

ABE'S GARDEN

**FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT**

DECEMBER 31, 2016 AND 2015

ABE'S GARDEN

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BELLENFANT

CERTIFIED PUBLIC ACCOUNTANTS & ADVISORS

Professional Accounting & Consulting Services

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Abe's Garden
Nashville, Tennessee

We have audited the accompanying financial statements of Abe's Garden, which comprise the statements of financial position as of December 31, 2016 and 2015, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Abe's Garden as of December 31, 2016 and 2015, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Bellenfant PLLC

April 20, 2017

ABE'S GARDEN
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2016 AND 2015

ASSETS

	<u>2016</u>	<u>2015</u>
Current Assets		
Cash and Cash Equivalents	\$ 1,209,671	\$ 1,840,081
Accounts Receivable	52,884	105,700
Pledges Receivable	336,078	510,862
Inventory	121,183	115,598
Prepaid Expenses	44,519	1,978
	<u>1,764,335</u>	<u>2,574,219</u>
Land, Building and Equipment	36,595,385	36,450,924
Less: Accumulated Depreciation	<u>(3,237,096)</u>	<u>(2,225,440)</u>
Land, Building and Equipment - Net	<u>33,358,289</u>	<u>34,225,484</u>
Noncurrent Assets		
Pledges Receivable, Due after One Year	38,886	50,156
Closing Costs, Net of Amortization	317,148	329,812
Other Assets	<u>66,667</u>	<u>66,667</u>
Total Noncurrent Assets	<u>422,701</u>	<u>446,635</u>
Total Assets	<u><u>\$ 35,545,325</u></u>	<u><u>\$ 37,246,338</u></u>

The accompanying notes are an integral part of these financial statements.

ABE'S GARDEN

STATEMENTS OF FINANCIAL POSITION - CONTINUED

DECEMBER 31, 2016 AND 2015

LIABILITIES AND NET ASSETS

	<u>2016</u>	<u>2015</u>
Current Liabilities		
Current Portion of Bonds Payable	\$ 850,000	\$ 400,000
Accounts Payable and Accrued Expenses	428,767	431,548
Deferred Grant Revenue	100,000	-
Resident Deposits	640,977	641,721
Accrued Interest	-	2,222
Property Tax Accrual	63,497	-
Personalty Tax Accrual	-	3,900
Line of Credit	1,900,000	2,632,981
Resident Assistance Fund	247,458	250,000
	<hr/>	<hr/>
Total Current Liabilities	4,230,699	4,362,372
Noncurrent Liabilities		
Notes Payable	1,363,122	1,363,122
Derivative Financial Instruments	235,063	244,678
Non-Current Portion of Bonds Payable (Series 2011)	10,200,000	10,600,000
Non-Current Portion of Bonds Payable (Series 2014)	12,050,000	12,500,000
	<hr/>	<hr/>
Total Noncurrent Liabilities	23,848,185	24,707,800
	<hr/>	<hr/>
Total Liabilities	28,078,884	29,070,172
Net Assets		
Unrestricted	7,466,441	8,176,166
	<hr/>	<hr/>
Total Net Assets	7,466,441	8,176,166
	<hr/>	<hr/>
Total Liabilities and Net Assets	\$ 35,545,325	\$ 37,246,338
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The accompanying notes are an integral part of these financial statements.

ABE'S GARDEN
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2016

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Support and Revenue			
Residential Rent	7,885,098	\$ -	\$ 7,885,098
Contributions	459,311	-	459,311
Services Sold to Residents	852,370	-	852,370
Gain/Loss on Investments	140	-	140
	<u>9,196,919</u>	<u>-</u>	<u>9,196,919</u>
Expenses			
Program Services	8,145,607	-	8,145,607
Supporting Services			
Management and General	1,453,678	-	1,453,678
Fundraising	325,356	-	325,356
	<u>9,924,641</u>	<u>-</u>	<u>9,924,641</u>
Other Income			
Interest Income	17,997	-	17,997
	<u>17,997</u>	<u>-</u>	<u>17,997</u>
Change in Net Assets	(709,725)	-	(709,725)
Net Assets, January 1, 2016	<u>8,176,166</u>	<u>-</u>	<u>8,176,166</u>
Net Assets, December 31, 2016	<u>\$ 7,466,441</u>	<u>\$ -</u>	<u>\$ 7,466,441</u>

The accompanying notes are an integral part of these financial statements.

ABE'S GARDEN
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2015

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Support and Revenue			
Residential Rent	5,142,025	\$ -	\$ 5,142,025
Contributions	1,330,863	-	1,330,863
Services Sold to Residents	803,521	-	803,521
Gain/Loss on Investments	(926)	-	(926)
	<u>7,275,483</u>	<u>-</u>	<u>7,275,483</u>
Expenses			
Program Services	6,458,748	-	6,458,748
Supporting Services			
Management and General	425,985	-	425,985
Fundraising	520,479	-	520,479
	<u>946,464</u>	<u>-</u>	<u>7,405,212</u>
Loss on Sale of Assets	38,849	-	38,849
	<u>7,444,061</u>	<u>-</u>	<u>7,444,061</u>
Other Income			
Property Tax Refund	66,131		66,131
Interest Income	586	-	586
	<u>66,717</u>	<u>-</u>	<u>66,717</u>
Change in Net Assets	(101,861)	-	(101,861)
Net Assets, January 1, 2015	8,278,027	-	8,278,027
Net Assets, December 31, 2015	<u>\$ 8,176,166</u>	<u>\$ -</u>	<u>\$ 8,176,166</u>

The accompanying notes are an integral part of these financial statements.

ABE'S GARDEN
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2016

		<u>Supporting Services</u>		
	<u>Program</u>	<u>Management</u>	<u>Fundraising</u>	<u>Total</u>
	<u>Services</u>	<u>and General</u>		
Salaries	\$ 4,758,839	\$ -	\$ 214,308	\$ 4,973,147
Employee Benefits	481,263	56,576	22,409	560,248
Payroll Taxes	<u>359,061</u>	<u>-</u>	<u>15,320</u>	<u>374,381</u>
Total Salaries and Benefits	5,599,163	56,576	252,037	5,907,776
Advertising	66,102	-	7,749	73,851
Amortization	3,612	4,052	5,000	12,664
Depreciation	566,664	444,991	-	1,011,655
Education and Technology	19,255	-	-	19,255
Food	539,358	-	-	539,358
Insurance	79,352	4,352	-	83,704
Interest	31,018	797,738	-	828,756
Licenses and Fees	5,140	-	240	5,380
Meetings	152	-	8,929	9,081
Miscellaneous	7,549	670	1,411	9,630
Payroll Fees	101,627	-	4,313	105,940
Postage	2,013	-	7,518	9,531
Printing	11,209	-	15,156	26,365
Property Taxes	141,129	-	-	141,129
Contracted Services	270,322	143,609	12,388	426,319
Repairs and Maintenance	142,231	-	572	142,803
Supplies	176,457	-	9,547	186,004
Telephone and Cable	28,677	-	-	28,677
Travel	46,476	1,690	496	48,662
Utilities	<u>308,101</u>	<u>-</u>	<u>-</u>	<u>308,101</u>
Total Functional Expenses	<u>\$ 8,145,607</u>	<u>\$ 1,453,678</u>	<u>\$ 325,356</u>	<u>\$ 9,924,641</u>

The accompanying notes are an integral part of these financial statements.

ABE'S GARDEN

STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED DECEMBER 31, 2015

		<u>Supporting Services</u>		
	<u>Program</u>	<u>Management</u>	<u>Fundraising</u>	<u>Total</u>
	<u>Services</u>	<u>and General</u>		
Salaries	\$ 3,177,164	\$ 65,368	\$ 293,455	\$ 3,535,987
Employee Benefits	282,120	2,860	20,983	305,963
Payroll Taxes	<u>242,427</u>	<u>5,040</u>	<u>20,170</u>	<u>267,637</u>
Total Salaries and Benefits	3,701,711	73,268	334,608	4,109,587
Advertising	34,106	-	22,551	56,657
Amortization	3,612	-	5,000	8,612
Depreciation	598,350	-	155	598,505
Education and Technology	46,751	-	-	46,751
Food	314,419	-	-	314,419
Insurance	68,287	4,198	-	72,485
Interest	624,353	213,808	-	838,161
Licenses and Fees	3,205	-	240	3,445
Meetings	1,367	584	71,157	73,108
Miscellaneous	6,044	-	483	6,527
Payroll Fees	78,182	1,398	6,090	85,670
Postage	3,526	-	6,540	10,066
Printing	14,919	-	27,179	42,098
Contracted Services	339,660	131,837	36,438	507,935
Repairs and Maintenance	110,755	-	624	111,379
Supplies	165,560	191	7,785	173,536
Telephone and Cable	28,468	-	-	28,468
Travel	23,357	701	1,629	25,687
Utilities	<u>292,116</u>	<u>-</u>	<u>-</u>	<u>292,116</u>
Total Functional Expenses	<u>\$ 6,458,748</u>	<u>\$ 425,985</u>	<u>\$ 520,479</u>	<u>\$ 7,405,212</u>

The accompanying notes are an integral part of these financial statements.

ABE'S GARDEN
STATEMENTS OF CASH FLOWS
DECEMBER 31, 2016 AND 2015

CASH FLOWS FROM OPERATING ACTIVITIES	<u>2016</u>	<u>2015</u>
Change in Net Assets	\$ (709,725)	\$ (101,861)
Adjustments to Reconcile to Net Cash Provided by Operations:		
Depreciation and Amortization	1,011,655	607,117
(Increase) Decrease in:		
Accounts Receivable	52,816	28,954
Pledges Receivable	186,054	740,093
Prepaid Expenses	(42,541)	18,852
Inventory	(5,585)	(96,806)
Derivative Financial Instruments	-	47,905
Other Assets	12,664	(64,867)
Increase (Decrease) in:		
Accounts Payable and Accrued Expenses	(2,781)	(2,069,967)
Tenant Deposits	(744)	326,651
Accrued Interest	(2,222)	(902)
Tax Accruals	59,597	(187,837)
Deferred Grant Revenue	100,000	(745,000)
Resident Assistance Fund	(2,542)	250,000
Derivative Financial Instruments	(9,615)	244,678
Net Cash Provided (Used) by Operating Activities	<u>647,031</u>	<u>(1,002,990)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of Land, Building, and Equipment	<u>(144,460)</u>	<u>(9,868,255)</u>
Net Cash Used by Investing Activities	<u>(144,460)</u>	<u>(9,868,255)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments made on Notes Payable	-	-
Proceeds from the Issuance of Bonds	-	7,323,469
Proceeds from Line of Credit	-	2,632,981
Payments on Bonds Payable	(400,000)	(400,000)
Payments made on Line of Credit	(732,981)	
Net Cash Provided (Used) by Investing Activities	<u>(1,132,981)</u>	<u>9,556,450</u>
Net Increase (Decrease) in Cash	(630,410)	(1,314,795)
Cash, beginning of year	<u>1,840,081</u>	<u>3,154,876</u>
Cash, end of year	<u>\$ 1,209,671</u>	<u>\$ 1,840,081</u>

Supplemental Cash Flows Information:

During the years ended December 31, 2016 and 2015, the Organization paid interest of \$828,756 and \$838,161, respectively.

The accompanying notes are an integral part of these financial statements.

ABE'S GARDEN
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Purpose:

Abe's Garden ("the Organization") is a nonprofit organization incorporated in Tennessee that is a luxury, independent senior citizen living community specializing in Alzheimer's and adult care. The Organization was founded on May 25, 2007.

Classification of Restricted and Unrestricted Net Assets:

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles. Financial statement presentation follows the requirements of the Financial Accounting Standards Board (FASB) Accounting Standards Codification Topic related to Presentation of Financial Statements of Not-for-Profit Organizations. Under the FASB Accounting Standards Codification, the Organization is required to report information regarding its financial position and activities according to three classes of net assets; unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Unrestricted net assets - Net assets that are not subject to donor-imposed stipulations.

Temporarily restricted net assets - Net assets subject to donor-imposed stipulations that may or will be met, either by actions of the Organization and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. The Organization had no temporarily restricted net assets as of December 31, 2016 or 2015.

Permanently restricted net assets - Net assets subject to donor-imposed stipulations that may be maintained permanently by the Organization. Generally donors of these assets permit the Organization to use all or part of the income earned for general or specific purposes. The Organization had no permanently restricted net assets as of December 31, 2016 or 2015.

Advertising:

Abe's Garden expenses advertising costs as incurred. Advertising costs for 2016 and 2015 were \$73,851 and \$56,657, respectively.

ABE'S GARDEN
NOTES TO FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2016 AND 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Depreciation:

It is the Organization's policy to capitalize property and equipment over \$500. All purchases less than that amount are expensed in the period incurred. Donated property and equipment are reported as contributions at estimated fair value. Unless donor-restricted, all donated property and equipment are reported as increases in unrestricted net assets. Property and equipment are depreciated over estimated useful lives using the straight-line method. Useful lives range from 3 years for computer equipment to 40 years for building and building improvements.

Income Taxes:

Abe's Garden is exempt from Federal Income Taxes under Section 501(c)(3) of the Internal Revenue Code. Accordingly, no provision for income taxes has been made.

The Organization has evaluated its tax positions in accordance with the Codification Standard relating to Accounting for Uncertainty in Income Taxes. The Organization believes that it has taken no uncertain tax positions.

The Organization files a U.S. Federal Form 990-Return of Organization Exempt from Income Tax. The Organization's returns for the years prior to calendar year 2013 are no longer open for examination.

Cash:

For purposes of the statement of cash flows, the Organization considers all investment instruments purchased with a maturity of three months or less to be cash equivalents.

Donated Assets and Services:

Noncash donations are recorded as contributions at their estimated fair values at the date of donation. A substantial number of volunteers have donated significant amounts of their time to the Organization's program services and fundraising campaigns. Contributions of donated services that create or enhance nonfinancial assets or that require specialized skills are provided by individuals possessing those skills. These services would typically need to be purchased if not provided by donation and are recorded at their fair values in the period received. Contributions of \$60,591 and \$54,390 were recorded as in-kind for the year ended December 31, 2016 and 2015, respectively.

ABE'S GARDEN

NOTES TO FINANCIAL STATEMENTS - CONTINUED

DECEMBER 31, 2016 AND 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Estimates:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual amounts could differ from those estimates.

Concentration of Credit Risk:

Financial instruments that potentially subject the Organization to concentrations of credit risk consist principally of cash on deposit and pledges receivable. Cash deposits are primarily in financial institutions in Tennessee and at times, may exceed FDIC limits. The balance of an interest bearing account exceeded federally insured amounts by \$710,109 and \$1,604,971 as of December 31, 2016 and 2015, respectively. Concentrations of credit risk with respect to pledges receivable are limited to donors in the Nashville area. Management does not believe that significant credit risk exists at December 31, 2016 and 2015.

Accounts and Pledges Receivable:

Accounts and pledges to be received within the next 12 months, or with restrictions that have been met at year-end are classified as current assets. Pledges designated by the donor to be received more than 12 months after year-end have been classified as noncurrent assets. Abe's Garden does not require collateral or other security to support the receivables, nor does it accrue interest on any of its receivables. Management has evaluated all outstanding pledges at December 31, 2016 and 2015, and determined that no additional allowance is considered necessary.

2. LAND, BUILDING AND EQUIPMENT

A summary of land, building and equipment at December 31, is as follows:

	<u>2016</u>	<u>2015</u>
Land	\$ 7,272,275	\$ 7,272,275
Building and Improvements	27,453,797	27,371,103
Equipment	<u>1,869,313</u>	<u>1,807,546</u>
	36,595,385	36,450,924
Less: Accumulated Depreciation	<u>(3,237,096)</u>	<u>(2,225,440)</u>
Land, Building and Equipment - net	<u>\$33,358,289</u>	<u>\$34,225,484</u>

ABE'S GARDEN

NOTES TO FINANCIAL STATEMENTS - CONTINUED

DECEMBER 31, 2016 AND 2015

3. RELATED PARTIES

Pledges Receivable

Related party pledges receivable consisted of pledges received from board members at December 31, 2016. Related party pledges receivable due in the next fiscal year are reflected as current, whereas, pledges due in subsequent years are reflected as long-term. The net present value of the related party pledges discounted at 2.88% is \$31,158. Management has determined that no allowance is deemed necessary. Related party pledges receivable as of December 31, 2016 and 2015 consist of:

	<u>2016</u>	<u>2015</u>
Unrestricted	\$ 35,000	\$ 100,925
Less discount to net present value	<u>(3,842)</u>	<u>(12,044)</u>
	<u>\$ 31,158</u>	<u>\$ 88,881</u>
Amounts due in:		
Less than one year	\$ 28,333	\$ 925
One to five years	<u>6,667</u>	<u>100,000</u>
	<u>\$ 35,000</u>	<u>\$ 100,925</u>

Notes Payable

A partnership in which a board member is a controlling partner, loaned \$1,600,000 to the Organization that matures January 15, 2021. Interest of \$48,157 and \$74,972 was paid on the loan in the year ended December 31, 2016 and 2015, respectively. The balance as of December 31, 2016 and 2015 was \$1,363,122.

Line of Credit

A partnership in which a board member is a controlling partner, financed a line of credit with the Organization. Interest of \$61,183 and \$18,800 was paid on the line of credit in the year ended December 31, 2016 and 2015, respectively. The balance as of December 31, 2016 and 2015 was \$1,900,000 and \$2,632,981, respectively.

ABE'S GARDEN

NOTES TO FINANCIAL STATEMENTS - CONTINUED

DECEMBER 31, 2016 AND 2015

4. RETIREMENT PLAN

The Organization has a 401(k) Retirement Savings Plan under which the Company is required to match 10% of employee contributions up to the maximum amount allowed by the Internal Revenue Service guidelines. The Company's contribution was \$9,880 and \$5,100 for the years ended December 31, 2016 and 2015, respectively.

5. NOTE PAYABLE

	<u>2016</u>	<u>2015</u>
Note Payable to a privately owned partnership, dated January 15, 2008 in the amount of \$1,600,000, due in interest only payments starting February 15, 2008 at a rate of 5.5%. All principal and interest is due and payable on January 15, 2021. The note is secured by the real estate of the Organization subordinate to the commercial bank note payable.	<u>1,363,122</u>	<u>1,363,122</u>

As of December 31, 2016, the note payable matures as follows:

2021	<u>\$ 1,363,122</u>
	<u>\$ 1,363,122</u>

ABE'S GARDEN

NOTES TO FINANCIAL STATEMENTS - CONTINUED

DECEMBER 31, 2016 AND 2015

6. BONDS PAYABLE

The Organization has tax-exempt bonds payable (Series 2011) which were issued by The Health and Education Facilities Board of the Metropolitan Government of Nashville and Davidson County, Tennessee, the original trustee. The principal amount of the bonds was used to refinance a loan with a commercial bank of \$10,600,000 and to provide additional funds for the development of the Abe's Garden Project. In 2011 the bonds were purchased from the original trustee by SunTrust Bank (the Bank). The Organization has signed a loan agreement with the Bank that stipulates payment terms relating to principal and interest. The bonds mature on September 1, 2036. Interest is based on the highest of three prevailing indexes (2.9% as of December 31, 2016). The bonds are secured by the land and building of Abe's Garden Project.

The agreement with the Bank contains various debt covenants, including requirements that the Organization maintain cash of greater than 35 days of operating expenses and maintain a debt service coverage ratio of not less than 1.20 to 1. As of December 31, 2016, the Organization was in compliance with the debt covenants.

		As of December 31, 2016, Bonds Payable (Series 2011) mature as follows:	
Total Bonds Payable	\$10,600,000		
Less Current Portion	<u>400,000</u>		
Non-Current Portion of	<u>\$10,200,000</u>	2017	\$ 400,000
Bonds Payable		2018	400,000
		2019	400,000
		2020	400,000
		2021 and thereafter	<u>9,000,000</u>
			<u>\$10,600,000</u>

ABE'S GARDEN

NOTES TO FINANCIAL STATEMENTS - CONTINUED

DECEMBER 31, 2016 AND 2015

6. BONDS PAYABLE (CONTINUED)

The Organization has tax-exempt bonds payable (Series 2014) which were issued by The Health and Education Facilities Board of the Metropolitan Government of Nashville and Davidson County, Tennessee, the original trustee. The principal amount of the bonds is \$12,500,000 which will be used to fund a loan with a commercial bank. That loan is to be used for continuing development of the Abe's Garden Project. The amount drawn on such indebtedness as of December 31, 2015 was \$12,500,000. Advances received on the debt are treated as a line of credit until the indebtedness reaches \$12,500,000. Interest is accrued at the rate of 2.9%.

The agreement with the Bank contains various debt covenants, including requirements that the Organization maintain cash of greater than 35 days of operating expenses and maintain a debt service coverage ratio of not less than 1.20 to 1. As of December 31, 2016, the Organization was in compliance with the debt covenants.

Total Bonds Payable	\$12,500,000	As of December 31, 2016, Bonds Payable	
Less Current Portion	<u>450,000</u>	(Series 2014) mature as follows:	
		2017	\$ 450,000
Non-Current Portion of	<u>\$12,050,000</u>	2018	450,000
Bonds Payable		2019	450,000
		2020	450,000
		2021 and thereafter	<u>10,700,000</u>
			<u>\$12,500,000</u>

7. SUBSEQUENT EVENTS

Subsequent events were evaluated through April 20, 2017, which is the date the financial statements were available to be issued.

ABE'S GARDEN

NOTES TO FINANCIAL STATEMENTS - CONTINUED

DECEMBER 31, 2016 AND 2015

8. DERIVATIVE FINANCIAL INSTRUMENTS

The Organization held variable rate debt of approximately \$23.1 million as of December 31, 2016 and \$23.5 million as of December 31, 2015. Interest rate swap agreements are used by the Organization to mitigate the risk of changes in interest rates associated with variable interest rate indebtedness. Under such arrangements, a portion of variable rate indebtedness is converted to fixed rates based on a notional principal amount. The interest rate swap agreements are derivative instruments that are required to be marked to fair value and recorded on the statement of financial position. As of December 31, 2016 and 2015, the aggregate notional principal amount under the interest rate swap agreements, with maturity dates ranging from 2016 through 2024, totaled \$18,111,885 and \$22,111,885, respectively.

2016

As of December 31, 2016, the fair value of the interest rate swap agreements was an liability of \$235,063 and is included in noncurrent liabilities in the accompanying statements of financial position. The change in fair value on these interest rate swap agreements was a loss of \$9,615 for the year ended December 31, 2016 and is included in the statements of activities as interest expense.

The overall impacts of fluctuations in the fair value of the swap arrangement were as follows:

Liability for Derivative Financial Instruments, January 1, 2016	\$ (244,678)
Gain on interest rate swap	<u>9,615</u>
Liability for Derivative Financial Instruments, December 31, 2016	<u>\$ (235,063)</u>
Interest Paid on Debt	\$ 838,371
Gain on interest rate swap	<u>(9,615)</u>
Interest expense, per statement of functional expenses	<u>\$ 828,756</u>

ABE'S GARDEN

NOTES TO FINANCIAL STATEMENTS - CONTINUED

DECEMBER 31, 2016 AND 2015

8. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

2015

As of December 31, 2015, the fair value of the interest rate swap agreements was an liability of \$244,678 and is included in noncurrent liabilities in the accompanying statements of financial position. The change in fair value on these interest rate swap agreements was a loss of \$292,584 for the year ended December 31, 2015 and is included in the statements of activities as interest expense.

The overall impacts of fluctuations in the fair value of the swap arrangement were as follows:

Asset for Derivative Financial Instruments, January 1, 2015	\$ 47,906
Loss on interest rate swap	<u>(292,584)</u>
Liability for Derivative Financial Instruments, December 31, 2015	<u>\$ (244,678)</u>
Interest Paid on Debt	\$ 545,577
Loss on interest rate swap	<u>292,584</u>
Interest expense, per statement of functional expenses	<u>\$ 838,161</u>