The Army Residence Community
San Antonio

October 17, 2014

Dear Investors,

I am reporting on the Audited Fiscal Year (FY) 2014 financial statements. I am going to include in my analysis of the ratios some results and observations. In review of FY 2014, the most important things I see from the financial statements are: 1) Army Residence Community (ARC) grew unrestricted cash and investments from all sources by $8,762,332 during the 12 month reported period; 2) New Resident occupied all 28 cottages built during the recent Phase II expansion. and 3) overall campus occupancy continues to recover, reflecting growth in independent living (IL).

I have changed the presentation of the Consolidated Statements of Activities and Changes in Net Assets (Income Statement) to reflect unrealized and realized gains on investments outside of operating earnings.

1) Operating Ratio (110.5): Calculation of the operating ratio looks at only monthly and daily cash generation (monthly bills) paid by residents without regard to cash entrance fees received from new contracts and contributions. Operating Ratio (operating expenses to operating revenues) decreased (positive) from 118.5 (Audited FY 2013) to 110.5(Audited FY 2014), reflecting the growth of revenues while controlling operating costs.

   Daily Cash operating revenues from rents and services grew from $20,596,067 ($56,428/day) in the audited FY 2013 to $22,786,581 ($62,429/day, a 10.6% increase) during FY 2014.

   Daily operating expenses calculated in the day's cash on hand ratio (paragraph 3) below continues to be stable at $73,583 from $70,579 per day reported in FY 2013 (increase of 4.2%). The 3rd and 4th quarter's saw large increases to personnel cost due to a 3% across the board payroll increase.

2) Debt Service Coverage (DSC) Ratio (2.4 times): ARC is now measured using the 2012 max annual debt service (MADS) of $6,274,715. ARC achieves coverage on this ratio through unrestricted cash generated from entrance fees given when residents enter into a life care contract. ARC uses these funds for debt service (interest expense and principal due) first and routine capital projects second.

   ARC's DSC ratio is figured as follows:

Inc. /(Dec) in Net assets from operations	$ (2,727,530)
Add back depreciation & Amortization	5,0 75,210
Add back interest expense	4,926,449
Less deferred entrance fees	(4,898,788)
Net Entrance Fee received	12,663,363
Net Cash Available for Debt Service	$ 15,038,704

   $15,038,704/ (6,274,715) = 2.4 times 2012 MADS

3) Days Cash on Hand ratio (553 days): The ARC saw unrestricted cash and investments grow during the FY 2014. by $8,762,332. The growth can be attributed to realized/unrealized investment gains, dividends and interest income of $5,035,416 and net cash entrance fees received of $12,663,363. ARC also has spent over $4 million of

capital expenditure designed to keep the current inventory of cottages and apartments looking new. This is vital to occupancy and the long-term health of ARC.

4) Community Occupancy: ARC's financial engine can be broken down into two main variables: Operating Margin (presented as the operating ratio above) and occupancy. The tables below show the gains we have made as of the end of the FY 2014. The occupancy strain we have felt was caused by internal moves from legacy IL to new AL inside the overall community and more recently from the internal moves in June of 6 IL residents from the legacy cottages to the new (higher margin) expansion cottages. ARC has also seen its turnover rate grow from an average of 3.75/months (FY 2013) to 5 per month. This has been a positive for cash generations but places pressure on sales to keep up with the turnover (turnover increase due to resident termination of contracts from death, ARC experiences little if any voluntary moves). As of July 31st 2014, ARC had 421 (94.8%) of its available IL units occupied. and all 24 of the next cottage expansion sold.

	12/31/2012	03/31/2013	06/30/2014
a) Independent Living			
Units Available	417	417	444
Units Occupied	374	381	419
Percentage	89.7%	91.4%	94.4%
b) Assisted Living Rooms			
Rooms Available	30	30	30
Room Occupied	29	30	30
Percentage	96.7%	100%	100%
c) Assisted Living Apartments			
Apartments Available	45	46	47
Apartments Occupied	39	40	43
Percentage	86.7%	86.9%	91.5%
(5 rooms have double occupancy and are charged a higher rate)			
d) Healthcare (HCC) Rooms (Licensed)			
HCC Rooms Available	91	91	91
HCC Rooms Occupied	54	58	59
HCC Private (both sides paid for)	75	77	82
Percentage Occupied	59.3%	63.7%	64.8%
Percentage Paid for	82.4%	84.6%	90.1%
e) All levels of Care			
Units & Beds Available	583	584	612
Units and Beds occupied	498	509	551
Units and Beds paid for	519	528	574
Percentage Occupied	85.4%	87.2%	90.0%
Percentage paid for	89.0%	90.4%	93.8%

5) Payor Mix: This section highlights the different payor types and demonstrates the fact that ARC's financial stability is not contingent on federal payments in Medicare or Medicaid, nor contributions or investments. ARC makes its living serving retired military officers and their spouses through private life care contracts. I will remind all that ARC market niche is career (minimum service of 20 years) military officers with federal pensions and healthcare benefits for life. These pensions adjust annually with the cost of living calculated for social security. Just about all residents had second careers after their military service.

	FY 2013	FY 2014	% change
Medicaid	$ -0-	$ -0-	
Medicare	1,668,488	1,500,977	(10.0%)
Private Pay	23,101,251	26,184,392	13.3%
Insurance	-0-	-0-	
Contributions and Investments	1,112,708	1,480,147	33.0%
Assets released from restriction	31,794	39.881	24.9%
Total Operating Revenues	$ 25,914,241	$ 29,205,397	12.7%

6) Marketing sales data: Numbers_presented below reflects the validity of the ARC future mission and cash flows from new contracts for services. We have generated 75 new priority numbers in FY 2014. These future residents equal 23% of the total 325 priority number holders who previously paid either $1,500/couple or $1,000/single to ARC for the privilege of being considered for retirement living at some future date. The 75 new members reflect continued growth in an amount excess of the 60 legacy units ARC turned over during the same period of time. Legacy unit turnover reflects a turnover rate of 15.5% on 387 legacy IL units. The resale of these units generated - $$9,288,300 respectively, for existing units resold. ARC received approximately $4,297,300 on 17 new unit 1st time sales in FY 2014. All three measures above (new priority numbers received, 100% new unit sells and higher trending of existing unit occupancy) speaks well of the future and continued mission of ARC.

Deposits and down payments	
New priority numbers	75
Refunded deposits	33
New down payments	89
Refunded down payments	3
Existing units sold	
1st Time New Unit sales	17
2nd Time New Unit Sales	60
Refunded Entrance Fees	10

7) ARC has embarked on it final phase of IL expansion. When ARC built the last 28 cottage expansion it invested $2.5 million in infrastructure for a future 24 cottage expansion.. The ARC has presold all 24 cottages plots (taken a 10% down payment). This expansion unlike past expansions will not include the issuance of debt. Rather ARC has taken the funds (entrance fees) from the previous expansions and invested the same back into ARC. This investment in the ARC mission reflects not only a great return on investment, but also a commitment to providing retired officers the finest retirement living in our most profitable product.

The total cost of next 24 units will be $11.5 million. We expect to receive $6 million in entrance fees from the sale starting in May of 2015. As mentioned above, ARC will be financing the expansion using unrestricted cash and investments generated from unit sales in past expansions (NO NEW DEBT).

If ARC takes the net $5.5 million of cash used out of the calculation of Days cash on hand from 524 (shown above) it will take down day's cash on hand to 444 (still robust). ARC wants to trade some liquidity to increase operational profit while making a profit greater than its investment return.

I hope this letter provides you the insight on what is happening at the Army Residence Community.

Sincerely,

Bruce W. Chittenden
Director of Finance

The Army Residence Community and Affiliates

Financial Statements
Years Ended June 30, 2014 and 2013

The Army Residence Community and Affiliates

Financial Statements
Years Ended June 30, 2014 and 2013

The Army Residence Community and Affiliates

Contents

BDO

Tel: 210-342-8000
Fax: 210-342-0866
www.bdo.com

9901 IH-10, Suite 500
San Antonio, TX 78230

Independent Auditor's Report

Board of Directors
The Army Residence Community and Affiliates
San Antonio, Texas

We have audited the accompanying consolidated financial statements of The Army Residence Community and Affiliates, which comprise the consolidated Statements of Financial Position as of June 30, 2014 and 2013, the related consolidated Statements of Activities and Changes in Net Assets, 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 consolidated 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 audits 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 The Army Residence Community and Affiliates as of June 30, 2014 and 2013, and the results of their operations and cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

BDO USA, LLP

October 13, 2014

Consolidated Financial Statements

The Army Residence Community and Affiliates

Consolidated Statements of Financial Position

June 30,		2014		2013
Assets				
Current Assets				
Cash and cash equivalents	$	4,159,115	$	8,933,857
Accounts receivable, net of allowance for doubtful accounts of $46,350 in 2014 and $143,757 in 2013		646,291		650,980
Prepaid expenses and other current assets		470,331		562,056
Assets whose use is limited and required for current liabilities		3,176,984		3,150,906
Total Current Assets		8,452,721		13,297,799
Noncurrent Assets Whose Use is Limited				
Cash and cash equivalents		4,879,832		7,565,327
Investments, at fair value		7,507,322		7,161,854
		12,387,154		14,727,181
Less: Portion required for current liabilities		(3,176,984)		(3,150,906)
Total Noncurrent Assets Whose Use is Limited		9,210,170		11,576,275
Investments, at fair value		36,555,237		22,998,163
Bond issue costs, net of accumulated amortization		2,523,313		2,610,230
Property, plant, and equipment, net		99,022,790		98,918,350
Total Assets	$	155,764,231	$	149,400,817

The accompanying notes are an integral part of these consolidated financial statments.

The Army Residence Community and Affiliates

Consolidated Statements of Financial Position (Continued)

June 30,		2014		2013
Liabilities and Net Assets				
Current Liabilities				
Accounts payable and other liabilities	**$**	**1,128,108**	$	1,507,895
Retainage payable		**14,871**		1,187,183
Accrued payroll and related items		**1,221,093**		1,069,764
Accrued interest expense		**2,251,984**		2,270,906
Current portion of long-term debt		**925,000**		880,000
Total Current Liabilities		**5,541,056**		6,915,748
Deferred compensation		**290,035**		279,110
Long-term debt, less current portion		**91,714,869**		92,676,979
Unearned deposits and down payments		**1,013,254**		1,138,536
Refundable entrance fees		**2,917,070**		3,107,795
Deferred entrance fees subject to refund period		**18,831,762**		15,002,799
Deferred entrance fees - non refundable		**26,402,606**		22,150,987
Total Liabilities		**146,710,652**		141,271,954
Net Assets				
Unrestricted:				
Designated		**2,821,252**		2,409,632
Undesignated		**5,019,012**		4,534,285
Total unrestricted net assets		**7,840,264**		6,943,917
Temporarily restricted		**1,213,315**		1,184,946
Total Net Assets		**9,053,579**		8,128,863
Total Liabilities and Net Assets	**$**	**155,764,231**	$	149,400,817

The accompanying notes are an integral part of these consolidated financial statments.

The Army Residence Community and Affiliates

Consolidated Statements of Activities and Changes in Net Assets

Years ended June 30,	2014	2013
Unrestricted Net Assets		
Revenue and Gains		
Earned entrance fees	$ 4,898,788	$ 4,173,672
Monthly Service Fees:		
Residence center	12,244,482	10,781,477
Health care center	7,199,260	6,808,878
Dining services	3,045,453	2,714,253
Contributions	68,608	102,062
Investment income	1,411,539	1,010,646
Other income	297,386	291,459
Net assets released from restriction	39,881	31,794
Total Revenue and Gains	29,205,397	25,914,241
Operating Expenses		
Residence center	8,598,595	8,233,802
Heath care center	5,083,767	5,076,389
Dining services	6,074,339	5,867,608
General and administrative	2,174,567	2,164,998
Depreciation and amortization	4,928,878	4,242,249
Interest expense and bond fees	4,926,449	4,418,395
Amortization of bond issuance costs	146,332	110,609
Total Operating Expenses	31,932,927	30,114,050
Total Operating (Losses)	(2,727,530)	(4,199,809)
Realized gain on investments	1,031,861	1,331,011
Unrealized gain on investments	2,592,016	513,554
Realized (loss) on sale of basis swap contract	-	(34,545)
Increase (Decrease) in Unrestricted Net Assets	896,347	(2,389,789)
Temporarily Restricted Net Assets		
Investment income	68,250	47,276
Net assets released from restriction	(39,881)	(31,794)
Increase in Temporarily Restricted Net Assets	28,369	15,482
Increase (Decrease) in Net Assets	924,716	(2,374,307)
Net Assets, beginning of year	8,128,863	10,503,170
Net Assets, end of year	$ 9,053,579	$ 8,128,863

The accompanying notes are an integral part of these consolidated financial statments.

The Army Residence Community and Affiliates

Consolidated Statements of Cash Flows

Years ended June 30,		2014		2013
Operating Activities				
Change in net assets	$	**924,716**	$	(2,374,307)
Adjustments to Reconcile Change in Net Assets to Net Cash (Used in) Operating Activities:				
Amortization of entrance fees		**(4,898,788)**		(4,173,672)
Net realized investment gains		**(1,031,861)**		(1,004,510)
Net unrealized investment gains		**(2,660,266)**		(560,803)
Realized loss on basis swap contracts		**-**		34,545
Depreciation and amortization		**4,928,878**		4,242,249
Bond premium amortization		**(37,111)**		(41,384)
Amortization of bond issuance cost		**146,332**		110,609
Changes in:				
Accounts receivable, net		**4,689**		(96,885)
Contributions receivable		**-**		353,209
Prepaid expenses and other current assets		**91,725**		194,757
Accounts payable and other liabilities		**(379,787)**		774,434
Accrued payroll and related items		**151,329**		257,855
Accrued interest expenses		**(18,922)**		34,165
Deferred compensation		**10,925**		41,688
Net cash (used in) operating activities		**(2,768,141)**		(2,208,050)
Investing Activities				
Purchase of investments		**(31,797,996)**		(17,080,728)
Sales and maturities of investments		**21,587,581**		22,976,984
Proceeds from sales of basis swap contract		**-**		326,501
Purchases of property, plant and equipment		**(6,205,630)**		(15,734,737)
Net cash (used in) investing activities	$	**(16,416,045)**	$	(9,511,980)

The accompanying notes are an integral part of these consolidated financial statments.

The Army Residence Community and Affiliates

Consolidated Statements of Cash Flows

Years ended June 30,		2014		2013
Financing Activities				
Proceeds from long-term debt issuance	$	-	$	15,648,640
Proceeds from entrance fees, unearned deposits, and down payments		13,860,089		9,250,540
Refunds of entrance fees, unearned deposits, and down payments		(1,196,726)		(929,560)
Long-term debt issuance costs		(59,414)		(1,121,052)
Principal payments on long-term debt		(880,000)		(510,000)
Net Cash Provided by Financing Activities		11,723,949		22,338,568
Increase (Decrease) in Cash and Cash Equivalents		(7,460,237)		10,618,538
Cash and Cash Equivalents, beginning of year		16,499,184		5,880,646
Cash and Cash Equivalents, end of year	$	9,038,947	$	16,499,184
Supplemental Disclosure of Cash Flow Information				
Cash payments for interest	$	4,899,075	$	4,647,752
Unearned deposits and down payments transferred to deferred entrance fees	$	1,295,290	$	831,890

The accompanying notes are an integral part of these consolidated financial statments.

1. Summary of Significant Accounting Policies

The Army Retirement Residence Foundation - San Antonio was incorporated in the District of Columbia in July 1982, dba The Army Residence Community (ARC), to provide housing and services for retired military officers and their spouses (residents). ARC is located on 130-plus acres in northeast San Antonio, Texas, and is comprised of 444 independent living cottages and apartments, 78 assisted-living rooms, and a 91-bed skilled nursing facility. South Texas Army Residence Beverages (STARB), a wholly owned subsidiary of ARC, was incorporated in the state of Texas in 1998. STARB was formed to provide beer and wine services to ARC. The Army Retirement Residence Supporting Foundation (ARRSF), an affiliate of ARC, was formed in the state of Texas in 2004. ARRSF was formed to hold and manage the capital assets and related debt.

Residents enter into a life care contract and pay an entrance fee. Residents are also required to pay monthly maintenance fees and, together with the payment of entrance fees, are entitled to a lifetime of certain services and use of the facilities.

Federal Income Taxes

ARC, STARB, and ARRSF are not-for-profit corporations as described in Section 501(c)(3) of the Internal Revenue Code (the Code), and are exempt from federal income taxes pursuant to Section 501(a) of the Code. Under current accounting standards, an organization must recognize the tax benefit associated with tax positions taken for tax return purposes when it is more-likely-than-not that the position will be sustained. ARC's management believes it has no material uncertain tax positions and, accordingly, it will not recognize any related liability. For the year ended June 30, 2014 and 2013, ARC did not recognize any tax related interest or penalties.

Tax years 2013-2011 remain open to examination by the taxing jurisdictions to which ARC is subject, and these periods have not been extended beyond the applicable statute of limitations.

Consolidation Policy

The consolidated financial statements include the accounts of ARC, subsidiary STARB, and affiliate ARRSF. ARC leases facilities from ARRSF in a self-renewing lease arrangement. The inter-company lease payments are eliminated in the consolidation and are subordinate to the bonds described in Note 8. Additionally, all other significant inter-company accounts and transactions are eliminated in consolidation. Collectively, these entities are referred to as the Foundation.

1. Summary of Significant Accounting Policies (Continued)

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) 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 financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. The amortization of entrance fees, allowance for doubtful accounts, and estimates of the obligation to provide future services represent significant estimates made in the preparation of the consolidated financial statements.

Cash and Cash Equivalents

Cash and cash equivalents include currency on hand, demand deposits, and certificates of deposit with original maturities of three months or less.

Resident Accounts Receivable and Revenue Recognition

Residents are obligated to pay monthly service fees. Such fees are recognized as revenue on the accrual basis. Health care fees are recognized as revenue on the accrual basis on actual usage, and are billed at standard daily billing rates. Resident accounts receivable are considered past due on the first business day of the month following invoicing. The majority of the receivables outstanding as of June 30, 2014 and 2013 are due from Medicare and private pay residents temporarily occupying the healthcare center. Deferred entrance fees, non-refundable are amortized into income over the expected life of the resident, matching revenue with expense obligations over the life of the contract holder.

Allowance for Doubtful Accounts

The allowance for doubtful accounts is established as losses are estimated to have occurred through a provision for bad debts charged to earnings. Losses are charged against the allowance when management believes the uncollectibility of a receivable is confirmed. Subsequent recoveries, if any, are credited to the allowance. The allowance for doubtful accounts is evaluated on a regular basis by management and is based on historical experience and specifically identified questionable receivables. The evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available. At June 30, 2014 and 2013, an allowance for doubtful accounts relating to Medicare receivables of $46,350 and $143,757, respectively, was recorded.

1. Summary of Significant Accounting Policies (Continued)

Investments

Investments are included on the accompanying Consolidated Statements of Financial Position in "Investments" and "Assets Whose Use is Limited." Investments consist of commercial paper, equities, government-backed securities, certificates of deposit with maturities greater than three months, and derivative financial instruments.

Investments in equity securities with readily determinable fair values, and all investments in debt securities, are reported at fair value based on quoted market prices, with gains and losses included in the Consolidated Statements of Activities and Changes in Net Assets.

Investments in derivative financial instruments are reported at fair value based on broker calculated values, with unrealized gains and losses included in the Consolidated Statements of Activities and Changes in Net Assets. Net settlement proceeds or payments are included as income (loss) on investments in the Consolidated Statements of Activities. All investments in derivative financial instruments were disposed of during the 2013 fiscal year.

Investment income and realized and unrealized gains and losses from investment transactions are initially recorded as unrestricted, temporarily restricted, or permanently restricted, based on donor-imposed restrictions, if any.

Assets Whose Use is Limited or Restricted

Assets designated by the Foundation's Board of Directors (the Board), are restricted as to use by third-party donors, or are limited by use under the terms of the bond trust, are classified as assets whose use is limited.

Capitalization of Interest

Interest on Bond Funds payable during the construction period, net of earnings on those proceeds, is capitalized; all other interest is expensed as incurred. Total interest paid during the years ended June 30, 2014 and 2013 was $5,037,847 and $4,647,752, respectively. Of these amounts, $91,250 and $187,020, was capitalized into construction in progress at June 30, 2014 and 2013, respectively.

1. Summary of Significant Accounting Policies (Continued)

Bond Issuance Costs

Bond issuance costs are amortized over the term of the related financing agreements on the effective interest rate method.

Property, Plant, and Equipment

Property, plant, and equipment are stated at cost. Depreciation is computed using the straight-line method based upon the estimated useful lives of the assets. The estimated life of buildings and improvements is 40 years, and the estimated useful life of furniture, fixtures, and equipment is between 5 and 10 years. Expenditures for maintenance and repairs are charged to costs and expensed as incurred, while expenditures for renewal and betterments are capitalized. Upon retirement or replacement, the cost of capitalized assets, and the related accumulated depreciation, is eliminated with the resulting gain or loss recognized.

Unearned Down Payment

Initially, prospective residents remit a down payment equal to 10% of the entrance fee for the selected living unit. Down payments on entrance fees are fully refundable, less a small administrative fee, upon written request by the prospective resident.

Unearned Deposits

Amounts are paid by prospective residents in order to reserve a place on the waiting list for available units and/or to reserve a specific living unit. Unearned deposits are fully refundable upon written request by the prospective resident.

Refundable and Deferred Entrance Fees

The Foundation offers three Entrance Fee Programs: Plan 95, Plan 50 and Plan 0. As of June 30, 2014 and 2013, approximately 95% and 94%, respectively, were Plan 0 contracts. Plan 95 and Plan 50 are designed to provide a permanent refund to the resident of a portion of the entrance fee paid. Under all three plans, 95% of the entrance fee is refunded if the resident passes away or leaves the Foundation within the first 5 months of move-in.

Under Plan 95, there is no further decrease in the amount to be refunded to the resident after the initial 5%, creating a permanent refundable liability of 95% of the entrance fee. The remaining 5% is amortized into deferred entrance fees, non-refundable.

Under Plan 50, a resident receives a refund of the entrance fee, less 5%, during the 5-month introductory period, which further decreases 1.5% per month for the next 30 consecutive months, creating a permanent refundable liability of 50% of the original entrance fee. The remaining entrance fee amortizes into deferred entrance fees, non-refundable.

1. Summary of Significant Accounting Policies (Continued)

Refundable and Deferred Entrance Fees (continued)

Plan 0 allows no refund to the resident in the event of death after the 5-month introductory period, the refund liability of the original entrance fee is decreased by 2.5% for the next 38 months. The entire entrance fee amortizes into deferred entrance fees, non-refundable.

Deferred entrance fees, non-refundable are amortized into income over the expected life of the resident, matching revenue with expense obligations over the life of the contract holder.

Net Assets

The Foundation reports information regarding its Consolidated Statements of Financial Position and Consolidated Statements of Activities and Changes in Net Assets according to three classes of net assets (unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets) based upon the existence or absence of donor-imposed restrictions.

Restricted and Unrestricted Revenue and Support

The Foundation recognizes contributions received as revenue the earlier of the year the unconditional promise to give, or the contribution is received. Trusts, gift annuities, or pooled income gifts are recognized as revenue in the year established. Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence or nature of any donor restrictions.

Revenue is reported as an increase in unrestricted net assets unless the use of the assets received is limited by donor-imposed restrictions. Restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statements of Activities as net assets released from restrictions.

Commitments and Contingencies

Liabilities for loss contingencies arising from claims, assessments, litigation, and other sources are recorded when it is probable that a liability has been incurred and the amount of the assessment can be reasonably estimated.

1. Summary of Significant Accounting Policies (Continued)

Obligation to Provide Future Services

The obligation to provide future services and facilities is calculated by estimating the present value of future net cash flows, excluding capital expenditures, plus the depreciation of facilities to be charged over the life of the current residents, plus the unamortized cost of acquiring initial contracts. That obligation is compared to the unamortized deferred entrance fees to determine whether an additional liability should be recognized. Based on the Foundation's calculations as of June 30, 2014 and 2013, no significant additional liability was necessary.

Fair Value of Financial Instruments

Unless otherwise specified, we believe the carrying value of financial instruments approximates their fair value.

Reclassifications

Certain reclassifications have been made to the financial statement presentation to conform the prior year presentations to the current year's format. Net assets and changes in net assets are unchanged due to these reclassifictions.

2. Interest Rate Basis Swap

Effective May 1, 2008, the Foundation entered into a 30-year interest rate basis swap contract with an investment bank. Under the terms of the basis swap contract, the Foundation pays the SIFMA municipal swap index and the Foundation receives 68% of 1-month LIBOR, plus 0.515%.

During June 2010, the Foundation entered into a second interest rate basis swap contract with an investment bank that is for a term of 10 years, effective July 1, 2010. Under the terms of the basis swap contract, the Foundation pays the SIFMA municipal swap index and the Foundation receives 68% of 1-month LIBOR, plus 0.5075%.

Interest rate basis swaps of this nature are not considered hedging instruments but rather speculative investment instruments. This is due to the swap containing two variable components, the SIFMA municipal index and the 1-month LIBOR rate. When the LIBOR driven variable is greater than the SIFMA driven variable, the basis swap is "in-the-money"; inversely, when the LIBOR-driven variable is less than the SIFMA-driven variable, the basis swap is "out-of-the-money". The risk of this type of basis swap is solely associated with the spread between the SIFMA and LIBOR variable rates.

The interest rate basis swaps were disposed of in 2013. The disposal resulted in a realized loss of $34,545 which is included in the Statement of Activities and Changes in Net Assets for the year ended June 30, 2013.

3. Investments

The carrying amounts of investments and their fair values consisted of the following at June 30:

	Fair Value 2014	Fair Value 2013
Common stocks	$ 16,439,268	$ 10,658,180
Mutual funds	5,949,300	3,972,034
United States government and federal agency obligations	13,973,874	7,513,530
Municipal bonds	1,563,246	1,996,071
Corporate bonds	5,601,922	6,020,202
Foreign bonds	313,393	-
Partnerships	221,556	-
	$ 44,062,559	$ 30,160,017

Investments are classified on the Consolidated Statements of Financial Position as follows at June 30:

	Fair Value 2014	Fair Value 2013
Investments whose use is not limited	$ 36,555,237	$ 22,998,163
Investments whose use is limited	7,507,322	7,161,854
Total Investments	$ 44,062,559	$ 30,160,017

At June 30, investment income consisted of:

	2014	2013
Unrestricted Net Assets:		
Interest and dividends received (less capitalized interest of $91,250 and $187,020 in 2014 and 2013, respectively, see Note 1)	$ 1,411,539	$ 1,010,646
Realized gain (loss) on sales of investments	1,031,861	1,148,428
Unrealized gain (loss) on investments	2,592,016	513,554
Realized Interest rate basis swap earnings	-	182,583
Total Unrestricted Net Assets	5,035,416	2,855,211
Temporarily Restricted Net Assets:		
Investment income	$ 18,053	$ 14,679
Realized gain (loss) on sales of investments	16,014	19,006
Unrealized gain (loss) on investments	34,183	13,591
Temporarily Restricted Net Assets	$ 68,250	$ 47,276

4. Assets Whose Use is Limited

Cash and investments whose use is limited are summarized as follows at June 30:

	2014	2013
By the Trust Indentures:		
Bond Sinking Fund - 2007 Series	**$ 1,164,418**	$ 2,680,056
Bond Sinking Fund - 2010 Series	**1,965,040**	-
Reserve Fund - 2007 Series	**1,786,064**	1,343,817
Reserve Fund - 2010 Series	**5,174,515**	5,813,528
Capitalized Interest Fund - 2010 Series	**2**	438,228
Bonk Sinking Fund - 2012 A	**110,129**	79,995
Bond Sinking Fund - 2012 B	**65,065**	15,783
Hamlin Fund - 2012 A	**118,560**	3,609
Proceeds Fund - 2012 A	**-**	2,395,241
Reserve Fund - 2012 A	**400,000**	400,000
Reserve Fund - 2012 B	**100,000**	100,000
By Donor:		
Resident Assistance Fund	**700,973**	700,972
Gift Bonus Fund	**167,411**	160,161
Scholarship Fund	**237,215**	228,685
Relief Fund	**13,692**	12,092
Chapel Fund	**94,025**	83,037
Other:		
457(b) Deferred Compensation Plan	**290,045**	271,977
	$ 12,387,154	$ 14,727,181

The Bond Sinking Funds and Reserve Funds were established by the Trust Indentures to set aside funds to retire the debt for the respective bond series. The Capitalized Interest Fund was established by the Trust Indenture (2010 Series) to set aside funds to pay for interest due during the construction period of the 2010 bond issue.

5. Property, Plant, and Equipment

Property, plant, and equipment are summarized as follows, at June 30:

	2014	2013
Land and improvements	**$ 6,634,296**	$ 6,467,250
Buildings and improvements	**128,559,780**	111,668,172
Furniture, fixtures, and equipment	**4,373,966**	4,054,152
Construction in process	**3,561,333**	16,759,382
Other	**171,140**	166,390
	143,300,515	139,115,346
Less: Accumulated depreciation	**(44,,277,725)**	(40,196,996)
Total	**$ 99,022,790**	$ 98,918,350

Depreciation and amortization expense on property, plant and equipment totaled $4,928,878 and $4,242,249 for the years ended June 30, 2014 and 2013, respectively.

6. Bond Issue Costs

Bond issue costs included the following at June 30:

	2014	2013
Financing Origination Fees:		
Series 2007 Revenue Bonds	**$ 412,505**	$ 412,505
Series 2010 Revenue Bonds	**1,478,561**	1,478,561
Series 2012-A Revenue Bonds	**983,114**	983,114
Series 2012-B Revenue Bonds	**197,354**	137,938
Less: Accumulated amortization	**(548,221)**	(401,888)
Total	**$ 2,523,313**	$ 2,610,230

The amortization expense of issuance costs for 2014 and 2013 was $146,332 and $110,609, respectively.

7. Deferred Compensation Payable

The Foundation has a 457(b) deferred compensation plan for select employees in which the Foundation will defer an amount equal to one pay period's salary for each year of service after January 1, 2006. The amounts will be paid to the employee upon termination of employment. As of January 1, 2011, the Foundation elected to discontinue the plan. The Foundation has estimated the deferred compensation payable to these employees as $290,035 and $271,977 at June 30, 2014 and 2013, respectively.

8. Long-Term Debt

Long-term debt consisted of the following:

	2014	2013
Bexar County Health Facilities Development Corporation Refunding Revenue Bonds (Series 2007)	**$ 23,955,000**	$ 24,490,000
Bexar County Health Facilities Development Corporation Revenue Bonds (Series 2010)	**52,655,000**	53,000,000
Bexar County Health Facilities Development Corporation Revenue Bonds (Series 2012-1)	**9,965,000**	9,965,000
Bexar County Health Facilities Development Corporation Revenue Bonds (Series 2012-2)	**5,715,000**	5,715,000
Premium (Series 2007), net of accumulated amortization for 2014 and 2013 of $44,407 and $397,444, respectively	**461,587**	505,994
Discount (Series 2010), net of accumulated amortization for 2014 and 2013 of $20,930 and $15,724, respectively	**(83,176)**	(88,382)
Discount (Series 2012-A), net of accumulated amortization for 2014 and 2013 of $1,993 and $664, respectively	**(17,937)**	(19,266)
Discount (Series 2012-B), net of accumulated amortization for 2014 and 2013 of $826 and $64, respectively	**(10,605)**	(11,367)
Total Long-Term Debt	**92,639,869**	93,556,979
Less: Current portion of long-term debt	**(925,000)**	(880,000)
Long-Term Debt, Less Current Portion	**$ 91,714,869**	$ 92,676,979

8. Long-Term Debt (Continued)

Bexar County Health Facilities Development Corporation Refunding Revenue Bonds (Series 2007)

The Series 2007 bonds were issued under and pursuant to (i) the Constitution and statutes of the state of Texas, including the Texas Health Facilities Development Act, Chapter 221, Texas Health and Safety Code, as amended, in conformity with the provisions, restrictions, and limitations thereof, and (ii) Bond Indenture of Trust and Security Agreement (Trust Indenture) dated as of January 1, 2007.

The Series 2007 bonds were issued at the request of the Foundation in order to:

- Refund the outstanding Bexar County Health Facilities Development Corporation Series 2002 Revenue Bonds issued in a par amount of $21,560,000, and outstanding in the amount of $20,615,000 (the Refunded Bonds);
- Finance a portion of the cost of certain capital projects of the Foundation; and
- Fund certain reserves and pay certain costs of the issuance thereof.

Interest on the Series 2007 bonds is payable semi-annually on each January 1 and July 1. The coupon rate on the bonds is 5.00%, with the yield varying based on premium paid at the original time of commitment to purchase. So long as the Series 2007 bonds are maintained under a book-entry system, payments of the principal, premium and interest on the Series 2007 bonds will be made when due by The Bank of New York Trust Company of Texas, N.A., Dallas, Texas, current trustee, to Deposit Trust Corporation, in accordance with the Trust Indenture.

The stated maturity of the Series 2007 bonds is July 1, 2037. The Series 2007 bonds are subject to optional redemption by the Foundation prior to stated maturity at the call date, July 1, 2017, at par plus accrued interest. Annual maturities of the bond payments under Series 2007 bonds are as follows:

Years ending June 30,	
2015	$ 565,000
2016	590,000
2017	620,000
2018	655,000
2019	685,000
Thereafter	20,840,000
	$ 23,955,000

The effective interest rate on the bonds was 5.00% in 2014 and 2013.

8. Long-Term Debt (Continued)

Bexar County Health Facilities Development Corporation Revenue Bonds (Series 2010)

The Series 2010 bonds were issued under and pursuant to (i) the Constitution and statutes of the state of Texas, including the Texas Health Facilities Development Act, Chapter 221, Texas Health and Safety Code, as amended, in conformity with the provisions, restrictions, and limitations thereof, and (ii) a Bond Indenture of Trust and Security Agreement (Trust Indenture) dated as of February 1, 2010.

The Series 2010 bond proceeds were used by the Foundation to:

- Finance a community expansion of 32 independent-living cottages, 48 assisted-living apartments and a 74,300 square-foot commons area;
- Provide for deposit to the debt service reserve fund;
- Pay a portion of the interest on the Series 2010 Bonds issued to finance the 2010 Project from the date of their delivery to February 11, 2013; and
- Pay certain costs of the issuance thereof.

Interest on the Series 2010 bonds is payable semi-annually on each January 1 and July 1. The coupon rates on the bonds range from 4.25% to 6.20%, with the yield varying based on discount granted at the original time of commitment to purchase. So long as the Series 2010 bonds are maintained under a book-entry system, payments of the principal, premium and interest on the Series 2010 bonds will be made when due by The Bank of New York Trust Company of Texas, N.A., Dallas, Texas, current trustee, to Deposit Trust Corporation, in accordance with the Trust Indenture.

The stated maturity of the Series 2010 bonds is July 1, 2045. The Series 2010 bonds are subject to optional redemption by the Foundation prior to stated maturity at the call date, July 1, 2020, at par plus accrued interest. Annual maturities of the bond payments under Series 2010 bonds are as follows:

Years ending June 30,	
2015	$ 360,000
2016	375,000
2017	390,000
2018	405,000
2019	425,000
Thereafter	50,700,000
	$ 52,655,000

8. Long-Term Debt (Continued)

Bexar County Health Facilities Development Corporation Revenue Bonds (Series 2012 Series 1 & 2)

The Series 2012 Series 1 & 2 bonds were issued under and pursuant to (i) the Constitution and statutes of the state of Texas, including the Texas Health Facilities Development Act, Chapter 221, Texas Health and Safety Code, as amended, in conformity with the provisions, restrictions, and limitations thereof, and (ii) a Bond Indenture of Trust and Security Agreement (Trust Indenture).

The Series 2012 Series 1 & 2 bond proceeds were used by the Foundation to:

- Finance a community expansion of 28 independent-living cottages;
- Provide for deposit to the debt service reserve fund;
- Pay certain costs of the issuance thereof.

Interest on the Series 2012 Series 1 & 2 bonds are payable on the first of each month. The coupon rates on the bonds are variable set at 70% of LIBOR, with a floor LIBOR rate of 1.00% LIBOR and ceiling LIBOR rate of 6.50%, plus an applicable spread set by the Community's credit rating, 2.6% at the current rating of BBB- by the Fitch rating agency. So long as the Series 2012 Series 1 & 2 bonds are maintained under a book-entry system, payments of the principal, premium and interest on the Series 2012 Series 1 & 2 bonds will be made when due by Wells Fargo, current trustee, to Deposit Trust Corporation, in accordance with the Trust Indenture.

The stated maturity of the Series 2012 bonds Series 1 & 2 is July 1, 2042. The Series 2012 Series 1 & 2 bonds are subject to optional redemption by the Foundation prior to stated maturity at the call date, December 13, 2015 and May 13, 2015, respectfully, at par plus accrued interest. Annual maturities of the bond payments under Series 2012 Series 1 & 2 bonds are as follows:

Years ending June 30,	Series 1	Series 2
2015	$ -	$ -
2016	210,000	-
2017	220,000	120,000
2018	225,000	130,000
2019	235,000	135,000
Thereafter	9,075,000	5,330,000
	$ 9,965,000	$ 5,715,000

The terms of the 2007, 2010 and 2012 bond indentures require that the Foundation comply with certain bond covenants. These covenants include a "Coverage Ratio" and the "Liquidity Covenant". As of June 30, 2014, the Foundation was in compliance with the required bond covenants.

8. Long-Term Debt (Continued)

Security for the Bonds

Under the Deeds of Trust, as security for the outstanding secured debt, including the Series 2007 Bonds, the Series 2010 Bonds and the Series 2012 1 & 2 Bonds, ARRSF (the Borrower) has granted to the Bond Trustees liens on certain real property and a security interest in all personal property of the Borrower. The land subject to the deeds of trust includes approximately 130 acres in Bexar County, Texas. The liens created by the deeds of trust are subject to permitted encumbrances and the right of the Borrower and the corporation to obtain a partial release of certain property from the liens of the deeds of trust, and to dispose of assets under certain conditions.

9. Restricted Net Assets

Temporarily restricted net assets consist of the following:

Years ending June 30,	2014	2013
Resident Assistance Fund	$ 700,973	$ 700,973
Gift Bonus Fund	167,411	160,160
Greer Employee Scholarship Fund	237,217	228,685
Employee Relief Fund	13,690	12,091
Chapel Fund	94,024	83,037
Total Temporarily Restricted Net Assets	$ 1,213,315	$ 1,184,946

10. Designated Net Assets

During the year ended June 30, 1998, the Foundation received a contribution of $1,029,796 in cash and debt securities, which the Board has designated for capital improvements. The balance in this account as of June 30, 2014 and 2013 was $1,755,236, and $1,550,437, respectively.

Additionally, amounts have been donated to a Resident Assistance Fund to help offset payments due the ARC by residents in need. Cumulative unrestricted earnings related to these funds have been Board-designated for the same purpose as described above. The balance in this account as of June 30, 2014 and 2013 was $1,066,016 and $859,195, respectively.

11. Retirement Plan

Effective January 1, 2008, the Foundation established a 403(b) retirement plan for its employees based on service and age requirements, with discretionary employer matching contributions in which the employee is fully vested after 6 years. For the years ended June 30, 2014 and June 30, 2013, the Foundation chose not to match contributions.

12. Commitments and Contingencies

Credit Risk

The Foundation maintains cash balances at several financial institutions in San Antonio, Texas. All of a depositor's accounts at an insured depository institution, including all non-interest-bearing transaction accounts, are insured by the Federal Deposit Insurance Corporation (FDIC) up to the standard maximum deposit insurance amount of $250,000 for each deposit insurance ownership category. At various times throughout the year, certain cash balances at the financial institutions exceeded these limits.

13. Fair Value Disclosures

The Financial Accounting Standards Board (FASB) ASC 820 provides the framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs of 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). The three levels of the fair value hierarchy under FASB ASC 820 are described as follows:

Level 1 - Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that ARC 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 or similar 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.

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 used need to maximize the use of observable inputs, and minimize the use of unobservable inputs.

13. Fair Value Disclosures (Continued)

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

> Common stocks, mutual funds, United States government and federal agency obligations, municipal bonds, and corporate bonds are valued at fair value utilizing Level 1 inputs. Common stocks and mutual funds reflect the closing price reported in the active market in which the securities are traded.

The availability of observable market data is monitored to assess the appropriate classification of financial instruments within the fair value hierarchy. Changes in economic conditions or model-based valuation techniques may require the transfer of financial instruments from one fair value level to another. In such instances, the transfer is reported at the beginning of the reporting period. For the years ended June 30, 2014 and 2013, there were no significant transfers in or out of Levels 1, 2, or 3.

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 ARC 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 following tables summarize financial assets and financial liabilities measured at fair value on a recurring basis as of June 30, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value.

13. Fair Value Disclosures (Continued)

June 30, 2014	Quoted Prices In Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3	Total
Common Stocks:				
United States equities	$ 16,439,268	$ -	$ -	$ 16,439,268
Mutual Funds:				
United States equities	2,091,461	-	-	2,091,461
International equities	3,857,840	-	-	3,857,840
Bonds:				
United States government and federal agency - taxable	13,973,874	-	-	13,973,874
Municipal - taxable	1,563,246	-	-	1,563,246
Corporate Bonds	5,601,922	-	-	5,601,922
Foreign Bonds	313,393	-	-	313,393
Partnerships:				
Limited Partnerships	221,556	-	-	221,556
Total	$ 44,062,559	$ -	$ -	$ 44,062,559

June 30, 2013	Quoted Prices In Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3	Total
Common Stocks:				
United States equities	$ 10,322,368	$ -	$ -	$ 10,322,368
International equities	258,397	-	-	258,397
Real Estate Equities	77,416	-	-	77,416
		-	-	
Mutual Funds:		-	-	
United States equities	587,616	-	-	587,616
International equities	3,384,418	-	-	3,384,418
		-	-	
Bonds:		-	-	
United States government and federal agency - taxable	7,513,530	-	-	7,513,530
Municipal - taxable	1,996,070	-	-	1,996,070
Corporate Bonds	6,020,202	-	-	6,020,202
Total	$ 30,160,017	$ -	$ -	$ 30,160,017

13. Fair Value Disclosures (Continued)

The carrying value of the Foundation's financial instruments, including cash and cash equivalents, receivables, accounts payable and certain accrued liabilities approximate fair value because of the short maturities of these instruments. The fair value of our debt was estimated primarily using quoted market prices. The carrying value and fair value of the Foundation's debt at June 30, 2014, were approximately $93 million and $100 million, respectively.

14. Subsequent Events

No material subsequent events were identified that would affect the financial statements for the period ended June 30, 2014. Subsequent events were evaluated through October 13, 2014, which is the date the financial statements were available to be issued.

Supplementary Information

BDO

Tel: 210-342-8000
Fax: 210-342-0866
www.bdo.com

9901 IH-10, Suite 500
San Antonio, TX 78230

Independent Auditor's Report on Supplementary Information

Board of Directors
The Army Residence Community and Affiliates
San Antonio, Texas

Our audits of the consolidated financial statements included in the preceding section of this report were conducted for the purpose of forming an opinion on those statements as a whole. The supplementary information presented in the following section of this report 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 audits 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 information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

BDO USA, LLP

October 13, 2014

The Army Residence Community and Affiliates

Consolidating Statement of Financial Position

June 30, 2014	Army Residence Center	Army Retirement Supporting Foundation	South Texas Army Residence Beverage	Eliminating Entries	Consolidated Totals
Assets					
Current Assets					
Cash and cash equivalents	$ 428,938	$ 3,632,772	$ 97,405	$ -	$ 4,159,115
Accounts receivable, net	539,626	98,938	7,727	-	646,291
Prepaid expenses and other current assets	469,831	-	500	-	470,331
Assets whose use is limited and required for current liabilities	-	3,176,984	-	-	3,176,984
Total Current Assets	1,438,395	6,908,694	105,632	-	8,452,721
Noncurrent Assets Whose Use is Limited					
Cash and cash equivalents	-	4,879,832	-	-	4,879,832
Investments, at fair value	290,035	7,217,287	-	-	7,507,322
	290,035	12,097,119	-	-	12,387,154
Less: Portion required for current liabilities	-	(3,176,984)	-	-	(3,176,984)
Total Noncurrent Assets Whose Use is Limited	290,035	8,920,135	-	-	9,210,170
Investments, at fair value	-	36,555,237	-	-	36,555,237
Bond issue costs, net	-	2,523,313	-	-	2,523,313
Property, plant, and equipment, net	1,940,194	97,082,596	-	-	99,022,790
Investment in subsidiary	105,632	-	-	(105,632) (1)	-
Total Assets	$ 3,774,256	$ 151,989,975	$ 105,632	$ (105,632)	$ 155,764,231

See Independent Auditor's Report on Supplementary Information.

The Army Residence Community and Affiliates

Consolidating Statement of Financial Position (Continued)

June 30, 2014	Army Residence Center	Army Retirement Supporting Foundation	South Texas Army Residence Beverage	Eliminating Entries	Consolidated Totals
Liabilities and Net Assets					
Current Liabilities					
Accounts payable and other liabilities	$ 848,694	$ 279,414	$ -	$ -	$ 1,128,108
Retainage payable	-	14,871	-	-	14,871
Accrued payroll and related items	1,221,093	-	-	-	1,221,093
Accrued interest expense	-	2,251,984	-	-	2,251,984
Current portion of long-term debt	-	925,000	-	-	925,000
Total Current Liabilities	2,069,787	3,471,269	-	-	5,541,056
Deferred compensation	290,035	-	-	-	290,035
Long-term debt, less current portion	-	91,714,869	-	-	91,714,869
Unearned deposits and down payments	-	1,013,254	-	-	1,013,254
Refundable entrance fees	-	2,917,070	-	-	2,917,070
Deferred entrance fees subject to refund period	-	18,831,762	-	-	18,831,762
Deferred entrance fees - non refundable	-	26,402,606	-	-	26,402,606
Total Liabilities	2,359,822	144,350,830	-	-	146,710,652
Net Assets					
Unrestricted:					
Designated	-	2,821,252	105,632	(105,632) (1)	2,821,252
Undesignated	1,414,434	3,604,578	-	-	5,019,012
Total Unrestricted Net Assets	1,414,434	6,425,830	105,632	(105,632)	7,840,264
Temporarily restricted	-	1,213,315	-	-	1,213,315
Total Net Assets	1,414,434	7,639,145	105,632	(105,632)	9,053,579
Total Liabilities and Net Assets	$ 3,774,256	$ 151,989,975	$ 105,632	$ (105,632)	$ 155,764,231

See Independent Auditor's Report on Supplementary Information.

The Army Residence Community and Affiliates

Consolidating Statement of Activities and Changes in Net Assets

June 30, 2014	Army Residence Center	Army Retirement Supporting Foundation	South Texas Army Residence Beverage	Eliminating Entries	Consolidated Totals
Unrestricted Net Assets					
Revenue and Gains					
Earned entrance fees	$ -	$ 4,898,788	$ -	$ -	$ 4,898,788
Monthly Service Fees:					
Residence center	12,172,657	-	71,825	-	12,244,482
Health care center	7,199,260	-	-	-	7,199,260
Dining services	3,045,453	-	-	-	3,045,453
Contributions	-	68,608	-	-	68,608
Investment income	88	1,411,451	-	-	1,411,539
Other income	128,517	168,869	-	-	297,386
Net assets released from restriction	-	39,881	-	-	39,881
Net income (loss) from subsidiary	23,038	-	-	(23,038) (2)	-
Lease revenue	-	686,000	-	(686,000) (3)	-
Total Revenue and Gains	22,569,013	7,273,597	71,825	(709,038)	29,205,397
Operating Expenses					
Residence center	9,235,808	-	48,787	(686,000) (3)	8,598,595
Heath care center	5,083,767	-	-	-	5,083,767
Dining services	6,074,339	-	-	-	6,074,339
General and administrative	1,686,391	488,176	-	-	2,174,567
Depreciation and amortization	481,343	4,447,535	-	-	4,928,878
Interest expense and bond fees	1,603	4,924,846	-	-	4,926,449
Amortization of bond issuance costs	-	146,332	-	-	146,332
Total Operating Expenses	$ 22,563,251	$ 10,006,889	$ 48,787	$ (686,000)	$ 31,932,927

See Independent Auditor's Report on Supplementary Information.

The Army Residence Community and Affiliates

Consolidating Statement of Activities and Changes in Net Assets (Continued)

June 30, 2014	Army Residence Center	Army Retirement Supporting Foundation	South Texas Army Residence Beverage	Eliminating Entries	Consolidated Totals
Total operating (loss) earnings	$ 5,762	$ (2,733,292)	$ 23,038	$ (23,038)	$ (2,727,530)
Realized gain on investments	-	1,031,861	-	-	1,031,861
Unrealized gain on investments	-	2,592,016	-	-	2,592,016
(Decrease) Increase in	5,762	890,585	23,038	(23,038)	896,347
Temporarily Restricted Net Assets					
Investment (loss) income	-	68,250	-	-	68,250
Net assets released from restriction	-	(39,881)	-	-	(39,881)
Increase (Decrease) in	-	28,369	-	-	28,369
Increase (Decrease) in Net Assets	5,762	918,954	23,038	(23,038)	924,716
Transfers in Net Assets	(906,917)	906,917			
Net Assets, beginning of year	2,315,589	5,813,274	82,594	(82,594)	8,128,863
Net Assets, end of year	$ 1,414,434	$ 7,639,145	$ 105,632	$ (105,632)	$ 9,053,579

See Independent Auditor's Report on Supplementary Information.

(1) Elimination of investments in subsidiary and equity accounts of subsidiary.

(2) Elimination of subsidiary's dividends and undistributed earnings.

(3) Elimination of inter-company lease revenue and lease expense.