ASBURY ATLANTIC, INC.

COMBINED FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION

YEARS ENDED DECEMBER 31, 2017 AND 2016

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INDEPENDENT AUDITORS' REPORT

Audit Committee
Asbury Communities, Inc.
Frederick, Maryland

Report on the Combined Financial Statements

We have audited the accompanying combined financial statements of Asbury Atlantic, Inc., which comprise the combined balance sheets as of December 31, 2017 and 2016, and the related combined statements of operations and changes in net deficit, and cash flows for the years then ended, and the related notes to the combined financial statements.

Management's Responsibility for the Combined Financial Statements

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the combined 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 combined 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 combined financial statements.

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

Audit Committee
Asbury Communities, Inc.

Opinion

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of Asbury Atlantic, Inc. as of December 31, 2017 and 2016, and the results of its operations, changes in its net assets, and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1 to the financial statements, Asbury Atlantic, Inc. and Asbury Solomons, Inc. (Solomons) entered into a Bill of Sale and Transfer Agreement (Agreement). As a result of the Agreement, Solomons' operations are being combined and reported as part of Asbury Atlantic, Inc.'s combined financial statements. Our opinion is not modified with respect to this matter.

Report on Supplementary Information

Other Information

Our audits were conducted for the purpose of forming an opinion on the combined financial statements as a whole. The other financial information included in the combining balance sheet, combining statement of operations and changes in unrestricted net deficit, and combining statement of cash flows is presented for purposes of additional analysis and is not a required part of the combined financial statements. Such information is the responsibility of management and derived from and relates directly to the underlying accounting and other records used to prepare the combined financial statements. The information has been subjected to the auditing procedures applied in the audits of the combined financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the combined financial statements or to the combined financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Plymouth Meeting, Pennsylvania
March 29, 2018

ASBURY ATLANTIC, INC.
COMBINED BALANCE SHEETS
DECEMBER 31, 2017 AND 2016

ASSETS	2017	2016
CURRENT ASSETS		
Cash and Cash Equivalents	$ 3,089,240	$ 1,554,077
Investments	27,985,901	23,627,787
Accounts Receivable, Net of Allowance for Doubtful Accounts of $2,103,774 and $1,754,679 at December 31, 2017 and 2016, Respectively	5,680,083	4,965,273
Other Receivables and Prepaid Expenses	8,581,414	12,927,256
Investments Held under Bond Indenture	12,211,306	12,079,842
Total Current Assets	57,547,944	55,154,235
Due from ACOMM, Net	55,420,346	39,191,129
Property and Equipment, Net	285,792,033	295,846,840
Investments Restricted by Donors	11,190,525	10,064,898
Long-Term Investments	134,192	134,192
Deferred Marketing Costs, Net	1,098,163	1,410,939
Deposits and Other Assets	41,511	504,815
Investments Held under Bond Indenture	18,276,883	18,239,612
Statutory Reserves	18,695,870	17,952,017
Investments Restricted by Board	4,377,885	4,089,853
Beneficial Interest in Net Assets of Foundation	23,257,606	21,339,834
Total Assets	$ 475,832,958	$ 463,928,364

See accompanying Notes to Combined Financial Statements.

LIABILITIES AND NET DEFICIT	2017	2016
CURRENT LIABILITIES		
Accounts Payable and Accrued Expenses	$ 1,708,971	$ 1,952,701
Accrued Compensation and Related Items	2,129,629	1,683,977
Accrued Interest Payable	6,703,144	6,901,050
Obligations under Charitable Gift Annuities	89,445	97,269
Deposits from Prospective Residents	3,597,456	3,375,893
Entrance Fees - Refundable	2,027,826	1,964,697
Deferred Revenue	909,677	957,540
Current Portion of Long-Term Debt	6,224,528	5,946,374
Total Current Liabilities	23,390,676	22,879,501
Long-Term Debt, Less Current Portion	230,969,222	237,125,537
Projected Refund of Standard Entrance Fees	4,743,864	3,886,272
Contingent Refundable Entrance Fee Liability	184,032,003	184,464,309
Entrance Fees - Deferred Revenue	152,737,960	146,374,541
Valuation of Derivative Instruments	24,591,723	25,825,917
Obligations under Charitable Gift Annuities	299,520	329,000
Total Liabilities	620,764,968	620,885,077
NET ASSETS (DEFICIT)		
Unrestricted	(175,789,847)	(185,937,493)
Temporarily Restricted	3,356,575	2,396,164
Permanently Restricted	27,501,262	26,584,616
Total Net Deficit	(144,932,010)	(156,956,713)
Total Liabilities and Net Deficit	$ 475,832,958	$ 463,928,364

ASBURY ATLANTIC, INC.
COMBINED STATEMENTS OF OPERATIONS AND CHANGES IN NET DEFICIT
YEARS ENDED DECEMBER 31, 2017 AND 2016

	2017	2016
REVENUES, GAINS, AND OTHER SUPPORT		
Net Resident Service Revenue	$ 132,194,596	$ 128,416,989
Other Operating Revenue	1,984,395	2,008,531
Amortization of Entrance Fees	19,640,132	19,560,365
Interest and Dividend Income, Net	2,006,013	1,880,286
Net Realized Gain (Loss) on Investments	8,910,799	(369,378)
Allocations from Asbury Foundation, Inc.	5,184,276	3,488,931
Total Revenues, Gains, and Other Support	169,920,211	154,985,724
EXPENSES		
Salaries	49,861,297	48,641,323
Employee Benefits	12,428,846	11,872,995
Contract Labor	9,741,366	9,353,868
Food Purchases	5,957,410	5,939,436
Medical Supplies and Other Resident Costs	4,792,848	4,502,345
General and Administrative	2,898,534	3,055,016
Building and Maintenance	12,847,004	12,621,663
Professional Fees and Insurance	1,237,058	1,229,453
Interest	15,784,813	16,475,718
Taxes	3,447,771	3,188,586
Provision for Bad Debts	855,453	430,812
Depreciation and Amortization	23,718,046	23,645,530
Management and Other Fees	11,847,995	11,730,160
Total Expenses	155,418,441	152,686,905
INCOME FROM OPERATIONS PRIOR TO NET UNREALIZED GAIN ON CHANGE IN MARKET VALUE OF DERIVATIVE INSTRUMENTS AND LOSS ON DISPOSAL OF ASSETS	14,501,770	2,298,819
Net Unrealized Gain on Change in Market Value of Derivative Instruments	1,234,194	1,585,909
Loss on Disposal of Assets	(1,767,932)	-
INCOME FROM OPERATIONS	13,968,032	3,884,728

See accompanying Notes to Combined Financial Statements.

ASBURY ATLANTIC, INC.
COMBINED STATEMENTS OF OPERATIONS AND CHANGES IN NET DEFICIT (CONTINUED)
YEARS ENDED DECEMBER 31, 2017 AND 2016

	2017	2016
UNRESTRICTED NET DEFICIT		
Income from Operations	$ 13,968,032	$ 3,884,728
Net Unrealized Gain (Loss) on Investments	(3,606,867)	1,609,104
Net Assets Released from Restrictions Used for Purchase of Capital Items	365,981	2,059,794
Transfers to ACOMM	(579,500)	(2,378,841)
Net Decrease in Unrestricted Net Deficit	10,147,646	5,174,785
TEMPORARILY RESTRICTED NET ASSETS		
Net Assets Released from Restriction Used for Purchase of Capital Items	(365,981)	(2,059,794)
Change in Beneficial Interest in Net Assets of Asbury Foundation, Inc.	1,326,392	1,316,323
Net Increase (Decrease) in Temporarily Restricted Net Assets	960,411	(743,471)
PERMANENTLY RESTRICTED NET ASSETS		
Change in Beneficial Interest in Net Assets of Asbury Foundation, Inc.	957,362	169,620
Changes in Value of Obligations under Charitable Gift Annuities	(40,716)	(43,267)
Net Increase in Permanently Restricted Net Assets	916,646	126,353
DECREASE IN NET DEFICIT	12,024,703	4,557,667
Net Deficit - Beginning of Year	(156,956,713)	(161,514,380)
NET DEFICIT - END OF YEAR	$ (144,932,010)	$ (156,956,713)

See accompanying Notes to Combined Financial Statements.

ASBURY ATLANTIC, INC.
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2017 AND 2016

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Decrease in Net Deficit	$ 12,024,703	$ 4,557,667
Adjustments to Reconcile Decrease in Net Deficit to Net Cash Provided by Operating Activities:		
Provision for Bad Debts	855,453	430,812
Depreciation and Amortization	23,718,046	23,645,530
Amortization of Deferred Financing Costs	250,856	250,856
Amortization of Bond Premium/Discount	(182,643)	(182,643)
Amortization of Entrance Fees	(19,640,132)	(19,560,365)
Net Proceeds from Nonrefundable Entrance and Advance Fees	29,887,917	28,422,848
Net Unrealized (Gains) Losses on Investments	3,606,867	(1,609,104)
Loss on Disposal of Assets	1,767,932	-
Net Unrealized Gains on Change in Market Value of Derivative Instruments	(1,234,194)	(1,585,909)
Changes in Beneficial Interest in Net Assets of Foundation	(1,917,772)	573,852
Changes in Value of Obligations Under Charitable Gift Annuities	40,716	43,267
Transfers to ACOMM	579,500	2,378,841
Changes in Assets and Liabilities:		
Accounts Receivable	(1,570,263)	(143,396)
Other Receivables and Prepaid Expenses	89,815	64,484
Deferred Entrance Fees	4,256,027	3,253,580
Other Assets	463,304	(232,944)
Deferred Revenue	(47,863)	314,106
Accounts Payable and Accrued Expenses	201,922	(267,647)
Accrued Interest Payable	(197,906)	(135,758)
Net Cash Provided by Operating Activities	52,952,285	40,218,077
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Property and Equipment, Net	(15,118,395)	(19,123,822)
Sale (Purchases) of Investments, Net	(10,291,228)	3,651,814
Net Cash Used by Investing Activities	(25,409,623)	(15,472,008)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from Entrance and Advance Refundable Fees and Refundable Deposits	20,254,069	16,140,464
Refunds of Entrance and Advance Refundable Fees and Refundable Deposits	(23,428,457)	(18,831,835)
Payments on Long-Term Debt	(5,946,374)	(5,683,999)
Payments on Obligations under Charitable Gift Annuities	(78,020)	(79,100)
Change in Due to ACOMM, Net	(16,229,217)	(14,162,239)
Transfers to ACOMM	(579,500)	(2,378,841)
Net Cash Used by Financing Activities	(26,007,499)	(24,995,550)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1,535,163	(249,481)
Cash and Cash Equivalents - Beginning of Year	1,554,077	1,803,558
CASH AND CASH EQUIVALENTS - END OF YEAR	$ 3,089,240	$ 1,554,077
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash Paid for Interest	$ 15,914,506	$ 16,543,264

See accompanying Notes to Combined Financial Statements.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Asbury Atlantic, Inc. (Asbury Atlantic or the Company) is a nonprofit, nonstock corporation organized under the laws of the state of Maryland. Asbury Communities, Inc. (ACOMM) is the sole member of Asbury Atlantic. Asbury Atlantic has operating affiliates comprised of Asbury Methodist Village (AMV), Bethany Village (BV), Springhill (SH) and Asbury Solomons (AS).

Prior to March 1, 2017, ACOMM was the sole member of Atlantic and AS. On March 1, 2017, Atlantic and AS entered into a Bill of Sale and Transfer Agreement (the Agreement). Under the terms of the agreement, Atlantic acquires all of AS' assets except for outstanding accounts receivable as of the transaction date. In addition, Atlantic assumes all of AS' liabilities except for any that may arise from the excluded outstanding accounts receivable. The purchase price for the transaction was $1. Since Atlantic and AS were entities under common control, accounting principles generally accepted in the United States of America require Atlantic to report its operations as if the transaction occurred at the beginning of the earliest period presented. Therefore, Atlantic retrospectively adjusted its combined financial statements to incorporate AS' operations as of January 1, 2016.

AMV is a continuing-care retirement community (CCRC) located in Gaithersburg, Maryland. BV and SH are CCRCs located in Mechanicsburg, Pennsylvania and Erie, Pennsylvania. AS is a CCRC located in Solomons, Maryland. Cash transferred from Asbury Atlantic to ACOMM during 2017 and 2016 was not required at Asbury Atlantic to fund daily operations, meet debt covenants, or fulfill regulatory requirements. This cash transfer policy has been approved by the board of directors.

BV has a Housing Management Agreement with Bethany Development Corp. (BDC), a 149 unit affordable housing (HUD) community in Mechanicsburg, Pennsylvania. BV provides administrative and accounting services to BDC. BV has no economic interest in the property. Accordingly, Asbury Atlantic does not consolidate the financial statements of BDC into Asbury Atlantic's combined financial statements. On August 1, 2016, ACOMM entered into an affiliation agreement with BDC. ACOMM will serve as the supporting organization of BDC. The current board of directors of BDC continued control over board governance until August 1, 2017.

ACOMM serves as the supporting organization of Asbury Atlantic; Inverness Village, an Oklahoma nonprofit corporation (IV); Asbury, Inc. (Asbury Place) and Affiliate; Asbury Communities HCBS, Inc. (HCBS); and Calvert County Nursing Center (CCNC).

ACOMM is the sole member of Asbury Foundation, Inc. (AFOUND).

Principles of Combination

The accompanying combined financial statements include the accounts of AMV, BV, SH and AS (collectively referred to as Asbury Atlantic, Inc.). All significant intercompany transactions have been eliminated in the combined financial statements.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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.

Accounts Receivable and Contractual Allowances

Asbury Atlantic'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 22% of total net resident-service revenues for the years ended December 31, 2017 and 2016.

Investments and Investment Income

Substantially all investments are held in investment pools with ACOMM. The investment pools comprise equity securities or equity mutual funds, bonds or bond mutual funds and cash. 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). In addition, investments held under bond indenture are high-grade income 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.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments and Investment Income (Continued)

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 are allocated to Asbury Atlantic based on its proportion of its underlying holdings. The portion of investments that is available to fund current operating activities is included in current assets in the accompanying 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 Asbury Atlantic's proportional share of 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 the 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 losses and Asbury Atlantic's proportionate share is included in investment income in the accompanying statements of operations and changes in net (deficit) assets.

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.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 Company'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

Asbury Atlantic 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 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.

Beneficial Interest in Net Assets of AFOUND

Asbury Atlantic records an interest in the net assets of AFOUND resulting from unrestricted, temporarily restricted, and permanently restricted contributions that are solicited and held by AFOUND to be used for the benefit of Asbury Atlantic.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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. 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 financing costs during the period of construction of capital assets are capitalized as components 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 of deferred marketing costs was $312,778 and $311,812 for the years ended December 31, 2017 and 2016, respectively. There were no additions to deferred marketing costs for the years ended December 31, 2017 and 2016.

Advertising Expenses

The cost of advertising is expensed when incurred and included within the general and administrative financial statement line item within the statements of operations and changes in net deficit. Advertising expense was $931,235 and $934,352 for the years ended December 31, 2017 and 2016, respectively.

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 Asbury Atlantic.

Accrued Compensation and Related Items

Accrued compensation and related items include a reserve for the self-funding arrangement for workers' compensation coverage. See Note 15 for additional information.

Continuing-Care Contracts

Asbury Atlantic 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.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Continuing-Care Contracts (Continued)

Asbury Atlantic periodically reviews the present value of the net cost of future services and use of facilities to be provided to current residents under continuing-care contracts and compares that amount with the balance of deferred revenue from entrance fees. If the present value of the net cost of future services and use of facilities exceeds the deferred revenue from entrance fees, a liability is recorded (obligation to provide future services and use of facilities) with a corresponding charge to income. As a result of this calculation, the present value of the net cost of future services and use of facilities did not exceed deferred revenue from resident entrance fees; accordingly, no obligation was recorded for the years ended December 31, 2017 and 2016.

Revenue Recognition

Asbury Atlantic 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. 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.

Under the standard declining refund option, the entrance 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 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.

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 combined 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, or couple's, expected remaining life, adjusted annually. 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 amounts 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.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue Recognition (Continued)

A summary of net entrance fees is as follows at December 31:

	2017	2016
Entrance Fees - Refundable	$ 2,027,826	$ 1,964,697
Contingent Refundable Entrance Fees	$ 184,032,003	$ 184,464,309
Entrance Fees - Deferred Revenue:		
25% to 90% Refundable Contracts	$ 4,918,762	$ 5,154,376
Standard Entrance Fee Option Contracts:		
Five-Year Contracts	149,114,107	140,801,545
Nine-Year Contracts	3,448,955	4,304,892
Total	157,481,824	150,260,813
Less: Projected Refund of Standard Entrance Fees	(4,743,864)	(3,886,272)
Total Entrance Fees - Deferred Revenue	$ 152,737,960	$ 146,374,541
Total Entrance Fees	$ 338,797,789	$ 332,803,547

The portions of the above entrance fees that continue to be subject to any contractual refund obligation as of December 31, 2017 and 2016 were $250,987,290 and $249,407,896, respectively. Asbury Atlantic also records revenue related to resident room and board, which, depending upon 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.

Charity Care

Asbury Atlantic's policy is to track those expenses for residents in its facilities who cannot pay for all or a portion of their care and to define these expenses as charity care. Because Asbury Atlantic does not pursue collection of amounts determined to qualify as charity care, they are not reflected as revenue in the accompanying financial statements. See Note 3 for the benevolent and charity care amounts provided to residents for the years ended December 31, 2017 and 2016.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Contributions

Unconditional promises to give cash and other assets to Asbury Atlantic 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 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 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 statements of operations and changes in net deficit. Permanently restricted net assets represent donor-restricted endowments to be held in perpetuity.

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 consist of assets held on behalf of Asbury Atlantic by AFOUND. They 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 Asbury Atlantic. Permanently restricted net assets are amounts held by AFOUND for the benefit of the Asbury Atlantic members. 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.

Income from Operations

The accompanying combined statements of operations and changes in net deficit include income from operations, which is the Asbury Atlantic's performance indicator. Changes in unrestricted net deficit, which are excluded from income from operations, consistent with industry practice, include unrealized gains and losses on investments, net assets released from restriction used for purchase of capital items, and permanent transfers of assets to and from ACOMM for other than goods and services.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Tax Status

Asbury Atlantic members are each 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.

ACOMM has implemented processes to ensure compliance with the Internal Revenue Service's intermediate sanctions provisions for all its supported organizations, including Asbury Atlantic. This includes an independent review by the compensation committee of the Board 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 return is 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.

Fair Value Measurements

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.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair Value Measurements (Continued)

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.

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 accounting principles generally accepted in the United States of America. 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 combined 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.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair Value Measurements (Continued)

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.

Reclassification

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

Subsequent Events

In preparing these combined financial statements, the Company has evaluated events and transactions for potential recognition or disclosure through March 29, 2018, the date the combined financial statements were issued.

NOTE 2 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. Asbury Atlantic 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 inquires 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.

Medicare Reimbursement

The Balanced Budget Act of 1997 modified how payment is made for Medicare skilled nursing facility (SNF) services. SNFs 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 price-based prospective payment 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.

NOTE 2 REGULATORY ENVIRONMENT (CONTINUED)

Medicare and Medicaid (Continued)

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 consists of three net operating components (resident care, other resident-related, and administrative) and one capital component. The net operating components are based upon 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.

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 home's Pennsylvania Medicaid residents and rebased annually on July 1 of each year. The Company has utilized actual rates in the preparation of the combined financial statements.

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

Other

ACOMM and affiliates participate in 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 oversight, written policies and procedures, a code of conduct, continuous education, periodic auditing, and an associate hotline.

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 is applicable to residents of BV under continuing-care agreements. The projected annual debt-service requirements for BV for the years ended December 31, 2017 and 2016 exceeded 10% of BV's projected operating expenses (as defined) equal to $2,284,468 and $2,222,522 as of December 31, 2017 and 2016, respectively. The minimum liquid reserve is as follows at December 31:

	2017	2016
Projected Annual Debt-Service Payments	$ 6,669,444	$ 6,671,252
Percentage of Continuing-Care Clients	69%	69%
Minimum Liquid Reserve Requirement	$ 4,601,916	$ 4,603,164

NOTE 2 REGULATORY ENVIRONMENT (CONTINUED)

Pennsylvania Department of Insurance Reserve Requirements (Continued)

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 $1,475,492 and $1,454,373 as of December 31, 2017 and 2016, respectively. SH's minimum liquid reserve is as follows as of December 31:

	2017	2016
Projected Annual Debt-Service Payments	$ 1,808,915	$ 1,809,426
Percentage of Continuing-Care Clients	58%	57%
Minimum Liquid Reserve Requirement	$ 1,049,170	$ 1,031,373

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

State of Maryland Statutory Reserves

The state of Maryland requires Asbury Atlantic to set aside reserves equal to 15% of its net operating expenses (as defined) for the most recent fiscal year. The total amount reserved for AMV is as follows as of December 31:

	2017	2016
Maryland Department of Aging Reserves:		
Operating Expenses	$ 83,603,334	$ 83,865,363
Less: Depreciation and Amortization Expense	(13,959,297)	(13,756,074)
Interest Expense	(7,342,078)	(7,657,094)
Net Operating Expenses	$ 62,301,959	$ 62,452,195
Total Operating Reserve (15% of Net Operating Expenses)	$ 9,345,294	$ 9,367,829
Required Reserves for the Year Ended December 31 (100% of Total Operating Reserve)	$ 9,345,294	$ 9,367,829
Cash and Marketable Securities Available for Operating Reserve	$ 10,591,333	$ 9,992,351

NOTE 2 REGULATORY ENVIRONMENT (CONTINUED)

State of Maryland Statutory Reserves (Continued)

The total amount reserved for AS is as follows as of December 31:

	2017	2016
Maryland Department of Aging Reserves:		
Operating Expenses	$ 19,598,528	$ 19,738,857
Less: Depreciation and Amortization Expense	(2,917,086)	(2,805,771)
Interest Expense	(2,249,376)	(2,401,032)
Net Operating Expenses	$ 14,432,066	$ 14,532,054
Total Operating Reserve (15% of Net Operating Expenses)	$ 2,164,810	$ 2,179,808
Required Reserves for the Year Ended December 31 (100% of Total Operating Reserve)	$ 2,164,810	$ 2,179,808
Cash and Marketable Securities Available for Operating Reserve	$ 2,453,451	$ 2,325,129

NOTE 3 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 for the years ended December 31:

	2017	2016
Gross Resident Service Revenue	$ 156,499,055	$ 151,606,406
Less Provisions for:		
Contractual Allowance Under Third-Party Reimbursement Programs	(21,719,755)	(20,989,069)
Benevolent and Charity Care	(2,584,704)	(2,200,348)
Net Resident Service Revenue	$ 132,194,596	$ 128,416,989

NOTE 4 CONCENTRATION OF CREDIT RISK

Asbury Atlantic 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 is as follows as of December 31:

	2017	2016
Private Pay	56 %	52 %
Medicaid	15	17
Medicare	17	18
Other (Primarily Managed Care and Insurance)	12	13
Total	100 %	100 %

NOTE 5 INVESTMENTS

Asbury Atlantic's proportional share of the ACOMM investment portfolios, including assets whose use is limited and investments restricted by Board at fair value consisted of the following as of December 31:

	2017	2016
Investments:		
Cash and Short-Term Investments	$ 1,371,954	$ 3,905,762
Fixed-Income Securities and Mutual Funds	13,150,015	10,549,345
Equity Securities and Equity Mutual Funds	13,463,932	9,172,680
Investment in Land	134,192	134,192
Total Investments	$ 28,120,093	$ 23,761,979
Investments Restricted by Donors:		
Cash and Short-Term Investments	$ 490,070	$ 974,266
Fixed-Income Securities and Mutual Funds	4,664,098	4,248,482
Equity Securities and Equity Mutual Funds	5,867,142	4,663,183
Real Estate Mutual Funds	169,215	178,967
Total Investments Restricted by Donors	$ 11,190,525	$ 10,064,898
Investments Held under Bond Indenture:		
Cash and Short-Term Investments	$ 30,488,189	$ 30,319,454
Statutory Reserves:		
Cash and Short-Term Investments	$ 18,695,870	$ 17,952,017
Investments Restricted by Board:		
Cash and Short-Term Investments	$ 214,617	$ 499,233
Fixed-Income Securities and Mutual Funds	2,057,080	1,941,253
Equity Securities and Equity Mutual Funds	2,106,188	1,649,367
Total Investments Restricted by Board	$ 4,377,885	$ 4,089,853

NOTE 5 INVESTMENTS (CONTINUED)

Investments held under bond indenture are maintained for the following purposes as of December 31:

	2017	2016
Debt Service Fund	$ 12,254,637	$ 12,082,196
Debt Service Reserve Fund	18,233,552	18,237,258
Total	30,488,189	30,319,454
Less: Current Portion	(12,211,306)	(12,079,842)
Long-Term Portion of Bond Indenture	$ 18,276,883	$ 18,239,612

The total return on investments, along with investments held under bond indenture, statutory reserves, and investments restricted by Board, including the change in the market value of derivative instruments, generated net investment income and earnings for the years ended December 31, 2017 and 2016 as follows:

	2017	2016
Included Within Asbury Atlantic's Performance Indicator:		
Interest and Dividend Income, Net	$ 2,006,013	$ 1,880,286
Net Realized Gain (Loss) on Investments	8,910,799	(369,378)
Net Unrealized Gain on Change in Market Value of Derivative Instruments	1,234,194	1,585,909
Total	12,151,006	3,096,817
Included in Other Changes in Net Deficit:		
Other Unrealized Gain (Loss) on Investments	(3,606,867)	1,609,104
Total	$ 8,544,139	$ 4,705,921

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, 2017 and 2016, Asbury Atlantic did not identify any other than temporary declines in the fair value of investments.

NOTE 6 BENEFICIAL INTEREST IN NET ASSETS OF FOUNDATIONS

AFOUND was established to solicit, receive, hold, invest, and reinvest donations and bequests, which are made primarily for the benefit of AMV, AS, IV, SH, BV, CCNC, and HCBS. Asbury Atlantic records an interest in the net assets of AFOUND resulting from unrestricted contributions and temporarily and permanently restricted contributions that are solicited and held by the foundation to be used for the benefit of Asbury Atlantic. Asbury Atlantic's beneficial interest in the net assets of AFOUND was $23,257,606 and $21,339,834 as of December 31, 2017 and 2016, respectively. The balance sheet of AFOUND consisted of the following at December 31:

	2017	2016
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	$ 114,190	$ 141,789
Investments	2,273	2,206
Pledges Receivable, Net	512,131	628,725
Prepaid Expenses and Other Assets	451	7,592
Assets Held for Sale	-	332,000
Total Current Assets	629,045	1,112,312
Property and Equipment, Net	33,060	40,150
Investments Restricted by Donor	20,452,072	17,707,020
Pledge Receivable, Net	1,910,718	1,375,588
Due from ACOMM, Net	3,222,725	3,824,071
Funds Held in Trust	1,917,115	1,870,145
Total Assets	$ 28,164,735	$ 25,929,286
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts Payable and Accrued Expenses	$ 1,140	$ 494
Obligations under Charitable Gift Annuities	3,624,662	3,798,932
Total Liabilities	3,625,802	3,799,426
NET ASSETS		
Unrestricted	150,000	150,000
Temporarily Restricted	4,076,313	2,627,782
Permanently Restricted	20,312,620	19,352,078
Total Net Assets	24,538,933	22,129,860
Total Liabilities and Net Assets	$ 28,164,735	$ 25,929,286

NOTE 6 BENEFICIAL INTEREST IN NET ASSETS OF FOUNDATIONS (CONTINUED)

AFOUND's investments, stated at fair value, consist principally of cash, bonds or bond mutual funds and equity securities or equity mutual funds. Assets held under charitable gift annuities consist of funds contributed to trusts managed by AFOUND, with the stipulation that specified distributions, primarily based on the income generated by the invested funds, be distributed to a life beneficiary specified by the donor. The obligations under charitable gift annuities are based on the net present value of future payments to the beneficiary based on the discount rate that estimates the remaining life of the benefactor. Upon the death of the life beneficiary, the existing funds will be available for use by AMV, AS, IV, SH, BV, CCNC, and HCBS.

NOTE 7 OBLIGATION UNDER CHARITABLE GIFT ANNUITIES

BV is the beneficiary of various charitable gift annuities created by donors, the assets for which BV is the trustee. BV has legally enforceable rights on claims to such assets after the donor's or current beneficiary's death. The present value of these obligations, 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 BV are recorded at the present value of the future interest payments based on the donor's life expectancy. Amounts donated in excess of the liability are recorded as temporarily restricted or permanently restricted donations in the combined statements of operations and changes in net deficit. The present value of the liability is calculated using the five-year United States Treasury Bond rate. This rate was 2.20% and 1.93% at December 31, 2017 and 2016, respectively. Changes in the present value of the accompanying obligation are shown as changes in values of charitable gift annuities in the combined statements of operations and changes in net deficit.

NOTE 8 PROPERTY AND EQUIPMENT

The following is a summary of property and equipment at December 31:

	2017	2016
Land and Improvements	$ 42,737,049	$ 42,474,492
Buildings and Improvements	498,664,751	509,256,159
Furniture and Equipment	53,517,839	56,679,968
Construction in Progress	260,783	2,496,845
Total	595,180,422	610,907,464
Less: Accumulated Depreciation	(309,388,389)	(315,060,624)
Property and Equipment, Net	$ 285,792,033	$ 295,846,840

Depreciation expense on property and equipment was $23,405,268 and $23,333,721 for the years ended December 31, 2017 and 2016, respectively.

NOTE 8 PROPERTY AND EQUIPMENT (CONTINUED)

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, 2017 and 2016, the amount of interest expense capitalized was $94,473 and $88,882, respectively.

NOTE 9 RELATED PARTY TRANSACTIONS

Due to/from ACOMM

ACOMM and its affiliates use treasury and payroll functions to make the process of receiving and disbursing cash more efficient. In order to allocate the appropriate amounts between the affiliates, ACOMM utilizes intercompany accounts to move funds between the facilities. During the year, these intercompany accounts will fluctuate in order to reflect changes in cash flow, outstanding checks, or other cash movements between affiliates. However, in addition to the daily fluctuations, the intercompany accounts will also reflect the cumulative effect of the following types of transactions:

- Accrued Paid Time Off (PTO) – By utilizing the payroll function, all salaries and withholdings are processed through ACOMM. ACOMM also calculates, tracks, and accrues the amounts due to employees relating to available PTO for each payroll period. This accrual does not affect the cash of the affiliates until the balance is actually paid out to the employees and is not cleared out of the intercompany accounts until paid. The intercompany account then will retain an amount equal to the accumulated value of unused PTO for each affiliate.

- Deferred Management Fees – From time to time, management fees may be deferred by ACOMM to its affiliates in order to meet bond covenant requirements. These fees can be recouped by ACOMM in subsequent periods when financial performance warrants reducing or eliminating the deferral. The cumulative effect of these deferrals will be included in the affiliate intercompany account. The Management Services Agreement between ACOMM and its affiliates contains language that requires ACOMM to defer its management fee if certain financial covenants are not met at each of the affiliates. For 2017 and 2016, no management fees were deferred in order to maintain bond covenant compliance.

Longer term advances from one affiliate to another are subject to repayment terms agreed to by governing boards of both affiliates. These advances are accounted for in the intercompany accounts.

AFOUND has intercompany receivables on their books from the affiliates. Periodically, cash gifts are received directly by an affiliate. To the extent that the gift is restricted for some future use, it may be recorded on the books of the related foundation. Until the cash is transferred to a foundation investment account, it will be reflected as a due from affiliate.

NOTE 9 RELATED PARTY TRANSACTIONS (CONTINUED)

Due to/from ACOMM (Continued)

- Cumulative Cash Flow – Some facilities will have accumulated negative cash flow, as any cash needs supplemented by ACOMM will also be included in the intercompany account. Cumulative positive cash flow levels will periodically be transferred to more permanent investment vehicles of the respective affiliate's books.

- Cash Management – Entities supported by ACOMM share a common cash management function. Operating cash of the group is swept daily to accommodate investment of excess cash flow. Operating cash payments, including borrowings and payments of intercompany loans and balances, are made through the same sweep account. At any time, depending upon the timing of receipts, disbursements and other investment activity, members of the group may temporarily overdraw their share of the common operating cash. The balance of cash and cash equivalents includes Asbury Atlantic's share of the common operating cash and amounts held in their individual 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 risk.

ACOMM is the conduit for all intercompany transactions; accordingly, due to and due from accounts from the affiliate point of view will always be either due to or due from ACOMM. All intercompany accounts bear interest at short-term interest rates and are uncollateralized.

Prior Equity Contributions – In 1994 and 1996, AMV made equity contributions, totaling $3,451,578, to AS for the construction of the AS facility, which was completed in 2002. In 1997, AS voluntarily agreed to return the equity contributions when certain financial benchmarks were reached. Specifically, by action of the AS board, it was agreed that AS would return the funds at such time as AS achieved a Cash and Investments to Debt Ratio of 45%, matching the CCAC median for accredited continuing care retirement communities. Accordingly, these amounts are not recorded as Due to ACOMM in the financial statements because it was not a loan, and unless and until such time as the Cash and Investments to Debt Ratio reach 45%, AS will not return this equity contribution to AMV.

AMV and AS have combined as an obligated group for purposes of debt issuance and related obligations. Accordingly, AMV and AS, as an obligated group, are jointly and severally obliged to meet all debt service requirements for the obligated group.

Management Fees

Asbury Atlantic received administrative services from ACOMM under a management agreement at a cost of $12,304,166 and $12,156,210 in 2017 and 2016, respectively. Included in the administrative services is an information technology fee. Management and information technology fees are allocated to all affiliates based upon a pro rata share of revenues. The payment of management fees to ACOMM is subordinate to all obligations of Asbury Atlantic under all of Asbury Atlantic's secured loan agreements.

NOTE 10 LONG-TERM DEBT

Long-term debt consisted of the following:

	Interest Rate	Maturity Dates	2017	2016
Series 2014A MD Bonds	Fixed (5.0%)	2020 - 2021	$ 14,650,000	$ 14,915,000
Series 2012 PA Bonds	Fixed Rate Revenue Bonds	2013 - 2036	49,700,000	50,205,000
Series 2010 PA Bonds	Fixed Rate Revenue Bonds	2012 - 2045	67,675,000	68,940,000
Series 2009B MD Bonds	Fixed Rate Revenue Bonds	2011 - 2023	23,055,000	26,490,000
Series 2009A MD Bonds	Fixed (6.0%)	2015	-	-
Series 2006A MD Bonds	Fixed Rate Revenue Bonds	2023 - 2036	82,780,000	82,780,000
Subtotal			237,860,000	243,330,000
Unamortized Bond Premium/Discount on Bonds, Net			1,720,804	1,903,447
Unamortized Bond Financing Costs			(3,658,376)	(3,909,232)
Current Portion			(5,730,123)	(5,470,000)
Total Bonds Payable			230,192,305	235,854,215
Note Payable			1,271,322	1,747,696
Current Portion Note Payable			(494,405)	(476,374)
Total Note Payable			776,917	1,271,322
Total Long-Term Debt			$ 230,969,222	$ 237,125,537

Series 2014A 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.

NOTE 10 LONG-TERM DEBT (CONTINUED)

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 PA 2006 bonds, 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.

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 Asbury Pennsylvania Obligated Group 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.

NOTE 10 LONG-TERM 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 Asbury Maryland Obligated Group 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.

For financial statement purposes, AMV and AS have allocated the liability for payment of principal and interest on the bonds in an amount equal to the proportion of the bonds used to refund debt at each respective facility.

As required by the bond agreements, the Asbury Maryland Obligated Group 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 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 or 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, 2017.

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.

NOTE 10 LONG-TERM DEBT (CONTINUED)

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 of deferred financing costs is included in interest expense and totaled $250,856 for the years ended December 31, 2017 and 2016.

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 ($182,643) for the years ended December 31, 2017 and 2016.

Liens and Covenants

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

The Asbury Maryland Obligated Group and the Pennsylvania Obligated Group are subject to various covenants under the bond agreements. These covenants include various reporting, financial, and operational requirements. As of December 31, 2017, management is not aware of any noncompliance with these covenants.

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%.

Debt Maturities

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

Year Ending December 31,	Amount
2018	$ 6,224,528
2019	6,538,119
2020	6,613,798
2021	20,160,000
2022	6,750,000
Thereafter	192,844,877
Total	$ 239,131,322

NOTE 11 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 following table, 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 in the accompanying combined 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.

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.

Lehman Brothers Special Financing, Inc. (Lehman SFI) is the investment company or counterparty for this derivative agreement. The derivative obligation is 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 executed a novation agreement to a new entity, 1271 Counterparty Company, LLC. This company is newly established for the purpose of holding the Asbury Atlantic swap, 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 Series 2006 Forward Contract and $2,729,335 and $3,133,039 of payments were made during 2017 and 2016, respectively. Interest rate swap receipts under the Interest Rate Swap were received in the amounts $1,970 and $9,991 during 2017 and 2016, respectively. All differences between the fixed and floating rates were accrued and recorded in interest expense or interest income. All of the material terms of the swaps remain unchanged from the original swap agreements.

NOTE 11 DERIVATIVE INSTRUMENTS (CONTINUED)

The following is a schedule outlining the terms and fair market values of the derivative instruments on December 31, 2017:

	Interest Rate Swap	Series 2006 Forward Contract	Total
Notional Amount - December 31, 2017	$ 19,505,000	$ 62,417,500	
Trade Date	8/13/2001	12/8/2006	
Effective Date	8/23/2001	1/1/2013	
Termination Date	1/1/2027	1/1/2041	
Fixed Rate	0.9194%	5.128%	
Fair Value - December 31, 2015	$ 9,987	$ (27,421,813)	$ (27,411,826)
Unrealized Gain (Loss)	(231,731)	1,817,640	1,585,909
Fair Value - December 31, 2016	(221,744)	(25,604,173)	(25,825,917)
Unrealized Gain	131,965	1,102,229	1,234,194
Fair Value - December 31, 2017	$ (89,779)	$ (24,501,944)	$ (24,591,723)

Asbury Atlantic has included the fair market value of derivative instruments as a liability of $24,591,723 and $25,825,917 in the accompanying combined balance sheets as of December 31, 2017 and 2016, respectively. Net unrealized gains on derivative instruments were $1,234,194 and $1,585,909 in 2017 and 2016, respectively.

NOTE 12 TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets were $3,356,575 and $2,396,164 as of December 31, 2017 and 2016, respectively.

NOTE 13 PERMANENTLY RESTRICTED NET ASSETS

Permanently restricted net assets, totaling $27,501,262 and $26,584,616 as of December 31, 2017 and 2016, 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.

NOTE 13 PERMANENTLY RESTRICTED NET ASSETS (CONTINUED)

Interpretation of Relevant Law

Maryland adopted the State Prudent Management of Institutional Funds Act (the Act) effective in 2008. The Board 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, 2017 and 2016, 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. 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:

	2017	2016
Endowment Fund - Beginning of Year	$ 26,584,616	$ 26,458,263
Change in Beneficial Interest in Net Assets of Asbury Foundation, Inc.	957,362	169,620
Changes in Value of Obligations under Charitable Gift Annuities	(40,716)	(43,267)
Endowment Fund - End of Year	$ 27,501,262	$ 26,584,616

NOTE 14 RETIREMENT PLAN

ACOMM and affiliates sponsor a defined contribution plan (the Plan) under IRC Section 401(k). All full-time employees of ACOMM and certain affiliates are eligible to participate in the Plan. Employees may elect to defer up to $18,000 of 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 2% of the employee's base salary. The employer's contribution expense for the years ended December 31, 2017 and 2016 was $1,788,424 and $1,508,674, respectively.

NOTE 15 COMMITMENTS AND CONTINGENCIES

General and Professional Liability Insurance

ACOMM and its affiliates have a general and professional liability insurance policy (GL/PL), which is claims-made based. The GL/PL coverage has a limit of $1,000,000 per occurrence and a $3,000,000 annual aggregate. ACOMM and its affiliates 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 December 31, 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 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 nonprofit, 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 March 2018, 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, 2017, ACOMM’s capital contributions were $560,508 which represents 3.46% of CCrRRG’s total Charter Capital. The percentage of the total Charter Capital may be affected by the future addition of members to CCrRRG.

Workers’ Compensation Insurance

The Company and its affiliates, excluding BV which is covered under a separate church group Workers’ Compensation Trust, 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, 2017 and 2016, 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 Company and its affiliates, excluding BV, entered into a fully insured arrangement for workers’ compensation coverage beginning March 1, 2018 and continuing through February 28, 2019.

NOTE 15 COMMITMENTS AND CONTINGENCIES (CONTINUED)

Health Insurance

ACOMM and affiliates maintain a self-funding arrangement for health insurance coverage. ACOMM and affiliates have stop-loss coverage up to $200,000 per participant and an annual aggregate of approximately 125% of expected claims with a maximum reimbursement of $2,000,000. The annual aggregate coverage amount fluctuates based on the number of participants and is calculated based on historical claims information. The insurance policies have been renewed through July 31, 2018.

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 financial position or results of operations.

Energy Contract

In May 2014, the Company and its affiliates 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 for the next five years beginning on May 1, 2014. Costs are allocated to each affiliate based on a proportion of the affiliates' total historical cost of utilities as compared to the total historical cost of utilities across the Company and its affiliates. This expense, included in Building and Maintenance, 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. In connection with this Energy Agreement, the Company and its affiliates have agreed to spend specified funds annually on energy saving capital purchases to improve energy consumption by the Company and its affiliates.

Lease Commitments

Asbury Atlantic has leases for vehicles and office equipment, which expire in 2020 and a ground lease that expires August 1, 2039. Generally, the vehicle and equipment leases carry renewal provisions and require Asbury Atlantic to pay maintenance costs. Total lease expense for the years ended December 31, 2017 and 2016 was $1,193,707 and $1,056,080, respectively. The future rental commitments for noncancelable operating leases are as follows:

Year Ending December 31,	Amount
2018	$ 729,932
2019	648,037
2020	532,613
2021	288,534
2022	65,148
Thereafter	391,665
Total	$ 2,655,929

NOTE 16 FUNCTIONAL EXPENSES

Asbury Atlantic provides continuing and long-term care for the aging. Expenses related to providing these services were as follows as of December 31:

	2017	2016
Continuing and Long-Term Care	$ 97,721,282	$ 94,591,895
General and Administrative	57,697,159	58,095,010
Total Functional Expenses	$ 155,418,441	$ 152,686,905

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

NOTE 17 FAIR VALUE OF FINANCIAL INSTRUMENTS

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 and fixed-income securities and mutual funds.

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.

NOTE 17 FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

The following tables set forth by level within the fair value hierarchy Asbury Atlantic's financial assets and liabilities that were accounted for at fair value on a recurring basis as of December 31:

	At Fair Value as of December 31, 2017			
Recurring Fair Value Measures	Level 1	Level 2	Level 3	Total
Assets				
Cash and Short-Term Investments	$ 51,260,700	$ -	$ -	$ 51,260,700
Fixed Income Securities and Mutual Funds	19,871,193	-	-	19,871,193
Equity Securities and Mutual Funds	21,437,262	-	-	21,437,262
Real Estate Mutual Funds	169,215	-	-	169,215
Liabilities				
Derivative Instruments	-	(24,591,723)	-	(24,591,723)

	At Fair Value as of December 31, 2016			
Recurring Fair Value Measures	Level 1	Level 2	Level 3	Total
Assets				
Cash and Short-Term Investments	$ 53,650,732	$ -	$ -	$ 53,650,732
Fixed Income Securities and Mutual Funds	16,739,080	-	-	16,739,080
Equity Securities and Mutual Funds	15,485,230	-	-	15,485,230
Real Estate Mutual Funds	178,967	-	-	178,967
Liabilities				
Derivative Instruments	-	(25,825,917)	-	(25,825,917)

ASBURY ATLANTIC, INC.
COMBINING BALANCE SHEET
DECEMBER 31, 2017
(SEE INDEPENDENT AUDITORS' REPORT)

ASSETS	Asbury Methodist Village	Asbury Solomons	Bethany Village	Springhill	Combining Entries	Asbury Atlantic, Inc.
CURRENT ASSETS						
Cash and Cash Equivalents	$ 1,465,589	$ 14,304	$ 909,365	$ 699,982	$ -	$ 3,089,240
Investments	21,029,026	200,934	5,745,236	1,010,705	-	27,985,901
Accounts Receivable, Net	3,428,992	544,322	1,000,848	705,921	-	5,680,083
Other Receivables and Prepaid Expenses	5,412,983	2,006,518	657,152	504,761	-	8,581,414
Investments Held under Bond Indenture	4,183,089	2,865,378	4,063,134	1,099,705	-	12,211,306
Total Current Assets	35,519,679	5,631,456	12,375,735	4,021,074	-	57,547,944
Due from ACOMM, Net	54,758,230	1,958,980	3,690,898	-	(4,987,762)	55,420,346
Property and Equipment, Net	140,407,356	43,321,212	83,479,198	18,584,267	-	285,792,033
Investments Restricted by Donors	-	-	11,190,525	-	-	11,190,525
Long-Term Investments	-	-	134,192	-	-	134,192
Deferred Marketing Costs, Net	944,059	-	147,690	6,414	-	1,098,163
Deposits and Other Assets	35,196	-	-	6,315	-	41,511
Investments Held under Bond Indenture	7,349,162	2,058,897	6,999,540	1,869,284	-	18,276,883
Statutory Reserves	10,591,333	2,453,451	4,601,916	1,049,170	-	18,695,870
Investments Restricted by Board	1,420,314	212,922	2,744,649	-	-	4,377,885
Beneficial Interest in Net Assets of Foundation	14,351,555	2,235,556	5,619,840	1,050,655	-	23,257,606
Total Assets	$ 265,376,884	$ 57,872,474	$ 130,984,183	$ 26,587,179	$ (4,987,762)	$ 475,832,958

ASBURY ATLANTIC, INC.
COMBINING BALANCE SHEET (CONTINUED)
DECEMBER 31, 2017
(SEE INDEPENDENT AUDITORS' REPORT)

LIABILITIES AND NET DEFICIT	Asbury Methodist Village	Asbury Solomons	Bethany Village	Springhill	Combining Entries	Asbury Atlantic, Inc.
CURRENT LIABILITIES						
Accounts Payable and Accrued Expenses	$ 1,258,692	$ 54,214	$ 198,723	$ 197,342	$ -	$ 1,708,971
Accrued Compensation and Related Items	1,429,916	517,115	-	182,598	-	2,129,629
Accrued Interest Payable	2,605,228	780,077	2,608,042	709,797	-	6,703,144
Obligations under Charitable Gift Annuities	-	-	89,445	-	-	89,445
Deposits from Prospective Residents	2,478,744	299,110	689,960	129,642	-	3,597,456
Entrance Fees - Refundable	1,518,648	328,911	156,366	23,901	-	2,027,826
Deferred Revenue	580,394	150,602	38,127	140,554	-	909,677
Current Portion of Long-Term Debt	1,751,294	2,133,706	1,949,595	389,933	-	6,224,528
Total Current Liabilities	11,622,916	4,263,735	5,730,258	1,773,767	-	23,390,676
Due to ACOMM, Net	-	-	-	4,987,762	(4,987,762)	-
Long-Term Debt, Less Current Portion	92,902,620	24,015,637	89,699,984	24,350,981	-	230,969,222
Projected Refund of Standard Entrance Fees	2,157,454	990,862	1,103,374	492,174	-	4,743,864
Contingent Refundable Entrance Fee Liability	116,966,875	28,443,719	18,466,943	20,154,466	-	184,032,003
Entrance Fees - Deferred Revenue	79,442,499	29,663,788	36,840,116	6,791,557	-	152,737,960
Valuation of Derivative Instruments	19,227,902	5,363,821	-	-	-	24,591,723
Obligations under Charitable Gift Annuities	-	-	299,520	-	-	299,520
Total Liabilities	322,320,266	92,741,562	152,140,195	58,550,707	(4,987,762)	620,764,968
NET ASSETS (DEFICIT)						
Unrestricted	(71,294,937)	(37,104,645)	(34,376,082)	(33,014,183)	-	(175,789,847)
Temporarily Restricted	501,347	453,596	1,444,730	956,902	-	3,356,575
Permanently Restricted	13,850,208	1,781,961	11,775,340	93,753	-	27,501,262
Total Net Deficit	(56,943,382)	(34,869,088)	(21,156,012)	(31,963,528)	-	(144,932,010)
Total Liabilities and Net Deficit	$ 265,376,884	$ 57,872,474	$ 130,984,183	$ 26,587,179	$ (4,987,762)	$ 475,832,958

ASBURY ATLANTIC, INC.
COMBINING STATEMENT OF OPERATIONS AND CHANGES IN UNRESTRICTED NET DEFICIT
YEAR ENDED DECEMBER 31, 2017
(SEE INDEPENDENT AUDITORS' REPORT)

	Asbury Methodist Village	Asbury Solomons	Bethany Village	Springhill	Combining Entries	Asbury Atlantic, Inc.
REVENUES, GAINS, AND OTHER SUPPORT						
Net Resident Service Revenue	$ 73,371,013	$ 16,590,644	$ 26,050,607	$ 16,182,332	$ -	$ 132,194,596
Other Operating Revenue	1,180,536	120,071	606,199	77,589	-	1,984,395
Amortization of Entrance Fees	9,453,525	4,097,892	5,102,429	986,286	-	19,640,132
Interest and Dividend Income, Net	1,062,071	185,635	660,256	98,051	-	2,006,013
Net Realized Gain on Investments	4,912,404	426,098	3,266,188	306,109	-	8,910,799
Allocations from Asbury Foundation, Inc.	3,913,200	465,727	593,416	211,933	-	5,184,276
Total Revenues, Gains, and Other Support	93,892,749	21,886,067	36,279,095	17,862,300	-	169,920,211
EXPENSES						
Salaries	28,199,833	5,584,282	9,313,490	6,763,692	-	49,861,297
Employee Benefits	6,905,036	1,426,148	2,326,843	1,770,819	-	12,428,846
Contract Labor	5,378,265	1,396,936	1,819,921	1,146,244	-	9,741,366
Food Purchases	3,463,490	822,838	963,982	707,100	-	5,957,410
Medical Supplies and Other Resident Costs	2,690,600	576,367	1,022,074	503,807	-	4,792,848
General and Administrative	1,485,226	539,954	401,741	471,613	-	2,898,534
Building and Maintenance	6,661,293	1,867,307	3,117,035	1,201,369	-	12,847,004
Professional Fees and Insurance	633,589	160,992	284,516	157,961	-	1,237,058
Interest	6,951,557	2,037,993	5,345,449	1,449,814	-	15,784,813
Taxes	1,655,519	771,601	882,860	137,791	-	3,447,771
Provision for Bad Debts	453,351	223,816	177,389	897	-	855,453
Depreciation and Amortization	14,003,501	2,987,165	4,800,931	1,926,449	-	23,718,046
Management and Other Fees	6,969,228	1,455,714	2,058,985	1,364,068	-	11,847,995
Total Expenses	85,450,488	19,851,113	32,515,216	17,601,624	-	155,418,441
INCOME FROM OPERATIONS PRIOR TO NET UNREALIZED GAIN ON CHANGE IN MARKET VALUE OF DERIVATIVE INSTRUMENTS AND LOSS ON DISPOSAL OF ASSETS	8,442,261	2,034,954	3,763,879	260,676	-	14,501,770

ASBURY ATLANTIC, INC.
COMBINING STATEMENT OF OPERATIONS AND CHANGES IN UNRESTRICTED NET DEFICIT (CONTINUED)
YEAR ENDED DECEMBER 31, 2017
(SEE INDEPENDENT AUDITORS' REPORT)

	Asbury Methodist Village	Asbury Solomons	Bethany Village	Springhill	Combining Entries	Asbury Atlantic, Inc.
UNRESTRICTED NET ASSETS (DEFICIT)						
Income from Operations Prior to Net Unrealized Gain on Change in Market Value of Derivative Instruments and Loss on Disposal of Assets	$ 8,442,261	$ 2,034,954	$ 3,763,879	$ 260,676	$ -	$ 14,501,770
Net Unrealized Gain on Change in Market Value of Derivative Instruments	861,717	372,477	-	-	-	1,234,194
Loss on Disposal of Assets	-	(1,767,932)	-	-	-	(1,767,932)
INCOME FROM OPERATIONS	9,303,978	639,499	3,763,879	260,676	-	13,968,032
Net Unrealized Loss on Investments	(2,106,272)	(184,573)	(1,183,923)	(132,099)	-	(3,606,867)
Net Assets Released from Restrictions Used for Purchase of Capital Items	47,657	7,596	185,489	125,239	-	365,981
Transfers to ACOMM	(579,500)	-	-	-	-	(579,500)
NET DECREASE IN UNRESTRICTED NET DEFICIT	$ 6,665,863	$ 462,522	$ 2,765,445	$ 253,816	$ -	$ 10,147,646

ASBURY ATLANTIC, INC.
COMBINING STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2017
(SEE INDEPENDENT AUDITORS' REPORT)

	Asbury Methodist Village	Asbury Solomons	Bethany Village	Springhill	Asbury Atlantic, Inc.
CASH FLOWS FROM OPERATING ACTIVITIES					
Decrease in Net Deficit	$ 7,049,839	$ 607,792	$ 3,838,310	$ 528,762	$ 12,024,703
Adjustments to Reconcile Changes in Net Deficit to Net Cash Provided by Operating Activities:					
Provision for Bad Debts	453,351	223,816	177,389	897	855,453
Depreciation and Amortization of Deferred Marketing Costs	14,003,501	2,987,165	4,800,931	1,926,449	23,718,046
Amortization of Deferred Financing Costs	97,238	67,921	67,352	18,345	250,856
Amortization of Bond Premium/Discount	(168,315)	(12,615)	(530)	(1,183)	(182,643)
Amortization of Entrance Fees	(9,453,525)	(4,097,892)	(5,102,429)	(986,286)	(19,640,132)
Net Proceeds from Nonrefundable Entrance and Advance Fees	14,319,650	5,874,518	6,932,695	2,761,054	29,887,917
Net Unrealized Loss on Investments	2,106,272	184,573	1,183,923	132,099	3,606,867
Loss on Disposal of Assets	-	1,767,932	-	-	1,767,932
Net Unrealized Gain on Change in Market Value of Derivative Instruments	(861,717)	(372,477)	-	-	(1,234,194)
Changes in Beneficial Interest in Net Assets of Foundation	(383,976)	(145,270)	(1,113,580)	(274,946)	(1,917,772)
Changes in Value of Obligations under Charitable Gift Annuities	-	-	40,716	-	40,716
Transfers to ACOMM	579,500	-	-	-	579,500
Changes in Assets and Liabilities:					
Accounts Receivable	(1,056,064)	(297,542)	(181,327)	(35,330)	(1,570,263)
Other Receivables and Prepaid Expenses	(129,498)	16,786	203,722	(1,195)	89,815
Deferred Entrance Fees	2,881,082	(37,375)	493,000	919,320	4,256,027
Other Assets	266,585	61,431	73,646	61,642	463,304
Deferred Revenue	130,109	(52,002)	(197,848)	71,878	(47,863)
Accounts Payable and Accrued Expenses	2,414	165,449	(16,130)	50,189	201,922
Accrued Interest Payable	(80,078)	(81,790)	(28,491)	(7,547)	(197,906)
Net Cash Provided by Operating Activities	29,756,368	6,860,420	11,171,349	5,164,148	52,952,285

ASBURY ATLANTIC, INC.
COMBINING STATEMENT OF CASH FLOWS (CONTINUED)
YEAR ENDED DECEMBER 31, 2017
(SEE INDEPENDENT AUDITORS' REPORT)

	Asbury Methodist Village	Asbury Solomons	Bethany Village	Springhill	Asbury Atlantic, Inc.
CASH FLOWS FROM INVESTING ACTIVITIES					
Purchase of Property and Equipment, Net	$ (9,703,551)	$ (1,690,069)	$ (1,961,206)	$ (1,763,569)	$ (15,118,395)
Sale of Investments, Net	(5,389,715)	(568,897)	(3,950,067)	(382,549)	(10,291,228)
Net Cash Used by Investing Activities	(15,093,266)	(2,258,966)	(5,911,273)	(2,146,118)	(25,409,623)
CASH FLOWS FROM FINANCING ACTIVITIES					
Proceeds from Entrance and Advance Refundable Fees and Refundable Deposits	10,375,200	5,768,337	2,458,532	1,652,000	20,254,069
Refunds of Entrance and Advance Refundable Fees and Refundable Deposits	(11,932,232)	(4,336,885)	(3,589,434)	(3,569,906)	(23,428,457)
Payments on Long-Term Debt	(1,666,913)	(2,033,087)	(1,872,401)	(373,973)	(5,946,374)
Payments on Obligations under Charitable Gift Annuities	-	-	(78,020)	-	(78,020)
Change in Due to ACOMM, Net	(9,489,044)	(3,999,247)	(2,013,662)	(727,264)	(16,229,217)
Transfers to ACOMM	(579,500)	-	-	-	(579,500)
Net Cash Used by Financing Activities	(13,292,489)	(4,600,882)	(5,094,985)	(3,019,143)	(26,007,499)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1,370,613	572	165,091	(1,113)	1,535,163
Cash and Cash Equivalents - Beginning of Year	94,976	13,732	744,274	701,095	1,554,077
CASH AND CASH EQUIVALENTS - END OF YEAR	$ 1,465,589	$ 14,304	$ 909,365	$ 699,982	$ 3,089,240
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION					
Cash Paid for Interest	$ 7,102,712	$ 2,064,477	$ 5,307,118	$ 1,440,199	$ 15,914,506

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