ASBURY, INC.

FINANCIAL STATEMENTS
AND
ACCOMPANYING INFORMATION

NINE MONTHS ENDED DECEMBER 31, 2016

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CliftonLarsonAllen LLP
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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 statement of financial position as of December 31, 2016, and the related statements of operations and changes in net assets, and cash flows for the 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 audit. We conducted our audit 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 $2,933,265 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, 2016 and the results of their operations, changes in net assets, and cash flows for the 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

CliftonLarsonAllen LLP

Plymouth Meeting, Pennsylvania
April 20, 2017

ASBURY, INC.
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2016

ASSETS

CURRENT ASSETS	
Cash and Cash Equivalents	$ 4,426,637
Accounts Receivable, Net	2,416,150
Prepaid Expenses and Other Current Assets	662,398
Current Portion of Assets Whose Use is Limited Under Bond Agreement	1,024,170
Total Current Assets	8,529,355
ASSETS WHOSE USE IS LIMITED, NET OF CURRENT PORTION	
Patient Trust Funds	42,075
Under Bond Agreements	12,403,520
By Donors - Endowment Funds	53,391
By Board - Workers' Compensation Fund	100,370
Total Assets Whose Use is Limited, Net of Current Portion	12,599,356
INVESTMENTS	11,442,083
VALUATION OF DERIVATIVE INSTRUMENT	39,678
PROPERTY AND EQUIPMENT	
Land	1,106,861
Land Improvements	1,812,237
Buildings	57,263,161
Equipment	11,719,896
Construction in Progress	5,518,806
	77,420,961
Less: Accumulated Depreciation	(29,820,353)
Property and Equipment, Net	47,600,608
OTHER ASSETS	
Intangible Asset	5,480,000
Deferred Marketing Costs	220,430
Due from Forest Ridge Manor, Inc.	31,021
Total Other Assets	5,731,451
Total Assets	$ 85,942,531

See accompanying Notes to Financial Statements.

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES	
Accounts Payable and Accrued Expenses	$ 3,664,519
Accrued Payroll Related Liabilities	935,688
Current Portion of Long-Term Debt	860,000
Current Portion of Capital Lease	10,238
Deferred Revenue and Resident Deposits	91,384
Total Current Liabilities	5,561,829
LONG-TERM DEBT, NET OF CURRENT PORTION	31,469,923
CAPITAL LEASE, NET OF CURRENT PORTION	5,357
OTHER LIABILITIES	
Refundable Admission Fees	24,399,147
Deferred Admission Fees, Net	3,361,417
Total Other Liabilities	27,760,564
Total Liabilities	64,797,673
NET ASSETS	
Unrestricted	20,951,381
Temporarily Restricted	140,086
Permanently Restricted	53,391
Total Net Assets	21,144,858
Total Liabilities and Net Assets	$ 85,942,531

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

OPERATING REVENUES	
Net Resident Service Revenue	$ 22,189,669
Amortization of Entrance Fees	456,234
Other Operating Revenue	244,939
Net Assets Released from Restrictions	10,875
Total Operating Revenues	22,901,717
OPERATING EXPENSES	
Salaries and Wages	9,134,496
Employee Benefits	1,845,469
Contract Labor	2,547,286
Food Purchases	1,012,638
Medical Supplies and Other Resident Costs	1,385,803
General and Administrative	2,226,544
Building and Maintenance	1,534,995
Insurance	429,872
Interest	579,743
Taxes	873,129
Provision for Bad Debts	855,035
Depreciation and Amortization	1,848,861
Total Operating Expenses	24,273,871
OPERATING LOSS	(1,372,154)
OTHER INCOME (EXPENSE)	
Investment Income	40,231
Loss on Retirement of Debt	(204,062)
Loss on Disposal of Property and Equipment	(70,718)
Change in Fair Value of Derivative Instrument	39,678
Other Income	39,546
DEFICIT OF REVENUES UNDER EXPENSES	(1,527,479)
Net Unrealized Gains on Investments	528,727
Decrease in Unrestricted Net Assets	(998,752)
TEMPORARILY RESTRICTED NET ASSETS	
Contributions	80,583
Net Assets Released from Restrictions	(10,875)
Increase in Temporarily Restricted Net Assets	69,708
Decrease in Net Assets	(929,044)
Net Assets - Beginning of Year	22,073,902
NET ASSETS - END OF YEAR	$ 21,144,858

See accompanying Notes to Financial Statements.

ASBURY, INC.
STATEMENT OF CASH FLOWS
NINE MONTHS ENDED DECEMBER 31, 2016

CASH FLOWS FROM OPERATING ACTIVITIES	
Decrease in Net Assets	$ (929,044)
Adjustments to Reconcile Increase in Net Assets to Net Increase in Cash Provided by Operating Activities:	
Net Unrealized Gains on Investments	(528,727)
Depreciation and Amortization of Deferred Marketing Costs	1,848,861
Amortization of Bond Issuance Costs	40,134
Amortization of Bond Premium	(18,363)
Provision for Bad Debts	855,035
Amortization of Admission Fees	(456,234)
Loss on Disposal of Property and Equipment	70,718
Loss on Retirement of Debt	204,062
Change in Fair Value of Swap Agreement	(39,678)
Changes in Operating Assets and Liabilities:	
Accounts Receivable	(1,038,990)
Note Receivable	58,317
Prepaid Expenses and Other Assets	182,850
Accounts Payable and Accrued Expenses	1,822,380
Other Liabilities	13,558
Net Cash Provided by Operating Activities	2,084,879
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchases of Property and Equipment	(6,614,834)
Net Purchases of Investments and Assets Whose Use is Limited	(9,764,595)
Net Cash Used by Investing Activities	(16,379,429)
CASH FLOWS FROM FINANCING ACTIVITIES	
Proceeds from Admission Fees	3,455,184
Refunds of Admission Fees	(1,030,936)
Principal Payments of Long-Term Debt	(13,134,800)
Payment of Deferred Financing Costs	(1,214,279)
Principal Payments on Capital Lease	(11,757)
Proceeds from Issuance of Debt	25,494,330
Net Cash Provided by Financing Activities	13,557,742
NET DECREASE IN CASH AND CASH EQUIVALENTS	(736,808)
Cash and Cash Equivalents - Beginning of Year	5,163,445
CASH AND CASH EQUIVALENTS - END OF YEAR	$ 4,426,637

See accompanying Notes to Financial Statements.

NOTE 1 BASIS OF ACCOUNTING, OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting and Operations

The accompanying financial statements include the accounts of Asbury, Inc. (the “Organization”). The financial statements of Asbury, Inc. are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

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

The accompanying financial statements do not include the accounts of Forest Ridge Manor, Inc., a wholly-owned affiliate of the Organization. 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.

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. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

The Organization considers all highly liquid investments purchased with a maturity of three months or less to be cash equivalents.

The Organization maintains cash balances at several financial institutions within its market area. Accounts at each institution are insured by the Federal Deposit Insurance Corporation (FDIC). At times, deposits may exceed FDIC amounts.

Accounts Receivable

Accounts receivable from residents and third-party payers are recorded on the accrual basis in the period in which services are rendered. The Organization does not require collateral on accounts receivable. Accounts are charged to bad debt expense as they are determined to be uncollectible based upon a review of aging and collections. The Organization establishes an allowance for doubtful accounts based upon factors surrounding the credit risk of specific residents, historical trends and other information. The allowance for estimated uncollectible accounts was approximately $1,164,000 at December 31, 2016.

NOTE 1 BASIS OF ACCOUNTING, OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments

Investments are recorded at fair value based on quoted market prices. Donated investments are recorded at market value at the date of the gift, if applicable. Investment income or loss (including realized gains and losses on investments, interest and dividends) is included in the operating indicator unless restricted. Unrealized gains and losses on investments are excluded from the operating indicator.

Derivative Policy

The Organization 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 Organization 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 Organization’s operating indicator, deficit of revenue under expenses.

Assets Whose Use is Limited

The Organization’s Board of Directors has adopted a policy whereby certain cash and investments have been designated to fund remaining claims for a terminated self-insured workers’ compensation plan and for other discretionary purposes. Cash and investments restricted under the Organization’s bond agreements and custodial bank accounts used for residents’ personal funds are also classified as assets whose use is limited.

Property and Equipment

Property and equipment are recorded at cost. Donated property and equipment are recorded at fair market value at the date of donation. The Organization capitalizes all assets over $1,000 and depreciates them using the straight-line method over the estimated useful lives of the assets. Maintenance and repairs are expensed as incurred, betterments are capitalized, and gains and losses from dispositions are included in revenues or expenses. Depreciation expense was approximately $1,817,000 for the nine months ended December 31, 2016.

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. Amortization of deferred marketing costs commenced in fiscal year 2014. The amortization expense on deferred marketing costs was approximately $31,000 for the nine months ended December 31, 2016. There were no additions to deferred marketing for the nine months ended December 31, 2016.

NOTE 1 BASIS OF ACCOUNTING, OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Refundable Admissions Fees and Deferred Admission Fees

Admission fees are paid by the resident upon entering into a continuing care contract in return for future services and the use of facilities. The Organization offers a Type B, 90% refundable admission 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 admission fees and are not amortized.

The Kingsport-Baysmont location also offers a standard admission fee plan for its apartments for which the refundable portion decreases two percent per month over a 50-month period. Although the Organization no longer charges admission fees for residents of assisted living, admission fees charged in prior years were recorded as deferred admission 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 admission 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 admission fees is recorded as income.

Other Intangible Assets

The Organization recorded $5,480,000 of intangible assets from the affiliation effective August 1, 2016 between Asbury Communities, Inc., a Maryland nonstock corporation headquartered in Germantown, Maryland ("Asbury Communities") and the Organization 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.

Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are those whose use by the Organization 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 Organization in perpetuity.

Resident Service Revenue

Resident service revenue is reported at the estimated net realizable amounts to be collected from residents, third-party payers, and others for services provided. The provision for bad debts is reported as an operating expense.

NOTE 1 BASIS OF ACCOUNTING, OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Resident Service Revenue (Continued)

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

Charity Care

The Organization has a charity care policy to identify residents who meet certain criteria to provide care without charge or at amounts less than its established rates. Such residents are identified based on financial information obtained from the resident and subsequent review and analysis. Since the Organization does not charge the residents for services provided, estimated charges for charity care are not included in net resident service revenue.

The Organization has estimated its direct and indirect costs of providing charity care under its charity care policy. In order to estimate the cost of providing such care, management calculated a cost-to-charge ratio by comparing the total operating costs to total operating revenue. The cost-to-charge ratio is applied to the charges foregone to calculate the estimated direct and indirect cost of providing charity care. Using this methodology, the Organization has estimated the costs for services under the Organization's charity care policy to be approximately $30,000 for the nine months ended December 31, 2016.

The Organization received approximately $40,000 to subsidize the costs of providing charity care under its charity care policy for the nine months ended December 31, 2016.

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.

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 Organization reports expirations of donor restrictions when the donated long-lived assets are placed in service.

NOTE 1 BASIS OF ACCOUNTING, OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income Taxes

Asbury, Inc. is a not-for-profit 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 Organization follows guidance in the income tax standard regarding the recognition and measurement of uncertain tax positions. The standard has had no impact on the Organization's financial statements.

Fair Value of Financial Instruments

Fair value measurement applies to reported balances that are required or permitted to be measured at fair value under an existing accounting standard. The Organization 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 Organization 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.

NOTE 1 BASIS OF ACCOUNTING, OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair Value of Financial Instruments (Continued)

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 Organization did not have any assets or liabilities that are valued using Level 2 or 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 Organization has not elected to measure any existing financial instruments at fair value. The Organization may elect to measure newly acquired financial instruments at fair value in the future.

Change in Accounting Policies

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

Operating Indicator

The statement 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.

Subsequent Events

The Organization has evaluated subsequent events through April 20, 2017, the date the financial statements were available for issuance.

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

NOTE 2 NET RESIDENT SERVICE REVENUE

The Organization renders services to patients under contractual arrangements with the Medicare and Medicaid programs. Reimbursement for services under these arrangements is based on prospectively determined rates. Contractual adjustments and discounts are recorded as the services are rendered to reflect the difference between the Organization's established rates and the amounts received under these arrangements.

The Medicare and Medicaid programs accounted for approximately 16% and 18%, respectively, of net resident service revenues for the nine months ended December 31, 2016. Related accounts receivable as of December 31, 2016 from Medicare and Medicaid represent approximately 37% and 21%, respectively, of net accounts receivable. Amounts earned under these programs are subject to review and final determination by various program intermediaries and other appropriate governmental authorities or their agents. Laws and regulations governing these programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates could change by a material amount in the near term. In the opinion of management, adequate provision has been made in the financial statements for any adjustments resulting from such reviews.

A reconciliation of the amount of services provided at established rates to net resident service revenue is as follows:

Routine Revenue	$ 17,750,376
Ancillary Revenue	6,635,379
Contractual Adjustments and Discounts	(2,196,086)
Net Resident Service Revenue	$ 22,189,669

NOTE 3 INVESTMENTS AND ASSETS WHOSE USE IS LIMITED

Investments and assets whose use is limited are categorized by investment type as follows:

Cash and Cash Equivalents	$ 215,043
Pooled Growth Fund	10,011,175
Mutual Funds	13,427,690
Fixed Income	1,411,701
	25,065,609
Less: Current Portion	(1,024,170)
Investments and Assets Whose Use is Limited, Net of Current Portion	$ 24,041,439

The pooled growth fund represents shares of equity investments.

NOTE 3 INVESTMENTS AND ASSETS WHOSE USE IS LIMITED (CONTINUED)

Investment income includes:

Interest and Dividends	$	185,154
Realized Losses and Other		(144,923)
	$	40,231

NOTE 4 LONG-TERM DEBT

Long-term debt is summarized as follows:

Series 2007 Bonds	$	8,305,000
Series 2016 Bonds		23,526,605
		31,831,605
Less: Current Portion		(860,000)
Less: Unamortized Deferred Financing Costs		(1,426,715)
Less: Unamortized Bond Premium		1,925,033
Long-Term Debt, Net	$	31,469,923

Series 2007 Bonds

On May 30, 2007, the Organization 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 Organization for the swap termination payment related to the Series 2003 Bonds, fund a reserve fund related to the new bonds, and to pay for certain expenses related to the issuance of the bonds. Interest on the 2007 Bonds is payable on April 1 and October 1 each year. The 2007 Bonds as issued bore interest at 4.75% through April 1, 2012 and currently bear interest at 5.125% through April 1, 2023. The 2007 Bonds are collateralized by all gross receipts, accounts receivable, equipment and inventory of the Organization.

Series 2010 Bonds

On December 30, 2010, the Organization entered into a Bond Purchase and Loan Agreement under which the Health and Educational Facilities Board of Blount County, Tennessee (the Facilities Board) issued and sold a $16 million tax-exempt revenue bond to Branch Banking and Trust Corporation (BB&T), the proceeds of which were used by the Organization to finance construction of its St. Clair Apartments on the Maryville campus, finance construction of improvements at the Johnson City nursing facility, and to pay certain fees and expenses related to the issuance and sale of the bond.

In the current year, the Series 2010 Bonds were refinanced with the Series 2016 Bonds. The Organization incurred a loss on early extinguishment of debt of approximately $204,000 in connection with the refunding of the Series 2010 Bonds. This amount is reported as other income (expense) in the accompanying statement of operations and changes in net assets for the nine months ended December 31, 2016.

NOTE 4 LONG-TERM DEBT (CONTINUED)

Series 2016 Bonds

On October 1, 2016, the Organization 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 was 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 Organization's facilities at its Maryville and Kingsport locations, to fund a debt service fund, and to pay certain expenses incurred in connection with the issuance of the Series 2016A Bonds. Interest on the Series 2016A Bonds will range from 4% to 5% and will be payable on each January 1 and July 1, beginning on January 1, 2017.

Simultaneously with the issuance of the Series 2016A Bonds, the Organization 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 was to provide additional funds to pay the costs of improving and renovating the Organization's facilities at its Maryville and Kingsport locations and to pay certain expenses incurred in connection with the issuance of the Series 2016B Bonds.

Simultaneously with the issuance of the Series 2016A Bonds and Series 2016B Bonds, the Organization 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. See subsequent events note 1.

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 Organization's facilities.

Debt Maturities

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

Fiscal Year Ending December 31,	
2017	$ 860,000
2018	975,000
2019	1,236,605
2020	995,000
2021	1,050,000
Thereafter	26,715,000
Total	$ 31,831,605

Under the terms of the 2007 and 2016 bond agreements, the Organization is required to meet a number of covenants in which management believes they are in compliance at December 31, 2016.

NOTE 4 LONG-TERM DEBT (CONTINUED)

Interest Expense

Cash paid for interest was approximately $449,000 for the nine months ended December 31, 2016. The Organization capitalized interest of approximately $186,000 during the nine months ended December 31, 2016, related to construction in progress.

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 $40,000 for the nine months ended December 31, 2016.

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 $(18,000) for the nine months ended December 31, 2016.

NOTE 5 DERIVATIVE INSTRUMENTS

The Organization entered into a forward-rate purchase agreement with an investment company, in conjunction with the issuance of the Series 2016C Bonds, which reduce their exposure to volatility of interest rates on debt. Under this agreement, beginning on the effective date of April 3, 2017, the Organization pays a fixed rate of interest of 0.998% per annum, as noted in the table below, while the investment company pays the Organization based on a floating rate of 67% of London Interbank Offered Rate (LIBOR). The floating rate resets every seven days. See subsequent events note 1. 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 Organization. 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. The notional amount effective April 3, 2017 is $6,236,858.

NOTE 5 DERIVATIVE INSTRUMENTS (CONTINUED)

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

	Series 2016 Forward Contract
Notional Amount - December 31, 2016	$ 6,236,858
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	39,678
Fair Value at December 31, 2016	$ 39,678

NOTE 6 TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes:

Contributions Received for Specific Healthcare Services	$ 125,598
Contributions Received for Telecommunications Equipment	14,488
Total	$ 140,086

Permanently restricted net assets represent endowment contributions. The State of Tennessee adopted the Tennessee Prudent Management of Institutional Funds Act (“UPMIFA”). The Board of Directors of the Organization 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 Organization 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 nine months ended December 31, 2016, the Organization‘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 Organization received no permanently restricted donations during the nine months ended December 31, 2016.

NOTE 7 RETIREMENT PLAN

The Organization has a 403(b) tax deferred annuity plan administered by The Variable Annuity Life Insurance Company (VALIC). Employee participation in the plan is voluntary. Participating employees are permitted to contribute a portion of their earnings to the plan. The Organization contributes a matching contribution made at a rate of 3% of compensation, provided that the employee has made elected deferrals at a rate equal to at least 1.5% of compensation. During the nine months ended December 31, 2016, retirement plan expense totaled approximately $81,000.

NOTE 8 COMMITMENTS AND CONTINGENCIES

During 2006, the Organization engaged a management services organization to oversee substantially all management functions. The term of the agreement was for 60 months, through June 2011, with two automatic 36-month renewals. Base compensation was approximately $186,000 per month, adjusted for certain expenses as specified in the agreement. Annual compensation was based on a percentage of the Organization's budgeted revenue as defined in the agreement.

Effective April 1, 2014, the Organization re-engaged the management service organization to oversee substantially all management functions. The term of the new agreement is for 39 months, with one automatic 36-month renewal. Base compensation is approximately $180,000 per month, adjusted for certain expenses as specified in the agreement. Annual compensation is based on a percentage of the Organization's budgeted revenue as defined in the agreement. The management service agreement has been terminated and superseded by the affiliation agreement effective August 1, 2016 (See Note 9).

Effective March 2008, the Organization changed from a program of self-insuring the liability for workers' compensation claims to a fully insured plan. The remaining recorded liability at December 31, 2016, is to provide for claims incurred prior to the inception of the fully insured plan. In conjunction with this change, the Organization is required to maintain a letter of credit with a financial institution in the amount of $100,000 to provide for payment of claims if the Organization is unable to fund claims. In April 2012, the Organization changed to a partially self-insured plan for its workers compensation insurance. In conjunction with this change the Organization is required to maintain a separate letter of credit with a financial institution in the amount of $195,000 to provide for payment of claims if the Organization is unable to fund claims. The letter of credit is unused as of December 31, 2016.

The Organization utilizes a professional and general liability insurance program for general and medical malpractice liability risks. At December 31, 2016, there are potential claims and incidents that may result in the assertion of claims, as well as potential claims from unknown incidents that may be asserted arising from services provided to patients. Management of the Organization, after consultation with legal counsel, estimates that these matters will be resolved without material adverse effect on the Organization's future financial position or results of operations.

NOTE 9 AFFILIATION

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

While the Affiliation was effective August 1, 2016, Asbury Communities has a long history of involvement with the Organization. Prior to the Affiliation, The Asbury Group, Inc., a for-profit affiliate of Asbury Communities, 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 Organization changed its fiscal year end from March 31 to December 31.

NOTE 10 FAIR VALUE MEASUREMENTS

The Organization uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. For additional information on how the Organization measures fair value refer to Note 1 – Basis of Accounting, Operations and Summary of Significant Accounting Policies.

The following table presents the fair value hierarchy for the balances of the assets of the Organization measured at fair value on a recurring basis as of December 31, 2016:

	Level 1	Level 2	Level 3	Total
Investments and Assets Limited as to Use:				
Pooled Growth Fund	$ 10,011,175	$ -	$ -	$ 10,011,175
Mutual Funds	13,427,690	-	-	13,427,690
Fixed Income	1,411,701	-	-	1,411,701
Derivative Instrument	-	39,678		39,678
Total Assets	$ 24,850,566	$ 39,678	$ -	$ 24,890,244

NOTE 11 NOTE RECEIVABLE

In November 2012, the Organization sold a portion of the Johnson City facility, excluding the skilled nursing facility to an unrelated outside party. As part of the sales agreement, the Organization accepted a promissory note from the buyer in the amount of $589,000 bearing interest at the annual rate of five percent, compounded annually. Per the terms of the note, principal and interest payments of $3,891 are due the first day of each month for 35 months. The 36th and final payment of $534,010, together with all remaining principal and accrued interest was due no later than December 1, 2015, and was not extended. The note is supported by a deed of trust on the property involved in the sale.

The outstanding balance of the note receivable as of December 31, 2016 was approximately $554,000. During 2015, the buyer experienced financial difficulties and there is uncertainty around the ability of the buyer to pay off the note. As of December 31, 2016, the Organization has recorded a bad debt allowance for the entire note balance due to this uncertainty.

ASBURY, INC.
STATEMENT OF FINANCIAL POSITION BY LOCATION
DECEMBER 31, 2016

	Locations				
	Support Center	Maryville	Kingsport	Asbury at Home	Asbury, Inc.
ASSETS					
CURRENT ASSETS					
Cash and Cash Equivalents	$ 4,422,637	$ 2,050	$ 1,950	$ -	$ 4,426,637
Accounts Receivable, Net	2,007	1,550,589	799,422	64,132	2,416,150
Prepaid Expenses and Other Current Assets	224,377	356,347	81,674	-	662,398
Current Portion of Assets Whose Use is Limited Under Bond Agreement	-	707,347	316,823	-	1,024,170
Total Current Assets	4,649,021	2,616,333	1,199,869	64,132	8,529,355
ASSETS WHOSE USE IS LIMITED, NET					
Patient Trust Funds	-	42,075	-	-	42,075
Under Bond Agreements	209,589	10,449,331	1,744,600	-	12,403,520
By Donors - Endowment Funds	53,391	-	-	-	53,391
By Board - Workers' Compensation Fund	89,857	8,376	2,137	-	100,370
Total Assets Whose Use is Limited, Net	352,837	10,499,782	1,746,737	-	12,599,356
INVESTMENTS	7,603,981	3,525,275	312,827	-	11,442,083
VALUATION OF DERIVATIVE INSTRUMENT	-	24,561	15,117	-	39,678
PROPERTY AND EQUIPMENT					
Land	-	137,923	968,938	-	1,106,861
Land Improvements	22,667	1,424,413	365,157	-	1,812,237
Buildings	102,867	37,216,983	19,943,311	-	57,263,161
Equipment	779,190	5,705,239	5,235,467	-	11,719,896
Construction in Progress	-	3,568,599	1,950,207	-	5,518,806
	904,724	48,053,157	28,463,080	-	77,420,961
Less: Accumulated Depreciation	(887,862)	(18,450,624)	(10,481,867)	-	(29,820,353)
Property and Equipment, Net	16,862	29,602,533	17,981,213	-	47,600,608
OTHER ASSETS					
Intangible Asset	-	3,430,000	2,050,000	-	5,480,000
Deferred Marketing Costs	-	220,430	-	-	220,430
Due From (Due To) Affiliates	(5,078,493)	5,508,154	(473,193)	74,553	31,021
Total Other Assets	(5,078,493)	9,158,584	1,576,807	74,553	5,731,451
Total Assets	$ 7,544,208	$ 55,427,068	$ 22,832,570	$ 138,685	$ 85,942,531

ASBURY, INC.
STATEMENT OF FINANCIAL POSITION BY LOCATION(CONTINUED)
DECEMBER 31, 2016

	Locations				
LIABILITIES AND NET ASSETS	Support Center	Maryville	Kingsport	Asbury at Home	Asbury, Inc.
CURRENT LIABILITIES					
Accounts Payable and Accrued Expenses	$ 2,573,975	$ 801,198	$ 289,181	$ 165	$ 3,664,519
Accrued Payroll Related Liabilities	935,688	-	-	-	935,688
Current Portion of Long-Term Debt	-	532,340	327,660	-	860,000
Current Portion of Capital Lease	-	6,337	3,901	-	10,238
Deferred Revenue and Resident Deposits	-	67,683	23,701	-	91,384
Total Current Liabilities	3,509,663	1,407,558	644,443	165	5,561,829
LONG-TERM DEBT, NET OF CURRENT PORTION	-	26,049,951	5,419,972	-	31,469,923
CAPITAL LEASE, NET OF CURRENT PORTION	-	3,316	2,041	-	5,357
OTHER LIABILITIES					
Refundable Admission Fees	-	18,613,679	5,785,468	-	24,399,147
Deferred Admission Fees, Net	-	1,486,308	1,875,109	-	3,361,417
Total Other Liabilities	-	20,099,987	7,660,577	-	27,760,564
Total Liabilities	3,509,663	47,560,812	13,727,033	165	64,797,673
NET ASSETS					
Unrestricted	3,966,666	7,815,923	9,030,272	138,520	20,951,381
Temporarily Restricted	14,488	50,333	75,265	-	140,086
Permanently Restricted	53,391	-	-	-	53,391
Total Net Assets	4,034,545	7,866,256	9,105,537	138,520	21,144,858
Total Liabilities and Net Assets	$ 7,544,208	$ 55,427,068	$ 22,832,570	$ 138,685	$ 85,942,531

ASBURY, INC.
STATEMENT OF OPERATIONS AND CHANGES IN NET ASSETS BY LOCATION
NINE MONTHS ENDED DECEMBER 31, 2016

	Locations				
	Support Center	Maryville	Kingsport	Asbury at Home	Asbury, Inc.
OPERATING REVENUES					
Net Resident Service Revenue	$ 1,063	$ 13,350,585	$ 8,188,869	$ 649,152	$ 22,189,669
Amortization of Entrance Fees	-	155,229	301,005	-	456,234
Other Operating Revenue	50,546	146,988	47,405	-	244,939
Net Assets Released from Restrictions	-	10,175	700	-	10,875
Total Operating Revenues	51,609	13,662,977	8,537,979	649,152	22,901,717
OPERATING EXPENSES					
Salaries and Wages	145,758	5,464,437	3,102,074	422,227	9,134,496
Employee Benefits	5,390	1,102,182	690,407	47,490	1,845,469
Contract Labor	-	1,493,783	1,053,503	-	2,547,286
Food Purchases	-	579,446	433,192	-	1,012,638
Medical Supplies and Other Resident Costs	826	851,333	533,451	193	1,385,803
General and Administrative	127,599	1,239,757	823,034	36,154	2,226,544
Building and Maintenance	7,948	947,059	576,730	3,258	1,534,995
Insurance	-	251,218	178,654	-	429,872
Interest	-	454,859	124,884	-	579,743
Taxes	33	534,773	338,323	-	873,129
Provision for Bad Debts	(156)	582,565	273,116	(490)	855,035
Depreciation and Amortization	2,687	1,115,486	730,688	-	1,848,861
ASC Allocation	(225,406)	137,498	87,908	-	-
Total Operating Expenses	64,679	14,754,396	8,945,964	508,832	24,273,871
OPERATING INCOME (LOSS)	(13,070)	(1,091,419)	(407,985)	140,320	(1,372,154)
OTHER INCOME (EXPENSE)					
Investment Income	24,212	15,157	862	-	40,231
Loss on Retirement of Debt	-	(195,757)	(8,305)		(204,062)
Loss on Disposal of Property and Equipment	-	(71,500)	782	-	(70,718)
Change in Fair Value of Derivative Instrument	-	24,561	15,117		39,678
Other Income	-	24,205	15,341	-	39,546
EXCESS (DEFICIT) OF REVENUES OVER EXPENSES	11,142	(1,294,753)	(384,188)	140,320	(1,527,479)
Net Unrealized Gains on Investments	322,524	195,629	10,574	-	528,727
Increase (Decrease) in Unrestricted Net Assets	333,666	(1,099,124)	(373,614)	140,320	(998,752)
TEMPORARILY RESTRICTED NET ASSETS					
Contributions	-	9,715	70,868	-	80,583
Net Assets Released from Restrictions	-	(10,175)	(700)	-	(10,875)
Increase (Decrease) in Temporarily Restricted Net Assets	-	(460)	70,168	-	69,708
Increase (Decrease) in Net Assets	333,666	(1,099,584)	(303,446)	140,320	(929,044)
Net Assets - Beginning of Year	3,700,879	8,965,840	9,408,983	(1,800)	22,073,902
NET ASSETS - END OF YEAR	$ 4,034,545	$ 7,866,256	$ 9,105,537	$ 138,520	$ 21,144,858