

ASBURY, INC.

**FINANCIAL STATEMENTS AND
ACCOMPANYING INFORMATION**

**YEAR AND NINE MONTHS ENDED
DECEMBER 31, 2017 AND 2016**

CliftonLarsonAllen LLP



WEALTH ADVISORY | OUTSOURCING | AUDIT, TAX, AND CONSULTING



ASBURY, INC.
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INDEPENDENT AUDITORS' REPORT

Board of Directors
Asbury, Inc.
Maryville, Tennessee

Report on the Financial Statements

We have audited the accompanying financial statements of Asbury, Inc., which comprise the statements of financial position as of December 31, 2017 and 2016, and the related statements of operations and changes in net assets, and cash flows for the year and nine months then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Basis for Qualified Opinion

As discussed in Note 1 to the financial statements, the accompanying financial statements do not include the accounts of Forest Ridge Manor, Inc., a wholly owned affiliate of Asbury, Inc. In our opinion, accounting principles generally accepted in the United States of America require that all wholly owned affiliates under common control be accounted for within consolidated financial statements. If the accounts of Forest Ridge Manor, Inc. had been consolidated with those of Asbury, Inc., total assets and total liabilities would be increased by \$2,802,709 and \$3,476,935 as of December 31, 2017, respectively, and revenues and expenses would be increased by \$216,705 and \$330,979 for the year then ended, respectively. Also, if the accounts of Forest Ridge Manor, Inc. had been consolidated with those of Asbury, Inc., total assets and total liabilities would be increased by \$2,933,265 and \$3,493,217 as of December 31, 2016, respectively, and revenues and expenses would be increased by \$212,915 and \$211,077 for the nine months then ended, respectively.

Qualified Opinion

In our opinion, except for the effects of not consolidating Forest Ridge Manor, Inc., as discussed in the Basis for Qualified Opinion Paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of Asbury, Inc. as of December 31, 2017 and 2016 and the results of their operations, changes in net assets, and cash flows for the year and nine months then ended in accordance with accounting principles generally accepted in the United States of America.

Qualified Opinion on Accompanying Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The information as listed under "Accompanying Information" on the table of contents is presented for purposes of additional analysis of the financial statements rather than to present the financial position, results of operations, and cash flows of the individual locations, and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, except for the effects of not consolidating Forest Ridge Manor, Inc. as explained in the second preceding paragraph, the accompanying information is fairly stated in all material respects in relation the financial statements as a whole.



CliftonLarsonAllen LLP

Plymouth Meeting, Pennsylvania
March 29, 2018

ASBURY, INC.
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2017 AND 2016

ASSETS	2017	2016
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 4,876,422	\$ 4,426,637
Investments	13,057,092	11,442,083
Accounts Receivable, Net of Allowance for Doubtful Accounts of \$1,084,524 and \$1,163,803, at December 31, 2017 and 2016, Respectively	1,429,830	2,416,150
Other Receivables and Prepaid Expenses	284,962	662,398
Investments Held under Bond Indenture	577,625	1,024,170
Total Current Assets	20,225,931	19,971,438
Due from Affiliates, Net	-	31,021
Property, Plant, and Equipment, Net	64,503,282	47,600,608
Investments Restricted by Donors	53,391	53,391
Deferred Marketing Costs, Net	178,444	220,430
Deposits and Other Assets	39,332	42,074
Other Intangible Assets	5,480,000	5,480,000
Valuation of Derivative Instrument	63,617	39,679
Investments Held under Bond Indenture	3,374,340	12,403,520
Investments Restricted by Board	-	100,370
Total Assets	\$ 93,918,337	\$ 85,942,531

See accompanying Notes to Financial Statements.

LIABILITIES AND NET ASSETS	<u>2017</u>	<u>2016</u>
CURRENT LIABILITIES		
Accounts Payable and Accrued Expenses	\$ 301,767	\$ 3,146,597
Accrued Compensation and Related Items	1,165,790	935,688
Accrued Interest Payable	616,195	379,175
Construction Retainage Payable	865,323	83,747
Deposits from Prospective Residents	111,900	98,690
Entrance Fees - Refundable	-	724,846
Deferred Revenue	50,143	47,694
Current Portion of Long-Term Debt	931,399	860,000
Current Portion of Capital Lease	3,607	10,238
Total Current Liabilities	<u>4,046,124</u>	<u>6,286,675</u>
Long-Term Debt, Net	42,340,878	31,469,923
Capital Leases, Net	-	5,357
Projected Refund of Standard Entrance Fees	42,508	-
Contingent Refundable Entrance Fee Liability	26,046,131	23,674,301
Entrance Fees - Deferred Revenue	<u>3,328,851</u>	<u>3,361,417</u>
Total Liabilities	75,804,492	64,797,673
NET ASSETS		
Unrestricted	17,876,133	20,951,381
Temporarily Restricted	184,321	140,086
Permanently Restricted	53,391	53,391
Total Net Assets	<u>18,113,845</u>	<u>21,144,858</u>
Total Liabilities and Net Assets	<u>\$ 93,918,337</u>	<u>\$ 85,942,531</u>

ASBURY, INC.
STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS
YEAR AND NINE MONTHS ENDED DECEMBER 31, 2017 AND 2016

	2017	2016
OPERATING REVENUES		
Net Resident Service Revenue	\$ 26,923,983	\$ 22,189,669
Other Operating Revenue	286,434	244,939
Amortization of Entrance Fees	631,927	456,234
Interest and Dividend Income, Net	369,028	185,154
Net Realized Gain (Loss) on Investments	1,341,926	(144,923)
Contributions	23,825	39,546
Net Assets Released from Restrictions	16,293	10,875
Total Operating Revenues	29,593,416	22,981,494
OPERATING EXPENSES		
Salaries and Wages	12,006,174	9,134,496
Employee Benefits	2,065,794	1,845,469
Contract Labor	3,561,938	2,547,286
Food Purchases	1,463,774	1,012,638
Medical Supplies and Other Resident Costs	1,744,947	1,385,803
General and Administrative	1,354,358	639,584
Building and Maintenance	2,285,745	1,534,995
Professional Fees and Insurance	496,160	429,872
Interest	832,773	579,743
Taxes	1,169,665	873,129
Provision for Bad Debts	579,657	855,035
Depreciation and Amortization	2,598,364	1,848,861
Management and Other Fees	2,305,255	1,586,961
Total Operating Expenses	32,464,604	24,273,872
LOSS FROM OPERATIONS PRIOR TO NET UNREALIZED GAIN ON CHANGE IN MARKET VALUE OF DERIVATIVE INSTRUMENT, LOSS ON RETIREMENT OF DEBT, AND LOSS ON DISPOSAL OF ASSETS	(2,871,188)	(1,292,378)
Net Unrealized Gain on Change in Market Value of Derivative Instrument	23,938	39,679
Loss on Retirement of Debt	(232,669)	(204,062)
Loss on Disposal of Assets	-	(70,718)
LOSS FROM OPERATIONS	(3,079,919)	(1,527,479)
Net Unrealized Gains on Investments	4,671	528,727
DECREASE IN UNRESTRICTED NET ASSETS	(3,075,248)	(998,752)
TEMPORARILY RESTRICTED NET ASSETS		
Contributions	60,528	80,583
Net Assets Released from Restrictions	(16,293)	(10,875)
Increase in Temporarily Restricted Net Assets	44,235	69,708
DECREASE IN NET ASSETS	(3,031,013)	(929,044)
Net Assets - Beginning of Year	21,144,858	22,073,902
NET ASSETS - END OF YEAR	\$ 18,113,845	\$ 21,144,858

See accompanying Notes to Financial Statements.

ASBURY, INC.
STATEMENTS OF CASH FLOWS
YEAR AND NINE MONTHS ENDED DECEMBER 31, 2017 AND 2016

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Decrease in Net Assets	\$ (3,031,013)	\$ (929,044)
Adjustments to Reconcile Decrease in Net Assets to Net Increase in Cash Provided (Used) by Operating Activities:		
Net Unrealized Gains on Investments	(4,671)	(528,727)
Depreciation and Amortization	2,598,364	1,848,861
Amortization of Deferred Financing Costs	66,296	40,134
Amortization of Bond Premium	(89,071)	(18,363)
Provision for Bad Debts	579,657	855,035
Amortization of Entrance Fees	(631,927)	(456,234)
Loss on Disposal of Assets	-	70,718
Loss on Retirement of Debt	232,669	204,062
Net Unrealized Gain on Change in Market Value of Derivative Instrument	(23,938)	(39,679)
Net Proceeds from Nonrefundable Entrance Fees and Advance Fees	296,284	531,500
Changes in Operating Assets and Liabilities:		
Accounts Receivable	406,663	(1,038,990)
Note Receivable	-	58,317
Other Receivables and Prepaid Expenses	72,776	570,879
Deposits and Other Assets	2,742	(42,074)
Accounts Payable and Accrued Expenses	(1,833,152)	1,514,285
Accrued Interest Payable	237,020	308,095
Deferred Entrance Fees	304,660	(304,660)
Other Liabilities	33,470	13,558
Net Cash Provided (Used) by Operating Activities	(783,171)	2,657,673
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of Property, Plant, and Equipment	(19,459,052)	(6,614,834)
Sales (Purchases) of Investments, Net	7,965,757	(9,764,595)
Net Cash Used by Investing Activities	(11,493,295)	(16,379,429)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from Entrance and Advance Refundable Fees and Refundable Deposits	5,241,236	2,492,050
Refunds of Entrance and Advance Refundable Fees and Refundable Deposits	(3,235,457)	(640,596)
Payments of Long-Term Debt	(8,863,129)	(13,134,800)
Payment of Deferred Financing Costs	(87,458)	(1,214,279)
Principal Payments on Capital Lease	(11,988)	(11,757)
Proceeds from Issuance of Debt	19,683,047	25,494,330
Net Cash Provided by Financing Activities	12,726,251	12,984,948
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	449,785	(736,808)
Cash and Cash Equivalents - Beginning of Year	4,426,637	5,163,445
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 4,876,422	\$ 4,426,637
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash Paid for Interest	\$ 618,528	\$ 324,272

See accompanying Notes to Financial Statements.

ASBURY, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

NOTE 1 ORGANIZATION

Asbury, Inc. (the Company) was organized to provide housing and medical services to elderly and handicapped persons. At December 31, 2017 and 2016, the Company operates facilities in two Tennessee communities (Maryville and Kingsport).

Effective August 1, 2016, Asbury Communities, Inc., a Maryland nonstock corporation headquartered in Germantown, Maryland (ACOMM), became the supporting organization to the Company pursuant to an Affiliation Agreement between the Company and ACOMM.

While the Affiliation was effective August 1, 2016, ACOMM has a long history of involvement with the Company. Prior to the Affiliation, The Asbury Group, Inc., a for-profit affiliate of ACOMM, provided comprehensive corporate management and strategic planning services pursuant to a succession of services agreements, as amended, over a period of approximately nine years.

In conjunction with the Affiliation Agreement, the Company changed its fiscal year end from March 31 to December 31.

The accompanying financial statements do not include the accounts of Forest Ridge Manor, Inc., a wholly owned affiliate of the Company. If the accounts of Forest Ridge Manor, Inc. had been consolidated with those of Asbury, Inc., total assets and total liabilities would be increased by \$2,802,709 and \$3,476,935 as of December 31, 2017, respectively, and revenues and expenses would be increased by \$216,705 and \$330,979 for the year then ended, respectively. Also, if the accounts of Forest Ridge Manor, Inc. had been consolidated with those of Asbury, Inc., total assets and total liabilities would be increased by \$2,933,265 and \$3,493,217 as of December 31, 2016, respectively, and revenues and expenses would be increased by \$212,915 and \$211,077 for the nine months then ended, respectively.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Use of Estimates

The preparation of financial statements in accordance 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 disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

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

ASBURY, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Accounts Receivable

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

Under the Medicare and Medicaid reimbursement and other third-party agreements, amounts collected for services to patients under these agreements are computed at contractually agreed-upon rates. Accounts receivable have been adjusted to reflect the difference between charges and the reimbursable amounts under these third-party contracts. Revenues from Medicare and Medicaid programs and other third-party agreements accounted for approximately 45% and 48% of the Company's total net resident service revenues for year and nine months ended December 31, 2017 and 2016, respectively.

Investments and Investment Income

Investments comprised of 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 loss from operations. The investments are managed by an investment advisor (the Advisor). In addition, investments held under bond indenture with trustees 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. 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.

The portion of investments that is available to fund current operating activities is included in current assets in the accompanying statements of financial position. Donated investments are reported at their fair values at date of receipt.

ASBURY, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments and Investment Income (Continued)

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

The Company 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 the Company to hold the security until the market value recovers. Declines in fair value below cost that are deemed to be other-than-temporary are recorded as realized losses in the accompanying statements of operations and changes in net assets.

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

Return Objectives and Risk Parameters

The objective of the Company's investments policy is to maximize long-term real return commensurate with the risk parameters specified by the board of directors (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 the Company continues to meet its objectives, the Company has established rebalancing guidelines and established mechanisms for ongoing monitoring of performance and risk.

ASBURY, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Derivative Policy

The Company manages its exposure to interest rate volatility through use of an interest rate swap contract. This contract qualifies as a derivative financial instrument. The book value of the derivative instrument is adjusted to the estimated fair value at each balance sheet date. The Company has determined that, for continuing operations, the derivative does not meet the criteria for hedge accounting and, therefore, the change in fair value of derivative instrument is included within the Company's performance indicator, loss from operations.

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 deferred financing costs during the period of construction of capital assets are capitalized as a component of the cost of acquiring those assets.

Deferred Marketing Costs

Deferred marketing costs are associated with acquiring initial residential contracts and are deferred and amortized on a straight-line method over the estimated life expectancy of the initial residents. The amortization expense on deferred marketing costs was \$41,987 and \$31,490 for the year and nine months ended December 31, 2017 and 2016, respectively. There were no additions to deferred marketing costs for the year and nine months 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 assets. Advertising expense was \$183,780 and \$10,201 for the year and nine months ended December 31, 2017 and 2016, respectively.

Other Intangible Assets

The Company recorded \$5,480,000 of intangible assets from the affiliation effective August 1, 2016 between ACOMM and the Company for the skilled nursing beds Certificate of Need. Intangible assets are recorded at their estimated fair market value and not subject to amortization. Management periodically assesses the fair value of its intangible assets and has not recorded any impairment since their origination.

ASBURY, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Deposits from Prospective Residents

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

Accrued Compensation and Related Items

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

Continuing-Care and Life Care Contracts

The Company offers continuing-care contracts to its residents. These contracts include residential facilities, meals and other amenities, as well as priority access to long-term nursing care.

Revenue Recognition

Entrance fees are paid by the resident upon entering into a continuing care contract in return for future services and the use of facilities. The Company offers a Type B, 90% refundable entrance fee plan for its cottages and apartments at its Maryville and Kingsport-Baysmont locations. The contract provides for 60 days of nursing home care without additional daily nursing home charges. Residents benefit from immediate access to assisted living and nursing home care. Entrance fees under this plan are refundable upon contract termination and re-occupancy of the unit. The fees are recorded as refundable entrance fees and are not amortized.

The Kingsport-Baysmont location also offers a standard entrance fee plan for its apartments for which the refundable portion decreases 2% per month over a 50-month period. Although the Company no longer charges entrance fees for residents of assisted living, entrance fees charged in prior years were recorded as deferred entrance fees and are amortized to income over the estimated remaining life expectancy of the resident. A portion of the fees are refundable if the resident vacates the facility within 100 months.

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

ASBURY, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

NOTE 2 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	\$ -	\$ 724,846
Contingent Refundable Entrance Fee Liability	\$ 26,046,131	\$ 23,674,301
Entrance Fees - Deferred Revenue:		
25% to 95% Refundable Contracts	\$ 2,118,646	\$ 1,936,970
Standard Entry Fee Option Contracts:		
Five-Year Contracts	1,252,713	1,424,447
Total	3,371,359	3,361,417
Less: Projected Refund of Standard Entrance Fees	(42,508)	-
Total	\$ 3,328,851	\$ 3,361,417
Total Entrance Fees	\$ 29,374,982	\$ 27,760,564

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 \$26,528,116 and \$24,230,504, respectively.

Charity Care

The Company'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 the Company does not pursue collection of amounts determined to qualify as charity care, they are not reflected as revenue in the accompanying combined financial statements.

Contributions

Contributions are considered available for unrestricted use unless specifically restricted by donors. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted support. When a donor restriction expires in a subsequent fiscal year, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of operations and changes in net assets as net assets released from restriction. However, if a restriction is fulfilled in the same time period in which the contribution is received, the support is reported as unrestricted. Interest earned on the temporary investment of restricted contributions is reported as unrestricted support.

ASBURY, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Contributions (Continued)

Gifts of property and equipment are reported as unrestricted support and are excluded from the operating indicator, unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Company reports expirations of donor restrictions when the donated long-lived assets are placed in service.

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 and Permanently Restricted Net Assets

Temporarily restricted net assets are those whose use by the Company has been limited by donors to a specific time period or purpose. Permanently restricted net assets have been restricted by donors to be maintained by the Company in perpetuity.

Loss from Operations

The statements of operations and changes in net assets include an operating indicator identified as the deficit of revenues under expenses. Changes in unrestricted net assets, which are excluded from the operating indicator consistent with industry practice, include unrealized gains and losses on investments other than trading securities.

Income Taxes

Asbury, Inc. is a nonprofit organization as described under Section 501(c)(3) of the Internal Revenue Code (the Code) and is exempt from Federal income taxes.

The income tax returns for Asbury, Inc. are subject to review and examination by Federal and state authorities. Asbury, Inc. is not aware of any activities that would jeopardize their tax-exempt status.

The Company follows guidance in the income tax standard regarding the recognition and measurement of uncertain tax positions. The standard has had no impact on the Company's financial statements.

ASBURY, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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.

ASBURY, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair Value Measurements (Continued)

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.

Fair value measurement is based upon quoted prices, if available. If quoted prices are not available, fair values are measured using independent pricing models or other model-based valuation techniques such as the present value of future cash flows, adjusted for the security's credit rating, prepayment assumptions, and other factors such as credit loss assumptions. Securities valued using Level 1 inputs include those traded on an active exchange, such as the New York Stock Exchange, as well as U.S. Treasury and other U.S. government and agency mortgage-backed securities that are traded by dealers or brokers in active over-the-counter markets. The Company did not have any assets or liabilities that are valued using Level 3 inputs.

Professional standards allow entities the irrevocable option to elect to measure certain financial instruments and other items at fair value for the initial and subsequent measurement on an instrument-by-instrument basis. The Company has not elected to measure any existing financial instruments at fair value. The Company may elect to measure newly acquired financial instruments at fair value in the future.

Reclassifications

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

Subsequent Events

The Company has evaluated subsequent events through March 29, 2018, the date the financial statements were available for issuance.

NOTE 3 REGULATORY ENVIRONMENT

Medicare and Medicaid

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

ASBURY, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

NOTE 3 REGULATORY ENVIRONMENT (CONTINUED)

Medicare and Medicaid (Continued)

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 SNF covered services (routine, ancillary, and capital related costs).

Medicaid Reimbursement

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

NOTE 4 NET RESIDENT SERVICE REVENUE

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

A summary of gross and net resident service revenue is as follows for the year and nine months ended December 31:

	<u>2017</u>	<u>2016</u>
Gross Resident Service Revenue	\$ 30,958,140	\$ 24,385,755
Less Provisions for:		
Contractual Allowance under Third-Party Reimbursement Programs	(3,954,183)	(2,166,053)
Benevolent and Charity Care	<u>(79,974)</u>	<u>(30,033)</u>
Net Resident Service Revenue	<u>\$ 26,923,983</u>	<u>\$ 22,189,669</u>

ASBURY, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

NOTE 5 CONCENTRATION OF CREDIT RISK

The Company grants credit without collateral to its residents, some of whom are insured under third-party payor agreements. The mix of receivables from patient and third-party payors as of December 31, 2017 and 2016 is as follows:

	<u>2017</u>	<u>2016</u>
Private Pay	35 %	34 %
Medicaid	21	21
Medicare	11	37
Other (Primarily Managed Care and Insurance)	33	8
Total	<u>100 %</u>	<u>100 %</u>

NOTE 6 INVESTMENTS

The investment portfolios, including assets whose use is limited and investments restricted by Board at fair value, consisted of the following at December 31:

	<u>2017</u>	<u>2016</u>
Investments:		
Cash and Short-Term Investments	\$ 272,513	\$ -
Fixed-Income Securities and Mutual Funds	6,432,703	1,411,701
Equity Securities and Mutual Funds	6,351,876	10,030,382
Total Investments	<u>\$ 13,057,092</u>	<u>\$ 11,442,083</u>
Investments Restricted by Donors:		
Cash and Short-Term Investments	<u>\$ 53,391</u>	<u>\$ 53,391</u>
Investments Held under Bond Indenture:		
Cash and Short-Term Investments	<u>\$ 3,951,965</u>	<u>\$ 13,427,690</u>
Investments Restricted by Board:		
Cash and Short-Term Investments	<u>\$ -</u>	<u>\$ 100,370</u>

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

	<u>2017</u>	<u>2016</u>
Debt Service Fund	\$ 313,087	\$ 899,135
Debt Service Reserve Fund	1,879,549	3,203,543
Project Fund	221,088	7,994,616
Capital Improvement Fund	865,656	279,560
Capitalized Interest Fund	672,585	1,050,836
Total	3,951,965	13,427,690
Less: Current Portion	(577,625)	(1,024,170)
Long-Term Portion of Bond Indenture	<u>\$ 3,374,340</u>	<u>\$ 12,403,520</u>

ASBURY, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

NOTE 6 INVESTMENTS (CONTINUED)

The total return on investments, along with investments classified as assets whose use is limited and investments restricted by Board, including the change in the market value of derivative instruments, generated net investment income excluding capitalized interest income for the year and nine months ended December 31, 2017 and 2016, respectively, as follows:

	2017	2016
Included within the Organization's Performance Indicator:		
Interest and Dividends, Net	\$ 369,028	\$ 185,154
Net Realized Gain (Loss) on Investments	1,341,926	(144,923)
Net Unrealized Gain on Change in Market Value of Derivative Instrument	23,938	39,678
Total	1,734,892	79,909
Included in Other Changes in Net Assets:		
Other Unrealized Gain on Investments	4,671	103,154
Total	\$ 3,474,455	\$ 262,972

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

The Company 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 year and nine months ended December 31, 2017 and 2016, the Company did not identify any other than temporary declines in the fair value of investments.

NOTE 7 PROPERTY AND EQUIPMENT

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

	Useful Life	2017	2016
Land and Improvements	10 - 40 Years	\$ 3,211,222	\$ 2,919,098
Buildings and Improvements	10 - 40 Years	78,612,696	57,263,161
Furniture and Equipment	2 - 15 Years	15,056,097	11,719,896
Construction in Progress		-	5,518,806
Total		96,880,015	77,420,961
Less: Accumulated Depreciation		(32,376,733)	(29,820,353)
Property and Equipment, Net		\$ 64,503,282	\$ 47,600,608

ASBURY, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

NOTE 7 PROPERTY AND EQUIPMENT (CONTINUED)

Depreciation expense on property and equipment was approximately \$2,556,377 and \$1,817,370 for the year and nine months ended December 31, 2017 and 2016, respectively.

Interest is capitalized for assets that require a period of time to be constructed or to prepare them for their intended use. For the year and nine months ended December 31, 2017 and 2016, the amount of interest expense capitalized was \$712,166 and \$161,169, respectively.

NOTE 8 RELATED PARTY TRANSACTIONS

Due to ACOMM

ACOMM and its affiliates use consolidated 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 consolidated payroll function, all salaries and withholdings are processed through ACOMM. ACOMM also calculates and tracks 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. The Company records the accrual that is included within the accrued compensation and related items in the statement of financial position.
- Cash Management – Entities supported by ACOMM share a common cash management function. Operating cash of the group is swept to reimburse ACOMM for actual expenses incurred for the Company. 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.

Management and Other Fees

The Company received administrative services from ACOMM under a management agreement at a cost of \$2,305,255 and \$1,586,961 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 the Company under all of the Company's secured loan agreements.

ASBURY, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

NOTE 9 DEBT

Long-term debt is summarized as follows:

	Interest Rate	Dates	2017	2016
Series 2016A Bonds	Fixed Rate Revenue Bonds	2024 - 2047	\$ 23,170,000	\$ 23,170,000
Series 2016B Bonds	Variable (2.426% as of 12/31/17)	2018 - 2046	13,802,793	356,603
Series 2016C Bonds	Variable (2.426% as of 12/31/17)	2023	5,680,730	-
Series 2007 Bonds	Fixed Rate Revenue Bonds	2023	-	8,305,000
Total			42,653,523	31,831,603
Less: Current Portion			(931,399)	(860,000)
Less: Unamortized Deferred Financing Costs			(1,238,235)	(1,426,715)
Less: Unamortized Bond Premium			1,856,989	1,925,035
Long-Term Debt, Net			<u>\$ 42,340,878</u>	<u>\$ 31,469,923</u>

Series 2016 Bonds

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

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

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

Both the Series 2016B and Series 2016C Bonds are privately held bonds and bear interest at a variable rate equal to a percentage of one-month LIBOR plus a fixed credit spread and were issued using a draw-down structure, as the actual par amount of each of these series could be lower depending on costs of issuance and the costs of improvement to the Company's facilities.

ASBURY, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

NOTE 9 DEBT (CONTINUED)

Series 2007 Bonds

On May 30, 2007, the Company issued \$13,415,000 in Series 2007A Revenue Refunding Bonds and \$920,000 in Series 2007B Taxable Revenue Bonds (collectively, the 2007 Bonds). The 2007 Bonds were issued to refinance all long-term debt outstanding, reimburse the Company for the swap termination payment related to the Series 2003 Bonds, fund a reserve fund related to the new bonds, and to pay for certain expenses related to the issuance of the bonds. Interest on the 2007 Bonds were payable on April 1 and October 1 each year. Interest on the 2007 Bonds ranged from 4.75% to 5.125%. The 2007 Bonds were refinanced in 2017 with the Series 2016C Bonds.

Deferred Financing Costs

Deferred financing costs represent expenses incurred in connection with the issuance of debt and are deferred and amortized over the life of the related indebtedness using the straight-line method which approximates the effective interest method. The amortization expense on deferred financing costs is included in interest expense and totaled \$66,296 and \$40,132 for the year and nine months ended December 31, 2017 and 2016, respectively.

Bond Premium

Bond premiums are comprised of the difference between the price at which a bond was sold and its fair value. Bond premiums are amortized on a straight-line basis into interest expense over the life of the bonds. The amortization expense on bond premiums is included in interest expense and totaled \$(89,071) and \$(18,278) for the year and nine months ended December 31, 2017 and 2016, respectively.

Liens and Covenants

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

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

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

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

ASBURY, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

NOTE 9 DEBT (CONTINUED)

Debt Maturities

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

<u>Fiscal Year Ending December 31,</u>	<u>Amount</u>
2018	\$ 931,399
2019	1,332,809
2020	1,371,550
2021	1,412,781
2022	1,454,029
Thereafter	<u>36,150,955</u>
Total	<u>\$ 42,653,523</u>

NOTE 10 DERIVATIVE INSTRUMENTS

The Company entered into a forward-rate purchase agreement with an investment company, in conjunction with the issuance of the Series 2016C Bonds, which reduces their exposure to volatility of interest rates on debt. Under this agreement, beginning on the effective date of April 3, 2017, the Company pays a fixed rate of interest of 0.998% per annum, as noted in the table below, while the investment company pays the Company based on a floating rate of 67% of London Interbank Offered Rate (LIBOR). The floating rate resets every seven days. The difference between the fixed and floating rates is accrued and recorded in interest expense or interest income in the accompanying statements of operations and changes in net assets. The notional amount declines over time to hedge the interest rate exposure for the Company. The agreement is with Investment Company that has investment grade credit ratings from Standard & Poor's and Moody's. The agreement has 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. Payments on this forward contract agreement begin May 1, 2017 and terminate April 1, 2023.

ASBURY, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

NOTE 10 DERIVATIVE INSTRUMENT (CONTINUED)

The following schedule outlines the terms and fair market value of the derivative instrument on December 31, 2017 and 2016:

	Series 2016 Forward Contract
Notional Amount - December 31, 2017	\$ 5,680,730
Trade Date	10/6/2016
Effective Date	4/3/2017
Termination or Cancellation Date	4/1/2023
Fixed Rate	0.998%
Fair Value at March 31, 2016	\$ -
Unrealized Gain	39,679
Fair Value at December 31, 2016	39,679
Unrealized Gain	23,938
Fair Value at December 31, 2017	\$ 63,617

NOTE 11 TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets were \$184,321 and \$140,086 as of December 31, 2017 and 2016, respectively.

NOTE 12 PERMANENTLY RESTRICTED NET ASSETS

Permanently restricted net assets, totaling \$53,391 as of December 31, 2017 and 2016, consist of investments to be held in perpetuity. Investment income earned from the permanently restricted net assets is available for operations of the supported organizations including funding of benevolent and charity care.

Interpretation of Relevant Law

Permanently restricted net assets represent endowment contributions. The state of Tennessee adopted the Tennessee Prudent Management of Institutional Funds Act (UPMIFA). The Board of the Company has interpreted UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the 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 year and nine months 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. The Company received no permanently restricted donations during the year and nine months ended December 31, 2017 and 2016.

ASBURY, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

NOTE 13 RETIREMENT PLAN

ACOMM has a defined-contribution plan (the Plan) under IRC Section 401(k). All full-time employees of the Company are eligible to participate in the Plan. Employees may elect to defer up to \$18,000 of their base salary, subject to certain limitations. The employer's basic contribution is 3% of compensation for each eligible employee. ACOMM will also match the employee's contribution up to 2% of the employee's base salary. Prior to November 1, 2017, the Company's employees were eligible to participate in a 403(b) tax deferred annuity plan, which was terminated on October 31, 2017. During the year and nine months ended December 31, 2017 and 2016, retirement plan expense totaled \$119,013 and \$80,985, respectively.

NOTE 14 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. The Company became part of this GL/PL policy effective January 1, 2018. Previously, the Company utilized its own insurance program.

Caring Communities, a Reciprocal Risk Retention Group

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.

ASBURY, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

NOTE 14 COMMITMENTS AND CONTINGENCIES (CONTINUED)

Workers' Compensation Insurance

ACOMM and its affiliates, excluding Bethany Village (BV), which is covered under a separate church group Workers' Compensation Trust, 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 ACOMM's financial institution. ACOMM 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 became part of ACOMM's workers' compensation coverage on March 1, 2017. Previously, the Company was covered under a fully insured workers' compensation plan. ACOMM 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.

Health Insurance

ACOMM and its affiliates have 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 per year. The annual aggregate fluctuates based on the number of participants and is calculated based on historical claims information. The Company became part of ACOMM's health insurance coverage on August 1, 2017. Previously, the Company was covered under a fully insured health insurance plan.

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.

ASBURY, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

NOTE 14 COMMITMENTS AND CONTINGENCIES (CONTINUED)

Lease Commitments

The Company has a vehicles lease that expires in 2022. Total lease expense for the year and nine months ended December 31, 2017 and 2016 was \$94,119 and \$51,709, respectively.

The future rental commitment for the noncancelable operating lease is as follows:

<u>Year Ending December 31,</u>	<u>Amount</u>
2018	\$ 10,637
2019	10,453
2020	9,154
2021	9,154
2022	7,628
Total	<u>\$ 47,026</u>

NOTE 15 FUNCTIONAL EXPENSES

The Company provides continuing and long-term care for the aging. Expenses related to providing these services as of December 31, 2017 and 2016 were as follows:

	<u>2017</u>	<u>2016</u>
Continuing and Long-Term Care	\$ 26,509,444	\$ 20,332,555
General and Administrative	5,955,160	3,941,317
Total Functional Expenses	<u>\$ 32,464,604</u>	<u>\$ 24,273,872</u>

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

NOTE 16 FAIR VALUE OF FINANCIAL INSTRUMENTS

The 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.

ASBURY, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

NOTE 16 FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

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

The following table sets forth by level within the fair value hierarchy the Company's financial assets and liabilities that were accounted for at fair value on a recurring basis as of December 31, 2017 and 2016.

Recurring Fair Value Measures	At Fair Value as of December 31, 2017			
	Level 1	Level 2	Level 3	Total
Assets				
Cash and Short-Term Investments	\$ 4,277,869	\$ -	\$ -	\$ 4,277,869
Fixed-Income Securities and Mutual Funds	6,432,703	-	-	6,432,703
Equity Securities and Mutual Funds	6,351,876	-	-	6,351,876
Derivative Instrument	-	63,617	-	63,617
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	\$ 13,581,451	\$ -	\$ -	\$ 13,581,451
Fixed-Income Securities and Mutual Funds	1,411,701	-	-	1,411,701
Equity Securities and Mutual Funds	10,030,382	-	-	10,030,382
Derivative Instrument	-	39,679	-	39,679

ASBURY, INC.
STATEMENT OF FINANCIAL POSITION BY LOCATION
DECEMBER 31, 2017

ASSETS	Locations				<u>Asbury, Inc.</u>
	Support Center	Maryville	Kingsport	Asbury at Home	
CURRENT ASSETS					
Cash and Cash Equivalents	\$ 4,872,422	\$ 2,050	\$ 1,950	\$ -	\$ 4,876,422
Investments	7,798,593	4,967,704	290,795	-	13,057,092
Accounts Receivable, Net	-	880,625	483,248	65,957	1,429,830
Other Receivables and Prepaid Expenses	45,977	197,982	39,123	1,880	284,962
Investments Held under Bond Indenture	-	512,955	64,670	-	577,625
Total Current Assets	12,716,992	6,561,316	879,786	67,837	20,225,931
Due from Affiliates, Net	(6,585,845)	5,510,790	825,090	249,965	-
Property, Plant, and Equipment, Net	21,673	41,914,907	22,566,702	-	64,503,282
Investments Restricted by Donors	53,391	-	-	-	53,391
Deferred Marketing Costs, Net	-	178,444	-	-	178,444
Deposits and Other Assets	-	39,332	-	-	39,332
Other Intangible Assets	-	3,430,000	2,050,000	-	5,480,000
Valuation of Derivative Instrument	-	39,380	24,237	-	63,617
Investments Held under Bond Indenture	-	2,828,709	545,631	-	3,374,340
Total Assets	\$ 6,206,211	\$ 60,502,878	\$ 26,891,446	\$ 317,802	\$ 93,918,337

ASBURY, INC.
STATEMENT OF FINANCIAL POSITION BY LOCATION (CONTINUED)
DECEMBER 31, 2017

	Locations				Asbury, Inc.
	Support Center	Maryville	Kingsport	Asbury at Home	
LIABILITIES AND NET ASSETS					
CURRENT LIABILITIES					
Accounts Payable and Accrued Expenses	\$ 23,697	\$ 224,369	\$ 53,635	\$ 66	\$ 301,767
Accrued Compensation and Related Items	1,109,586	35,135	20,365	704	1,165,790
Accrued Interest Payable	-	537,686	78,509	-	616,195
Construction Retainage Payable	-	613,474	251,849	-	865,323
Deposits from Prospective Residents	-	90,500	21,400	-	111,900
Deferred Revenue	-	38,527	10,686	930	50,143
Current Portion of Long-Term Debt	-	578,818	352,581	-	931,399
Current Portion of Capital Lease	-	2,233	1,374	-	3,607
Total Current Liabilities	<u>1,133,283</u>	<u>2,120,742</u>	<u>790,399</u>	<u>1,700</u>	<u>4,046,124</u>
Long-Term Debt, Net	-	33,185,241	9,155,637	-	42,340,878
Projected Refund of Standard Entrance Fees	-	-	42,508	-	42,508
Contingent Refundable Entrance Fee Liability	-	18,559,974	7,486,157	-	26,046,131
Entrance Fees - Deferred Revenue	-	1,502,633	1,826,218	-	3,328,851
Total Liabilities	<u>1,133,283</u>	<u>55,368,590</u>	<u>19,300,919</u>	<u>1,700</u>	<u>75,804,492</u>
NET ASSETS					
Unrestricted	5,005,049	5,068,819	7,486,163	316,102	17,876,133
Temporarily Restricted	14,488	65,469	104,364	-	184,321
Permanently Restricted	53,391	-	-	-	53,391
Total Net Assets	<u>5,072,928</u>	<u>5,134,288</u>	<u>7,590,527</u>	<u>316,102</u>	<u>18,113,845</u>
Total Liabilities and Net Assets	<u>\$ 6,206,211</u>	<u>\$ 60,502,878</u>	<u>\$ 26,891,446</u>	<u>\$ 317,802</u>	<u>\$ 93,918,337</u>

ASBURY, INC.
STATEMENT OF OPERATIONS AND CHANGES IN UNRESTRICTED NET ASSETS BY LOCATION
YEAR ENDED DECEMBER 31, 2017

	Locations				Asbury, Inc.
	Support Center	Maryville	Kingsport	Asbury at Home	
OPERATING REVENUES					
Net Resident Service Revenue	\$ -	\$ 16,055,196	\$ 10,063,768	\$ 805,019	\$ 26,923,983
Other Operating Revenue	6,550	202,811	77,073	-	286,434
Amortization of Entrance Fees	-	238,392	393,535	-	631,927
Interest and Dividend Income, Net	210,407	148,513	10,108	-	369,028
Net Realized Gain on Investments	818,577	496,511	26,838	-	1,341,926
Contributions	-	19,925	3,900	-	23,825
Net Assets Released from Restrictions	-	16,293	-	-	16,293
Total Operating Revenues	<u>1,035,534</u>	<u>17,177,641</u>	<u>10,575,222</u>	<u>805,019</u>	<u>29,593,416</u>
OPERATING EXPENSES					
Salaries and Wages	-	7,292,254	4,156,928	556,992	12,006,174
Employee Benefits	1,738	1,239,356	769,978	54,722	2,065,794
Contract Labor	-	1,996,380	1,565,558	-	3,561,938
Food Purchases	-	859,493	604,281	-	1,463,774
Medical Supplies and Other Resident Costs	-	1,073,584	671,049	314	1,744,947
General and Administrative	80,015	740,154	527,086	7,103	1,354,358
Building and Maintenance	4,490	1,466,659	812,375	2,221	2,285,745
Professional Fees and Insurance	-	298,215	192,129	5,816	496,160
Interest	-	663,858	168,815	100	832,773
Taxes	19	719,725	449,921	-	1,169,665
Provision for Bad Debts	3,388	394,534	181,566	169	579,657
Depreciation and Amortization	7,539	1,546,605	1,044,220	-	2,598,364
Management and Other Fees	-	1,446,171	859,084	-	2,305,255
ASC Allocation	(97,189)	60,257	36,932	-	-
Total Operating Expenses	<u>-</u>	<u>19,797,245</u>	<u>12,039,922</u>	<u>627,437</u>	<u>32,464,604</u>
INCOME (LOSS) FROM OPERATIONS PRIOR TO NET UNREALIZED GAIN ON CHANGE IN MARKET VALUE OF DERIVATIVE INSTRUMENT AND LOSS ON RETIREMENT OF DEBT	1,035,534	(2,619,604)	(1,464,700)	177,582	(2,871,188)
Net Unrealized Gain on Change in Market Value of Derivative Instrument	-	14,817	9,121	-	23,938
Loss on Retirement of Debt	-	(144,045)	(88,624)	-	(232,669)
INCOME (LOSS) FROM OPERATIONS	1,035,534	(2,748,832)	(1,544,203)	177,582	(3,079,919)
Net Unrealized Gains on Investments	<u>2,849</u>	<u>1,728</u>	<u>94</u>	<u>-</u>	<u>4,671</u>
NET INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS	<u>\$ 1,038,383</u>	<u>\$ (2,747,104)</u>	<u>\$ (1,544,109)</u>	<u>\$ 177,582</u>	<u>\$ (3,075,248)</u>



Investment advisory services are offered through CliftonLarsonAllen
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