

**ASBURY COMMUNITIES, INC.**  
**CONSOLIDATED FINANCIAL STATEMENTS AND  
OTHER FINANCIAL INFORMATION**  
**YEARS ENDED DECEMBER 31, 2010 AND 2009**

**ASBURY COMMUNITIES, INC.**  
**TABLE OF CONTENTS**  
**YEARS ENDED DECEMBER 31, 2010 AND 2009**

<b>INDEPENDENT AUDITORS' REPORT</b>	<b>1</b>
<b>CONSOLIDATED FINANCIAL STATEMENTS</b>	
<b>CONSOLIDATED BALANCE SHEETS</b>	<b>2</b>
<b>CONSOLIDATED STATEMENTS OF OPERATIONS AND     CHANGES IN NET DEFICIT</b>	<b>4</b>
<b>CONSOLIDATED STATEMENTS OF CASH FLOWS</b>	<b>6</b>
<b>NOTES TO CONSOLIDATED FINANCIAL STATEMENTS</b>	<b>8</b>
<b>INDEPENDENT AUDITORS' REPORT ON OTHER FINANCIAL INFORMATION</b>	<b>44</b>
<b>OTHER FINANCIAL INFORMATION</b>	
<b>CONSOLIDATING BALANCE SHEET</b>	<b>45</b>
<b>CONSOLIDATING STATEMENT OF OPERATIONS AND     CHANGES IN NET DEFICIT</b>	<b>47</b>

## INDEPENDENT AUDITORS' REPORT

Audit Committee  
Asbury Communities, Inc.  
Germantown, Maryland

We have audited the accompanying consolidated statements of financial position of Asbury Communities, Inc. (the Company), as of December 31, 2010 and 2009, and the related consolidated statements of operations, changes in net deficit and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Asbury Communities, Inc. as of December 31, 2010 and 2009, and the consolidated results of their operations and changes in net deficit and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

*LarsonAllen LLP*

**LarsonAllen LLP**

Blue Bell, Pennsylvania  
March 30, 2011

**ASBURY COMMUNITIES, INC.**  
**CONSOLIDATED BALANCE SHEETS**  
**DECEMBER 31, 2010 AND 2009**

<b>ASSETS</b>	2010	2009
<b>CURRENT ASSETS</b>		
Cash and Cash Equivalents	\$ 18,919,510	\$ 26,107,127
Investments	42,191,963	33,193,960
Accounts Receivable, Net of Allowance for Doubtful Accounts of \$1,919,802 and \$1,534,833, for December 31, 2010 and 2009, Respectively	6,647,562	5,702,832
Pledges Receivable, Net	124,996	182,585
Other Receivables and Prepaid Expenses	9,795,111	5,310,640
Investments Held under Bond Indenture	8,854,925	3,140,359
Assets from Discontinued Operations	8,806,794	-
Total Current Assets	95,340,861	73,637,503
Property and Equipment, Net	368,222,491	375,275,155
Investments Restricted by Donors	18,306,368	16,734,728
Long-Term Investments	134,192	134,192
Deferred Costs, Net	14,148,094	14,675,616
Deposits and Other Assets	1,358,573	1,102,613
Other Intangible Assets, Net	1,236,714	2,118,904
Investments Held under Bond Indenture	20,867,890	24,224,433
Statutory Reserves	14,981,649	15,380,652
Investments Restricted by Board	3,497,535	3,332,038
Pledges Receivable, Net	183,232	93,176
Funds Held in Trust	1,822,075	2,234,282
Total Assets	\$ 540,099,674	\$ 528,943,292

See accompanying Notes to Consolidated Financial Statements.

<b>LIABILITIES AND NET ASSETS (DEFICIT)</b>	<u>2010</u>	<u>2009</u>
<b>CURRENT LIABILITIES</b>		
Accounts Payable and Accrued Expenses	\$ 9,957,891	\$ 7,383,918
Accrued Compensation and Related Items	8,203,450	7,753,448
Accrued Interest Payable	4,762,226	2,889,329
Construction Retainage Payable	506,511	-
Obligations under Deferred-Giving Arrangements	919,394	855,662
Deposits from Prospective Residents	7,193,037	8,139,724
Entrance Fees - Refundable	6,702,662	6,666,360
Deferred Revenue	373,249	426,703
Current Portion of Long-Term Debt	3,879,288	1,625,000
Liabilities from Discontinued Operations	8,806,794	-
Total Current Liabilities	<u>51,304,502</u>	<u>35,740,144</u>
Long-Term Debt, Net	333,828,364	335,145,186
Projected Refund of Standard Entrance Fees	3,158,822	3,588,639
Entrance Fees - Deferred Revenue	261,931,328	262,036,761
Valuation of Derivative Instruments	21,035,746	17,238,630
Obligations under Deferred-Giving Arrangements	5,274,457	4,969,048
Other Long-Term Liabilities	<u>854,389</u>	<u>649,756</u>
Total Liabilities	677,387,608	659,368,164
<b>NET ASSETS (DEFICIT)</b>		
Unrestricted	(162,245,910)	(154,722,836)
Temporarily Restricted	841,176	1,665,358
Permanently Restricted	24,116,800	22,632,606
Total Net Assets (Deficit)	<u>(137,287,934)</u>	<u>(130,424,872)</u>
Total Liabilities and Net Assets (Deficit)	<u>\$ 540,099,674</u>	<u>\$ 528,943,292</u>

**ASBURY COMMUNITIES, INC.**  
**CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET DEFICIT**  
**YEARS ENDED DECEMBER 31, 2010 AND 2009**

	2010	2009
<b>REVENUES, GAINS AND OTHER SUPPORT</b>		
Net Resident Service Revenue	\$ 124,063,853	\$ 120,211,676
Other Operating Revenue	6,670,988	5,348,829
Amortization of Entrance Fees	22,791,899	21,986,914
Interest and Dividend Income, Net	1,589,877	2,235,469
Net Realized Gain (Loss) on Investments	5,142,338	(6,196,807)
Proportionate Share of Losses in Equity Interests Funds	(376,178)	(1,609,257)
Contributions	1,003,182	1,678,118
Net Assets Released from Restrictions Used for Operations	374,470	464,421
Net Assets Released from Restrictions Used for Purchases of Capital Items	876,439	1,046,522
Total Revenues, Gains and Other Support	162,136,868	145,165,885
<b>EXPENSES</b>		
Salaries	59,220,007	56,132,437
Employee Benefits	12,530,998	11,657,396
Cost of Goods Sold	1,279,802	755,773
Contract Labor	9,631,006	8,893,830
Food Purchases	6,099,509	5,731,598
Medical Supplies and Other Resident Costs	5,015,490	4,755,521
General and Administrative	6,984,937	7,031,485
Building and Maintenance	15,731,480	14,815,793
Professional Fees and Property Insurance	1,551,383	1,594,623
Interest	16,566,218	15,859,861
Taxes	3,306,677	3,223,174
Provisions for Bad Debts	1,260,706	328,541
Depreciation and Amortization	21,614,548	20,948,843
Total Expenses	160,792,761	151,728,875
Income (Loss) from Operations Prior to Net Unrealized (Losses) Gains on Change in Market Value of Derivative Instruments, Loss on Advance Bond Refunding, Loss on Sale of Assets, and Write Off of Funds Held in Trust	1,344,107	(6,562,990)
Net Unrealized (Losses) Gains on Change in Market Value of Derivative Instruments	(4,582,043)	14,501,624
Loss on Advance Bond Refunding	(4,885,744)	(1,045,578)
Loss on Sale of Assets	(1,301,587)	-
Write Off of Funds Held in Trust	-	(1,357,309)
(Loss) Income from Continuing Operations	(9,425,267)	5,535,747

See accompanying Notes to Consolidated Financial Statements.

**ASBURY COMMUNITIES, INC.**  
**CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET DEFICIT (CONTINUED)**  
**YEARS ENDED DECEMBER 31, 2010 AND 2009**

	2010	2009
<b>UNRESTRICTED NET DEFICIT</b>		
(Loss) Income from Continuing Operations	\$ (9,425,267)	\$ 5,535,747
Gain (Loss) on Discontinued Operations	770,955	(243,154)
Net Unrealized Gain on Investments	1,131,238	5,319,719
Net (Increase) Decrease in Unrestricted Net Deficit	(7,523,074)	10,612,312
<b>TEMPORARILY RESTRICTED NET ASSETS</b>		
Contributions	426,727	1,036,477
Net Assets Released from Restrictions for Operations	(374,470)	(464,421)
Net Assets Released from Restrictions Used for Purchases of Capital Items	(876,439)	(1,046,522)
Net Decrease in Temporarily Restricted Net Assets	(824,182)	(474,466)
<b>PERMANENTLY RESTRICTED NET ASSETS</b>		
Contributions	2,218,711	1,242,577
Changes in Value of Deferred-Giving Arrangements	(734,517)	(564,614)
Net Increase in Permanently Restricted Net Assets	1,484,194	677,963
<b>(INCREASE) DECREASE IN NET DEFICIT</b>	(6,863,062)	10,815,809
<b>NET DEFICIT - BEGINNING OF YEAR</b>	(130,424,872)	(141,240,681)
<b>NET DEFICIT - END OF YEAR</b>	\$(137,287,934)	\$(130,424,872)

See accompanying Notes to Consolidated Financial Statements.

**ASBURY COMMUNITIES, INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**YEARS ENDED DECEMBER 31, 2010 AND 2009**

	2010	2009
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
(Increase) Decrease in Net Deficit	\$ (6,863,062)	\$ 10,815,809
Adjustments to Reconcile Changes in Net Deficit to		
Net Cash Provided by Operating Activities:		
Provision for Bad Debts	1,262,258	436,261
Depreciation and Amortization	22,189,213	21,544,619
Amortization of Entrance Fees	(22,795,243)	(21,993,086)
Net Proceeds from Nonrefundable Entrance and Advance Fees	16,030,752	19,257,155
Net Unrealized Gain on Investments	(1,216,557)	(5,506,911)
Proportionate Share of Losses in Equity Interests Funds	376,178	1,670,309
Net Unrealized Losses (Gains) on Change in		
Market Value of Derivative Instruments	3,797,116	(14,775,628)
Changes in Value of Obligations under Deferred-Giving Arrangements	970,813	564,615
Restricted Contributions Received	(2,645,438)	(2,279,054)
Transfer from Foundation for Capital Items	(876,439)	(1,046,522)
Payments for Deferred Marketing Costs	(393,227)	(331,182)
Loss on Advance Bond Refunding	4,885,744	1,045,578
Write Off of Funds Held in Trust	-	1,357,309
Changes in Assets and Liabilities:		
Accounts Receivable	(2,206,988)	(830,072)
Other Receivables and Prepaid Expenses	(4,822,607)	2,126,807
Pledges Receivable, Net	(32,467)	(125,056)
Deferred Revenue	(53,454)	38,528
Accounts Payable and Accrued Expenses	3,023,975	(2,479,273)
Accrued Interest Payable	1,913,048	81,491
Net Cash Provided by Operating Activities	12,543,615	9,571,697
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of Property and Equipment, Net	(12,980,522)	(10,040,146)
Funds Held in Trust	412,207	1,872,368
Purchases of Investments, Net	(24,210,575)	(5,924,732)
Transfer from Foundation for Capital Items	876,439	1,046,522
Construction Retainage	506,511	-
Net Cash Used by Investing Activities	(35,395,940)	(13,045,988)

See accompanying Notes to Consolidated Financial Statements.

**ASBURY COMMUNITIES, INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)**  
**YEARS ENDED DECEMBER 31, 2010 AND 2009**

	2010	2009
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from Entrance and Advance Refundable Fees and Refundable Deposits	23,565,441	23,073,555
Refunds of Entrance and Advance Refundable Fees and Refundable Deposits	(18,246,585)	(15,717,842)
Restricted Contributions	2,645,438	2,279,054
Proceeds from Issuance of Debt	73,464,728	15,996,989
Change in Capital Lease Obligation	204,633	323,296
Payments on Long-Term Debt	(63,675,609)	(6,005,001)
Payments for Deferred Financing Costs	(1,691,666)	(1,244,993)
Payments on Obligations under Deferred-Giving Arrangements	(601,672)	(392,378)
Net Cash Provided by Financing Activities	15,664,708	18,312,680
<b>(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS</b>	(7,187,617)	14,838,389
Cash and Cash Equivalents - Beginning of Year	26,107,127	11,268,738
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	<b>\$ 18,919,510</b>	<b>\$ 26,107,127</b>
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</b>		
Cash Paid for Interest	\$ 16,052,877	\$ 17,281,926

See accompanying Notes to Consolidated Financial Statements.

**ASBURY COMMUNITIES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2010 AND 2009**

**NOTE 1 ORGANIZATION**

Asbury Communities, Inc. (ACOMM or the Company), was organized on August 1, 1994, as a Maryland not-for-profit organization to provide executive administrative functions, as well as policy and overall planning guidance, to its supported organizations. ACOMM serves as the supporting organization of Asbury Atlantic, Inc. (Asbury Atlantic); Asbury~Solomons, Inc. (A~S); and Inverness Village, an Oklahoma not-for-profit Corporation (IV). ACOMM is the sole voting stockholder of The Asbury Group, Inc. (TAG). Additionally, ACOMM is the sole member of Asbury Foundation, Inc. (AFOUND) and Wesley Affiliated Services Foundation, Inc. (WASF).

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

- ... AMV is a continuing-care retirement community (CCRC) in Gaithersburg, Maryland. A CCRC consists of independent living, assisted living, and skilled-nursing units. A CCRC provides a continuum of care that includes housing, healthcare, and other related health-care services to seniors.
- ... BV is a CCRC located in Mechanicsburg, Pennsylvania. Prior to the October 2006 merger, BV was an operating unit of Wesley Affiliated Services (WAS).
- ... EM is a CCRC located in Tyrone, Pennsylvania. Prior to the October 2006 merger, EM was an operating unit of WAS. On December 31, 2010, substantially all of the assets of EM was sold by Asbury Atlantic. See Note 18 for further information on the EM transaction.
- ... SH is a CCRC located in Erie, Pennsylvania.

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

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

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

*WASF* - is a not-for-profit, non-stock corporation organized under the laws of the Commonwealth of Pennsylvania. WASF is a supporting organization that was established to promote charitable giving from available resources to help fund the charitable programs of BV and EM. In 2010 and 2009, WASF's activity related to collecting and honoring charitable giving, which occurred prior to AFOUND serving as a supporting organization for BV and EM.

**ASBURY COMMUNITIES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2010 AND 2009**

**NOTE 1 ORGANIZATION (CONTINUED)**

TAG - was organized in 2006 as a for-profit Delaware corporation for the purpose of providing management, marketing, finance, and technological support services to both affiliated and nonaffiliated continuing-care retirement communities. TAG is a wholly owned subsidiary of ACOMM. On July 1, 2008, TAG formed TAG Integrated Technologies, LLC and TAG Marketing, LLC as Delaware limited liability companies.

**NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Principles of Consolidation**

The accompanying consolidated financial statements include the accounts of ACOMM and its affiliates, Asbury Atlantic, A~S, IV, AFOUND, WASF, and TAG (collectively referred to as the Company). All significant intercompany transactions have been eliminated in consolidation.

**Use of Estimates**

The preparation of financial statements in conformity with U.S. generally accepted accounting principles (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Cash and Cash Equivalents**

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

**Accounts Receivable and Contractual Allowances**

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

Under the Medicare and Medicaid reimbursement and other third-party agreements, amounts collected for services to patients under these agreements are computed at contractually agreed-upon rates. Accounts receivable have been adjusted to reflect the difference between charges and the reimbursable amounts under these third-party contracts. Revenues from Medicare and Medicaid programs and other third-party agreements accounted for approximately 22% and 21% of the Company's total net resident service revenues for each of the years ended December 31, 2010 and 2009, respectively.

**ASBURY COMMUNITIES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2010 AND 2009**

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

**Pledges Receivable and Fund Held in Trust**

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

Funds held in trust are amounts where the Company does not serve as trustee and amounted to \$1,822,075 and \$2,234,282 as of December 31, 2010 and 2009, respectively. It is the policy of the Company to record such assets only when the Company's interest is deemed to be irrevocable by the management and where there is sufficient information to quantify a fair and accurate valuation. The Company's beneficial interest is recorded at the discounted present value of the gift. When the proceeds from these assets are received, the amount received is used for purposes designated by the donor, if any.

**Investments and Investment Income**

Substantially all investments are held in investment pools with ACOMM. The investment pools comprise equities or equity mutual funds, common trust funds, and private equity funds. The mutual funds have readily determinable market values, and their related unrealized gains or losses are recorded below the (loss) income from operations. Investments held under bond indenture are high grade income securities. The investments are managed by an investment advisor (the Trustee) and are comprised of approximately 91% direct investment in equities or equity mutual funds, 2% of common trust funds, and 7% private equity funds.

The common trust funds and private equity funds (collectively referred to as equity interests funds) are accounted for at fair value using the equity method of accounting. Accordingly, the investment return from these funds is included as proportionate share of losses in equity interests funds within the (loss) income from operations in the accompanying consolidated statements of operations and changes in net deficit. The financial statements of the equity interests funds are used as a basis for recognizing each affiliate share of investment losses that are determined by the Trustee on the basis of market valuations provided by independent pricing services when such prices are believed by the Trustee to reflect the fair value of such securities.

**ASBURY COMMUNITIES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2010 AND 2009**

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

**Investments and Investment Income (Continued)**

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 Trustee. 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 Trustee 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. The assets of the underlying real estate mutual funds consist of rental property including apartments, retail, industrial, and commercial properties. 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. The real estate investments of the underlying funds have been valued using three basic approaches: (1) estimate of current cost of reproducing a property less deterioration and functional and economic obsolescence, (2) capitalization of the property's net earning power, and (3) value indicated by recent sales of comparable properties in the market. Independent appraisals of real estate investments are periodically obtained. Mortgage loans held by the underlying funds have been valued on the basis of principal and interest payment terms discounted at currently prevailing interest rates for similar investments. Because of the inherent uncertainty of valuations of the investments held by the underlying funds, their estimated values may differ significantly from the values that would have been used had a ready market for these investments existed, and the differences could be material.

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

Investment income or loss from mutual funds 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. Investment income or loss is included in (loss) income from operations unless restricted by donor or law. Unrealized gains and losses on investments with readily determinable market values are excluded from (loss) income from operations, unless the losses are deemed to be other-than-temporary.

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

**ASBURY COMMUNITIES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2010 AND 2009**

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

**Investments and Investment Income (Continued)**

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

**Return Objectives and Risk Parameters**

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

**Strategies Employed for Achieving Objectives**

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

**Derivatives Policy**

The Company manages its exposure to interest rate volatility through use of interest rate swap contracts. These contracts qualify as derivative financial instruments.

The book values of the derivative instruments are adjusted to their estimated fair values at each balance sheet date. The Company has determined that, for continuing operations, the Company's derivatives do not meet the criteria for hedge accounting and, therefore, the change in fair value of all of the derivative instruments are included within the Company's performance indicator, (loss) income from operations.

**Investments Restricted by the Board**

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

**ASBURY COMMUNITIES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2010 AND 2009**

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

**Property and Equipment**

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

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 Costs**

The following is a summary of deferred costs:

	<u>Estimated Life</u>	<u>2010</u>	<u>2009</u>
Deferred Marketing Costs	Life Expectancy of Initial Residents	\$ 7,728,447	\$ 8,385,319
Deferred Financing Costs	Term of the Bond Issue	<u>6,419,647</u>	<u>6,290,297</u>
Deferred Costs, Net		<u>\$ 14,148,094</u>	<u>\$ 14,675,616</u>

Direct-marketing costs were associated with acquiring initial residential contracts and are deferred and amortized using the straight-line method over the estimated life expectancy of the initial residents. The amortization expense on deferred marketing costs was \$1,050,098 and \$1,062,682 for the years ended December 31, 2010 and 2009, respectively. Additions to deferred marketing were \$393,226 and \$331,182 for the years ended December 31, 2010 and 2009, respectively.

Deferred financing costs represent expenses (e.g. underwriting, legal, consulting, and other costs) incurred in connection with issuance of debt and are deferred and amortized over the life of the related indebtedness on a straight-line basis, which approximates the effective-interest method. In conjunction with the 2010 bonds, the Company recorded deferred financing costs totaling \$1,679,208. In addition, deferred financing costs of \$1,252,637 were written off in conjunction with the refinancing of the Series 2006 PA and Series 2008 PA Bonds. In conjunction with issuing the 2009A MD and 2009B MD bonds, the Company recorded deferred financing costs totaling \$12,458 and \$1,244,992 as of December 31, 2010 and 2009, respectively. In addition, deferred financing costs of \$853,528 were written off in 2009 in conjunction with the refinancing of the Series 2006B and Series 2006C Bonds. The amortization expense on deferred financing costs was \$309,679 and \$208,761 for the years ended December 31, 2010 and 2009, respectively.

**Advertising Expenses**

The cost of advertising is expensed when incurred and included within the general and administrative financial statement line item within the consolidated statements of operations and changes in net deficit. Advertising expense was \$1,958,318 and \$2,003,478 for the years ended December 31, 2010 and 2009, respectively.

**ASBURY COMMUNITIES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2010 AND 2009**

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

**Other Intangible Assets**

Other intangible assets of \$1,236,714 and \$2,118,904 as of December 31, 2010 and 2009, respectively, approximate the estimated fair values of the existing resident continuing care contracts, which were acquired, related to the purchase of SH in June 2002, and are being amortized over 10 years. As of December 31, 2010 and 2009, the amount also includes \$17,305 and \$86,523 related to TAG's purchase of customer contracts and a customer list on March 31, 2008, and are being amortized over one year and three years, respectively.

**Deposits from Prospective Residents**

Deposits from prospective residents are refundable, less an administrative fee, 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, with the exception of IV deposits, whose interest earned is paid to the depositor.

**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. IV also offers life-care contracts, which include unlimited long-term care in an assisted-living or skilled-nursing health center at little or no increase in fees.

The Company periodically reviews the present value of the net cost of future services and use of facilities to be provided to current residents under continuing-care contracts and compares that amount with the balance of deferred revenue from entrance fees. IV is required to complete a comprehensive actuarial study every two years. If the present value of the net cost of future services and use of facilities exceeds the deferred revenue from entrance fees, a liability is recorded (obligation to provide future services and use of facilities) with a corresponding charge to income. As a result of this calculation, the present value of the net cost of future services and use of facilities did not exceed deferred revenue from resident entrance fees; accordingly, no obligation was recorded for the years ended December 31, 2010 and 2009.

**Revenue Recognition**

The Company offers eight types of resident entrance-fee options: three standard nonrefundable options, a 25% refundable option, a 50% refundable option, a 90% refundable option, a 95% refundable option, and a 100% refundable option. The options available to the residents vary among AMV, A~S, BV, EM, IV, and SH. All resident entrance fees are expected to be paid-in-full upon occupancy. Refunds of entrance fees for termination prior to occupancy are made within 30 days for AMV, A~S, BV, EM, and SH, and 60 days for IV.

**ASBURY COMMUNITIES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2010 AND 2009**

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

**Revenue Recognition (Continued)**

Under the first standard entrance-fee option, 10% of the fee is nonrefundable upon receipt, and 10% per annum of the entrance fee becomes nonrefundable over a period of nine years. No refund is given upon death during the refund period under the first standard entrance option. Under the second standard entrance fee option, the entrance fee becomes nonrefundable over a period of five years and a refund is provided upon death during the refund period. Under the third standard entrance fee option, 1% per month of the entrance fee becomes nonrefundable over a period of 100 months. Also offered are the 25% refundable, 50% refundable, 90% refundable, 95% refundable, and 100% refundable contracts, where residents pay a higher entrance fee in order to guarantee a refund upon receipt of a successor entrance fee for the unit. At IV, for contracts entered into prior to January 1, 2010, the receipt of the successor entrance fee can be for like units but the receipt of successor entrance fees must aggregate to equal the amount of the refund provided. At SH, for contracts dated prior to June 30, 2004, the refund occurs upon the receipt of a successor entrance fee or one year from termination date.

Refundable entrance fees are recorded in the accompanying consolidated balance sheets as current liabilities. The nonrefundable entrance fees are classified as deferred revenue and are recognized as revenue on a straight-line basis over each individual resident's expected remaining life.

Remaining life expectancies are determined based on current actuarial data specific to CCRC residents. Under the 25%, 50%, 90%, 95%, and 100% refundable contracts, the estimated amount of refundable entrance fees expected to be refunded to current residents upon receipt of a successor entrance fee is recognized as revenue on a straight-line basis over the useful life of the facility. Revenue is not recognized on the refundable entrance fees at BV nor is it recognized on the refundable contracts entered into prior to June 30, 2004, at SH. Upon termination of a contract through death or withdrawal after occupancy, any unamortized, nonrefundable, deferred entrance fee is recorded as income.

The gross amounts of refund obligations are summarized below and are categorized as refundable entrance fees and standard entrance fees. The refundable entrance fees are fixed in their amount but are refundable upon the sooner of the receipt of a successor entrance fee or one year after the resident moves. Standard entrance fees are refundable upon termination of occupancy and the amount of refund is based upon the length of stay in the community.

**ASBURY COMMUNITIES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2010 AND 2009**

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

**Revenue Recognition (Continued)**

A summary of net entrance fees is as follows:

	<u>2010</u>	<u>2009</u>
Refundable Entrance Fees	<u>\$ 6,702,662</u>	<u>\$ 6,666,360</u>
Refundable upon Reoccupancy:		
25% to 100% Refundable Contracts	\$ 151,040,483	\$ 152,083,124
Standard Entrance Fee Option Contracts:		
Five-Year Contracts	86,929,494	93,348,790
Nine-Year Contracts	19,686,719	12,284,469
100 Month Contracts	<u>7,433,454</u>	<u>7,909,017</u>
Total	265,090,150	265,625,400
Less: Projected Refund of Standard Entrance Fees	<u>(3,158,822)</u>	<u>(3,588,639)</u>
Total	<u>\$ 261,931,328</u>	<u>\$ 262,036,761</u>

The portions of the above entrance fees that continue to be subject to any contractual refund obligation as of December 31, 2010 and 2009 were \$246,634,910 and \$240,499,837, respectively. The Company also records revenue related to resident room and board, which, depending on the facility and contract type, could also include housekeeping, laundry, dining services and future healthcare costs. Revenue for physical, occupational, and speech therapy, as well as health personal care and social ancillary charges, is also recorded. Revenue is recognized when services are performed.

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

**Charity Care**

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

**ASBURY COMMUNITIES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2010 AND 2009**

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

**Contributions**

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

**Net Assets and Endowment Funds**

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

**Temporarily Restricted Net Assets**

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

**Permanently Restricted Net Assets**

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

**(Loss) Income from Operations**

The accompanying consolidated statements of operations and changes in net deficit include (loss) income from operations. Changes in unrestricted net assets, which are excluded from (loss) income from operations, consistent with industry practice, include unrealized gains and losses on investments (except for investments accounted for under the equity method) and permanent transfers of assets to and from affiliates for other than goods and services.

**ASBURY COMMUNITIES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2010 AND 2009**

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

**Tax Status**

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

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

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

The Company's income tax returns are subject to review and examination by federal, state, and local authorities. The Company is not aware of any activities that would jeopardize its tax-exempt status. The tax returns for the years 2006 to 2009 are open to examination by federal, local, and state authorities.

**Fair Value Measurements**

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

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

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

**ASBURY COMMUNITIES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2010 AND 2009**

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

**Fair Value Measurements (Continued)**

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

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

Additionally, from time to time, the Company may be required to record at fair value other assets on a nonrecurring basis in accordance with generally accepted accounting principles. These adjustments to fair value usually result from the application of the lower-of-cost-or-market accounting or write down of individual assets. The Company has determined that there would be no impact to the accompanying financial statements as a result of the application of this standard. Nonfinancial assets measured at fair value on a nonrecurring basis would include nonfinancial assets and nonfinancial liabilities measured at fair value in the second step of a goodwill impairment test, other real estate owned, and other intangible assets measured at fair value for impairment assessment.

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

**Subsequent Events**

In preparing these financial statements, the Company has evaluated events and transactions for potential recognition or disclosure through March 30, 2011, the date the consolidated financial statements were issued. The results of this evaluation indicated that there are no subsequent events or transactions that are required to be disclosed in these financial statements.

**Reclassifications**

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

**ASBURY COMMUNITIES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2010 AND 2009**

**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.

*Medicare Reimbursement*

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

*Maryland Medicaid Reimbursement*

Under the Maryland Medical Assistance Program's (Maryland Medicaid) case-mix reimbursement system, the determination of reimbursement rates for nursing costs is based upon a recipient's dependency in activities of daily living and need for the receipt of ancillary nursing services. Final settlements are determined after submission of annual cost reports and audits thereof by the Maryland Medicaid program. The cost report for 2010 estimated Medicaid settlements are subject to verification leading to final settlements.

*Pennsylvania Medicaid Reimbursement*

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

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

The Commonwealth of Pennsylvania updates payment rates to nursing homes on July 1 of each year. The rates are scheduled to be updated each quarter for the most recent case-mix index for a facility's Pennsylvania Medicaid residents and rebased annually on July 1 of each year. The Pennsylvania Medicaid rates for the period July 1, 2010 through December 31, 2010 have not been finalized, and the Company has utilized estimated rates in the preparation of the financial statements.

**ASBURY COMMUNITIES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2010 AND 2009**

**NOTE 3 REGULATORY ENVIRONMENT (CONTINUED)**

**Other**

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

**State of Maryland Reserve Requirement**

The State of Maryland requires AMV and A~S to set aside reserves equal to 15% of its net operating expenses (as defined) for the most recent fiscal year. As of December 31, 2010 and 2009, AMV and A~S are in compliance with the reserve requirement. The total amount reserved as of December 31, 2010 and 2009 was \$9,685,812 and \$10,473,448, respectively.

**Pennsylvania Department of Insurance Reserve Requirements**

On a calendar year basis, BV is required by the Continuing Care Provider Registrations and Disclosure Act of 1984 to maintain a working-capital reserve equivalent to the greater of the total of debt service payments due during the next 12 months on account of any loans or 10% of the projected annual operating expenses, exclusive of depreciation and bad debt, computed only on the proportional share of financing or operating expenses that are applicable to residents of BV under continuing care agreements. The projected annual debt service requirements for BV for the years ended December 31, 2010 and 2009 exceeded 10% of BV's projected operating expense (as defined) for those respective years.

BV's minimum liquid reserve was as follows:

	<u>2010</u>	<u>2009</u>
Projected Annual Debt Service Payments	\$ 6,212,824	\$ 5,671,988
Approximate Percentage of Continuing-Care Clients	70%	69%
Minimum Liquid Reserve Requirement	<u>\$ 4,348,977</u>	<u>\$ 3,913,672</u>

SH must adhere to the same reserve requirements. At SH, projected annual debt service requirements exceed 10% of its projected annual operating expenses. SH's minimum liquid reserve was as follows:

	<u>2010</u>	<u>2009</u>
Projected Annual Debt Service Payments	\$ 1,721,563	\$ 1,666,579
Approximate Percentage of Continuing-Care Clients	55%	56%
Minimum Liquid Reserve Requirement	<u>\$ 946,860</u>	<u>\$ 933,284</u>

On December 31, 2010, substantially all of the assets of EM was sold by Asbury Atlantic, including all licenses, therefore EM is not required to adhere to the minimum liquid reserve requirements as of December 31, 2010. As of December 31, 2009 the minimum liquid reserve requirement for EM was \$60,248.

**ASBURY COMMUNITIES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2010 AND 2009**

**NOTE 3 REGULATORY ENVIRONMENT (CONTINUED)**

**Pennsylvania Department of Insurance Reserve Requirements (Continued)**

Pennsylvania statute also requires that all 10% deposits made by future residents of units be held in escrow. Subsequent to receipt of the use and occupancy permits, the escrow funds will be transferred directly from the escrow fund to a bond trustee held fund. These funds are held in cash and cash equivalents.

**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:

	<u>2010</u>	<u>2009</u>
Gross Resident-Service Revenue	\$ 146,483,037	\$ 142,432,213
Less Provisions for:		
Contractual Allowance under Third-Party Reimbursement Programs	(12,165,817)	(12,741,780)
Benevolent and Charity Care	<u>(1,170,642)</u>	<u>(773,341)</u>
Net Resident-Service Revenue	<u><u>\$ 133,146,578</u></u>	<u><u>\$ 128,917,092</u></u>

Approximately 22% and 21% of net resident-service revenue for the years ended December 31, 2010 and 2009, respectively, were derived under federal and state reimbursement programs.

**NOTE 5 CONCENTRATION OF CREDIT RISK**

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

	<u>2010</u>	<u>2009</u>
Private Pay	36%	40%
Medicaid	29%	27%
Medicare	28%	27%
Other (Primarily Managed Care and Insurance)	<u>7%</u>	<u>6%</u>
Total	<u><u>100%</u></u>	<u><u>100%</u></u>

**ASBURY COMMUNITIES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2010 AND 2009**

**NOTE 6 INVESTMENTS**

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

	2010	2009
Investments:		
Cash and Short-Term Investments	\$ 7,139,014	\$ 19,040
Fixed-Income Mutual Funds	14,555,961	17,439,817
Equity Securities and Equity Mutual Funds	16,388,433	11,040,302
Equity Interests Funds	3,246,579	3,975,520
Real Estate Mutual Funds	861,977	719,281
Investment in Land	134,192	134,192
Total Investments	\$ 42,326,156	\$ 33,328,152
Investments Restricted by Donors:		
Cash and Short-Term Investments	\$ 2,775,720	\$ 43,131
Fixed-Income Mutual Funds	6,122,567	8,272,177
Equity Securities and Equity Mutual Funds	7,637,022	6,097,670
Equity Interests Funds	1,438,826	2,000,645
Real Estate Mutual Funds	332,233	321,105
Total Investments Restricted by Donors	\$ 18,306,368	\$ 16,734,728
Statutory Reserves:		
Cash and Short-Term Investments	\$ 13,593,687	\$ 13,537,137
Equity Interests Funds	1,387,962	1,843,515
Total Statutory Reserves	\$ 14,981,649	\$ 15,380,652
Investments Held under Bond Indenture:		
Cash and Short-Term Investments	\$ 38,529,609	\$ 27,364,792
Fixed-Income Corporate Securities	-	-
Total Investments Held under Bond Indenture	\$ 38,529,609	\$ 27,364,792
Investments Restricted by Board:		
Cash and Short-Term Investments	\$ 591,899	\$ 1,912
Fixed-Income Mutual Funds	1,206,835	1,750,979
Equity Securities and Equity Mutual Funds	1,358,145	1,107,785
Equity Interests Funds	269,191	399,146
Real Estate Mutual Funds	71,465	72,216
Total Investments Restricted by Board	\$ 3,497,535	\$ 3,332,038

**ASBURY COMMUNITIES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2010 AND 2009**

**NOTE 6 INVESTMENTS (CONTINUED)**

At December 31, 2010 and 2009, the equity interests funds were comprised of the following holdings:

	<u>2010</u>	<u>2009</u>
Real Estate	24%	18%
Non-Directional Hedge Funds	4%	25%
Private Equity Funds	72%	57%
Total	<u>100%</u>	<u>100%</u>

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

	<u>2010</u>	<u>2009</u>
Debt-Service Fund	\$ 7,913,395	\$ 4,031,007
Debt-Service Reserve Fund	15,895,818	9,395,774
Cost of Issuance Fund	-	14,251
Project Fund Series A	5,074,447	12,436,273
Capitalized Interest	839,155	1,418,595
Assets of Discontinued Operations	8,806,794	-
Bond Credit Facility Fund	-	500
Operating-Reserve Fund	-	5
Settlement Fund	-	6,507
Letter of Credit Fund	-	61,880
Total	<u>38,529,609</u>	<u>27,364,792</u>
Less: Current Portion	<u>(17,661,719)</u>	<u>(3,140,359)</u>
Long-Term Portion of Bond Indenture	<u>\$ 20,867,890</u>	<u>\$ 24,224,433</u>

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

	<u>2010</u>	<u>2009</u>
Included within the Company's Performance Indicator:		
Interest and Dividend Income, Net	\$ 1,630,729	\$ 2,299,656
Net Realized Gains (Losses) on Investments	5,330,460	(6,433,443)
Proportionate Share of Losses in Equity Interests	(389,810)	(1,670,309)
Net Unrealized (Losses) Gains on Change in Market Value of Derivative Instruments	<u>(3,797,115)</u>	<u>14,775,628</u>
	2,774,264	8,971,532
Included in Other Changes in Net Deficit:		
Other Unrealized Gain on Investments	<u>1,164,396</u>	<u>5,506,911</u>
Total	<u>\$ 3,938,660</u>	<u>\$ 14,478,443</u>

**ASBURY COMMUNITIES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2010 AND 2009**

**NOTE 6 INVESTMENTS (CONTINUED)**

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

Other-than-temporary losses on investments represent losses incurred from investments whose market value is below the cost of the investments. The Company engages professionals to manage its investment portfolio within guidelines of the Company's Board-approved investment policy. As the Company does not place restrictions on the buying and selling of securities (other than those stated in the investment policy), all investment holdings with fair value less than cost are considered other-than-temporarily impaired. The Company does not have the ability to hold investments for a period of time sufficient to allow for a recovery in market value since the underlying investments within the investment fund are managed by the Company's investment managers. As of December 31, 2010 and 2009, all investment holdings had a fair value greater than cost, therefore there were no other than temporary losses on investments.

On February 26, 2009, ACOMM changed from a strategy of long term growth to a capital preservation strategy in part to ensure compliance with certain bond covenants. As a result, ACOMM sold \$31.4 million of its equity, bond and real estate mutual funds investments and placed the proceeds from the sale into cash and cash equivalent accounts. During the second and third quarters of 2009, ACOMM has incrementally re-invested all liquidated cash in equity, bond and real estate mutual funds investments, with the exception that ACOMM was committed to maintain \$3,000,000 in cash and cash equivalents.

**NOTE 7 PROPERTY AND EQUIPMENT**

The following is a summary of property and equipment:

	Useful Life	2010	2009
Land and Improvements	10 - 40 Years	\$ 38,027,862	\$ 38,185,633
Buildings and Improvements	10 - 40 Years	468,593,433	470,499,919
Furniture and Equipment	2 - 15 Years	57,783,219	59,797,854
Construction in Progress		15,051,710	8,253,691
		<u>579,456,224</u>	<u>576,737,097</u>
Less Accumulated Depreciation		(211,233,733)	(201,461,942)
Property and Equipment, Net		<u>\$ 368,222,491</u>	<u>\$ 375,275,155</u>

Depreciation expense was \$20,033,187 and \$19,468,602 for the years ended December 31, 2010 and 2009, respectively.

Interest is capitalized for assets that require a period of time to be constructed or to prepare them for their intended use. For the years ended December 31, 2010 and 2009 the amount of interest expense capitalized was \$169,124 and \$195,187, respectively.

**ASBURY COMMUNITIES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2010 AND 2009**

**NOTE 8 PLEDGES RECEIVABLE**

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

	2010	2009
Amounts Expected to be Collected in:		
Less than One Year	\$ 124,996	\$ 182,585
One Year to Five Years	183,232	93,176
Total	\$ 308,228	\$ 275,761

Pledges receivable were recorded net of reserve for uncollectible pledges of \$35,306 and \$39,570 as of December 31, 2010 and 2009, respectively.

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

Obligations related to deferred-giving arrangements issued by AFOUND and BV are recorded at the present value of the future interest payments based on the donor's life expectancy. Amounts donated in excess of the liability are recorded as temporarily restricted or permanently restricted donations in the consolidated statements of operations and changes in net deficit. The present value of the liability is determined by discounting estimated future payments at the adjusted federal rate. This rate is adjusted annually and was 1.61% and 2.24% at December 31, 2010 and 2009, respectively. Changes in the present value of the liability are shown as changes in values of deferred-giving arrangements in the consolidated statements of operations and changes in net deficit.

AFOUND is required by Maryland state law to maintain segregated assets for all annuities issued in an amount at least equal to the sum of its outstanding deferred-giving arrangements liability discounted to present value. At December 31, 2010 and 2009, AFOUND had segregated \$5,059,758 and \$4,610,591 as investments restricted by donors in the accompanying consolidated balance sheets as of December 31, 2010 and 2009, respectively and, therefore, has met its minimum reserve requirement at December 31, 2010 and 2009. BV is not subject to any requirements under the Commonwealth of Pennsylvania.

**ASBURY COMMUNITIES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2010 AND 2009**

**NOTE 9 DEBT**

Long-term debt consisted of the following:

	Interest Rate	Maturity Dates	2010	2009
Series 2010 PA Bonds	Fixed (5.75%) Term Bonds	2012 - 2045	\$ 74,630,000	\$ -
Series 2009 A MD Bonds	Fixed (6.0%)	2015	16,000,000	16,000,000
Series 2009 B MD Bonds	Fixed (6.0%) Term Bonds	2011 - 2036	43,820,000	43,820,000
Series 2008 PA Bonds	Variable (0.00% as of December 31, 2010)	2010 - 2043	-	10,750,000
Series 2007 IV Bonds	Variable (0.33% as of December 31, 2010)	2007 - 2042	69,550,000	70,295,000
Series 2006 PA Bonds	Variable (0.33% as of December 31, 2010)	2009 - 2041	58,675,000	110,940,000
Series 2006 A MD Bonds	5.125%	2023 - 2036	82,780,000	82,780,000
			<u>345,455,000</u>	<u>334,585,000</u>
Unamortized Bond Premium			1,018,364	2,185,186
Current Portion			(3,879,288)	(1,625,000)
Liabilities from Discontinued Operations			(8,765,712)	-
Long-Term Debt			<u>\$ 333,828,364</u>	<u>\$ 335,145,186</u>

**Series 2010 Pennsylvania (PA) Bonds**

On November 10, 2010, the Asbury Pennsylvania Obligated Group entered into a loan agreement with Cumberland County Municipal Authority (the "Authority") pursuant to which the Authority sold the Series 2010 bonds. From the proceeds, the Organization borrowed \$74,630,000 of Municipal Refunding Revenue Bonds (Asbury Pennsylvania Obligated Group), Series 2010 (referred to as the "Series 2010 Bonds") The Series 2010 Bonds are comprised of 1) \$14,180,000 of Serial Bonds bearing interest at a fixed rates of between 3.0% and 5.4% with a yield ranging between 3.1% and 5.55% over the life of the issuance; 2) \$14,160,000 of 6% term bonds at a fixed rate of 6% and with a yield of 6.05%; 3) \$14,025,000 of 6% term bonds at a fixed rate of 6% and with a yield of 6.17%; and 4) \$32,265,000 of 6.125% term bonds at a fixed rate of 6.125% and with a yield of 6.25%. BV and SH have allocated the liability for payment on the bonds in an amount equal to the proportion of the bonds used to refund debt at each respective facility. As of December 31, 2010, EM is no longer a member of the Asbury Pennsylvania Obligated Group and see Note 18 for further details.

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

**ASBURY COMMUNITIES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2010 AND 2009**

**NOTE 9 DEBT (CONTINUED)**

**Series 2010 Pennsylvania (PA) Bonds (Continued)**

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

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

The Organization is subject to various covenants under the bond agreements. These covenants include various reporting, financial, and operational requirements. As of December 31, 2010, management is not aware of any noncompliance with these covenants.

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

On November 30, 2009, the Asbury Maryland Obligated Group entered into a loan agreement with the City of Gaithersburg (the "Authority"). Under this agreement, the Authority issued \$16,000,000 of Economic Development Revenue Bonds (Asbury Maryland Obligated Group- AMV Construction Project), the "Series 2009A" Bonds. The proceeds of the Series 2009A Bonds were utilized to 1) finance the construction and improving of at least 23 residential units on the campus of Asbury Methodist Village, 2) to pay interest to accrue on the Series 2009A Bonds. These bonds are designated as construction financing and mature within five years of their issuance. The Series 2009A Bonds bear interest at a fixed rate of 6.0%.

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

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

The Organization is subject to various covenants under the bond agreements. These covenants include various reporting, financial, and operational requirements. As of December 31, 2010, management is not aware of any noncompliance with these covenants.

**ASBURY COMMUNITIES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2010 AND 2009**

**NOTE 9 DEBT (CONTINUED)**

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

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

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

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

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

The Organization is subject to various covenants under the bond agreements. These covenants include various reporting, financial, and operational requirements. As of December 31, 2010, management is not aware of any noncompliance with these covenants.

**Series 2008 PA Bonds**

On April 17, 2008, the Cumberland County Municipal Authority issued its Variable Rate Demand Revenue Bonds (Asbury Atlantic Pennsylvania Obligated Group) Series 2008 in the aggregate principal amount of \$16,750,000 (the Series 2008 Pennsylvania Bonds) pursuant to Master Loan Agreements between Asbury Atlantic, Inc. as the sole member of the Pennsylvania Obligated Group and the Municipal Authority (Master Loan Agreements). Asbury Atlantic will use the proceeds from the Series 2008 Pennsylvania Bonds to finance the construction of 47 independent living cottage units, including 42 duplex cottage units and five single cottage units, on approximately 20 acres of the BV community. Asbury Atlantic has pledged the assets and net revenues of its non-Maryland assets to pay the principal of, and premium, if any, and interest on all bonds issued under the Master Loan Agreements.

**ASBURY COMMUNITIES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2010 AND 2009**

**NOTE 9 DEBT (CONTINUED)**

**Series 2008 PA Bonds (Continued)**

On November 10, 2010, the \$10,635,000 of outstanding Series 2008 PA Bonds were refunded from the proceeds of the Series 2010 Bonds.

The PA Obligated Group is subject to various covenants under the bond agreements. These covenants include various reporting, financial, and operational requirements. As of December 31, 2010, management is not aware of any noncompliance with these covenants.

**Series 2007 IV Bonds**

On November 29, 2007, the Company current and advanced refunded all of the then outstanding \$61,690,000 of the Series 2002 Bonds (\$54,760,441 outstanding as of December 31, 2010) with the proceeds from the issuance of the \$71,000,000 Oklahoma Development Finance Authority Continuing Care Retirement Community Variable Rate Revenue Refunding Bonds (Inverness Village Project) Series 2007A (the Series 2007 Bonds). The Series 2007 Bonds were issued pursuant to a master loan agreement between the Company and the Oklahoma Development Finance Authority (Loan Agreement). The Company has pledged the assets and net revenues of the Company to pay the principal of and premium, if any, and interest on all bonds issued under the Loan Agreement.

These bonds will remain outstanding, but are defeased from the accounting records until their first call date, which was February 15, 2009, for the Inverness bonds. The Company has determined that for bonds that were defeased in 2007, the requirements made under professional standards continue to be met as of December 31, 2010. In this regard, the Company has determined that the Company has been relieved of its repayment obligations related to the defeased bonds and that the transferred financial assets have been isolated, put presumptively beyond the reach of the Company, its creditors, or other receiver for the Company.

The Series 2007 Bonds mature at various dates beginning January 1, 2009 and ending January 1, 2042, and bear interest at rates not to exceed a maximum rate of 10%. Pursuant to the Loan Agreement, the Series 2007 bonds have the option to convert to a fixed rate of interest. Additionally, at the expiration of the fixed-rate period, these series of bonds have the option to convert back to a variable-interest rate or to establish one or more fixed-rate periods. Interest payments commenced on January 1, 2008, and are due monthly. Payment of the principal and interest on the Series 2007 bonds is backed by a letter of credit from KBC Bank. The letter of credit will expire November 15, 2012.

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

**ASBURY COMMUNITIES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2010 AND 2009**

**NOTE 9 DEBT (CONTINUED)**

**Series 2007 IV Bonds (Continued)**

*ACOMM Subordinate Loan*

On November 29, 2007, in connection with the 2007 refinancing, ACOMM entered into a subordinate loan agreement with IV (ACOMM Subordinate Loan) in the amount of \$11,500,000. The proceeds from the ACOMM Subordinate Loan were used to refund the \$4,000,000 subordinate loan with the Bank of Scotland and fund working capital for IV. The ACOMM Subordinate Loan shall accrue interest at a rate of 5% per annum and no payment of principal or interest be made by IV on the ACOMM Subordinate Loan until the Series 2007 IV bonds are fully repaid or the letter of credit allows such payments to ACOMM.

Inverness Village is subject to various covenants under the bond agreements. These covenants include various reporting, financial, and operational requirements. As of December 31, 2010, management is not aware of any noncompliance with these covenants.

**Series 2006 Maryland (MD) Bonds**

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

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

On December 16, 2009, the Series 2006B and 2006C Bonds were refunded from the proceeds of the Series 2009B Bonds. The fixed rate Series 2006A Bonds remain outstanding as of December 31, 2010.

The Maryland Obligated Group is subject to various covenants under the bond agreements. These covenants include various reporting, financial, and operational requirements. As of December 31, 2010, management is not aware of any noncompliance with these covenants.

**Series 2006 Pennsylvania (PA) Bonds**

The 2006 Pennsylvania Bonds were issued through the Cumberland County Municipal Authority pursuant to the Master Loan Agreements between Asbury Atlantic, Inc. as the sole member of the Pennsylvania Obligated Group and the Municipal Authority (Master Loan Agreements). Asbury Atlantic Inc. has pledged the assets and net revenues of its non-Maryland assets to pay the principal of, and premium, if any, and interest on all bonds issued under the Master Loan Agreements.

**ASBURY COMMUNITIES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2010 AND 2009**

**NOTE 9 DEBT (CONTINUED)**

**Series 2006 Pennsylvania (PA) Bonds (Continued)**

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

On November 10, 2010, \$51,500,000 of the Series 2006 PA Bonds was refunded from the proceeds of the Series 2010 Bonds. The balance of the Series 2006 PA Bonds remains outstanding as of December 31, 2010.

For financial statement purposes, SH, BV, and EM have allocated the liability for payment on the bonds in an amount equal to the proportion of the bonds used to refund debt at each respective facility. As of December 31, 2010, EM is no longer a member of the Asbury Pennsylvania Obligated Group. See footnote 18.

The Pennsylvania Obligated Group is subject to various covenants under the bond agreements. These covenants include various reporting, financial, and operational requirements. As of December 31, 2010, management is not aware of any noncompliance with these covenants.

**Refinanced WAS Bonds Payable**

The Series 2002 A Bonds, issued in the amount of \$62,245,000, bore interest at fixed rates varying from 6.00% to 7.25%; \$26,555,000 and \$35,690,000 were advanced refunded and defeased in December 2005 and November 2006, respectively. These bonds will remain outstanding until their first call date, which is January 1, 2013. As of December 31, 2010, there was \$27,009,692 in the defeasance escrow account.

**Refinanced Series 2002 IV Bonds Payable**

The Series 2002 A and B Bonds were advance refunded with a portion of the proceeds from the new Series 2007 Bonds. These funds were placed in an escrow account with a trustee in order to pay the principal and interest until the Series 2002 A and B Bonds' first call dates, which are February 1, 2012 and February 15, 2009, respectively. The Series 2002 C Bonds were refunded on December 10, 2007, with a portion of the Series 2007 Bond proceeds that were placed with a trustee on November 29, 2007. A portion of the Series 2007 Bond proceeds was also used to pay a portion of the costs of issuance of these bonds.

**ASBURY COMMUNITIES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2010 AND 2009**

**NOTE 9 DEBT (CONTINUED)**

**Refinanced Series 1997 A~S Bonds Payable**

The Series 1997 Bonds were advance refunded in 2006. These bonds will remain outstanding, but are defeased from the accounting records until their first call date, which was January 1, 2008. As of December 31, 2010, there was \$-0- in the escrow balance.

**Bonds Backed by Letter of Credit**

For those bonds backed by letter of credit and subject to remarketing agreements, in the event that any or all of the Bonds are tendered by the bondholder and are unable to be remarketed, the letter of credit would be drawn upon to repay the tendered bonds. Any drawings under the letter of credit are repayable on or before the first to occur of the following: the date on which the Bonds purchased with the proceeds from a draw on the letter of credit are successfully remarketed by the remarketing agent, the date on which the Bonds purchased with the proceeds from a draw on the letter of credit are redeemed or otherwise paid in full, or the date the letter of credit expires. The letter of credit for the Series 2006 PA Bonds will expire January 15, 2013. The letter of credit for the 2007 IV Bonds will expire November 15, 2012.

**Debt Maturities**

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

<u>Year Ending December 31,</u>	<u>Amount</u>
2011	\$ 12,645,000
2012	4,669,000
2013	5,204,000
2014	5,579,000
2015	21,840,000
Thereafter	<u>295,518,000</u>
Total	<u><u>\$ 345,455,000</u></u>

**NOTE 10 DERIVATIVE INSTRUMENTS**

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

**ASBURY COMMUNITIES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2010 AND 2009**

**NOTE 10 DERIVATIVE INSTRUMENTS (CONTINUED)**

Asbury Atlantic entered into a Forward Contract concurrent with the issuance of the Series 2006 bonds. Under this agreement, Asbury Atlantic pays a fixed rate of interest of 5.128% and receives payments based on a floating rate based upon 68% of LIBOR. Payments on this Forward Contract agreement begin on January 1, 2013 and terminate on January 1, 2041. A~S entered into an interest rate basis swap in August 2001. A~S pays a fixed rate of interest based on a floating rate derived from the Securities Industry and Financial Markets Association Municipal Swap Index and receives payments based on a floating rate based upon 73.5% of LIBOR. The interest rate swap agreement terminates on January 1, 2027. Lehman Brothers Special Financing, Inc. (Lehman SFI) is the investment company or counterparty in both of these derivative agreements. Lehman SFI entered into bankruptcy in early October 2008 following its ultimate parent entering bankruptcy in mid-September 2008. Interest rate swap payments are not due under the Forward Contract and the semiannual interest rate basis swap payments have been made from A~S to Lehman SFI for the A~S interest rate swap during 2010 and 2009. All differences between the fixed and floating rates on the A~S interest rate basis swap were accrued and recorded in interest expense in 2010 and 2009.

Unless cured within a proper notice period, an event of default under the swap agreement will have been deemed to have occurred and Asbury Atlantic and/or A~S, as applicable, may deliver notice (at their option) to terminate either or both of the agreements. However, there have not been any notices delivered by Asbury Atlantic, A~S, or Lehman SFI or a bankruptcy administrator for Lehman SFI, which notices any such default or which would result in termination of the swap agreement.

The lenders, as third-party beneficiaries to the hedging agreement, are fully aware that Lehman SFI is the counterparty. Based upon the uncertain future of the existing hedging agreement with Lehman SFI, the Company has engaged legal counsel to assist the Company while Lehman SFI is in bankruptcy. There are no assurances that replacement instruments would be available to Asbury Atlantic or A~S on acceptable terms, if at all. Management believes that the inability to obtain a replacement hedging instrument would not have a negative impact on the Company.

Asbury Atlantic entered into an interest rate swap agreement concurrent with the issuance of the Series 2006 PA bonds. Asbury Atlantic pays a fixed rate of interest of 3.485% and receives payments based on a floating rate based upon 68% of LIBOR. The interest rate swap agreement terminates on January 1, 2013.

On November 10, 2010, \$51,500,000 of the Series 2006 PA Bonds was refunded from the proceeds of the Series 2010 Bonds. In conjunction with the refinancing, Asbury Atlantic exercised its right to voluntarily terminate a portion of the swap agreement. Therefore, on November 10, 2010 the notional amount was reduced by \$51,500,000, for a total current notional amount of \$58,675,000 as of December 31, 2010. As a result of the voluntary partial swap termination, Asbury Atlantic paid a total of \$3,550,000; \$3,520,000 to the counterparty of the swap agreement and \$30,000 to an adviser for the transaction. This amount is included as part of the loss on advance bond refunding in the consolidated statement of operations and changes in net deficit.

**ASBURY COMMUNITIES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2010 AND 2009**

**NOTE 10 DERIVATIVE INSTRUMENTS (CONTINUED)**

As of December 31, 2010, EM is no longer an operating segment of Asbury Atlantic. See Note 18 for further details.

IV entered into an interest rate swap agreement concurrent with the issuance of the Series 2007 Bonds to mitigate exposure to fluctuating variable interest rates. Under this agreement, the Company pays a 3.1275% fixed rate of interest and receives payments based on a floating rate derived from the Securities Industry and Financial Markets Association Municipal Swap Index (formerly known as the BMA Municipal Swap Index). The interest rate swap agreement terminates on February 1, 2012.

The following schedule outlines the terms and fair market values of the derivative instruments on December 31, 2010 and 2009:

	Series 2006 Asbury Atlantic (MD) Forward Contract	A~S Interest Rate Swap	PA Series 2006 Interest Rate Swap	IV Series 2007 Interest Rate Swap	Total
Notional Amount - December 31, 2010	\$ 73,936,000	\$ 28,480,000	\$ 58,675,000	\$ 69,550,000	
Trade Date	12/8/2006	8/13/2001	10/20/2006	11/27/2007	
Effective Date	1/1/2013	8/23/2001	10/27/2006	11/29/2007	
Termination or Cancellation Date	1/1/2041	1/1/2027	1/2/2013	2/1/2012	
Fixed Rate	5.128%	5.540%	3.485%	3.128%	
Fair Value at December 31, 2008	(18,188,563)	(1,656,225)	(9,070,400)	(3,099,070)	(32,014,258)
Unrealized Gain	10,545,041	1,355,114	2,501,598	373,875	14,775,628
Fair Value at December 31, 2009	(7,643,522)	(301,111)	(6,568,802)	(2,725,195)	(17,238,630)
Unrealized Gain (Loss)	(7,320,282)	(447,476)	3,220,003	750,639	(3,797,116)
Fair Value at December 31, 2010	<u>\$ (14,963,804)</u>	<u>\$ (748,587)</u>	<u>\$ (3,348,799)</u>	<u>\$ (1,974,556)</u>	<u>\$ (21,035,746)</u>

The Company has included the fair market value of these derivative instruments as a liability of \$21,035,745 and \$17,238,630 in the accompanying consolidated balance sheets as of December 31, 2010 and 2009, respectively.

Net unrealized (losses) gains on derivative instruments was \$(3,797,116) and \$14,775,628 in 2010 and 2009, respectively.

**NOTE 11 TEMPORARILY RESTRICTED NET ASSETS**

Temporarily restricted net assets were available for the following purposes:

	2010	2009
Benevolent and Charity Care	\$ 372,939	\$ 377,906
Buildings, Equipment and Supplies	468,238	1,287,452
Total Temporarily Restricted Net Assets	<u>\$ 841,177</u>	<u>\$ 1,665,358</u>

**ASBURY COMMUNITIES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2010 AND 2009**

**NOTE 12 PERMANENTLY RESTRICTED NET ASSETS**

Permanently restricted net assets, totaling \$24,116,800 and \$22,632,606 as of December 31, 2010 and 2009, respectively, consist of investments to be held in perpetuity. Investment income earned from the permanently restricted net assets is available for operations of the supported organizations including funding of benevolent and charity care.

**Interpretation of Relevant Law**

Maryland adopted the State Prudent Management of Institutional Funds Act (the Act) effective in 2008. The board of directors of the Company has interpreted the Act as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Company classifies as permanently restricted net assets (1) the original value of gifts donated to the permanent endowment, (2) the original value of subsequent gifts to the permanent endowment, and (3) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. For the years ended December 31, 2010 and 2009, the Company's investment income earned on endowment funds, in the absence of donor restrictions, was used to fund a portion of the cost to provide benevolent care to residents.

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

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

	<u>2010</u>	<u>2009</u>
Endowment Fund - Beginning of Year	\$ 22,632,606	\$ 21,954,643
Contributions	2,218,711	1,242,577
Change in Value of Deferred-Giving Arrangements	<u>(734,517)</u>	<u>(564,614)</u>
Endowment Fund - End of Year	<u>\$ 24,116,800</u>	<u>\$ 22,632,606</u>

**NOTE 13 RETIREMENT PLAN**

ACOMM has a defined-contribution plan (the Plan) under IRC Section 401(k). All full-time employees of the Company are eligible to participate in the Plan. Employees may elect to defer up to \$16,500 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. The employer's contribution expense for the years ended December 31, 2010 and 2009 was \$1,570,863 and \$1,273,170, respectively. The Company suspended the 3% employer basic contribution and matching contribution to the Plan during July 2009. The Company reinstated the 3% employer basic contribution effective January 1, 2010.

**ASBURY COMMUNITIES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2010 AND 2009**

**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, 2011. Any losses for general and professional liability not currently covered by insurance in force not expected to be material to the financial statements.

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

In 2009, ACOMM and its affiliates began participating in an insurance risk retention group, Caring Communities, a Reciprocal Risk Retention Group (“CCrRRG”) licensed by the District of Columbia for purposes of obtaining the following insurance coverage: (1) primary general and professional liability; (2) excess general and professional liability; and (3) excess auto liability. CCrRRG provides insurance coverage to its members, which are not-for-profit, predominantly faith based, senior housing and healthcare providers. These members include continuing care retirement communities, affordable housing providers, and other organizations that offer a mix of product and services, including independent living, assisted living and skilled nursing. In November 2010, CCrRRG was rated “A- (Excellent)” for its financial strength with an outlook of stable by A.M. Best Co., one of the leading rating agencies.

ACOMM executed a subscription agreement and will make capital contributions totaling \$560,458 in exchange for an interest in a CCrRRG Charter Capital Account. This capital contribution will be made annually scheduled over a period of seven years, beginning December 31, 2009 and ending December 31, 2015. As of December 31, 2010 and 2009, ACOMM’s capital contributions were \$196,178 and \$112,102 respectively, which represents 1.55% of CCrRRG’s total Charter Capital. Subsequent to the final capital contribution, assuming no contributions to CCrRRG’s Charter Capital other than those currently committed, ACOMM will have 4.11% of CCrRRG’s total Charter Capital. The percentage of the total Charter Capital may be affected by the future addition of members to CCrRRG.

Future minimum contributions are as follows:

<u>Year Ending December 31,</u>	<u>Amount</u>
2011	\$ 84,076
2012	84,076
2013	84,076
2014	84,076
2015	84,076
Thereafter	27,976
Total	<u>\$ 448,356</u>

**ASBURY COMMUNITIES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2010 AND 2009**

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

**Health Insurance**

The Company and its affiliates have a self-funding arrangement for health insurance coverage. ACOMM and affiliates have stop-loss coverage up to \$130,000 per participant and an annual aggregate of approximately 125% of expected claims with a maximum reimbursement of \$2,000,000 per year. The annual aggregate fluctuates based on the number of participants and is calculated based on historical claims information. The insurance policies have been renewed through July 31, 2011.

**Legal Actions and Claims**

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

**Lease Commitments**

The Company and its affiliates have leases for vehicles and office equipment, which expire in 2013, and a ground lease that expires on August 1, 2039. Generally, the leases carry renewal provisions and require the Company and its affiliates to pay maintenance costs. Total lease expense for the years ended December 31, 2010 and 2009 was \$1,548,420 and \$1,448,275, respectively.

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

<u>Year Ending December 31,</u>	<u>Amount</u>
2011	\$ 1,122,410
2012	1,014,358
2013	952,203
2014	629,395
2015	574,283
Thereafter	<u>1,341,727</u>
Total	<u>\$ 5,634,376</u>

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

**ASBURY COMMUNITIES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2010 AND 2009**

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

**Capital Lease**

The Company and its affiliates lease computer equipment under capital lease agreements expiring in 2014. The current portion of capital lease is included in account payable and accrued expenses. The long term portion is included in the other long term liabilities. As of December 31, 2010, the future minimum lease payments under capital leases were as follows:

<u>Year Ending December 31,</u>	<u>Amount</u>
2011	\$ 550,202
2012	463,291
2013	143,518
2014	55,851
Total Future Minimum Lease Payments	1,212,862
Less Amount Representing Interest	(94,125)
Present Value of Lease Obligation	1,118,737
Current Portion	(489,758)
Long-Term Portion	<u>\$ 628,979</u>

**NOTE 15 FUNCTIONAL EXPENSES**

The Company provides continuing and long-term care for the elderly. Expenses, including those recognized as gain (loss) from discontinued operations, related to providing these services were as follows:

	<u>2010</u>	<u>2009</u>
Continuing and Long-Term Care	\$ 120,193,363	\$ 112,368,852
General and Administrative	50,099,878	48,606,477
Total Functional Expenses	<u>\$ 170,293,241</u>	<u>\$ 160,975,329</u>

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

**ASBURY COMMUNITIES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2010 AND 2009**

**NOTE 16 FAIR VALUE OF FINANCIAL INSTRUMENTS**

The carrying amounts reported in the consolidated balance sheets for cash and cash equivalents, accounts receivable, prepaid expenses and other assets, pledges receivable net, accounts payable and accrued expenses, short-term borrowings from bank, construction retainage payable, and accrued interest payable approximate fair value given the short-term nature of the financial instruments. The following methods and assumptions were used by the Company in estimating the fair value of other financial instruments.

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

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

*Bonds Payable*

The variable rate bonds are assumed to be carried at fair value. The fair value of fixed rate bonds are estimated based upon discounted cash flows using a discount rate commensurate with the Company's borrowing rate as of the balance sheet date. The estimated fair value of the bonds payable was \$328,005,078 and \$319,933,857 as of December 31, 2010 and 2009, respectively.

*Lines of Credit and Notes Payable*

The carrying amounts of the lines of credit and notes payable at December 31, 2010 approximates fair value because they were based on rates similar to those then offered to ACOMM for debt of the same remaining maturities.

*Fair Value of Financial Instruments*

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (exit price). The Company utilizes market data or assumptions that market participants would use in pricing the asset or liability, including assumptions about risk and the risks inherent in the inputs to the valuation technique. These inputs can be readily observable, market corroborated, or generally unobservable. The Company primarily applies the market approach for recurring fair value measurements and endeavors to utilize the best available information. Accordingly, the Company utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. The Company is able to classify fair value balances based on the observability of those inputs.

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

**ASBURY COMMUNITIES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2010 AND 2009**

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

*Fair Value of Financial Instruments (Continued)*

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

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

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

Assets utilizing Level 3 inputs are pledges receivable, net. There are unobservable inputs for this asset, thus pledges receivable are classified within Level 3 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, 2010 and 2009.

Recurring Fair Value Measures	At Fair Value as of December 31, 2010			
	Level 1	Level 2	Level 3	Total
<b>Assets</b>				
Equity Securities and Mutual Funds	\$ 25,383,600	\$ -	\$ -	\$ 25,383,600
Fixed-Income Mutual Funds	21,885,363	-	-	21,885,363
Other	1,265,675	-	-	1,265,675
<b>Liabilities</b>				
Derivative Instruments	\$ -	\$(21,035,746)	\$ -	\$(21,035,746)

  

Recurring Fair Value Measures	At Fair Value as of December 31, 2009			
	Level 1	Level 2	Level 3	Total
<b>Assets</b>				
Equity Securities and Mutual Funds	\$ 18,245,757	\$ -	\$ -	\$ 18,245,757
Fixed-Income Mutual Funds	27,462,973	-	-	27,462,973
Other	1,112,602	-	-	1,112,602
<b>Liabilities</b>				
Derivative Instruments	\$ -	\$(17,238,630)	\$ -	\$(17,238,630)

**ASBURY COMMUNITIES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2010 AND 2009**

**NOTE 17 INCOME TAXES**

Income tax expense for TAG is immaterial to the consolidated financial statements taken as a whole; therefore, the tax expense is included in the income statement as general and administrative expense.

Taxable loss before income taxes was \$168,603 and \$189,591 for the years ended December 31, 2010 and 2009, respectively.

The components of the taxable subsidiaries' (benefit) provision for income taxes for the years ended December 31, 2010 and 2009 consist of the following:

	<u>2010</u>	<u>2009</u>
Current:		
Federal	\$ 5,369	\$ (16,524)
State	3,032	-
Total Current	<u>8,401</u>	<u>(16,524)</u>
Deferred	-	-
Total	<u>\$ 8,401</u>	<u>\$ (16,524)</u>

The components of deferred tax assets and liabilities at December 31, 2010 and 2009 are as follows:

	<u>2010</u>	<u>2009</u>
Net Operating Loss Carryforwards	\$ 180,922	\$ -
Accrued Paid Time-Off Benefits	185,349	162,508
Accrued Long-Term Compensation	75,033	32,322
Accrued Salaries	1,703	-
Accrued Health Insurance	4,623	15,735
Rent	35,552	29,155
Deferred Revenue	7,251	18,589
Prepaid Insurance	(2,713)	(4,630)
Depreciation	188,844	87,430
Amortization	104,641	(22,359)
Prior Year Deferred Tax Asset	(6,910)	-
Federal Benefit of State Deferred	(49,176)	-
Total	<u>725,119</u>	<u>318,750</u>
Valuation Allowance	<u>(725,119)</u>	<u>(318,750)</u>
Deferred Tax Asset	<u>\$ -</u>	<u>\$ -</u>

Management has determined, based on the taxable subsidiaries' lack of history of operating earnings, that it is more likely than not taxable income will not be sufficient to fully realize the net deferred tax asset; therefore, a valuation reserve has been established for the full amount. The effective income tax rate of the taxable subsidiaries of 5% differs from the statutory federal tax rate of 34% for the year ended December 31, 2010, primarily due to the impact of the net operating loss carry forward.

**ASBURY COMMUNITIES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2010 AND 2009**

**NOTE 18 SALE OF ASSETS RELATED TO DISCONTINUED OPERATIONS**

On December 31, 2010, Asbury Atlantic sold substantially all of the assets of Epworth Manor to an unrelated outside party for a total sales price of \$8,600,000. In 2010, Asbury Atlantic obtained an independent appraisal of Epworth Manor and the sales price was above the appraised value. As part of the sale agreement, the buyer assumed and will perform the benevolent care obligations for existing Epworth Manor residents consistent with the Company's Benevolent Care Policy. In connection with the sale, EM paid off a portion of the Series 2006 PA bonds totaling \$8,600,000 subsequent to year-end.

As detailed below, Epworth Manor's gain (loss) from operations of \$770,955 and (\$243,154) for 2010 and 2009, respectively, are reflected as gain (loss) on discontinued operations in the consolidated statement of operations and changes in net deficit.

	2010	2009
Net Resident Service Revenue	\$ 9,082,725	\$ 8,705,416
Other Revenue and Support	151,938	64,019
Income and Gains/Losses from Investments	248,501	(46,311)
Amortization Income	3,344	6,172
Total Revenue, Gains and Other Support	<u>9,486,508</u>	<u>8,729,296</u>
Other Operating Expenses	8,122,117	7,922,337
Interest Expense	728,641	762,949
Depreciation and Amortization Expense	581,408	595,776
Management Fee	744,937	736,765
Provision for Bad Debts	1,552	107,720
Total Expenses	<u>10,178,655</u>	<u>10,125,547</u>
Net Unrealized Gains on Change in Market Value of Derivative Instruments	<u>784,927</u>	<u>274,004</u>
Gain (Loss) on Discontinued Operations Prior to Intercompany Eliminations	92,780	(1,122,247)
Intercompany Eliminations	<u>678,175</u>	<u>879,093</u>
Gain (Loss) on Discontinued Operations	<u>\$ 770,955</u>	<u>\$ (243,154)</u>

For the years ended December 31, 2010 and 2009, intercompany revenue and expense were eliminated for presentation of the consolidated financial statements.

For the year ended December 31, 2010, Asbury Atlantic recognized a total loss on sale of assets of (\$1,301,587), which is comprised of a loss of (\$1,293,130) from the sale of the Epworth Manor assets and a loss on sale of property and equipment of (\$8,457).

**INDEPENDENT AUDITORS' REPORT ON  
OTHER FINANCIAL INFORMATION**

Audit Committee  
Asbury Communities, Inc.  
Germantown, Maryland

Our audit was conducted for the purpose of forming an opinion on the December 31, 2010 consolidated financial statements taken as a whole. The consolidating information enclosed is presented for purposes of additional analysis and is not a required part of the December 31, 2010 consolidated financial statements. Such information has been subjected to the auditing procedures applied in our audit of the December 31, 2010 consolidated financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the December 31, 2010 consolidated financial statements taken as a whole.

*LarsonAllen LLP*

**LarsonAllen LLP**

Blue Bell, Pennsylvania  
March 30, 2011

**ASBURY COMMUNITIES, INC.**  
**CONSOLIDATING BALANCE SHEET**  
**DECEMBER 31, 2010**  
(SEE INDEPENDENT AUDITORS' REPORT ON OTHER FINANCIAL INFORMATION)

	Asbury Communities, Inc.	Asbury Methodist Village	Asbury Solomons, Inc.	Epworth Manor	Bethany Village	Springhill	Inverness Village, Inc.	Asbury Foundation, Inc.	Wesley Affiliated Services Foundation, Inc.	The Asbury Group, Inc.	Eliminations	Consolidated Balance
<b>ASSETS</b>												
<b>CURRENT ASSETS</b>												
Cash and Cash Equivalents	\$ 1,473,775	\$ 3,759,504	\$ 163,146	\$ -	\$ 1,759,020	\$ 1,781,781	\$ 9,656,882	\$ -	\$ -	\$ 325,402	\$ -	\$ 18,919,510
Investments	16,815,396	15,874,054	940,351	-	8,018,617	533,650	2,431	6,670	794	-	-	42,191,963
Accounts Receivable, Net	-	3,492,470	433,298	-	1,356,437	548,594	445,123	-	-	371,640	-	6,647,562
Pledges Receivable, Net	-	-	-	-	-	-	-	124,996	-	-	-	124,996
Other Receivables and Prepaid Expenses	45,253	5,441,267	502,392	-	1,206,596	264,277	1,347,787	204,566	-	782,973	-	9,795,111
Investments Held under Bond Indenture	-	4,269,955	2,497,898	-	999,675	288,437	798,960	-	-	-	-	8,854,925
Assets from Discontinued Operations	-	-	-	8,806,794	-	-	-	-	-	-	-	8,806,794
<b>Total Current Assets</b>	<b>18,334,424</b>	<b>32,837,250</b>	<b>4,537,085</b>	<b>8,806,794</b>	<b>13,340,345</b>	<b>3,416,739</b>	<b>12,251,183</b>	<b>336,232</b>	<b>794</b>	<b>1,480,015</b>	<b>-</b>	<b>95,340,861</b>
Due from ACOMM, Net	17,319,932	15,083,449	-	-	-	-	-	8,379,274	1,496,124	-	(42,278,779)	-
Property and Equipment, Net	484,816	140,592,300	50,212,640	-	92,102,374	20,981,490	65,706,974	33,089	-	1,193,117	(3,084,309)	368,222,491
Investments Restricted by Donors	-	-	-	-	7,950,696	-	-	10,355,672	-	-	-	18,306,368
Long-Term Investments	1,291,616	-	-	-	134,192	-	-	-	-	-	(1,291,616)	134,192
Deferred Costs, Net	-	2,932,847	2,506,763	-	2,875,483	615,780	5,217,221	-	-	-	-	14,148,094
Deposits and Other Assets	222,313	386,401	61,431	-	508,317	65,289	71,223	-	-	43,599	-	1,358,573
Other Intangible Assets	-	-	-	-	-	1,219,409	-	-	-	17,305	-	1,236,714
Investments Held under Bond Indenture	-	12,219,577	2,104,939	-	5,347,448	1,152,994	42,932	-	-	-	-	20,867,890
Statutory Reserves	-	7,879,782	1,806,030	-	4,348,977	946,860	-	-	-	-	-	14,981,649
Investments Restricted by Board	-	1,420,313	212,920	-	1,864,302	-	-	-	-	-	-	3,497,535
Pledges Receivable, Net	-	-	-	-	-	-	-	183,232	-	-	-	183,232
Funds Held in Trust	-	-	-	-	-	-	-	1,684,127	137,948	-	-	1,822,075
Beneficial Interest in Net Assets of Foundation	-	12,942,633	1,389,391	-	2,701,111	30,468	141,921	-	-	-	(17,205,524)	-
<b>Total Assets</b>	<b>\$ 37,653,101</b>	<b>\$ 226,294,552</b>	<b>\$ 62,831,199</b>	<b>\$ 8,806,794</b>	<b>\$ 131,173,245</b>	<b>\$ 28,429,029</b>	<b>\$ 83,431,454</b>	<b>\$ 20,971,626</b>	<b>\$ 1,634,866</b>	<b>\$ 2,734,036</b>	<b>\$ (63,860,228)</b>	<b>\$ 540,099,674</b>

**ASBURY COMMUNITIES, INC.**  
**CONSOLIDATING BALANCE SHEET (CONTINUED)**  
**DECEMBER 31, 2010**  
**(SEE INDEPENDENT AUDITORS' REPORT ON OTHER FINANCIAL INFORMATION)**

	Asbury Communities, Inc.	Asbury Methodist Village	Asbury Solomons, Inc.	Epworth Manor	Bethany Village	Springhill	Inverness Village, Inc.	Asbury Foundation, Inc.	Wesley Affiliated Services Foundation, Inc.	The Asbury Group, Inc.	Eliminations	Consolidated Balance
<b>LIABILITIES AND NET DEFICIT</b>												
<b>CURRENT LIABILITIES</b>												
Accounts Payable and Accrued Expenses	\$ 6,501,077	\$ 1,025,647	\$ 112,346	\$ -	\$ 898,857	\$ 239,513	\$ 380,791	\$ 5,347	\$ -	\$ 794,313	\$ -	\$ 9,957,891
Accrued Compensation and Related Items	7,438,083	-	-	-	-	-	-	-	-	765,367	-	8,203,450
Accrued Interest Payable	-	2,757,413	1,049,867	-	599,554	161,986	193,406	-	-	-	-	4,762,226
Construction Retainage Payable	-	506,511	-	-	-	-	-	-	-	-	-	506,511
Obligations under Deferred-Giving Arrangements	-	-	-	-	160,275	-	-	759,119	-	-	-	919,394
Deposits from Prospective Residents	-	4,428,718	514,925	-	910,166	297,777	769,303	-	-	272,148	-	7,193,037
Entrance Fees - Refundable	-	1,933,625	93,096	-	-	3,377,012	1,298,929	-	-	-	-	6,702,662
Deferred Revenue	-	135,304	115,697	-	26,933	17,108	61,459	-	-	16,748	-	373,249
Current Portion of Long-Term Debt	-	1,006,031	1,458,969	-	478,037	156,251	780,000	-	-	-	-	3,879,288
Liabilities from Discontinued Operations	-	-	-	8,806,794	-	-	-	-	-	-	-	8,806,794
Total Current Liabilities	13,939,160	11,793,249	3,344,900	8,806,794	3,073,822	4,249,647	3,483,888	764,466	-	1,848,576	-	51,304,502
Due to ACOMM, Net	-	-	8,411,225	-	8,390,326	4,146,030	20,987,525	-	-	343,673	(42,278,779)	-
Long-Term Debt, Net	-	104,496,778	37,739,872	-	96,518,399	26,303,315	68,770,000	-	-	-	-	333,828,364
Projected Refund of Standard Entrance Fees	-	1,102,963	558,815	-	1,130,538	3,517	362,989	-	-	-	-	3,158,822
Entrance Fees - Deferred Revenue	-	101,365,009	40,243,354	-	44,981,122	16,230,796	59,111,047	-	-	-	-	261,931,328
Valuation of Derivative Instruments	-	11,771,760	3,940,631	-	2,694,735	654,064	1,974,556	-	-	-	-	21,035,746
Obligation under Deferred-Giving Arrangements	-	-	-	-	816,167	-	-	4,458,290	-	-	-	5,274,457
Other Long-Term Liabilities	162,679	106,295	17,093	-	17,204	11,894	48,865	-	-	490,359	-	854,389
Total Liabilities	14,101,839	230,636,054	94,255,890	8,806,794	157,622,313	51,599,263	154,738,870	5,222,756	-	2,682,608	(42,278,779)	677,387,608
Net Assets (Deficit)												
Unrestricted	23,551,262	(17,284,136)	(32,814,082)	-	(36,860,896)	(23,200,702)	(71,462,859)	150,000	-	51,428	(4,375,925)	(162,245,910)
Temporarily Restricted	-	45,903	278,679	-	342,389	21,617	152,589	799,149	45,516	-	(844,666)	841,176
Permanently Restricted	-	12,896,731	1,110,712	-	10,069,439	8,851	2,854	14,799,721	1,589,350	-	(16,360,858)	24,116,800
Total Net Assets (Deficit)	23,551,262	(4,341,502)	(31,424,691)	-	(26,449,068)	(23,170,234)	(71,307,416)	15,748,870	1,634,866	51,428	(21,581,449)	(137,287,934)
Total Liabilities and Net Deficit	\$ 37,653,101	\$ 226,294,552	\$ 62,831,199	\$ 8,806,794	\$ 131,173,245	\$ 28,429,029	\$ 83,431,454	\$ 20,971,626	\$ 1,634,866	\$ 2,734,036	\$ (63,860,228)	\$ 540,099,674

**ASBURY COMMUNITIES, INC.**  
**CONSOLIDATING STATEMENT OF OPERATIONS AND CHANGES IN NET DEFICIT**  
**YEAR ENDED DECEMBER 31, 2010**  
**(SEE INDEPENDENT AUDITORS' REPORT ON OTHER FINANCIAL INFORMATION)**

	Asbury Communities, Inc.	Asbury Methodist Village	Asbury Solomons, Inc.	Epworth Manor	Bethany Village	Springhill	Inverness Village, Inc.	Asbury Foundation, Inc.	Wesley Affiliated Services Foundation, Inc.	The Asbury Group, Inc.	Eliminations	Consolidation
<b>REVENUES, GAINS AND OTHER SUPPORT</b>												
Net Resident-Service Revenue	\$ -	\$ 60,573,763	\$ 14,011,329	\$ -	\$ 21,678,156	\$ 13,608,409	\$ 14,192,196	\$ -	\$ -	\$ -	\$ -	\$ 124,063,853
Other Operating Revenue	7,104,439	835,961	83,080	-	500,495	45,772	111,725	32,407	-	8,660,470	(10,703,361)	6,670,988
Amortization of Entrance Fees	-	11,764,156	3,589,068	-	3,912,154	459,882	3,066,639	-	-	-	-	22,791,899
Interest and Dividend Income, Net	254,108	745,620	111,133	-	305,016	22,142	283	150,485	-	1,090	-	1,589,877
Net Realized Gains on Investments	1,123,492	1,827,333	214,725	-	1,179,566	105,471	-	691,751	-	-	-	5,142,338
Proportionate Share of Losses in Equity												
Interests Funds	(81,233)	(132,552)	(15,600)	-	(88,880)	(7,407)	-	(50,506)	-	-	-	(376,178)
Contributions	-	-	-	-	-	-	-	1,003,182	-	-	-	1,003,182
Net Assets Released from Restrictions												
Used for Operations	-	-	-	-	-	-	23,691	344,787	5,992	-	-	374,470
Net Assets Released from Restrictions												
Used for Purchase of Capital Items	-	-	-	-	-	280,081	596,358	820,404	-	-	(820,404)	876,439
Transfers from Asbury Foundation, Inc.	-	397,601	85,603	-	28,953	79,304	50,604	-	35	-	(642,100)	-
Total Revenues, Gains and Other Support	8,400,806	76,011,882	18,079,338	-	27,515,460	14,593,654	18,041,496	2,992,510	6,027	8,661,560	(12,165,865)	162,136,868
<b>EXPENSES</b>												
Salaries	6,584,011	23,925,205	4,753,170	-	8,057,914	6,099,963	4,965,295	772,347	-	4,062,102	-	59,220,007
Employee Benefits	984,738	5,213,593	853,433	-	1,967,073	1,531,785	1,306,821	127,178	-	546,377	-	12,530,998
Cost of Goods Sold	-	-	-	-	-	-	-	-	-	1,279,802	-	1,279,802
Contract Labor	44,627	4,293,096	1,564,876	-	1,518,250	894,964	1,315,193	-	-	-	-	9,631,006
Food Purchases	-	3,062,029	731,587	-	696,739	626,753	982,401	-	-	-	-	6,099,509
Medical Supplies and Other Resident Costs	-	2,355,652	492,229	-	1,061,937	535,879	569,793	-	-	-	-	5,015,490
General and Administrative	1,956,951	2,008,390	393,024	-	359,518	279,881	760,676	587,174	6,137	633,186	-	6,984,937
Building and Maintenance	692,234	6,496,964	1,893,932	-	2,569,670	1,115,890	1,465,206	14,385	-	1,483,199	-	15,731,480
Professional Fees and Property Insurance	14,259	659,740	171,036	-	320,714	164,215	176,734	5,416	-	39,269	-	1,551,383
Interest	617	4,457,864	2,086,116	-	4,774,265	1,447,299	4,414,383	-	-	62,315	(676,641)	16,566,218
Taxes	2,881	1,131,974	677,375	-	551,193	95,009	795,942	-	-	52,303	-	3,306,677
Provisions for Bad Debts	-	1,219,557	(23,853)	-	52,038	3,321	13,584	(3,941)	-	-	-	1,260,706
Depreciation and Amortization	100,634	9,222,015	2,452,870	-	4,019,168	2,290,552	2,918,523	1,133	-	663,153	(53,500)	21,614,548
Management Fee	-	4,493,527	1,045,227	-	1,513,514	1,047,235	1,094,826	79,570	-	-	(9,273,899)	-
Transfers to Asbury Foundation, Inc.	-	-	-	-	-	-	-	712,360	-	-	(712,360)	-
Total Expenses	10,380,952	68,539,606	17,091,022	-	27,461,993	16,132,746	20,779,377	2,295,622	6,137	8,821,706	(10,716,400)	160,792,761
Income (Loss) from Operations Prior to Net Unrealized Gains (Losses) on Change in Market Value of Derivative Instruments, Loss on Advance Bond Refunding, and Loss on Sale of Assets	(1,980,146)	7,472,276	988,316	-	53,467	(1,539,092)	(2,737,881)	696,888	(110)	(160,146)	(1,449,465)	1,344,107

**ASBURY COMMUNITIES, INC.**  
**CONSOLIDATING STATEMENT OF OPERATIONS AND CHANGES IN NET DEFICIT (CONTINUED)**  
**YEAR ENDED DECEMBER 31, 2010**  
**(SEE INDEPENDENT AUDITORS' REPORT ON OTHER FINANCIAL INFORMATION)**

	Asbury Communities, Inc.	Asbury Methodist Village	Asbury Solomons, Inc.	Epworth Manor	Bethany Village	Springhill	Inverness Village, Inc.	Asbury Foundation, Inc.	Wesley Affiliated Services Foundation, Inc.	The Asbury Group, Inc.	Eliminations	Consolidation
Income (Loss) from Operations Prior to Net Unrealized Gains (Losses) on Change in Market Value of Derivative Instruments, Loss on Advance Bond Refunding, and Loss on Sale of Assets	\$ (1,980,146)	\$ 7,472,276	\$ 988,316	\$ -	\$ 53,467	\$ (1,539,092)	\$ (2,737,881)	\$ 696,888	\$ (110)	\$ (160,146)	\$ (1,449,465)	\$ 1,344,107
Net Unrealized Gain (Loss) on Change in Market Value of Derivative Instruments	-	(5,723,777)	(2,043,981)	-	1,835,258	599,818	750,639	-	-	-	-	(4,582,043)
Loss on Advance Bond Refunding	-	-	-	(42,113)	(3,766,563)	(1,077,068)	-	-	-	-	-	(4,885,744)
Loss on Sale of Assets	-	-	-	(1,293,130)	-	-	-	-	-	(8,457)	-	(1,301,587)
Income (Loss) from Continuing Operations	(1,980,146)	1,748,499	(1,055,665)	(1,335,243)	(1,877,838)	(2,016,342)	(1,987,242)	696,888	(110)	(168,603)	(1,449,465)	(9,425,267)
Transfers (To) From Affiliate	1,911,000	(2,060,000)	(601,000)	1,962,231	(1,962,231)	-	750,000	-	-	-	-	-
Net Assets Released from Restrictions Used for Purchase of Capital Items	-	-	-	-	-	-	-	(820,404)	-	-	820,404	-
Gain on Discontinued Operations	-	-	-	92,780	-	-	-	-	-	-	678,175	770,955
Net Unrealized Gains on Investments	118,679	362,789	48,917	-	460,130	17,097	-	123,516	110	-	-	1,131,238
Net Increase (Decrease) in Unrestricted Net Deficit	\$ 49,533	\$ 51,288	\$ (1,607,748)	\$ 719,768	\$ (3,379,939)	\$ (1,999,245)	\$ (1,237,242)	\$ -	\$ -	\$ (168,603)	\$ 49,114	\$ (7,523,074)