

ABE'S GARDEN

**FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT**

DECEMBER 31, 2011 AND 2010

ABE'S GARDEN

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying statements of financial position of Abe's Garden (a nonprofit corporation) as of December 31, 2011 and 2010, and the related statements of activities, functional expenses and cash flows for the years then ended. These financial statements are the responsibility of the Organization's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our 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, 2011 and 2010, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

June 7, 2012

ABE'S GARDEN

STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2011 AND 2010

ASSETS

	<u>2011</u>	<u>2010</u>
Current Assets		
Cash and Cash Equivalents	\$ 1,613,662	\$ 821,103
Accounts Receivable	90,705	31,796
Pledges Receivable	848,046	1,116,240
Inventory	8,178	9,567
Prepaid Expenses	<u>13,382</u>	<u>12,170</u>
Total Current Assets	<u>2,573,973</u>	<u>1,990,876</u>
Land, Building and Equipment	15,300,436	13,822,670
Less: Accumulated Depreciation	<u>(710,995)</u>	<u>(508,131)</u>
Land, Building and Equipment - Net	<u>14,589,441</u>	<u>13,314,539</u>
Noncurrent Assets		
Pledges Receivable, Due after One Year	1,249,898	1,719,991
Closing Costs, Net of Amortization	269,716	185,625
Other Assets	<u>-</u>	<u>1,354</u>
Total Noncurrent Assets	<u>1,519,614</u>	<u>1,906,970</u>
Total Assets	<u><u>\$ 18,683,028</u></u>	<u><u>\$ 17,212,385</u></u>

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

ABE'S GARDEN

STATEMENTS OF FINANCIAL POSITION - CONTINUED

DECEMBER 31, 2011 AND 2010

LIABILITIES AND NET ASSETS

	<u>2011</u>	<u>2010</u>
Current Liabilities		
Current Portion of Bonds Payable	\$ 400,000	\$ -
Accounts Payable and Accrued Expenses	217,929	146,785
Accrued Liability for Cumberland Property	210,000	-
Tenant Deposits	205,320	157,482
Accrued Interest	12,309	16,559
Lease Payable	-	830
Property Tax Deferral	137,395	165,961
Personalty Tax Deferral	1,536	1,617
	<hr/>	<hr/>
Total Current Liabilities	1,184,489	489,234
	<hr/>	<hr/>
Noncurrent Liabilities		
Notes Payable	1,600,000	13,200,000
Non-Current Portion of Bonds Payable	10,473,373	-
Line of Credit - Related Party	472,961	20,811
	<hr/>	<hr/>
Total Noncurrent Liabilities	12,546,334	13,220,811
	<hr/>	<hr/>
Total Liabilities	13,730,823	13,710,045
	<hr/>	<hr/>
Net Assets		
Unrestricted	3,684,886	(375,949)
Temporarily Restricted	1,267,319	3,878,289
	<hr/>	<hr/>
Total Net Assets	4,952,205	3,502,340
	<hr/>	<hr/>
Total Liabilities and Net Assets	<u>\$ 18,683,028</u>	<u>\$ 17,212,385</u>

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

ABE'S GARDEN

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED DECEMBER 31, 2011

	<u>Unrestricted</u>	Temporarily <u>Restricted</u>	<u>Total</u>
Support and Revenue			
Contributions	\$ 1,814,182	\$ -	\$1,814,182
Capital Campaign Contributions	-	239,030	239,030
Residential Rent	2,566,933	-	2,566,933
Services Sold to Residents	709,923	-	709,923
Net Assets Released from Restrictions	<u>2,850,000</u>	<u>(2,850,000)</u>	<u>-</u>
Total Support and Revenue	<u>7,941,038</u>	<u>(2,610,970)</u>	<u>5,330,068</u>
Expenses			
Program Services	3,271,540	-	3,271,540
Supporting Services			
Management and General	200,344	-	200,344
Fundraising	<u>234,390</u>	<u>-</u>	<u>234,390</u>
	3,706,274	-	3,706,274
Loss on Sale of Assets	3,242	-	3,242
Expense for Assets Held	<u>210,180</u>	<u>-</u>	<u>210,180</u>
Total Expenses	<u>3,919,696</u>	<u>-</u>	<u>3,919,696</u>
Other Income			
Interest Income	<u>39,493</u>	<u>-</u>	<u>39,493</u>
Total Other Income	<u>39,493</u>	<u>-</u>	<u>39,493</u>
Change in Net Assets	4,060,835	(2,610,970)	1,449,865
Net Assets, January 1, 2011	<u>(375,949)</u>	<u>3,878,289</u>	<u>3,502,340</u>
Net Assets, December 31, 2011	<u><u>\$ 3,684,886</u></u>	<u><u>\$1,267,319</u></u>	<u><u>\$4,952,205</u></u>

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

ABE'S GARDEN

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED DECEMBER 31, 2010

	<u>Unrestricted</u>	Temporarily <u>Restricted</u>	<u>Total</u>
Support and Revenue			
Contributions	\$ 46,867	\$ -	\$ 46,867
Capital Campaign Contributions	-	2,694,693	2,694,693
Residential Rent	2,234,395	-	2,234,395
Services Sold to Residents	411,705	-	411,705
Licensing Fees	10,000	-	10,000
Net Assets Released from Restrictions	<u>1,000,000</u>	<u>(1,000,000)</u>	<u>-</u>
 Total Support and Revenue	 <u>3,702,967</u>	 <u>1,694,693</u>	 <u>5,397,660</u>
 Expenses			
Program Services	2,836,274	-	2,836,274
Supporting Services			
Management and General	128,444	-	128,444
Fundraising	<u>188,247</u>	<u>-</u>	<u>188,247</u>
	3,152,965	-	3,152,965
Expenses for Assets Held	<u>26,966</u>	<u>-</u>	<u>26,966</u>
 Total Expenses	 <u>3,179,931</u>	 <u>-</u>	 <u>3,179,931</u>
 Other Income			
Interest Income	7,423	-	7,423
Other Income	<u>21,700</u>	<u>-</u>	<u>21,700</u>
 Total Other Income	 <u>29,123</u>	 <u>-</u>	 <u>29,123</u>
 Change in Net Assets	 552,159	 1,694,693	 2,246,852
Net Assets, January 1, 2010	<u>(928,108)</u>	<u>2,183,596</u>	<u>1,255,488</u>
Net Assets, December 31, 2010	<u><u>\$ (375,949)</u></u>	<u><u>\$ 3,878,289</u></u>	<u><u>\$ 3,502,340</u></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, 2011

	Program Services	Supporting Services Management and General	Fundraising	Total
Salaries	\$ 1,437,256	\$ -	\$ -	\$ 1,437,256
Contractual Employees	34,692	-	-	34,692
Employee Benefits	139,191	-	-	139,191
Payroll Taxes	128,704	-	-	128,704
 Total Salaries and Benefits	 1,739,843	 -	 -	 1,739,843
 Advertising	 15,490	 20	 1,332	 16,842
Amortization	13,064	-	5,000	18,064
Depreciation	203,073	-	963	204,036
Equipment Rental	2,925	-	-	2,925
 Food	 226,746	 -	 -	 226,746
Insurance	22,167	950	712	23,829
Interest	482,425	159,148	-	641,573
Licenses and Fees	3,478	-	300	3,778
Meetings	1,741	1,730	5,560	9,031
 Miscellaneous	 5,514	 385	 320	 6,219
Postage	1,119	58	3,368	4,545
Printing	2,821	-	9,086	11,907
Contracted Services	106,729	32,525	198,597	337,851
Property Taxes	81,800	-	-	81,800
 Repairs and Maintenance	 61,881	 -	 1,781	 63,662
Supplies	60,213	532	3,184	63,929
Telephone and Cable	23,175	-	-	23,175
Travel	10,034	4,996	4,187	19,217
Utilities	207,302	-	-	207,302
 Total Functional Expenses	 \$ 3,271,540	 \$ 200,344	 \$ 234,390	 \$ 3,706,274

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

ABE'S GARDEN

STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED DECEMBER 31, 2010

	Program Services	Supporting Services		Total
		Management and General	Fundraising	
Salaries	\$ 1,150,561	\$ -	\$ -	\$ 1,150,561
Contractual Employees	121,988	-	-	121,988
Employee Benefits	124,109	-	-	124,109
Payroll Taxes	99,065	-	-	99,065
 Total Salaries and Benefits	 1,495,723	 -	 -	 1,495,723
 Advertising	 14,915	 320	 450	 15,685
Amortization	32,493	-	5,000	37,493
Depreciation	182,742	5,100	1,749	189,591
Equipment Rental	2,744	-	-	2,744
 Food	 190,867	 -	 -	 190,867
Insurance	24,190	950	-	25,140
Interest	294,408	102,125	-	396,533
Licenses and Fees	3,522	-	300	3,822
Meetings	6,873	841	990	8,704
 Miscellaneous	 4,129	 3,938	 -	 8,067
Postage	1,253	234	2,690	4,177
Printing	3,626	14	10,705	14,345
Contracted Services	70,760	8,492	161,075	240,327
Property Taxes	167,578	-	-	167,578
 Repairs and Maintenance	 60,516	 -	 1,879	 62,395
Supplies	46,821	-	3,184	50,005
Telephone and Cable	22,674	-	-	22,674
Travel	9,703	5,061	225	14,989
Utilities	200,737	1,369	-	202,106
 Total Functional Expenses	 \$ 2,836,274	 \$ 128,444	 \$ 188,247	 \$ 3,152,965

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

ABE'S GARDEN

STATEMENTS OF CASH FLOWS

DECEMBER 31, 2011 AND 2010

CASH FLOWS FROM OPERATING ACTIVITIES	<u>2011</u>	<u>2010</u>
Change in Net Assets	\$ 1,449,865	\$ 2,246,852
Depreciation and Amortization	209,219	226,684
Adjustments to Reconcile Net Income to Net Cash Provided by Operations:		
(Increase) Decrease in:		
Accounts Receivable	(58,909)	3,277
Pledges Receivable	738,287	(1,836,715)
Assets Held for Investment	-	4,900
Prepaid Expenses	(1,212)	234
Inventory	1,389	(451)
Increase (Decrease) in:		
Accounts Payable and Accrued Expenses	71,144	21,815
Accrued Liability for Cumberland Property	210,000	-
Tenant Deposits	47,838	22,357
Accrued Interest	(4,250)	663
Tax Deferrals	(28,647)	65
Net Cash Provided by Operating Activities	<u>2,634,724</u>	<u>689,681</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of Land, Building, and Equipment	<u>(1,477,766)</u>	<u>(528,737)</u>
Net Cash Used by Investing Activities	<u>(1,477,766)</u>	<u>(528,737)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Lease Principal Payments	(830)	(5,537)
Payments Made on Notes Payable	(11,600,000)	-
Payments Made on Line of Credit	(1,091,435)	(296,618)
Proceeds From Borrowings on Line of Credit	1,543,584	-
Proceeds From the Issuance of Bonds	10,873,373	-
Payment of Bond Fees	(89,091)	-
Net Cash Used by Investing Activities	<u>(364,399)</u>	<u>(302,155)</u>
Net Increase (Decrease) in Cash	792,559	(141,211)
Cash, beginning of year	<u>821,103</u>	<u>962,314</u>
Cash, end of year	<u><u>\$ 1,613,662</u></u>	<u><u>\$ 821,103</u></u>

Supplemental Cash Flows Information:

During the years ended December 31, 2011 and 2010, the Organization paid interest of \$641,573 and \$396,533, respectively.

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

ABE'S GARDEN
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010

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.

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, 2011.

Advertising:

Abe's Garden expenses advertising costs as incurred. Advertising costs for 2011 and 2010 were \$16,842 and \$15,685, respectively.

ABE'S GARDEN
NOTES TO FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2011 AND 2010

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.

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 \$654,232 and \$4,368 were recorded as in-kind for the year ended December 31, 2011 and 2010, respectively. During 2011, \$621,500 was related to the donation of a building.

ABE'S GARDEN

NOTES TO FINANCIAL STATEMENTS - CONTINUED

DECEMBER 31, 2011 AND 2010

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 \$587,544 as of December 31, 2011. 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, 2011 and 2010.

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, 2011 and 2010, 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>2011</u>	<u>2010</u>
Land	\$ 7,272,275	\$ 7,272,275
Building and Improvements	7,706,479	6,362,181
Equipment	<u>321,682</u>	<u>188,214</u>
	15,300,436	13,822,670
Less: Accumulated Depreciation	<u>(710,995)</u>	<u>(508,131)</u>
Land, Building and Equipment - net	<u>\$14,589,441</u>	<u>\$13,314,539</u>

ABE'S GARDEN

NOTES TO FINANCIAL STATEMENTS - CONTINUED

DECEMBER 31, 2011 AND 2010

3. RELATED PARTIES

Pledges Receivable

Related party pledges receivable consisted of pledges received from a board member at December 31, 2011. 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 2.66% is \$46,245. Management has determined that no allowance is deemed necessary. Related party pledges receivable as of December 31, 2011 and 2010 consist of:

	<u>2011</u>	<u>2010</u>
Unrestricted	\$ 50,000	\$ 693,000
Less discount to net present value	<u>(3,755)</u>	<u>(20,312)</u>
	<u>\$ 46,245</u>	<u>\$ 672,688</u>
Amounts due in:		
Less than one year	\$ 10,000	\$ 443,000
One to five years	<u>40,000</u>	<u>250,000</u>
	<u>\$ 50,000</u>	<u>\$ 693,000</u>

Line of Credit

The Organization has a demand note, dated October 2, 2007, with a partnership in which a board member is a controlling partner of, available under a line of credit in the amount up to \$2,000,000 for the Development Project. The interest rate on this demand note was modified in January 2009 to the Prime Rate (3.25% as of December 31, 2011). During 2011, \$1,091,435 was paid on the balance of this note. Interest of \$37,874 was accrued, but unpaid, on this loan during 2011. The balance at December 31, 2011 and 2010 was \$472,961 and \$20,811, respectively.

Notes Payable

The same partnership loaned \$1,600,000 to the Organization that matures January 15, 2013. No principal was repaid on this loan during 2011 or 2010. Interest of \$88,000 was paid on the loan in both 2011 and 2010.

Payment of Expenses

A board member is majority shareholder of the company which provides certain back office administrative and payroll services to the Organization. The Organization reimbursed, at cost, the company for the direct cost of payroll and other related expenses in the amounts of \$232,842 and \$314,056 the years ended December 31, 2011 and 2010, respectively.

ABE'S GARDEN

NOTES TO FINANCIAL STATEMENTS - CONTINUED

DECEMBER 31, 2011 AND 2010

4. NOTES PAYABLE

The Organization has the following notes payable at December 31:
All notes payable are non-current.

	<u>2011</u>	<u>2010</u>
Note Payable to a commercial bank, dated January 15, 2008, in the amount of \$10,600,000, due in interest only payments starting February 15, 2008 at a rate of prime rate (3.25% at December 31, 2008) minus one percent. All principal and interest is due and payable on January 15, 2012. The note is secured by the real estate of the Organization and a partial personal guarantee.	\$ -	\$10,600,000
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, 2013. The note is secured by the real estate of the Organization subordinate to the commercial bank note payable.	1,600,000	1,600,000
Note Payable to a corporation, dated January 15, 2008, in the amount of \$1,000,000, 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, 2011. The note is secured by the real estate of the Organization subordinate to the commercial bank note payable.	-	1,000,000
Total Notes Payable	<u>\$ 1,600,000</u>	<u>\$13,200,000</u>

As of December 31, 2011, notes payable matures as follows:

2012	\$ -
2013	<u>1,600,000</u>
	<u>\$ 1,600,000</u>

ABE'S GARDEN

NOTES TO FINANCIAL STATEMENTS - CONTINUED

DECEMBER 31, 2011 AND 2010

5. BONDS PAYABLE

The Organization has tax-exempt bonds payable 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 (2.66% as of December 31, 2011). 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 100 days of operating expenses and maintain a debt service coverage ratio of not less than 1.20 to 1. As of December 31, 2011, the Organization was in compliance with the debt covenants.

		As of December 31, 2011, Bonds Payable	
		mature as follows:	
Total Bonds Payable	\$10,873,373		
Less Current Portion	<u>400,000</u>		
		2012	\$ 400,000
		2013	400,000
		2014	400,000
		2015	400,000
		2016 and thereafter	<u>9,273,373</u>
			<u>\$10,873,373</u>

6. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following at December 31:

	<u>2011</u>	<u>2010</u>
Capital Campaign	<u>\$ 1,267,319</u>	<u>\$ 3,878,289</u>

7. RETIREMENT PLAN

The Organization has a 401(k) Retirement Savings Plan under which the Company is required to match 5% of employee contributions up to 5% of employee's salaries. The Company's contribution was \$200 and \$531 for the years ended December 31, 2011 and 2010, respectively.

8. SUBSEQUENT EVENTS

Subsequent events were evaluated through June 7, 2012, which is the date the financial statements were available to be issued.