



**GOVERNANCE AND MANAGEMENT
REPORT
FISCAL 2011**



OVERVIEW

Front Porch Communities and Services [FPCS] is one company among a family of Front Porch companies [see Appendix E]. FPCS is a California nonprofit public benefit corporation with a significant portion of its current business in housing and services to Older Adults and in the provision of Affordable Housing services (primarily management) through a wholly owned affiliate that serves a variety of populations as discussed later. The corporation's Mission of ***Meeting Needs Through Excellence In Health and Human Services*** encompasses five business units serving the full-service retirement, active adult, and affordable housing markets on a national (and through the Front Porch family of companies, an international) scope that, on a combined basis, have approximately 2,200 full and part-time employees and, in the case of Front Porch Communities and Services, revenues and expenses as reflected in the charts which follow this overview.

The Front Porch family of companies includes Front Porch Enterprises, also a California nonprofit public benefit corporation, Front Porch Development Company, a for-profit California corporation, and Front Porch Active Adult Communities, a Delaware limited liability corporation (LLC). Related to Front Porch Communities and Services are two companies whose financial statements consolidate into FPCS; the two companies are: (i) CARING Housing Ministries, a California nonprofit public benefit corporation, providing affordable housing and related management services, and (ii) Sunny View Lutheran Home [The West], a California nonprofit public benefit corporation providing affordable housing in Cupertino, CA under the HUD 202/Section 8 housing program.

In response to the growing complexities in the environments in which the Front Porch family of companies operates, Front Porch maintains an Office of In-House Corporate Counsel.

The current corporate structures are designed to provide flexibility in meeting changing consumer needs and preferences, the development of new financial resources for meeting changing consumer needs and for addressing aging assets, primarily within Front Porch Communities and Services, as well as to create leadership depth and capacity to effectively meet a rapidly changing future.

Center for Technology Innovation and Wellbeing

During FY 2007-2008, the Board of Directors created the *Center for Technology Innovation and Wellbeing* as a California not-for-profit public benefit corporation to explore and address innovative uses of technology to empower individuals to live well. The goal is to harness technology solutions that support and enhance the wellbeing of individuals, both within the FPCS/CHM residential environments and outside. The Center works collaboratively with a variety of stakeholders and in partnership with funding sources, researchers, universities, and technology partners.

Seed funding for the Center has been provided by multi-year grants from the Pacific Homes Foundation and California Lutheran Homes *and Community Services*.

The initial focus of the Center has been on research, testing/utilization of emerging technologies within Front Porch communities and in private home settings, establishing a cooperative working relationship with major technology companies, and adaptation of “off-the-shelf” technologies into Front Porch residential settings.

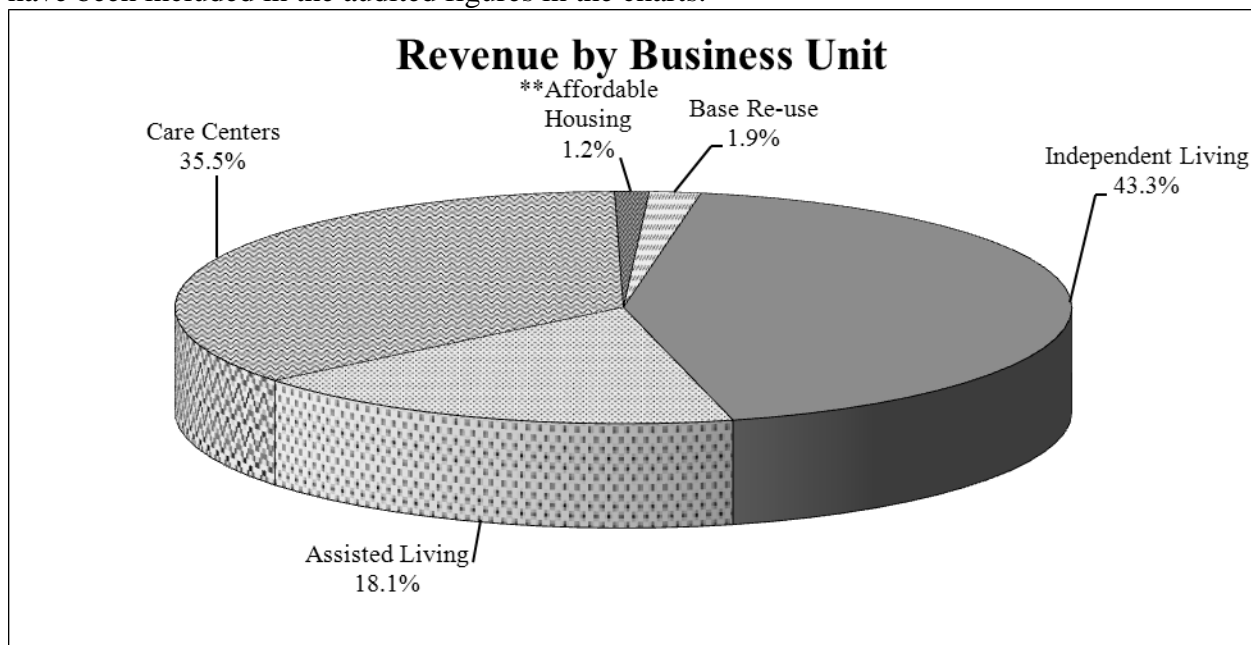
Changes implemented during FY 2009-2010

In April of 2009, the Board decided to move from a Co-CEO management structure to a singular CEO structure and established a position of Special Counsel to the Office of the CEO, to be occupied by one of the incumbent Co-CEO’s on a reduced-time basis with the other Co-CEO serving on a go forward basis as the sole CEO.

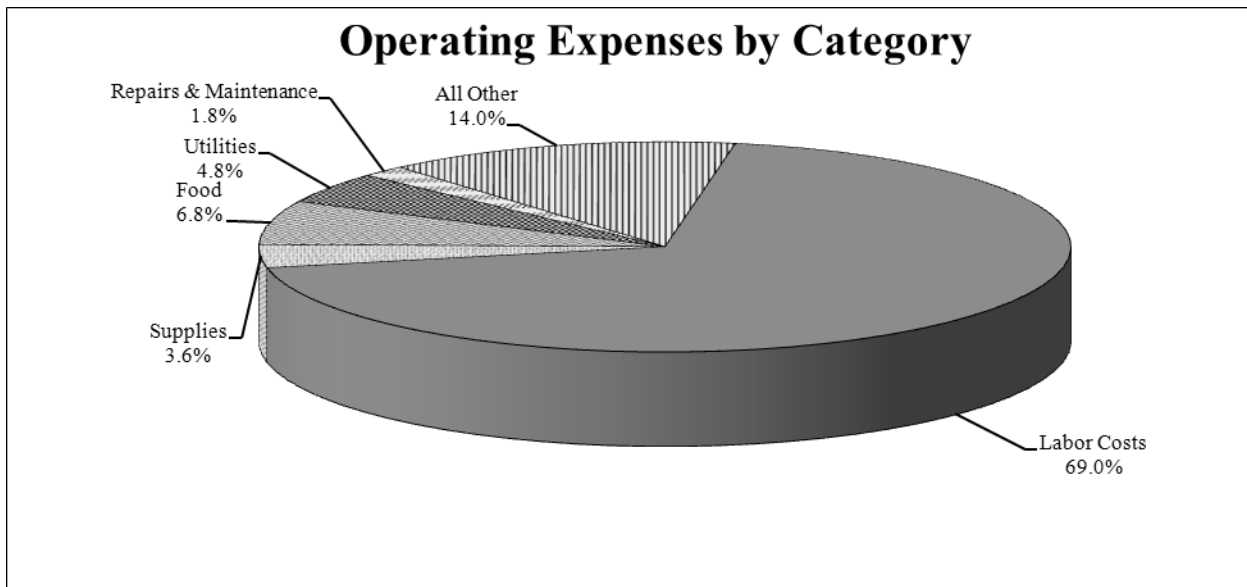
The Board took further action near the end of FY 2009 to create two unincorporated structures to complete the re-positioning begun in July of 2006. The first was to establish effective April 1, 2009 a Development Council with reporting/advising responsibilities to the Office of the CEO on the acquisition and utilization of capital within the family of companies. The second established a Center for Strategic Development *and Creative Business Solutions* and created the position of Chief Strategy Development Officer for the family of companies. This position is an added responsibility for the president of Front Porch Development Company, who also serves as the president of Front Porch Active Adult Communities.

Revenues and Expenses

Revenues by Business Unit and Operating Expenses by Category for FYE 2011 were as indicated in the charts as follows. The operations of The Alhambra, which were discontinued as of February 28, 2011, have been included in the audited figures in the charts.



** Includes Management Fees Only



FISCAL 2011 REPORT

What follows is an annual report on the corporation's [FPCS] governance and management structure, along with the compensation philosophy and policy designed to help ensure leadership excellence and continuity.

GOVERNANCE OF THE COMPANY

Front Porch Communities and Services was originally incorporated in 1995 (as The Internext Group) with its Articles of Incorporation amended in August of 1998 in preparation for the March 1999 consolidation of the operations and certain assets of California Lutheran Homes *and Community Services*, FACT Retirement Services and Pacific Homes, each also California nonprofit public benefit corporations. The Internext Group became Front Porch Communities and Services in 2002. FPCS is organized and operated exclusively for charitable purposes within the meaning of Section 501(c) (3) of the Internal Revenue Code. Subsequently, Sunny View Lutheran Home, a California nonprofit public benefit corporation became part of the Front Porch family by transferring its property and operations known as Sunny View Retirement Community (formerly The Manor) into FPCS. Sunny View Lutheran Home retained its affordable housing community (The West) and became an affiliate corporation of FPCS. Sunny View Lutheran Communities and Services (SVLCS), also a California nonprofit public benefit corporation, retained certain programs and assets once a part of Sunny View Lutheran Home, and functions as a separate entity, uncontrolled by FPCS, and continues to support the historical work of Sunny View Retirement Community and Sunny View Lutheran Home (The West), now contained within FPCS. SVLCS thus joins California Lutheran Homes, the FACT Foundation and the Pacific Homes Foundation as entities uncontrolled by FPCS but supporting historical missions placed by each predecessor entity into the Font Porch family of companies.

Pursuant to the California Nonprofit Corporation Law, the Internal Revenue Service Code for organizations qualifying as tax-exempt and charitable under Section 501(c) (3), and the corporation's bylaws, Front Porch Communities and Services' business, property and affairs are managed under the

direction of the Board of Directors. Members of the Board are kept informed of the corporation's business through discussions with the CEO, the Special Counsel to the CEO, the President, and other officers of the corporation, certain monthly financial reports, quarterly financial statements shared with investors (holders of the company's tax exempt bonds), by regular and independent conversation with the annually engaged audit firm [for the current year and this report – BKD], and by reviewing other materials provided to them, as well as by participating in meetings of the Board and its committees and task forces.

During fiscal 2011 the Board held five (5) meetings. The Executive Committee held five (5) meetings; the Audit Committee held two (2) meetings; the Business Development and Assessment Committee held four (4) meetings.

BOARD OF DIRECTORS

The Board of Directors is comprised of a maximum of eleven (11) persons [and by governing documents, a minimum of nine (9) persons]; all of whom are outside directors. The CEO and Special Counsel to the Office of the CEO, the President, and the Chief Financial Officer attend meetings with voice but no vote. Other management staff and/or officers of other Front Porch entities attend meetings of the Board on an as-needed basis. [Please see Appendix A for the current Board of Director/CEO/President Roster and relevant Biographies.]

Generally, no members of the Board may serve more than two, successive, three-year terms. Exceptions to this are addressed in the bylaws when a director begins service through an unexpired term.

The Board is organized into three (3) classes. Each class' three-year term expires on a successive basis at the end of a calendar year. Class A consists of up to three (3) directors; Class B consists of up to four (4) directors; Class C consists of up to four (4) directors. Under the FPCS's bylaws, election of directors on a go-forward basis is by the Board of Directors following recommendation by the Executive Committee. Frequently, as it relates to filling vacancies on the Board of Directors, the Executive Committee of the Board engages an outside and independent firm/person to interview prospective new Board candidates and to provide feedback on each candidate's qualifications and "fittedness" for Board service in accordance with criteria established by the Executive Committee in consultation with the full Board.

In fiscal 2011, two (2) members of the Board (Class C Directors; Position # 8, held by Elyse Weise and Position # 10, held by Robert Chillison) were eligible for re-appointment effective 1-1-2011. Mr. Chillison and Mrs. Weise were unanimously re-elected by the Board of Directors to three-year terms concluding 12-31-13. The remaining Class C directors were not eligible for re-appointment (Mr. Joseph McCormack, Position #9, and Mr. Howard Hudson, Position #11) and concluded their service on 12-31-2010. The Board unanimously elected as successors: Denzil Suite (Position # 9) and Scott Larson (Position #11) to full terms concluding 12-31-13. Class A Director (Position # 3), held by Martin Kennison, was vacant following Mr. Kennison's death in the Spring of 2010. Mr. Kennison's unexpired term was filled by the unanimous election of Mr. William Witte. Mr. Witte's current term expires 12-31-2011, and he will be eligible to serve additionally two-full-three-year terms in accordance with the bylaws of FPCS. As a subsequent event, Mr. Chillison, elected to a three-year term beginning 1-1-2011 resigned and a successor, Margol Kennison, was elected at the July 2011 meeting of the Board to fill the unexpired term of Mr. Chillison (Position #10). Mrs. Kennison will be eligible for one additional full term when the current term expires on 12-31-2013.

Duty of Care and Conflict of Interest

Each director must sign a *Duty of Care and Conflict of Interest Statement* that is on file at the office of the corporation. See Appendix B attached.

Director Compensation

Directors receive reasonable remuneration in the form of modest annual retainers and Board meeting attendance fees. In addition, all out-of-pocket expenses to attend Board and committee meetings and/or directly to conduct the business of the Board of Directors are reimbursed. There are no fees paid for service on committees or for any meetings conducted telephonically.

Responsibilities of the Board of Directors

In general, the responsibilities of the Board of Directors include:

- Governance in accordance with the laws of incorporation, State of California
- Governance as detailed in the corporation's articles and bylaws
- Corporate compliance
- Operating the corporation within the guidelines and regulations of the Securities and Exchange Commission
- Maintaining and operating within the prescribed system of "Duty of Care and Conflict of Interest"
- Fiduciary responsibilities, including serving *en-masse* as the company's Finance Committee, specifically in relation to budget review and approval (operating and capital) rate-determination, engagement of independent auditors, engagement of investment manager(s), and determination of investment policy and strategy.

Since 2005, the Board has elected to voluntarily and fundamentally comply with the Sarbanes/Oxley law governing fiscal and audit matters of the corporation.

Committees of the Board

During Fiscal Year 2011, the Board of Directors continued to work through three standing committees: (a) Executive Committee, (b) Business Development and Assessment Committee, and (c) Audit Committee. The full Board serves as the Finance Committee with specific responsibility for Budget review and approval and rate determination. Meetings of the full Board always include executive sessions without management present, as do certain meetings of committees (e.g. Audit and Executive).

Executive Committee

The primary responsibilities of the Executive Committee include:

Recommending to the full Board of Directors board organization matters including:

- New Directors
- Officers
- Fee Structure

- Committees and Committee Membership
- Resident Representation Structure

The Executive Committee also is solely responsible, consistent with the current bylaws, for the oversight of the Office of the Chief Executive Officer, including reviews of compensation and the incumbent's performance, and engaging outside and independent consultation for comparative analyses and assisting in the determination of remuneration in accordance with the approved Compensation Philosophy, policies, and practices and applicable laws governing not-for-profit compensation.

The Executive Committee takes all actions deemed necessary and appropriate between regular or special meetings of the Board of Directors, except for those items expressly reserved for the full Board by California corporate law and the corporation's bylaws.

The Executive Committee authorizes release of quarterly financial statements as necessary.

Business Development and Assessment Committee

The primary responsibilities of the Business Development Committee include:

- Capital and asset utilization and planning
- New business development review and recommendations
- Risk management
- Investment oversight and management, including meetings with investment manager(s), reviewing and recommending investment strategies, policy and manager(s) for consideration/approval by the Board of Directors.

Audit Committee

The Audit Committee reviews and recommends approval of the annual audit to the Board of Directors and recommends to the Board of Directors the appointment of the independent auditing firm. Once the independent auditing firm has been selected by the Board of Directors, the Audit Committee engages the approved auditing firm and reviews the audit scope of work and fee structure consistent with the approved Audit Committee Charter. In addition, the Audit Committee issues an annual report to the full Board summarizing the work of the committee and highlighting any unusual issues brought to the committee.

Relationship with External Auditors

Following conclusion of the audit for FYE 2010, the Audit Committee entered into the annual process of reviewing the audit engagement. Charged by the Board with the responsibility to engage the auditors for FYE 2011, and upon full review of the proposed plan for conducting the audit for FYE 2011, the Audit Committee engaged BKD as the independent public accounting firm to audit the financial statements for the Fiscal Year ending March 31, 2011. This engagement decision was reported to and received affirmation from the Board of Directors.

Relationships Among Directors and Executive Officers

There are no family relationships among any of the Directors or executive officers of the corporation.

Loans to Directors, Officers and Employees

There are no loans from the corporation to any of the Directors, executive officers or employees.

Management

As noted previously, three management changes occurred effective April 1, 2009. Mr. Gary Wheeler, who served with Mr. Swales (since the inception of Front Porch as a consolidating entity in 1999) as a Co-CEO until March 31, 2009 assumed the role of CEO in April of 2009 and has served continuously in that capacity since that date. Mort Swales, who served as a Co-CEO since the inception of Front Porch as a consolidating entity in 1999 and until March 31, 2009, continued his service throughout the year as Special Counsel to the Office of the CEO. In this capacity, Mr. Swales chaired the Front Porch Development Council as discussed earlier in this document. William Jennings, Jr., who serves as the President of the Front Porch Development Company and as the President of Front Porch Active Adult Communities, served also in the capacity of Chief Strategy Development Officer throughout FY 2010-2011, and provided executive leadership to the unincorporated Front Porch Center for Strategic Development *and Creative Business Solutions*.

Ms. Roberta Jacobsen continued to serve as President of Front Porch Communities and Services. Ms. Mary Miller served as the Chief Financial Officer for the Front Porch family of companies. Ms. Kari Olson, Chief Information Officer for the Front Porch family of companies, also served as the President of the Center for Technology Innovation and Wellbeing. And Ms. Nancy Spring continued her service as President of CARING Housing Ministries, responsible for the work in affordable housing.

Office of In-House Counsel

As noted previously, the Board created the Office of In-House Corporate Counsel with Mr. Joseph Butler continuing to serve throughout the fiscal year in that capacity.

Resident Representation

During Fiscal Year 2010 – 2011, as is customary, the Resident Representation practices were reviewed by the Executive Committee and Board and continued without change.

In addition to the eleven Directors, a Resident representative [Resident Organization President] is elected annually by peer residents from each community owned by Front Porch to attend regular meetings of the Board of Directors in compliance with Section 1771.8 of the California Health and Safety Code; Continuing Care Contract Statutes; Chapter 10 of Division 2, excluding the base-re-use communities, the affordable housing communities managed by the FPCS affiliate, CARING Housing Ministries, and the Front Porch affiliate, Sunny View Lutheran Home.

The **Resident Representatives** are responsible for assessing, representing, and voicing the consumer perspective to each other, to the Directors, and to senior management. Resident representatives also are charged with the responsibility of conveying and representing actions of the Board of Directors in a fair manner to the residents of the community from which they have been elected. Additionally, resident representatives attend the Presidents Forums that occur before each Board meeting.

Each elected Resident representative must also sign a *Duty of Care and Conflict of Interest Statement*. See Appendix C attached.

Duty of Care Conflict and of Interest Statements are also filed each year by the senior management of FPCS.

Organizational Accountability

The Organizational Accountability Group reports directly to the Office of the CEO, and in compliance with Sarbanes Oxley requirements also has direct-line reporting to the Audit Committee relative to claims of fraud. This Office also is responsible for monitoring the corporation's Service and Social Responsibilities, including assessment of the quality of all services provided, compliance with statutes and regulations, oversight of the Ethics Services, Values Integration and Mission Effectiveness, and assessment of employee satisfaction. Each year an Annual Accountability Report is issued detailing the results of the corporation's fulfillment of its Social and Service responsibilities. The latest report is available on the company's website: www.frontporch.net.

During FY 2009 the Board of FPCS authorized management to implement an accountability assessment program, *Winner's Circle*, to replace the accreditation process known as CCAC/CARF in response to unfavorable evaluations of the CCAC/CARF program by residents and staff at the community and corporate levels of the organization. The replacement program was designed in consultation with a national task force of independent industry experts with diverse backgrounds and experience and endorsed by the Board of Directors for implementation. *Winner's Circle* continued to evolve during FY 2010-2011 with very favorable response from residents and management. Subsequent to conclusion of the fiscal year, a director was engaged to provide primary oversight to the *Winner's Circle* Program. The current director is Mr. Robert Chillison.

MANAGEMENT OF THE COMPANY

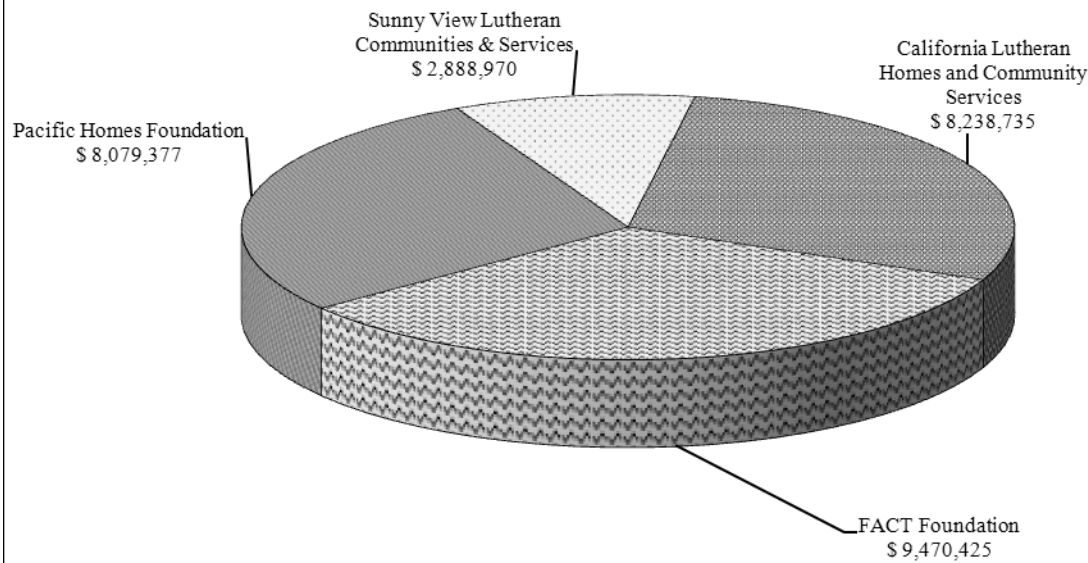
The Office of the CEO

The Office of the CEO fulfills the duties of the Chief Executive Officer with oversight of the whole of the Front Porch family of companies, as described above, including governance and board management, strategic implementation, new business development, regulatory compliance, management oversight of all affiliates/subsidiaries, and relationships with the Foundations/Predecessor Organizations. The Board considers leadership continuity, capacity and depth a critical success factor in the life of all of Front Porch.

The Front Porch family of companies, including work in affordable housing, provided residential, development, and related services across more than 50 communities in four States during FY 2010-2011 and in Puerto Vallarta, Mexico.

In addition to the executive oversight noted above, the corporation also provides management services to four foundations/predecessor organizations whose combined size is reflected in the chart below. The CEO and the Special Counsel to the CEO each serve on the board and are the respective President's/CEO's of two of the foundations/predecessor organizations.

Total Assets of Foundations as of 3/31/10



MANAGEMENT STRUCTURE

Management services and capacities are detailed in Appendix D.

COMPENSATION

Not-for-profit management remains significantly more critical and complex than in eras past. The consolidation originally achieved by Front Porch Communities and Services, and the subsequent re-positioning which occurred in July of 2006, along with changes implemented during FY 2009-2010, are innovative, strategically significant, and are in response to the intensified competitiveness of the industry. Over the last sixty years, this arena of human service delivery has seen a dramatic shift in market share from the not-for-profit sector to the for-profit sector. As a result, the entire “industry” is under scrutiny by consumers and a myriad of regulatory entities.

In such an environment, the Front Porch family of companies recognizes the critical importance of having a compensation approach that remains competitive, flexible, and innovative, while meeting appropriate legal guidelines to ensure the ability to motivate and retain the highest quality executives. To remain competitive, it is critical to have the ability through compensation practices to attract and *successfully* recruit and retain top management talent from both the not-for-profit and for-profit sectors; a goal not easily achieved given the inability to offer a “shareholder” position [stock-options, etc.] compared with the for-profit competition.

During FY 2008-2009 the Executive Committee of the Board worked with Watson Wyatt Worldwide [now Towers Watson] to review the Compensation Philosophy and make recommendation as to prudent changes to continue to achieve the goals cited above. Recommended changes (Executive Pay Strategy

Overview) approved by the Executive Committee were taken to the Board for approval during FY 2009-2010 with implementation initiated in FY 2010-2011.

PHILOSOPHY

Front Porch Communities and Services is a not-for-profit organization dedicated to providing quality, accessible, and affordable human services to the communities in the markets it serves. FPCS is a unique company seeking to create an alternative for human service organizations (primarily, but not exclusively, not-for-profit) to work in a consolidated system providing the advantages of economies of scale while maintaining and utilizing the individual identities, constituencies and heritages of the consolidating organizations.

The FPCS vision and primary goal is to grow through acquisition, affiliation and/or consolidation with other appropriately positioned organizations, significantly in (but not limited exclusively to) the eldercare arena and to develop through the Front Porch family of companies unique communities, capacities and services that meet changing consumer needs. In addition, all of Front Porch seeks to operate with the financial discipline of a well managed company(ies) and with an emphasis on sustaining commitment to the quality and affordability of services characteristic of the histories of the founding organizations, as well as other participating organizations. This performance-commitment and operating-challenge is impacted by the fact that Front Porch Communities and Services has chosen to use tax-exempt bond financing for most of its capital requirements and growth to date.. Consequently, it has the obligation to maintain its performance in accord with the parameters established by its bond covenants and other agreements with the investor community.

Additionally, FPCS has the critical obligation to preserve its tax-exempt/charitability status and, as a result, has certain expectations as to social accountability. Part of the company's social accountability is met by the organization's commitment to the provision of affordable and accessible housing and related services through its wholly owned affiliates, CARING Housing Ministries, Inc. and Sunny View Lutheran Home. Additionally, FPCS beginning in FY 2009-2010 began funding annually through the budgeting process a financial commitment for pursuing social accountability. Senior management is charged with effectively implementing this program as part of the assurance that exemption/charitability will be retained.

Guiding Principle

The goal of the compensation program for all of Front Porch is to help ensure the ability to attract, motivate and retain the highly talented individuals the Front Porch family needs to be an industry leader in a highly competitive environment. The program is developed and updated with independent compensation consultants to support the company's commitment to preserving and expanding not-for-profit human services and to effectively pursue the company's(ies') mission(s) and achieve business and growth strategies.

Aspects of the program include the following principles:

- Compensation related to performance

- Incentive compensation as a significant part of senior management total compensation to achieve the aggressive goals of the organization
- Where determined appropriate, and for the betterment of the organization as a whole, and to assure continuity and certain skill sets, retention compensation
- Compensation practices that balance short and long-term objectives, improve the "Mission Value TM" of the organization and reward individual, team, and corporate performance

Executive Pay, Benefits and Perquisites Strategy

OBJECTIVES

Provide a total pay, benefits and perquisites program that:

- Is simple to understand
- Compensates executives fairly based on their role and responsibilities and in consideration of the executive talent market
- Provides stable income through base salary (the key for attraction and retention)
- Encourages performance and retention through variable incentive pay that is aligned with Front Porch's values and priorities
- Provides adequate individual protection and supports business needs through appropriate benefits and perquisites

Make Decisions about executive pay, benefits and perquisites on an aggregated basis

- Focus on overall market position and cost with a view to both (a) all elements of pay, benefits and perquisites, and (b) all executives of a similar role or level ...
- However, recognize that individual levels should reflect factors such as experience and performance

MARKET FOR TALENT

U.S. Based organizations from which Front Porch may recruit executives (or to which it may lose executives):

- Similar size and complexity to Front Porch
- In not only the not-for-profit sector but also the for-profit sector
- In similar industries, including health services, human services, and retirement and assisted living communities

TARGET OVERALL MARKET POSITIONING

Maximum Total pay, benefits and perquisites: 75th percentile of the defined executive talent market

- **Base Salaries:** 50th percentile (but allow for individual differentiation as warranted)
- **Maximum Total Cash Compensation** (base salary plus maximum at-risk compensation when extraordinary performance is achieved): 75th percentile; may be lower when performance meets or falls below expectations
- **Benefits and perquisites:** 50th percentile

Administration

In accordance with governing documents, the Compensation approach for senior management is under the sole jurisdiction of the Executive Committee of the Board of Directors. The outside directors serving on the Executive Committee set the overall compensation principles and policy of the company and review the entire compensation program at least annually, with independent comparative review bi-annually. The Committee regularly engages outside, independent consultants in setting and determining whether the amounts and types of compensation the company pays its senior management is competitive, appropriate, and consistent with legal guidelines governing compensation of senior executives in not-for-profit corporations.

The Executive Committee of the Board of Directors establishes the compensation plan, including salary ranges, for members of the senior management team reporting to the Office of the CEO.

The latest independent salary survey related to senior management positions and resulting recommendations was undertaken in the Spring of 2011.

The Directors of FRONT PORCH Communities and Services [as of January 2011]

TERM ROSTER

<i>Timothy Schwab</i>	<i>Class A – 12/31/11 Position #1 Appointed 01-16-06</i>	<i>Cindra Syverson</i>	<i>Class B – 12/31/12 Position #7 Appointed 01-16-07</i>
<i>Lynn North</i>	<i>Class A – 12/31/11 Position #2 Appointed 07-15-04</i>	<i>Elyse Weise</i>	<i>Class C – 12/31/13 Position #8 Appointed 01-17-08</i>
<i>William Witte</i>	<i>Class A – 12/31/11 Position #3 Appointed 10-18-10</i>	<i>Denzil Suite</i>	<i>Class C – 12/31/13 Position #9 Appointed 10-18-10 [effective 1-1-2011]</i>
<i>Susan Whittaker</i>	<i>Class B - 12/31/12 Position #4 Appointed 01-21-10</i>	<i>Robert Chillison</i>	<i>Class C – 12/31/13 Position #10 Appointed 01-16-07</i>
<i>Daniel Sudit</i>	<i>Class B – 12/31/12 Position #5 Appointed 01-16-07</i>	<i>Scott Larson</i>	<i>Class C 12/31/13 Position #11 Appointed 10-18-10 [effective 1-1-2011]</i>
<i>Curt Ketterer</i>	<i>Class B – 12/31/12 Position #6 Appointed 01-16-07</i>	<i>Gary Wheeler</i>	<i>Class D No Term Limit</i> <ul style="list-style-type: none"> • <i>CEO serves as non-Director with voice and no vote</i>
		<i>Roberta Jacobsen</i>	<i>Class D No Term Limit</i> <ul style="list-style-type: none"> • <i>President serves as non-Director with voice and no vote</i>

The Directors of FRONT PORCH Communities and Services Biographies

Class A Directors (Terms Expiring on December 31, 2011)

Lynn B. North

[Initial Appointment: July 15, 2004]

Ms. North has been in the top 10% as a realtor for the past 6 years with the prestigious Alain Pinel Realtors in the Bay Area. She has served as coordinator and director of programs and is currently in various leadership positions at Immanuel Lutheran Church in Los Altos, California. Previously, she was director of telecommunications business development at Network Appliance. Her background in sales, product strategy, channel marketing and organizational development included multiple senior level positions through a long tenure at SBC Pacific Bell. She holds a Bachelor of Science degree in organizational behavior from the University of San Francisco and accounting and financial management certificates from the Wharton School of Business. Ms. North has served on numerous boards of directors and has received various recognitions for her community service, including the Rotary International Paul Harris Award in 2000.

Timothy Schwab

[Initial appointment: January 16, 2006]

Dr. Schwab, M.D., has returned to the Board after serving from 1999 through 2004. Dr. Schwab is Chief Medical and Informatics Officer for SCAN Health Plan. He previously practiced Internal Medicine in Long Beach. Dr. Schwab holds a Bachelor's Degree from Colorado State University, a Medical Degree from University of Colorado and a Masters in Health Care Administration from University of LaVerne. He is a Fellow of the American College of Physicians, a member of the American Medical Association, the American College of Physician Executives, and the California Association of HMO's. Dr. Schwab has served on the Board of Trustees and as Past President of the California Society of Internal Medicine. He has been appointed to the California Olmstead Committee and is a member of the California 1115 Waiver Stakeholder Committee.

William B. Witte

[Initial appointment: October 18, 2010]

Mr. Witte has been with Caruso Affiliated, one of the nation's preeminent retail and mixed-use real estate developers, owners, and operators, for nearly 15 years. Initially as EVP Finance, then as Chief Investment Officer, Mr. Witte has been responsible for overseeing all of the investment matters of Caruso Affiliated. Mr. Witte has over 25 years of experience in the real estate, financial, and capital markets. Before joining Caruso, Mr. Witte worked in investment banking, merchant banking, corporate finance, private banking, brokerage, and investment management for UBS, Bankers Trust Company, and Shearson Lehman Brothers. Mr. Witte is active in several local and regional charities, and he has been the Chairman of events for such institutions as the Salvation Army. He has been a long-standing member of the Board of Trustees for the House Research Institute, where he has served as Chairman of the Development, Audit, Finance, and Investment committees. Mr. Witte has been a guest speaker and panelist at numerous conferences, including those sponsored by California State University, Northridge, and University of California, Los Angeles. Mr. Witte graduated with top honors ("With Distinction") from Stanford University with a Bachelor of Science Degree in Petroleum Engineering.

Class B Directors (Terms Expiring on December 31, 2012)

Susan Whittaker

[Initial Appointment: January 21, 2010]

Susan Whittaker currently serves as Governance Counsel of St. Joseph Health System, its affiliated ministries and its sponsor, St. Joseph Health Ministry. Susan joined SJHS in 1986 as corporate counsel, after having served the ministry as outside counsel for two years. During the time she served as vice president of legal services, Susan formalized the first SJHS compliance program and served as its first chief compliance officer. Susan served as general counsel for twelve years, during which time the legal and compliance departments grew from a staff of four to a staff of twenty. Also, while serving as general counsel, Susan supported SJHS during significant growth; managing mergers and acquisitions, including the merger that created Covenant Health System as well as the transition to new sponsorship through creation of St. Joseph Health Ministry, the new public juridical person or PJP that assumed sponsorship of SJHS in 2008.

Susan has degrees in nursing, health care administration and law; and is currently enrolled in a masters program for Theology at the Aquinas Institute. Prior to joining the St. Joseph ministries, she was a neonatal intensive care nurse and started the first perinatal clinical research center in the United States. She also worked in private practice with the healthcare law firm of Carpenter, Higgins & Simonds in San Francisco, California. She is a frequent speaker on health law matters and has had over twenty articles published since 1980.

Curt Ketterer

[Initial appointment: January 16, 2007]

Mr. Ketterer is Partner and Chief Operating Officer of First Quadrant, an institutional investment advisor firm based in Pasadena, CA. He is First Quadrant's partner in charge of operations, finance, and administrative functions, and is one of two partners who make up the firm's Executive Office. Previously, Mr. Ketterer served as chief financial officer and treasurer for First Quadrant. Mr. Ketterer has more than twenty years experience in financial and investment advising, including service as senior vice president of finance at Trust Company of the West and, prior to that, as chief financial officer of Security Pacific Investment Group. He was previously a certified public accountant, spending nine years with Arthur Andersen LLP. Mr. Ketterer holds a Bachelor of Science degree in accounting from California State University, Long Beach, and earned an MBA in finance from Loyola University in Los Angeles.

Daniel Sudit

[Initial appointment: January 16, 2007]

Mr. Sudit is the Regional Director of Planning Services and a Wealth Advisor with Harris Private Bank, which provides comprehensive financial services to affluent clients. Mr. Sudit serves as an advisor to high net worth clients, assembling the appropriate team of professionals to provide private banking, financial planning, investment management, wealth transfer and estate planning solutions. He joined Harris in 2008 and has more than 12 years experience in financial services. Mr. Sudit earned his bachelor's degree from University of California at Berkeley, a juris doctor degree from New England School of Law and a master of law in taxation from Georgetown University Law Center. He serves as chair of Front Porch Communities and Services and also sits on the board of two other non-profits; Homesight and the Seattle Public Library Foundation.

Cindra Syverson

[Initial appointment: January 16, 2007]

Ms. Syverson is the Corporate VP/Chief Human Resources Officer for Providence Health and Services. Providence is a Seattle-based Healthcare organization with over 120 hospitals and non-acute facilities in Alaska, Washington, Montana, Oregon, and California. Ms. Syverson has accountability for Human Resources for over 51,000 employees at Providence Health & Services. Prior to her current position, she was chief human resources officer for Providence Health and Services, California Region. Prior to joining Providence, Ms. Syverson was president and lead consultant with Syverson Consulting, Inc., a human resources consulting practice designed to support organizations in the improvement of workplace practices and alignment of human resource goals with the company's mission, vision and values. Ms. Syverson also served as senior vice president St. Joseph Health System for eight years and held the position of vice president, human resources for seven years for FHP healthcare in California. Ms. Syverson holds a Bachelors Degree from California State University, Long Beach and is certified in Employee Relations Law from the Institute of Applied Management and Law. She completed executive graduate studies at Stanford University and has served on numerous not-for-profit boards of directors in the state of California.

Class C Directors (Terms Expiring December 31, 2013)

Robert Chillison

[Initial appointment: January 16, 2007]

Mr. Chillison returned to the Board having initially served from 1999 through 2005. He was the Board-elected Chair of Front Porch for Fiscal Years 2000-2001 and 2001-2002. Mr. Chillison is a First Vice President for Comerica Bank in the Long Beach Middle Market Group and served in a similar capacity at Imperial Bank for 19 years before Imperial was purchased by Comerica. Previously he served in commercial lending, credit and branch operations positions for Comerica Bank in Detroit, Michigan. He holds both a Bachelors Degree and a Masters Degree from Wayne State University, Detroit, MI. Both degrees are in Business Administration. Mr. Chillison has served on numerous community Boards. He has served on and currently chairs the Board of Directors for California Lutheran Homes *and Community Services*.

Scott Larson

[Initial appointment: October 18, 2010 – effective 1-1-2011]

Mr. Larson is the Executive Director of HomeAid Orange County, the founding chapter of a national non-profit organization with the mission to build and maintain dignified housing where homeless families and individuals can rebuild their lives. Recently, Larson added to his roles Managing Director of HomeAid Inland Empire. He is also a member of the board of directors of HomeAid America and chairman of the HomeAid America chapter advisory council. Established in 1989 by the Orange County Chapter of the Building Industry Association of Southern California (BIA/OC), HomeAid acts as the housing developer and liaison between service providers, community volunteers, builders and specialty contractors. Mr. Larson has more than 26 years of professional experience in the non-profit and building industries. He holds a Masters in Business Administration from the University of Phoenix, a Bachelor of Arts degree in education from Biola University and certificate in fundraising from the University of California, Irvine. Mr. Larson is a strong advocate of homeless initiatives in Orange County and serves as a member of the County of Orange Ending Homelessness 2020 Board and has

previously been a Commissioner for the Housing and Community Development Department of Orange County. He also actively serves as a leadership coach in the Fieldstone Foundation Executive Coaching Network.

Denzil Suite

[Initial appointment: October 18, 2010 - effective 1-1-2011]

Dr. Denzil Suite, Ph.D. is the Associate Vice President of Student Affairs at the University of Southern California. In that capacity, he has oversight responsibilities for over 20 departments and hundreds of employees in the division. In addition to his many responsibilities as a senior administrator in the division, Dr. Suite serves as an Associate Professor for Clinical Education in the master's program at the USC Rossier School of Education. He currently teaches courses on Student Development Theory, the History of Higher Education, and on Intervention Strategies. Dr. Suite has been invited to speak about educational issues at several national conferences and at universities around the country. He has conducted workshops for the Santa Monica Rape Treatment Center, the California Campus Police Officers Association, Association of Higher Education Attorneys, and several other groups. He currently serves on the advisory board for the Legal Issues in Higher Education Conference. Denzil Suite also owns and manages StarFleet Realty, a residential real brokerage serving the greater Los Angeles region.

Elyse Weise

[Initial appointment: January 17, 2008]

Ms. Weise is the Chief Operating Officer of The Senex Group, an integrated financial services firm headquartered in Woodland Hills, California. Ms. Weise has been with The Senex Group since 2003. The firm specializes in the design, implementation and administration of qualified retirement plans for clients nationwide. For over 20 years Ms. Weise has been in the benefits industry. She began her career working in the Institutional Trust Department of First Interstate Bank of California/Wells Fargo Bank, first as an administrator, then Compliance Officer and eventually became a Vice President and business manager. Ms. Weise was a regional manager for a number of years before leaving the trustee and investment manager side of the business and moving to the Third Party Administrator side. Ms. Weise has also served for a number of years on the Board of Directors and Executive Committee of her synagogue. Ms. Weise is an ERISA attorney. She graduated from Pitzer College, Claremont, California and Southwestern University School of Law, Los Angeles, California.

Office of the Chief Executive Officer

Chief Executive Officer

Gary Wheeler

[Initial appointment: January 12, 1999]

Mr. Wheeler serves as Chief Executive Officer for Front Porch and as President/CEO for California Lutheran Homes *and Community Services*. Previously, Mr. Wheeler was President/CEO of Lutheran Social Services of Southern California. Mr. Wheeler also served as President/Chief Executive Officer of The Paragon Foundation, Alhambra, CA. Prior to service in California, Mr. Wheeler held various positions in Michigan, including President/CEO of Community Opportunity Center and Director of the Office of Governmental Affairs and Director of the Division for Services to persons with Developmental

Disabilities, Lutheran Social Services of Michigan. Mr. Wheeler holds a Bachelors Degree in Psychology from Wayne State University, Detroit, MI and a Masters Degree from Wittenberg University, Springfield, OH. He completed post-graduate work towards a Ph.D. in organizational development at Wayne State University. Mr. Wheeler was the recipient of various scholastic and civic awards, is a member of various public associations and has served on the Board of Directors for numerous nonprofit organizations, including currently the John Douglas French Alzheimer's Research Foundation.

Special Counsel to the Office of the CEO

Mort Swales

[Initial appointment: April 1, 2009]

Mr. Swales served as Co-Chief Executive Officer for Front Porch from January 1999 through March 31, 2009, and serves as President of the Pacific Homes Foundation. Prior to service as President/CEO of Pacific Homes, Mr. Swales was employed by Western Medical Enterprises, Inc., Hayward, CA as Regional Vice President. Previously, he served as Business Manager for Hillside Community Hospital, Ukiah, CA and Administrator, Coastal Care Centers, Eureka, CA. Mr. Swales holds a Bachelor of Arts Degree in Business Administration from California State University, Humboldt and has completed graduate courses in Public Administration, Golden Gate University. Mr. Swales is past President of the California Association of Homes and Services for the Aging and served on the Board of Directors for the American Association of Homes and Services for the Aging. Mr. Swales also served as a trustee of the Hospitaller Brothers Healthcare.

President

Roberta Jacobsen

[Initial appointment: July 2006]

Mrs. Jacobsen has over thirty years of experience in the long term health care and retirement housing industry. She joined Pacific Homes in 1978 as a consultant and has subsequently worked in administration and management at the facility and corporate level. Mrs. Jacobsen holds Masters degrees from California State University at Los Angeles and an M.B.A. from Pepperdine University. She is actively involved in Aging Services of California where she is Past Chair of the Board of Directors and represented California on the House of Delegates of the American Association of Homes and Services for the Aging.

March, 2011

FRONT PORCH

DUTY OF CARE
AND
CONFLICT OF INTEREST
DIRECTORS

I hereby certify that I have carefully read and hereby acknowledge receipt of a copy of the Duty of Care and Conflict of Interest Statement attached hereto (the "Statement"). In signing this instrument, I have considered not only the literal expression of the policies encompassed in the Statement, but also what I believe to be the spirit of such policies as well. I hereby certify that except as hereinafter stated, to the best of my knowledge, after having made reasonable inquiry, neither I nor any of my relatives by blood or marriage have any direct or indirect interest that conflicts with the interests of Front Porch.

The exceptions are as follows: (If none state "none".)

If any situation should arise in the future, which, as discussed in the Statement, may involve me or my relatives by blood or marriage in a conflict of interest, I will promptly disclose the circumstances to the Chair of the Board or CEO of Front Porch.

Dated: _____

Name: _____

Signature: _____

DUTY OF CARE
AND
CONFLICT OF INTEREST STATEMENT
FOR THE BOARD OF DIRECTORS
OF
FRONT PORCH

(1) Duty of Care

A director shall perform the duties of a director, including duties as a member of any committee of the Board upon which the director may serve, in good faith, in a manner such director believes to be in the best interests of the corporation and with such care, including reasonable inquiry, as an ordinarily prudent person in a like position would use under similar circumstances.

In performing the duties of a director, a director shall be entitled to rely on information, opinions, reports or statements, including financial statements and other financial data, in each case prepared or presented by:

- (a) One or more officers or employees of the corporation whom the director believes to be reliable and competent in the matters presented;
- (b) Counsel, independent accountants or other persons as to matters which the director believes to be within such person's professional or expert competence; or
- (c) A committee of the Board upon which the director does not serve, as to matters within its designated authority, which committee the director believes to merit confidence, so long as, in any such case, the director acts in good faith, after reasonable inquiry when the need therefore is indicated by the circumstances and without knowledge that would cause such reliance to be unwarranted.

(2) Actions to Benefit Corporation

All actions of a director affecting the corporation shall be for its best interests and not for his or her personal advantage. A director should conduct all such activities in such a way that no conflict will arise between other interests and the interests of the corporation. Even the appearance of such conflicts should be avoided.

(3) Gifts, Gratuities, etc.

No director shall accept any fee, commission, gift, loan, remuneration or favor of any material kind either with respect to any transaction to which the corporation is a party or which might influence his or her actions affecting the corporation.

(4) Loans

The corporation shall not make any loan of money or property to or guarantee the obligation of, any director or officer; provided, however, that this corporation may advance money to a director or officer of the corporation or any subsidiary for expenses reasonably anticipated to be incurred

in performance of the duties of such director or officer so long as such individual in performance of the duties of such director or officer would be entitled to be reimbursed for such expenses absent that advance.

(5) Outside Interests

Directors shall scrupulously avoid any employment, investment, or other activity, which might conflict with the interests of the corporation.

(6) Self-Dealing Transactions

The corporation shall not engage in any self-dealing transactions. A self-dealing transaction is a transaction to which this corporation is a party and in which one or more of its directors and/or officers has a financial interest or is an employee or holds an equity or debt interest in a corporation, partnership or association that has an interest in the transaction. A self-dealing transaction shall also include transactions as described above that involve the blood relatives or spouse of a board member or officer.

(7) Confidential Information

Directors should maintain in confidence information learned during the course of their activities on behalf of the corporation when such information is not generally available to the public. This principle does not preclude public disclosure of information which is properly in the public domain or which should be released in fulfilling the corporation's accountability to the public.

(8) Interpretation

The potential conflicts of interest referred to in this Statement are by way of example only and are not intended to be an exhaustive list of all transactions by which the corporation may be affected or injured. It is assumed that directors will recognize other analogous situations in which conflicting interests may arise, and that directors will comply with their duty to bring such situations to the attention of the Chair of the Board or CEO of the corporation. The fact that directors may have one of the interests described in this Statement does not necessarily mean that a conflict exists, or that the conflict, if it exists, is of such a material nature to be of practical importance.

However, it is the policy of the Board that the existence of ANY interest described herein shall be disclosed before any transaction is consummated. Directors have a continuing responsibility to scrutinize any transaction in which they are directly or indirectly involved for potential conflicts of interest and to make a full disclosure to the Chair of the Board or CEO of the corporation who shall bring the matter to the attention of the Executive Committee. The Executive Committee shall then determine whether a conflict of interest exists and shall take appropriate action. All decisions regarding conflicts of interest rest in the sole discretion of the Executive Committee in the exercise of its ultimate judgment of the best interests of the corporation.

RESPONSIBILITIES, DUTY OF CARE AND CONFIDENTIALITY
AND
CONFLICT OF INTEREST STATEMENT
FOR
RESIDENT REPRESENTATIVES

I hereby certify that I have carefully read and hereby acknowledge receipt of a copy of the Responsibilities, Duty of Care and Confidentiality and Conflict of Interest Statement attached hereto (the "Statement"). In signing this instrument, I have considered not only the literal expression of the policies encompassed in the Statement, but also what I believe to be the spirit of such policies as well. I hereby certify that except as hereinafter stated, to the best of my knowledge, after having made reasonable inquiry, neither I nor any of my relatives by blood or marriage has any direct or indirect interest that conflicts with the interests of Front Porch.

The exceptions are as follows: (If none state "none".)

If any situation should arise in the future, which, as discussed in the Statement, may involve me or my relatives by blood or marriage in a conflict of interest; I will promptly disclose the circumstances to the Chair of the Board or the CEO of Front Porch.

Dated: _____

Name

Resident Representative

Position

RESPONSIBILITIES, DUTY OF CARE AND CONFIDENTIALITY
AND
CONFLICT OF INTEREST STATEMENT
FOR THE RESIDENT REPRESENTATIVES
OF
FRONT PORCH

(1) Responsibilities of Resident Representatives

The responsibilities of Resident Representatives are described in some detail in the document attached hereto as Exhibit “A”, entitled “Responsibilities of Resident Representatives to the Board of Directors of Front Porch.” The text of Exhibit “A” is not restated in this document but shall be considered incorporated in this document as if set forth at length herein.

(2) Confidentiality and Duty of Care with respect thereto

- (a) Confidentiality Resident Representatives should be mindful of the importance of keeping confidential all information which is indeed confidential. Resident Representatives may share information from board meetings with other residents, unless the information is confidential or doing so would violate fiduciary duties to the corporation.
- (b) Duty of Care In the context of the maintenance of confidentiality, Resident Representatives shall perform their duties in good faith and with such care, including reasonable inquiry, as an ordinarily prudent person in a like position would use under similar circumstances.

(3) Gifts, Gratuities, etc.

No Resident Representative shall accept any fee, commission, gift, loan, remuneration or favor of any material kind either with respect to any transaction to which the corporation is a party or which might influence his or her actions affecting the corporation.

(4) Loans

The corporation shall not make any loan of money or property to or guarantee the obligation of, any Resident Representative; provided, however, that the corporation may advance money to a Resident Representative of the corporation for expenses reasonably anticipated to be incurred in performance of the duties of such Resident Representative so long as such individual in performance of the duties of such Resident Representative would be entitled to be reimbursed for such expenses absent that advance.

(5) Outside Interests

Resident Representatives shall scrupulously avoid any employment, investment, or other activity, which might conflict with the interests of the corporation.

(6)Self-Dealing Transactions

The corporation shall not engage in any self-dealing transactions. A self-dealing transaction is a transaction to which this corporation is a party and in which one or more of its directors and/or officers and/or Resident Representatives has a financial interest or is an employee or holds an equity or debt interest in a corporation, partnership or association that has an interest in the transaction. A self-dealing transaction shall also include transactions as described above that involve the blood relatives or spouse of one of the above individuals.

(7)Interpretation

The potential conflicts of interest referred to in this Statement are by way of example only and are not intended to be an exhaustive list of all transactions by which the corporation may be affected or injured. It is assumed that Resident Representatives will recognize other analogous situations in which conflicting interests may arise, and that Resident Representatives will comply with their duty to bring such situations to the attention of the Chair of the Board or the CEO of the corporation. The fact that Resident Representatives may have one of the interests described in this Statement does not necessarily mean that a conflict exists, or that the conflict, if it exists, is of such a material nature to be of practical importance.

However, it is the policy of the Board that the existence of ANY interest described herein shall be disclosed before any transaction is consummated. Resident Representatives have a continuing responsibility to scrutinize any transaction in which they are directly or indirectly involved for potential conflicts of interest and to make a full disclosure to the Chair of the Board or the CEO of the corporation who shall bring the matter to the attention of the Executive Committee. The Executive Committee shall then determine whether a conflict of interest exists and shall take appropriate action. All decisions regarding conflicts of interest rest in the sole discretion of the Executive Committee in the exercise of its ultimate judgment of the best interests of the corporation.

#50668

6-29-04



RESPONSIBILITIES OF RESIDENT REPRESENTATIVES
TO THE BOARD OF DIRECTORS OF
Front Porch*

Three groups of persons are specifically afforded the opportunity to regularly attend the meetings of the Board of Directors for Front Porch.

- The **Elected Directors** are legally responsible for the governance of the organization. They set policy, provide oversight and determine strategic directions.
- The members of **Senior Management** are responsible for executing Board policy, pursuing the strategic directions and providing management and oversight to operations.
- The **Resident Representatives** are responsible for assessing, representing, and voicing the consumer perspective to each other, to the Board members and to Senior Management. They also assist the Board and Senior Management in the interpretation of policy and strategic directions to the Residents at each **community**.

Common Responsibilities:

While each group comes to the table of the Board of Directors with distinct and specific areas of responsibility, there are certain responsibilities common to all. To a great extent, it is the mutual pursuit of the common responsibilities that will cause Front Porch to excel. Similarly, it is the mutual pursuit of the common responsibilities that will allow management of disagreement in behalf of the common good. These common responsibilities include:

- Assuring implementation of the vision and mission of Front Porch, in particular:
 - a) Preserving the not-for-profit heritage of doing good ... and ... doing it well (*Vision*),
 - and**
 - b) Creating a human service delivery system that makes a difference in the quality of life of those served (*Mission*).
- Adhering to and valuing the standards of partnership that characterize Front Porch as articulated in the document “Partnerships: A Way of Life.”
- Representing **all** residents and other service consumers served by Front Porch.
- Participating in such a way that the Core Values of Front Porch are assured.

- Honoring and maintaining the highest standards of confidentiality.
- Assisting in assuring the social responsibility of Front Porch.
- Being cognizant of, openly stating when necessary, and avoiding as best as possible matters involving conflict of interest, up to and including absencing oneself from direct conflicts of interest.
- Participating in discussions and decisions in ways that assist in assuring favorable financial performance for Front Porch *as a whole*.
- Reviewing written materials in advance of Board meetings.

Responsibilities Unique to Resident Representatives:

It is incumbent on the Resident Representatives who are elected to attend the meetings of the Board of Directors of Front Porch that they:

- Understand, respect and maintain the distinction between the role of elected Board members with all the attendant responsibilities and liabilities for governance *versus* the role of the Resident Representatives to assess and voice the consumer perspective and provide feedback to the Board and Senior Management.
- Assist the elected members of the Board of Directors and the Offices of the CEO and President in presenting Front Porch and the actions of its Board of Directors positively before the Presidents and All-Residents Forums and other gatherings of Residents.

The effectiveness of Front Porch is possible to the extent that each group (Board Members, Resident Representatives and Senior Management) understands its specific role and responsibilities, effectively pursues the same, and mutually fulfills the responsibilities common to all.

(*An excerpt from the document, “Resident Representation of the Board of Directors for Front Porch.”)

Revised:

4-29-99	6-4-99	8-22-02
5-11-99	1-7-02	7-1-04
3-31-09		

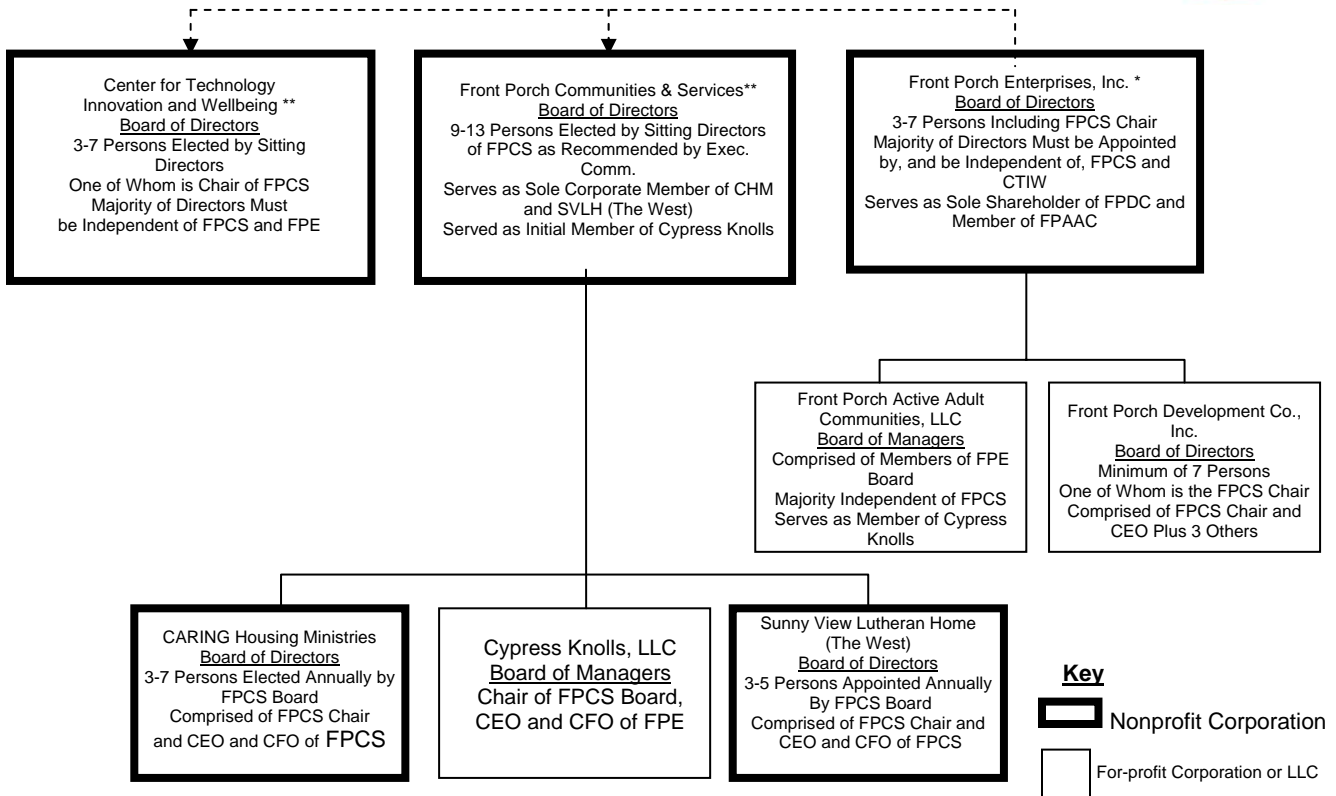
FRONT PORCH Family of Companies
Management Services

<u>Service</u>	<u>Staff</u>
• Financial Management	Mary Miller, Chief Financial Officer
• Information Services and Systems	Kari Olson, Chief Information Officer
• Business Development	Bill Jennings, President, FPDC
• Operations	
- Communities and Services [The Obligated Group]	Roberta Jacobsen, President, FPCS
- Active Adult Communities	Bill Jennings, Manager, FPAAC
- Affordable Housing and Services	Nancy Spring, President, CHM
- Technology Innovation Wellbeing	Kari Olson, President CTIW
- Strategy Development and Business Solutions	Bill Jennings, Director CSDBS
• Organizational Accountability: [Quality Assurance; Corporate Compliance; Ethics; Social Accountability; Winner’s Circle]	Terry Bluemer, Senior Vice President
• Human Resources	Desiree Burton, Senior Vice President
• Organizational Advancement: [Constituent Relations; Foundation Services; Branding; Public Relations]	Lee Ratta, Senior Vice President
• Legal Counsel	Joseph Butler, In-House Corporate Counsel
• Sales and Marketing	Joan Woodworth, Senior Vice President
• Office of the CEO	Gary Wheeler, CEO Mort Swales, Special Counsel

Front Porch Family of Companies [See organizational chart; Appendix E]:

FPCS	Front Porch Communities & Services
FPE	Front Porch Enterprises
FPAAC	Front Porch Active Adult Communities
FPDC	Front Porch Development Company
CHM	CARING Housing Ministries
SVLH	Sunny View Lutheran Home [The West]
CK	Cypress Knolls
CTIW	Center for Technology Innovation Wellbeing
CSDBS	Center for Strategic Development <i>and Business Solutions</i>

The Front Porch Family of Companies



* FPE serves as supporting organization to FPCS and CTIW
 ** Supported organization of FPE

Rev.1 (04/07/09)

Appendix E

Front Porch Communities & Services

Accountants' Report and Consolidated Financial Statements

March 31, 2011 and 2010



Front Porch Communities & Services
March 31, 2011 and 2010

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Independent Accountants' Report on Financial Statements and Supplementary Information

Board of Directors
Front Porch Communities & Services
Burbank, California

We have audited the accompanying consolidated balance sheets of Front Porch Communities & Services (the Corporation) as of March 31, 2011 and 2010, and the related statements of operations, changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Front Porch Communities & Services as of March 31, 2011 and 2010, and the results of its operations, the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our 2011 audit was conducted for the purpose of forming an opinion on the 2011 basic consolidated financial statements taken as a whole. The accompanying supplementary consolidating information is presented for purposes of additional analysis of the 2011 basic consolidated financial statements rather than to present the financial position and results of operations of the individual companies, and is not a required part of the 2011 basic consolidated financial statements. The consolidating information has been subjected to the procedures applied in the audit of the 2011 basic consolidated financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the 2011 basic consolidated financial statements taken as a whole.

BKD, LLP

July 22, 2011

Front Porch Communities & Services
Consolidated Balance Sheets
March 31, 2011 and 2010
(In Thousands)

Assets

	2011	2010
Current Assets		
Cash and cash equivalents	\$ 17,265	\$ 13,017
Short-term investments	1,904	1,931
Assets whose use is limited – required for current liabilities	12,660	32,377
Patient accounts receivable, net of allowance; 2011 – \$461, 2010 – \$630	6,178	6,858
Prepaid expenses and other	2,120	1,577
Assets held for sale	3,073	-
Total current assets	43,200	55,760
Investments		
Assets whose use is limited, net of current portion	27,716	31,675
Long-term investments	147,432	104,396
Derivative instruments	1,600	1,031
Investment in joint venture	1,263	1,263
Total investments	178,011	138,365
Property and Equipment, Net	287,891	295,057
Other Assets		
Notes receivable	-	12,500
Interest in net assets of Pacific Homes Foundation	9,147	6,910
Receivables from supporting organizations	10,396	10,063
Deferred costs, net of accumulated amortization of \$5,379 in 2011 and \$4,507 in 2010	10,929	11,519
Total other assets	30,472	40,992
Total assets	\$ 539,574	\$ 530,174

Liabilities and Net Assets

	<u>2011</u>	<u>2010</u>
Current Liabilities		
Current maturities of long-term debt	\$ 5,598	\$ 5,262
Accounts payable	5,146	4,637
Accrued payroll and related expenses	12,503	11,442
Accrued interest	6,610	6,733
Accrued construction costs	-	4,053
Other accrued expenses	3,751	8,042
	<u>33,608</u>	<u>40,169</u>
Other accrued liabilities	17,412	17,203
Deferred interest – forward sale agreements	10,212	11,188
Deferred revenue from accommodation fees	68,198	61,679
Long-term debt	279,682	290,062
	<u>409,112</u>	<u>420,301</u>
Net Assets		
Unrestricted	111,456	93,720
Temporarily restricted	12,551	9,796
Permanently restricted	6,455	6,357
	<u>130,462</u>	<u>109,873</u>
Total liabilities and net assets	<u>\$ 539,574</u>	<u>\$ 530,174</u>

Front Porch Communities & Services
Consolidated Statements of Operations
Years Ended March 31, 2011 and 2010
(In Thousands)

	2011	2010
Unrestricted Revenues, Gains and Other Support		
Resident and net patient service revenue	\$ 149,891	\$ 143,367
Amortization of accommodation fees	9,180	8,635
Other	272	295
Net assets released from restriction used for operations	389	465
Total unrestricted revenues, gains and other support	159,732	152,762
Expenses		
Medical services	35,815	33,578
Facility operating costs	16,539	16,092
Dietary services	22,815	21,963
Residential services	12,476	12,013
Administrative services	34,136	33,258
Depreciation	19,445	17,034
Amortization of deferred costs	872	481
Interest expense	12,417	10,646
Other	2,106	1,976
Total expenses before other operating charges	156,621	147,041
Operating Income Before Other Operating Charges	3,111	5,721
Other Operating Charges		
Redevelopment costs – Walnut Manor	-	(280)
Operating Income	3,111	5,441
Other Income (Expense)		
Investment return	13,915	29,425
Gain on extinguishment of debt	954	-
Nonoperating gains (losses), net	(5)	151
Total other income (expense)	14,864	29,576
Excess of Revenues over Expenses Before Discontinued Operations	17,975	35,017
Loss from Discontinued Operations	(521)	(301)
Excess of Revenues over Expenses	17,454	34,716
Net assets released from restriction for capital expenditures	282	1,058
Increase in Unrestricted Net Assets	\$ 17,736	\$ 35,774

Front Porch Communities & Services
Consolidated Statements of Changes in Net Assets
Years Ended March 31, 2011 and 2010
(In Thousands)

	<u>2011</u>	<u>2010</u>
Unrestricted Net Assets		
Excess of revenues over expenses	\$ 17,454	\$ 34,716
Net assets released from restriction used for purchase of property and equipment	<u>282</u>	<u>1,058</u>
Increase in unrestricted net assets	<u>17,736</u>	<u>35,774</u>
Temporarily Restricted Net Assets		
Contributions received and investment income	1,208	2,898
Change in interest in net assets of Pacific Homes Foundation	2,218	1,328
Net assets released from restriction for continuing operations	(389)	(465)
Net assets released from restriction included in discontinued operations	-	(26)
Net assets released from restriction used for purchase of property and equipment	<u>(282)</u>	<u>(1,058)</u>
Increase in temporarily restricted net assets	<u>2,755</u>	<u>2,677</u>
Permanently Restricted Net Assets		
Contributions received	53	2,092
Change in value of trust	26	198
Change in interest in net assets of Pacific Homes Foundation	<u>19</u>	<u>6</u>
Increase in permanently restricted net assets	<u>98</u>	<u>2,296</u>
Change in Net Assets	20,589	40,747
Net Assets, Beginning of Year	<u>109,873</u>	<u>69,126</u>
Net Assets, End of Year	<u>\$ 130,462</u>	<u>\$ 109,873</u>

Front Porch Communities & Services
Consolidated Statements of Cash Flows
Years Ended March 31, 2011 and 2010
(In Thousands)

	2011	2010
Operating Activities		
Cash received from contract residents	\$ 37,844	\$ 36,059
Proceeds from accommodation fees received	14,320	27,475
Cash received from and on behalf of noncontract residents	115,520	111,390
Reimbursement for services to nonresidents	3,881	3,429
Other receipts from operations	272	242
Unrestricted investment income received	6,249	3,682
Processing fees	291	276
Payments on forward sale agreements	(437)	(437)
Cash paid to suppliers, employees and others	(131,068)	(124,817)
Cash paid for interest on long-term debt, net of amounts capitalized	(14,171)	(12,384)
Net cash provided by operating activities	32,701	44,915
Investing Activities		
Capital expenditures	(18,493)	(56,956)
Deferred marketing costs	(282)	(842)
Proceeds from sale of trading investments	42,227	81,050
Purchase of trading investments	(68,457)	(83,705)
Purchase of assets whose use is limited	(3,484)	(30,129)
Proceeds from sale of assets whose use is limited	26,424	46,742
Transaction costs paid related to sale of community	(517)	-
Repayment (advances) of note receivable	3,000	(3,000)
Net cash used in investing activities	(19,582)	(46,840)
Financing Activities		
Refunds of accommodation fees	(2,110)	(2,452)
Principal payments on long-term debt	(5,262)	(5,039)
Purchase of treasury bonds	(3,796)	-
Proceeds from basis swap	1,733	1,707
Proceeds from restricted contributions	564	1,183
Net cash used in financing activities	(8,871)	(4,601)
Net Increase (Decrease) in Cash and Cash Equivalents	4,248	(6,526)
Cash and Cash Equivalents, Beginning of Year	13,017	19,543
Cash and Cash Equivalents, End of Year	\$ 17,265	\$ 13,017
Supplemental Cash Flows Information		
Property and equipment purchases included in accounts payable	\$ 1,786	\$ 4,456
Entrance fees included in accounts receivable	\$ 222	\$ 946

See Notes to Consolidated Financial Statements

	<u>2011</u>	<u>2010</u>
Cash Flows from Operating Activities		
Change in net assets	\$ 20,589	\$ 40,747
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation	19,916	17,518
Amortization of deferred costs	872	481
Accretion of asset retirement obligation	134	127
Amortization of bond premium included in interest expense	(32)	(32)
Provision for uncollectible accounts	465	532
Accommodation fees received	14,320	27,475
Amortization of accommodation fees	(9,180)	(8,635)
Change in estimated future service obligation	-	(53)
Realized and unrealized (gain) loss on investments, net	(7,933)	(27,980)
Realized and unrealized (gain) loss on derivative financial instruments, net	(481)	1,546
Gain on extinguishment of debt	(954)	-
Payments on forward sale	(437)	(437)
Change in interest in net assets of Pacific Homes Foundation	(2,237)	(1,336)
Change in receivables from supporting organizations	(333)	(3,512)
Contributions restricted by donor	(564)	(1,183)
Basis swap income considered financing activity	(1,733)	(1,707)
Changes in operating assets and operating liabilities		
Accounts receivable, net	437	69
Prepaid expenses and other current assets	(26)	808
Accounts payable and accrued expenses	(468)	(353)
Other accrued liabilities	346	840
	<u>\$ 32,701</u>	<u>\$ 44,915</u>

Front Porch Communities & Services
Notes to Consolidated Financial Statements
March 31, 2011 and 2010

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

Front Porch Communities & Services (the Corporation) is a California nonprofit public benefit corporation as described in Section 501(c)(3) of the Internal Revenue Code (the Code). The Corporation is exempt from federal income taxes on related income pursuant to Section 501(a)(2) of the Code and is also exempt from state franchise taxes under similar provisions for the state of California. The Corporation owns and operates continuing care retirement communities (CCRCs), other multilevel retirement communities and other operations providing services that enhance the quality of life for those served through independent retirement living, assisted living, skilled nursing, social services, affordable housing and contract management of subsidized housing.

Obligated Group

Certain operations of the Corporation, hereinafter referred to as the Obligated Group, are aggregated to facilitate long-term borrowings and include the following:

Facility	City	Type	Residential Living Units	Assisted Living Units	Skilled Nursing Units	Total Units
Owned facilities						
The Alhambra (see <i>Notes 20</i> and <i>21</i>)	Alhambra, CA	Rental	N/A	118	50	168
Carlsbad	Carlsbad, CA	CCRC	145	14	33	192
Casa de Manana	La Jolla, CA	Rental	162	29	N/A	191
Claremont	Claremont, CA	Rental	178	37	59	274
Fredericka	Chula Vista, CA	Rental	257	47	172	476
Kingsley	Los Angeles, CA	Rental	123	87	49	259
Sunny View Retirement Community	Cupertino, CA	CCRC	56	55	47	158
Villa Gardens	Pasadena, CA	CCRC	162	49	54	265
Vista del Monte	Santa Barbara, CA	CCRC	139	44	29	212
Walnut Village	Anaheim, CA	CCRC	155	14	96	265
Wesley Palms	San Diego, CA	Rental	214	67	N/A	281
Leased facilities						
Cecil Pines	Jacksonville, FL	Rental	92	N/A	N/A	92
England Oaks	Alexandria, LA	Rental	182	N/A	N/A	182
			1,865	561	589	3,015

Front Porch Communities & Services

Notes to Consolidated Financial Statements

March 31, 2011 and 2010

Nonobligated Group

The following wholly owned subsidiaries of the Corporation are not members of the Obligated Group:

CARING Housing Ministries, Inc.

CARING Housing Ministries, Inc. (CARING) manages 25 HUD-subsidized and tax credit facilities, which provide housing to approximately 3,000 persons. Its managed facilities are located throughout California and in Glendale, Arizona. CARING's management fees received from clients are based primarily on a percentage of its clients' operating revenues. CARING is a California nonprofit corporation, and the Corporation is the sole corporate member of CARING.

Sunny View Lutheran Home

Sunny View Lutheran Home (Sunny View), a consolidated affiliate (formerly Sunny View West), is a California nonprofit corporation that owns a 100-unit, HUD-subsidized senior living facility located in Cupertino, California. Sunny View does not own or operate Sunny View Retirement Community, which is owned and operated by the Corporation. The Corporation is the sole corporate member of Sunny View.

Related Parties

The following related parties are not consolidated into the Corporation:

Front Porch Enterprises, Inc.

Front Porch Enterprises, Inc. (FPE) was created as a California nonprofit corporation in July 2006. FPE provides support, financial and otherwise, to organizations engaged in housing, health and human services, education and research, and sponsors affordable housing communities. FPE serves as the sole corporate member of Front Porch Active Adult Communities, LLC and the sole shareholder of Front Porch Development Company, Inc., described below. The Corporation and FPE are not affiliated, though there is overlap in the membership of the two boards. FPE is not included in the accompanying consolidated financial statements because the Corporation does not control FPE through majority ownership or control of the majority voting interest of the board.

Front Porch Active Adult Communities, LLC

Front Porch Active Adult Communities, LLC (Active Adult Communities) was created in January 2006 as a for-profit Delaware limited liability company that will own and operate active adult communities in Mexico and elsewhere. FPE is the sole member of Active Adult Communities.

Front Porch Development Company, Inc.

Front Porch Development Company, Inc. (Development Company) was created in February 2006 as a California for-profit corporation organized for the purpose of providing real estate development services to the Corporation, Active Adult Communities and other unrelated entities. Development Company is a wholly owned subsidiary of FPE.

Front Porch Communities & Services

Notes to Consolidated Financial Statements

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Center for Technology Innovation and Wellbeing

Center for Technology Innovation and Wellbeing (CTIW) was formed in June 2008 as a nonprofit entity for the purpose of exploring innovative uses of technology to empower individuals to live well, especially in their later years. The CTIW bylaws provide that directors, officers and employees of the Corporation are precluded from constituting a majority of CTIW's directors. As a result, CTIW is not included in the accompanying consolidated financial statements of the Corporation because the Corporation does not control CTIW through majority ownership or control of the majority voting interest of the board.

Principles of Consolidation

The consolidated financial statements of Front Porch Communities & Services include the accounts of the Obligated Group, CARING and Sunny View. All significant intercompany transactions and balances have been eliminated in consolidation.

Use of Estimates

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

Cash and Cash Equivalents

The Corporation considers all liquid investments with original maturities of three months or less to be cash equivalents. At March 31, 2011 and 2010, cash equivalents consisted primarily of money market accounts with brokers.

Effective July 21, 2010, the FDIC's insurance limits were permanently increased to \$250,000. At March 31, 2011, the Corporation's cash accounts exceeded federally insured limits by approximately \$4,915,000.

Pursuant to legislation enacted in 2010, the FDIC will fully insure all noninterest-bearing transaction accounts beginning December 31, 2010 through December 31, 2012, at all FDIC-insured institutions.

Investments and Investment Return

Investments in equity securities having a readily determinable fair value and in all debt securities are carried at fair value. Guaranteed investment contracts are carried at amortized cost, which approximates fair value. Other investments are valued at the lower of cost (or fair value at the time of donation, if acquired by contribution) or fair value. Investment return includes dividend, interest and other investment income; realized and unrealized gains and losses on investments carried at fair value; and realized gains and losses on other investments. Investment return that is initially restricted by donor stipulation and for which the restriction will be satisfied in the same year is included in unrestricted net assets. Other investment return is reflected in the consolidated statements of operations and changes in net assets as unrestricted, temporarily restricted or permanently restricted based upon the existence and nature of any donor or legally imposed restrictions.

Front Porch Communities & Services

Notes to Consolidated Financial Statements

March 31, 2011 and 2010

Assets Limited as to Use

Assets whose use is limited represent: (a) funds held by a trustee that are legally restricted for bond reserve accounts and construction projects; (b) deposit subscriptions held in trust; (c) accommodation fees refundable within the first 90 days of residency in accordance with state law; (d) assets restricted by the donor for specific purposes; (e) investments held under workers' compensation arrangements; and (f) HUD facility reserves and tenant deposits held in accordance with regulatory agreements governing the operation of Sunny View requiring HUD approval prior to any withdrawals. Amounts required to meet certain current liabilities of the Corporation are classified as current assets.

Patient Accounts Receivable

As a part of its mission to serve the community, the Corporation provides care to residents even though they may participate in programs that do not pay full charges or they may lack adequate insurance or private means. The Corporation manages their private resources and/or collection risk by regularly reviewing their accounts and contracts and by providing appropriate allowances based upon a review of outstanding receivables, historical collection information and existing economic conditions. As a service to the resident, the Corporation bills third-party payers directly and bills the resident when the resident's liability is determined. Accounts receivable are stated at net realizable value from third-party payers, residents and others. Accounts receivable are due in full when billed and are considered delinquent and subsequently written off as bad debts on individual credit evaluation and specific circumstances of the account.

Notes Receivable

Notes receivable are stated at their outstanding principal amount, net of allowance for uncollectible notes. The Corporation provides an allowance for uncollectible notes, which is based upon a review of outstanding receivables and existing economic conditions. Outstanding notes accrue interest based on the terms of the respective note agreements. Delinquent notes are written off based on individual credit evaluation and specific circumstances of the borrower.

Property and Equipment

Property and equipment are recorded at cost and depreciated on a straight-line basis over the estimated useful life of each asset. Assets under leasehold improvements are depreciated over the shorter of the lease term or their respective estimated useful lives.

Donations of property and equipment are reported at fair value as an increase in unrestricted net assets unless use of the assets is restricted by the donor. Monetary gifts that must be used to acquire property and equipment are reported as restricted support. The expiration of such restrictions is reported as an increase in unrestricted net assets when the donated asset is placed in service.

Front Porch Communities & Services
Notes to Consolidated Financial Statements
March 31, 2011 and 2010

The estimated useful lives for each major depreciable classification of property and equipment are as follows:

Land improvements	2–25 years
Building and leasehold improvements	5–40 years
Equipment	3–20 years

The Corporation capitalizes interest costs as a component of construction in progress, based on the interest costs of borrowing specifically for the project, net of interest earned on investments acquired with the proceeds of the borrowing. Total interest capitalized and incurred was (in thousands):

	<u>2011</u>	<u>2010</u>
Total interest expense incurred on borrowings for project	\$ -	\$ 1,905
Interest income from investment of proceeds of borrowings for project	-	489
Net interest capitalized	<u>\$ -</u>	<u>\$ 1,416</u>
Interest costs capitalized	\$ -	\$ 1,416
Interest costs charged to expense	<u>12,417</u>	<u>10,646</u>
Total interest incurred	<u>\$ 12,417</u>	<u>\$ 12,062</u>

Interest in Net Assets of and Receivables from Foundations

The Corporation recognizes its rights to assets held by a recipient organization in accordance with Accounting Standards Codification (ASC) Topic 958, *Not-for-Profit Entities*. Such rights are recognized as an asset, unless the donor has explicitly granted the recipient organization variance power, that is, the unilateral power to redirect the use of the assets. Those rights are either an interest in the net assets of the recipient organization, a beneficial interest in the recipient organization or a receivable. The Corporation accounts for its interest in the net assets of the Pacific Homes Foundation (Interest) in a manner similar to the equity method (see *Note 5*). Changes in the Interest are included in change in net assets. Transfers of assets between the Pacific Homes Foundation and the Corporation are recognized as increases or decreases in the Interest.

Deferred Costs

Deferred costs include unamortized deferred financing costs of approximately \$5,618,000 and \$6,014,000 at March 31, 2011 and 2010, respectively, which are amortized using the effective-interest method over the terms of the bond issues. Deferred costs also include direct response advertising costs incurred in connection with acquiring initial continuing care contracts of approximately \$5,311,000 and \$5,505,000 at March 31, 2011 and 2010, respectively, which will be amortized on a straight-line basis over the estimated remaining life expectancy of residents under the newly acquired continuing care contracts. Indirect advertising costs are expensed as incurred.

Front Porch Communities & Services

Notes to Consolidated Financial Statements

March 31, 2011 and 2010

Impairment of Long-Lived Assets

Long-lived assets, such as property and equipment and purchased intangibles subject to amortization, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset.

Investment in Joint Venture

The Corporation's investment in common and preferred stock of the joint venture is accounted for by the cost method. The Corporation would recognize a loss if there were a loss in value in the cost method investment, which is an other-than-temporary decline.

Deferred Revenue from Accommodation Fees

Fees paid by residents upon entering into a continuing care contract, net of the portion thereof that is refundable to the resident, are recorded as deferred revenue and are amortized into income using the straight-line method over the estimated remaining life expectancy of the resident.

Estimated Future Service Obligation

Annually, the Corporation calculates the present value of the net cost of future services and the use of facilities to be provided to current residents by contract type and compares those amounts with the balance of deferred revenue from accommodation fees. If the present value of the net cost of future services and the use of facilities exceeds the deferred revenue from accommodation fees, a liability is recorded (estimated future service obligation) with a corresponding charge to income. As of February 2006, while honoring previously issued contract types, the Corporation discontinued the use of all other contract types with the exception of Type B contracts. Type A contracts previously offered stipulated that the amount charged to the resident would not change when the resident's level of care changes; Type B contracts stipulate that the amount charged to the resident will change if the resident's level of care changes. The obligations for Type A and Type B contracts are discounted at 5.0% in 2011 and 2010, based on the Corporation's current borrowing rates. As of March 31, 2011 and 2010, there was no future service obligation related to Type A or Type B contracts.

Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are classified as such based on donor stipulations that they be used in a later period, be used for a specific purpose or both. Permanently restricted net assets have been restricted by donors to be maintained by the Corporation in perpetuity, the income from which is expendable as specified by the donor. Such net assets are to be used for future capital expenditures and to support the activities of the Corporation's retirement communities as specified by the donor.

Front Porch Communities & Services

Notes to Consolidated Financial Statements

March 31, 2011 and 2010

Excess of Revenues over Expenses

The accompanying consolidated statements of operations include excess of revenues over expenses. Changes in unrestricted net assets, which are excluded from excess of revenues over expenses, include net assets released from restrictions used for capital expenditures.

Resident and Net Patient Service Revenue

Resident and net patient service revenue includes monthly fees from residents and patient service revenue. Resident revenue consists of payments from residents for monthly service fees. Net patient service revenue is recognized as care is provided. Reimbursement for services provided to Medicare patients is based upon the Medicare Prospective Payment System (PPS) for long-term care providers. Under PPS, routine, ancillary and capital costs are pulled into a revised, single-payment stream. Reimbursement is made prospectively according to resident care classifications with each class assigned a fixed reimbursement rate.

Charity Care

The Corporation provides charity care to residents who are unable to pay for services or monthly service fees. The amount of charity care is included in net revenue and is not separately classified from the provision for uncollectible accounts.

Benefits to the Broader Community

The Corporation's retirement communities provide many benefits to the broader community. Most of these services are provided at no charge. Examples of these services include:

- Adult education classes
- Community centers used for other groups
- Retired Senior Volunteer Program
- Polling place for elections
- Adult literacy assistance services
- Meals-on-Wheels Program
- Training sites for various colleges, universities and regional occupational programs
- Alzheimer's support groups

Front Porch Communities & Services

Notes to Consolidated Financial Statements

March 31, 2011 and 2010

Contributions

The Corporation reports donations of cash and other assets as either temporarily restricted support or permanently restricted support if they are received with donor stipulations that limit the use of the donated asset. In the case of temporarily restricted support, when a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the accompanying consolidated financial statements as net assets released from restrictions used for operations or capital expenditures. Donor-restricted contributions whose restrictions are met within the same year as received are reflected as unrestricted contributions in the accompanying consolidated financial statements.

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

Estimated Workers' Compensation and Malpractice Costs

The provision for estimated workers' compensation and medical malpractice claims includes estimates of the ultimate costs for both reported claims and claims incurred but not reported.

Income Taxes

The Corporation is a nonprofit organization as described in Section 501(c)(3) of the Code and is exempt from federal income and state franchise taxes on related income pursuant to Section 501(a)(2) of the Code and similar provisions of the California Franchise Tax Code. However, the Corporation is subject to income taxes on any net income that is derived from a trade or business, regularly carried on, and not in furtherance of the purposes for which it was granted exemption. For the fiscal years ended March 31, 2011 and 2010, no income tax provision has been recorded as the net income from any unrelated trade or business, in the opinion of management, is not material to the accompanying consolidated financial statements taken as a whole.

The Corporation files tax returns in the U.S. federal jurisdiction. With a few exceptions, the Corporation is no longer subject to U.S. federal examinations by tax authorities for years before 2008.

Reclassifications

Certain reclassifications have been made to the 2010 consolidated financial statements to conform to the 2011 consolidated financial statement presentation. These reclassifications had no effect on the change in net assets.

Front Porch Communities & Services
Notes to Consolidated Financial Statements
March 31, 2011 and 2010

Note 2: Concentration of Credit Risk

The Corporation grants credit without collateral to its skilled nursing patients, most of whom are area residents and are insured under third-party payer agreements. The mix of net receivables related to skilled nursing patients from patients and third-party payers at March 31, 2011 and 2010, is:

	<u>2011</u>	<u>2010</u>
Medicare	36%	33%
Medi-Cal	35%	35%
PPO/HMO (other contracted payers)	18%	20%
Patients and other	<u>11%</u>	<u>12%</u>
	<u>100%</u>	<u>100%</u>

Note 3: Investments and Investment Return

Short-term investments at fair value consisted of \$1,904,000 and \$1,931,000 of U.S. Treasury and U.S. agency securities at March 31, 2011 and 2010, respectively.

Assets limited as to use at fair value consisted of the following at March 31 (in thousands):

	<u>2011</u>	<u>2010</u>
Cash	\$ 3,267	\$ 25,006
Money market mutual funds	6,006	7,482
U.S. Treasury and U.S. agency securities	3,727	5,990
Corporate bonds and commercial paper	<u>27,376</u>	<u>25,574</u>
	40,376	64,052
Less amounts required to meet current obligations	<u>12,660</u>	<u>32,377</u>
	<u>\$ 27,716</u>	<u>\$ 31,675</u>

Front Porch Communities & Services
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Assets limited as to use consist of amounts with restrictions for the following purposes as of March 31 (in thousands):

	<u>2011</u>	<u>2010</u>
Held by trustee under indenture agreements for bond fund and other reserves	\$ 36,024	\$ 34,065
Held by trustee under indenture agreements for construction	-	4,667
CCRC resident relocation	10	-
Deposit subscriptions held in trust	616	1,500
90-day refundable accommodation fees	2,394	22,448
Restricted by donors for capital expenditures	60	59
Held by trustee under workers' compensation arrangements	-	100
HUD facility reserves	1,251	1,190
Resident deposits held in trust	21	23
	<u>\$ 40,376</u>	<u>\$ 64,052</u>

Long-term investments at fair value consisted of the following at March 31 (in thousands):

	<u>2011</u>	<u>2010</u>
Commodity mutual funds	\$ 14,859	\$ 9,025
Other mutual funds	14,318	11,015
U.S. Treasury and U.S. agency securities	5,064	3,363
Equity securities – domestic	59,800	44,686
Equity securities – international	39,719	22,009
Guaranteed investment contracts (GICs)	13,672	14,298
	<u>\$ 147,432</u>	<u>\$ 104,396</u>

The GICs represent investments administered by an independent professional investment corporation in a managed investment pool with a guaranteed specified rate of interest. Interest payments on the GICs are due to the Corporation semiannually. The assets of the pool are invested in U.S. government obligations, corporate securities, taxable municipal securities, mortgage-backed securities and mutual funds.

The Corporation has invested in certain mutual funds that have required holding periods and varying redemption penalties if sold prior to the end of the holding period. However, at March 31, 2011, none of the mutual funds held by the Corporation are subject to any redemption provisions.

As discussed in *Note 9*, the Corporation entered into certain derivative instruments. The derivative instrument related to the Series 2007 forward delivery agreement is included on the accompanying consolidated balance sheets as a derivative instrument under investments.

Front Porch Communities & Services
Notes to Consolidated Financial Statements
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Total investment return is comprised of the following for the years ending March 31 (in thousands) and is included in unrestricted net assets:

	2011	2010
Interest and dividend income	\$ 5,811	\$ 3,246
Realized gains (losses) on sales of securities, net	3,228	(1,160)
Realized gains (losses) on derivative financial instruments, net	-	591
Unrealized gains (losses) on investments valued at fair value, net	14,205	29,138
Unrealized gains (losses) on derivative financial instruments, net	481	(2,137)
Impairment of note receivable (see <i>Note 15</i>)	(9,500)	-
Investment fees	(747)	(690)
Amortization of deferred interest income	437	437
	<u> </u>	<u> </u>
Investment return	<u>\$ 13,915</u>	<u>\$ 29,425</u>

Note 4: Property and Equipment

A summary of property and equipment at March 31, 2011 and 2010, follows (in thousands):

	2011	2010
Land and land improvements	\$ 45,610	\$ 45,713
Buildings	294,944	295,426
Building improvements	86,389	84,298
Leasehold improvements	5,088	4,765
Equipment	93,018	86,459
Construction in progress	1,644	3,019
	<u>526,693</u>	<u>519,680</u>
Less accumulated depreciation	<u>238,802</u>	<u>224,623</u>
	<u>\$ 287,891</u>	<u>\$ 295,057</u>

Pursuant to the California Health and Safety Code, the Corporation is required to maintain cash reserves or execute a lien on certain facility property to fulfill its obligation for refund reserves for residents who have refundable continuing care contracts. Commencing in 2000, the Corporation executed a lien on certain facility property amounting to approximately \$2,056,000 in lieu of maintaining cash reserves.

Front Porch Communities & Services
Notes to Consolidated Financial Statements
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Note 5: Interest in Net Assets of and Receivables from Supporting Organizations

Pacific Homes Foundation (PH Foundation), FACT Foundation, California Lutheran Homes (CLH) and Sunny View Lutheran Communities and Services (SVLCS) are not-for-profit corporations established for the charitable purpose of promoting and supporting the work of the Corporation and the retirement communities. The four organizations have separate boards of directors over which the Corporation does not exercise control.

Because PH Foundation was established to operate exclusively for the benefit of the Corporation, and upon dissolution, the net assets of PH Foundation are transferred to the Corporation to be used to benefit the residents of the former Pacific Homes communities, and since variance power from the donors does not exist, the Corporation records its interest in the net assets of PH Foundation. FACT Foundation, CLH and SVLCS, however, are not organized solely for the benefit of the Corporation, and upon dissolution, the net assets may be directed to other not-for-profit organizations. Consequently, the Corporation records a receivable from these three supporting organizations related only to those net assets restricted by the donor for the benefit of the Corporation.

As of March 31, 2011 and 2010, the interest in the net assets of PH Foundation and receivables from supporting organizations are as follows (in thousands):

	<u>2011</u>	<u>2010</u>
Interest in net assets of PH Foundation	\$ 9,147	\$ 6,910
Receivables from supporting organizations		
FACT Foundation	\$ 7,344	\$ 6,810
CLH	1,080	1,155
SVLCS	1,972	2,098
	<u>\$ 10,396</u>	<u>\$ 10,063</u>

Note 6: Professional Liability

For the years ended March 31, 2011 and 2010, the Corporation is insured for professional and general liability claims under a claims-made policy for \$1,000,000 per occurrence and \$3,000,000 in the aggregate with no deductible. Losses in excess of the limits are covered by an umbrella liability policy up to an additional \$5,000,000 individually and in the aggregate. Amounts accrued to cover potential claims incurred but not reported totaled approximately \$1,200,000 and \$1,100,000 as of March 31, 2011 and 2010, respectively, and are included in other accrued liabilities in the accompanying consolidated balance sheets.

Front Porch Communities & Services
Notes to Consolidated Financial Statements
March 31, 2011 and 2010

Note 7: Workers' Compensation

Effective March 31, 2003, the Corporation became qualified to self-insure its workers' compensation claims in California. In addition, for the years ended March 31, 2011 and 2010, the Corporation had an excess workers' compensation policy in place for individual claims over \$750,000 and \$1,000,000, respectively. This policy had a maximum coverage limit of \$25,000,000 for the years ended March 31, 2011 and 2010, respectively. Amounts accrued to cover potential workers' compensation claims as of March 31, 2011 and 2010, are as follows (in thousands):

	2011	2010
Estimated amounts expected to be paid		
Within one year, included in accrued payroll and related expenses	\$ 1,500	\$ 1,300
In excess of one year, included in other accrued liabilities	4,865	4,252
	\$ 6,365	\$ 5,552

Effective fiscal 2007, the Corporation was designated as "fully participating" in the Self Insurers' Security Fund's alternative security deposit program, which no longer requires a cash deposit with the State of California. Additionally, the Corporation maintained \$100,000 of workers' compensation collateral as of March 31, 2010, for workers' compensation claims prior to April 1, 2003. Such amounts are classified as assets whose use is limited in the accompanying 2010 consolidated balance sheet. This collateral was released during the year ended March 31, 2011.

While the ultimate amount of claims to be incurred is dependent on future developments, the Corporation's management believes that the aggregate accrual is adequate to cover such amounts. However, by their nature, the amounts recorded are estimates and there is no assurance that the ultimate amount will not be more or less than the amount recorded.

Front Porch Communities & Services
Notes to Consolidated Financial Statements
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Note 8: Long-Term Debt

The following is a summary of long-term debt at March 31, 2011 and 2010 (in thousands):

	2011	2010
California Statewide Communities Development Authority Series 2007A Certificates of Participation, interest at 5.125%, principal due in varying installments between 2030 and 2037, inclusive of unamortized premium of \$744 and \$776 at March 31, 2011 and 2010, respectively. During 2011, the Corporation repurchased \$4,750 of these certificates for \$3,796 and recorded a resulting gain on extinguishment of debt of \$954. These repurchased certificates reduce the outstanding balance as of March 31, 2011	\$ 68,994	\$ 73,776
California Statewide Communities Development Authority Series 2007B Certificates of Participation, variable interest at 120% of SIFMA, averaging 0.34% and 0.40% for the years ended March 31, 2011 and 2010, respectively, principal due in 2037	37,000	37,000
California Statewide Communities Development Authority 1999 Certificates of Participation, interest at 5.375%, principal due in varying installments through 2030	171,600	176,300
California Health Facilities Financing Authority Series 1999A Insured Health Facility Revenue Bonds, interest at 4.4% to 5.1%, principal due in varying installments through 2024, collateralized by the gross revenues of Sunny View Retirement Community and a deed of trust on Sunny View Retirement Community	3,885	4,090
California Health Facilities Financing Authority Series 1997A Insured Health Facility Revenue Bonds, interest at 5.1% to 5.5%, principal due in varying installments through 2019, collateralized by the gross revenues of Sunny View Retirement Community and a deed of trust on Sunny View Retirement Community	2,175	2,395
Note payable to HUD in monthly principal and interest installments of \$21 (including interest at 6.875%) through 2019 plus monthly deposits of \$11 for replacement reserves, collateralized by the revenues of Sunny View and a deed of trust on substantially all of Sunny View's real and personal property	1,626	1,763
Total long-term debt	285,280	295,324
Less current portion	5,598	5,262
	\$ 279,682	\$ 290,062

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Under the terms of the Series 1999 and 2007 Bond Indentures, the Corporation is required to place its project funds, funded interest and debt service reserve funds in restricted accounts for those purposes. The related debt agreements contain various restrictive covenants, which, among other things, require the maintenance of certain financial ratios, including a debt service coverage ratio of 1.25. The bonds are collateralized by the gross revenues of the Obligated Group.

Scheduled principal payments on long-term debt at March 31, 2011, are as follows (in thousands):

2012	\$	5,598
2013		5,960
2014		6,191
2015		6,533
2016		6,976
Thereafter		<u>254,022</u>
	<u>\$</u>	<u>285,280</u>

Note 9: Derivative Instruments

The Corporation accounts for its derivative instruments in accordance with ASC Topic 815, *Derivatives and Hedging*. ASC Topic 815 requires that all derivative instruments be recorded on the accompanying consolidated balance sheets at their respective fair values. Changes in the fair value of a derivative are recorded as a component of investment return.

The Corporation uses interest rate-related derivative instruments to manage its interest rate exposure on its tax-exempt debt. By using derivative financial instruments to hedge exposures to changes in interest rates, the Corporation exposes itself to credit risk and market risk. Credit risk is the failure of the counterparty to perform under the terms of the derivative contract. Market risk is the adverse effect on the value of a financial instrument that results from a change in interest rates. The market risk associated with interest rate contracts is managed by establishing and monitoring parameters that limit the types and degree of market risk that may be undertaken.

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The Corporation primarily uses fixed-rate debt to finance its operations. The debt obligations prevent the Corporation from reducing interest costs in periods of declining interest rates. In July 2002, management entered into two forward sale agreements for proceeds of \$13,325,000. In October 2002, the Corporation sold two swaptions for combined proceeds of \$18,200,000. In July 2004, the Corporation entered into a basis swap. Additionally, in July 2007, the Corporation entered into a forward delivery agreement and two investment agreements related to certain Series 2007 bond proceeds. Following is a summary of the Corporation's derivative instruments:

Forward Sale Agreements and Guaranteed Investment Contract – Series 1999

In July 2002, the Corporation entered into forward sale agreements as a means to receive up-front payment in exchange for rights to the future interest earnings on the investments temporarily held in the Corporation's debt service (principal and interest) and reserve funds to pay the principal and interest payments on the 1999 Certificates of Participation. Proceeds from the forward sale agreements were received over the first 44 months of the forward sale agreements and are being amortized into interest income over the 332-month term of the forward sale agreements. As proceeds were received each month, they were deposited into a GIC as collateral for the forward sale agreement until expiration on April 1, 2030. The notional amount of the GIC is \$12,078,000 and allows for certain permitted withdrawals, as defined, that allow the Corporation to withdraw such funds to support debt service payments and operating expenses (including payroll) if funds from other sources are not available. As such, amounts deposited in the GIC, including mark-to-market adjustments, totaling \$13,672,000 and \$14,298,000 as of March 31, 2011 and 2010, respectively, are classified as unrestricted investments in the accompanying consolidated balance sheets. The Corporation recognized interest income totaling \$437,000 in 2011 and 2010 related to the forward sale agreements.

Forward Delivery Agreements and Guaranteed Investment Contract – Series 2007

In July 2007, the Corporation entered into a forward delivery agreement with a financial institution with a par amount of \$3,741,000. In connection with this forward delivery agreement, the financial institution has delivered qualifying securities to the Corporation to provide an agreed-upon fixed rate of return for the Series 2007A debt service reserve fund. The forward delivery agreement is scheduled to mature on April 1, 2037. In addition, the Corporation entered into two separate GICs with a financial institution with a total par amount of \$91,874,000. In connection with the debt service reserve fund GIC scheduled to mature on March 1, 2010, the Corporation has transferred funds in the amount of the Series 2007B debt service reserve fund to the financial institution, which are repaid with interest based on an agreed-upon floating rate of return. In November 2008, the project funds GIC scheduled to mature on October 1, 2009, was terminated to protect the Corporation from credit risk. Project funds totaling \$59,929,000 were transferred into U.S. government-backed securities with scheduled maturities matching the project draw schedule. The Corporation recognized interest income totaling \$0 and \$475,000 in fiscal 2011 and 2010, respectively, related to these agreements.

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Swaptions

In October 2002, the Corporation entered into two interest rate swaptions, the London Interbank Offering Rate (LIBOR) swaption and the Securities Industry and Financial Markets Association (SIFMA) swaption. The swaptions provided the potential opportunity to adjust the fixed-rate cash flow on the Series 1999 debt obligations. Under the terms of the LIBOR swaption with a notional amount of \$176,300,000, the Corporation had the potential opportunity to receive variable interest rate payments and make fixed interest rate payments if the LIBOR swaption was invoked. Under the terms of the SIFMA Municipal Swap Index swaption with an original notional amount of \$96,450,000, the Corporation had the opportunity to receive fixed interest rate payments and make variable interest rate payments if the SIFMA swaption was invoked, thereby creating the equivalent of variable rate debt. The proceeds from the sale of the swaptions totaling \$18,200,000 were being maintained as collateral for the swaptions.

In June 2004, the Corporation implemented a risk management plan for the LIBOR swaption, which placed an upper limit on the amount the Corporation would have to pay to settle the LIBOR swaption. The risk management plan requires the Corporation to make payments to the issuer of the LIBOR swaption totaling \$6,500,000 in varying semiannual amounts commencing October 1, 2004 through April 1, 2012 (the Semiannual Financing Payments). At March 31, 2011 and 2010, the Corporation owed approximately \$1,738,000 and \$2,432,000, respectively, related to the Semiannual Financing Payments, which is included in other accrued liabilities and expenses on the accompanying consolidated balance sheets.

On October 1, 2009, the counterparty invoked the LIBOR swaption. In response to the counterparty invoking the LIBOR swaption, the Corporation exercised its risk management plan and settled the LIBOR swaption. In connection with the above events, the Corporation settled the liability related to the LIBOR swaption of approximately \$25,889,000 by surrendering the assigned collateral of approximately \$25,298,000. The result of this transaction was the realization of a gain of approximately \$591,000 in the year ended March 31, 2010.

Basis Swap

Under a basis swap contract, the Corporation agrees to pay the counterparty the monthly SIFMA Municipal Swap Index variable rate average while receiving 64% of the one-month LIBOR rate plus a fixed spread. The basis swap notional amount is \$196,600,000. The Corporation's largest exposure under this contract is a significant reduction in the U.S. federal tax rate on individuals. Under this contract, the Corporation recorded interest income of \$1,733,000 and \$1,707,000 during the years ended March 31, 2011 and 2010, respectively.

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The table below presents certain information regarding the Corporation's derivative financial instruments, none of which were hedging instruments, at March 31, 2011 and 2010 (in thousands):

Derivative Type	Balance Sheet Location	2011	2010
		Fair Value	Fair Value
Asset Derivatives			
Forward delivery agreement	Derivative instruments	\$ 697	\$ 522
Basis swap agreement	Derivative instruments	903	509
		<u>\$ 1,600</u>	<u>\$ 1,031</u>
Liability Derivatives			
Forward delivery and sale agreements	Deferred interest – forward sale agreements	\$ (10,212)	\$ (11,188)
Net Income (Loss) on Derivative Instruments			
Location of gain (loss) on derivative instruments not deemed hedging instruments	Other income (expense) – investment return	\$ 481	\$ (1,546)

Note 10: Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are available for the following purposes or periods at March 31, 2011 and 2010 (in thousands):

	2011	2010
Residential assistance and special projects	\$ 7,278	\$ 5,395
Purchase of property and equipment	78	70
Scholarships	251	209
Time-restricted	4,132	3,431
Other	812	691
	<u>\$ 12,551</u>	<u>\$ 9,796</u>

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Temporarily restricted net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified as follows (in thousands):

	2011	2010
Available for resident assistance and operations	\$ 389	\$ 465
Capital expenditures	\$ 282	\$ 1,058

During the year ended March 31, 2010, \$26,000 of temporarily restricted net assets released from donor restrictions were reclassified into discontinued operations.

Permanently restricted net assets of \$6,455,000 and \$6,357,000 at March 31, 2011 and 2010, respectively, consist of investments to be held in perpetuity, the income from which is expendable to support resident assistance, scholarships, operations and other purposes as specified by the donor.

Note 11: Uncompensated Community Benefits

Each year, the Corporation provides services to residents with limited means and benefits to the broader community. The approximate cost of such services for the years ended March 31, 2011 and 2010, totaled \$2,558,000 and \$2,288,000, respectively. Additionally, the Corporation accepts Medi-Cal patients for which it is reimbursed at amounts that do not cover the cost of health care services provided. The estimated cost of providing such underreimbursed care in excess of reimbursements received was \$1,785,000 and \$1,229,000 for the years ended March 31, 2011 and 2010, respectively.

Note 12: Functional Expenses

The Corporation provides services through independent retirement living, assisted living, skilled nursing and other services. Expenses related to providing these services inclusive of other operating charges of \$0 and \$280,000 for the years ended March 31, 2011 and 2010, respectively, are as follows (in thousands):

	2011	2010
Patient and resident care services	\$ 114,573	\$ 108,552
General and administrative	42,048	38,769
	\$ 156,621	\$ 147,321

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Note 13: Employee Benefit Plans

403(b) Defined Contribution Plans and Supplemental Retirement

The Corporation sponsors 403(b) defined contribution plans for its employees. Under the current plans, all employees with at least one year of service are eligible to participate and the Corporation contributes an amount equal to 3% of each participant's compensation. Additionally, the Corporation provides an executive supplemental retirement plan and contributes 4.5% of each participant's compensation. Expense for the plans, equal to the contributions, totaled approximately \$2,110,000 and \$2,164,000 for the years ended March 31, 2011 and 2010, respectively.

Deferred Compensation Plan

The Corporation offers a nonqualified deferred compensation plan to a select group of management that provides the opportunity to defer a specified percentage of their cash compensation. Participants may elect to defer up to 30% of their annual base salary. In addition, the Corporation offers an at-risk compensation plan that requires a mandatory 30% of any at-risk pay awarded to be held as deferred compensation. Participants may elect to defer the remaining 70% of their award. The Corporation's obligations under this plan are unfunded for tax purposes and for purposes of Title 1 of the Employee Retirement Income Security Act of 1974 and are unsecured general obligations of the Corporation to pay in the future the value of the deferred compensation adjusted to reflect the performance, whether positive or negative, of selected investment measurement options chosen by each participant during the deferral period. As of March 31, 2011 and 2010, approximately \$2,561,000 and \$2,197,000, respectively, of deferred compensation is accrued and included in other accrued liabilities in the accompanying consolidated balance sheets.

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Note 14: Related-Party Transactions

As discussed in *Note 1*, the Corporation has an economic interest in both Front Porch Enterprises, Inc. (FPE) and Center for Technology Innovation and Wellbeing (CTIW). The Corporation does not have control over FPE or CTIW through majority ownership or control of the majority voting interests of the boards. The Corporation has elected not to consolidate FPE or CTIW in the accompanying consolidated financial statements. The unaudited financial position and results of operations of FPE and CTIW as of and for the years ended March 31, 2011 and 2010, are summarized below (in thousands):

	<u>2011</u>	<u>2010</u>
Total assets	\$ 1,760	\$ 10,160
Total liabilities	\$ 9,643	\$ 9,531
Total equity (deficit)	<u>(7,883)</u>	<u>629</u>
Total liabilities and equity	<u>\$ 1,760</u>	<u>\$ 10,160</u>
Revenues, including investment return (loss)	<u>\$ (7,121)</u>	<u>\$ 1,945</u>
Increase (decrease) in unrestricted net assets	<u>\$ (8,512)</u>	<u>\$ 558</u>

Included in the 2011 financial information in the above table is an impairment loss of approximately \$8,500,000 related to Front Porch Active Adult Communities, LLC equity investment in DCHV (see *Note 15*).

Development Company

In April 2007, the Corporation entered into a service agreement with Development Company to secure project development and management services for the Corporation's development projects, which, in fiscal 2011 and 2010, included Walnut Village and Wesley Palms. Services rendered to the Corporation totaled approximately \$1,001,000 and \$1,003,000 for the years ended March 31, 2011 and 2010, respectively. At March 31, 2011 and 2010, amounts payable to Development Company totaled approximately \$0 and \$80,000 for these services, respectively.

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Note 15: Notes Receivable

On February 28, 2006, the Corporation entered into an agreement to loan Active Adult Communities a total of \$9,500,000 for the primary purpose of purchasing a 40% interest in Desarrollos Comerciales y Habitacionales Vallarta S. de R.L. de C.V. (DCHV), a Mexican limited liability company for \$8,500,000. DCHV was formed for the purpose of developing a luxury oceanfront active adult community in Nuevo Vallarta, Mexico (DCHV Project), which is being marketed to American, Canadian and Mexican seniors and retirees. The \$9,500,000 advance is classified as a note receivable at March 31, 2010. Interest is payable monthly based on a rate equal to one-month LIBOR, determined as of the first business day of each calendar month (0.26% and 0.23% at March 31, 2011 and 2010). Principal payments were originally scheduled to begin in April 2011 and continue in equal monthly installments until the debt is satisfied in July 2017.

During the year ended March 31, 2009, unit sales slowed significantly due to the global economic crisis and sales continue to be below projections through March 31, 2011. As a result, Active Adult Communities notified the Corporation of the possibility that the repayment of principal under this note is likely to be delayed beyond the original beginning repayment date of April 2011. In April 2011, the Corporation revised the terms of the promissory note with Active Adult Communities to extend the scheduled start of principal payments from April 2011 to April 2015.

An impairment loss of \$9,500,000 was recognized for this note receivable for the year ended March 31, 2011, based on the continued underperformance of sales of units at DCHV combined with the projected cash flow shortage under the third-party debt agreements used to finance the construction of the DCHV Project. The impairment loss is included in investment return in the accompanying 2011 consolidated statements of operations. The note receivable was deemed to have no fair value primarily based on the projected cash flows of the DCHV Project and the probability of Active Adult Communities receiving distributions from DCHV to repay the note payable to the Corporation.

In June 2009, the Corporation's Board of Directors authorized a loan of up to \$5,000,000 to DCHV for the purpose of completing construction of Phase One of the DCHV Project. As of March 31, 2010, \$3,000,000 had been advanced to DCHV and was classified as a note receivable. Principal was due in one lump sum in February 2013. Interest accrued at a rate equal to prime rate plus 200 basis points (5.25% at March 31, 2010) with a floor rate of 8%. Principal and interest on this note were repaid in full during the year ended March 31, 2011.

Note 16: Fair Value of Assets and Liabilities

ASC Topic 820, *Fair Value Measurements*, defines fair value as 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. Topic 820 also specifies a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

Level 1 Quoted prices in active markets for identical assets or liabilities

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- Level 2** Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities
- Level 3** Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities

Following is a description of the valuation methodologies used for assets and liabilities measured at fair value on a recurring basis and recognized in the accompanying consolidated balance sheets, as well as the general classification of such assets and liabilities pursuant to the valuation hierarchy.

Investments

Where quoted market prices are available in an active market, investments are classified within Level 1 of the valuation hierarchy. Level 1 investments include various mutual funds, certain corporate bonds and commercial paper, U.S. Treasury and U.S. agency securities and exchange-traded equity securities. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of investments with similar characteristics or discounted cash flows. Level 2 investments include U.S. Treasury and U.S. agency securities and certain corporate bonds and commercial paper. In certain cases where Level 1 or Level 2 inputs are not available, investments are classified within Level 3 of the hierarchy. There were no Level 3 investments.

Derivative Instruments

The fair value is estimated using forward looking interest rate curves and discounted cash flows that are observable or that can be corroborated by observable market data and, therefore, are classified within Level 2 of the valuation hierarchy.

Receivables from Supporting Organizations

Fair value is estimated at the present value of the future distributions from the supporting organizations. Due to the nature of the valuation inputs, the receivables from supporting organizations are classified within Level 3 of the hierarchy.

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The following tables present the fair value measurements of assets and liabilities recognized in the accompanying consolidated balance sheets measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at March 31, 2011 and 2010 (in thousands):

	March 31, 2011			
	Fair Value Measurements Using			
	Quoted Prices	Significant	Other	Significant
	Fair Value	in Active	Observable	Unobservable
	(Level 1)	(Level 2)	(Level 3)	
Financial assets				
Equities – domestic	\$ 59,800	\$ 59,800	\$ -	\$ -
Equities – international	\$ 39,719	\$ 39,719	\$ -	\$ -
Money market mutual funds	\$ 6,006	\$ 6,006	\$ -	\$ -
Commodity mutual funds	\$ 14,859	\$ 14,859	\$ -	\$ -
Other mutual funds	\$ 14,318	\$ 14,318	\$ -	\$ -
U.S. Treasury and U.S. agency securities	\$ 10,695	\$ 10,695	\$ -	\$ -
Corporate bonds and commercial paper	\$ 27,376	\$ 2,101	\$ 25,275	\$ -
Derivative instruments	\$ 1,600	\$ -	\$ 1,600	\$ -
Receivables from supporting organizations	\$ 10,396	\$ -	\$ -	\$ 10,396
Financial liabilities				
Deferred interest – forward sale agreements	\$ (10,212)	\$ -	\$ (10,212)	\$ -

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	March 31, 2010			
	Fair Value Measurements Using			
	Fair Value	Quoted Prices		
		in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial assets				
Equities – domestic	\$ 44,686	\$ 44,686	\$ -	\$ -
Equities – international	\$ 22,009	\$ 22,009	\$ -	\$ -
Money market mutual funds	\$ 7,482	\$ 7,482	\$ -	\$ -
Commodity mutual funds	\$ 9,025	\$ 9,025	\$ -	\$ -
Other mutual funds	\$ 11,015	\$ 11,015	\$ -	\$ -
U.S. Treasury and U.S. agency securities	\$ 11,284	\$ -	\$ 11,284	\$ -
Corporate bonds and commercial paper	\$ 25,574	\$ 352	\$ 25,222	\$ -
Derivative instruments	\$ 1,031	\$ -	\$ 1,031	\$ -
Receivables from supporting organizations	\$ 10,063	\$ -	\$ -	\$ 10,063
Financial liabilities				
Deferred interest – forward sale agreements	\$ (11,188)	\$ -	\$ (11,188)	\$ -

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The following is a reconciliation of the beginning and ending balances of recurring fair value measurements recognized in the accompanying consolidated balance sheets using significant unobservable (Level 3) inputs (in thousands):

	<u>Receivables from Supporting Organizations</u>
Balance, April 1, 2010	\$ 10,063
Total realized and unrealized gains and losses included in change in net assets	<u>333</u>
Balance, March 31, 2011	<u><u>\$ 10,396</u></u>
Total gains or losses for the period included in change in net assets attributable to the change in unrealized gains or losses related to assets and liabilities still held at the reporting date	<u><u>\$ 333</u></u>
	<u>Receivables from Supporting Organizations</u>
Balance, April 1, 2009	\$ 6,551
Total realized and unrealized gains and losses included in change in net assets	<u>3,512</u>
Balance, March 31, 2010	<u><u>\$ 10,063</u></u>
Total gains or losses for the period included in change in net assets attributable to the change in unrealized gains or losses related to assets and liabilities still held at the reporting date	<u><u>\$ 3,512</u></u>

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The following methods were used to estimate the fair value of all other financial instruments recognized in the accompanying consolidated balance sheets at amounts other than fair value.

Cash and Cash Equivalents, Notes Receivable and Interest in Net Assets of PH Foundation

The carrying amount approximates fair value.

Guaranteed Investment Contracts (GICs)

The GICs' carrying amount approximates fair value. The GICs are included in long-term investments.

Long-Term Debt

Fair values of the Corporation's certificates of participation and revenue bonds are based on current traded values. The fair value of the Corporation's remaining long-term debt is estimated using discounted cash flow analysis based on the Corporation's current incremental borrowing rates for similar types of borrowing arrangements.

The following table presents estimated fair values of the Corporation's financial instruments at March 31, 2011 and 2010 (in thousands):

	2011		2010	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets				
Cash and cash equivalents	\$ 17,265	\$ 17,265	\$ 13,017	\$ 13,017
Short-term investments	\$ 1,904	\$ 1,904	\$ 1,931	\$ 1,931
Assets limited as to use	\$ 40,376	\$ 40,376	\$ 64,052	\$ 64,052
Long-term investments	\$ 147,432	\$ 147,432	\$ 104,396	\$ 104,396
Derivative instruments	\$ 1,600	\$ 1,600	\$ 1,031	\$ 1,031
Notes receivable	\$ -	\$ -	\$ 12,500	\$ 12,500
Interest in net assets of PH Foundation				
Foundation	\$ 9,147	\$ 9,147	\$ 6,910	\$ 6,910
Receivables from supporting organizations	\$ 10,396	\$ 10,396	\$ 10,063	\$ 10,063
Financial liabilities				
Deferred interest – forward sale agreements	\$ 10,212	\$ 10,212	\$ 11,188	\$ 11,188
Long-term debt	\$ 285,280	\$ 255,159	\$ 295,324	\$ 269,878

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Note 17: Asset Retirement Obligations

ASC Topic 410, *Asset Retirement and Environmental Obligations*, requires that an asset retirement obligation (ARO) associated with the retirement of a tangible long-lived asset be recognized as a liability in the period in which it is incurred or becomes determinable (as defined by the standard) even when the timing and/or method of settlement may be conditional on a future event.

The Corporation has AROs arising from regulatory requirements to perform asbestos abatement at the time certain property is disposed of. The liability, included in other accrued liabilities in the accompanying consolidated balance sheets, was initially measured at fair value based upon historical removal costs per square foot applied to assets identified requiring asbestos abatement and is subsequently adjusted for accretion expense and changes in the amount or timing of the estimated cash flows. The corresponding asset retirement costs are capitalized as part of the carrying amount of the related long-lived asset and depreciated over the asset's useful life. The following table presents the activity for the AROs for the years ended March 31, 2011 and 2010, (in thousands):

	2011	2010
Balance, beginning of year	\$ 2,416	\$ 2,289
Accretion expense	134	127
Balance, end of year	\$ 2,550	\$ 2,416

Note 18: Significant Estimates and Concentrations

Accounting principles generally accepted in the United States of America require disclosure of certain significant estimates and current vulnerabilities due to certain concentrations. Those matters include the following:

Allowance for Net Patient Service Revenue Adjustments

Estimates of allowances for adjustments included in net patient service revenue are described in *Note 1*.

Investments

The Corporation invests in various investment securities. Investment securities are exposed to various risks, such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the accompanying consolidated balance sheets.

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Self-Insurance Claims

Estimates related to the accrual for self-insured workers' compensation claims are described in *Notes 1* and *7*.

Litigation

In the normal course of business, the Corporation is, from time to time, subject to allegations that may or do result in litigation. The Corporation evaluates such allegations by conducting investigations to determine the validity of each potential claim. Based upon the advice of counsel and, with respect to workers' compensation claims, an independent actuary, management records an estimate of the amount of ultimate expected loss, if any, for each of these matters. Events could occur that would cause the estimate of ultimate loss to differ materially in the near term.

Regulatory Matters

The health care industry is subject to numerous laws and regulations of federal, state and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government health care program participation requirements and reimbursement for patient services. Government activity has continued with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by health care providers. Violations of these laws and regulations could result in expulsion from government health care programs with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed. In addition, changes to the regulatory environment could negatively impact the Corporation's financial position.

Asset Retirement Obligation

As discussed in *Note 17*, the Corporation has recorded a liability for its conditional asset retirement obligations related to asbestos abatement.

Labor Agreements

Approximately 14% of the Corporation's employees were covered by collective bargaining agreements as of March 31, 2011. Effective June 15, 2011, employees at one campus are no longer unionized; therefore, the percentage of employees under union contracts following that decertification is 9%. This agreement expires February 7, 2012.

Current Economic Conditions

The current protracted economic decline continues to present senior service providers with difficult circumstances and challenges, which in some cases have resulted in large and unanticipated declines in the fair values of investments and other assets, declines in occupancy, constraints on liquidity and difficulty obtaining financing. The accompanying consolidated financial statements have been prepared using values and information currently available to the Corporation.

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Current economic and financial market conditions have led many employers to downsize, relocate or cease operations. Such conditions may significantly impact the rate at which the Corporation's residents fulfill or renew existing lease agreements and the Corporation's ability to fill unoccupied space, which could have an adverse impact on the Corporation's future operating results.

Given the volatility of current economic conditions, the values of assets and liabilities recorded in the accompanying consolidated financial statements could change rapidly, resulting in material future adjustments in investment values, other assets values and allowances for accounts receivable that could negatively impact the Corporation's ability to meet debt covenants or maintain sufficient liquidity.

Note 19: Repayable and Amortized Accommodation Fees and Deferred Revenue

Accommodation fee arrangements apply to five of the Corporation's facilities as of March 31, 2011 and 2010. For the right to occupy a unit for life and to receive certain services at these facilities, residents are required to pay an up-front accommodation fee. The accommodation fee is based upon the type of unit rented and the monthly payment plan selected by the resident. In addition, residents are charged monthly service fees. Service fees are established at the inception of residency and may be increased by the Corporation, provided a 60-day advance notice is given to the resident.

The resident may voluntarily withdraw from the facility upon rendering proper notification. Upon voluntary withdrawal, a repayment of part or all of the accommodation fees and monthly care fees may occur. The following is a summary of the withdrawal clauses:

- If the resident voluntarily withdraws within the first seven days, all amounts will be repaid.
- If voluntary withdrawal or death occurs within 90 days of the contract date, an amount equal to the accommodation fee and the monthly care fee, less any amounts used to care for the resident during the time of the residency, will be repaid to the resident, estate, trust, heirs or representatives.
- For amortized contracts, if voluntary withdrawal occurs subsequent to the 90-day period, the amount repaid shall be equal to the accommodation fee, less an amount amortized on a basis ranging from 60 to 67 months from the date of the agreement. If voluntary withdrawal occurs after the "amortization period," as defined in the resident contract, no repayment shall be awarded. If death occurs more than 90 days after the contract date, accommodation fees are either retained by the Corporation or partially refunded based upon the individual facility's contracts.
- For repayable contracts, upon withdrawal of a resident for any reason subsequent to the 90-day period, the repayable percentage of the accommodation fee will be repaid to the resident, estate, trust, heirs or representatives within 14 calendar days of the resale of the unit.

Front Porch Communities & Services

Notes to Consolidated Financial Statements

March 31, 2011 and 2010

The estimated amount of accommodation fees expected to be repaid to current residents, net of amounts estimated to be repaid within one year amounted to approximately \$1,210,000 and \$1,481,000 at March 31, 2011 and 2010, respectively, and is included in other accrued liabilities in the accompanying consolidated balance sheets. Amounts estimated to be repaid within one year totaled \$807,000 and \$3,803,000 at March 31, 2011 and 2010, respectively, and are recorded as other current accrued expenses in the accompanying consolidated balance sheets. These estimates are based on the Corporation's historical repayment experience and the Corporation's repayment policy. At March 31, 2011 and 2010, approximately \$50,116,000 and \$46,712,000, respectively, are contractually repayable under these agreements, which represent the amount due to residents if all residents were to cancel their contracts at that date based on the repayment policies above. The contractually repayable amount, net of estimated repayable accommodation fees described above is included in deferred revenue from accommodation fees in the accompanying consolidated balance sheets.

Note 20: Discontinued Operations

On February 28, 2011, the Corporation decided to discontinue the operations of The Alhambra retirement community. The Corporation determined that it could no longer meet the needs of the broader Alhambra community with retirement housing and services, and identified a buyer who will work with the Corporation through the entitlement process and who will develop the property into residential housing that will better meet the current and future needs of the changing greater Alhambra community. The sale of The Alhambra is expected to be completed in fiscal year 2012; see *Note 21*. At March 31, 2011, assets held for sale on the accompanying consolidated balance sheet included land, land improvements, building and building improvements totaling \$3,072,688. The 2010 operations have been reclassified to include all revenues and expenses of The Alhambra in discontinued operations.

The financial results for The Alhambra for the years ended March 31, 2011 and 2010, were as follows (in thousands):

	2011	2010
Total revenue	\$ 6,771	\$ 7,212
Total operating expenses	7,292	7,513
Loss from discontinued operations	\$ (521)	\$ (301)

Note 21: Subsequent Events

On April 15, 2011, the Corporation entered into a Purchase Agreement and Joint Escrow Instructions (the Purchase Agreement) related to the sale of the land and facility in Alhambra, California, for \$15,800,000. The Purchase Agreement provides a 60-day Feasibility Period for the buyer to perform certain procedures in connection with the buyer's anticipated development of the land. The Feasibility Period was completed on June 15, 2011, and the buyer has confirmed its intent to purchase the property. The buyer is obligated to complete the purchase with limited exceptions. The purchase price of \$15,800,000 is to be paid to the Corporation at various stages with the final payment to be made no later than October 2012, unless the Corporation elects to use a portion of the purchase price to provide financing to the project.

Front Porch Communities & Services

Notes to Consolidated Financial Statements

March 31, 2011 and 2010

As part of this transaction, the Corporation anticipates recognizing a gain on disposal of property and equipment in the range of \$10,000,000 to \$12,000,000 during the year ended March 31, 2012. As of March 31, 2011, the Corporation has reclassified the property covered by the Purchase Agreement into assets held for sale on the accompanying consolidated balance sheets (see *Note 20*). Additionally, approximately \$517,000 of expenses related to the sales transaction have been recorded as prepaid expenses and other on the accompanying March 31, 2011, consolidated balance sheet.

In connection with this transaction, the Corporation discontinued the operations of The Alhambra retirement community during fiscal year 2011. See *Note 20* for additional information related to the discontinued operations.

Supplementary Information

Front Porch Communities & Services
Consolidating Schedule – Balance Sheet Information
March 31, 2011
(In Thousands)

Assets

	Obligated	Affiliates			Eliminations	Consolidated
	Group	Sunny View	CARING	Total		
Current Assets						
Cash and cash equivalents	\$ 17,150	\$ 45	\$ 70	\$ 115	\$ -	\$ 17,265
Short-term investments	1,904	-	-	-	-	1,904
Assets whose use is limited – required for current liabilities	12,629	21	10	31	-	12,660
Patient accounts receivable, net	6,181	-	42	42	(45)	6,178
Prepaid expenses and other	2,667	13	(13)	-	(547)	2,120
Assets held for sale	3,073	-	-	-	-	3,073
Total current assets	43,604	79	109	188	(592)	43,200
Investments						
Assets whose use is limited, net of current portion	26,465	1,251	-	1,251	-	27,716
Long-term investments	147,432	-	-	-	-	147,432
Derivative instruments	1,600	-	-	-	-	1,600
Investment in joint venture	1,263	-	-	-	-	1,263
Total investments	176,760	1,251	-	1,251	-	178,011
Property and Equipment, Net	285,623	2,163	105	2,268	-	287,891
Other Assets						
Interest in net assets of Pacific Homes Foundation	9,147	-	-	-	-	9,147
Receivables from supporting organizations	10,396	-	-	-	-	10,396
Deferred costs, net	10,929	-	-	-	-	10,929
Total other assets	30,472	-	-	-	-	30,472
Total assets	\$ 536,459	\$ 3,493	\$ 214	\$ 3,707	\$ (592)	\$ 539,574

Liabilities and Net Assets

Current Liabilities						
Current maturities of long-term debt	\$ 5,450	\$ 148	\$ -	\$ 148	\$ -	\$ 5,598
Accounts payable	5,074	101	563	664	(592)	5,146
Accrued payroll and related expenses	12,289	31	183	214	-	12,503
Accrued interest	6,601	9	-	9	-	6,610
Other accrued expenses	3,689	22	40	62	-	3,751
Total current liabilities	33,103	311	786	1,097	(592)	33,608
Other accrued liabilities	17,259	153	-	153	-	17,412
Deferred interest – forward sale agreements	10,212	-	-	-	-	10,212
Deferred revenue from accommodation fees	68,198	-	-	-	-	68,198
Long-term debt	278,204	1,478	-	1,478	-	279,682
Total liabilities	406,976	1,942	786	2,728	(592)	409,112
Net Assets						
Unrestricted	110,477	1,551	(572)	979	-	111,456
Temporarily restricted	12,551	-	-	-	-	12,551
Permanently restricted	6,455	-	-	-	-	6,455
Total net assets	129,483	1,551	(572)	979	-	130,462
Total liabilities and net assets	\$ 536,459	\$ 3,493	\$ 214	\$ 3,707	\$ (592)	\$ 539,574

Front Porch Communities & Services
Consolidating Schedule – Statement of Operations Information
Year Ended March 31, 2011
(In Thousands)

	Obligated	Affiliates		Total	Eliminations	Consolidated
	Group	Sunny View	CARING			
Unrestricted Revenues, Gains and Other Support						
Resident and net patient service revenue	\$ 146,496	\$ 1,707	\$ 1,945	\$ 3,652	\$ (257)	\$ 149,891
Amortization of accommodation fees	9,180	-	-	-	-	9,180
Other	332	-	-	-	(60)	272
Net assets released from restrictions used for operations	379	-	10	10	-	389
Total unrestricted revenues, gains and other support	156,387	1,707	1,955	3,662	(317)	159,732
Expenses						
Medical services	35,815	-	-	-	-	35,815
Facility operating costs	15,714	504	321	825	-	16,539
Dietary services	22,815	257	-	257	(257)	22,815
Residential services	12,435	41	-	41	-	12,476
Administrative services	32,056	405	1,735	2,140	(60)	34,136
Depreciation	19,136	287	22	309	-	19,445
Amortization of deferred costs	872	-	-	-	-	872
Interest expense	12,284	124	9	133	-	12,417
Other	2,051	55	-	55	-	2,106
Total expenses before other operating charges	153,178	1,673	2,087	3,760	(317)	156,621
Operating Income (Loss)	3,209	34	(132)	(98)	-	3,111
Other Income (Expense)						
Investment return	13,901	14	-	14	-	13,915
Gain on extinguishment of debt	954	-	-	-	-	954
Nonoperating gains (losses), net	(5)	-	-	-	-	(5)
Total other income (expense)	14,850	14	-	14	-	14,864
Excess (Deficiency) of Revenues over Expenses Before Discontinued Operations	18,059	48	(132)	(84)	-	17,975
Loss from Discontinued Operations	(521)	-	-	-	-	(521)
Excess (Deficiency) of Revenues over Expenses	17,538	48	(132)	(84)	-	17,454
Net assets released from restriction for capital expenditures	282	-	-	-	-	282
Increase (Decrease) in Unrestricted Net Assets	\$ 17,820	\$ 48	\$ (132)	\$ (84)	\$ -	\$ 17,736