ENTIRE AGREEMENT. This lease and any rules and regulations of Landlord constitute the entire lease agreement between Landlord and Tenant. No oral statements made by either party shall be binding.

☐ If this box is checked, a copy of the Rules and Regulations of Landlord is attached, to and made a part of, this Lease.

WITNESS the following signatures:

LANDLORD

FRIENDSHIP APARTMENT VILLAGE CORPORATION

By: ______________________

Its : ______________________

Date: ______________________

____

Date: ______________________

TENANT

(Signature)______________________

(Soc. Sec. #): ______________________

Date: ______________________

(Signature)______________________

(Soc. Sec. #) ______________________

Date: ______________________

____

(Soc. Sec. #) ______________________

Date: ______________________

____

(Soc. Sec. #) ______________________

Date: ______________________

Landlord hereby designates the following Agent to collect rent and manage the Premises on behalf of Landlord:

Name: ______________________

Address: ______________________

Telephone: ______________________

FRIENDSHIP APARTMENT VILLAGE CORPORATION

Tenant Rules and Regulations

1. Tenants are strongly encouraged to purchase Renters Insurance. Friendship is not responsible for damage or loss of tenant personal items.
2. Nail holes and holes created by mounting your television are considered damage. This may affect a partial and/or full forfeiture of your security deposit. The use of Command strips is highly recommended when hanging pictures, mirrors, etc. to avoid damage to your walls.
3. Residents will only park in the designated parking lot assigned to their building.
4. Rent will be charged until all items are removed from apartment and keys returned.
5. The security deposit will not be applied to last month rent.
6. SMOKING IS NOT ALLOWED IN THE APARTMENT OR COMMON AREAS OF THE BUILDING. Residents are required to smoke outside or on their balcony.
7. Residents with pets should refer to the Lease Addendum for Household Pets.
8. Guests may stay in a resident's apartment for a maximum of seven (7) consecutive days and a total of fourteen (14) days in any fiscal year which runs from July 1 through June 30. Guests must register at the front desk of the Residents' Center upon arrival and departure. Extended lengths of visits must be approved by Administration.
9. In an effort to address any privacy and/or security concerns of the Community's residents and to better ensure that only approved visitors are accessing the Community and its facilities, Tenant must provide Landlord with the name and with the contact information of any person who will be providing in-home or domestic services to said Tenant while at the Community. Prior to being allowed access to the Community in order to provide such services to a Tenant, any in-home or domestic services provider must first pass a criminal background check to be conducted by Landlord and paid for by Tenant.
10. Move Out Requirements are described on the following page.

(over)

Move Out Requirements

CLEAN KITCHEN

- Countertops & Sink
- Stovetop & Oven
- Microwave
- Refrigerator Inside & Outside
- Cabinets Inside & Outside
- Dishwasher Inside & Outside
- Sweep & Mop

CLEAN BATHROOMS

- Countertops & Sink
- Toilet
- Bathtub & Shower
- Cabinets Inside & Outside
- Medicine Cabinet Inside & Outside
- Sweep & Mop

CLEAN BEDROOMS

- Dust baseboards
- Vacuum
- Professional Carpet Cleaning

CLEAN LIVING ROOM/DINING ROOM

- Dust baseboards
- Vacuum
- Professional Carpet Cleaning
- Remove all trash from apartment
- Contact AEP 1-800-956-4237 to move service account back to Friendship. Please do not have service disconnected.

FAILURE TO FOLLOW MOVE OUT REQUIREMENTS MAY RESULT IN FORFEITURE OF SECURITY DEPOSIT

RESIDENTIAL LEASE AGREEMENT

THIS RESIDENTIAL LEASE AGREEMENT, made this ______________________________
By ______________________________ and between **Friendship Apartment Village Corporation** ("Landlord"), whose business address is 397 Hershberger Rd., Roanoke, VA 24012; and ("Tenant"), whose current address is ______________________________

In consideration of the mutual promises and covenants set forth below, as well as other good and valuable consideration, the receipt of which is acknowledged, the parties hereto agree as follows:

1. **REAL PROPERTY AND TERM OF OCCUPANCY,** Landlord hereby leases to Tenant the single family residence located at ______________________________(hereinafter the "Premises"). This Lease shall continue on an annual basis at the current rent with either party having the right to terminate this Lease with a 30-day written notice.

2. **PERSONAL PROPERTY,** The following personal property is located in the Premises subject to this Lease: NONE

3. **USE OF PREMISES,** The Premises will be used by Tenant as a private dwelling and for no other purpose. The Premises will be occupied by no persons other than persons who have signed this Lease as Tenant or their immediate family.

4. **RENT.** Tenant agrees to pay as rent the total sum of $______ Dollars per month due and payable in advance, without notice, demand, or offset. If the lease term begins on a day other than the 1st day of a calendar month, the first (1st) month's rent shall be prorated according to the number of days during which the Tenant will occupy the Premises during said first (1st) month. If the lease term ends on a day other than the last day of the calendar month, the last month's rent shall be prorated according to the total number of days during which the Tenant will occupy the Premises during said last month.

The monthly installment of rent due for each month thereafter shall be due on the first day of each month. Rent shall be paid to Landlord at the address set forth below, or at such other place as Landlord may from time to time designate in writing. If a monthly installment of rent is not received before the fifteenth (15th) day of the month, Tenant agrees to pay as additional rent a late fee of Fifty and 00/100 Dollars ($ 50.00) for each such month. The purpose of this late fee is to compensate Landlord for the expenses of processing a delinquent account. Rent payments will be applied first to all past-due balances of rent and other charges owing under this Lease. The remaining portion, if any, of such rent payments will be applied to current rent.

4. **BAD CHECKS.** Tenant agrees to pay as additional rent a charge of Fifty and 00/ I 00 Dollars ($50.00) for each check returned for insufficient funds. This charge will be in addition to any late fee which may be due. If any of Tenant's checks are returned to Landlord for insufficient funds, Landlord will have the option of requiring that further payments must be paid by cash, cashier's check, certified check or money order.

5. **SECURITY DEPOSIT,** Tenant agrees to pay the sum *of* ______as a security deposit. This sum will be due when this Lease is signed by Tenant. The security deposit will be held by Landlord to secure Tenant's full compliance with the terms of this Lease. During the term, until thirty (30) days prior to the, termination or expiration of this Lease, if Landlord determines that any deductions are to be made from the security deposit for charges .arising under this Lease or by law, Landlord will give written notice to Tenant of such deduction and the reason for such deduction within thirty (30) days of the time Landlord determines that such deduction should be made, and Tenant agrees to pay Landlord such sums as may be necessary to offset such deductions to replenish and maintain the security deposit in the amount set forth above.

Within thirty (30) days after the termination of this Lease, Landlord may apply the security deposit and any interest required by law to the payment of any damages Landlord has suffered due to Tenant's failure to maintain the Premises, to surrender possession of the Premises thoroughly cleaned and in good condition (reasonable wear and tear excepted), or to fully comply with the terms of this Lease, and any balance, if any, to unpaid rent. Landlord shall provide Tenant with an itemized accounting, in writing, showing all such deductions and the reasons for such deductions. Subject to the foregoing, within 7 days after the Final Inspection, Landlord will give or mail to Tenant the security deposit, with any interest required by law and minus any deductions. To assist Landlord, Tenant shall give Landlord written notice of Tenant's new address before Tenant vacates the Premises.

Landlord will maintain itemized records of all security deposit deductions and these records may be inspected by Tenant, his authorized agent or attorney, during normal business hours. However, when two (2) years have passed from the time a deduction was made, Landlord may destroy the record of that deduction. If Landlord sells or otherwise transfers all or any interest in the Premises during the term of this Lease, Tenant agrees that Landlord may transfer the security deposit, plus any interest required by law, to the purchaser who in such event shall be obligated to comply with the provisions of this section.

7. **PETS.** No dogs, cats or other animals shall be kept in or about the Premises by Tenant or Tenant's guests without Landlord's prior written consent, which may be withheld and/or revoked in the Landlord's sole discretion.

8. **UTILITIES.** Tenant shall be responsible for all utilities including, but not limited to, electrical service, gas ~~service, water and sewer, internet, telephone and cable/satellite TV.~~

9. **ALTERATIONS AND IMPROVEMENTS.** Tenant agrees that no alterations, installations, repairs or decoration (including painting, staining and applying other finishes) shall be done without Landlord's written consent. However, Landlord may require Tenant to return the Premises to its original condition when this Lease terminates or expires. In addition, Landlord may require that any change, alteration or improvement to the Premises will become a permanent part of the Premises which may not be removed upon the termination or expiration of this Lease. Such changes or improvements will include, but not be limited to, locks, light fixtures, shutters, built-in shelves or bookcases, wall-to-wall carpeting or other flooring, flowers and shrubs.

10. **INSPECTIONS AND ACCESS.** Landlord and its representatives may enter the Premises to make inspections, repairs, decorations, alterations or improvements, and to show the Premises to prospective tenants, purchasers, mortgagees, workers and contractors and shall have the right to erect or place "For Sale" or "For Rent" signs thereon. Except in case of emergency or when it is impractical to give notice, Landlord will give Tenant reasonable notice of Landlord's intent to enter and may enter the Premises only at reasonable times.

11. **MOVE-IN INSPECTION.** Within five (5) days after Tenant takes possession of the Premises, Tenant agrees to provide Landlord with a list setting forth all of the defects and damages to the Premises, its equipment and appliances existing at the time Tenant took possession. The list shall be treated as correct unless Landlord objects to the list by written notice given to Tenant within five (5) days after Landlord receives the list. Landlord shall not be obligated to make any repairs unless required by law or agreed to in writing signed by Landlord.

12. **COVENANTS BY LANDLORD.** Landlord covenants and agrees to maintain all electrical, plumbing, heating, ventilating, air conditioning and other facilities and appliances, in good and safe working condition, subject to the covenants undertaken by Tenant in Section 14 below. Landlord further covenants and agrees to comply with applicable building and housing code requirements materially affecting health and safety.

Landlord's failure to comply with the above requirements will not be grounds for Tenant's termination of this Lease unless Tenant has given Landlord written notice of the defective condition and Landlord has failed to remedy the condition within twenty-one (21) days. However, Tenant may not terminate the Lease if Tenant, a member of Tenant's family or some other person on the Premises with Tenant's consent intentionally or negligently caused the defective condition. Such defective conditions will be repaired at Tenant's expense. Any termination by Tenant shall be made in accordance with the section of this Lease concerning breach by Landlord.

13. **COVENANTS BY TENANT.** Tenant shall present to Landlord prior to executing this agreement and allow the Landlord to verify that the Tenant has an active and comprehensive renter's insurance policy which shall list the Landlord as a covered entity. Failure to have an active and comprehensive renter's insurance policy shall immediately terminate this agreement for abandonment under Section 16. Tenant further covenants and agrees to keep the Premises clean and safe; use all electrical, plumbing, heating, ventilating and air-conditioning facilities and appliances in a reasonable manner; conduct himself or herself, and require guests to conduct themselves, in a manner that will not disturb Tenant's neighbors; and to take care not to intentionally or negligently destroy, damage or remove any part of the Premises, and that he or she will not permit any person to do so.

Tenant agrees not to change or add locks without giving Landlord immediate notice and a duplicate of all keys. Tenant covenants and agrees to care for, maintain and repair the Premises, equipment, appliances and fixtures, including (a) replacement of light bulbs, fuses, faucet washers, furnace and air conditioning filters; (b) remedying clogged or frozen pipes, toilets and drains; (c) caulking around tubs and showers; (d) replacement of smoke detector batteries, broken or damaged locks, glass, screens, plaster, floor coverings, light fixtures and other equipment; and (e) mowing of grass, removal of weeds from mulched beds, raking of leaves, trimming of bushes/hedges and tree limbs, removal of snow and ice from all walks, steps and drives, and cleaning of gutters and drains.

Upon the expiration or termination of this Lease, Tenant agrees to deliver the Premises in good and clean condition, ordinary wear and tear excepted. Tenant agrees to pay the cost of all repairs and cleaning required by wear and tear beyond the ordinary.

During the duration of this Lease, Tenant agrees to give Landlord prompt written notice of any defects or damage in the Premises, its equipment, appliances and fixtures. If further damage occurs between the time Tenant learns that a defect exists and the time Landlord learns of such defect, Tenant will be liable for the costs of any repairs of such additional damage which might have been avoided had Tenant promptly notified Landlord of the defect. Tenant agrees to pay all costs resulting from the intentional or negligent destruction, damage or removal of any part of the Premises by Tenant or by any of the Tenant's guests or other persons on the Premises with Tenant's consent.

14. **TENANT TO CLEAN PREMISES WHEN LEASE ENDS.** Upon the termination or expiration of this Lease, Tenant will remove all of Tenant's property from the Premises and deliver possession of the Premises, thoroughly clean and in good condition, reasonable wear and tear accepted, with all carpets professionally cleaned, and in compliance with such reasonable conditions as may be set forth in Landlord's rules and regulations. Tenant will be liable for any damages Landlord may suffer due to Tenant's failure to leave the Premises in the required condition, including any loss of rent from the next tenants. Tenant will surrender all keys to the Premises on the date Tenant vacates the Premises; failure to return all keys and garage door opener will result in a Four-Hundred Dollar ($400.00) deduction from the security deposit.

15. **MOVE-OUT INSPECTION**. Upon the termination or expiration of this Lease Landlord will inspect the Premises to determine whether Tenant has properly maintained the Premises and has left the Premises thoroughly cleaned and in good condition, reasonable wear and tear accepted. Grease accumulation and unreasonable marks, holes, nicks or other injury to walls, ceilings, floors or appliances will not be considered ordinary wear and tear. This inspection will be made to determine what portion of the security deposit will be returned to Tenant and whether Tenant may be liable for damages exceeding the amount of the security deposit.

This inspection will be made within seventy-two (72) hours after the termination of Tenant's occupancy of the Premises. For the purposes of this section, the termination of Tenant's occupancy of the Premises will not be deemed to have occurred until all or substantially all of Tenant's property has been removed from the Premises. Tenant will give Landlord not less than ten (10) days' prior written notice specifying the date on which Tenant intends to vacate the Premises.

Within five (5) days after Landlord receives notice of Tenant's intent to vacate, or upon request by Landlord for Tenant to vacate, Landlord will make reasonable efforts to advise Tenant that Tenant will have the right to be present during this inspection, provided Tenant gives Landlord written notice of Tenant's desire to be present during the inspection. Upon receiving such notice, Landlord will notify Tenant of the time and date when the inspection will be made. However, Tenant's delay in notifying Landlord of Tenant's desire to attend the inspection will not require

Landlord to delay making the inspection more than seventy-two (72) hours after the termination of Tenant's occupancy. If Tenant attends the inspection, an itemized list of damages known to exist at the time of the inspection will be provided to Tenant by Landlord upon the completion of the inspection.

16. **ABANDONMENT OF PREMISES OR PROPERTY.** If all occupants of the Premises will be absent from the Premises for more than fourteen (14) days, Tenant will give prior written notice of such absence to Landlord. If Tenant fails to give such notice, Landlord may deem the Premises to be abandoned and may re-enter and re-let the Premises. Tenant will remain liable for all rent and any damages until the Premises are re-let or the terms expires, whichever comes first. Any personal property Tenant leaves on the Premises after the termination or expiration of this Lease or the abandonment of the Premises may be treated by Landlord as abandoned property. Landlord will prepare an itemized list of such property and may immediately remove the property from the Premises and place it in storage for safekeeping for a period not less than one (1) month from the date this Lease terminates and possession of the Premises is delivered to Landlord. Tenant may reclaim the property during this one-month period, provided that Tenant pays the cost of its removal and storage. Upon expiration of the one-month period, Landlord will be free to dispose of the property as Landlord sees fit, provided written notice of Landlord's intent to dispose of the property is given to Tenant at least ten (10) days before such disposal occurs. This notice must be sent to Tenant's last known address, address correction requested. In addition, Landlord must keep the itemized list of Tenant's property for two (2) years after Landlord disposes of that property. Any funds received by Landlord from the disposal of Tenant's property may be applied to Tenant's indebtedness to Landlord for unpaid rent or other damages, including charges for removing, storing and selling the property. Any remaining funds will be treated as security deposit.

17. **DAMAGE OR DESTRUCTION OF PREMISES.** If the Premises are damaged or destroyed by fire or other cause, Tenant shall notify Landlord immediately. If the Premises are damaged or destroyed to the extent that Tenant's enjoyment is substantially impaired, Tenant may immediately vacate the Premises and within fourteen (14) days thereafter give written notice to Landlord of Tenant's intention to terminate this Lease. In such cases, the Lease will terminate as of the date of termination of Tenant's occupancy and Landlord will return Tenant's security deposit, any interest required by law, and prepaid rent covering the period after Tenant vacated the Premises, subject to any set-off for charges or damages Tenant owes to Landlord.

If the Premises are damaged to the extent that Tenant's enjoyment is somewhat impaired, though not substantially impaired, Landlord will have a reasonable period of time in which to repair the Premises. Landlord's duty to repair will not arise until Tenant gives Landlord written notice of the damage to the Premises. If Landlord fails to repair the Premises within a reasonable period of time after having received written notice from Tenant, Tenant will be entitled to a reduction in rent for that period of time beginning thirty (30) days after notice was given to Landlord and ending on the date Landlord successfully repairs the Premises.

If the Premises are damaged or destroyed as a result of the fault or negligence of Tenant, a member of Tenant's family or a guest of Tenant, Tenant shall not be entitled to terminate this Lease and shall remain liable for rent for the unexpired term, unless Landlord elects to release Tenant from such liability. Landlord shall have the right to terminate this Lease in the event of damage or destruction which renders the Premises unfit for habitation, or if the damage or destruction was the result of the fault or negligence of Tenant, a member of Tenant's family, or a guest of Tenant. In any dispute concerning Tenant's right to terminate this Lease or receive a rent reduction, Tenant will be required to prove that the condition of the Premises justifies such relief.

18. **BODILY INJURY PROPERTY DAMAGE.** Landlord is not an insurer of Tenant's person or property. Except to the extent provided by law, Landlord will not be liable to Tenant for any bodily injury or property damage suffered by Tenant or Tenant's guests or family members.

19. **RULES AND REGULATIONS.** Tenant agrees to comply with Landlord's reasonable and non-discriminatory rules and regulations which concern the use and occupancy of the Premises, which intend to promote the convenience, safety or welfare of tenants or preserve Landlord's property from abusive conduct. Landlord agrees to give Tenant reasonable notice of any new rules or regulations before enforcing such rules and regulations against Tenant.

20. **EARLY TERMINATION OF OCCUPANCY**. Tenant will not be released from liability for all rent and other charges due under this Lease except where Landlord signs a written statement in which Landlord agrees to release Tenant from such liability.

21. **ASSIGNMENT OR SUBLET.** Tenant will not assign this Lease or sublet the Premises.

22. **BREACH BYTENANT.**

A. **Non-payment of Rent.** If rent or any other payment due to Landlord is unpaid when due, and Tenant fails to pay rent within five (5) days after service of written notice of non-payment and Landlord's intention to terminate the Lease if payment is not made within such five (5) day period, then Landlord may terminate this Lease and proceed to obtain possession of the Premises and recover damages, costs, and/or seek injunctive relief, together with reasonable attorneys' fees as may be permitted by law.

B. **Non-compliance with Lease.** Landlord may terminate this Lease if there is a material non-compliance by Tenant with any provision of this Lease, other than a non-payment of rent or any other payment due Landlord, and Tenant shall fail to comply with such provision within twenty-one (21) days after Tenant's receipt of written notice from Landlord specifying the act(s) and/or omissions(s) constituting the breach and stating that the Lease shall terminate on a date not less than thirty (30) days after Tenant's receipt of such notice if the breach is not remedied in twenty-one (21) days. If the breach is capable of remedy, and Tenant adequately remedies the breach prior to the date specified in the notice, this Lease shall not terminate. If Tenant fails to remedy the breach prior to the date specified in the notice, Landlord may proceed to obtain possession and recover damages, costs, and/or injunctive relief, together with reasonable attorneys' fees as may be permitted by law.

C. **Non-remediable, Criminal or Willful Breach.** Notwithstanding the foregoing, (i) if Tenant commits a breach which is not remediable, or is a willful subsequent breach of a like nature as a previous breach which was remedied by Tenant following notice, Landlord may give written notice to Tenant specifying the act(s) and/or omission(s) constituting the breach (and, if applicable, that there was a breach of a like nature) and stating that the Lease shall terminate on a date not less than thirty (30) days after Tenant's receipt of such notice; and (ii) if Tenant commits a breach which involves a criminal or willful act which is not remediable and which poses a threat to health or safety, Landlord may terminate this Lease immediately. Following such termination, Landlord may proceed to obtain possession of the Premises and recover damages, costs, and reasonable attorneys' fees as may be permitted by law.

D. **Damages**. In the event of any breach of this Lease, if Landlord pursues any remedies set forth above (and regardless of whether such remedies are prosecuted to judgment), Tenant will be liable as follows:

1. For all past-due rent and other charges;
2. For all additional rent (future rent) that would have accrued until the expiration of the term of this Lease or until a new lease term begins provided (i) that this will not affect Landlord's duty to minimize the damages by making reasonable efforts to enter into a new lease as soon as practical; and (ii) that if Landlord obtains a judgment for future rent, Landlord shall apply as a credit towards that judgment all funds received by Landlord as rent for the Premises for these months for which the judgment for future rent was awarded;
3. For all expenses Landlord may incur for clean i ng, painting and repairing the Premises due to Tenant's failure to leave the Premises thoroughly clean and in good condition, reasonable wear and tear excepted;
4. For any court costs incurred by Landlord;
5. Where the Tenant's breach of the Lease results from Tenant's willful non-compliance, Tenant shall be liable for reasonable attorneys' fees incurred by Landlord (i) in collecting rent, other charges or damages; and (ii) in obtaining possession of the Premises; and
6. Where Landlord is not represented by an attorney, for a collection fee equal to twenty-five (25%) of the judgment amount for rent and other damages. Tenant understands and agrees that this amount represents damages Landlord will be likely to incur in efforts to obtain a judgment against Tenant (including time and effort spent in case investigation, correspondence, filing suit, discussions with lawyers, case preparation and court attendance) and to collect such judgment.

23. **BREACH BY LANDLORD.** If Landlord (a) commits a material breach of this Lease; or (b) fails to a substantial extent to comply with any laws with which Landlord must comply and which materially affect Tenant's health and safety, Tenant may give written notice to Landlord identifying the acts and omissions constituting Landlord's breach and stating that this Lease will terminate upon a specific date not less than thirty (30) days from the date Landlord receives the notice, unless Landlord remedies the breach within twenty-one (21) days. If Landlord remedies the breach within that twenty-one (21) day period, this Lease will not be subject to termination by Tenant in that instance.

Tenant will not have the right to terminate this Lease because of conditions caused by the intentional or negligent acts of Tenant or persons on the Premises with Tenant's consent. In addition, Tenant will have the right to pursue all other remedies available, including injunctive relief to order Landlord to remedy the breach, and may recover damages and attorney's fees.

24. **RENT WITHHOLDING.** Tenant may not withhold rent because of conditions on the Premises which constitute a fire hazard or a serious threat to the life, health or safety of occupants thereof, or a material non-compliance on the part of Landlord with this Lease or provisions of law, and Landlord is required to repair unless Tenant has given Landlord written notice of the condition and Landlord has failed to successfully repair the condition within a reasonable period of time. If Tenant withholds rent because Landlord has breached the Lease, Tenant must immediately give Landlord a second written notice of the breach and of any conditions of the Premises which Landlord is required to remedy or repair and must state that rent is being withheld for such reasons. If Landlord then sues Tenant for possession of the Premises or for withheld rent, Tenant must promptly pay the rent to the court, which will hold the rent until it decides what portion, if any, should be paid to Landlord.

If conditions exist which Landlord is required to remedy and which create a fire hazard or serious threat to the health or safety of Tenant, Tenant may file an action in a court of competent jurisdiction to terminate the Lease, to require Landlord to repair the Premises, or to obtain other relief. In such an action, Tenant may pay rent to the court to be held until Tenant's action is decided.

If Tenant withholds rent or pays rent into court under this section and the court finds (a) that Tenant has acted in bad faith: (b) that Tenant, Tenant's family or guests have caused the conditions; or (c) that Tenant, Tenant's family or guests have refused unreasonably to allow Landlord or Landlord's agent to enter the Premises to make repairs, after receiving written notice of the condition, Tenant will be liable for Landlord's reasonable costs, including costs for time spent, court costs, any repair costs due to Tenant's violation of the Lease, and attorneys' fees.

25. **NOTICES.** All notices in writing required or permitted by this Lease may be delivered in person, or sent by certified mail, return receipt requested (postage prepaid) to Landlord, Tenant or Agent at such party's address, as set forth above or at such other address as a party may designate from time to time by notice given in accordance with the terms of this section; however, Tenant shall be deemed to have received notice if such notice is delivered or served at the address of the Premises.

26. **HEADINGS.** The headings of the sections of this Lease are inserted for convenience only and do not alter or amend the provisions that follow such headings.

27. **GOVERNING LAW.** This Lease is entered into and shall be construed under the laws of the Commonwealth of Virginia.

28. **SEVERABILITY.** Any provision of this Lease which is prohibited by, or unlawful or unenforceable under, Virginia law shall be ineffective only to the extent of such prohibition without invalidating the remaining provisions of this Lease.

29. **FAILURE TO ENFORCE LEASE NOT A WAIVER.** Landlord's acceptance of rent payments or conduct not in compliance with Tenant's obligations under this Lease or waiver of a breach by Tenant shall not be interpreted as a waiver of any subsequent breach or non-compliance, and this Lease shall continue in full force and effect. Tenant is hereby notified that acceptance by Landlord of rent payments from Tenant with knowledge of a material non-compliance by Tenant shall not constitute a waiver of Landlord's right to terminate this Lease by reason of such non-compliance.

30. **JOINT AND SEVERAL LIABILITY.** If more than one Tenant signs this Lease, all persons signing as Tenant shall be jointly and severally liable for all obligations of Tenant set forth in this Lease.

31. **WAIVER OF RIGHT TO JURY TRIAL.** Both Landlord and Tenant hereby waive the right to trial by jury in any action, proceeding or counterclaim brought by either party against the other arising out of this Lease, the relationship as Landlord and Tenant, Tenant's use or occupancy of the Premises, and or any injury or damage on or about the Premises.

32. **NO RECORDATION.** This Lease shall not be recorded by Tenant.

33. **AMENDMENTS.** This Lease may be amended only by a writing signed by the parties, or by a change in Landlord's rules and regulations, provided that reasonable notice of such change is given to Tenant and provided that such changes do not substantially modify Tenant's arrangement with Landlord.

34. **ENTIRE AGREEMENT.** This Lease and any rules and regulations of Landlord constitute the entire lease agreement between Landlord and Tenant. No oral statements made by either party shall be binding.

35. **ADJUSTMENT OF TOTAL RENT.** For each Renewal Period, Landlord shall notify Tenant in writing of any adjustment in the total rent and monthly rent due hereunder for the applicable Renewal Period not less than thirty (30) days prior to each anniversary of the Commencement.

Witness the following signatures:

LANDLORD: Friendship Apartment Village Corporation

By: ______________

Name: ______

Title: ______

Date: ________

TENANT(S):

By: ______________

Print Name: ______________________

By: ______________________________

Print Name: ______________________

Mail Check to:

FAVC
Attn: Lucy Klein
Director of Independent Living
397 Hershberger Road
Roanoke, VA 24018

EXHIBIT B
Rate Adjustments 2018-2023

BUILDING TYPE	FYE 6/30/2018	FYE 6/30/2019	FYE 6/30/2020	FYE 6/30/2021	FYE 6/30/2022	FYE 6/30/2023
VILLAGE						
Efficiency A	-	-	-	-	-	-
Efficiency B						
1 BR	861	887	912	936	964	1,022
2 BR	921	949	976	1,001	1,031	1,093
2 BR Deluxe	971	1,000	1,028	1,055	1,087	1,152
WESTWOOD						
Efficiency	-	-	-	-	-	-
Studio	-	-	-	-	-	-
1 BR	971	1,000	1,028	1,028	1,043	1,106
1 BR w/balcony	1,021	1,052	1,081	1,081	1,097	1,163
2 BR w/balcony	1,161	1,196	1,229	1,229	1,247	1,322
2 BR Deluxe	1,261	1,299	1,335	1,335	1,355	1,436
NORTHHAMPTON						
1 BR w/ balcony or terrace	921	949	976	1,001	1,031	1,093
2 BR w/ balcony or terrace	1,011	1,041	1,070	1,098	1,131	1,199
2 BR Deluxe	1,261	1,299	1,335	1,370	1,411	1,496
WINDSOR COURT						
Studio	-	-	-	-	-	-
1 BR						
2 BR w/balcony or terrace						
2 BR Deluxe						
REGENCY I & II						
1 BR	971	1,000	1,028	1,055	1,087	1,152
2 BR	1,061	1,093	1,124	1,153	1,188	1,259
2 BR Deluxe	1,361	1,402	1,441	1,478	1,522	1,613
REGENCY III						
1 BR (RIII)	-	-	-	-	-	-
2 BR (RIII)	-	-	-	-	-	-
2 BR Deluxe (RIII)	-	-	-	-	-	-
3 BR (RIII)	-	-	-	-	-	-
LAKEVIEW ESTATES						
2 BR (Estates)	-	-	-	-	-	-
2 BR Deluxe (Estates)	-	-	-	-	-	-
LAKEVIEW CIRCLE						
2 BR House	-	-	-	-	-	-
3 BR House	-	-	-	-	-	-
WELLINGTON I						
2 BR	1,471	1,515	1,557	1,597	1,645	1,744
3 BR	1,631	1,680	1,727	1,772	1,826	1,935
WELLINGTON II & III						
2 BR	1371-1561	1412-1608	1452-1653	1490-1696	1535-1747	1627 -1852
3 BR	1611-1661	1659-1711	1705-1759	1749-1805	1801-1859	1909 -1971
WELLINGTON IV						
1 BR	1041-1141	1072-1175	1102-1208	1131-1239	1165-1276	1235 -1353
2 BR	1591-1741	1639-1793	1685-1843	1729-1891	1781-1948	1888 -2065
LIFE LEASE MO. FEE	297+10 for cable	297+10 for cable	297+10 for cable	297+10 for cable	297+10 for cable	297+10 for cable

FRIENDSHIP FOUNDATION
AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

Years Ended June 30, 2023 and 2022

FRIENDSHIP FOUNDATION AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

Years Ended June 30, 2023 and 2022

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Friendship Foundation and Subsidiaries
Roanoke, Virginia

Opinion

We have audited the accompanying consolidated financial statements of Friendship Foundation and Subsidiaries, which comprise the consolidated balance sheets as of June 30, 2023 and 2022, and the related consolidated statements of operations, changes in net assets, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Friendship Foundation and Subsidiaries as of June 30, 2023 and 2022, and the results of its operations 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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Friendship Foundation and Subsidiaries and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. 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 consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Friendship Foundation and Subsidiaries' ability to continue as a going concern within one year after the date that the consolidated financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's 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 generally accepted auditing standards 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, including omissions, 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 consolidated financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated 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 consolidated 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 Friendship Foundation and Subsidiaries' 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 consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Friendship Foundation and Subsidiaries' 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.

Brown, Edwards & Company, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

Roanoke, Virginia
October 11, 2023

FRIENDSHIP FOUNDATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
June 30, 2023 and 2022

	2023	2022
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 11,902,988	$ 4,462,472
Accounts receivable (Note 4)	1,268,617	1,652,915
Inventories	262,056	689,338
Prepaid expenses and other current assets	855,373	555,202
Assets whose use is limited (Notes 6 and 8)	1,714,767	1,389,690
Total current assets	16,003,801	8,749,617
Restricted deposits (Note 6)	1,313,529	1,408,673
Investments (Notes 5 and 8)	22,890,808	21,266,692
Deferred taxes (Note 19)	249,380	332,063
Property and equipment, net (Note 9)	58,910,158	48,047,710
Earnest deposit (Note 22)	1,125,000	-
Goodwill (Notes 2 and 21)	3,532,688	-
Interest rate swap agreement (Notes 8 and 12)	457,974	-
Investment in equity method investee (Note 10)	1,067,481	785,253
Total assets	$ 105,550,819	$ 80,590,008
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Current maturities of long-term debt (Note 12)	$ 911,010	$ 1,145,380
Accounts payable	988,827	890,435
Accrued expenses	4,899,725	4,899,309
Deposits from residents	748,702	553,122
Due to third-party payors	50,573	59,418
Total current liabilities	7,598,837	7,547,664
Annuities payable	1,672	1,672
Deferred revenue (Note 2)	24,767	635,286
Long-term debt, net, less current maturities (Note 12)	49,266,275	32,963,635
Total liabilities	56,891,551	41,148,257
NET ASSETS		
Without donor restrictions	48,659,268	39,441,751
Total liabilities and net assets	$ 105,550,819	$ 80,590,008

The Notes to Consolidated Financial Statements are an integral part of these statements.

FRIENDSHIP FOUNDATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS
Years Ending June 30, 2023 and 2022

	2023	2022
OPERATING REVENUES		
Net patient and resident service revenue (Note 13)	$ 57,514,206	$ 49,958,770
Other operating revenue (Note 14)	3,538,088	2,184,774
Total operating revenues	61,052,294	52,143,544
OPERATING EXPENSES (Note 18)		
Nursing	20,572,235	16,200,537
Administrative	8,030,928	8,628,087
Purchases for resale	1,061,012	3,035,876
Ancillaries	4,644,363	3,865,523
Dietary	4,577,799	3,416,344
Plant operations and maintenance	4,373,580	3,145,529
Information systems and accounting	2,560,687	2,133,531
Environmental services and laundry	2,179,487	1,792,819
Social services and activities	779,851	706,947
Depreciation and amortization	4,675,363	3,742,461
Financial	2,181,067	814,364
Insurance	2,836,844	2,660,531
Taxes	605,706	496,289
Total operating expenses	59,078,922	50,638,838
Gain (loss) on disposal of property and equipment	7,635	(41,915)
Excess of revenues without donor restrictions over operating expenses	1,981,007	1,462,791
NONOPERATING REVENUES (EXPENSES)		
Investment return (Note 5)	1,522,440	(765,951)
Unrealized gain on interest rate swap (Note 12)	457,974	-
Employee retention credits (Note 20)	5,941,427	-
Contributions	(10,000)	-
Pre-development costs (Note 21)	(546,875)	(86,147)
Net nonoperating revenues (expenses)	7,364,966	(852,098)
Excess of revenues without donor restrictions over expenses before income tax expense	9,345,973	610,693
Income tax benefit (expense) (Note 19)	(128,456)	39,005
Excess of revenues without donor restrictions over expenses	$ 9,217,517	$ 649,698

The Notes to Consolidated Financial Statements are an integral part of these statements.

FRIENDSHIP FOUNDATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS
Years Ending June 30, 2023 and 2022

	2023	2022
NET ASSETS WITHOUT DONOR RESTRICTION		
Balance, beginning,	$ 39,441,751	$ 38,792,053
Excess of revenues without donor restrictions over expenses	9,217,517	649,698
Balance, ending	$ 48,659,268	$ 39,441,751

The Notes to Consolidated Financial Statements are an integral part of these statements.

FRIENDSHIP FOUNDATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ending June 30, 2023 and 2022

	2023	2022
OPERATING ACTIVITIES		
Change in net assets	$ 9,217,517	$ 649,698
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	4,675,363	3,742,461
Deferred income tax expense	82,683	(55,922)
Amortization of debt issuance costs	68,043	10,980
Net realized and unrealized (gains) losses on investments	(716,103)	1,723,445
Unrealized gain on interest rate swap	(457,974)	-
(Gain) loss on disposal of property and equipment	(7,635)	41,915
Income from equity method investment	(275,770)	(518,209)
Actuarial changes in annuities payable	-	-
Change in deferred revenue	(610,519)	617,129
Change in assets and liabilities:		
Accounts receivable	384,298	80,587
Due to third-party payors	(8,845)	86,961
Inventories	151,593	34,253
Prepaid expenses and other current assets	(300,171)	2,617
Accounts payable	98,392	96,772
Accrued expenses	(135,021)	(1,200,248)
Deposits from residents	5,108	(7,476)
Net cash provided by operating activities	12,170,959	5,304,963
INVESTING ACTIVITIES		
Purchases of property and equipment	(3,207,694)	(5,951,549)
Investments	(908,013)	(421,764)
Restricted deposits	(95,144)	461,894
Payoff of FST mortgage and notes	(16,665,091)	-
Consideration given on Salem Terrace	(376,697)	-
Cash received at closing of Salem Terrace	1,142,508	-
Earnest deposit	(1,125,000)	-
Invesment in equity method investee	(331,763)	-
Proceeds from sale of property and equipment	-	1,500
Equity method investment distributions received	650,000	300,000
Net cash used in investing activities	(20,916,894)	(5,609,919)
FINANCING ACTIVITIES		
Net repayments on line of credit	-	(1,177,670)
Loan costs incurred, including future financing costs	(234,384)	(154,254)
Payoff of bonds payable	(20,315,640)	-
New issuance of long-term debt	37,873,103	-
Principal payments on long-term debt	(946,156)	(1,160,536)
Net cash used in financing activities	16,376,923	(2,492,460)
Net increase (decrease) in cash and cash equivalents	7,630,988	(2,797,416)
Cash, cash equivalents and restricted cash – beginning of year	4,826,845	7,624,261
Cash, cash equivalents and restricted cash – end of year	$ 12,457,833	$ 4,826,845

(Continued)

The Notes to Consolidated Financial Statements are an integral part of these statements.

FRIENDSHIP FOUNDATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ending June 30, 2023 and 2022

	2023	2022
RECONCILIATION TO CASH ON CONSOLIDATED BALANCE SHEET		
Cash and cash equivalents	$ 11,902,988	$ 4,462,472
Restricted deposits (Note 6)	554,845	364,373
	$ 12,457,833	$ 4,826,845
SUPPLEMENTAL DISCLOSURES		
Cash paid for interest	$ 1,856,620	$ 739,130
NONCASH INVESTING ACTIVITY		
Contribution of inventory and property and equipment for equity investment	$ 324,693	$ -
Property and equipment acquired as part of Salem Terrace	$ 12,033,657	$ -

The Notes to Consolidated Financial Statements are an integral part of these statements.

FRIENDSHIP FOUNDATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2023

Note 1. Organization and Nature of Business

Friendship Foundation and Subsidiaries (the "Foundation") is a group of affiliated corporations in Roanoke, Virginia, having the common purpose of providing elderly and handicapped persons housing and medical facilities designed to promote health, security, happiness, and usefulness in life on a nonsectarian and nonpolitical basis. A listing of these affiliated corporations is as follows:

Tax exempt corporations	*Taxable corporations*
Friendship Foundation	Valley Management Co., Inc.
Friendship Health and Rehab Center, Inc.	Friendship Properties, Inc.
Friendship Health and Rehab Center South, Inc.	Professional Health Care Services, Inc.
Friendship Outpatient & Wellness Services, Inc.	Friendship Pharmacy, Inc.
Friendship Apartment Village Corporation	LTC Services, Inc.
Eastwood Assisted Living, Inc.	Friendship Physician Clinic, Inc.
Friendship Salem Terrace, LLC	

Friendship Foundation is organized to receive, maintain, and administer assets in perpetuity exclusively for charitable and educational purposes. Friendship Health and Rehab Center, Inc. (FHRC) operates a 253-bed skilled nursing facility. Friendship Health and Rehab Center South (FHRC South) operates a 120-bed skilled nursing facility. Friendship Outpatient & Wellness Services, Inc. provides outpatient physical, occupational, and speech therapy services as a certified rehabilitation agency. Friendship Apartment Village Corporation (FAVC) and Eastwood Assisted Living, Inc. primarily furnish independent housing and assisted living accommodations, respectively. In addition, adult day care services are offered under the umbrella of FAVC. Friendship Salem Terrace, LLC (FST) provides independent living and assisted living accommodations.

Friendship Foundation is the sole shareholder of Valley Management Co., Inc. (VMC). Valley Management Co., Inc. is the sole shareholder of the taxable corporations listed above and provides support functions, including administrative, human resources, financial and information technology services for affiliated and managed corporations. Friendship Properties, Inc. operates commercial rental properties for clinics and affiliated organizations. Professional Health Care Services, Inc. operates a licensed personal care services company. Friendship Pharmacy, Inc. operates retail and institutional pharmacies, and a convenience store. LTC Services, Inc. performs building, equipment, general maintenance, and construction management services for affiliated and managed entities. Friendship Physicians Clinic, Inc. operates a walk in physician's clinic.

Note 2. Summary of Significant Accounting Policies

Consolidation policies

The affiliated corporations of the Foundation are included in the accompanying consolidated financial statements. All significant intercompany transactions have been eliminated in consolidation.

(Continued)

Note 2. Summary of Significant Accounting Policies (Continued)

Basis of consolidated financial statement presentation

The financial operations of the Foundation's long-term care facilities represent a significant portion of the financial operations of the consolidated group. As such, significant accounting policies adopted by the Foundation conform to Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 954, *Health Care Entities.* All significant intercompany transactions have been eliminated in consolidation.

Net assets, revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Foundation and changes therein are classified and reported as follows:

Net assets without donor restrictions are free of donor-imposed restrictions. Net assets without donor restrictions may be designated for specific purposes by action of the Board of Directors or may otherwise be limited by contractual agreements with outside parties. Revenues, gains, and losses that are not restricted by donors are included in this classification. Expenses are reported as decreases in this classification.

Net assets with donor restrictions are limited in use by donor-imposed stipulations that expire either by the passage of time or that can be fulfilled by action of the Foundation pursuant to those stipulations. Net assets with donor restrictions also includes amounts required by donors to be held in perpetuity; however, generally, the income on these assets is available to meet various operating needs. The Foundation does not currently have net assets with donor restrictions.

In the accompanying consolidated statements of operations, all revenues have been reported as increases in net assets without donor restriction unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in net assets without donor restriction.

Use of estimates

The preparation of consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and cash equivalents

Except where restricted or limited, the Foundation considers all highly liquid investments purchased with a maturity of three months or less to be cash equivalents.

Accounts receivable

Accounts receivable are stated at the amount management expects to collect from outstanding balances. These balances reflect the consideration to which the Foundation expects to be entitled in exchange for services provided.

(Continued)

Note 2. Summary of Significant Accounting Policies (Continued)

Inventories

Inventories consist primarily of pharmaceuticals and sundries and are stated at the lower of cost or net realizable value determined by the first-in, first-out method.

Earnest deposit

Earnest deposit represents the deposit on the potential future Richfield Living LLC acquisition.

Investments

Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value in the consolidated balance sheets. Investment return (including realized and unrealized gains and losses on investments, interest, and dividends) is included in the excess of revenues over expenses.

The Foundation's investments in Enhabit Home Health and Hospice (formerly Encompass Home Health of Roanoke) and StarCare Pharmacy, LLC do not have readily determinable fair values and are accounted for under the equity method. The investments are carried at initial cost, adjusted for the Foundation's proportionate share of their undistributed earnings and losses.

Assets whose use is limited

Assets whose use is limited consists of deposits from residents and assets set aside as under a rabbi trust agreement.

Property and equipment

The threshold for capitalization is $5,000 for FHRC and FHRC South and $1,000 for all other entities. Property and equipment are recorded at cost and are being depreciated using the straight-line method over the estimated useful lives of the assets as follows:

Land improvements:	
Landscaping	5 – 25 years
Building and fixed equipment:	
Buildings	20 – 30 years
Building components	5 – 20 years
Fixed equipment	5 – 20 years
Furniture and moveable equipment:	
Computer software	3 years
Computer hardware	5 years
Furniture	5 – 20 years
Nursing equipment	5 – 15 years
Office equipment	3 – 15 years

When property is retired or sold, the cost and related accumulated depreciation are eliminated from the accounts and any resulting gain or loss is included in income. Maintenance and repairs that do not improve or extend the lives of property or equipment are charged to expense as incurred.

Note 2. Summary of Significant Accounting Policies (Continued)

Annuities payable

Annuities payable consist of funds that the Foundation must pay to the designees over their lifetime based on the individual contracts. The liability is recorded at the present value of the expected payments to the designees based on estimated discount rates and life expectancy tables.

Deposits from residents

Deposits from residents consist of funds held by the Foundation as custodian for its residents, which are included in current assets and as a liability.

Deferred revenue

Deferred revenue consists primarily of the funds the Foundation received related to the Provider Relief Funds as part of the CARES Act, American Rescue Plan (ARPA), and other miscellaneous revenues. All Provider Relief Funds were recognized in fiscal year 2023 in accordance with applicable guidance.

Interest rate swap agreement

The Foundation entered into an interest rate swap agreement with Truist on September 14, 2022, to reduce the impact of changes in interest rates on its floating rate debt. The interest rate swap agreement is recorded at fair value on the consolidated balance sheets, and the change in fair value has been recognized as a change in net assets without donor restriction in the consolidated statements of operations.

Debt issuance costs

Bond issue costs, net of accumulated amortization, are reported as a direct deduction of the obligation to which such costs relate. Amortization of debt issuance costs is reported as a component of interest expense and is amortized using the straight-line method over the life of the related obligation. Amortization expense for each of the next five years is expected to be approximately $60,300 annually.

Note 2. Summary of Significant Accounting Policies (Continued)

Business combinations and goodwill

The Foundation accounts for business combinations using the acquisition method and accordingly, the identifiable assets acquired and the liabilities assumed are recorded at their estimated fair values at the date of acquisition. Goodwill represents the excess purchase price over the fair value of assets acquired and liabilities assumed. The primary items that generated the goodwill are the value of the synergies between the acquired business, the Foundation, and the acquired workforce. Acquisition-related costs, including advisory, legal, accounting, and other costs, are expensed in the periods in which the costs are incurred. The results of operations of acquired businesses are included in the consolidated statements of operations activities and changes in net assets from the date of acquisition. The Foundation has elected the accounting alternative under Accounting Standards Update (ASU) 2019-06, *Intangibles—Goodwill and Other (Topic 350), Business Combinations (Topic 805), and Not-for-Profit Entities (Topic 958): Extending the Private Company Accounting Alternatives on Goodwill and Certain Identifiable Intangible Assets to Not-for-Profit Entities*, therefore customer-related intangibles have not been separately identified apart from goodwill. Goodwill for all acquisitions to date has been determined to be amortized over a life of 10 years, as no special circumstances have been noted that would reduce the expected life. Amortization expense was $286,437 for the year June 30, 2023. Annual amortization will be approximately $382,000 for each of the next nine years and approximately $95,000 in the year number ten.

The Foundation has elected the accounting alternative under Accounting Standards Update ("ASU") No. 2021-03, *Intangibles – Goodwill and Other (Topic 350): Accounting Alternative for Evaluating Triggering Events* ("ASU No. 2021-03"), which provides private companies and not-for-profit entities with an accounting alternative to perform the goodwill impairment triggering event evaluation as required in Subtopic 350-20 as of the end of the reporting period, whether the reporting period is an interim or annual period. An entity that elects the accounting alternative provided by ASU No. 2021-03 is not required to monitor for goodwill impairment triggering events during the reporting period but, instead, should evaluate the facts and circumstances as of the end of each reporting period to determine whether a triggering event exists and, if so, whether it is more likely than not that goodwill is impaired. This accounting alternative aligns the triggering event evaluation date with the financial reporting date. The Foundation adopted the ASU during the year ended June 30, 2023, and performed a goodwill triggering event evaluation as of June 30, 2023, the end of the reporting period. The Foundation assesses operations for triggering events to assess goodwill for impairment, with none noted at June 30, 2023, and therefore no impairment of goodwill has been recorded.

Revenue

Net patient and resident service revenue

Net patient and resident service revenue is reported at the estimated net realizable amounts from residents, third-party payors, and others for services rendered. The revenue is recognized as performance obligations are satisfied. 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 the consolidated statement of operations in the year of settlement.

Note 2. Summary of Significant Accounting Policies (Continued)

Rental revenue

The Foundation receives rental revenue by providing housing services to residents. The revenue for these services is recognized over the term of the contract in which the housing services are provided in an amount the Foundation expects to receive in exchange for the services.

Pharmacy revenue

The Foundation's pharmacy revenues are derived from the sale of pharmaceuticals and other supplies. Pharmacy revenues are recognized at the point of sale.

The Foundation receives café revenues by providing dining services to residents. The revenue for these services is recognized at the point of sale.

Personal care revenue

The Foundation receives personal care revenues by in home care services to residents. Personal care revenues are recognized at the time the services are provided.

Maintenance and management fees

The Foundation receives maintenance and management fees from an unrelated third party for maintenance and management services. The revenues derived from such services are recognized at the time the services are performed.

Other operating revenue

The Foundation's other operating revenue includes admissions and entrance fees, tower rentals, transportation, and other miscellaneous revenues which are all recognized at the time the services are provided.

Also included in the Foundation's other operating revenue are emporium revenues which are derived from the sale of merchandise such as clothing, gifts, food, and supplies. These revenues are recognized at the point of sale.

<u>Advertising costs</u>

The Foundation's policy is to expense advertising costs as incurred. Total advertising costs of $520,560 and $454,349 were incurred for 2023 and 2022, respectively.

<u>Charity care</u>

The Foundation provides care to residents who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Charity care provided totaled approximately $273,000 and $353,000 for 2023 and 2022, respectively.

Note 2. Summary of Significant Accounting Policies (Continued)

Income taxes

Friendship Foundation, Friendship Health and Rehab Center, Inc., Friendship Health and Rehab Center South, Inc., Friendship Outpatient & Wellness Services, Inc., Friendship Apartment Village Corporation, Eastwood Assisted Living, Inc., and Friendship Salem Terrace, LLC are not-for-profit companies under Section 501(c)(3) of the *Internal Revenue Code* and are not generally subject to income taxes under present tax laws.

The taxable entities file a consolidated return and account for income taxes using applicable standards, which require the establishment of a deferred tax asset or liability for the recognition of future deductible or taxable amounts. Deferred tax expense or benefit is provided based on the estimated future tax effects of differences between financial statement carrying amounts and the tax basis of existing assets and liabilities.

Valuation allowances are established when necessary to reduce deferred tax assets to the amounts expected to be realized. The Foundation follows accounting standards for income taxes that prescribe a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The Foundation has determined it does not have any material unrecognized tax benefits or obligations as of June 30, 2023.

Measure of operations

The Foundation's operating revenues in excess of expenses includes all operating revenues and expenses that are an integral part of its programs and supporting activities. The measure of operations excludes financial revenue from investments and restricted deposits and gains/losses on the disposal of fixed assets and changes in fair value of the interest rate swap.

Reclassifications

Certain amounts in the 2022 financial statements have been reclassified to conform to the 2023 presentation. Such reclassifications had no effect on the previously report excess of revenues without donor restrictions over expenses.

Note 3. Concentration of Credit Risk

Financial instruments that potentially subject the Foundation to concentrations of credit risk consist principally of cash and cash equivalents and accounts receivable. At any given time, cash deposits at financial institutions may exceed federally insured limits. The Foundation maintains its cash accounts with high credit quality financial institutions. The Foundation has not experienced any losses in such accounts. At June 30, 2023 and 2022, deposits in excess of the federally insured limit were $12,223,754 and $4,594,895, respectively.

The Foundation also has significant accounts receivable for which the collectability is dependent upon the performance of the Medicare and Virginia Medicaid programs. Management does not believe there are significant credit risks associated with these programs. With respect to the remaining portion of accounts receivable, an allowance for uncollectible accounts is provided in an amount equal to the estimated losses to be incurred in collection of these receivables. The allowance is based on historical collection experience and a review of the current status of the existing receivables.

Note 4. Accounts Receivable

The Foundation grants credit without collateral to its residents, most of whom are from the local area and are insured under third-party payor agreements. Accounts receivable consist of the following:

	2023	2022
Private pay	$ 14,496	$ 31,253
Medicaid	590,307	580,704
Medicare	473,228	535,813
HMO/Commercial	67,469	59,990
Other	123,117	445,155
	$ 1,268,617	$ 1,652,915

Note 5. Investments

Investments consist of the following:

	2023	2022
Cash and money market funds	$ 3,094,244	$ 5,866,031
Fixed income, bonds	10,744,256	7,416,046
Corporate equities	9,052,308	7,984,615
Total investments	$ 22,890,808	$ 21,266,692

Investment return for June 30 is summarized as follows:

	2023	2022
Dividends and interest income	$ 806,337	$ 957,494
Net realized and unrealized gains (losses) on investments	716,103	(1,723,445)
	$ 1,522,440	$ (765,951)

Note 6. Assets Whose Use is Limited and Restricted Deposits

Assets whose use is limited consist of cash and money market funds and mutual funds and are designated for the following purposes:

	2023	2022
Deposits from residents	$ 554,845	$ 364,373
Assets whose use is limited under rabbi trust agreement	1,159,922	1,025,317
Total assets whose use is limited	$ 1,714,767	$ 1,389,690

Note 6. Assets Whose Use is Limited and Restricted Deposits (Continued)

Restricted deposits consist of cash deposits and U.S. Treasury bills. Monthly deposits are made by the Foundation in accordance with the regulatory agreement as part of the 2021 HUD-insured note. These funds are used to pay real estate taxes, insurance premiums and to fund improvements to the facility. Restricted deposits consist of the following at June 30:

	2023	2022
Replacement and repair reserves	$ 596,678	$ 620,990
Escrow deposits	716,851	787,683
Total restricted deposits	$ 1,313,529	$ 1,408,673

Note 7. Liquidity and Availability

Financial assets available for general expenditure without donor or other restrictions limiting their use, within one year of the balance sheet date, are comprised of the following:

	2023	2022
Cash and cash equivalents	$ 11,902,988	$ 4,462,472
Accounts receivable, net	1,268,617	1,652,915
Investments	22,890,808	21,266,692
Total financial assets	$ 36,062,413	$ 27,382,079

To manage liquidity, the Foundation maintains a committed line of credit up to a limit of $3,000,000 secured by certain investments held by FHRC, FHRC South, and FST, upon which it could draw. There was an outstanding balance of $-0- on this line of credit at June 30, 2023 and 2022, respectively.

Note 8. Fair Value Measurements

The Foundation has adopted accounting standards, which establish a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).

(Continued)

Note 8. Fair Value Measurements (Continued)

The three levels of the fair value hierarchy are described below:

Level 1 – Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Foundation has the ability to access.

Level 2 – Inputs to the valuation methodology include:

- quoted prices for similar assets or liabilities in active markets;
- quoted prices for identical assets or liabilities in inactive markets;
- inputs other than quoted prices that are observable for the asset or liability;
- inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.

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

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques are used to maximize the use of observable inputs and minimize the use of unobservable inputs. Following is a description of the valuation methodologies used for assets measured at fair value.

Level 1 – Consists of instruments whose value is based on quoted market prices in active markets, such as U.S. Treasuries or publicly traded stocks.

Level 2 – Includes corporate, municipal, and government bonds, certificates of deposit, and interest rate swaps. Corporate, municipal, and government bonds are valued using quoted market prices of similar investments in active markets or quoted prices for identical or similar instruments in inactive markets. Interest rate swaps are valued using observable inputs, such as quotations received from the counterparty, dealers, or brokers, whenever available and considered reliable. In instances where models are used, the value of the interest rate swap depends upon the contractual terms of, and specific risks inherent in, the instrument as well as the availability and reliability of observable inputs. Such inputs include market prices for reference securities, yield curves, credit curves, measures of volatility, prepayment rates, assumptions for nonperformance risk, and correlations of such inputs. The interest rate swap arrangement has inputs that can generally be corroborated by market data and therefore is classified as Level 2.

(Continued)

Note 8. Fair Value Measurements (Continued)

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Foundation believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The Foundation recognizes transfers into and out of levels at the end of the reporting period.

The following table sets forth the financial assets that were accounted for at fair value as of June 30, 2023 and 2022, by level within the fair value hierarchy.

	2023			
	Total	Level 1	Level 2	Level 3
Assets:				
Fixed income, bonds:				
Government bonds	$ 5,690,190	$ -	$ 5,690,190	$ -
Corporate bonds	4,122,162	-	4,122,162	-
Municipal bonds	931,904	-	931,904	-
	10,744,256	-	10,744,256	-
Domestic equities	8,564,773	8,564,773	-	-
International equities	81,782	81,782	-	-
Domestic ETFs	405,753	405,753	-	-
Mutual funds	1,159,922	1,159,922	-	-
Interest rate swap agreement	457,974	-	457,974	-
Total assets at fair value	$ 21,414,460	$ 10,212,230	$ 11,202,230	$ -

	2022			
	Total	Level 1	Level 2	Level 3
Assets:				
Fixed income, bonds:				
Government bonds	$ 46,159	$ -	$ 46,159	$ -
Corporate bonds	6,386,554	-	6,386,554	-
Municipal bonds	983,333	-	983,333	-
	7,416,046	-	7,416,046	-
Domestic equities	7,322,566	7,322,566	-	-
International equities	71,757	71,757	-	-
Domestic ETFs	590,292	590,292	-	-
International ETFs	1,025,317	1,025,317	-	-
Total assets at fair value	$ 16,425,978	$ 9,009,932	$ 7,416,046	$ -

Note 8. Fair Value Measurements (Continued)

The amounts above are reflected on the consolidated balance sheet as follows:

	2023	2022
Investments	$ 22,890,808	$ 21,266,692
Assets whose use is limited	2,839,767	1,389,690
Interest rate swap agreement	457,974	-
	26,188,549	22,656,382
Less: cash and cash equivalents not classified	(4,774,089)	(6,230,404)
	$ 21,414,460	$ 16,425,978

Note 9. Property and Equipment

Property and equipment consists of the following:

	2023	2022
Land and land improvements	$ 12,677,402	$ 11,758,021
Buildings and building improvements	90,898,716	77,884,209
Furniture and equipment	27,782,624	27,276,466
Construction in progress	636,437	611,566
	131,995,179	117,530,262
Accumulated depreciation	(73,085,021)	(69,482,552)
	$ 58,910,158	$ 48,047,710

Depreciation expense totaled $4,388,925 and $3,742,461 for the years ended June 30, 2023 and 2022, respectively.

Note 10. Investment in Equity Method Investee

In February 2017, VMC partnered with a Roanoke based home health agency to form Enhabit Home Health and Hospice (formerly Encompass Home Health of Roanoke). VMC holds a 50% investment in Enhabit Home Health and Hospice and records this investment using the equity method of accounting. The carrying value of the Foundation's investment at June 30, 2023 and 2022 approximates the Foundation's underlying equity in Enhabit Home Health and Hospice.

The Foundation had investment returns totaling $407,401 and $518,209 for 2023 and 2022, respectively. As of June 30, 2023 the cumulative earnings total $2,067,062.

In October 2022, Friendship Pharmacy partnered with a Salem based pharmacy to form StarCare Pharmacy, LLC. Friendship Pharmacy holds a 50% investment in StarCare Pharmacy, LLC and records this investment using the equity method of accounting. The carrying value of the Foundation's investment at June 30, 2023 approximates the Foundation's underlying equity in StarCare Pharmacy. The Foundation had investment losses totaling $131,631 for 2023.

Note 11. Line of Credit

The Foundation has a $3,000,000 line of credit provided by Truist with the same interest rate applicable to outstanding balances at each month end equal to the adjusted SOFR rate with a floor of 1.75%. The line of credit has a maturity date of September 14, 2024. At June 30, 2023 and 2022, the interest rate was 5.10% and 2.81%, respectively. The line of credit is secured by real estate owned by FHRC, FHRC South, and FST.

Note 12. Long-Term Debt

2014 Bonds

In July 2014, the Foundation issued $16,850,478 in Virginia Small Business Financing Authority (VSBFA) Tax Exempt Adjustable Mode Healthcare Facilities Revenue Bonds (Friendship Foundation and Subsidiaries Project) Series 2014A Bonds. The proceeds from the bonds were used for refunding the principal and accrued interest of the Foundation's outstanding Revenue Bonds of $16,272,032 (Series 2013 Bonds) and payment of closing costs for this loan and a new Series 2014B Bonds. On the same date, the Foundation also entered into an obligation for the issuance of VSBFA Tax Exempt Adjustable Mode Healthcare Facilities Revenue Bonds (Friendship Foundation and Subsidiaries Project) Series 2014B Bonds. The proceeds of $19,649,522 for this obligation were used to reimburse the Foundation for costs incurred in funding the construction of a 120 bed skilled nursing facility (FHRC South).

The Series 2014A Bonds' previous terms required monthly principal and interest payments at a variable rate of 68% of the one month LIBOR plus 1.24% and are based on a 25 year amortization schedule through July 1, 2039. The loan term was seven years and the outstanding principal balance was due and payable on July 1, 2021. On August 27, 2021, the bond was extended and the terms of the bond were modified. The modified terms require principal and interest payments at a variable rate of 81.5% of the one month LIBOR and the loan term is two years. In addition to the interest payments, an annual fee of 0.1% is due to the VSBFA on the outstanding debt at the end of each year.

The Series 2014B Bonds' previous terms required monthly principal and interest payments at a variable rate of 68% of the one month LIBOR plus 1.24%. Payments of interest only were due until February 1, 2016 at which time principal and interest became due based on a 25 year amortization schedule through July 1, 2039. The loan term was seven years and the outstanding principal balance was due and payable on July 1, 2021. On August 27, 2021, the bond was extended and the terms of the bond were modified. The modified terms require principal and interest payments at a variable rate of 81.5% of the one month LIBOR and the loan term is two years. In addition to the interest payments, an annual fee of 0.1% is due to the VSBFA on the outstanding debt at the end of each year.

The bonds were secured by real estate owned by FHRC and FHRC South.

Both the 2014A and 2014B bonds were refinanced through the issuance of the 2022 Bonds during the year ended June 30, 2023.

(Continued)

Note 12. Long-Term Debt (Continued)

2021 Note

In April 2021, the Foundation entered into a deed of trust note payable in monthly installments of $50,678 including interest at 2.37% through May 1, 2056. The note is insured by the Federal Housing Administration and is collateralized by all property and equipment of Wellington I, II, III, & IV under a deed of trust and security agreement.

Under the terms of the HUD-insured note, the Foundation is required to make monthly payments to an escrow fund. This fund is used to pay real estate taxes, mortgage insurance premiums, and hazard insurance premiums. Also, under the terms of the HUD-insured mortgage, the Foundation is required to make monthly payments to a replacement reserve. The required monthly replacement reserve payments are $4,417. Subject to approval from HUD, this fund can be drawn on by the Foundation to fund improvements to the facility. Escrow deposits and the replacement reserve consist of cash deposits and U.S. Treasury bills recorded at cost, which approximates fair value.

2022 Bonds

In September 2022, the Foundation issued $37,873,103 in Virginia Small Business Financing Authority (VSBFA) Residential Care Facilities Revenue and Refunding Bonds (Friendship Foundation and Subsidiaries Project) Series 2022 Bonds. The proceeds from the bonds were used for refunding the principal and accrued interest of the Foundation's outstanding Revenue Bonds of $20,315,641 (Series 2014A and 2014B Bonds), payment of closing costs and interest for this loan totaling $757,462, and $16,800,000 to retire the acquired debt of Friendship Salem Terrace, LLC.

The Series 2022 Bonds accrue interest at the adjusted SOFR Rate, which totaled 5.933% at June 30, 2023. Although the principal and interest are due based on a 30 year amortization schedule through September 15, 2052, the outstanding principal balance is due and payable on September 14, 2032.

The bonds are secured by real estate owned by FHRC, FHRC South, and FST.

The 2022 bonds are subject to certain affirmative and negative covenants.

To manage its interest rate exposure, the Foundation entered into a swap agreement with Truist on September 22, 2022 with a notional value of $24,700,676 at June 30, 2023 and a maturity of September 15, 2032. Under the terms of this agreement the Foundation paid 4.44% and receives 79% of the adjusted SOFR. This effectively fixed the interest rate for the notional amount at 4.44%. The collateral for this agreement was the Deed of Trust for FHRC, FHRC South, and FST. The Foundation is exposed to credit loss in the event of nonperformance by the counterparty; however, this is not anticipated.

The fair value of the interest rate swap agreement was an asset of $457,974 at June 30, 2023. The unrealized gains from the Foundation's interest rate swap agreement of $457,974 for 2023 are included as a change in net assets without donor restriction in the consolidated statement of operations.

(Continued)

Note 12. Long-Term Debt (Continued)

2022 Bonds (Continued)

Notwithstanding the interest rate hedging transaction described above, the variable rate of interest on the bonds may be increased under certain circumstances (i.e., following an event of default, a determination of taxability with respect to the interest on the bonds, a decrease in the bondholder's marginal federal income tax rate, or if SORF becomes unascertainable). However, the bonds shall never bear interest at a rate in excess of the maximum rate permitted by law.

Long-term debt consists of the following:

	2023	2022
VSBFA Revenue Bond Series 2014A, payable monthly, secured by real estate, due September 1, 2023.	$ -	$ 4,322,158
VSBFA Revenue Bond Series 2014B, payable monthly, secured by real estate, due September 1, 2023.	-	16,208,088
Wellington note, payable monthly, secured by real estate, due May 1, 2056.	13,889,555	14,164,958
VSBFA Revenue Bond Series 2022, payable monthly, secured by real estate, due September 14, 2032	37,416,956	-
	51,306,511	34,695,204
Current maturities	(911,010)	(1,145,380)
Unamortized debt issuance costs	(1,129,226)	(586,189)
	$ 49,266,275	$ 32,963,635

The aggregate annual estimated principal maturities of long-term debt outstanding as of June 30, are as follows:

	Series 2022 Bond	Wellington Note	Total
2024	$ 629,008	$ 282,002	$ 911,010
2025	661,560	288,758	950,318
2026	693,057	295,677	988,734
2027	724,842	302,761	1,027,603
2028	754,872	310,014	1,064,886
Thereafter	33,953,617	12,410,343	46,363,960
	$ 37,416,956	$ 13,889,555	$ 51,306,511

Note 13. Net Patient and Resident Service Revenue

Patient service revenue is reported at the amount that reflects the consideration to which the Foundation expects to be entitled in exchange for providing patient care. These amounts are due from residents, third-party payors (including health insurers and government programs), and others. The Foundation bills the residents and third-party after the services are performed. Revenue is recognized as performance obligations are satisfied.

Performance obligations are determined based on the nature of the services provided by the Foundation. Revenue for performance obligations satisfied over time is recognized based on actual charges incurred in relation to total expected (or actual) charges. The Foundation believes that this method provides a faithful depiction of the transfer of services over the term of the performance obligation based on the inputs needed to satisfy the obligation. The Foundation measures the performance obligation from admission into the facility, to the point when it is no longer required to provide services to that resident, which is generally at the time of discharge.

The Foundation determines the transaction price based on standard charges for goods and services provided, reduced by contractual adjustments provided to third-party payors and implicit price concessions provided to certain categories of residents. The Foundation determines its estimates of contractual adjustments based on contractual agreements, its policies, and historical experience. The Foundation determines its estimate of implicit price concessions based on its historical collection experience with each class of resident.

The Foundation has agreements with third-party payors that provide for payments at amounts different from its established rates. A summary of the basis for reimbursement with major third-party payors follows:

Medicare

Medicare reimburses the Foundation under its Patient Driven Payment Model (PDPM). PDPM is designed to increase focus on patients' conditions and clinical needs, as opposed to the volume of services provided, thereby improving payment accuracy, and encouraging a more patient-driven care model. PDPM utilizes patient specific, data-driven characteristics to classify patients into payment groups within a combination of six components, which are used as the basis for the payment amount.

Medicaid

The Medicaid program reimburses the Foundation for services rendered to Medicaid beneficiaries based on a prospective per diem rate established by the Medicaid Program. The Virginia Medicaid Program utilizes a "price-based" payment methodology. This prospective payment system utilizes specifically defined geographical peer groups and bed size modifications. In addition, the price-based payment system utilizes RUG IV-48 grouper categories to calculate a "per resident per diem payment".

Note 13. Net Patient and Resident Service Revenue (Continued)

Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. Any adjustments to revenue as a result of audits or reviews are reflected in the year that those adjustments are settled. Net patient and resident service revenue for the years ended June 30, 2023 and 2022, did not change due to the removal of cost report settlement estimates previously estimated that are no longer necessary as a result of final settlements and years that are no longer subject to audits, reviews, and investigations.

Generally, residents who are covered by third-party payors are responsible for related deductibles and coinsurance, which vary in amount. The Foundation estimates the transaction price for residents with deductibles and coinsurance based on historical experience and current market conditions. The initial estimate of the transaction price is determined by reducing the standard charge by any contractual adjustments, discounts, and implicit price concessions. Subsequent changes to the estimate of the transaction price are generally recorded as adjustments to patient service revenue in the period of the change. For the years ended June 30, 2023 and 2022, no additional revenue was recognized due to changes in its estimates of implicit price concessions, discounts, and contractual adjustments for performance obligations satisfied in prior years. Subsequent changes that are determined to be the result of an adverse change in the patient's ability to pay are recorded as bad debt expense.

While the Foundation provides care with the expectation that residents will pay the amount billed, based on historical experience, the Foundation realizes there is an uncollectible amount related to Private Pay residents. Therefore, the Foundation has determined it has provided implicit price concessions to residents in that pay category and residents with other uninsured balances (for example, copays and deductibles). The implicit price concessions included in estimating the transaction price represent the difference between amounts billed to residents and the amounts the Foundation expects to collect based on its collection history with those residents.

The Foundation has determined that the nature, amount, timing, and uncertainty of revenue and cash flows are affected by the following factors: payors, geography, service lines, method of reimbursement, and timing of when revenue is recognized.

Net patient and resident service revenue consists of the following:

	2023	2022
Routine revenue	$ 52,198,873	$ 43,340,177
Ancillary revenue	16,116,577	16,719,094
Pharmacy revenue	678,314	3,200,094
Personal care revenue	1,465,593	1,234,296
	70,459,357	64,493,661
Contractual allowances	(12,945,151)	(14,534,891)
Net patient and resident services revenue	$ 57,514,206	$ 49,958,770

(Continued)

Note 13. Net Patient and Resident Service Revenue (Continued)

Approximately 56% and 57% of net patient and resident service revenue was derived from the Medicare and the Medicaid reimbursement programs for the years ended June 30, 2023 and 2022, respectively. The remaining net patient and resident service revenue was derived from private pay patients and/or third-party insurance. Almost all of the patients and residents originated from Virginia.

The Foundation has elected a practical expedient to not adjust the promised amount of consideration from residents and third-party payors for the effects of a significant financing component due to the expectation that the period between the time the service is provided to a resident and the time that the resident or a third-party payor pays for that service will be one year or less.

The balance of accounts receivable at July 1, 2021 totaled $1,733,524.

ASC 606

Under ASC 606, amounts estimated to be uncollectible are generally considered implicit price concessions that are a direct reduction to net revenues. To the extent there are material subsequent events that affect the payor's ability to pay, such amounts are recorded within operating expenses.

ASC 606 (Continued)

Under ASC 606, the Foundation recognizes revenue in the statement of operations and contract assets on the balance sheets only when services have been provided. Since the Foundation has performed its obligation under the contract, it has unconditional rights to the consideration recorded as assets and therefore, classifies those billed and unbilled assets as accounts receivable.

Under ASC 606, payments that the Foundation receives from residents in advance of providing services represent contract liabilities. Such payments primarily relate to private pay residents, which are billed monthly in advance. The Foundation had no material contract liabilities or activity as of and for the years ended June 30, 2023 and 2022.

Disaggregation of Revenues

The Foundation disaggregates revenue from contracts with customers by primary payor type. The Foundation notes that disaggregation of revenue into these categories achieves the disclosure objectives to depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors. The payment terms and conditions within the Foundation's revenue-generating contracts vary by payor. Payments are generally received within 30 to 60 days after billing.

Note 14. Other Operating Revenue

The following table shows the Foundation's other operating revenues disaggregated by service type:

	2023	2022
Contributions	$ 114,140	$ 119,808
Rental revenue	754,572	527,785
Maintenance and management fees	429,569	625,294
Emporium and cafe	431,043	269,502
Medicaid VPB Incentive	814,121	-
Other revenue	994,643	642,385
Other operating revenue	$ 3,538,088	$ 2,184,774

Note 15. Retirement Plans

The Foundation has a 401(k) plan that covers substantially all employees. Employees who meet certain service requirements are eligible to receive the Foundation's matching contributions. The Foundation's matching contributions for 2023 and 2022 were $442,651 and $408,893, respectively. Administrative fees for the plan for 2023 and 2022 were $1,000 per year.

The Foundation has established a nonqualified deferred compensation plan for certain employees. The deferred amounts are invested in accordance with the participant's designation. The deferred compensation liability of $1,159,922 and $1,025,317, respectively, is included in accrued expenses in the June 30, 2023 and 2022 consolidated balance sheets. The Foundation has placed certain assets in a rabbi trust to be used to pay benefits to certain deferred compensation plan participants. The carrying amount of the trust assets was $1,159,922 and $1,025,317 at June 30, 2023 and 2022, respectively, and is included in assets whose use is limited on the consolidated balance sheets.

The Foundation has also established a supplemental retirement program for certain employees. Under this program, the Foundation makes quarterly contributions to trusts established for each employee. The participants are fully vested in the accounts and withdrawal dates are limited to dates of termination or retirement. The payments are made at a level that will fund a targeted annuity over a specified time; however, because these accounts are self-directed and subject to market fluctuations, there are no guarantees for the amount accumulated. Payments to the trusts were $37,059 and $29,151 for 2023 and 2022, respectively.

Note 16. Rental Income

Friendship Properties, Inc. is the lessor of medical offices under operating leases expiring in various years through December 31, 2025.

	2023	2022
Medical offices – costs	$ 2,004,412	$ 2,004,412
Accumulated depreciation	(1,087,239)	(1,044,871)
	$ 917,173	$ 959,541

(Continued)

Note 16. Rental Income (Continued)

Eastwood Assisted Living, Inc. leases space to companies for antennas to provide cell phone services.

Expected minimum future rentals on unaffiliated leases for each of the next five years and in the aggregate are as follows:

2024	$	308,095
2025		312,881
2026		313,012
2027		299,062
2028		280,411
	$	1,513,461

Note 17. Commitments and Contingencies

The Foundation is covered by a claims made basis commercial liability insurance policy. Claims are covered up to $1,000,000 per occurrence and $3,000,000 in the aggregate. The Foundation is also covered under an umbrella excess liability insurance policy for $13,000,000 per occurrence with underlying limits and a total limit on liability of $13,000,000 on all claims made. Both of these policies expired on July 1, 2023, but have been subsequently renewed for an annual period with the same coverage limits.

The Foundation is a defendant in certain legal actions arising in the normal course of business. The Foundation will vigorously defend itself against these claims. The allegations made by claimants are fully covered by the Foundation's liability insurance policies. Consequently, these matters are not expected to have a material impact on the Foundation's consolidated financial statements.

The Foundation follows FASB Accounting Standards Update (ASU) 2010-24, *Presentation of Insurance Claims and Related Insurance Recoveries*. Under this standard, the Foundation recognizes a receivable for estimated insurance recoveries and a corresponding gross up in the estimated professional and general liability obligation for any outstanding claims. As of June 30, 2023 and 2022, there are no such outstanding claims.

Note 18. Functional Expense Allocation

The costs of providing the Foundation's program and other activities have been summarized on a functional basis in the below table. Directly identifiable expenses are charged to programs services. Management and general expenses include those expenses that are not directly identifiable with the specific function of the Foundation but provide for the overall support and direction of the Foundation. Expenses that are common to multiple functions are allocated by various methods deemed reasonable by management.

Note 18. Functional Expense Allocation (Continued)

	2023		
	Program	Administration	Total
Salaries	$ 23,567,024	$ 5,220,646	$ 28,787,670
Insurance – employees	1,770,029	156,975	1,927,004
Payroll taxes	1,783,696	351,586	2,135,282
Retirement expense	406,593	80,863	487,456
Cost of sales	1,051,357	-	1,051,357
Depreciation and amortization	4,266,992	408,321	4,675,363
Consultants	302,205	-	302,205
Dues	4,905	78,386	83,291
Rental	34,757	-	34,757
Gas – vehicles	28,128	-	28,128
Food	1,549,495	-	1,549,495
Temporary labor	4,372,151	-	4,372,151
Travel	38,557	16,363	54,920
Insurance	836,504	80,057	916,561
Financial	1,990,561	190,506	2,181,067
Information technology	-	629,141	629,141
Maintenance	1,619,735	-	1,619,735
Miscellaneous	929,657	779,281	1,708,938
Property taxes	-	577,501	577,501
Advertising – marketing	520,560	-	520,560
Purchase services	751,689	211,257	962,946
Office supplies	28,897	53,131	82,028
Ancillary	2,358,259	-	2,358,259
Postage	-	21,119	21,119
Therapy	13,527	-	13,527
Professional fees	-	201,050	201,050
Recruitment	117,137	10,388	127,525
Telephone	62,892	6,019	68,911
Utilities	1,461,138	139,837	1,600,975
Total functional expenses	$ 49,866,445	$ 9,212,477	$ 59,078,922

Note 18. Functional Expense Allocation (Continued)

	2022		
	Program	Administration	Total
Salaries	$ 19,940,413	$ 5,504,536	$ 25,444,949
Insurance – employees	1,665,228	147,681	1,812,909
Payroll taxes	1,557,809	380,709	1,938,518
Retirement expense	401,955	35,647	437,602
Cost of sales	3,047,419	-	3,047,419
Depreciation and amortization	3,415,577	326,884	3,742,461
Consultants	198,916	-	198,916
Dues	5,037	75,909	80,946
Rental	-	-	-
Gas – vehicles	28,951	-	28,951
Food	1,244,236	-	1,244,236
Temporary labor	3,192,710	-	3,192,710
Travel	24,946	13,710	38,656
Insurance	792,618	75,857	868,475
Financial	743,233	71,131	814,364
Information technology	-	583,710	583,710
Maintenance	787,238	-	787,238
Miscellaneous	752,929	853,839	1,606,768
Property taxes	-	474,098	474,098
Advertising – marketing	454,349	-	454,349
Purchase services	643,766	164,414	808,180
Office supplies	22,557	44,238	66,795
Ancillary	1,331,947	-	1,331,947
Postage	-	24,556	24,556
Therapy	15,443	-	15,443
Professional fees	-	232,882	232,882
Recruitment	52,881	4,690	57,571
Telephone	50,817	4,863	55,680
Utilities	1,139,458	109,051	1,248,509
Total functional expenses	$ 41,510,433	$ 9,128,405	$ 50,638,838

Note 19. Income Taxes

In assessing the realization of deferred tax assets, management considers whether it is more likely than not that some portion of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment.

(Continued)

Note 19. Income Taxes (Continued)

The effect of the temporary differences giving rise to the deferred tax assets is as follows:

	2023	2022
Deferred tax assets:		
Net operating loss and contribution carryforwards	$ 81,276	$ 148,122
Deferred revenue	4,489	4,489
Accrued expenses	164,745	166,010
Receivable allowance	7,722	55,739
Section 179 carryover	-	3,265
Provider relief funds	-	4,519
State versus federal net	(156)	-
Non-qualified plan	34,647	-
	292,723	382,144
Deferred tax liabilities:		
Depreciation	(43,343)	(50,081)
	$ 249,380	$ 332,063
Reported as:		
Noncurrent liabilities – deferred taxes	$ (43,343)	$ (50,081)
Noncurrent asset – NOL	292,723	382,144
	$ 249,380	$ 332,063

The provision for income tax for 2023 and 2022 consists of the following:

	2023	2022
Current income tax benefit (expense)	$ (19,002)	$ (2,852)
Deferred income tax benefit (expense)	(82,683)	55,922
Income tax benefit (expense)	$ (101,685)	$ 53,070

The provision for income tax differs from the amount determined by applying the income tax rates to pretax income because it is only applicable to the taxable corporations.

Note 20. Employee Retention Credits

The Coronavirus Aid, Relief, and Economic Security Act (CARES Act) provides a refundable tax credit against certain employment taxes. The Foundation applied for and received additional tax credits for qualified wages and recorded a $5,941,427 benefit related to the CARES Employee Retention Credit in nonoperating revenues and expenses in the accompanying consolidated statements of operations for the year ended June 30, 2023.

(Continued)

Note 21. Friendship Salem Terrace Transaction

On September 14, 2022, White Whale Enterprises, LLC merged into the Foundation. Prior to the merger, White Whale Enterprises, LLC operated a nursing facility located in Salem, Virginia. Once the merger took place, White Whale Enterprises, LLC ceased to exist and the Foundation assumed all the assets and the liabilities previously belonging to White Whale Enterprises, LLC. As a result, in accordance with FASB ASC 958-805, *Not-for-Profit Entities – Business Combinations,* the transaction was recorded using the *acquisition method* as described in Note 2. The acquisition allowed the Foundation to expand its assisted living services within the Roanoke Valley.

The table below summarizes the fair values as of the acquisition date:

Acquired assets	
Cash, restricted deposits, and escrows	$ 1,142,508
Property and equipment, at fair value	12,033,657
Other assets	55,326
Total assets acquired	13,231,491
Assumed liabilities	
Mortgage payable	11,617,138
Notes payable	5,047,953
Other liabilities	385,525
Total liabilities assumed	17,050,616
Goodwill	$ 3,819,125 *

*Goodwill represents the difference between the sum of the consideration given and liabilities assumed less the assets acquired.

In addition, the Foundation paid $464,686 in early payment penalties on the payoff of White Whale Enterprises, LLC mortgage. This amount is included on the statement of operations as part of pre-development costs.

Note 22. Subsequent Events

In preparing these consolidated financial statements, the Foundation has evaluated events and transactions for potential recognition or disclosure through October 11, 2023, the date the consolidated financial statements were available to be issued.

Note 22. Subsequent Events (Continued)

Richfield Living, LLC

On July 20, 2023 the Foundation and Richfield Living, LLC, ("RL") entered into an Asset Purchase Agreement (the APA), whereby the Foundation would purchase the assets of Richfield Living, LLC for $61,725,000. The assets consist of the operating assets of RL, which includes all medical records of the facility, all rights to assumed contracts as allowed all billing contracts and provider agreements, substantially all assets used exclusively in the operation of the facility, inventory, land, furniture fixtures and equipment, and real property. In addition, as of the closing date and to the extent permitted by applicable law, RL shall transfer to the Foundation, RL's existing Medicare and Medicaid provider numbers and Medicare and Medicaid provider agreements. RL shall also deliver to the Foundation all resident trust funds, along with all resident trust fund records. Finally, the Foundation will obtain the existing employees involved in the operations of the facility.

Foundation shall assume $59,785,000 of certain of RL's existing liabilities and pay cash of $1,940,000 at closing. At June 30, 2023 a good faith deposit totaling $1,125,000 has been made by the Foundation.

The purchase closed on October 1, 2023.

BROWNEDWARDS
certified public accountants

INDEPENDENT AUDITOR'S REPORT ON CONSOLIDATING INFORMATION

To the Board of Directors
Friendship Foundation and Subsidiaries
Roanoke, Virginia

We have audited the consolidated financial statements of Friendship Foundation and Subsidiaries as of and for the years ended June 30, 2023 and 2022, and our report thereon dated October 11, 2023, which expressed an unmodified opinion on those consolidated financial statements, appears on page 1. Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating balance sheets and consolidating statements of operations on pages 34 to 50 are presented for purposes of additional analysis of the 2023 and 2022 consolidated financial statements rather than to present the financial position, results of operations, and cash flows of the individual organizations, and are not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The consolidating information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the consolidating information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Brown, Edwards & Company, L.L.P.
CERTIFIED PUBLIC ACCOUNTANTS

Roanoke, Virginia
October 11, 2023

FRIENDSHIP FOUNDATION AND SUBSIDIARIES

CONSOLIDATING INFORMATION

June 30, 2023

FRIENDSHIP FOUNDATION AND SUBSIDIARIES

CONSOLIDATING BALANCE SHEET
June 30, 2023

	Friendship Foundation	Friendship Outpatient & Wellness Services, Inc.	Friendship Apartment Village Corp.	Eastwood Assisted Living, Inc.	Valley Management Co., Inc.	Obligated Group	Eliminations	Total
ASSETS								
CURRENT ASSETS								
Cash and cash equivalents	$ 9,738,008	$ (2,725,410)	$ (10,372,166)	$ (2,991,177)	$ (483,080)	$ 18,736,813	$ -	$ 11,902,988
Accounts receivable	10,520	59,480	(6,644)	48,575	646,842	1,010,156	(500,312)	1,268,617
Inventories	-	-	2,655	8,440	37,184	213,777	-	262,056
Prepaid expenses and other current assets	655,230	1,521	157,364	15,439	104,401	364,216	(442,798)	855,373
Assets whose use is limited	-	-	178,933	2,002	1,159,922	373,910	-	1,714,767
Total current assets	10,403,758	(2,664,409)	(10,039,858)	(2,916,721)	1,465,269	20,698,872	(943,110)	16,003,801
Due from affiliated companies	-	-	8,377,057	-	143,141	-	(8,520,198)	-
Restricted deposits	-	-	1,313,529	-	-	-	-	1,313,529
Investments	465,193	-	13,407,689	-	-	9,017,926	-	22,890,808
Deferred taxes	-	-	-	-	249,380	-	-	249,380
Property and equipment, net	72,859	43,647	16,741,130	2,713,866	1,909,176	37,429,480	-	58,910,158
Earnest deposit	1,125,000	-	-	-	-	-	-	1,125,000
Note receivable	2,978,944	-	-	-	-	-	(2,978,944)	-
Goodwill	-	-	-	-	-	3,532,688	-	3,532,688
Interest rate swap asset	-	-	-	-	-	457,974	-	457,974
Investment in equity method investee	-	-	-	-	1,067,481	-	-	1,067,481
Total assets	$ 15,045,754	$ (2,620,762)	$ 29,799,547	$ (202,855)	$ 4,834,447	$ 71,136,940	$ (12,442,252)	$ 105,550,819
LIABILITIES AND NET ASSETS (DEFICIT)								
CURRENT LIABILITIES								
Current maturities of long-term debt	$ -	$ -	$ 3,260,946	$ -	$ 442,798	$ 629,008	$ (3,421,742)	$ 911,010
Accounts payable	119,456	7,834	98,718	105,213	53,256	1,104,668	(500,318)	988,827
Accrued expenses	107,656	33,322	103,581	166,863	2,056,712	2,431,591	-	4,899,725
Deposits from residents	-	-	372,790	2,002	-	373,910	-	748,702
Due to third-party payors	-	-	-	-	-	50,573	-	50,573
Total current liabilities	227,112	41,156	3,836,035	274,078	2,552,766	4,589,750	(3,922,060)	7,598,837
Due to affiliated companies	3,940,936	8,969	-	569,740	120,076	3,880,471	(8,520,192)	-
Annuities payable	-	-	1,672	-	-	-	-	1,672
Deferred revenue	-	-	4,374	-	-	20,393	-	24,767
Long-term debt, less current maturities	-	-	13,246,734	-	-	36,019,541	-	49,266,275
Total liabilities	4,168,048	50,125	17,088,815	843,818	2,672,842	44,510,155	(12,442,252)	56,891,551
NET ASSETS (DEFICIT)								
Without donor restriction	10,877,706	(2,670,887)	12,710,732	(1,046,673)	2,161,605	26,626,785	-	48,659,268
Total net assets	10,877,706	(2,670,887)	12,710,732	(1,046,673)	2,161,605	26,626,785	-	48,659,268
Total liabilities and net assets (deficit)	$ 15,045,754	$ (2,620,762)	$ 29,799,547	$ (202,855)	$ 4,834,447	$ 71,136,940	$ (12,442,252)	$ 105,550,819

FRIENDSHIP FOUNDATION AND SUBSIDIARIES

CONSOLIDATING STATEMENT OF OPERATIONS
Year Ended June 30, 2023

	Friendship Foundation	Friendship Outpatient & Wellness Services, Inc.	Friendship Apartment Village Corp.	Eastwood Assisted Living, Inc.	Valley Management Co., Inc.	Obligated Group	Eliminations	Total
OPERATING REVENUES								
Net patient and resident service revenue	$ -	$ 904,406	$ 4,860,524	$ 3,952,884	$ 2,599,175	$ 45,706,013	$ (508,796)	$ 57,514,206
Employee retention credits	5,941,427	-	-	-	-	-	-	5,941,427
Other operating revenue	116,718	2,706	280,641	298,428	7,979,132	1,900,616	(7,040,153)	3,538,088
Total operating revenues	6,058,145	907,112	5,141,165	4,251,312	10,578,307	47,606,629	(7,548,949)	66,993,721
OPERATING EXPENSES								
Nursing	-	-	125,611	1,463,274	1,071,603	17,955,641	(43,894)	20,572,235
Administrative	211,220	240,569	1,100,492	790,828	4,031,799	7,714,620	(6,058,600)	8,030,928
Purchases for resale	-	-	-	-	844,482	216,530	-	1,061,012
Ancillaries	-	575,123	38,901	10,136	4,340	4,209,858	(193,995)	4,644,363
Dietary	-	-	32,043	867,351	-	3,678,676	(271)	4,577,799
Plant operations and maintenance	-	2,307	1,266,565	518,465	1,235,405	2,376,455	(1,025,617)	4,373,580
Information systems and accounting	4,349	12,070	37,053	18,142	2,274,547	214,526	-	2,560,687
Environmental services and laundry	-	2,650	99,005	176,197	111,597	1,790,038	-	2,179,487
Social services and activities	-	-	-	60,629	-	719,238	(16)	779,851
Depreciation and amortization	20,066	16,290	1,396,007	452,657	271,265	2,519,078	-	4,675,363
Financial	-	-	537,412	23,796	18,428	1,954,447	(353,016)	2,181,067
Insurance	8,338	35,741	257,466	204,420	620,548	1,936,887	(226,556)	2,836,844
Taxes	140	1,145	92,501	12,960	46,195	452,765	-	605,706
Total operating expenses	244,113	885,895	4,983,056	4,598,855	10,530,209	45,738,759	(7,901,965)	59,078,922
Gain (loss) on disposal of property and equipment	-	-	(3,616)	(7,637)	19,098	(210)	-	7,635
Excess (deficiency) of revenues without donor restrictions over operating expenses	5,814,032	21,217	154,493	(355,180)	67,196	1,867,660	353,016	7,922,434
NONOPERATING REVENUES (EXPENSES)								
Investment return	2,113,735	339	955,996	-	275,770	511,914	(2,335,314)	1,522,440
Unrealized gain on interest rate swap	-	-	-	-	-	457,974	-	457,974
Employee retention credits	5,941,427	-	-	-	-	-	-	5,941,427
Contributions	-	-	(10,000)	-	-	-	-	(10,000)
Pre-development costs	-	-	-	-	(82,189)	(464,686)	-	(546,875)
Net nonoperating revenues (expenses)	8,055,162	339	945,996	-	193,581	505,202	(2,335,314)	7,364,966
Excess (deficiency) of revenues without donor restrictions over expenses before income tax expense	13,869,194	21,556	1,100,489	(355,180)	260,777	2,372,862	(1,982,298)	15,287,400
Income tax benefit (expense)	-	-	(26,771)	-	(101,685)	-	-	(128,456)
Excess (deficiency) of revenues without donor restrictions over expenses	$ 13,869,194	$ 21,556	$ 1,073,718	$ (355,180)	$ 159,092	$ 2,372,862	$ (1,982,298)	$ 15,158,944

VALLEY MANAGEMENT CO., INC.

CONSOLIDATING INFORMATION

June 30, 2023

VALLEY MANAGEMENT CO., INC.

CONSOLIDATING BALANCE SHEET

June 30, 2023

	Friendship Properties, Inc.	Professional Health Care Services, Inc.	Friendship Pharmacy, Inc.	Valley Management Co., Inc.	LTC Services, Inc.	Friendship Physician Clinic, Inc.	Eliminations	Total
ASSETS								
CURRENT ASSETS								
Cash and cash equivalents	$ 4,496,522	$ (391,229)	$ (1,559,287)	$ (3,031,624)	$ 591,675	$ (589,137)	$ -	$ (483,080)
Accounts receivable, net	9,933	91,905	42,324	431,584	8,409	62,687	-	646,842
Inventories	-	-	7,985	-	29,199	-	-	37,184
Prepaid expenses and other current assets	29,387	2,594	730	60,827	10,531	332	-	104,401
Assets whose use is limited	-	-	-	1,159,922	-	-	-	1,159,922
Total current assets	4,535,842	(296,730)	(1,508,248)	(1,379,291)	639,814	(526,118)	-	1,465,269
Due from affiliated companies	-	-	120,218	22,923	-	-	-	143,141
Deferred taxes	-	-	-	249,380	-	-	-	249,380
Property and equipment, net	1,082,430	10,624	-	720,133	68,124	27,865	-	1,909,176
Investment in equity method investee	-	-	524,827	542,654	-	-	-	1,067,481
Total assets	$ 5,618,272	$ (286,106)	$ (863,203)	$ 155,799	$ 707,938	$ (498,253)	$ -	$ 4,834,447
LIABILITIES AND NET ASSETS (DEFICIT)								
CURRENT LIABILITIES								
Current maturities of long-term debt	$ -	$ -	$ -	$ 442,798	$ -	$ -	$ -	$ 442,798
Accounts payable	6,716	6,738	2,123	22,069	11,558	4,052	-	53,256
Accrued expenses	17,440	66,335	6,184	1,860,345	90,468	15,940	-	2,056,712
Total current liabilities	24,156	73,073	8,307	2,325,212	102,026	19,992	-	2,552,766
Due to affiliated companies	15,121	20,193	-	-	1,889	82,873	-	120,076
Deferred revenue	-	-	-	-	-	-	-	-
Total liabilities	39,277	93,266	8,307	2,325,212	103,915	102,865	-	2,672,842
NET ASSETS (DEFICIT)								
Total net assets without donor restriction (deficit)	5,578,995	(379,372)	(871,510)	(2,169,413)	604,023	(601,118)	-	2,161,605
Total liabilities and net assets (deficit)	$ 5,618,272	$ (286,106)	$ (863,203)	$ 155,799	$ 707,938	$ (498,253)	$ -	$ 4,834,447

VALLEY MANAGEMENT CO., INC.

CONSOLIDATING STATEMENT OF OPERATIONS
Year Ended June 30, 2023

	Friendship Properties, Inc.	Professional Health Care Services, Inc.	Friendship Pharmacy, Inc.	Valley Management Co., Inc.	LTC Services, Inc.	Friendship Physician Clinic, Inc.	Eliminations	Total
OPERATING REVENUES								
Net patient and resident service revenue	$ -	$ 1,197,727	$ 1,185,086	$ -	$ -	$ 216,362	$ -	$ 2,599,175
Other operating revenue	661,006	175	186,495	5,615,508	1,515,948	-	-	7,979,132
	661,006	1,197,902	1,371,581	5,615,508	1,515,948	216,362	-	10,578,307
OPERATING EXPENSES								
Nursing	-	770,028	-	-	-	301,575	-	1,071,603
Administrative	82,260	231,742	555,165	2,893,526	196,059	73,047	-	4,031,799
Purchases for resale	-	-	844,482	-	-	-	-	844,482
Ancillaries	-	-	-	-	-	4,340	-	4,340
Plant operations and maintenance	83,451	2,176	-	7,151	1,142,543	84	-	1,235,405
Information systems and accounting	-	13,365	7,962	2,233,887	7,530	11,803	-	2,274,547
Environmental services and laundry	-	10,181	-	60,688	40,728	-	-	111,597
Depreciation	59,784	2,463	2,759	172,885	27,740	5,634	-	271,265
Financial	-	-	-	18,428	-	-	-	18,428
Insurance	8,540	76,418	26,087	410,885	72,756	25,862	-	620,548
Taxes	17,466	388	14,546	9,373	3,436	986	-	46,195
Total operating expenses	251,501	1,106,761	1,451,001	5,806,823	1,490,792	423,331	-	10,530,209
Gain on disposal of property and equipment	-	-	19,098	-	-	-	-	19,098
Operating income (loss)	409,505	91,141	(60,322)	(191,315)	25,156	(206,969)	-	67,196
NONOPERATING REVENUES (EXPENSES)								
Investment return	-	-	(131,631)	407,401	-	-	-	275,770
Pre-development costs	-	-	-	(82,189)	-	-	-	(82,189)
Total nonoperating revenues	-	-	(131,631)	325,212	-	-	-	193,581
Excess (deficiency) of unrestricted revenues over expenses before income tax expense	409,505	91,141	(191,953)	133,897	25,156	(206,969)	-	260,777
Income tax benefit (expense)	-	-	-	(101,685)	-	-	-	(101,685)
Excess (deficiency) of unrestricted revenues over expenses	$ 409,505	$ 91,141	$ (191,953)	$ 32,212	$ 25,156	$ (206,969)	$ -	$ 159,092

OBLIGATED GROUP

CONSOLIDATING INFORMATION

June 30, 2023

OBLIGATED GROUP

CONSOLIDATING BALANCE SHEET
June 30, 2023

	Friendship Salem Terrace	Friendship Health and Rehab Center, Inc.	Friendship Health and Rehab Center South, Inc.	Eliminations	Total
ASSETS					
CURRENT ASSETS					
Cash and cash equivalents	$ 415,129	$ 15,600,794	$ 2,720,890	$ -	$ 18,736,813
Accounts receivable, net	8,699	381,278	620,179	-	1,010,156
Inventories	10,488	139,949	63,340	-	213,777
Prepaid expenses and other current assets	15,057	320,922	28,237	-	364,216
Assets whose use is limited	-	241,081	132,829	-	373,910
Total current assets	449,373	16,684,024	3,565,475	-	20,698,872
Investments	-	9,017,926	-	-	9,017,926
Property and equipment, net	11,707,314	9,836,238	15,885,928	-	37,429,480
Goodwill	3,532,688	-	-	-	3,532,688
Interest rate swap asset	-	457,974	-	-	457,974
Total assets	$ 15,689,375	$ 35,996,162	$ 19,451,403	$ -	$ 71,136,940
LIABILITIES AND NET ASSETS (DEFICIT)					
CURRENT LIABILITIES					
Current maturities of long-term debt	$ 288,363	$ 71,527	$ 269,118	$ -	$ 629,008
Accounts payable	74,433	627,451	402,784	-	1,104,668
Accrued expenses	227,390	1,446,383	757,818	-	2,431,591
Deposits from residents	-	241,081	132,829	-	373,910
Due to third-party payors	-	38,918	11,655	-	50,573
Total current liabilities	590,186	2,425,360	1,574,204	-	4,589,750
Due to affiliated companies	439,491	2,847,391	593,589	-	3,880,471
Annuities payable	-	-	-	-	-
Deferred revenue	20,393	-	-	-	20,393
Long-term debt, less current maturities	16,180,085	3,985,545	15,853,911	-	36,019,541
Total liabilities	17,230,155	9,258,296	18,021,704	-	44,510,155
NET ASSETS (DEFICIT)					
Without donor restriction	(1,540,780)	26,737,866	1,429,699	-	26,626,785
Total net assets	(1,540,780)	26,737,866	1,429,699	-	26,626,785
Total liabilities and net assets (deficit)	$ 15,689,375	$ 35,996,162	$ 19,451,403	$ -	$ 71,136,940

OBLIGATED GROUP

CONSOLIDATING STATEMENT OF OPERATIONS
Year Ended June 30, 2023

	Friendship Salem Terrace	Friendship Health and Rehab Center, Inc.	Friendship Health and Rehab Center South, Inc.	Eliminations	Total
OPERATING REVENUES					
Net patient and resident service revenue	$ 3,713,013	$ 26,157,769	$ 15,835,231	$ -	$ 45,706,013
Other operating revenue	84,342	1,397,657	418,617	-	1,900,616
Total operating revenues	3,797,355	27,555,426	16,253,848	-	47,606,629
OPERATING EXPENSES					
Nursing	1,248,957	10,264,889	6,441,795	-	17,955,641
Administrative	857,302	4,314,068	2,543,250	-	7,714,620
Purchases for resale	-	157,390	59,140	-	216,530
Ancillaries	6,034	2,157,407	2,046,417	-	4,209,858
Dietary	544,354	2,020,672	1,113,650	-	3,678,676
Plant operations and maintenance	261,597	1,480,201	634,657	-	2,376,455
Information systems and accounting	14,772	130,518	69,236	-	214,526
Environmental services and laundry	159,263	1,255,935	374,840		1,790,038
Social services and activities	-	414,174	305,064	-	719,238
Depreciation and amortization	796,391	1,028,202	694,485	-	2,519,078
Financial	746,495	412,562	795,390	-	1,954,447
Insurance	139,471	1,088,355	709,061	-	1,936,887
Taxes	98,813	212,253	141,699	-	452,765
Total operating expenses	4,873,449	24,936,626	15,928,684	-	45,738,759
Loss on disposal of property and equipment	-	-	(210)	-	(210)
Excess (deficiency) of unrestricted revenues over operating expenses	(1,076,094)	2,618,800	324,954	-	1,867,660
NONOPERATING REVENUES (EXPENSES)					
Investment return	-	510,393	1,521	-	511,914
Pre-development costs	(464,686)	-	-	-	(464,686)
Unrealized gain on interest rate swap	-	457,974	-	-	457,974
Net nonoperating revenues (expenses)	(464,686)	968,367	1,521	-	505,202
Excess (deficiency) of unrestricted revenues over expenses	$ (1,540,780)	$ 3,587,167	$ 326,475	$ -	$ 2,372,862

**FRIENDSHIP FOUNDATION
AND SUBSIDIARIES**

CONSOLIDATING INFORMATION

June 30, 2022

FRIENDSHIP FOUNDATION AND SUBSIDIARIES

CONSOLIDATING BALANCE SHEET

June 30, 2022

	Friendship Foundation	Friendship Outpatient & Wellness Services, Inc.	Friendship Apartment Village Corp.	Eastwood Assisted Living, Inc.	Valley Management Co., Inc.	Obligated Group	Eliminations	Total
ASSETS								
CURRENT ASSETS								
Cash and cash equivalents	$ 2,830,898	$ (2,783,763)	$ (9,635,618)	$ (2,237,128)	$ (329,852)	$ 16,617,935	$ -	$ 4,462,472
Accounts receivable, net	18,564	69,324	18,231	64,694	664,800	1,273,140	(455,838)	1,652,915
Inventories	-	-	4,595	8,986	284,486	391,271	-	689,338
Prepaid expenses and other current assets	449,034	1,812	184,247	29,859	96,637	252,037	(458,424)	555,202
Assets whose use is limited	-	-	150,791	2,002	1,025,317	211,580	-	1,389,690
Total current assets	3,298,496	(2,712,627)	(9,277,754)	(2,131,587)	1,741,388	18,745,963	(914,262)	8,749,617
Due from affiliated companies	-	-	8,739,552	-	62,923	-	(8,802,475)	-
Restricted deposits	-	-	1,408,673	-	-	-	-	1,408,673
Investments	222,567	-	12,540,821	-	-	8,503,304	-	21,266,692
Deferred taxes	-	-	-	-	332,063	-	-	332,063
Property and equipment, net	92,937	59,936	16,692,809	2,356,549	1,870,424	26,975,055	-	48,047,710
Note receivable	3,068,176	-	-	-	-	-	(3,068,176)	-
Interest rate swap asset	-	-	-	-	-	-	-	-
Investment in equity method investee	-	-	-	-	785,253	-	-	785,253
Total assets	$ 6,682,176	$ (2,652,691)	$ 30,104,101	$ 224,962	$ 4,792,051	$ 54,224,322	$ (12,784,913)	$ 80,590,008
LIABILITIES AND NET ASSETS (DEFICIT)								
CURRENT LIABILITIES								
Current maturities of long-term debt	$ -	$ -	$ 3,343,579	$ -	$ 458,425	$ 869,976	$ (3,526,600)	$ 1,145,380
Accounts payable	(1,589)	7,724	156,375	109,902	247,108	826,753	(455,838)	890,435
Accrued expenses	89,684	29,346	130,982	140,692	1,989,020	2,519,585	-	4,899,309
Deposits from residents	-	-	339,540	2,002	-	211,580	-	553,122
Due to third-party payors	-	-	-	-	-	59,418	-	59,418
Total current liabilities	88,095	37,070	3,970,476	252,596	2,694,553	4,487,312	(3,982,438)	7,547,664
Due to affiliated companies	3,644,141	-	-	558,433	77,426	4,522,475	(8,802,475)	-
Annuities payable	-	-	1,672	-	-	-	-	1,672
Deferred revenue	-	2,682	94,901	105,426	17,556	414,721	-	635,286
Long-term debt, less current maturities	-	-	13,517,746	-	-	19,445,889	-	32,963,635
Total liabilities	3,732,236	39,752	17,584,795	916,455	2,789,535	28,870,397	(12,784,913)	41,148,257
NET ASSETS (DEFICIT)								
Without donor restriction	2,949,940	(2,692,443)	12,519,306	(691,493)	2,002,516	25,353,925	-	39,441,751
Total net assets	2,949,940	(2,692,443)	12,519,306	(691,493)	2,002,516	25,353,925	-	39,441,751
Total liabilities and net assets (deficit)	$ 6,682,176	$ (2,652,691)	$ 30,104,101	$ 224,962	$ 4,792,051	$ 54,224,322	$ (12,784,913)	$ 80,590,008

FRIENDSHIP FOUNDATION AND SUBSIDIARIES

CONSOLIDATING STATEMENT OF OPERATIONS
Year Ended June 30, 2022

	Friendship Foundation	Friendship Outpatient & Wellness Services, Inc.	Friendship Apartment Village Corp.	Eastwood Assisted Living, Inc.	Valley Management Co., Inc.	Obligated Group	Eliminations	Total
OPERATING REVENUES								
Net patient and resident service revenue	$ -	$ 840,714	$ 4,424,116	$ 3,390,599	$ 5,443,261	$ 36,924,994	$ (1,064,914)	$ 49,958,770
Other operating revenue	119,808	9,697	198,940	199,004	8,128,941	787,380	(7,258,996)	2,184,774
Total operating revenues	119,808	850,411	4,623,056	3,589,603	13,572,202	37,712,374	(8,323,910)	52,143,544
OPERATING EXPENSES								
Nursing	-	-	102,551	1,228,852	1,044,279	13,846,846	(21,991)	16,200,537
Administrative	91,547	229,896	1,066,312	726,689	5,881,602	6,409,125	(5,777,084)	8,628,087
Purchases for resale	-	-	-	-	2,887,784	148,092	-	3,035,876
Ancillaries	-	537,817	-	22,312	4,185	4,135,318	(834,109)	3,865,523
Dietary	-	-	20,399	712,269	-	2,683,946	(270)	3,416,344
Plant operations and maintenance	-	175	1,122,765	409,621	1,196,602	1,913,023	(1,496,657)	3,145,529
Information systems and accounting	5,010	10,690	30,731	16,400	1,879,708	190,992	-	2,133,531
Environmental services and laundry	-	1,330	79,709	183,150	175,721	1,352,909		1,792,819
Social services and activities	-	-	2,541	61,137	-	643,269	-	706,947
Depreciation	21,864	20,730	1,351,230	447,913	287,418	1,613,306	-	3,742,461
Financial	461	-	640,763	4,410	18,964	277,205	(127,439)	814,364
Insurance	12,243	20,001	221,317	206,581	674,902	1,719,286	(193,799)	2,660,531
Taxes	25	1,191	89,397	15,135	50,501	340,040	-	496,289
Total operating expenses	131,150	821,830	4,727,715	4,034,469	14,101,666	35,273,357	(8,451,349)	50,638,838
Gain (loss) on disposal of property and equipment	-	-	-	-	-	(41,915)	-	(41,915)
Excess (deficiency) of unrestricted revenues over operating expenses	(11,342)	28,581	(104,659)	(444,866)	(529,464)	2,397,102	127,439	1,462,791
NONOPERATING REVENUES (EXPENSES)								
Investment return	1,016,412	1,002	(865,745)	-	518,209	(408,390)	(1,027,439)	(765,951)
Unrealized gain on interest rate swap	-	-	-	-	-	-	-	-
Employee retention credits	-	-	-	-	-	-	-	-
Contributions	-	-	-	-	-	-	-	-
Pre-development costs	-	-	-	-	(86,147)	-	-	(86,147)
Net nonoperating revenues (expenses)	1,016,412	1,002	(865,745)	-	432,062	(408,390)	(1,027,439)	(852,098)
Excess (deficiency) of unrestricted revenues over expenses before income tax expense	1,005,070	29,583	(970,404)	(444,866)	(97,402)	1,988,712	(900,000)	610,693
Income tax benefit (expense)	-	-	(14,065)	-	53,070	-	-	39,005
Excess (deficiency) of unrestricted revenues over expenses	$ 1,005,070	$ 29,583	$ (984,469)	$ (444,866)	$ (44,332)	$ 1,988,712	$ (900,000)	$ 649,698

VALLEY MANAGEMENT CO., INC.

CONSOLIDATING INFORMATION

June 30, 2022

VALLEY MANAGEMENT CO., INC.

CONSOLIDATING BALANCE SHEET

June 30, 2022

	Friendship Properties, Inc.	Professional Health Care Services, Inc.	Friendship Pharmacy, Inc.	Valley Management Co., Inc.	LTC Services, Inc.	Friendship Physician Clinic, Inc.	Eliminations	Total
ASSETS								
CURRENT ASSETS								
Cash and cash equivalents	$ 4,058,544	$ (478,904)	$ (866,025)	$ (3,181,337)	$ 504,595	$ (366,725)	$ -	$ (329,852)
Accounts receivable	5,022	79,236	144,665	370,366	37,942	27,569	-	664,800
Inventories	-	-	266,041	-	18,445	-	-	284,486
Prepaid expenses and other current assets	7,020	7,865	6,452	63,564	11,390	346	-	96,637
Assets whose use is limited	-	-	-	1,025,317	-	-	-	1,025,317
Total current assets	4,070,586	(391,803)	(448,867)	(1,722,090)	572,372	(338,810)	-	1,741,388
Due from affiliated companies	-	-	-	62,923	-	-	-	62,923
Deferred taxes	-	-	-	332,063	-	-	-	332,063
Property and equipment, net	1,138,974	13,087	32,665	556,337	95,863	33,498	-	1,870,424
Investment in equity method investee	-	-	-	785,253	-	-	-	785,253
Total assets	$ 5,209,560	$ (378,716)	$ (416,202)	$ 14,486	$ 668,235	$ (305,312)	$ -	$ 4,792,051
LIABILITIES AND NET ASSETS (DEFICIT)								
CURRENT LIABILITIES								
Current maturities of long-term debt	$ -	$ -	$ -	$ 458,425	$ -	$ -	$ -	$ 458,425
Accounts payable	22,629	12,278	173,121	23,680	14,037	1,363	-	247,108
Accrued expenses	17,440	79,518	72,677	1,734,008	75,329	10,048	-	1,989,020
Total current liabilities	40,069	91,796	245,798	2,216,113	89,366	11,411	-	2,694,553
Due to affiliated companies	-	-	-	-	-	77,426	-	77,426
Deferred revenue	-	-	17,556	-	-	-	-	17,556
Total liabilities	40,069	91,796	263,354	2,216,113	89,366	88,837	-	2,789,535
NET ASSETS (DEFICIT)								
Total net assets without donor restriction (deficit)	5,169,491	(470,512)	(679,556)	(2,201,627)	578,869	(394,149)	-	2,002,516
Total liabilities and net assets (deficit)	$ 5,209,560	$ (378,716)	$ (416,202)	$ 14,486	$ 668,235	$ (305,312)	$ -	$ 4,792,051

VALLEY MANAGEMENT CO., INC.

CONSOLIDATING STATEMENT OF OPERATIONS
Year Ended June 30, 2022

	Friendship Properties, Inc.	Professional Health Care Services, Inc.	Friendship Pharmacy, Inc.	Valley Management Co., Inc.	LTC Services, Inc.	Friendship Physician Clinic, Inc.	Eliminations	Total
OPERATING REVENUES								
Net patient and resident service revenue	$ -	$ 1,168,763	$ 4,224,424	$ -	$ -	$ 50,074	$ -	$ 5,443,261
Other operating revenue	713,224	25	303,631	5,498,565	1,613,455	41	-	8,128,941
	713,224	1,168,788	4,528,055	5,498,565	1,613,455	50,115	-	13,572,202
OPERATING EXPENSES								
Nursing	-	914,657	-	-	-	129,622	-	1,044,279
Administrative	84,671	247,252	1,980,108	3,300,192	212,869	56,510	-	5,881,602
Purchases for resale	-	-	2,887,784	-	-	-	-	2,887,784
Ancillaries	-	-	-	-	-	4,185	-	4,185
Plant operations and maintenance	82,304	2,675	-	11,177	1,100,359	87	-	1,196,602
Information systems and accounting	-	10,164	22,795	1,832,296	6,956	7,497	-	1,879,708
Environmental services and laundry	-	13,332	-	-	162,389	-	-	175,721
Depreciation	60,701	935	7,830	191,074	21,245	5,633	-	287,418
Financial	-	-	-	18,964	-	-	-	18,964
Insurance	13,367	68,075	82,240	399,642	78,081	33,497	-	674,902
Taxes	17,813	5,079	11,054	12,717	3,038	800	-	50,501
Total operating expenses	258,856	1,262,169	4,991,811	5,766,062	1,584,937	237,831	-	14,101,666
Gain on disposal of property and equipment	-	-	-	-	-	-	-	-
Operating income (loss)	454,368	(93,381)	(463,756)	(267,497)	28,518	(187,716)	-	(529,464)
NONOPERATING REVENUES (EXPENSES)								
Investment return	-	-	-	518,209	-	-	-	518,209
Pre-development costs	-	-	-	(86,147)	-	-	-	(86,147)
Total nonoperating revenues	-	-	-	432,062	-	-	-	432,062
Excess (deficiency) of unrestricted revenues over expenses before income tax expense	454,368	(93,381)	(463,756)	164,565	28,518	(187,716)	-	(97,402)
Income tax benefit (expense)	-	-	-	53,070	-	-	-	53,070
Excess (deficiency) of unrestricted revenues over expenses	$ 454,368	$ (93,381)	$ (463,756)	$ 217,635	$ 28,518	$ (187,716)	$ -	$ (44,332)

OBLIGATED GROUP

CONSOLIDATING INFORMATION

June 30, 2022

OBLIGATED GROUP

CONSOLIDATING BALANCE SHEET
June 30, 2022

	Friendship Salem Terrace	Friendship Health and Rehab Center, Inc.	Friendship Health and Rehab Center South, Inc.	Eliminations	Total
ASSETS					
CURRENT ASSETS					
Cash and cash equivalents	$ -	$ 15,422,171	$ 1,195,764	$ -	$ 16,617,935
Accounts receivable, net	-	642,212	630,928	-	1,273,140
Inventories	-	155,455	235,816	-	391,271
Prepaid expenses and other current assets	-	207,605	44,432	-	252,037
Assets whose use is limited	-	114,656	96,924	-	211,580
Total current assets	-	16,542,099	2,203,864	-	18,745,963
Investments	-	8,503,304	-	-	8,503,304
Property and equipment, net	-	10,619,528	16,355,527	-	26,975,055
Interest rate swap asset	-	-	-	-	-
Total assets	$ -	$ 35,664,931	$ 18,559,391	$ -	$ 54,224,322
LIABILITIES AND NET ASSETS (DEFICIT)					
CURRENT LIABILITIES					
Current maturities of long-term debt	$ -	$ 253,008	$ 616,968	$ -	$ 869,976
Accounts payable	-	556,189	270,564	-	826,753
Accrued expenses	-	1,848,853	670,732	-	2,519,585
Deposits from residents	-	114,656	96,924	-	211,580
Due from (to) third-party payors	-	-	59,418	-	59,418
Total current liabilities	-	2,772,706	1,714,606	-	4,487,312
Due to affiliated companies	-	4,522,475	-	-	4,522,475
Annuities payable	-	-	-	-	-
Deferred revenue	-	264,280	150,441	-	414,721
Long-term debt, less current maturities	-	3,854,770	15,591,119	-	19,445,889
Total liabilities	-	11,414,231	17,456,166	-	28,870,397
NET ASSETS (DEFICIT)					
Without donor restriction	-	24,250,700	1,103,225	-	25,353,925
Total net assets	-	24,250,700	1,103,225	-	25,353,925
Total liabilities and net assets (deficit)	$ -	$ 35,664,931	$ 18,559,391	$ -	$ 54,224,322

OBLIGATED GROUP

CONSOLIDATING STATEMENT OF OPERATIONS
Year Ended June 30, 2022

	Friendship Salem Terrace	Friendship Health and Rehab Center, Inc.	Friendship Health and Rehab Center South, Inc.	Eliminations	Total
OPERATING REVENUES					
Net patient and resident service revenue	$ -	$ 21,655,546	$ 15,269,448	$ -	$ 36,924,994
Other operating revenue	-	568,258	219,122	-	787,380
Total operating revenues	-	22,223,804	15,488,570	-	37,712,374
OPERATING EXPENSES					
Nursing	-	8,231,421	5,615,425	-	13,846,846
Administrative	-	3,904,522	2,504,603	-	6,409,125
Purchases for resale	-	117,456	30,636	-	148,092
Ancillaries	-	1,977,937	2,157,381	-	4,135,318
Dietary	-	1,709,728	974,218	-	2,683,946
Plant operations and maintenance	-	1,375,116	537,907	-	1,913,023
Information systems and accounting	-	130,550	60,442	-	190,992
Environmental services and laundry	-	1,011,252	341,657		1,352,909
Social services and activities	-	381,969	261,300	-	643,269
Depreciation	-	948,973	664,333	-	1,613,306
Financial	-	21,783	255,422	-	277,205
Insurance	-	1,096,581	622,705	-	1,719,286
Taxes	-	190,293	149,747	-	340,040
Total operating expenses	-	21,097,581	14,175,776	-	35,273,357
Loss on disposal of property and equipment	-	(41,915)	-	-	(41,915)
Excess (deficiency) of unrestricted revenues over operating expenses	-	1,084,308	1,312,794	-	2,397,102
NONOPERATING REVENUES (EXPENSES)					
Investment return	-	(410,089)	1,699	-	(408,390)
Unrealized gain on interest rate swap	-	-	-	-	-
Net nonoperating revenues (expenses)	-	(410,089)	1,699	-	(408,390)
Excess (deficiency) of unrestricted revenues over expenses	$ -	$ 674,219	$ 1,314,493	$ -	$ 1,988,712

Friendship Apartment Village Corporation
Proforma Income Statement for Fiscal 2024

Exhibit D

Revenue

An increase of 2.9% in net operating revenue is expected. Rental revenue is expected to increase by 3.1%, while other operating revenue is projected to decrease by 1.8%.

Occupancy had an increase during the year ended June 30, 2023. Occupancy is budgeted to show an slight increase during fiscal 2024 compared to the prior year.

Expenses

Maintenance and grounds expenses for 2024 are expected to decrease by 5.0% primarily due reduction in anticipated maintenance expenses. Housekeeping expense is expected to increase by 14.2% mainly due to increase in staff pay rates. The 2024 insurance expense is expected to increase 1.9% due to a general market increase in insurance rates. The projected 2024 interest expense increase is due to anticipated rates for the year. Other & Operating contingency is expected to increase 4.6% due to general cost increases due to inflation.

Friendship Manor Apartment Village Corporation
Proforma Income Statement for Fiscal Year 2024

EXHIBIT D

	Actual 6/30/2023	Proforma 6/30/2024	Variance
Resident Service Revenue, Net	$ 4,434,784	$ 4,572,517	3.1%
Other Operating Revenue	187,946	184,499	-1.8%
Net Operating Revenue	$ 4,622,730	$ 4,757,016	2.9%
Operating Expenses:			
Nursing	$ -	$ -	
Dietary	-	-	
Maintenance and grounds	702,365	667,123	-5.0%
Housekeeping	83,091	94,892	14.2%
Utilities	456,577	471,078	3.2%
Depreciation	1,169,671	1,269,624	8.5%
Insurance	184,377	187,879	1.9%
Interest	431,688	437,691	1.4%
Bad Debts	(2,205)	6,438	-392.0%
Other & Operating contingency	1,161,572	1,214,588	4.6%
Total Operating Expense	$ 4,187,136	$ 4,349,313	3.9%
Operating Income	$ 435,594	$ 407,703	-6.4%
Gain From Other Activities, Net	611,143	206,884	0.0%
Other Non-operating Gain, Net	140,018	-	
Excess of Revenues Over Expenses	$ 1,186,755	$ 614,587	-48.2%

Friendship Apartment Village Corporation
Comparison of Actual Operation FYE 2023 to Proforma for 2023

Exhibit D-1

Revenue

Rental revenues were under budget due to higher than expected vacancy rates.

Other operating revenues were over budget due higher than anticipated increase in Transportation, Pet Fees and Beauty Shop revenues.

Expenses

Maintenance expenses were higher than budgeted due to increase in purchased services costs. Housekeeping expenses were over budget due to an increase in supplies purchased and an increase in pay rates and hours worked. Insurance was over budget due to increase in renewal rates. Utility expenses were over budget mainly due to rate increases

Interest expense was lower due to debt amortizing.

Other and Operating contingency expenses were under budget mainly due to decreased Transportation costs and marketing costs that were lower than projected.

Other Non-Operating Gain increase is due to higher than expected Investment results.

Friendship Manor Apartment Village Corporation
Comparison of Actual Operations FYE 2023 to Proforma for 2023

EXHIBIT D-1

	6/30/2023 As Projected	6/30/2023 Actual	Variance
Resident Service Revenue, Net	$ 4,467,407	$ 4,434,784	-0.7%
Other Operating Revenue	$ 184,723	187,946	1.7%
Net Operating Revenue	$ 4,652,130	$ 4,622,730	-0.6%
Operating Expenses:			
Nursing	-	-	0.0%
Dietary	-	-	0.0%
Maintenance and grounds	668,359	702,365	-5.1%
Housekeeping	65,575	83,091	-26.7%
Utilities	380,069	456,577	-20.1%
Depreciation	1,199,724	1,169,671	2.5%
Insurance	164,825	184,377	-11.9%
Interest	457,139	431,688	5.6%
Bad Debts	7,311	(2,205)	130.2%
Other & Operating contingency	1,214,603	1,161,572	4.4%
Total Operating Expense	$ 4,157,605	$ 4,187,136	-0.7%
Operating Income	$ 494,525	$ 435,594	11.9%
Gain From Other Activities, Net	-	611,143	0.0%
Other Non-operating Gain, Net	-	140,018	0.0%
Excess of Revenues Over Expenses	$ 494,525	$ 1,186,755	-140.0%

Summary of Financial Information
Friendship Apartment Village Corp
FYE 6/30/23 and FYE 6/30/22

Exhibit E

	Current Year 6/30/2023	Prior Year 6/30/2022
Total Assets	34,047,601	34,147,195
Total Liabilities	17,412,470	17,814,845
Total Net Assets	16,635,131	16,332,350
Total Revenues	4,622,730	4,278,551
Total Expenses	3,435,975	4,792,681
Operating Income (Loss)	2,053,147	1,881,014
Net Income (Loss)	1,186,755	(514,130)

Narrative on financial condition:
The Friendship Apartment Village Corporation financial condition is strong.
Change in Asset and Liability is due to elimination of Intercompany Payables and Receivables
Revenues have increased $344,179. Expenses decreased $1,356,706, with the majority of that being due to Investment Income and Unrealized Gains with Investment Income slightly increased.

The company has dedicated resources to ensure each unit is at the highest standard for the residents.

Occupancy Information:	Capacity of Units	Average Occupancy	Percentage Occupancy
Independent Living	311	287.66	92.50%
Assisted Living	N/A	N/A	N/A
Nursing	N/A	N/A	N/A