

**ASBURY COMMUNITIES, INC.**  
**CONSOLIDATED FINANCIAL STATEMENTS AND  
OTHER FINANCIAL INFORMATION**  
**YEARS ENDED DECEMBER 31, 2016 AND 2015**

**ASBURY COMMUNITIES, INC.**  
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## INDEPENDENT AUDITORS' REPORT

Audit Committee  
Asbury Communities, Inc.  
Germantown, Maryland

### **Report on the Financial Statements**

We have audited the accompanying consolidated financial statements of Asbury Communities, Inc. (a Maryland not-for-profit corporation) and its subsidiaries, which comprise the consolidated balance sheets as of December 31, 2016 and 2015, and the related consolidated statements of operations and changes in net deficit, and cash flows for the years then ended, and the related notes to the financial statements.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these 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.

### ***Auditors' 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 auditors' 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 Asbury Communities, Inc. and its subsidiaries as of December 31, 2016 and 2015, and the results of their operations, changes in net deficit, and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

**Emphasis of Matter**

As discussed in Note 2 to the financial statements, Asbury Communities, Inc. adopted a recently issued accounting standard related to the accounting for debt issuance costs. The new standard requires entities to present debt issuance costs as a direct deduction from the face amount of the related borrowings, amortize debt issuance costs using the effective interest rate method over the life of the debt, and record the amortization as a component of interest expense. Our opinion is not modified with respect to this matter.

**Report on Other Financial Information**

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The other financial information included in the consolidating balance sheet and consolidating statement of operations and changes in net deficit 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 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.



**CliftonLarsonAllen LLP**

Plymouth Meeting, Pennsylvania  
April 20, 2017

**ASBURY COMMUNITIES, INC.**  
**CONSOLIDATED BALANCE SHEETS**  
**DECEMBER 31, 2016 AND 2015**

<b>ASSETS</b>	2016	2015
<b>CURRENT ASSETS</b>		
Cash and Cash Equivalents	\$ 14,484,435	\$ 3,529,280
Investments	69,642,389	64,195,774
Accounts Receivable, Net of Allowance for Doubtful Accounts \$3,661,029 and \$3,336,639 for December 31, 2016 and 2015, Respectively	9,402,249	8,428,116
Pledges Receivable, Net	628,725	240,965
Other Receivables and Prepaid Expenses	19,116,372	20,134,778
Investments Held under Bond Indenture	16,834,843	15,653,036
Assets Held for Sale	332,000	1,151,000
Total Current Assets	130,441,013	113,332,949
Property and Equipment, Net	410,643,764	366,012,388
Investments Restricted by Donors	27,825,309	25,998,909
Long-Term Investments	134,192	134,192
Deferred Marketing Costs, Net	2,014,654	2,695,705
Deposits and Other Assets	1,722,575	1,770,660
Other Intangible Assets, Net	7,930,000	2,450,000
Investments Held under Bond Indenture	36,193,502	23,786,783
Statutory Reserves	17,952,017	16,681,812
Investments Restricted by Board	4,569,891	3,988,248
Pledges Receivable, Net	1,375,588	693,402
Funds Held in Trust	1,870,145	1,967,879
Total Assets	\$ 642,672,650	\$ 559,512,927

See accompanying Notes to Consolidated Financial Statements.

<b>LIABILITIES AND NET DEFICIT</b>	<u>2016</u>	<u>2015</u>
<b>CURRENT LIABILITIES</b>		
Accounts Payable and Accrued Expenses	\$ 10,727,065	\$ 8,942,617
Accrued Compensation and Related Items	16,703,972	14,485,602
Accrued Interest Payable	9,096,057	8,885,352
Construction Retainage Payable	126,968	-
Obligations under Charitable Gift Annuities	706,437	745,963
Deposits from Prospective Residents	3,714,083	6,266,252
Entrance Fees - Refundable	4,803,839	2,965,907
Deferred Revenue	1,316,768	763,842
Current Portion of Long-Term Debt	8,805,576	7,615,040
Total Current Liabilities	<u>56,000,765</u>	<u>50,670,575</u>
Long-Term Debt, Net	334,254,261	307,167,151
Projected Refund of Standard Entrance Fees	4,150,047	4,680,521
Contingent Refundable Entrance Fee Liability	272,858,169	248,270,113
Entrance Fees - Deferred Revenue	158,631,798	149,078,915
Valuation of Derivative Instruments	25,786,238	27,411,826
Obligations under Charitable Gift Annuities	3,518,764	3,841,543
Other Long-Term Liabilities	94,570	144,576
Total Liabilities	<u>855,294,612</u>	<u>791,265,220</u>
<b>NET ASSETS (DEFICIT)</b>		
Unrestricted	(242,436,242)	(262,027,803)
Temporarily Restricted	2,750,856	3,433,863
Permanently Restricted	27,063,424	26,841,647
Total Net Deficit	<u>(212,621,962)</u>	<u>(231,752,293)</u>
Total Liabilities and Net Deficit	<u>\$ 642,672,650</u>	<u>\$ 559,512,927</u>

**ASBURY COMMUNITIES, INC.**  
**CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET DEFICIT**  
**YEARS ENDED DECEMBER 31, 2016 AND 2015**

	2016	2015
<b>REVENUES, GAINS AND OTHER SUPPORT</b>		
Net Resident Service Revenue	\$ 177,123,700	\$ 160,680,084
Other Operating Revenue	7,776,558	7,899,852
Amortization of Entrance Fees	21,571,014	20,249,769
Interest and Dividend Income, Net	2,884,619	3,597,719
Net Realized Gain (Loss) on Investments	(808,266)	1,479,477
Proportionate Share of Gains in Equity Interests Funds	5,202	86,630
Contributions	3,679,048	1,880,206
Net Assets Released from Restrictions Used for Operations	232,342	234,376
Total Revenues, Gains and Other Support	212,464,217	196,108,113
<b>EXPENSES</b>		
Salaries	87,125,021	79,320,290
Employee Benefits	19,468,365	16,595,599
Cost of Goods Sold	241,151	285,059
Contract Labor	13,943,112	13,020,101
Food Purchases	7,831,116	7,203,374
Medical Supplies and Other Resident Costs	6,825,829	6,088,547
General and Administrative	7,887,564	8,506,465
Building and Maintenance	19,987,320	17,932,126
Professional Fees and Insurance	1,902,382	1,620,267
Interest	20,554,823	20,818,654
Taxes	4,099,825	3,988,773
Provisions for Bad Debts	1,508,041	1,827,814
Depreciation and Amortization	30,035,414	27,975,314
Total Expenses	221,409,963	205,182,383
Loss from Operations Prior to Net Unrealized Gain (Loss) on Change in Market Value of Derivative Instruments, Inherent Contribution, Net, Loss on Sale of Assets and Loss on Retirement of Debt	(8,945,746)	(9,074,270)
Net Unrealized Gain (Loss) on Change in Market Value of Derivative Instruments	1,625,588	(136,398)
Inherent Contribution, Net	21,473,297	7,534,904
Loss on Sale of Assets	-	(23,553)
Loss on Retirement of Debt	(204,062)	-
Income (Loss) from Operations	13,949,077	(1,699,317)

See accompanying Notes to Consolidated Financial Statements.

**ASBURY COMMUNITIES, INC.**  
**CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET DEFICIT (CONTINUED)**  
**YEARS ENDED DECEMBER 31, 2016 AND 2015**

	2016	2015
<b>UNRESTRICTED NET DEFICIT</b>		
Income (Loss) from Operations	\$ 13,949,077	\$ (1,699,317)
Net Assets Released from Restrictions Used for Purchases of Capital Items	2,271,940	1,775,183
Net Unrealized Gain (Loss) on Investments	3,370,544	(5,847,190)
Net Decrease (Increase) in Unrestricted Net Deficit	19,591,561	(5,771,324)
<b>TEMPORARILY RESTRICTED NET ASSETS</b>		
Contributions	1,698,252	854,131
Inherent Contribution	123,023	-
Net Assets Released from Restrictions for Operations	(232,342)	(234,376)
Net Assets Released from Restrictions Used for Purchases of Capital Items	(2,271,940)	(1,775,183)
Net Decrease in Temporarily Restricted Net Assets	(683,007)	(1,155,428)
<b>PERMANENTLY RESTRICTED NET ASSETS</b>		
Contributions	251,927	764,262
Inherent Contribution	53,391	-
Changes in Value of Obligations under Charitable Gift Annuities	(83,541)	(75,064)
Net Increase in Permanently Restricted Net Assets	221,777	689,198
<b>DECREASE (INCREASE) IN NET DEFICIT</b>	19,130,331	(6,237,554)
Net Deficit - Beginning of Year	(231,752,293)	(225,514,739)
<b>NET DEFICIT - END OF YEAR</b>	\$ (212,621,962)	\$ (231,752,293)

See accompanying Notes to Consolidated Financial Statements.



**ASBURY COMMUNITIES, INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**YEARS ENDED DECEMBER 31, 2016 AND 2015**

	2016	2015
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Decrease (Increase) in Net Deficit	\$ 19,130,331	\$ (6,237,554)
Adjustments to Reconcile Increase in Net Deficit to		
Net Cash Provided by Operating Activities:		
Provision for Bad Debts	1,508,041	1,827,814
Depreciation and Amortization of Deferred Marketing Costs	30,035,414	27,975,314
Amortization of Deferred Financing Costs	356,003	330,484
Amortization of Bond Premium/Discount	(215,602)	(195,528)
Amortization of Entrance Fees	(21,571,014)	(20,249,769)
Net Proceeds from Nonrefundable Entrance and Advance Fees	28,696,648	26,419,130
Inherent Contribution	(21,473,297)	(7,534,904)
Inherent Contribution Restricted Assets	(176,414)	-
Net Unrealized (Gain) Loss on Investments	(3,370,544)	5,847,190
Proportionate Share of Gains in Equity Interests Funds	(5,202)	(86,630)
Net Unrealized (Gains) Losses on Change in		
Market Value of Derivative Instruments	(1,625,588)	136,398
Changes in Value of Obligations under Charitable Gift Annuities	406,813	292,013
Restricted Contributions Received	(1,950,179)	(1,618,393)
Loss on Retirement of Debt	204,062	-
Loss on Sale of Assets		23,553
Changes in Assets and Liabilities:		
Accounts Receivable	(290,750)	(3,296,841)
Other Receivables and Prepaid Expenses	(191,803)	(1,793,625)
Deferred Entrance Fees	2,192,346	2,337,238
Deposits and Other Assets	867,085	118,629
Pledges Receivable, Net	(1,069,946)	(345,079)
Deferred Revenue	552,926	(35,672)
Accounts Payable and Accrued Expenses	1,327,857	1,269,909
Accrued Interest Payable	210,705	(139,294)
Net Cash Provided by Operating Activities	33,547,892	25,044,383
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of Property and Equipment, Net	(26,860,127)	(26,521,818)
Funds Held in Trust	97,734	24,895
HCBS Home Health Acquisition	-	(1,250,000)
Cash Received Upon Affiliations	5,116,544	1,605,491
Sales (Purchases) of Investments, Net	(5,699,426)	4,120,603
Net Cash Used by Investing Activities	(27,345,275)	(22,020,829)

See accompanying Notes to Consolidated Financial Statements.

**ASBURY COMMUNITIES, INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)**  
**YEARS ENDED DECEMBER 31, 2016 AND 2015**

	2016	2015
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from Entrance and Advance Refundable Fees and Refundable Deposits	\$ 29,269,134	\$ 26,388,782
Refunds of Entrance and Advance Refundable Fees and Refundable Deposits	(29,992,862)	(26,932,507)
Restricted Contributions	1,950,179	1,618,393
Proceeds from Issuance of Debt	25,494,330	2,385,879
Change in Other Long-Term Liabilities	(50,006)	(36,534)
Payments on Long-Term Debt	(19,934,840)	(6,984,463)
Payments for Deferred Financing Costs	(1,214,279)	-
Payments on Obligations under Charitable Gift Annuities	(769,118)	(809,778)
Net Cash Provided (Used) by Financing Activities	4,752,538	(4,370,228)
 <b>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	 10,955,155	 (1,346,674)
Cash and Cash Equivalents - Beginning of Year	3,529,280	4,875,954
 <b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	 \$ 14,484,435	 \$ 3,529,280
 <b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</b>		
Cash Paid for Interest	\$ 20,411,264	\$ 20,912,657

*See accompanying Notes to Consolidated Financial Statements.*

**ASBURY COMMUNITIES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2016 AND 2015**

**NOTE 1 ORGANIZATION**

Asbury Communities, Inc. (ACOMM or the Company), was organized on August 1, 1994, as a Maryland not-for-profit organization to provide executive and comprehensive administrative functions, as well as policy and overall planning guidance, to its supported organizations. ACOMM serves as the supporting organization of Asbury Atlantic, Inc. (Asbury Atlantic); Asbury Solomons, Inc. (AS); Inverness Village, an Oklahoma not-for-profit Corporation (IV); Asbury Communities HCBS, Inc. (HCBS); Calvert County Nursing Center (CCNC); and Asbury, Inc. (Asbury Place) and Affiliate (Forest Ridge Manor). ACOMM is the sole voting stockholder of The Asbury Group, Inc. (TAG). Additionally, ACOMM is the sole member of Asbury Foundation, Inc. (AFOUND).

On August 1, 2016, ACOMM entered into an affiliation agreement with Bethany Development, Inc. (BDC), a 149 unit affordable housing (HUD) community in Mechanicsburg, Pennsylvania. ACOMM will serve as the supporting organization of BDC. The current Board of Directors of BDC will continue control over board governance until August 1, 2017, unless the BDC Board votes to terminate the affiliation agreement prior to that date. The accompanying consolidated financial statements do not include the financial position nor the results of operations of BDC.

*Asbury Atlantic, Inc. (Asbury Atlantic)* – is a not-for-profit, non-stock corporation organized under the laws of the State of Maryland. Asbury Atlantic has operating segments comprised of Asbury Methodist Village (AMV), Bethany Village (BV) and Springhill (SH).

- AMV is a continuing-care retirement community (CCRC) in Gaithersburg, Maryland. A CCRC consists of independent living, assisted living, and skilled-nursing units. A CCRC provides a continuum of care that includes housing, healthcare, and other related health-care and lifestyle services to seniors.
- BV is a CCRC located in Mechanicsburg, Pennsylvania.
- SH is a CCRC located in Erie, Pennsylvania.

AS – is a not-for-profit, non-stock corporation organized under the laws of the State of Maryland. AS is a CCRC located in Solomons, Calvert County, Maryland.

IV – is a not-for-profit, non-stock corporation organized under the laws of the State of Oklahoma. IV is a CCRC located in greater metropolitan Tulsa, Oklahoma.

HCBS – is a not-for-profit, non-stock corporation organized under the laws of the State of Maryland. HCBS was organized in 2011 to provide in-home services. On March 20, 2015, HCBS purchased the assets of a Medicare certified home health provider and began providing home health services insured by Medicare, Medicaid, and commercial insurance.

*Asbury Place* – On August 1, 2016, Asbury, Inc. (Asbury Place) and Affiliate (Forest Ridge Manor), a tax-exempt, Tennessee non-stock corporation, became an affiliate of the Company, by ACOMM serving as the supporting organization for Asbury Place. Asbury Place has two CCRCs located in Maryville and Kingsport and a 38 unit affordable housing facility, Forest Ridge Manor (FRM) located in Kingsport.

**ASBURY COMMUNITIES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2016 AND 2015**

**NOTE 1 ORGANIZATION (CONTINUED)**

*CCNC* – On March 1, 2015, Calvert County Nursing Center, Inc. (CCNC), a tax-exempt, Maryland non-stock corporation, became an affiliate of the Company, by ACOMM serving as the supporting organization for CCNC. CCNC is a 149-bed, Medicare and Medicaid certified, skilled nursing provider located in Prince Frederick, Maryland, within the same county as AS.

*AFOUND* – is a not-for-profit, non-stock corporation organized under the laws of the State of Maryland. AFOUND is a supporting organization established to promote charitable giving from available resources to help fund the charitable programs of AMV, AS, BV, SH, IV, CCNC, and HCBS. ACOMM is the sole member of AFOUND.

*TAG* – was organized in 2006 as a for-profit Delaware corporation and provides management, marketing, finance, and technological support services to both affiliated and nonaffiliated continuing-care retirement communities. In addition, TAG provides comprehensive information technology services and support to all affiliated entities of the Company. TAG is a wholly owned subsidiary of ACOMM. On July 1, 2008, TAG formed TAG Integrated Technologies, LLC and TAG Marketing, LLC as Delaware limited liability companies.

**NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Principles of Consolidation**

The accompanying consolidated financial statements include the accounts of ACOMM and its affiliates, Asbury Atlantic, AS, IV, HCBS, Asbury, Inc. and Forest Ridge Manor, AFOUND, TAG and CCNC, (collectively referred to as the Company). All significant intercompany transactions have been eliminated in consolidation.

**Use of Estimates**

The preparation of financial statements in conformity with U.S. generally accepted accounting principles (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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Cash and Cash Equivalents**

Cash and cash equivalents include amounts held in checking and savings accounts, money market accounts, and short-term certificates of deposit with original maturities of 90 days or less. Cash balances are principally uninsured and subject to normal credit risks.

**ASBURY COMMUNITIES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2016 AND 2015**

**NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Accounts Receivable and Contractual Allowances**

The Company's policy is to write off all resident accounts that have been identified as uncollectible. An allowance for doubtful accounts is recorded for accounts not yet written off, which are estimated to become uncollectible in future periods.

Under the Medicare and Medicaid reimbursement and other third-party agreements, amounts collected for services to patients under these agreements are computed at contractually agreed-upon rates. Accounts receivable have been adjusted to reflect the difference between charges and the reimbursable amounts under these third-party contracts. Revenues from Medicare and Medicaid programs and other third-party agreements accounted for approximately 27% and 26% of the Company's total net resident service revenues for years ended December 31, 2016 and 2015, respectively.

**Pledges Receivable and Fund Held in Trust**

Contributions to be received after one year are discounted at an appropriate discounted rate commensurate with the risks involved. An allowance for uncollectible contributions receivable is provided based on management's judgment, including such factors as prior collection history, type of contribution, and nature of fund-raising activity.

Funds held in trust are amounts where the Company does not serve as trustee and amounted to \$1,870,145 and \$1,967,879 as of December 31, 2016 and 2015, respectively. It is the policy of the company to record such assets only when the Company's interest is deemed to be irrevocable by the management and where there is sufficient information to quantify a fair and accurate valuation. The Company's beneficial interest is recorded at the discounted present value of the gift. When the proceeds from these assets are received, the amount received is used for purposes designated by the donor, if any.

**Investments and Investment Income**

Substantially all investments are held in investment pools with ACOMM, except investments held by Asbury Place. The investment pools are comprised of equity securities or equity mutual funds, bonds or bond mutual funds, cash and private equity funds. The equity securities, mutual funds and bonds have readily determinable market values, and their related unrealized gains or losses are recorded below the income (loss) from operations. The investments are managed by an investment advisor (the Advisor) and are comprised of approximately 98% direct investment in cash, equity securities, equity mutual funds, bonds or bonds mutual funds and 2% in private equity funds. In addition, investments held under bond indenture with trustees are high grade income securities.

The private equity funds (referred to as equity interests funds) are accounted for at fair value using the equity method of accounting. Accordingly, the investment return from these funds is included as proportionate share of gains in equity interests funds within the income (loss) from operations in the accompanying consolidated statements of operations and changes in net deficit. The financial statements of the equity interests funds are used as a basis for recognizing each affiliate share of investment losses that are determined by the funds'

**ASBURY COMMUNITIES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2016 AND 2015**

**NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Investments and Investment Income (Continued)**

manager on the basis of market valuations provided by independent pricing services when such prices are believed by the funds' manager to reflect the fair value of such securities.

If market quotations are not readily available for a security or if subsequent events suggest that a market quotation is not reliable, the funds will use the security's fair value, using consistently applied procedures established by and under the general supervision of the funds' manager. This generally means that equity securities and fixed income securities listed and traded principally on any national securities exchange are valued on the basis of the last sale price or, lacking any sales, at the closing bid price, on the primary exchange on which the security is traded. The funds' manager may involve subjective judgments as to the fair value of securities. The use of fair value pricing by the funds may cause the net asset value of fund units to differ significantly from the net asset value that would be calculated using current market values.

Accordingly, valuations do not necessarily represent the amounts that might be realized from sales or other dispositions of investments, nor do they reflect taxes or other expenses that might be incurred upon disposition. Mortgage loans held by the underlying funds have been valued on the basis of principal and interest payment terms discounted at currently prevailing interest rates for similar investments. Because of the inherent uncertainty of valuations of the investments held by the underlying funds, their estimated values may differ significantly from the values that would have been used had a ready market for these investments existed, and the differences could be material.

Investment returns and related activity are allocated to each affiliate based on their proportion of their underlying holdings. The portion of investments that is available to fund current operating activities is included in current assets in the accompanying consolidated balance sheets. Donated investments are reported at their fair values at date of receipt.

Investment income or loss from equity securities, mutual funds and bonds includes interest and dividends, net of investment management fees; realized gains and losses on investments; and any provision for other-than-temporary impairment of investments and are included in income (loss) from operations. Investment income or loss is included in income (loss) from operations unless restricted by donor or law. Unrealized gains and losses on investments with readily determinable market values are excluded from income (loss) from operations, unless the losses are deemed to be other-than-temporary.

ACOMM periodically evaluates whether any declines in the fair values of investments are other-than-temporary. This evaluation consists of a review of several factors, including but not limited to length of time and extent that a security has been in an unrealized loss position, the existence of an event that would impair the issuer's future earnings potential, the near-term prospects for recovery of the market value of a security and the intent and ability of ACOMM to hold the security until the market value recovers. Declines in fair value below cost that are deemed to be other-than-temporary are recorded as realized losses in the accompanying consolidated statements of operations and changes in net deficit.

**ASBURY COMMUNITIES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2016 AND 2015**

**NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Investments and Investment Income (Continued)**

The investment policy of ACOMM provides a balance of long-term growth and preservation of capital of the assets while managing a core segment of assets in a manner specifically designed to meet the ongoing capital requirements of the Company and other requirements specified under the terms of its financing agreements.

**Return Objectives and Risk Parameters**

The objective of ACOMM's investments policy is to maximize long-term real return commensurate with the risk parameters specified by the board and the preservation of capital requirement. The policy includes target asset allocations with diversification of asset classes with differing rates of return, and volatility to manage risks.

**Strategies Employed for Achieving Objectives**

To satisfy its long-term rate-of-return objectives, the Company relies on an investment strategy that allocates its investments among a number of asset classes. These asset classes may include: domestic equity, domestic fixed income, international equity, cash equivalents, and other alternative strategies and products. The purpose of allocating among asset classes is to ensure the proper level of diversification to achieve the portfolio's investment objectives. The Company feels that this investment strategy meets the Organization's long-term rate-of-return objectives while avoiding undue risk from imprudent concentration in any single asset class or investment vehicle. In order to ensure that ACOMM continues to meet its objectives, the Company has established rebalancing guidelines and established mechanisms for ongoing monitoring of performance and risk.

**Derivatives Policy**

The Company manages its exposure to interest rate volatility through use of interest rate swap contracts. These contracts qualify as derivative financial instruments. The book values of the derivative instruments are adjusted to their estimated fair values at each balance sheet date. The Company has determined that, for continuing operations, the Company's derivatives do not meet the criteria for hedge accounting and, therefore, the change in fair value of all of the derivative instruments are included within the Company's performance indicator, income (loss) from operations.

**Investments Restricted by the Board**

Investments restricted by the Board include assets set aside by the Board of Directors (the Board) for benevolent care. The Board retains control of these assets and may, at its discretion, subsequently use them for other Board-designated purposes.

**Property and Equipment**

Property and equipment are stated at cost. Donated property and equipment are recorded at fair market value at the date of the gift. Improvements that materially extend the useful lives of the assets are capitalized. General repairs and maintenance costs are expensed as incurred.

**ASBURY COMMUNITIES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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**NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Property and Equipment (Continued)**

The Company capitalizes all expenditures for property and equipment costing \$1,000 or more and having useful lives greater than two years or more.

Interest costs incurred on borrowed funds and deferred financing costs during the period of construction of capital assets are capitalized as a component of the cost of acquiring those assets.

**Deferred Marketing Costs**

Direct-marketing costs were associated with acquiring initial residential contracts and are deferred and amortized using the straight-line method over the estimated life expectancy of the initial residents. The amortization expense on deferred marketing costs was \$918,975 and \$914,090 for the years ended December 31, 2016 and 2015, respectively. There were no additions to deferred marketing for the years ended December 31, 2016 and 2015.

**Advertising Expenses**

The cost of advertising is expensed when incurred and included within the general and administrative financial statement line item within the consolidated statements of operations and changes in net deficit. Advertising expense was \$1,155,191 and \$1,154,635 for the years ended December 31, 2016 and 2015, respectively.

**Other Intangible Assets**

The Company recorded \$5,480,000 of intangible assets from the affiliation of Asbury Place on August 1, 2016 for the skilled nursing beds Certificate of Need.

The Company recorded \$1,250,000 of intangible assets from the HCBS' purchase of the assets of a Medicare-certified home health provider on March 20, 2015, and \$1,200,000 of intangible assets from the affiliation of CCNC on March 1, 2015 for the skilled nursing beds Certificate of Need.

Intangible assets are recorded at their estimated fair market value and not subject to amortization. Management periodically assesses the fair value of its intangible assets and has not recorded any impairment since their origination.

**Deposits from Prospective Residents**

Deposits from prospective residents are refundable until such time as the prospective resident executes a residency agreement and pays the balance of the entrance fee. Interest earned on these deposits belongs to the Company.



**ASBURY COMMUNITIES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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**NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Continuing-Care and Life Care Contracts**

The Company offers continuing-care contracts to its residents. These contracts include residential facilities, meals and other amenities, as well as priority access to long-term nursing care. Prior to 2015, IV offered life care contracts, which include unlimited long-term care in an assisted-living or skilled-nursing health center at little or no increase in fees.

**Obligation to Provide Future Services**

The Company calculates the present value of the cost of future services and use of facilities to be provided to current residents and compares that amount with the balance of deferred revenue from resident entry fees to determine if a liability and corresponding charge to income should be recorded. As of December 31, 2016 and 2015, the present value of the net cost of future services and use of facilities does not exceed the deferred revenue from resident entry fees and, as such, no liability for the obligation to provide future services was required to be recorded as of December 31, 2016 and 2015.

**Accrued Compensation and Related Items**

The accrued compensation and related items include accruals as a result of having consolidated payroll and benefit functions and a reserve for the self-funding arrangement for workers compensation insurance coverage. See Note 14 for additional information on workers compensation insurance.

**Revenue Recognition**

The Company offers four types of resident entrance-fee options: a standard declining refund option, a 50% refundable option, a 90% refundable option and a 100% refundable option. Previously, BV offered an additional standard nine-year declining refund and a 25% refundable option, and IV offered a standard declining refund, and a 95% refundable and a Life Care option. The options currently offered to incoming residents vary among AMV, AS, BV, IV, SH and Asbury Place. All resident entrance fees are expected to be paid-in-full upon occupancy. Refunds of entrance fees for termination prior to occupancy are made within 30 days for AMV, AS, BV, SH, and Asbury Place and 60 days for IV.

Under the standard declining refund option offered at communities except Asbury Place, the entrance fee is amortized over a period of five years resulting in an entrance fee refund balance that declines 1.667% per month over the five year period. After that period, the refund is fully amortized and there is no refundable portion. Under the standard declining refund option offered at Asbury Place, the entrance fee is amortized over a period of fifty months resulting in an entrance fee refund balance that declines 2% per month over the fifty month period. Under the 50% refundable, 90% refundable and 100% refundable contracts, residents pay a higher entrance fee in order to guarantee a specific percentage refund of the entrance fee upon termination of the Residency Agreement. In most cases, payment of an entrance fee refund is contingent upon a successor resident taking possession of the original residential unit.

**ASBURY COMMUNITIES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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**NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Revenue Recognition (Continued)**

At IV, for contracts entered into prior to January 1, 2010, the receipt of the successor entrance fee can be for like units but the receipt of successor entrance fees must aggregate to equal the amount of the refund provided. At SH, for contracts dated prior to June 30, 2004, the refund occurs upon the receipt of a successor entrance fee or one year from termination date.

Refundable entrance fees are recorded in the accompanying consolidated balance sheets as current liabilities. The nonrefundable entrance fees are classified as deferred revenue and are recognized as revenue on a straight-line basis over each individual resident's expected remaining life. Remaining life expectancies are determined based on current actuarial data specific to CCRC residents. Upon termination of a contract through death or withdrawal after occupancy, any unamortized, nonrefundable, deferred entrance fee is recorded as income.

The gross amounts of refund obligations are summarized below and are categorized as refundable entrance fees and standard entrance fees. The contingent refundable entrance fees are fixed in their amount but are refundable upon the receipt of a successor entrance fee, except at SH as noted above. Standard entrance fees are refundable upon termination of occupancy and the amount of refund is based upon the length of stay in the community.

A summary of net entrance fees is as follows:

	<u>2016</u>	<u>2015</u>
Entrance Fees - Refundable	<u>\$ 4,803,839</u>	<u>\$ 2,965,907</u>
Contingent Refundable Entrance Fee Liability	<u>\$ 272,858,169</u>	<u>\$ 248,270,113</u>
Entrance Fees - Deferred Revenue		
25% to 95% Refundable Contracts	\$ 12,576,268	\$ 9,783,724
Standard Entry Fee Option Contracts:		
Five-Year Contracts	142,221,390	133,977,851
Nine-Year Contracts	4,304,892	5,181,642
100-Month Contracts	<u>3,679,295</u>	<u>4,816,219</u>
Total	162,781,845	153,759,436
Less Projected Refund of Standard Entrance Fees	<u>(4,150,047)</u>	<u>(4,680,521)</u>
Total	<u>\$ 158,631,798</u>	<u>\$ 149,078,915</u>
 Total Entrance Fees	 <u>\$ 436,293,806</u>	 <u>\$ 400,314,935</u>

The portions of the above entrance fees that continue to be subject to any contractual refund obligation as of December 31, 2016 and 2015 were \$342,420,608 and \$315,025,358, respectively.

**ASBURY COMMUNITIES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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**NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Revenue Recognition (Continued)**

The Company also records revenue related to resident room and board, which, depending on the facility and contract type, could also include housekeeping, laundry, dining services and future healthcare costs. Revenue for physical, occupational, and speech therapy, as well as health personal care and social ancillary charges, is also recorded. Revenue is recognized when services are performed.

Revenue from management and professional services operated with TAG's employees is recognized when services are rendered under management contracts or at the time specific milestones have been reached under development contracts based on the terms of the agreements. The management and professional services revenue is included in other operating revenue.

**Charity Care**

It is the Company's policy to track those expenses for residents in its facilities who cannot pay for all or a portion of their care and defines these expenses as charity care. Because the Company does not pursue collection of amounts determined to qualify as charity care, they are not reflected as revenue in the accompanying consolidated financial statements. See Note 4 for the benevolent and charity care amounts provided to residents for the years ended December 31, 2016 and 2015.

**Contributions**

Unconditional promises to give cash and other assets to the Company are reported at fair value at the date the promise is received. Conditional promises to give and indications of intentions to give are reported at fair value at the date the gift is received. The gifts are reported as either temporarily or permanently restricted support if they are received with contribution-donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is fulfilled, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the consolidated statements of operations and changes in net deficit as net assets released from restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are reported as unrestricted contributions in the accompanying consolidated statements of operations and changes in net deficit. Permanently restricted net assets represent donor-restricted endowments to be held in perpetuity.

**Inherent Contribution (Loss)**

The Company recognized an inherent contribution (loss) related to the August, 1, 2016 affiliation with Asbury Place and Affiliate. The Company did not pay any consideration as a part of the affiliation.

**ASBURY COMMUNITIES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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**NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Inherent Contribution (Loss) (Continued)**

The following amounts were recorded as a result of the affiliation:

Cash and Cash Equivalents	\$ 5,030,395
Investments	11,227,719
Investments Held Under Bond Indenture	2,154,853
Investments Restricted by Donors	53,391
Investment Restricted by Board	100,353
Accounts Receivable, Net	2,190,591
Other Receivables and Prepaid Expenses	965,217
Property and Equipment, Net	43,995,059
Other Intangibles	5,480,000
Deferred Marketing Costs, Net	237,925
	<u>\$ 71,435,503</u>
Accounts Payable and Accrued Expenses	\$ 2,595,608
Contingent Refundable Entrance Fee Liability	23,136,732
Entrance Fee - Deferred Revenue	3,357,113
Other Liabilities	22,097
Long-term Debt, Net	20,160,271
Unrestricted Net Assets	21,987,268
Temporary Restricted Net Assets	123,023
Permanently Restricted Net Assets	53,391
	<u>\$ 71,435,503</u>

There were no significant adjustments to the amounts recorded to conform to accounting policies.

The Company recognized an inherent loss related to the August, 1, 2016 affiliation with FRM. The Company did not pay any consideration as a part of the affiliation. The following amounts were recorded as a result of the affiliation:

Cash and Cash Equivalents	\$ 86,149
Investments Restricted by Board	101,901
Accounts Receivable, Net	833
Other Receivables and Prepaid Expenses	16,917
Property and Equipment, Net	2,765,665
	<u>\$ 2,971,465</u>
Accounts Payable and Accrued Expenses	\$ 30,160
Deferred Revenue	477
Other Liabilities	27,095
Long-term Debt, Net	3,427,701
Unrestricted Net Deficit	(513,968)
	<u>\$ 2,971,465</u>

**ASBURY COMMUNITIES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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**NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Inherent Contributions (Loss) (Continued)**

There were no significant adjustments to the amounts recorded to conform to accounting policies.

The Company recognized an inherent contribution related to the March, 1, 2015 affiliation with CCNC. The Company did not pay any consideration as a part of the affiliation. The following amounts were recorded as a result of the affiliation:

Cash	\$ 1,605,492
Accounts Receivable, Net	666,050
Other Receivables and Prepaid Expenses	158,043
Property and Equipment, Net	5,300,000
Deferred Costs, Net	2,538
Other Intangible Assets, Net	1,200,000
	<u>\$ 8,932,123</u>
Accounts Payable and Accrued Expenses	\$ 1,009,242
Deferred Revenue	3,008
Long-term Debt, Net	384,968
Unrestricted Net Assets	7,534,905
	<u>\$ 8,932,123</u>

There were no significant adjustments to the amounts recorded to conform to accounting policies.

**Net Assets and Endowment Funds**

The Company classifies its funds for accounting and reporting purposes as either unrestricted, temporarily restricted or permanently restricted. The Company has adopted an enacted version of the *Uniform Prudent Management of Institutional Funds Act*, which requires enhanced disclosures for all endowment funds.

**Temporarily Restricted Net Assets**

Temporarily restricted net assets are those that have been limited by donors to a specific time period or purpose. Temporarily restricted net assets are primarily available to purchase equipment, provide charity care and for other health and educational services.

**Permanently Restricted Net Assets**

Permanently restricted net assets are restricted to investment in perpetuity, the income from which is unrestricted and has been expended to support benevolent care provided by the Company. These assets are pooled with the Company's unrestricted investment portfolio with the objectives of providing long-term growth of capital and maximizing the return on assets over the long-term while diversifying investments within asset classes to reduce the impact of losses in single investments.

**ASBURY COMMUNITIES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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**NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Income (Loss) from Operations**

The accompanying consolidated statements of operations and changes in net deficit include income (loss) from operations. Changes in unrestricted net assets (deficit), which are excluded from income (loss) from operations, consistent with industry practice, include unrealized gains and losses on investments (except for investments accounted for under the equity method), and net assets released from restriction used for purchase of capital items.

**Tax Status**

ACOMM and affiliates, except TAG, are exempt from federal income taxes pursuant to Section 501(c)(3) of the Internal Revenue Code (IRC); accordingly, no provision for income taxes is required as there are no unrelated trades or businesses. TAG and related entities are organized as for-profit entities and are subject to federal and state income taxes. Income taxes for TAG and related entities are recorded as deferred tax assets and included in other receivables and prepaid expenses in the accompanying consolidated balance sheets to reflect temporary book and tax differences.

The Company has implemented processes to ensure compliance with the Internal Revenue Service intermediate sanctions provisions for all its supported organizations, including the Company. This includes an independent review by the Board's compensation committee of all compensation arrangements with disqualified persons and outside compensation consultants to provide independent third-party review and advisement, and the implementation of a detailed conflict-of-interest policy and annual disclosure process for all disqualified persons. The compensation committee also hires outside counsel to advise the Company on compliance.

The tax benefit from an uncertain tax position must be recognized only if it is more-likely-than-not that the tax position will be sustained upon examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate resolution. The Company's reassessment of its tax positions did not have a material impact on the Company's results of operations or financial position.

The Company's income tax returns are subject to review and examination by federal, state, and local authorities. The Company is not aware of any activities that would jeopardize its tax-exempt status.

**ASBURY COMMUNITIES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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**NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Fair Value Measurements**

Fair value measurement applies to reported balances that are required or permitted to be measured at fair value under an existing accounting standard. The Company emphasizes that fair value is a market-based measurement, not an entity-specific measurement. Therefore, a fair value measurement should be determined based on the assumptions that market participants would use in pricing the asset or liability and establishes a fair value hierarchy. The fair value hierarchy consists of three levels of inputs that may be used to measure fair value as follows:

*Level 1* – Inputs that utilize quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company has the ability to access.

*Level 2* – Inputs that include quoted prices for similar assets and liabilities in active markets and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument. Fair values for these instruments are estimated using pricing models, quoted prices of securities with similar characteristics, or discounted cash flows.

*Level 3* – Inputs that are unobservable inputs for the asset or liability, which are typically based on an entity's own assumptions, as there is little, if any, related market activity.

In instances where the determination of the fair value measurement is based on inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy within which the entire fair value measurement falls is based on the lowest level input that is significant to the fair value measurement in its entirety.

Additionally, from time to time, the Company may be required to record, at fair value, other assets on a nonrecurring basis in accordance with generally accepted accounting principles. These adjustments to fair value usually result from the application of the lower-of-cost-or-market accounting or write down of individual assets. The Company has determined that there would be no impact to the accompanying financial statements as a result of the application of this standard.

Nonfinancial assets measured at fair value on a nonrecurring basis would include nonfinancial assets and nonfinancial liabilities measured at fair value in the second step of a goodwill impairment test, other real estate owned, and other intangible assets measured at fair value for impairment assessment.

The Company also adopted the policy of valuing certain financial instruments at fair value. This accounting policy allows entities the irrevocable option to elect fair value for the initial and subsequent measurement for certain financial assets and liabilities on an instrument-by-instrument basis. The Company has not elected to measure any existing financial instruments at fair value, however may elect to measure newly acquired financial instruments at fair value in the future.

**ASBURY COMMUNITIES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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**NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Change in Accounting Policies**

During the year ended December 31, 2016, the Company adopted a provision of Financial Accounting Standard Board (FASB) Accounting Standard Update (ASU) 2016-01, Financial Instruments – *Overall: Recognition and Measurement of Financial Assets and Financial Liabilities*. This provision eliminates the requirement for entities, other than public business entities, to disclose the fair values of financial instruments carried at amortized costs, as previously required by Accounting Standards Codification (ASC) 825-10-50. As such, the Company has omitted this disclosure for the years ended December 31, 2016 and 2015. The adoption of this provision did not have an impact on the Company's financial position or results of operations.

The Company has adopted the accounting guidance in FASB Accounting Standards Update (ASU) No. 2015-03, Interest – Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs. ASU 2015-03 requires organizations to present debt issuance costs as a direct deduction from the face amount of the related borrowings, amortize debt issuance costs using the effective interest method over the life of the debt, and record the amortization as a component of interest expense. The adoption of this standard had no effect on previously reported net assets. The ASU is effective for fiscal years beginning after December 15, 2015, with early adoption permitted. The ASU is retrospectively applied. The Company has elected to adopt this change in accounting principle as of January 1, 2015, prior to its effective date.

**Reclassifications**

Certain prior-year amounts have been reclassified to conform to the current-year presentation.

**Subsequent Events**

In preparing these financial statements, the Company has evaluated events and transactions for potential recognition or disclosure through April 20, 2017, the date the consolidated financial statements were issued.

In January 2017, ACOMM entered into an 11-year noncancelable office lease agreement for approximately 26,380 square feet of office in Frederick, Maryland, to be used as the Company's corporate office. In accordance with the lease agreement, the term of the lease begins in August 2017 once the landlord completes certain improvements to the office space. ACOMM will pay annual base rent payments ranging from \$501,220 to \$641,562.

On April 3, 2017, Asbury Place advance refunded the Series 2007A Bonds in connection with the issuance of the Series 2016C Bonds. In addition, the Asbury Place forward-rate purchase agreement became effective.



**ASBURY COMMUNITIES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2016 AND 2015**

**NOTE 3 REGULATORY ENVIRONMENT**

**Medicare and Medicaid**

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. The Company believes that it is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegation of potential wrongdoing. While no such regulatory inquiries have been made, compliance with such laws and regulations can be subject to future government review and interpretation as well as significant regulatory action including fines, penalties, and exclusion from the Medicare and Medicaid programs.

*Skilled Nursing Facility Services*

*Medicare Reimbursement*

The Balanced Budget Act of 1997 modified how payment is made for Medicare skilled nursing facility (SNF) services. SNF's are reimbursed on the basis of a prospective payment system (PPS). The PPS payment rates are adjusted for case mix and geographic variation in wages and cover all costs of furnishing-covered SNF services (routine, ancillary, and capital-related costs).

*Maryland Medicaid Reimbursement*

Under the Maryland Medical Assistance Program's (Maryland Medicaid) case-mix reimbursement system, the determination of reimbursement rates for nursing costs is based upon a recipient's dependency in activities of daily living and need for the receipt of ancillary nursing services. On January 1, 2015 Maryland Medicaid initiated a PPS basis of reimbursement with plans to phase in over two years. Maryland providers will receive a blended rate until phase-in completion. Final settlements are determined after submission of annual cost reports and audits thereof by the Maryland Medicaid program. The cost report for 2016 estimated Medicaid settlements are subject to verification leading to final settlements.

*Pennsylvania Medicaid Reimbursement*

The Commonwealth of Pennsylvania pays nursing facilities a prospective daily rate for medical assistance residents. The daily rate is set annually based on data in the three most recently filed cost reports. The rate comprises three net operating components (resident care, other resident-related, and administrative) and one capital component. The net operating components are based on the facilities' actual net operating costs per day and limited by peer-group ceilings. Resident-care operating costs are adjusted to reflect the acuity level of the facility's residents through a case-mix index. The case-mix index is measured quarterly, and the annual rate is adjusted for any changes on a quarterly basis.

**ASBURY COMMUNITIES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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**NOTE 3 REGULATORY ENVIRONMENT (CONTINUED)**

*Skilled Nursing Facility Services (Continued)*

*Pennsylvania Medicaid Reimbursement (Continued)*

The Commonwealth of Pennsylvania updates payment rates to nursing homes on July 1 of each year. The rates are scheduled to be updated each quarter for the most recent case-mix index for a facility's Pennsylvania Medicaid residents and rebased annually on July 1 of each year. The Pennsylvania Medicaid rates for the period July 1, 2016 through December 31, 2016 have not been finalized, and the Company has utilized estimated rates in the preparation of the financial statements.

The capital component is based upon the facilities' fair rental value. Typically, the daily rate paid to the nursing facility is considered payment in full with no end-of-year settlements.

*Tennessee Medicaid Reimbursement*

Under the Tennessee Medicaid reimbursement system, the determination of reimbursement rates is based upon costs and other statistical data reported on the annual Medicaid cost report and are subject to a statewide cap. An incentive add-on may be added to the per diem rate based upon the efficiency of the organization. Rates are effective July 1st of the year following the cost report calendar year. Cost reports are subject to desk review or audit prior to setting of the rates.

*Medical Home Health Services*

HCBS is entitled to Medicare and Medicaid payments for certain patient charges at rates determined by Federal and State Governments. Differences between established billing rates and payments from these programs are recorded as contractual adjustments to patient service revenue. Retroactive changes in reimbursement resulting from final determination by the state Medicaid authority or fiscal intermediaries are reflected as changes in estimates, generally in the year of determination. In the opinion of management, adequate provision has been made for adjustments, if any, that may result from such reviews.

**Other**

The Company has implemented a system wide voluntary compliance program instituted by ACOMM. This program is based on the elements of an effective program identified by the Office of Inspector General of the Department of Health and Human Services. The program includes a dedicated compliance officer, Board of Directors oversight, written policies and procedures, a code of conduct, continuous education, periodic auditing, and an associate hotline.

**ASBURY COMMUNITIES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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**NOTE 3 REGULATORY ENVIRONMENT (CONTINUED)**

**State of Maryland Reserve Requirement**

The State of Maryland requires AMV and AS to set aside reserves equal to 15% of its net operating expenses (as defined) for the most recent fiscal year. As of December 31, 2016 and 2015, AMV and AS are in compliance with the reserve requirement. The total amount reserved for AMV as of December 31, 2016 and 2015 is as follows:

	<u>2016</u>	<u>2015</u>
Maryland Department of Aging Reserves:		
Operating Expenses	\$ 83,865,363	\$ 80,393,576
Less: Depreciation and Amortization Expense	(13,756,074)	(12,649,894)
Interest Expense	(7,657,094)	(7,965,676)
Net Operating Expenses	<u>62,452,195</u>	<u>59,778,006</u>
Total Operating Reserve (15% of Net Operating Expenses)	<u>9,367,829</u>	<u>8,966,701</u>
Required Reserves for the Year Ended December 31st (100% of Total Operating Reserve)	<u>9,367,829</u>	<u>8,966,701</u>
Cash and Marketable Securities Available for Operating Reserve	<u>\$ 9,992,361</u>	<u>\$ 8,966,701</u>

The total amount reserved for AS as of December 31, 2016 and 2015 is as follows:

	<u>2016</u>	<u>2015</u>
Maryland Department of Aging Reserves:		
Operating Expenses	\$ 19,738,857	\$ 19,143,086
Less: Depreciation and Amortization Expense	(2,805,770)	(2,904,928)
Interest Expense	(2,401,033)	(2,475,455)
Net Operating Expenses	<u>14,532,054</u>	<u>13,762,703</u>
Total Operating Reserve (15% of Net Operating Expenses)	<u>2,179,808</u>	<u>2,064,405</u>
Required Reserves for the Year Ended December 31st (100% of Total Operating Reserve)	<u>2,179,808</u>	<u>2,064,405</u>
Cash and Marketable Securities Available for Operating Reserve	<u>\$ 2,325,129</u>	<u>\$ 2,064,405</u>

**ASBURY COMMUNITIES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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**NOTE 3 REGULATORY ENVIRONMENT (CONTINUED)**

**Pennsylvania Department of Insurance Reserve Requirements**

On a calendar year basis, BV is required by the Continuing Care Provider Registrations and Disclosure Act of 1984 to maintain a working-capital reserve equivalent to the greater of the total of debt service payments due during the next 12 months on account of any loans or 10% of the projected annual operating expenses, exclusive of depreciation and bad debt, computed only on the proportional share of financing or operating expenses that are applicable to residents of BV under continuing care agreements. The projected annual debt service requirements for BV for the years ended December 31, 2016 and 2015, exceeded 10% of BV's projected operating expense (as defined) equal to \$2,222,522 and \$2,154,414 as of December 31, 2016 and 2015, respectively.

BV's minimum liquid reserve was as follows:

	2016	2015
Projected Annual Debt Service Payments	\$ 6,671,252	\$ 6,669,169
Approximate Percentage of Continuing-Care Clients	69%	69%
Minimum Liquid Reserve Requirement	<u>\$ 4,603,164</u>	<u>\$ 4,601,727</u>

SH must adhere to the same reserve requirements. At SH, projected annual debt service requirements exceeded 10% of its projected annual operating expenses equal to \$1,454,373 and \$1,427,313 as of December 31, 2016 and 2015, respectively. SH's minimum liquid reserve was as follows:

	2016	2015
Projected Annual Debt Service Payments	\$ 1,809,426	\$ 1,808,584
Approximate Percentage of Continuing-Care Clients	57%	58%
Minimum Liquid Reserve Requirement	<u>\$ 1,031,373</u>	<u>\$ 1,048,979</u>

Pennsylvania statute also requires that all 10% deposits made by future residents of units be held in escrow. These funds are held in cash and cash equivalents.

**ASBURY COMMUNITIES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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**NOTE 4 NET RESIDENT SERVICE REVENUE**

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

A summary of gross and net resident service revenue is as follows:

	2016	2015
Gross Resident Service Revenue	\$ 206,052,627	\$ 184,171,060
Less Provisions for:		
Contractual Allowance under Third-Party Reimbursement Programs	(26,192,197)	(20,628,886)
Benevolent and Charity Care	(2,736,730)	(2,862,090)
Net Resident Service Revenue	\$ 177,123,700	\$ 160,680,084

Approximately 27% and 26% of net resident service revenue for years ended December 31, 2016 and 2015, respectively, were derived under federal and state reimbursement programs.

**NOTE 5 CONCENTRATION OF CREDIT RISK**

The Company grants credit without collateral to its residents, some of whom are insured under third-party payor agreements. The mix of receivables from patients and third-party payors was as follows:

	2016	2015
Private Pay	46%	55%
Medicaid	19%	14%
Medicare	24%	21%
Other (Primarily Managed Care and Insurance)	11%	10%
Total	100%	100%

**ASBURY COMMUNITIES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2016 AND 2015**

**NOTE 6 INVESTMENTS**

The investment portfolios, including assets whose use is limited and investments restricted by Board at fair value, consisted of the following:

	2016	2015
Investments:		
Cash and Short-Term Investments	\$ 8,674,388	\$ 5,798,531
Fixed-Income Securities and Mutual Funds	27,835,841	26,815,556
Equity Securities and Equity Mutual Funds	32,157,849	30,104,535
Equity Interests Funds	974,311	1,477,152
Investment in Land	134,192	134,192
Total Investments	\$ 69,776,581	\$ 64,329,966
Investments Restricted by Donors:		
Cash and Short-Term Investments	\$ 3,129,019	\$ 2,146,382
Fixed-Income Securities and Mutual Funds	12,599,772	10,648,175
Equity Securities and Equity Mutual Funds	11,427,897	12,402,341
Equity Interests Funds	489,654	603,060
Real Estate Mutual Funds	178,967	198,951
Total Investments Restricted by Donors	\$ 27,825,309	\$ 25,998,909
Statutory Reserves:		
Cash and Short-Term Investments	\$ 17,559,287	\$ 16,218,405
Equity Interests Funds	392,730	463,407
Total Statutory Reserves	\$ 17,952,017	\$ 16,681,812
Investments Held under Bond Indenture:		
Cash and Short-Term Investments	\$ 53,028,345	\$ 39,439,819
Total Investments Held under Bond Indenture	\$ 53,028,345	\$ 39,439,819
Investments Restricted by Board:		
Cash and Short-Term Investments	\$ 777,007	\$ 344,401
Fixed-Income Securities and Mutual Funds	1,966,250	1,692,687
Equity Securities and Equity Mutual Funds	1,748,084	1,849,938
Equity Interests Funds	78,550	101,222
Total Investments Restricted by Board	\$ 4,569,891	\$ 3,988,248

At December 31, 2016 and 2015, the equity interests funds were comprised of private equity funds.

**ASBURY COMMUNITIES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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**NOTE 6 INVESTMENTS (CONTINUED)**

Assets limited as to use held by trustee under bond indenture are maintained for the following purposes as of December 31:

	<u>2016</u>	<u>2015</u>
Debt-Service Fund	\$ 17,763,875	\$ 15,654,597
Debt-Service Reserve Fund	26,990,293	23,785,222
Project Fund	8,064,587	-
Capital Improvement Fund	209,590	-
Total	<u>53,028,345</u>	<u>39,439,819</u>
Less: Current Portion	<u>(16,834,843)</u>	<u>(15,653,036)</u>
Long-Term Portion of Bond Indenture	<u>\$ 36,193,502</u>	<u>\$ 23,786,783</u>

The total return on investments, along with investments classified as assets whose use is limited and investments restricted by Board, including the change in the market value of derivative instruments, generated net investment income excluding capitalized interest income as follows:

	<u>2016</u>	<u>2015</u>
Included within the Company's Performance Indicator:		
Interest and Dividend Income, Net	\$ 2,884,619	\$ 3,597,719
Net Realized Gains (Loss) on Investments	(808,266)	1,479,477
Proportionate Share of Gains in Equity Interests Funds	5,202	86,630
Net Unrealized Gain (Loss) on Change in Market Value of Derivative Instruments	<u>1,625,588</u>	<u>(136,398)</u>
	<u>3,707,143</u>	<u>5,027,428</u>
Included in Other Changes in Net Deficit:		
Other Unrealized Gain (Loss) on Investments	<u>3,370,544</u>	<u>(5,847,190)</u>
Total	<u>\$ 7,077,687</u>	<u>\$ (819,762)</u>

Interest and dividend income is presented net of capitalized interest income related to construction projects.

ACOMM engages professionals to manage its investment portfolio within guidelines of ACOMM's Board-approved investment policy. Management continually reviews its investment portfolio and evaluates whether declines in the fair value of securities should be considered other than temporary. Factored into this evaluation are the general market conditions, the issuer's financial condition and near term prospects, conditions in the issuer's industry, the recommendation of advisors and the length of time and extent to which the market value has been less than cost. During the years ended December 31, 2016 and 2015, the Company did not identify any other than temporary declines in the fair value of investments.

**ASBURY COMMUNITIES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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**NOTE 7 PROPERTY AND EQUIPMENT**

The following is a summary of property and equipment:

	Useful Life	2016	2015
Land and Improvements	10 - 40 Years	\$ 52,264,954	\$ 48,762,092
Buildings and Improvements	10 - 40 Years	657,727,642	575,529,209
Furniture and Equipment	2 - 15 Years	87,422,404	73,794,970
Construction in Progress		8,061,034	4,060,379
		<u>805,476,034</u>	<u>702,146,650</u>
Less Accumulated Depreciation		(394,832,270)	(336,134,262)
Property and Equipment, Net		<u>\$ 410,643,764</u>	<u>\$ 366,012,388</u>

Depreciation expense was \$29,165,605 and \$27,061,223 for the years ended December 31, 2016 and 2015, respectively.

Interest is capitalized for assets that require a period of time to be constructed or to prepare them for their intended use. For the years ended December 31, 2016 and 2015 the amount of interest expense capitalized was \$243,120 and \$82,814, respectively.

Included in construction in progress at December 31, 2016 is approximately \$5,500,000 of costs for improving and renovating facilities at Asbury Place. The project is expected to be completed in 2018 with a total cost of approximately \$26,000,000.

**NOTE 8 PLEDGES RECEIVABLE**

Pledges receivable were recorded at their net present value using an estimated discounted rate and consisted of the following:

	2016	2015
Amounts Expected to be Collected in:		
Less than One Year	\$ 628,725	\$ 240,965
One Year to Five Years	1,313,642	682,346
Six Years to Nine Years	61,946	11,056
Total	<u>\$ 2,004,313</u>	<u>\$ 934,367</u>

Pledges receivable were recorded net of reserve for uncollectible pledges of \$136,420 and \$105,733 as of December 31, 2016 and 2015, respectively.

AFOUND and BV are the beneficiaries of various charitable gift annuities created by donors, the assets for which AFOUND and BV are not the advisors. AFOUND and BV have legally enforceable rights on claims to such assets after the donor's or current beneficiary's death. The present value of these funds held in trust by others, based on the donor's or current beneficiary's life expectancy, is recorded as a permanently restricted net asset.

Obligations related to charitable gift annuities issued by AFOUND and BV are recorded at the present value of the future interest payments based on the donor's life expectancy.



**ASBURY COMMUNITIES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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**NOTE 8 PLEDGES RECEIVABLE (CONTINUED)**

Amounts donated in excess of the liability are recorded as temporarily restricted or permanently restricted donations in the consolidated statements of operations and changes in net deficit. The present value of the liability is determined by discounting estimated future payments at the adjusted federal rate. This rate is adjusted annually and was 1.93% and 1.67% at December 31, 2016 and 2015, respectively. Changes in the present value of the liability are shown as changes in values of charitable gift annuities in the consolidated statements of operations and changes in net deficit.

AFOUND is required by Maryland state law to maintain segregated assets for all annuities issued in an amount at least equal to the sum of its outstanding charitable gift annuities liability discounted to present value. At December 31, 2016 and 2015, AFOUND had segregated \$6,666,930 and \$6,391,188 as investments restricted by donors in the accompanying consolidated balance sheets as of December 31, 2016 and 2015, respectively and, therefore, has met its minimum reserve requirement at December 31, 2016 and 2015. BV is not subject to any requirements under the Commonwealth of Pennsylvania.

**NOTE 9 DEBT**

Long-term debt consisted of the following:

	Interest Rate	Maturity Dates	2016	2015
Series 2016 A TN Bonds	Fixed Rate Revenue Bonds	2024 - 2047	\$ 23,170,000	\$ -
Series 2016 B TN Bonds	Variable (1.927% as of 12/31/16)	2018 - 2046	356,604	-
Series 2014 A MD Bonds	Fixed (5.0%)	2020 - 2021	14,915,000	15,165,000
Series 2013 IV Bonds	Fixed Rate Revenue Bonds	2019 - 2037	24,110,000	24,110,000
Series 2012 IV Bonds	Fixed Rate Revenue Bonds	2012 - 2032	41,150,000	43,000,000
Series 2012 PA Bonds	Fixed Rate Revenue Bonds	2014 - 2036	50,205,000	50,694,999
Series 2010 PA Bonds	Fixed Rate Revenue Bonds	2012 - 2045	68,939,999	70,155,000
Series 2009 B MD Bonds	Fixed Rate Revenue Bonds	2011 - 2023	26,489,999	29,760,000
Series 2007 A TN Bonds	Fixed Rate Revenue Bonds	2023	8,305,000	-
Series 2006 A MD Bonds	Fixed Rate Revenue Bonds	2023 - 2036	82,780,000	82,780,000
			<u>340,421,602</u>	<u>315,664,999</u>
Unamortized Bond Premium/Discount, Net			3,947,215	2,218,248
Unamortized Bond Financing Costs, Net			(6,663,563)	(5,567,979)
Current Portion Bonds Payable			<u>(8,245,000)</u>	<u>(7,075,000)</u>
Total Bonds Payable			329,460,254	305,240,268
Forest Ridge Manor HUD Advance			3,293,600	-
BV Note Payable			1,747,696	2,206,696
CCNC Note Payable			179,186	260,227
Forest Ridge Manor Affordable Housing Program Grant			134,101	-
			<u>5,354,583</u>	<u>2,466,923</u>
Current Portion Notes Payable			<u>(560,576)</u>	<u>(540,040)</u>
Total Notes Payable			<u>4,794,007</u>	<u>1,926,883</u>
Total Long Term Debt			<u>\$ 334,254,261</u>	<u>\$ 307,167,151</u>

**ASBURY COMMUNITIES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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**NOTE 9 DEBT (CONTINUED)**

**Series 2016 Asbury Place (TN) Bonds**

On October 1, 2016, Asbury Place issued its \$23,170,000 Revenue Refunding and Improvement Bonds (Series 2016A TN) through The Health and Educational Facilities Board of Blount County, Tennessee. The purpose of the financing was primarily to provide funds, together with other available funds, to refund the outstanding Series 2010 TN Bonds, to pay a portion of the costs of improving and renovating the Organization's facilities at its Maryville and Kingsport locations, to fund a debt service fund, and to pay certain expenses incurred in connection with the issuance of the Series 2016A TN Bonds. Interest on the Series 2016A TN Bonds will range from 4% to 5% and will be payable on each January 1 and July 1, beginning on January 1, 2017.

Simultaneously with the issuance of the Series 2016A TN Bonds, Asbury Place also issued its \$18,000,000 Revenue Improvement Bonds (Series 2016B TN) through The Health and Educational Facilities Board of Blount County, Tennessee. The primary purpose of the Series 2016B TN financing was to provide additional funds to pay the costs of improving and renovating the Organization's facilities at its Maryville and Kingsport locations and to pay certain expenses incurred in connection with the issuance of the Series 2016B TN Bonds.

Simultaneously with the issuance of the Series 2016A TN Bonds and Series 2016B TN Bonds, Asbury Place also issued its \$6,236,858 Revenue Refunding Bonds (Series 2016C) through The Health and Educational Facilities Board of Blount County, Tennessee. The primary purpose of the Series 2016C TN financing was to refund the outstanding Series 2007A TN Bonds and to pay certain expenses incurred in connection with the issuance of the Series 2016C TN Bonds when they became callable on April 3, 2017. See subsequent events note 2.

Both the Series 2016B TN and Series 2016C TN Bonds are privately held bonds and bear interest at a variable rate equal to a percentage of one-month LIBOR plus a fixed credit spread and were issued using a draw-down structure, as the actual par amount of each of these series could be lower depending on costs of issuance and the costs of improvements to the Organization's facilities. As of December 31, 2016, the total amount drawn on Series 2016 B TN was \$356,604.

**Series 2014 A Maryland (MD) Bonds**

On April 9, 2014, the Asbury Maryland Obligated Group entered into a loan agreement with the City of Gaithersburg (the "Authority"). Under this agreement, the Authority issued \$15,290,000 of Economic Development Refunding Revenue Bonds (Asbury Maryland Obligated Group), Series 2014 (referred to as the "Series 2014 MD Bonds"). The Series 2014 MD Bonds are comprised of 1) \$1,515,000 of 5.0% fixed rate long term bonds with a yield of 4.25% over the life of the issuance and 2) \$13,775,000 of 5.0% fixed rate long term bonds with a yield of 4.25% over the life of the issuance.

The proceeds of the Series 2014 Bonds, which were sold at a premium, were utilized to fully refund \$16,000,000 of the Series 2009A MD Bonds on April 9, 2014.

The respective bond agreements require certain funds to be established and maintained by the bond trustee.

**ASBURY COMMUNITIES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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**NOTE 9 DEBT (CONTINUED)**

**Series 2013 Inverness (IV) Bonds**

On July 10, 2013, Inverness Village entered into a loan agreement with The Oklahoma Development Finance Authority (the "Authority") pursuant to which the Authority sold the Series 2013 bonds. From the proceeds, the Company borrowed \$24,110,000 of Continuing Care Retirement Community Revenue Refunding Bonds (Inverness Village Community), Series 2013 (referred to as the "Series 2013 IV Bonds"). The Series 2013 IV Bonds are comprised of 1) \$950,000 of 5.5% term bonds with a fixed rate of 5.5% with a yield of 5.7% over the life of the issuance and 2) \$23,160,000 of 5.75% term bonds with a fixed rate of 5.75 and with a yield of 5.875%.

The proceeds of the bonds and cash reserves were used to refund the outstanding portion of the 2007A Bonds, to fund the required debt service reserve fund and the debt service fund, and to pay for certain costs of issuance of the Series 2013 IV bonds.

As required by the bond agreements, the Company established various reserve funds from the proceeds of the bonds. The respective bond agreements require certain funds to be established and maintained by the bond trustee.

**Series 2012 Pennsylvania (PA) Bonds**

On October 1, 2012, Asbury Pennsylvania Obligated Group entered into a loan agreement with Cumberland County Municipal Authority (the "Authority") pursuant to which the Authority sold the Series 2012 bonds. From the proceeds, the Company borrowed \$51,640,000 of Refunding Revenue Bonds (Asbury Pennsylvania Obligated Group), Series 2012, referred to as the "Series 2012 PA Bonds". The Series 2012 PA Bonds are comprised of 1) \$945,000 of Serial Bonds bearing interest at fixed rates of 2.4% and 2.6% with the same yield over the life of the issuance, 2) \$995,000 of 3.0% term bonds with a fixed rate of 3.0% and a yield of 3.225%, 3) \$2,935,000 of 5.0% term bonds with a fixed rate of 5.0% and a yield of 4.32%, 4) \$3,845,000 of 5.25% term bonds with a fixed rate of 5.25% and a yield of 4.7%, 5) \$10,065,000 of 5.25% term bonds with a fixed rate of 5.25% and a yield of 4.85%, and 6) \$32,855,000 of 5.25% term bonds with a fixed rate of 5.25% and a yield of 5.1%.

The proceeds of the Series 2012 Bonds were used to refund the remaining Series 2006 PA Bonds outstanding, to fund a deposit to the Combined Debt Service Reserve Fund on the PA Bonds and to pay a portion of the costs of issuance of the Series 2012 PA Bonds.

As required by the bond agreements, the Company established various reserve funds from the proceeds of the bonds. The respective bond agreements require certain other funds to be established and maintained by the bond trustee.

**ASBURY COMMUNITIES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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**NOTE 9 DEBT (CONTINUED)**

**Series 2012 Inverness (IV) Bonds**

On May 1, 2012, Inverness Village entered into a loan agreement with The Oklahoma Development Finance Authority (the "Authority") pursuant to which the Authority sold the Series 2012 bonds. From the proceeds, the Company borrowed \$47,130,000 of Continuing Care Retirement Community Revenue Refunding Bonds (Inverness Village Community), Series 2012 (referred to as the "Series 2012 IV Bonds"). The Series 2012 IV Bonds are comprised of 1) \$13,825,000 of Serial Bonds bearing interest at fixed rates between 3.0% and 5.25% with a yield ranging from 3.0% and 5.0% over the life of the issuance, 2) \$1,000,000 million of 3.5% term bonds with a fixed rate of 3.5% and with a yield of 3.8%, 3) \$2,000,000 of 4.5% term bonds with a fixed rate of 4.5% and with a yield of 4.8%, 4) \$5,385,000 of 5.25% term bonds with a fixed rate of 5.25% and with a yield of 5.25%, 5) \$5,860,000 of 5.75% term bonds with a fixed rate of 5.75% and with a yield of 5.4% and 6) \$19,060,000 of 6.0% term bonds with a fixed rate of 6.0% and with a yield of 5.69%.

The proceeds of the bonds were used to refund a portion of 2007A Bonds, to fund the required debt service reserve fund and the debt service fund, and to pay for certain costs of issuance of the Series 2012 IV bonds.

As required by the bond agreements, the Company established various reserve funds from the proceeds of the bonds. The respective bond agreements require certain other funds to be established and maintained by the bond trustee.

**Series 2010 Pennsylvania (PA) Bonds**

On November 10, 2010, the Asbury Pennsylvania Obligated Group entered into a loan agreement with Cumberland County Municipal Authority (the "Authority") pursuant to which the Authority sold the Series 2010 bonds. From the proceeds, the Company borrowed \$74,630,000 of Municipal Refunding Revenue Bonds (Asbury Pennsylvania Obligated Group), Series 2010 (referred to as the "Series 2010 Bonds") The Series 2010 Bonds are comprised of 1) \$14,180,000 of Serial Bonds bearing interest at fixed rates between 3.0% and 5.4% with a yield ranging between 3.1% and 5.55% over the life of the issuance; 2) \$14,160,000 of 6% term bonds at a fixed rate of 6% and with a yield of 6.05%; 3) \$14,025,000 of 6% term bonds at a fixed rate of 6% and with a yield of 6.17%; and 4) \$32,265,000 of 6.125% term bonds at a fixed rate of 6.125% and with a yield of 6.25%. BV and SH have allocated the liability for payment on the bonds in an amount equal to the proportion of the bonds used to refund debt at each respective facility.

The proceeds of the Series 2010 Bonds were utilized to refund a portion of the Series 2006 PA Bonds and all of the Series 2008 PA Bonds, to fund the debt service reserve fund to required levels and to pay a portion of the costs of issuance of the Series 2010 Bonds.

As required by the bond agreements, the Company established various reserve funds from the proceeds of the bonds. The respective bond agreements require certain other funds to be established and maintained by the bond trustee.

**ASBURY COMMUNITIES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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**NOTE 9 DEBT (CONTINUED)**

**Series 2009B Maryland (MD) Bonds**

On December 16, 2009, the Asbury Maryland Obligated Group entered into a loan agreement with the City of Gaithersburg, Maryland Economic Development Authority (the "Authority") pursuant to which the Authority sold the Series 2009B bonds. From the proceeds, the Organization borrowed \$43,820,000 of Economic Development Refunding Revenue Bonds (Asbury Maryland Obligated Group), Series 2009B (referred to as the "Series 2009B Bonds"). The Series 2009B Bonds are comprised of 1) \$28,175,000 of Serial Bonds bearing interest at fixed rates between 5.0% and 5.65% with a yield ranging between 3.5% and 5.75% over the life of the issuance and 2) \$15,645,000 of 6% term bonds at a fixed rate of 6% and with a yield of 6.1%. AMV and AS have allocated the liability for payment on the bonds in an amount equal to the proportion of the bonds used to refund debt at each respective facility.

The proceeds of the Series 2009B Bonds were utilized to refund the Series 2006B and 2006C Bonds, to fund the debt service reserve fund to required levels and to pay a portion of the costs of issuance of the Series 2009B Bonds.

As required by the bond agreements, the Company established various reserve funds from the proceeds of the bonds. The respective bond agreements require certain other funds to be established and maintained by the bond trustee.

**Series 2007 Tennessee (TN) Bonds**

On May 30, 2007, Asbury Place issued \$13,415,000 in Series 2007A Revenue Refunding Bonds and \$920,000 in Series 2007B Taxable Revenue Bonds (collectively, the "2007 Bonds"). The 2007 Bonds were issued to refinance all long-term debt outstanding, reimburse Asbury Place for the swap termination payment related to the Series 2003 Bonds, fund a reserve fund related to the new bonds, and to pay for certain expenses related to the issuance of the bonds. Interest on the 2007 Bonds is payable on April 1 and October 1 each year. The 2007 Bonds as issued bore interest at 4.75% through April 1, 2012 and currently bear interest at 5.125% through April 1, 2023. The 2007 Bonds are collateralized by all gross receipts, accounts receivable, equipment and inventory of Asbury Place.

**Series 2006 Maryland (MD) Bonds**

On November 1, 2006, the Asbury Maryland Obligated Group entered into a loan agreement with the City of Gaithersburg, Maryland Economic Development Authority (the "Authority") pursuant to which the Authority sold the Series 2006 bonds. From the proceeds, the Obligated Group borrowed \$130,565,000 of Economic Development Refunding Revenue Bonds (Asbury Maryland Obligated Group), Series 2006 (referred to as the "Series 2006 Bonds"), which was comprised of \$82,780,000 of Series 2006A Bonds, \$17,880,000 of Series 2006B Bonds, and \$29,905,000 of Series 2006C Bonds.

On December 16, 2009, the Series 2006B and Series 2006C Bonds outstanding were refunded from the proceeds of the Series 2009B Bonds. The fixed rate Series 2006A Bonds remain outstanding as of December 31, 2016.

**ASBURY COMMUNITIES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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**NOTE 9 DEBT (CONTINUED)**

**Series 2006 Maryland (MD) Bonds (Continued)**

The Series 2006A Bonds bear interest at a fixed rate of 5.125% with a yield ranging between 4.670% and 4.770% and mature with varying annual amounts through year 2036. AMV and AS have allocated the liability for payment on the bonds in an amount equal to the proportion of the bonds used to refund debt at each respective facility.

**Deferred Financing Costs**

Deferred financing costs represent expenses (e.g., underwriting, legal, consulting, and other costs) incurred in connection with issuance of debt and are deferred and amortized over the life of the related indebtedness on a straight-line basis, which approximates the effective interest method. The amortization expense on deferred financing costs is included in interest expense and totaled \$356,003 and \$331,024 for the years ended December 31, 2016 and 2015, respectively.

**Bond Premium and Discount**

Bond premiums and discounts are comprised of the difference between the price at which a bond was sold and its fair value. Bond premiums and discounts are amortized on a straight-line basis into interest expense over the life of the bonds. The amortization expense on bond premiums and discounts included in interest expense was (\$215,602) and (\$195,528) for the years ended December 31, 2016 and 2015, respectively.

**Liens and Covenants**

Collateral for the debt includes the trustee-held funds, a first mortgage lien on the Company's real estate, as well as a security interest in the Company's assets, accounts receivable, general intangibles, chattel paper, and certain other items.

Under the Inverness Village loan agreements, the lenders have a first lien and claim on all receipts of Inverness Village, except the restricted donations and contributions. The terms of the indenture agreements restrict Inverness Village's ability to create additional indebtedness, restrict its use of facilities, and require Inverness Village to maintain stipulated insurance coverage. Additionally, the Inverness Village covenants require that it will fix, charge, and collect in each fiscal year amounts sufficient to meet a defined debt-service coverage ratio, and will maintain a minimum days of cash-on-hand ratio.

Under the Maryland Master Loan Agreements, the lenders have a first lien and claim on all receipts of the Maryland Obligated Group, except the restricted donations and contributions. The terms of the indenture agreements restrict the Company's ability to create additional indebtedness, restrict its use of AMV and AS facilities, and require the Maryland Obligated Group to maintain stipulated insurance coverage. Additionally, the Maryland Obligated Group covenants require that it will fix, charge, and collect in each fiscal year amounts sufficient to meet a defined debt-service coverage ratio for the obligated group and will maintain a minimum days of cash-on-hand ratio. In addition, ACOMM has agreed to contribute cash to the Maryland Obligated Group under certain circumstances and has agreed to maintain a minimum days of cash-on-hand ratio.

**ASBURY COMMUNITIES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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**NOTE 9 DEBT (CONTINUED)**

**Liens and Covenants (Continued)**

Under the Pennsylvania Master Loan Agreements, the lenders have a first lien and claim on all receipts of the Pennsylvania Obligated Group, except the restricted donations and contributions. The terms of the indenture agreements restrict the Company's ability to create additional indebtedness; restrict its use of SH and BV facilities; and require the Pennsylvania Obligated Group to maintain stipulated insurance coverage. Additionally, the Pennsylvania Obligated Group covenants require that it will fix, charge, and collect in each fiscal year amounts sufficient to meet a defined annual debt-service coverage ratio for the obligated group and will maintain a minimum days of cash-on-hand ratio. In addition, ACOMM has agreed to contribute cash to the Pennsylvania Obligated Group under certain circumstances and has agreed to maintain a minimum days of cash-on-hand ratio.

Under the Asbury Place Master Indenture, the lenders have a security interest in gross receipts (not charitable pledges), accounts, equipment, general intangibles inventory, documents, instruments and chattel paper of each Member of the Obligated Group. The terms of the indenture restrict the Company's ability to create additional indebtedness and require stipulated insurance coverage.

Additionally the members of the Obligated Group are subject to covenants relating to long-term debt service coverage ratio, days cash on hand, consolidation and merger, transfers of assets, and addition of or withdrawal of Members from the Obligated Group.

The Company is subject to various covenants under the bond agreements. These covenants include various reporting, financial, and operational requirements. As of December 31, 2016, management is not aware of any noncompliance with these covenants.

**Forest Ridge Manor HUD Advance**

Forest Ridge Manor (FRM) obtained a capital advance from HUD, in the amount of \$3,293,600 through the HUD Section 202 Capital Advance Program. Advances under this program bear no interest and are not required to be repaid so long as FRM remains available to very low-income households until July 1, 2047 and continues to meet the requirements of HUD Section 202. If default of the terms of the advance occurs, then HUD, at its option, may accelerate the entire principal balance. Upon acceleration, interest at the rate of 4.75% will be assessed from the date of the advance. The advance is collateralized by the project costs and the related land of FRM.

**BV Note Payable**

On January 16, 2015, Asbury Atlantic purchased approximately 29 acres of land adjacent to Bethany Village in Mechanicsburg, Pennsylvania, for a total purchase price of \$3,464,880. Of the total purchase price, \$2,429,990 was seller financed with a promissory note for five years at a fixed interest rate of 3.75%, which is secured by a lien on the land.

**ASBURY COMMUNITIES, INC.**  
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**NOTE 9 DEBT (CONTINUED)**

**CCNC Note Payable**

CCNC has a loan agreement with PNC Bank which is secured by a second deed of trust on the building. The loan bears interest at 3.75% per annum and requires monthly installments of principal and interest of \$8,208 through February 2019. At the time of the affiliation, the remaining note payable balance was \$340,967.

**Forest Ridge Manor Affordable Housing Grant**

FRM obtained an Affordable Housing Program (AHP) grant from the Federal Home Loan Bank of Tennessee, in the amount of \$134,101. The grant bears no interest and is not required to be repaid and will be forgiven after fifteen years or the maturity date of July 20, 2023, as long as FRM maintained compliance with its requirements. Under the terms of the grant, FRM must maintain a residence for person having an income level at or below 50% of the median income estimate.

**Debt Maturities**

A schedule of minimum maturities of debt for the next five years and thereafter is as follows:

<u>Year Ending December 31,</u>	<u>Amount</u>
2017	\$ 8,805,576
2018	9,006,866
2019	9,517,248
2020	9,418,798
2021	23,100,000
Thereafter	285,927,697
Total	<u>\$ 345,776,185</u>

**NOTE 10 DERIVATIVE INSTRUMENTS**

The Company's affiliates entered into various swap and forward-rate purchase agreements with certain investment companies, which reduce their exposure to volatility of interest rates on debt. Under these agreements, beginning on the effective date, the Company's affiliates pay a fixed rate of interest, as noted in the table below, while the investment company pays the affiliate based on a floating rate as derived from a tax-exempt bond rate index or a percentage of London Interbank Offered Rate (LIBOR). The floating rate resets every seven days. The difference between the fixed and floating rates is accrued and recorded in interest expense or interest income in the accompanying consolidated statements of operations and changes in net deficit. The notional amounts decline over time to hedge the interest rate exposure for the Company. These agreements are with investment companies that have investment grade credit ratings from Standard & Poor's and Moody's. These agreements have provisions that if the investment company falls below certain investment grade ratings, the investment company is required to either obtain a replacement investment company or post collateral equal to or more than the value of the derivative instrument.



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**DECEMBER 31, 2016 AND 2015**

**NOTE 10 DERIVATIVE INSTRUMENTS (CONTINUED)**

Asbury Atlantic entered into a Forward Contract concurrent with the issuance of the Series 2006 bonds. Under this agreement, Asbury Atlantic pays a fixed rate of interest of 5.128% and receives payments based on a floating rate based upon 68% of LIBOR. Payments on this Forward Contract agreement began on January 1, 2013 and terminate on January 1, 2041. AS entered into an interest rate basis swap in August 2001. AS pays a fixed rate of interest based on a floating rate derived from the Securities Industry and Financial Markets Association Municipal Swap Index and receives payments based on a floating rate based upon 73.5% of LIBOR. The interest rate swap agreement terminates on January 1, 2027.

Lehman Brothers Special Financing, Inc. (Lehman SFI) is the investment company or counterparty in the Asbury Atlantic and AS derivative agreements. These derivative obligations are guaranteed by Lehman Brothers Holding Company. Lehman SFI entered into bankruptcy in early October 2008 following its ultimate parent entering bankruptcy in mid-September 2008.

On March 16, 2012, Asbury Atlantic and AS executed novation agreements to a new entity, 1271 Counterparty Company, LLC. This company is newly established for the purpose of holding the AS and Asbury Atlantic swaps, and other derivative instruments. Deutsche Bank AG, London Branch will be stepping into the shoes of Lehman Brothers Holding Company, as the guarantor.

Interest rate swap payments have begun under the Forward Contract and \$3,133,039 and \$3,437,261 of payments were made during 2016 and 2015, respectively. Interest rate swap receipts under the Interest Rate Swap were received in the amounts of \$9,991 and \$25,184 during 2016 and 2015, respectively. All differences between the fixed and floating rates on the AS interest rate basis swap were accrued and recorded in interest expense or interest income in 2016 and 2015. All of the material terms of the swaps remain unchanged from the original swap agreements.

Asbury Place entered into a Forward Contract concurrent with the issuance of the Series 2016 bonds. Under this agreement, Asbury Place pays a fixed rate of interest of 0.998% and received payments based on a floating rate based upon 67% of LIBOR. Payments on this Forward Contract agreement will be begin on April 3, 2017 and will terminate on April 1, 2023. See subsequent events note 2.

**ASBURY COMMUNITIES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2016 AND 2015**

**NOTE 10 DERIVATIVE INSTRUMENTS (CONTINUED)**

The following schedule outlines the terms and fair market values of the derivative instruments on December 31, 2016 and 2015:

	Series 2006 Asbury Atlantic (MD)		Asbury Place Series 2016		
	Forward Contract	AS Interest Rate Swap	Forward Contract	Series 2016	Total
Notional Amount - December 31, 2016	\$ 65,504,500	\$ 20,980,000	\$ 6,236,858		
Trade Date	12/8/2006	8/13/2001	10/6/2016		
Effective Date	1/1/2013	8/23/2001	4/3/2017		
Termination or Cancellation Date	1/1/2041	1/1/2027	4/1/2023		
Fixed Rate	5.128%	5.540%	0.998%		
Fair Value at December 31, 2014	(27,080,244)	(195,184)	-		\$ (27,275,428)
Unrealized Gain (Loss)	(341,569)	205,171	-		\$ (136,398)
Fair Value at December 31, 2015	(27,421,813)	9,987	-		(27,411,826)
Unrealized Gain (Loss)	1,817,640	(231,731)	39,679		1,625,588
Fair Value at December 31, 2016	<u>\$ (25,604,173)</u>	<u>\$ (221,744)</u>	<u>\$ 39,679</u>		<u>\$ (25,786,238)</u>

The Company has included the fair market value of these derivative instruments as a liability of \$25,786,238 and \$27,411,826 in the accompanying consolidated balance sheets as of December 31, 2016 and 2015, respectively.

Net unrealized gains (losses) on derivative instruments was \$1,625,588 and \$(136,398) in 2016 and 2015, respectively.

**NOTE 11 TEMPORARILY RESTRICTED NET ASSETS**

Temporarily restricted net assets were available for the following purposes:

	2016	2015
Benevolent and Charity Care	\$ 712,843	\$ 623,051
Buildings, Equipment and Supplies	2,038,013	2,810,812
Total Temporarily Restricted Net Assets	<u>\$ 2,750,856</u>	<u>\$ 3,433,863</u>

**ASBURY COMMUNITIES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2016 AND 2015**

**NOTE 12 PERMANENTLY RESTRICTED NET ASSETS**

Permanently restricted net assets, totaling \$27,063,424 and \$26,841,647 as of December 31, 2016 and 2015, respectively, consist of investments to be held in perpetuity. Investment income earned from the permanently restricted net assets is available for operations of the supported organizations including funding of benevolent and charity care.

**Interpretation of Relevant Law**

Maryland adopted the State Prudent Management of Institutional Funds Act (the Act) effective in 2008. The board of directors of the Company has interpreted the Act 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 Company classifies as permanently restricted net assets (1) the original value of gifts donated to the permanent endowment, (2) the original value of subsequent gifts to the permanent endowment, and (3) 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. For the years ended December 31, 2016 and 2015, the Company's investment income earned on endowment funds, in the absence of donor restrictions, was used to fund a portion of the cost to provide benevolent care to residents.

Substantially all investments are held in investment pools with ACOMM, except investment held by Asbury Place. The investment policies, objectives, and strategies are consistent with those used in the management of unrestricted investments and disclosed in Note 2 of these financial statements.

A summary of the permanently restricted net assets is as follows:

	2016	2015
Endowment Fund - Beginning of Year	\$ 26,841,647	\$ 26,152,449
Contributions	251,927	764,262
Inherent Contribution	53,391	-
Changes in Value of Obligations under Charitable Gift Annuities	(83,541)	(75,064)
Endowment Fund - End of Year	<u>\$ 27,063,424</u>	<u>\$ 26,841,647</u>

**NOTE 13 RETIREMENT PLAN**

ACOMM has a defined-contribution plan (the Plan) under IRC Section 401(k). All full-time employees of the Company, except Asbury Place, are eligible to participate in the Plan. Employees may elect to defer up to \$18,000 of their base salary, subject to certain limitations. The employer's basic contribution is 3% of compensation for each eligible employee. ACOMM will also match the employee's contribution up to 1% of the employee's base salary.

**ASBURY COMMUNITIES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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**NOTE 13 RETIREMENT PLAN (CONTINUED)**

Asbury Place has a 403(b) tax deferred annuity plan. Employee participation in the plan is voluntary. Participating employees are permitted to contribute up to \$18,000 of their base salary, subject to certain limitations. Asbury Place contributes a matching contribution made at a rate of 3% of compensation, provided the employee has made elected deferrals at a rate equal to at least 1.5% of compensation.

The employer's contribution expense for the years ended December 31, 2016 and 2015 was \$2,574,337 and \$2,253,837, respectively.

**NOTE 14 COMMITMENTS AND CONTINGENCIES**

**General and Professional Liability Insurance**

ACOMM and its affiliates, excluding Asbury Place, have a general and professional liability insurance policy ("GL/PL"), which is claims-made based, through Caring Communities, a reciprocal Risk Retention Group. The GL/PL coverage has a limit of \$1,000,000 per occurrence and a \$3,000,000 annual aggregate. ACOMM and its affiliates, excluding Asbury Place, also have excess coverage in effect with a limit of \$10,000,000 per claim and a \$30,000,000 annual aggregate. This policy has been renewed through January 1, 2018.

Asbury Place has a GL/PL policy through Chubb Insurance. Asbury Place's GL/PL coverage has a limit of \$1,000,000 per occurrence and a \$3,000,000 annual aggregate. Asbury Place also has excess GL/PL coverage of \$5,000,000 per occurrence and \$5,000,000 annual aggregate. This policy has been renewed through February 28, 2018. Any losses for general and professional liability not currently covered by insurance in force are not expected to be material to the financial statements.

**Caring Communities, a reciprocal Risk Retention Group**

In 2009, ACOMM and its affiliates, excluding Asbury Place, began participating in an insurance risk retention group, Caring Communities, a reciprocal Risk Retention Group ("CCrRRG") licensed by the District of Columbia for purposes of obtaining the following insurance coverage: (1) primary general and professional liability; (2) excess general and professional liability; and (3) excess auto liability. CCrRRG provides insurance coverage to its members, which are not-for-profit, predominantly faith-based, senior housing and healthcare providers. These members include continuing care retirement communities, affordable housing providers, and other organizations that offer a mix of product and services, including independent living, assisted living and skilled nursing. In December 2016, CCrRRG was affirmed as a rating of "A (Excellent)" for its financial strength with a stable outlook by A.M. Best Co., one of the leading rating agencies.

ACOMM executed a subscription agreement and made capital contributions in exchange for an interest in a CCrRRG Charter Capital Account. Through December 31, 2016, ACOMM's capital contributions were \$560,508 which represents 3.53% of CCrRRG's total Charter Capital. The percentage of the total Charter Capital may be affected by the future addition of members to CCrRRG.

**ASBURY COMMUNITIES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2016 AND 2015**

**NOTE 14 COMMITMENTS AND CONTINGENCIES (CONTINUED)**

**Workers Compensation Insurance**

The Company and its affiliates, excluding BV which is covered under a separate Workers Compensation Trust, and Asbury Place which is separately insured under a partially self-insured plan through February 28, 2017, have entered into a self-funding arrangement for workers compensation coverage beginning February 1, 2013. The plan is administered by an insurance carrier and backed by a standby letter of credit from the Company's financial institution. The Company is responsible for funding employer liability losses, including allocated loss adjustment expenses, to a maximum of \$250,000 per incident and \$2,525,000 in the aggregate per policy year. Third-party stop-loss insurance coverage is in place for losses that exceed these amounts. As of December 31, 2016 and 2015, a reserve amount has been recorded related to this plan as calculated by an external actuary. The actuary based this reserve amount on historical claims and an estimate of incurred but not reported claims, including allocated claim adjustment expenses. The total workers compensation expense, included in Employee Benefits, includes incurred claims and a reserve. Costs are allocated to the Company and each affiliate based on an average of reported claims considering the allocation of the direct and shared risk pool. The insurance policy has been renewed through February 28, 2018.

**Health Insurance**

The Company and its affiliates, excluding Asbury Place which is separately insured under a fully insured plan, have a self-funding arrangement for health insurance coverage. ACOMM and affiliates have stop-loss coverage up to \$175,000 per participant and an annual aggregate of approximately 125% of expected claims with a maximum reimbursement of \$2,000,000 per year. The annual aggregate fluctuates based on the number of participants and is calculated based on historical claims information. The insurance policies have been renewed through July 31, 2017.

**Legal Actions and Claims**

The Company is party to various legal actions and claims arising in the ordinary course of its business. The Company's management believes that their ultimate disposition will not have material adverse effect on the Company's consolidated financial position or results of operations.

**Energy Contract**

In May 2014, the Company and its affiliates, excluding Asbury Place, established a comprehensive energy procurement and management program with a facilities management company. The Company and its affiliates entered into an Energy Agreement with a facilities management service company to procure electricity, water, sewer, and natural gas to the affiliates for a fixed flat amount of \$7,200,000 annually for the next five years beginning on May 1, 2014. This amount also provides utility expense management services, energy audits, and energy project management services to be performed by the facilities management service company for the Company and its affiliates.

**ASBURY COMMUNITIES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2016 AND 2015**

**NOTE 14 COMMITMENTS AND CONTINGENCIES (CONTINUED)**

**Energy Contract (Continued)**

In connection with this Energy Agreement, the Company and its affiliates have agreed to spend \$200,000 annually on energy saving capital purchases to improve energy consumption by the Company and its affiliates.

**Lease Commitments**

The Company and its affiliates have leases for vehicles and office equipment, which expire in 2022, and a ground lease that expires on August 1, 2039. Generally, the leases carry renewal provisions and require the Company and its affiliates to pay maintenance costs. Total lease expense for the years ended December 31, 2016 and 2015 was \$1,868,535 and \$1,980,635, respectively.

The future rental commitments for noncancelable operating leases are as follows:

<u>Year Ending December 31,</u>	<u>Amount</u>
2017	\$ 1,257,074
2018	904,213
2019	790,822
2020	657,887
2021	410,283
Thereafter	790,738
Total	<u>\$ 4,811,017</u>

In December 2006, ACOMM entered into a 10-year and three months noncancelable office lease agreement for approximately 19,600 square feet of office space in Germantown, Maryland, to be used as the Company's corporate office. In accordance with the lease agreement, the term of the lease began in May 2007 once the landlord completed certain improvements to the office space. ACOMM will pay annual base rent payments ranging from \$400,898 to \$523,081. These commitments are included in the future rental commitments payments above. At the termination of this lease, ACOMM entered into a new corporate office lease agreement. See subsequent events in Note 2.

In April 2014, TAG executed a lease agreement for approximately 6,800 square feet of office space in Mechanicsburg, Pennsylvania, to house its Data Center. The term of the lease is for 10 years at an annual base rent of \$122,060, with a provision for an annual base rental increase of 3 percent. The lease agreement includes a one-time right of early termination between the end of the 54<sup>th</sup> month of the lease and no later than the end of the 59<sup>th</sup> month of the lease, for which termination will be effective six months from the date of the notice.

**Construction Commitments**

As of December 31, 2016, the Company and its affiliates had outstanding construction commitments of approximately \$15,800,000 related to the Asbury Place construction.

**ASBURY COMMUNITIES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2016 AND 2015**

**NOTE 15 FUNCTIONAL EXPENSES**

The Company provides continuing and long-term care for the aging. Expenses related to providing these services were as follows:

	2016	2015
Continuing and Long-Term Care	\$ 158,832,337	\$ 143,893,177
General and Administrative	62,577,626	61,289,206
Total Functional Expenses	<u>\$ 221,409,963</u>	<u>\$ 205,182,383</u>

Included in general and administrative expenses are depreciation and amortization, interest, management fees, technology fees, and other general and administration expenses.

**NOTE 16 FAIR VALUE OF FINANCIAL INSTRUMENTS**

The following methods and assumptions were used by the Company in estimating the fair value of other financial instruments.

*Investments, Assets Whose Use Is Limited and Board-Designated Funds*

Fair values are based on quoted market prices, if available, or estimated using quoted market prices for similar securities.

*Fair Value of Financial Instruments*

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (exit price). The Company utilizes market data or assumptions that market participants would use in pricing the asset or liability, including assumptions about risk and the risks inherent in the inputs to the valuation technique. These inputs can be readily observable, market corroborated, or generally unobservable.

The Company primarily applies the market approach for recurring fair value measurements and endeavors to utilize the best available information. Accordingly, the Company utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. The Company is able to classify fair value balances based on the observability of those inputs.

The Company's assessment of the significance of a particular input to the fair value measurements requires judgment, and may affect the valuation of fair value assets and liabilities and their placement within the fair value hierarchy levels. Financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. Also, the time between inception and performance of the contract may affect the fair value. The determination of fair value may, therefore, affect the timing of recognition of revenues and net income.

**ASBURY COMMUNITIES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2016 AND 2015**

**NOTE 16 FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)**

*Fair Value of Financial Instruments (Continued)*

The determination of the fair values incorporates various factors required under fair value accounting. These factors include not only the credit standing of the counterparties involved and the impact of credit enhancements (such as cash deposits, letters of credit and priority interests), but also the impact of the Company's nonperformance risk on its liabilities.

The fair value of investments is determined by third-party service providers utilizing various methods dependent upon the specific type of investment. When quoted prices are available in the active market, securities are classified within Level 1 of the valuation hierarchy. Assets utilizing Level 1 inputs include equity securities and mutual funds, fixed-income securities, mutual funds, and bonds.

Liabilities utilizing Level 2 inputs are derivatives. A quoted price can be obtained from a number of dealer counterparties and other independent market sources based on observable interest rates and yield curves for the full term of the asset or liability, thus derivative instruments are classified within Level 2 of the valuation hierarchy.

The following table sets forth by level within the fair value hierarchy the Company's financial assets and liabilities that were accounted for at fair value on a recurring basis as of December 31, 2016 and 2015.

Recurring Fair Value Measures	At Fair Value as of December 31, 2016			
	Level 1	Level 2	Level 3	Total
<b>Assets</b>				
Equity Securities and Mutual Funds	\$ 45,333,830	\$ -	\$ -	\$ 45,333,830
Fixed-Income Securities and Mutual Funds	42,401,863	-	-	42,401,863
Other	178,967	-	-	178,967
<b>Liabilities</b>				
Derivative Instruments	\$ -	\$(25,786,238)	\$ -	\$(25,786,238)

Recurring Fair Value Measures	At Fair Value as of December 31, 2015			
	Level 1	Level 2	Level 3	Total
<b>Assets</b>				
Equity Securities and Mutual Funds	\$ 44,356,814	\$ -	\$ -	\$ 44,356,814
Fixed-Income Securities and Mutual Funds	39,156,418	-	-	39,156,418
Other	198,951	-	-	198,951
<b>Liabilities</b>				
Derivative Instruments	\$ -	\$(27,411,826)	\$ -	\$(27,411,826)



**ASBURY COMMUNITIES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2016 AND 2015**

**NOTE 17 INCOME TAXES**

The components of the taxable subsidiaries' (benefit) provision for income taxes for the years ended December 31, 2016 and 2015 consist of the following:

	<u>2016</u>	<u>2015</u>
Current:		
Federal	\$ -	\$ -
State	1,713	7,288
Total Current	<u>1,713</u>	<u>7,288</u>
Deferred:		
Federal	(35,284)	(121,709)
State	62,857	45,605
Total Deferred	<u>27,573</u>	<u>(76,104)</u>
Total	<u>\$ 29,286</u>	<u>\$ (68,816)</u>

The components of deferred tax assets and liabilities at December 31, 2016 and 2015 are as follows:

	<u>2016</u>	<u>2015</u>
Net Operating Loss Carryforwards	\$ 609,299	\$ 480,994
Accrued Paid Time-Off Benefits	199,626	247,535
Accrued Expenses	-	54,061
Rent	7,957	19,535
Deferred Revenue	53,908	21,031
Prepaid Insurance	(5,278)	(4,935)
Depreciation	(354,597)	(274,157)
Amortization	58,904	61,937
Federal Benefit of State Deferred	(2,221)	(23,593)
Provision for Bad Debt	5,730	20,528
Accrued Workers Compensation	4,235	2,201
Total	<u>577,563</u>	<u>605,137</u>
Valuation Allowance	-	-
Deferred Tax Asset	<u>\$ 577,563</u>	<u>\$ 605,137</u>

The effective tax rate of the taxable subsidiaries differs from the statutory federal tax rate primarily due to the impact of current year NOLs and resulting benefit thereof. In 2015, the calculation of deferred taxes resulted in an income tax benefit. However, in 2016, there was a higher deferred income tax expense over deferred income tax benefits resulting primarily from accelerated depreciation used for federal but not state in prior years.

**ASBURY COMMUNITIES, INC.  
CONSOLIDATING BALANCE SHEET  
DECEMBER 31, 2016**

	Asbury Communities, Inc.	Asbury Methodist Village	Asbury Solomons, Inc.	Bethany Village	Springhill	Calvert County Nursing Center	Inverness Village, Inc.	Asbury Communities HCBS, Inc	Asbury Foundation, Inc.	The Asbury Group, Inc.	Asbury, Inc.	Forest Ridge Manor, Inc.	Eliminations	Consolidated Balance
<b>ASSETS</b>														
<b>CURRENT ASSETS</b>														
Cash and Cash Equivalents	\$ 5,977,605	\$ 94,976	\$ 13,732	\$ 744,274	\$ 701,095	\$ 17,677	\$ 1,914,503	\$ 82,317	\$ 141,789	\$ 298,995	\$ 4,426,637	\$ 70,835	\$ -	\$ 14,484,435
Investments	28,972,344	18,393,140	-	4,442,687	791,960	-	5,830,371	-	2,206	40,110	11,169,571	-	-	69,642,389
Accounts Receivable, Net	-	2,826,279	470,596	996,910	671,488	993,390	231,055	613,080	-	244,905	2,352,271	2,275	-	9,402,249
Pledges Receivable, Net	-	-	-	-	-	-	-	-	628,725	-	-	-	-	628,725
Other Receivables and Prepaid Expenses	265,637	8,164,567	1,985,929	1,353,874	1,422,886	36,330	3,859,738	28,965	7,593	1,264,575	757,299	-	(31,021)	19,116,372
Investments Held under Bond Indenture	-	4,140,380	2,815,586	4,032,560	1,091,316	-	3,730,831	-	-	-	1,024,170	-	-	16,834,843
Assets Held for Sale	-	-	-	-	-	-	-	-	332,000	-	-	-	-	332,000
<b>Total Current Assets</b>	<b>35,215,586</b>	<b>33,619,342</b>	<b>5,285,843</b>	<b>11,570,305</b>	<b>4,678,745</b>	<b>1,047,397</b>	<b>15,566,498</b>	<b>724,362</b>	<b>1,112,313</b>	<b>1,848,585</b>	<b>19,729,948</b>	<b>73,110</b>	<b>(31,021)</b>	<b>130,441,013</b>
Due from ACOMM, Net	322,628	45,269,186	-	1,677,236	-	-	-	-	3,824,071	-	-	-	(51,093,121)	-
Property and Equipment, Net	782,312	144,594,334	46,226,931	86,284,842	18,740,733	4,941,847	59,436,146	48,732	40,150	1,620,200	47,600,607	2,735,752	(2,408,822)	410,643,764
Investments Restricted by Donors	-	-	-	10,064,898	-	-	-	-	17,707,020	-	53,391	-	-	27,825,309
Long-Term Investments	1,291,616	-	-	134,192	-	-	-	-	-	-	-	-	(1,291,616)	134,192
Deferred Marketing Costs, Net	-	1,057,031	159,309	181,771	12,828	-	383,285	-	-	-	220,430	-	-	2,014,654
Deposits and Other Assets	822,579	301,781	61,431	73,646	67,957	40,194	78,673	500	-	296,977	42,075	17,249	(80,487)	1,722,575
Other Intangible Assets	-	-	-	-	-	1,200,000	-	1,250,000	-	-	5,480,000	-	-	7,930,000
Investments Held under Bond Indenture	-	7,343,296	2,053,621	6,978,930	1,863,765	-	5,550,369	-	-	-	12,403,521	-	-	36,193,502
Statutory Reserves	-	9,992,351	2,325,129	4,603,164	1,031,373	-	-	-	-	-	-	-	-	17,952,017
Investments Restricted by Board	-	1,420,314	212,922	2,456,617	-	-	-	-	-	-	372,884	107,154	-	4,569,891
Pledges Receivable, Net	-	-	-	-	-	-	-	-	1,375,588	-	-	-	-	1,375,588
Funds Held in Trust	-	-	-	-	-	-	-	-	1,870,145	-	-	-	-	1,870,145
Beneficial Interest in Net Assets of Foundation	-	13,967,579	2,090,286	4,506,260	775,709	10,773	601,039	-	-	-	-	-	(21,951,646)	-
<b>Total Assets</b>	<b>\$ 38,434,721</b>	<b>\$257,565,214</b>	<b>\$ 58,415,472</b>	<b>\$128,531,861</b>	<b>\$ 27,171,110</b>	<b>\$ 7,240,211</b>	<b>\$ 81,616,010</b>	<b>\$ 2,023,594</b>	<b>\$ 25,929,287</b>	<b>\$ 3,765,762</b>	<b>\$ 85,902,856</b>	<b>\$ 2,933,265</b>	<b>\$(76,856,713)</b>	<b>\$642,672,650</b>

**ASBURY COMMUNITIES, INC.**  
**CONSOLIDATING BALANCE SHEET (CONTINUED)**  
**DECEMBER 31, 2016**

	Asbury Communities, Inc.	Asbury Methodist Village	Asbury Solomons, Inc.	Bethany Village	Springhill	Inverness Village, Inc.	Calvert County Nursing Center	Asbury Communities HCBS, Inc	Asbury Foundation, Inc.	The Asbury Group, Inc.	Asbury, Inc.	Forest Ridge Manor, Inc.	Eliminations	Consolidated Balance
<b>LIABILITIES AND NET ASSETS (DEFICIT)</b>														
<b>CURRENT LIABILITIES</b>														
Accounts Payable and Accrued Expenses	\$ 4,787,400	\$ 1,458,680	\$ 99,469	\$ 214,853	\$ 179,699	\$ 47,495	\$ 379,155	\$ 30,748	\$ -	\$ 462,189	\$ 3,113,618	\$ 34,246	\$ (80,487)	\$ 10,727,065
Accrued Compensation and Related Items	12,200,319	1,227,514	306,411	-	150,052	303,460	83,236	537,933	-	959,360	935,687	-	-	16,703,972
Accrued Interest Payable	-	2,685,306	861,867	2,636,533	717,344	1,815,832	-	-	-	-	379,175	-	-	9,096,057
Construction Retainage Payable	-	-	-	-	-	-	-	-	-	-	126,968	-	-	126,968
Obligations under Charitable Gift Annuities	-	-	-	97,269	-	-	-	-	609,168	-	-	-	-	706,437
Deposits from Prospective Residents	-	2,228,824	302,841	704,580	139,648	239,500	-	-	-	-	98,690	-	-	3,714,083
Entrance Fees - Refundable	-	1,297,752	477,260	154,351	35,334	2,114,296	-	-	-	-	724,846	-	-	4,803,839
Deferred Revenue	-	450,285	202,604	235,975	68,676	118,983	10,231	52,641	494	128,936	47,694	249	-	1,316,768
Current Portion of Long-Term Debt	-	1,666,913	2,033,087	1,872,401	373,973	1,915,000	84,202	-	-	202,184	860,000	-	(202,184)	8,805,576
Total Current Liabilities	16,987,719	11,015,274	4,283,539	5,915,962	1,664,726	6,554,566	556,824	621,322	609,662	1,752,669	6,286,678	34,495	(282,671)	56,000,765
Due to ACOMM, Net	-	-	2,040,267	-	5,715,026	34,271,818	2,260,361	3,831,501	-	2,390,315	-	-	(50,509,288)	-
Long-Term Debt, Net	-	94,724,991	26,094,037	91,582,757	24,723,752	62,137,466	93,634	-	-	381,650	31,469,923	3,427,701	(381,650)	334,254,261
Projected Refund of Standard Entrance Fees	-	1,683,210	788,816	990,874	423,372	196,128	-	-	-	-	67,647	-	-	4,150,047
Contingent Refundable Entrance Fee Liability	-	117,679,109	26,651,188	18,706,999	21,427,013	64,719,558	-	-	-	-	23,674,302	-	-	272,858,169
Entrance Fees - Deferred Revenue	-	76,366,232	28,298,207	36,000,591	5,709,511	8,963,488	-	-	-	-	3,293,769	-	-	158,631,798
Valuation of Derivative Instruments	-	20,089,619	5,736,298	-	-	-	-	-	-	-	(39,679)	-	-	25,786,238
Obligations under Charitable Gift Annuities	-	-	-	329,000	-	-	-	-	3,189,764	-	-	-	-	3,518,764
Other Long-Term Liabilities	46,168	-	-	-	-	-	-	-	-	43,044	5,358	31,021	(31,021)	94,570
Total Liabilities	17,033,887	321,558,435	93,892,352	153,526,183	59,663,400	176,843,024	2,910,819	4,452,823	3,799,426	4,567,678	64,757,998	3,493,217	(51,204,630)	855,294,612
Net Assets (Deficit)														
Unrestricted	21,400,834	(77,960,800)	(37,567,167)	(37,141,527)	(33,267,999)	(95,828,051)	4,318,619	(2,429,229)	150,000	(801,916)	20,951,381	(559,952)	(3,700,435)	(242,436,242)
Temporarily Restricted	-	355,858	370,541	990,687	679,078	204,769	9,837	-	2,627,783	-	140,086	-	(2,627,783)	2,750,856
Permanently Restricted	-	13,611,721	1,719,746	11,156,518	96,631	396,268	936	-	19,352,078	-	53,391	-	(19,323,865)	27,063,424
Total Net Assets (Deficit)	21,400,834	(63,993,221)	(35,476,880)	(24,994,322)	(32,492,290)	(95,227,014)	4,329,392	(2,429,229)	22,129,861	(801,916)	21,144,858	(559,952)	(25,652,083)	(212,621,962)
Total Liabilities and Net Assets (Deficit)	\$ 38,434,721	\$257,565,214	\$ 58,415,472	\$128,531,861	\$ 27,171,110	\$ 81,616,010	\$ 7,240,211	\$ 2,023,594	\$ 25,929,287	\$ 3,765,762	\$ 85,902,856	\$ 2,933,265	\$(76,856,713)	\$642,672,650

**ASBURY COMMUNITIES, INC.**  
**CONSOLIDATING STATEMENT OF OPERATIONS AND CHANGES IN NET DEFICIT**

	Year Ended December 31, 2016									5 Months Ended December 31, 2016			Consolidated Balance	
	Asbury Communities, Inc.	Asbury Methodist Village	Asbury Solomons, Inc.	Bethany Village	Springhill	Inverness Village, Inc.	Calvert County Nursing Center	Asbury Communities HCBS, Inc.	Asbury Foundation, Inc.	The Asbury Group, Inc.	Asbury, Inc.	Forest Ridge Manor, Inc.		Eliminations
<b>REVENUES, GAINS AND OTHER SUPPORT</b>														
Net Resident Service Revenue	\$ -	\$ 70,970,844	\$ 16,351,485	\$ 25,560,252	\$ 15,534,408	\$ 16,542,523	\$ 12,375,402	\$ 7,671,055	\$ -	\$ -	\$ 12,117,731	\$ -	\$ -	\$ 177,123,700
Other Operating Revenue	10,740,400	1,207,708	105,119	633,140	62,564	273,480	36,888	15,325	14,507	11,365,407	144,380	88,626	(16,910,986)	7,776,558
Amortization of Entrance Fees	-	10,145,381	3,737,325	4,810,772	866,887	1,709,858	-	-	-	-	300,791	-	-	21,571,014
Interest and Dividend Income, Net	521,159	943,917	213,517	543,583	85,642	135,905	66	490	294,877	-	145,301	162	-	2,884,619
Net Realized Loss on Investments	(163,926)	(187,644)	(11,339)	(69,576)	(7,192)	(255,898)	-	-	(81,373)	-	(31,318)	-	-	(808,266)
Proportionate Share of Gains in Equity	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Interests Funds	1,510	1,574	125	998	94	-	-	-	901	-	-	-	-	5,202
Contributions	-	-	-	-	-	-	134,000	-	3,511,602	-	33,446	-	-	3,679,048
Net Assets Released from Restrictions Used for Operations	-	-	-	-	-	-	-	-	222,347	-	9,995	-	-	232,342
Allocations from Asbury Foundation, Inc.	-	2,134,908	302,315	971,177	80,531	345,848	17,707	206,940	-	-	-	-	(4,059,426)	-
Total Revenues, Gains and Other Support	11,099,143	85,216,688	20,698,547	32,450,346	16,622,934	18,751,716	12,564,063	7,893,810	3,962,861	11,365,407	12,720,326	88,788	(20,970,412)	212,464,217
<b>EXPENSES</b>														
Salaries	8,767,825	27,250,340	5,611,405	9,186,473	6,593,105	5,876,032	7,032,870	6,120,731	116	5,904,645	5,078,420	-	(296,941)	87,125,021
Employee Benefits	1,571,159	6,702,479	1,219,406	2,280,921	1,670,189	1,673,666	1,278,504	1,077,162	-	1,036,100	995,976	-	(37,197)	19,468,365
Cost of Goods Sold	-	-	-	-	-	-	-	-	-	241,151	-	-	-	241,151
Contract Labor	23,475	5,346,124	1,215,507	1,594,987	1,197,250	1,693,954	1,461,255	7,996	-	-	1,402,564	-	-	13,943,112
Food Purchases	-	3,364,136	882,968	953,679	738,653	952,693	345,819	-	-	-	593,168	-	-	7,831,116
Medical Supplies and Other Resident Costs	-	2,502,583	575,931	926,251	497,580	747,652	796,261	18,903	-	-	760,668	-	-	6,825,829
General and Administrative	1,823,436	1,771,933	515,711	420,448	346,924	697,058	331,866	279,199	332,525	986,502	359,565	26,927	(4,530)	7,887,564
Building and Maintenance	573,594	6,367,072	1,860,481	3,168,335	1,225,775	1,853,637	1,477,433	53,403	11,577	2,473,893	867,472	55,395	(747)	19,987,320
Professional Fees and Insurance	53,553	616,142	165,559	294,522	153,230	160,334	133,217	4,797	1,188	71,372	238,445	10,023	-	1,902,382
Interest	33	7,342,078	2,249,376	5,420,380	1,463,884	4,422,444	12,435	7,977	6	41,708	346,070	-	(751,568)	20,554,823
Taxes	4,433	1,559,665	748,106	745,697	135,118	183,641	139,873	-	100	57,123	524,952	1,117	-	4,099,825
Provisions for Bad Debts	-	163,149	91,513	161,736	14,414	18,571	345,139	122,494	30,687	(28,235)	588,573	-	-	1,508,041
Depreciation and Amortization	182,972	13,959,297	2,917,086	4,710,837	2,058,310	4,076,433	488,917	36,638	8,192	653,056	992,839	41,310	(90,473)	30,035,414
Management Fee and Other Fees	-	6,658,336	1,545,479	2,145,726	1,380,619	1,685,989	545,586	798,880	2,784	-	946,269	-	(15,709,668)	-
Allocations to Asbury Foundation, Inc.	-	-	-	-	-	-	-	-	4,059,426	-	-	-	(4,059,426)	-
Total Expenses	13,000,480	83,603,334	19,598,528	32,009,992	17,475,051	24,042,104	14,389,175	8,528,180	4,446,601	11,437,315	13,694,981	134,772	(20,950,550)	221,409,963
Income (Loss) from Operations Prior to Net Unrealized Gains on Change in Market Value of Derivative Instruments, Inherent Contribution (Loss), and Loss on Retirement of Debt	(1,901,337)	1,613,354	1,100,019	440,354	(852,117)	(5,290,388)	(1,825,112)	(634,370)	(483,740)	(71,908)	(974,655)	(45,984)	(19,862)	(8,945,746)

**ASBURY COMMUNITIES, INC.**  
**CONSOLIDATING STATEMENT OF OPERATIONS AND CHANGES IN NET DEFICIT (CONTINUED)**

	Year Ended December 31, 2016									5 Months Ended December 31, 2016				Consolidated Balance
	Asbury Communities, Inc.	Asbury Methodist Village	Asbury Solomons, Inc.	Bethany Village	Springhill	Inverness Village, Inc.	Calvert County Nursing Center	Asbury Communities HCBS, Inc.	Asbury Foundation, Inc.	The Asbury Group, Inc.	Asbury, Inc.	Forest Ridge Manor, Inc.	Eliminations	
Income (Loss) from Operations Prior to Net Unrealized Gains on Change in Market Value of Value of Derivative Instruments, Inherent Contribution (Loss)	\$ (1,901,337)	\$ 1,613,354	\$ 1,100,019	\$ 440,354	\$ (852,117)	\$ (5,290,388)	\$ (1,825,112)	\$ (634,370)	\$ (483,740)	\$ (71,908)	\$ (974,655)	\$ (45,984)	\$ (19,862)	\$ (8,945,746)
Net Unrealized Gain on Change in Market Value of Derivative Instruments	-	1,421,032	164,877	-	-	-	-	-	-	-	39,679	-	-	1,625,588
Inherent Contribution (Loss)	-	-	-	-	-	-	-	-	-	-	21,987,265	(513,968)	-	21,473,297
Loss on Retirement of Debt	-	-	-	-	-	-	-	-	-	-	(204,062)	-	-	(204,062)
<b>Income (Loss) from Operations</b>	<b>(1,901,337)</b>	<b>3,034,386</b>	<b>1,264,896</b>	<b>440,354</b>	<b>(852,117)</b>	<b>(5,290,388)</b>	<b>(1,825,112)</b>	<b>(634,370)</b>	<b>(483,740)</b>	<b>(71,908)</b>	<b>20,848,227</b>	<b>(559,952)</b>	<b>(19,862)</b>	<b>13,949,077</b>
Transfers (to) From ACOMM, net	(621,159)	(2,378,841)	-	-	-	3,000,000	-	-	-	-	-	-	-	-
Net Assets Released from Restrictions Used for Purchases of Capital Items	-	161,639	-	1,581,950	316,205	212,146	-	-	-	-	-	-	-	2,271,940
Net Unrealized Gain on Investments	803,273	900,232	69,461	590,036	46,584	374,064	-	-	483,740	-	103,154	-	-	3,370,544
Net Decrease (Increase) in Unrestricted Net Deficit	(1,719,223)	1,717,416	1,334,357	2,612,340	(489,328)	(1,704,178)	(1,825,112)	(634,370)	-	(71,908)	20,951,381	(559,952)	(19,862)	19,591,561
<b>TEMPORARILY RESTRICTED NET ASSETS</b>														
Contributions	-	-	-	-	-	-	-	-	1,671,194	-	27,058	-	-	1,698,252
Inherent Contribution	-	-	-	-	-	-	-	-	-	-	123,023	-	-	123,023
Net Assets Released from Restrictions for Operations	-	-	-	-	-	-	-	-	(222,347)	-	(9,995)	-	-	(232,342)
Net Assets Released from Restrictions Used for Purchases of Capital Items	-	(161,639)	-	(1,581,950)	(316,205)	(212,146)	-	-	(2,271,940)	-	-	-	2,271,940	(2,271,940)
Change in Beneficial Interest in Net Assets of Asbury Foundation, Inc.	-	10,871	48,857	867,758	388,837	127,687	4,837	-	-	-	-	-	(1,448,847)	-
Net Increase (Decrease) in Temporarily Restricted Net Assets	-	(150,768)	48,857	(714,192)	72,632	(84,459)	4,837	-	(823,093)	-	140,086	-	823,093	(683,007)
<b>PERMANENTLY RESTRICTED NET ASSETS</b>														
Contributions	-	-	-	-	-	-	-	-	251,927	-	-	-	-	251,927
Inherent Contribution	-	-	-	-	-	-	-	-	-	-	53,391	-	-	53,391
Changes in Value of Obligations under Charitable Gift Annuities	-	-	-	(43,267)	-	-	-	-	(40,274)	-	-	-	-	(83,541)
Change in Beneficial Interest in Net Assets of Asbury Foundation, Inc.	-	98,882	91,422	(86,123)	65,439	41,097	936	-	-	-	-	-	(211,653)	-
Net Increase (Decrease) in Permanently Restricted Net Assets	-	98,882	91,422	(129,390)	65,439	41,097	936	-	211,653	-	53,391	-	(211,653)	221,777
<b>CHANGES IN NET ASSETS (DEFICIT)</b>	<b>(1,719,223)</b>	<b>1,665,530</b>	<b>1,474,636</b>	<b>1,768,758</b>	<b>(351,257)</b>	<b>(1,747,540)</b>	<b>(1,819,339)</b>	<b>(634,370)</b>	<b>(611,440)</b>	<b>(71,908)</b>	<b>21,144,858</b>	<b>(559,952)</b>	<b>591,578</b>	<b>19,130,331</b>
<b>NET ASSETS (DEFICIT) - BEGINNING OF YEAR</b>	<b>23,120,057</b>	<b>(65,658,751)</b>	<b>(36,951,516)</b>	<b>(26,763,080)</b>	<b>(32,141,033)</b>	<b>(93,479,474)</b>	<b>6,148,731</b>	<b>(1,794,859)</b>	<b>22,741,301</b>	<b>(730,008)</b>	<b>-</b>	<b>-</b>	<b>(26,243,661)</b>	<b>(231,752,293)</b>
<b>NET ASSETS (DEFICIT) - END OF YEAR</b>	<b>\$ 21,400,834</b>	<b>\$ (63,993,221)</b>	<b>\$ (35,476,880)</b>	<b>\$ (24,994,322)</b>	<b>\$ (32,492,290)</b>	<b>\$ (95,227,014)</b>	<b>\$ 4,329,392</b>	<b>\$ (2,429,229)</b>	<b>\$ 22,129,861</b>	<b>\$ (801,916)</b>	<b>\$ 21,144,858</b>	<b>\$ (559,952)</b>	<b>\$ (25,652,083)</b>	<b>\$ (212,621,962)</b>