

**ANNANDALE AT SUWANEE, INC.
AND AFFILIATE**

CONSOLIDATED FINANCIAL REPORT

JUNE 30, 2014

ANNANDALE AT SUWANEE, INC. AND AFFILIATE

CONSOLIDATED FINANCIAL REPORT JUNE 30, 2014

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INDEPENDENT AUDITOR'S REPORT

**To the Board of Directors
Annandale at Suwanee, Inc. and Affiliate
Suwanee, Georgia**

We have audited the accompanying consolidated financial statements of Annandale at Suwanee, Inc. (a nonprofit organization) and Affiliate, which comprise the consolidated statements of financial position as of June 30, 2014 and 2013, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Annandale at Suwanee, Inc. and Affiliate as of June 30, 2014 and 2013, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplementary information on pages 19 to 21 is presented for purposes of additional analysis and is 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 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 financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Mauldin & Jenkins, LLC

Atlanta, Georgia
December 3, 2014

ANNANDALE AT SUWANEE, INC. AND AFFILIATE

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION JUNE 30, 2014 AND 2013

ASSETS	2014	2013
Current assets:		
Cash and cash equivalents - unrestricted	\$ 996,916	\$ 1,163,631
Cash and cash equivalents - temporarily restricted	911,230	466,703
Investments - unrestricted	4,442,839	3,557,753
Endowment investments - temporarily restricted	2,121,198	1,715,608
Fees and patient accounts receivable, less allowance for doubtful accounts of \$833 and \$ - for 2014 and 2013, respectively	429,400	124,695
Pledges receivable - temporarily restricted	121,782	133,199
Prepaid expenses and other assets	46,028	87,094
Total current assets	9,069,393	7,248,683
Noncurrent assets:		
Cash, residents	261,407	236,857
Pledges receivable - temporarily restricted, net	-	56,556
Property and equipment, net	8,416,475	8,473,105
Endowment investments - permanently restricted	2,088,454	2,088,454
Total noncurrent assets	10,766,336	10,854,972
Total assets	\$ 19,835,729	\$ 18,103,655
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable and accrued expenses	\$ 362,211	\$ 267,464
Unearned fees	242,073	237,238
Total current liabilities	604,284	504,702
Noncurrent liabilities:		
Accounts payable, residents	77,107	64,072
Security deposits, residents	182,604	171,093
Total noncurrent liabilities	259,711	235,165
Total liabilities	863,995	739,867
NET ASSETS		
Unrestricted	13,729,070	12,903,268
Temporarily restricted	3,154,210	2,372,066
Permanently restricted	2,088,454	2,088,454
Total net assets	18,971,734	17,363,788
Total liabilities and net assets	\$ 19,835,729	\$ 18,103,655

See Notes to Consolidated Financial Statements.

ANNANDALE AT SUWANEE, INC. AND AFFILIATE

**CONSOLIDATED STATEMENTS OF ACTIVITIES
YEARS ENDED JUNE 30, 2014 AND 2013**

	2014			2013				
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES AND OTHER SUPPORT								
Fees and net patient service revenue	\$ 5,893,314	\$ -	\$ -	\$ 5,893,314	\$ 4,879,692	\$ -	\$ -	\$ 4,879,692
Contributions	175,738	896,384	-	1,072,122	173,198	769,230	-	942,428
Special events	204,453	-	-	204,453	157,084	-	-	157,084
Net realized and unrealized gains on investments	749,945	412,467	-	1,162,412	406,942	226,057	-	632,999
Donated materials and services	6,811	-	-	6,811	3,564	-	-	3,564
Interest income	2,135	-	-	2,135	2,025	-	-	2,025
Dividend income	124,305	46,710	-	171,015	115,601	44,579	-	160,180
Gain on disposal of property and equipment	5,813	-	-	5,813	-	-	-	-
Total revenues	<u>7,162,514</u>	<u>1,355,561</u>	-	<u>8,518,075</u>	<u>5,738,106</u>	<u>1,039,866</u>	-	<u>6,777,972</u>
Net assets released from restrictions:								
Satisfaction of program restrictions	573,417	(573,417)	-	-	1,213,046	(1,213,046)	-	-
Total revenues and other support	<u>7,735,931</u>	<u>782,144</u>	-	<u>8,518,075</u>	<u>6,951,152</u>	<u>(173,180)</u>	-	<u>6,777,972</u>
EXPENSES								
Programs	5,698,839	-	-	5,698,839	4,660,111	-	-	4,660,111
General and administrative	1,085,314	-	-	1,085,314	1,129,306	-	-	1,129,306
Fundraising	105,480	-	-	105,480	69,350	-	-	69,350
Bad debt expense	20,496	-	-	20,496	35,654	-	-	35,654
Total expenses	<u>6,910,129</u>	-	-	<u>6,910,129</u>	<u>5,894,421</u>	-	-	<u>5,894,421</u>
CHANGE IN NET ASSETS	825,802	782,144	-	1,607,946	1,056,731	(173,180)	-	883,551
NET ASSETS, BEGINNING	<u>12,903,268</u>	<u>2,372,066</u>	<u>2,088,454</u>	<u>17,363,788</u>	<u>11,846,537</u>	<u>2,545,246</u>	<u>2,088,454</u>	<u>16,480,237</u>
NET ASSETS, ENDING	<u>\$ 13,729,070</u>	<u>\$ 3,154,210</u>	<u>\$ 2,088,454</u>	<u>\$ 18,971,734</u>	<u>\$ 12,903,268</u>	<u>\$ 2,372,066</u>	<u>\$ 2,088,454</u>	<u>\$ 17,363,788</u>

See Notes to Consolidated Financial Statements.

ANNANDALE AT SUWANEE, INC. AND AFFILIATE

CONSOLIDATED STATEMENTS OF CASH FLOWS YEARS ENDED JUNE 30, 2014 AND 2013

	2014	2013
Cash flows from operating activities:		
Change in net assets	\$ 1,607,946	\$ 883,551
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	577,242	510,570
Bad debt expense	19,663	35,654
Realized and unrealized gains on investments	(1,161,494)	(632,999)
Changes in assets and liabilities:		
Increase in fees and patient accounts receivable, net	(325,201)	(20,690)
Decrease in pledges receivable	67,973	74,342
Increase (decrease) in allowance for doubtful accounts	833	(3,854)
Decrease (increase) in prepaid expenses and other assets	41,066	(4,433)
Increase in unearned fees	4,835	18,239
Increase (decrease) in accounts payable, residents	13,035	(12,056)
Increase (decrease) in security deposits, residents	11,511	(4)
Increase (decrease) in accounts payable and accrued expenses	94,747	(84,876)
Net cash provided by operating activities	952,156	763,444
Cash flows from investing activities:		
Proceeds from sales of securities	1,268,573	1,073,345
Purchases of securities	(1,397,755)	(1,287,056)
Purchases of property and equipment	(520,612)	(1,723,578)
Net cash (used in) investing activities	(649,794)	(1,937,289)
Cash flows from financing activities:		
Repayment of capital lease obligation	-	(4,121)
Net cash (used in) financing activities	-	(4,121)
Net change in cash and cash equivalents	302,362	(1,177,966)
Cash and cash equivalents, beginning of year	1,867,191	3,045,157
Cash and cash equivalents, end of year	\$ 2,169,553	\$ 1,867,191
Supplemental disclosure of cash flow information:		
Cash paid during the year:		
Interest	\$ -	\$ 152
Supplemental schedule of non-cash investing activities:		
Construction in progress included in accounts payable	\$ 6,100	\$ -

See Notes to Consolidated Financial Statements.

ANNANDALE AT SUWANEЕ, INC. AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities:

Annandale at Suwanee, Inc. (the "Village") was incorporated in 1969 and operates as a residential village and 16 bed skilled nursing facility for mentally handicapped adults in Suwanee, Georgia. The Village is exempt from federal and state income taxes under 501(c)(3) of the Internal Revenue Code.

During the year ended June 30, 2011, The Annandale Foundation, Inc. (the "Foundation") was organized. Annandale at Suwanee, Inc. contributed \$7,270,499 to the Foundation. The contribution consisted of cash and unrestricted, temporarily restricted and permanently restricted investments. The primary purpose of the Foundation is to provide support and to carry out the purposes of the Village including investing the endowments for the Village.

Significant Accounting Policies:

Basis of Consolidation

The consolidated financial statements of Annandale at Suwanee, Inc. and Affiliate include the accounts of Annandale at Suwanee, Inc. and The Annandale Foundation, Inc. (collectively, the "Organization"). All significant intercompany transactions have been eliminated in consolidation.

Basis of Presentation

The accompanying consolidated financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Organization and changes therein are classified and reported as follows:

Unrestricted net assets - Net assets that are not subject to donor-imposed stipulations. Restricted funds received and released in the same fiscal year are considered unrestricted for purposes of the statement of activities.

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 they be maintained permanently by the Organization. Generally, the donors of these assets permit the Organization to use all or part of the income earned on any related investments for general or specific purposes.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Significant Accounting Policies: (Continued)

Contributions

Contributions, including unconditional promises to give, are recorded as made. All contributions are available for unrestricted use unless specifically restricted by the donor. Conditional promises to give are recognized when the conditions on which they depend are substantially met. Unconditional promises to give due in the next year are recorded at their net realizable value. Unconditional promises to give due in subsequent years are reported at the present value of their net realizable value, using risk-free interest rates applicable to the years in which the promises are to be received. Amortization of discounts is included in contribution revenue.

Donated Materials and Services

Donated materials and services are reflected as contributions in the accompanying statement of activities at their estimated values at the date of receipt. Donated service expense, which primarily represents labor and materials, is reflected under program services in the accompanying statement.

Advertising Costs

Advertising costs are charged to expense as they are incurred. Advertising costs amounted to \$22,440 and \$11,966 for the years ended June 30, 2014 and 2013, respectively.

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Cash - Residents

The Organization is custodian of a bank account maintained for the residents. The Organization is the trustee for this account.

Unearned Fees

Unearned fees represent prepayment of residents' fees and is deferred and recorded as revenue in the year services are rendered.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Significant Accounting Policies: (Continued)

Allowance for Doubtful Accounts

The Organization provides an allowance for doubtful accounts based on a review of the current status of existing receivables, historical collection experience and management's evaluation of the effect of existing economic conditions. Receivables are charged to the allowance account when deemed to be uncollectible. Bad debt expense was \$20,496 and \$35,654 for the years ended June 30, 2014 and 2013, respectively.

Land, Buildings and Equipment

Land, buildings and equipment are stated at cost on the date of purchase or the estimated fair market value on the date of contribution. Donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. The Organization follows the practice of capitalizing all expenditures for equipment in excess of \$500. Depreciation expense is provided on the straight-line method over the estimated useful lives of the assets as follows: land improvements, 10 to 20 years; buildings and furnishings, 3 to 40 years; and equipment and vehicles, 3 to 10 years.

Net Patient Service Revenue

Net patient service revenue is reported at the estimated net realizable amounts from residents, third party payers, and others for services rendered.

Revenue under third-party payer agreements is subject to audit and retroactive adjustment. Provisions for estimated third-party payer settlements are provided in the period the related services are rendered. Differences between the estimated amounts accrued and interim and final settlements are reported in operations in the year of the settlement.

Cash Equivalents

For the purpose of the statement of cash flows, the Organization considers all highly liquid debt instruments purchased with an initial maturity of three months or less to be cash equivalents.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Significant Accounting Policies: (Continued)

Fair Value Measurements

Assets and liabilities measured at fair value are recorded in accordance with FASB's *Fair Value Measurements*, which clarifies that fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or liability. As a basis for considering such assumptions, FASB's *Fair Value Measurements* establishes a three-tier value hierarchy, which prioritizes the inputs used in measuring fair value as follows:

Level 1 Inputs—Unadjusted quoted prices in active markets that are accessible at the measurement date for identical assets and liabilities.

Level 2 Inputs—Inputs other than quoted prices in active markets that are observable either directly or indirectly.

Level 3 Inputs—Unobservable inputs in which there is little or no market data, which requires management to develop their assumptions.

The categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

Following is a description of the valuation methodologies used to measure fair value. There have been no changes in the methodologies used at June 30, 2014 and 2013.

Mutual funds: Valued at the net asset value of shares held by the Organization at year end.

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 Organization 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.

Concentrations of Credit Risk

The Organization maintains cash and investments with major financial institutions. The Organization performs periodic evaluations of the relative credit standing of these financial institutions and limits the amount of credit exposure with any financial institution.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 results could differ from those estimates.

Income Taxes

The Organization is exempt from income taxes as an organization described in section 501(c)(3) of the Internal Revenue Code of 1986, as amended. The Organization accounts for uncertain tax positions in accordance with accounting standards that provide guidance on when uncertain tax positions are recognized in an entity's financial statements and how the values of these positions are determined. No liability has been recorded as of June 30, 2014 and 2013 due to uncertain tax positions. The Organization's tax returns for the past three years are subject to examination by tax authorities and may change upon examination.

NOTE 2. PLEDGES RECEIVABLE

At June 30, 2014 and 2013, pledges receivable consisted of the following:

	June 30,	
	2014	2013
Expected future cash flow before discount from:		
Capital Campaign receivables	\$ 121,782	\$ 193,199
Less unamortized discount	-	(3,444)
Net pledges receivable	<u>\$ 121,782</u>	<u>\$ 189,755</u>
Amounts due in:		
Less than one year	\$ 121,782	\$ 133,199
One to three years	-	56,556
Total	<u>\$ 121,782</u>	<u>\$ 189,755</u>

A discount rate of 3% was used as the risk-free interest rate for pledges receivable at June 30, 2013.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 3. LAND, BUILDINGS AND EQUIPMENT

Land, buildings, and equipment at June 30, 2014 and 2013 consist of the following:

	June 30,	
	2014	2013
Land and improvements	\$ 843,966	\$ 811,975
Buildings and furnishings	13,677,298	13,713,637
Equipment and vehicles	709,348	778,707
Construction in progress	13,332	49,346
Accumulated depreciation	(6,827,469)	(6,880,560)
	\$ 8,416,475	\$ 8,473,105

Depreciation expense amounted to \$577,242 and \$510,570 for the years ended June 30, 2014 and 2013, respectively.

NOTE 4. INVESTMENTS

Investments are stated at fair value, which is determined based on quoted market prices and consist of the following at June 30, 2014 and 2013:

	June 30,	
	2014	2013
Mutual funds – managed investments	\$ 8,652,491	\$ 7,361,815

Investment return is summarized for June 30, 2014 and 2013 as follows:

	June 30,	
	2014	2013
Net realized and unrealized gains	\$ 1,162,412	\$ 632,999
Interest and dividend income	173,150	162,205
	\$ 1,335,562	\$ 795,204

Investment expenses incurred totaled \$43,010 and \$39,207 for the years ended June 30, 2014 and 2013, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 5. FAIR VALUE MEASUREMENTS

The following table sets forth by level, within the fair value hierarchy described in Note 1, the Organization's assets measured at fair value on a recurring basis as of June 30, 2014:

	Level 1	Level 2	Level 3	Total
Mutual funds:				
Bond funds	\$ 2,350,321	\$ -	\$ -	\$ 2,350,321
Index funds	6,030,085	-	-	6,030,085
Commodities funds	272,085	-	-	272,085
Total assets at fair value	<u>\$ 8,652,491</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 8,652,491</u>

The following table sets forth by level, within the fair value hierarchy described in Note 1, the Organization's assets measured at fair value on a recurring basis as of June 30, 2013:

	Level 1	Level 2	Level 3	Total
Mutual funds:				
Bond funds	\$ 1,752,465	\$ -	\$ -	\$ 1,752,465
Index funds	5,349,095	-	-	5,349,095
Commodities funds	260,255	-	-	260,255
Total assets at fair value	<u>\$ 7,361,815</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 7,361,815</u>

NOTE 6. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes at June 30, 2014 and 2013:

	June 30,	
	2014	2013
Tuition assistance	\$ 2,121,198	\$ 1,715,608
Capital expenditures	1,249	5,425
Capital improvements	945,565	638,197
Landscaping	50,000	-
Day Program	25,000	-
Strategic Plan	5,000	-
Memorial gardens	-	2,951
Special Olympics	443	730
Supplies	917	1,773
Villager Christmas fund	2,688	2,688
Micro – Enterprise	2,150	4,694
	<u>\$ 3,154,210</u>	<u>\$ 2,372,066</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 7. PERMANENTLY RESTRICTED NET ASSETS

Net assets were permanently restricted for the following purposes at June 30, 2014 and 2013:

	June 30,	
	2014	2013
Tuition assistance	\$ 2,088,454	\$ 2,088,454

NOTE 8. NET ASSETS RELEASED FROM RESTRICTIONS

Net assets were released from donor restrictions during the years ended June 30, 2014 and 2013 by incurring expenses or acquiring capital assets satisfying the restricted purposes specified by donors as follows:

Purpose restrictions accomplished:

	June 30,	
	2014	2013
Scholarships and awards	\$ 53,587	\$ 49,943
Capital expenditures	4,176	-
Capital improvements	507,616	1,154,941
Memorial Gardens	2,951	83
Other	3,400	7,521
Special Olympics	1,687	558
	\$ 573,417	\$ 1,213,046

NOTE 9. ENDOWMENTS

The Organization's endowments consist of approximately 5 individual funds established for a variety of purposes. Its endowments include donor-restricted endowment funds. As required by GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 9. ENDOWMENTS (Continued)

Interpretation of Relevant Law

The Board of Directors of the Organization has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Organization classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the organization in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (1) The duration and preservation of the fund
- (2) The purposes of the organization and the donor-restricted endowment fund
- (3) General economic conditions
- (4) The possible effect of inflation and deflation
- (5) The expected total return from income and the appreciation of investments
- (6) Other resources of the organization
- (7) The investment policies of the organization

Endowment Net Asset Composition by Type of Fund as of June 30, 2014

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ 2,121,198	\$ 2,088,454	\$ 4,209,652
Total funds	<u>\$ -</u>	<u>\$ 2,121,198</u>	<u>\$ 2,088,454</u>	<u>\$ 4,209,652</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 9. ENDOWMENTS (Continued)

Changes in Endowment Net Assets for the Fiscal Year Ended June 30, 2014

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ -	\$ 1,715,608	\$ 2,088,454	\$ 3,804,062
Investment return:				
Net investment income	-	46,710	-	46,710
Net appreciation (realized and unrealized)	-	412,467	-	412,467
Total investment return	-	459,177	-	459,177
Appropriation of endowment assets for expenditure	-	(53,587)	-	(53,587)
Endowment net assets, end of year	<u>\$ -</u>	<u>\$ 2,121,198</u>	<u>\$ 2,088,454</u>	<u>\$ 4,209,652</u>

Endowment Net Asset Composition by Type of Fund as of June 30, 2013

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ 1,715,608	\$ 2,088,454	\$ 3,804,062
Total funds	<u>\$ -</u>	<u>\$ 1,715,608</u>	<u>\$ 2,088,454</u>	<u>\$ 3,804,062</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 9. ENDOWMENTS (Continued)

Changes in Endowment Net Assets for the Fiscal Year Ended June 30, 2013

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ -	\$ 1,494,915	\$ 2,088,454	\$ 3,583,369
Investment return:				
Net investment income	-	44,579	-	44,579
Net appreciation (realized and unrealized)	-	226,057	-	226,057
Total investment return	-	270,636	-	270,636
Appropriation of endowment assets for expenditure	-	(49,943)	-	(49,943)
Endowment net assets, end of year	\$ -	\$ 1,715,608	\$ 2,088,454	\$ 3,804,062

Description of Amounts Classified as Permanently Restricted Net Assets and Temporarily Restricted Net Assets

Permanently Restricted Net Assets

	<u>June 30,</u>	
	<u>2014</u>	<u>2013</u>
The portion of perpetual endowment funds that is required to be retained permanently either by explicit donor stipulation or by UPMIFA	\$ 2,088,454	\$ 2,088,454
Total endowment funds classified as permanently restricted net assets	\$ 2,088,454	\$ 2,088,454

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 9. ENDOWMENTS (Continued)

Temporarily Restricted Net Assets

	June 30,	
	2014	2013
The portion of perpetual endowment funds subject to a time restriction under UPMIFA with purpose restrictions	\$ 2,121,198	\$ 1,715,608
Total endowment funds classified as temporarily restricted net assets	\$ 2,121,198	\$ 1,715,608

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Organization to retain as a fund for perpetual duration. In accordance with GAAP, deficiencies of this nature are reported in unrestricted net assets. There were no such deficiencies as of June 30, 2014 and 2013.

Return Objective and Risk Parameters

The Organization has adopted investment and spending policies for which endowment funds shall be invested in a manner and in such investments, which, in the opinion of the Finance and Investment Committee (the "Committee"), as are most likely to produce an annual return equal to five (5%) percent of the endowment fund value, plus an amount equal to the annualized rate of inflation or Consumer Price Index according to the Bureau of Labor Statistics of the United States of America, averaged over a 4 year period subject to economic conditions as measured by and compared to (equities, the S & P 500 Comp Index and fixed income investments, Lehman Brothers intermediate term index).

Strategies Employed for Achieving Objectives

The Committee understands that investment returns are volatile. It believes that by using alternative asset classes, a total portfolio can be created by which yields adequate returns with reduced volatility. The design of such a portfolio is best achieved by combining academic theory, historical experience and informed market judgment.

The Committee will review, on a periodic basis, asset allocation mixes as recommended by the Endowment Advisory Council or any approved portfolio or investment advisor.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 10. RELATED PARTY TRANSACTIONS

The Organization is reimbursed by Annandale Apartments, Inc., a related party, related by a common board of directors, for operating expenses paid on Annandale Apartments, Inc.'s behalf and an administration fee. The fees were \$6,158 for each of the years ended June 30, 2014 and 2013. Receivables due from Annandale Apartments, Inc. were \$16,885 and \$22,632 as of June 30, 2014 and 2013, respectively.

NOTE 11. SIMPLE IRA PLAN

The Organization sponsors a simple IRA retirement plan covering substantially all employees. Under the plan, the Organization matches 100% of the participant's deferral, up to the first 3% of wages deferred by the participant. The Organization's expense related to the plan was \$66,990 and \$61,301 for the years ended June 30, 2014 and 2013, respectively.

NOTE 12. DEFERRED COMPENSATION AGREEMENTS

On September 1, 2013, the Organization entered into deferred compensation agreements with the Chief Executive Officer and the Chief Financial Officer. For each calendar year beginning January 1, 2013 and ending December 31, 2022, the Organization will make an annual contribution provided the Participant has been employed during the entire calendar year. No expense related to the agreements was incurred for the year ended June 30, 2014.

NOTE 13. SUBSEQUENT EVENTS

Subsequent events have been evaluated by management through December 3, 2014, the date which the consolidated financial statements were available to be issued.

SUPPLEMENTARY INFORMATION

ANNANDALE AT SUWANEE, INC. AND AFFILIATE

CONSOLIDATED SCHEDULES OF OPERATING EXPENSES YEARS ENDED JUNE 30, 2014 AND 2013

	2014	2013
Advertising	\$ 22,440	\$ 11,966
Bad debt	20,496	35,654
Bank service charges	5,203	4,236
Casual labor	110,756	60,567
Computer hardware and software	11,855	1,204
Computer processing service	28,865	20,041
Consultants	87,987	107,304
Depreciation	577,242	510,570
Donations	1,520	535
Dues and subscriptions	30,926	20,415
Endowment development	43,010	39,207
Food purchases	274,131	257,342
Gasoline	23,850	24,051
HVAC	16,993	13,786
Inspection and testing	12,748	8,532
Insurance	399,280	360,835
Interest	-	152
Meetings and shows	2,641	4,427
Miscellaneous	7,841	10,546
Personnel costs	7,891	15,289
Professional fees	57,114	43,096
Recruitment	47,581	59,355
Repairs and maintenance:		
Auto	10,802	10,015
Building	49,291	42,013
Equipment	39,789	34,015
Landscaping	45,246	41,754
Retirement plan	66,990	61,301
Salaries	3,947,326	3,379,545
Security service	4,000	4,000
Special events	128,796	95,909
Supplies:		
Arts and crafts	1,797	2,962
Farm	4,106	5,680
Janitorial	97,205	89,951
Kitchen	22,360	18,888
Miscellaneous	35,287	7,034
Medical	76,853	55,063
Office	34,773	30,423
Workshop	2,207	333
Taxes and licenses	5,381	30,285
Therapies	186,659	35,442
Travel	9,163	6,558
Utilities	343,950	332,521
Web design	7,778	1,619
	\$ 6,910,129	\$ 5,894,421

ANNANDALE AT SUWANEЕ, INC. AND AFFILIATE

CONSOLIDATING STATEMENT OF FINANCIAL POSITION JUNE 30, 2014

ASSETS	Annandale at Suwanee, Inc.	The Annandale Foundation, Inc.	Total
Current assets:			
Cash and cash equivalents - unrestricted	\$ 653,397	\$ 343,519	\$ 996,916
Cash and cash equivalents - temporarily restricted	911,230	-	911,230
Investments - unrestricted	-	4,442,839	4,442,839
Endowment investments - temporarily restricted	-	2,121,198	2,121,198
Fees and patient accounts receivable, net	429,400	-	429,400
Pledges receivable - temporarily restricted	121,782	-	121,782
Prepaid expenses and other assets	46,028	-	46,028
Total current assets	2,161,837	6,907,556	9,069,393
Noncurrent assets:			
Cash, residents	261,407	-	261,407
Property and equipment, net	8,416,475	-	8,416,475
Endowment investments - permanently restricted	-	2,088,454	2,088,454
Total noncurrent assets	8,677,882	2,088,454	10,766,336
Total assets	\$ 10,839,719	\$ 8,996,010	\$ 19,835,729
LIABILITIES AND NET ASSETS			
Current liabilities:			
Accounts payable and accrued expenses	\$ 362,126	\$ 85	\$ 362,211
Unearned fees	242,073	-	242,073
Total current liabilities	604,199	85	604,284
Noncurrent liabilities:			
Accounts payable, residents	77,107	-	77,107
Security deposits, residents	182,604	-	182,604
Total noncurrent liabilities	259,711	-	259,711
Total liabilities	863,910	85	863,995
NET ASSETS			
Unrestricted	8,942,797	4,786,273	13,729,070
Temporarily restricted	1,033,012	2,121,198	3,154,210
Permanently restricted	-	2,088,454	2,088,454
Total net assets	9,975,809	8,995,925	18,971,734
Total liabilities and net assets	\$ 10,839,719	\$ 8,996,010	\$ 19,835,729

ANNANDALE AT SUWANEE, INC. AND AFFILIATE
CONSOLIDATING STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2014

	ANNANDALE AT SUWANEE, INC.			THE ANNANDALE FOUNDATION, INC.			ELIMINATIONS			CONSOLIDATED			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Unrestricted	Temporarily Restricted	Permanently Restricted	Unrestricted	Temporarily Restricted	Permanently Restricted	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES AND OTHER SUPPORT													
Fees and net patient service revenue	\$ 5,893,314	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 5,893,314	\$ -	\$ -	\$ 5,893,314
Contributions	426,475	896,384	-	7,045	-	-	(257,782)	-	-	175,738	896,384	-	1,072,122
Special events	204,453	-	-	-	-	-	-	-	-	204,453	-	-	204,453
Net realized and unrealized gains on investments	-	-	-	748,945	412,467	-	-	-	-	748,945	412,467	-	1,162,412
Donated materials and services	6,811	-	-	-	-	-	-	-	-	6,811	-	-	6,811
Interest income	2,091	-	-	44	-	-	-	-	-	2,135	-	-	2,135
Dividend income	-	-	-	124,305	46,710	-	-	-	-	124,305	46,710	-	171,015
Gain on disposal of property and equipment	5,810	-	-	-	-	-	-	-	-	5,810	-	-	5,810
Total revenues	6,538,957	896,384	-	881,339	459,177	-	(257,782)	-	-	7,162,914	1,355,561	-	8,518,075
Net assets released from restrictions:													
Satisfaction of program restrictions	519,830	(519,830)	-	58,587	(63,587)	-	-	-	-	573,417	(573,417)	-	-
Total revenues and other support	7,058,787	376,554	-	934,926	405,590	-	(257,782)	-	-	7,735,931	782,144	-	8,518,075
EXPENSES													
Programs	5,698,839	-	-	257,782	-	-	(257,782)	-	-	5,698,839	-	-	5,698,839
General and administrative	1,035,399	-	-	48,915	-	-	-	-	-	1,084,314	-	-	1,084,314
Fundraising	105,480	-	-	-	-	-	-	-	-	105,480	-	-	105,480
Bad debt expense	20,496	-	-	-	-	-	-	-	-	20,496	-	-	20,496
Total expenses	6,860,214	-	-	307,697	-	-	(257,782)	-	-	6,910,129	-	-	6,910,129
CHANGE IN NET ASSETS	198,573	376,554	-	627,229	405,590	-	-	-	-	825,802	782,144	-	1,607,946
NET ASSETS, BEGINNING	8,744,224	656,488	-	4,159,044	1,715,608	2,088,454	-	-	-	12,903,288	2,372,066	2,088,454	17,363,788
NET ASSETS, ENDING	8,942,797	1,033,012	-	4,786,273	2,121,198	2,088,454	-	-	-	13,729,070	3,154,210	2,088,454	18,971,734