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July 29, 2011

This Continuing Disclosure Annual Report is being provided by Front Porch Communities and Services (formerly, The Internext Group) (“Front Porch”) in connection with the following bond issues (the “Bonds”):


- \$209,500,000 Certificates of Participation Evidencing Proportionate Interest of the Holders Thereof In Installment Payments to be Paid by California Statewide Communities Development Authority from Payments Received From the Internext Group (1999)
- \$4,430,000 California Health Facilities Financing Authority Insured Health Facility Revenue Bonds (Sunny View Lutheran Home), 1997 Series A
- \$5,685,000 California Health Facilities Financing Authority Insured Health Facility Revenue Bonds (Sunny View Lutheran Home), 1999 Series A
- \$73,000,000 California Statewide Communities Development Authority Revenue Bonds (Front Porch Communities and Services Project), Series 2007A
- \$37,000,000 California Statewide Communities Development Authority Variable Rate Revenue Bonds (Front Porch Communities and Services Project), Series 2007B

The Front Porch’s Continuing Disclosure Annual Report is attached hereto and contains the consolidated audited financial statements of Front Porch and affiliates for the fiscal years ended March 31, 2011 and 2010, along with certain financial and operating information of Front Porch for the fiscal year ended March 31, 2011.

This Continuing Disclosure Annual Report is provided solely pursuant to the continuing disclosure certificates relating to the above-referenced Bonds. The filing of this Continuing Disclosure Annual Report does not constitute or imply any representation (i) that all of the information provided is material to investors, (ii) regarding any other financial, operating or other information about Front Porch or the Bonds, or (iii) that no changes, circumstances or events have occurred since the end of the fiscal year to which this Continuing Disclosure Annual Report relates (other than as contained in this Continuing Disclosure Annual Report), or any other date specified with respect to any of the information contained in this Continuing Disclosure Annual Report, or that no other information exists, which may have a bearing on the security for the Bonds, or an investor’s decision to buy, sell, or hold the Bonds.

The information contained in this Continuing Disclosure Annual Report has been obtained from sources which are believed to be reliable. No statement in this Continuing Disclosure Annual Report should be construed as a prediction or representation about future financial performance of Front Porch.

FRONT PORCH COMMUNITIES AND SERVICES

By:   
Mary Miller  
Chief Financial Officer



Continuing Disclosure Annual Report

Year Ended March 31, 2011

**(audited)**



**Consolidated Statements of Operations**  
(\$ in 000's)

	<u>2011</u>	<u>2010</u>
<b>Unrestricted Revenues, Gains and Other Support</b>		
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	<u>389</u>	<u>465</u>
Total unrestricted revenues, gains and other support	<u>159,732</u>	<u>152,762</u>
<b>Expenses</b>		
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	<u>2,106</u>	<u>1,976</u>
Total expenses before other operating charges	<u>156,621</u>	<u>147,041</u>
<b>Operating Income Before Other Operating Charges</b>	3,111	5,721
<b>Other Operating Charges</b>		
Redevelopment costs - Walnut Manor	-	(280)
<b>Operating Income</b>	<u>3,111</u>	<u>5,441</u>
<b>Other Income (Expense)</b>		
Investment return *	13,915	29,425
Gain on extinguishment of debt	954	-
Non-operating gains (losses), net	<u>(5)</u>	<u>151</u>
Total other income (expense)	<u>14,864</u>	<u>29,576</u>
<b>Excess of Revenues over Expenses before Discontinued Operations</b>	17,975	35,017
<b>Loss from Discontinued Operations</b>	<u>(521)</u>	<u>(301)</u>
<b>Excess of Revenues over Expenses</b>	17,454	34,716
Net assets released from restriction for capital expenditures	282	1,058
<b>Increase in Unrestricted Net Assets</b>	<u>\$ 17,736</u>	<u>\$ 35,774</u>

\* See detail of investment return on page 5.

**Consolidated Statements of Changes in Net Assets**  
(\$ in 000's)

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

## Consolidated Balance Sheets

(\$ in 000's)

	2011	2010
<b>Assets</b>		
<b>Current Assets</b>		
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
<b>Investments</b>		
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
<b>Property and Equipment, Net</b>	287,891	295,057
<b>Other Assets</b>		
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
<b>Liabilities and Net Assets</b>		
<b>Current Liabilities</b>		
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
Total current liabilities	33,608	40,169
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
Total Liabilities	409,112	420,301
<b>Net Assets</b>		
Unrestricted	111,456	93,720
Temporarily restricted	12,551	9,796
Permanently restricted	6,455	6,357
Total Net Assets	130,462	109,873
Total Liabilities and Net Assets	\$ 539,574	\$ 530,174

**Consolidated Statements of Cash Flows**

(\$ in 000's)

	<u>2011</u>	<u>2010</u>
<b>Operating Activities</b>		
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	<u>32,701</u>	<u>44,915</u>
<b>Investing Activities</b>		
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 related to sale of community	(517)	-
Repayment (advances) of note receivable	3,000	(3,000)
Net cash used in investing activities	<u>(19,582)</u>	<u>(46,840)</u>
<b>Financing Activities</b>		
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	<u>(8,871)</u>	<u>(4,601)</u>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	<b>4,248</b>	<b>(6,526)</b>
<b>Cash and Cash Equivalents, Beginning of Year</b>	<b>13,017</b>	<b>19,543</b>
<b>Cash and Cash Equivalents, End of Year</b>	<b>\$ 17,265</b>	<b>\$ 13,017</b>
<b>Supplemental Cash Flows Information</b>		
Property and equipment purchases included in accounts payable	\$ 1,786	\$ 4,456
Entrance fees included in accounts receivable	\$ 222	\$ 946

**Investment Return**

(\$ in 000's)

	<u>2011</u>	<u>2010</u>
Dividends & interest	\$ 5,811	\$ 3,246
Amortization of deferred interest income	437	437
Net realized gains (losses) on sales of securities	3,228	(1,160)
Net realized gains (losses) on derivative financial instruments, net	-	591
Net unrealized gains (losses) on trading securities	14,205	29,138
Net unrealized gains (losses) on derivative financial instruments	481	(2,137)
Impairment of note receivable *	(9,500)	-
Investment fees	(747)	(690)
<b>Investment Return</b>	<u>\$ 13,915</u>	<u>\$ 29,425</u>

\* See note 15 to the financial statements.

**Consolidating Schedule - Statement of Operations Information**  
(\$'s in 000's)

	<b>Obligated Group</b>	<b>Affiliates</b>	<b>Eliminations *</b>	<b>Consolidated</b>
<b>Unrestricted Revenues, Gains and Other Support</b>				
Resident and net patient service revenue	\$ 146,496	\$ 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	-	389
	<u>156,387</u>	<u>3,662</u>	<u>(317)</u>	<u>159,732</u>
<b>Expenses</b>				
Medical services	35,815	-	-	35,815
Facility operating costs	15,714	825	-	16,539
Dietary services	22,815	257	(257)	22,815
Residential services	12,435	41	-	12,476
Administrative services	32,056	2,140	(60)	34,136
Depreciation	19,136	309	-	19,445
Amortization of deferred costs	872	-	-	872
Interest expense	12,284	133	-	12,417
Other	2,051	55	-	2,106
	<u>153,178</u>	<u>3,760</u>	<u>(317)</u>	<u>156,621</u>
<b>Operating Income (Loss)</b>	<u>3,209</u>	<u>(98)</u>	<u>-</u>	<u>3,111</u>
<b>Other Income (Expense)</b>				
Investment return	13,901	14	-	13,915
Gain on extinguishment of debt	954	-	-	954
Nonoperating gains (losses), net	(5)	-	-	(5)
	<u>14,850</u>	<u>14</u>	<u>-</u>	<u>14,864</u>
<b>Excess (Deficiency) of Revenues over Expenses before Discontinued Operations</b>	<u>18,059</u>	<u>(84)</u>	<u>-</u>	<u>17,975</u>
<b>Loss from Discontinued Operations</b>	<u>(521)</u>	<u>-</u>	<u>-</u>	<u>(521)</u>
<b>Excess (Deficiency) of Revenues over Expenses</b>	<u>17,538</u>	<u>(84)</u>	<u>-</u>	<u>17,454</u>
Net assets released from restriction for capital expenditures	282	-	-	282
<b>Increase (Decrease) in Unrestricted Net Assets</b>	<u>\$ 17,820</u>	<u>\$ (84)</u>	<u>\$ -</u>	<u>\$ 17,736</u>

\* Represents intercompany transactions between members of the Obligated Group and members of the Affiliates

**Consolidating Schedule - Balance Sheet Information**  
(\$'s in 000's)

	<b>Obligated Group</b>	<b>Affiliates</b>	<b>Eliminations *</b>	<b>Consolidated</b>
<b>Assets</b>				
<b>Current Assets</b>				
Cash and cash equivalents	\$ 17,150	\$ 115	\$ -	\$ 17,265
Short-term investments	1,904	-	-	1,904
Assets whose use is limited - required for current liabilities	12,629	31	-	12,660
Patient accounts receivable, net	6,181	42	(45)	6,178
Prepaid expenses and other	2,667	-	(547)	2,120
Assets held for sale	3,073	-	-	3,073
Total current assets	<u>43,604</u>	<u>188</u>	<u>(592)</u>	<u>43,200</u>
<b>Investments</b>				
Assets whose use is limited, net of current portion	26,465	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	<u>176,760</u>	<u>1,251</u>	<u>-</u>	<u>178,011</u>
<b>Property and Equipment, Net</b>	<u>285,623</u>	<u>2,268</u>	<u>-</u>	<u>287,891</u>
<b>Other Assets</b>				
Interest in net assets of Pacific Homes Foundation	9,147	-	-	9,147
Receivable from supporting organizations	10,396	-	-	10,396
Deferred costs, net	10,929	-	-	10,929
Total other assets	<u>30,472</u>	<u>-</u>	<u>-</u>	<u>30,472</u>
Total assets	<u>\$ 536,459</u>	<u>\$ 3,707</u>	<u>\$ (592)</u>	<u>\$ 539,574</u>
<b>Liabilities and Net Assets</b>				
<b>Current Liabilities</b>				
Current maturities of long-term debt	\$ 5,450	\$ 148	\$ -	\$ 5,598
Accounts payable	5,074	664	(592)	5,146
Accrued payroll & related expenses	12,289	214	-	12,503
Accrued interest	6,601	9	-	6,610
Other accrued expenses	3,689	62	-	3,751
Total current liabilities	<u>33,103</u>	<u>1,097</u>	<u>(592)</u>	<u>33,608</u>
Other accrued liabilities	17,259	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	-	279,682
Total liabilities	<u>406,976</u>	<u>2,728</u>	<u>(592)</u>	<u>409,112</u>
<b>Net Assets</b>				
Unrestricted	110,477	979	-	111,456
Temporarily restricted	12,551	-	-	12,551
Permanently restricted	6,455	-	-	6,455
Total net assets	<u>129,483</u>	<u>979</u>	<u>-</u>	<u>130,462</u>
Total liabilities and net assets	<u>\$ 536,459</u>	<u>\$ 3,707</u>	<u>\$ (592)</u>	<u>\$ 539,574</u>

\* Represents intercompany transactions between members of the Obligated Group and members of the Non-Obligated Group

**Sources of Revenue for Care Centers**  
(\$'s in 000's)

**Operating Revenues:**

Medicare	\$ 7,848
Medi-Cal	\$ 15,475
Managed Care	\$ 1,565
Private Pay	<u>\$ 16,965</u>
<b>Total Operating Revenues</b>	<u><u>\$ 41,853</u></u>

**Percent of Revenues:**

Medicare	18.8%
Medi-Cal	37.0%
Managed Care	3.7%
Private Pay	<u>40.5%</u>
	<u><u>100.0%</u></u>



## Occupancy

	Full Year		
	Residential	Assisted Living	Care Center
Carlsbad By The Sea	97%	93%	88%
Casa de Manana	81%	70%	N/A
Cecil Pines	100%	N/A	N/A
Claremont Manor	80%	90%	95%
England Oaks	92%	N/A	N/A
Fredericka	76%	89%	94%
Kingsley	100%	100%	88%
Sunny View	97%	96%	96%
Villa Gardens	95%	96%	94%
Vista del Monte	97%	98%	93%
Wesley Palms	74%	87%	N/A
<b>Average*</b>	<b>87%</b>	<b>92%</b>	<b>93%</b>
The Alhambra*	N/A	78%	86%
Walnut Village *	46%	57%	83%

\* The average occupancy percentages exclude The Alhambra retirement community due to its discontinued operation and Walnut Village due to the fill-up period.

## Obligated Group - Front Porch

## Obligated Group Members

Front Porch Communities and Services

## Name of Obligated Group Communities

Alhambra Assisted Living  
Alhambra Care Center

Carlsbad By The Sea  
Carlsbad By The Sea Assisted Living  
Carlsbad By The Sea Care Center

Casa de Manana  
Casa de Manana Assisted Living

Cecil Pines

Claremont Manor  
Claremont Assisted Living  
Claremont Care Center

England Oaks & VOQ

Fredericka Manor  
Fredericka Assisted Living  
Fredericka Care Center

Kingsley Manor  
Kingsley Assisted Living  
Kingsley Care Center

Sunny View  
Sunny View Assisted Living  
Sunny View Care Center

Villa Gardens  
Villa Gardens Assisted Living  
Villa Gardens Care Center

Vista del Monte  
Vista del Monte Assisted Living  
Vista del Monte Care Center

Walnut Village  
Walnut Assisted Living  
Walnut Care Center

Wesley Palms  
Wesley Palms Assisted Living

## FTE Information

1839 total FTE's employed

302 FTE's employed by labor organization  
(Kingsley and Fredericka)

**Debt Service Coverage for Obligated Group - Debt Covenant Basis**  
 (\$'s in 000's)

**Income Available for Debt Service:**

Excess of Revenues Over Expenses	\$ 17,538
Additions: Depreciation and Amortization	20,008
Interest Expense	12,284
Accommodation Fees Received, Net of Refunds	12,210
Unrealized Gains	(14,687)
Impairment of note receivable	9,500
Deductions: Amortization of Accommodation Fees	(9,180)
Amortization of Interest Income	(437)
Gain on extinguishment of debt	(954)
Total	<u><u>\$ 46,282</u></u>

**Debt Service Requirement:**

Principal Payments of Long Term Debt	\$ 5,125
Interest Expense	12,284
Total	<u><u>\$ 17,409</u></u>

**Debt Service Coverage** 2.66

**Debt Service Coverage Covenant Requirement** 1.25