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August 9, 2016

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") (Note: par amounts listed below are original principal amounts):

- $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

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 year-to-date periods ended March 31, 2016 and 2015. The report also contains the financial statements for the Obligated Group for the fiscal year-to-date period ended March 31, 2016. Comparative information to the prior year has not been provided for the Obligated Group, as the composition of the Obligated Group changed significantly when certain facilities were transferred outside of the Obligated Group in connection with the refinancings described in the Voluntary Disclosure posted to EMMA on July 15, 2013, September 30, 2013, and November 5, 2014.

The financial information for the Obligated Group includes the operations of Claremont Manor through July 10, 2013, Kingsley Manor through July 11, 2013, Casa de Manana through September 25, 2013, and Fredericka Manor through October 28, 2014.

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
Mary Miller
Chief Financial Officer

front porch

Continuing Disclosure Annual Report

Year Ended March 31, 2016

Consolidated Statements of Operations
($ in 000's)

	2016	2015
Unrestricted Revenues, Gains and Other Support		
Resident and patient service revenue (net of contractual discounts and allowances)	$ 180,862	$ 175,700
Provision for uncollectible accounts	(1,676)	(396)
Resident and net patient service revenue less provision for uncollectible accounts	179,186	175,304
Amortization of entrance fees	10,884	9,917
Other	489	499
Net assets released from restriction used for operations	820	789
Total unrestricted revenues, gains and other support	191,379	186,509
Expenses		
Medical services	46,808	44,156
Facility operating costs	19,099	19,259
Dietary services	28,590	27,753
Residential services	15,518	14,686
Administrative services	41,672	39,162
Depreciation	24,553	24,204
Amortization of deferred costs	1,374	1,179
Interest expense and other financing costs	9,422	9,980
Other	2,198	2,442
Total expenses	189,234	182,821
Operating Income Before Other Operating Charges	2,145	3,688
Other Operating Charges		
Asset impairment	(652)	(2,751)
Operating Income	1,493	937
Other Income (Expense)		
Investment return *	(7,578)	19,716
Loss on extinguishment of debt	-	(617)
Total other income (expense)	(7,578)	19,099
Excess (Deficiency) of Revenues over Expenses	(6,085)	20,036
Net assets released from restriction for purchases of property and equipment	171	437
Increase (Decrease) in Unrestricted Net Assets	$ (5,914)	$ 20,473

* See detail of investment return on page 5.

Consolidated Balance Sheets
($ in 000's)

	2016	2015
Assets		
Current Assets		
Cash and cash equivalents	$ 19,906	$ 30,145
Short-term investments	6,680	3,209
Assets limited as to use - required for current liabilities	11,564	13,221
Patient accounts receivable, net of allowance; 2016 - $1,537, 2015 - $917	13,023	12,945
Prepaid expenses and other	2,463	2,518
Total current assets	53,636	62,038
Investments		
Assets limited as to use, net of current portion	16,325	14,957
Long-term investments	238,598	229,223
Derivative instruments	8,331	8,138
Total investments	263,254	252,318
Property and Equipment, Net	303,342	289,684
Other Assets		
Interest in net assets of Pacific Homes Foundation	10,475	11,049
Receivables from supporting organizations	10,617	11,591
Other receivables	1,813	1,794
Deferred costs, net of accumulated amortization of $13,166 in 2016 and $11,793 in 2015	9,047	10,171
Other assets	414	1,013
Total other assets	32,366	35,618
Total assets	$ 652,598	$ 639,658
Liabilities and Net Assets		
Current Liabilities		
Current maturities of long-term debt	$ 5,887	$ 5,688
Accounts payble	9,002	4,773
Accrued payroll and related expenses	13,413	11,852
Accrued interest	3,526	3,495
Other accrued expenses	10,677	6,169
Total current liabilities	42,505	31,977
Asset retirement obligations	2,188	2,577
Accrued workers' compensation	9,763	10,225
Other accrued liabilities	14,833	13,298
Deferred interest - forward sale agreements	1,036	1,360
Refundable entrance fees	66,830	60,082
Deferred revenue from entrance fees	36,462	44,898
Long-term debt	273,995	262,795
Total liabilities	447,612	427,212
Net Assets		
Unrestricted	184,425	190,339
Temporarily restricted	14,239	15,668
Permanently restricted	6,322	6,439
Total net assets	204,986	212,446
Total liabilities and net assets	$ 652,598	$ 639,658

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

	2016	2015
Unrestricted Net Assets		
Excess (deficiency) of revenues over expenses	$ (6,085)	$ 20,036
Net assets released from restriction used for purchase of property and equipment	171	437
Increase (decrease) in unrestricted net assets	(5,914)	20,473
Temporarily Restricted Net Assets		
Contributions received and investment income	120	1,395
Change in interest in net assets of Pacific Homes Foundation	(558)	558
Net assets released from restriction for operations	(820)	(789)
Net assets released from restriction used for purchase of property and equipment	(171)	(437)
Increase (decrease) in temporarily restricted net assets	(1,429)	727
Permanently Restricted Net Assets		
Contributions received	103	4
Change in value of trust	(220)	68
Increase (decrease) in permanently restricted net assets	(117)	72
Change in Net Assets	(7,460)	21,272
Net Assets, Beginning of Year	212,446	191,174
Net Assets, End of Year	$ 204,986	$ 212,446

Consolidated Statements of Cash Flows

($ in 000's)

	2016	2015
Operating Activities		
Cash received from contract residents	$ 44,079	$ 41,879
Proceeds from entrance fees received *	21,555	27,234
Cash received from and on behalf of noncontract residents	132,987	127,653
Reimbursement for services to nonresidents	2,453	3,368
Other receipts from operations	489	499
Unrestricted investment income received	6,388	6,406
Processing fees	198	210
Cash paid to suppliers, employees, and others	(153,996)	(147,667)
Cash paid for interest on long-term debt, net of amounts capitalized	(9,329)	(10,985)
Net cash provided by operating activities	44,824	48,597
Investing Activities		
Capital expenditures	(33,866)	(24,656)
Proceeds from sale of trading investments	99,719	126,385
Purchase of trading investments	(125,513)	(138,374)
Purchase of assets limited as to use	(4,507)	(4,823)
Proceeds from sale of assets limited as to use	4,796	8,211
Proceeds from partial termination of derivative financial instrument	-	2,085
Repayment from (advances to) Brookmore Apartment Corporation	600	(400)
Net cash used in investing activities	(58,771)	(31,572)
Financing Activities		
Refunds of entrance fees	(7,644)	(3,935)
Principal payments on long-term debt	(5,687)	(6,174)
Principal payments on refinancing of long-term debt	-	(32,800)
Proceeds from Series 2015 debt issuance	17,118	3,461
Cost of issuance of Series 2015 bond financing	(250)	(1,752)
Proceeds from HUD-insured financing	-	35,136
Costs of issuance of HUD-insured financing	-	(1,117)
Payment to acquire interest rate cap	-	(937)
Proceeds from restricted contributions	171	593
Net cash provided by (used in) financing activities	3,708	(7,525)
Net Increase (Decrease) in Cash and Cash Equivalents	(10,239)	9,500
Cash and Cash Equivalents, Beginning of Year	30,145	20,645
Cash and Cash Equivalents, End of Year	$ 19,906	$ 30,145

Supplemental Cash Flows Information

	2016	2015
Property and equipment purchases included in accounts payable	$ 6,744	$ 1,759
Entrance fees included in accounts receivable	$ 3,299	$ 2,970

* Breakout of initial and ongoing entrance fees is as noted below:

	FY16	FY15
Initial entrance fees	1,230	6,697
Ongoing entrance fees	20,325	20,537
Total entrance fees received	21,555	27,234

Investment Return
($ in 000's)

	2016	2015
Interest and dividend income	$ 6,389	$ 6,406
Realized gains on sale of securities, net	2,233	11,137
Realized losses on derivative financial instruments, net	-	(622)
Unrealized gains (losses) on investments valued at fair value, net	(15,343)	(728)
Unrealized gains (losses) on derivative financial instruments, net	241	4,472
Investment fees	(1,535)	(1,445)
Amortization of deferred interest income	437	437
Other investment income	-	59
Investment Return	$ (7,578)	$ 19,716

Consolidating Schedule - Statement of Operations Information

($'s in 000's)

	Obligated Group	Other Entities	Eliminations *	Consolidated
Unrestricted Revenues, Gains and Other Support				
Resident and patient service revenue (net of contractual discounts and allowances)	$ 104,253	$ 76,876	$ (267)	$ 180,862
Provision for uncollectible accounts	(454)	(1,222)	-	(1,676)
Resident and net patient service revenue less provision for uncollectible accounts	103,799	75,654	(267)	179,186
Amortization of entrance fees	10,875	9	-	10,884
Other	4,829	1	(4,341)	489
Net assets released from restrictions used for operations	779	41	-	820
Total unrestricted revenues, gains and other support	120,282	75,705	(4,608)	191,379
Expenses				
Medical services	26,751	20,057	-	46,808
Facility operating costs	11,326	7,773	-	19,099
Dietary services	16,616	12,241	(267)	28,590
Residential services	9,225	6,293	-	15,518
Administrative services	32,557	13,456	(4,341)	41,672
Depreciation	15,819	8,734	-	24,553
Amortization of deferred costs	1,153	221	-	1,374
Interest expense and other financing costs	4,823	4,599	-	9,422
Other	1,571	627	-	2,198
Total expenses	119,841	74,001	(4,608)	189,234
Operating Income Before Other Operating Charges	441	1,704	-	2,145
Other Operating Charges				
Asset impairment	(652)	-	-	(652)
Operating Income (Loss)	(211)	1,704	-	1,493
Other Income (Expense)				
Investment return	(7,588)	10	-	(7,578)
Total other income (expense)	(7,588)	10	-	(7,578)
Excess (Deficiency) of Revenues over Expenses	(7,799)	1,714	-	(6,085)
Contributions to affiliates	(222)	222	-	-
Net assets released from restriction used for purchases of property and equipment	144	27	-	171
Increase (Decrease) in Unrestricted Net Assets	$ (7,877)	$ 1,963	$ -	$ (5,914)

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

As of March 31 ,2016

Consolidating Schedule - Balance Sheet Information

($'s in 000's)

	Obligated Group	Other Entities	Eliminations *	Consolidated
Assets				
Current Assets				
Cash and cash equivalents	$ 13,549	$ 6,357	$ -	$ 19,906
Short-term investments	6,680	-	-	6,680
Assets limited as to use - required for current liabilities	9,441	2,123	-	11,564
Patient accounts receivable, net	7,423	5,600	-	13,023
Prepaid expenses and other	1,936	527	-	2,463
Intercompany receivables	738	3,314	(4,052)	-
Total current assets	39,767	17,921	(4,052)	53,636
Investments				
Assets limited as to use, net of current portion	12,432	3,893	-	16,325
Long-term Investments	238,598	-	-	238,598
Derivative instruments	8,331	-	-	8,331
Total investments	259,361	3,893	-	263,254
Property and Equipment, Net	233,001	70,341	-	303,342
Other Assets				
Interest in net assets of Pacific Homes Foundation	10,475	-	-	10,475
Receivable from supporting organizations	10,617	-	-	10,617
Other receivables	1,813	-	-	1,813
Deferred costs, net	5,756	3,291	-	9,047
Other assets	-	414	-	414
Total other assets	28,661	3,705	-	32,366
Total assets	$ 560,790	$ 95,860	$ (4,052)	$ 652,598
Liabilities and Net Assets				
Current Liabilities				
Current maturities of long-term debt	$ 2,920	$ 2,967	$ -	$ 5,887
Accounts payable	6,824	2,285	(107)	9,002
Accrued payroll & related expenses	9,418	3,995	-	13,413
Intercompany payables	-	3,945	(3,945)	-
Accrued interest	3,220	306	-	3,526
Other accrued expenses	9,682	995	-	10,677
Total current liabilities	32,064	14,493	(4,052)	42,505
Asset retirement obligations	228	1,960	-	2,188
Accrued workers' compensation	5,496	4,267	-	9,763
Other accrued liabilities	11,630	3,203	-	14,833
Deferred interest - forward sale agreements	1,036	-	-	1,036
Refundable entrance fees	66,830	-	-	66,830
Deferred revenue from entrance fees	35,836	626	-	36,462
Long-term debt	162,059	111,936	-	273,995
Total liabilities	315,179	136,485	(4,052)	447,612
Net Assets				
Unrestricted	225,050	(40,625)	-	184,425
Temporarily restricted	14,239	-	-	14,239
Permanently restricted	6,322	-	-	6,322
Total net assets	245,611	(40,625)	-	204,986
Total liabilities and net assets	$ 560,790	$ 95,860	$ (4,052)	$ 652,598

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

Consolidating Schedule - Statement of Cash Flows Information

($'s in 000's)

	Obligated Group	Other Entities	Eliminations *	Consolidated
Operating Activities				
Cash received from contract residents	$ 43,977	$ 102	$ -	$ 44,079
Proceeds from entrance fees received	21,555	-	-	21,555
Cash received from and on behalf of noncontract residents	59,254	73,733	-	132,987
Reimbursement for services to nonresidents	1,274	1,179	-	2,453
Other receipts from operations	4,829	1	(4,341)	489
Unrestricted investment income received	6,378	10	-	6,388
Processing fees	198	-	-	198
Cash paid to suppliers, employees and others	(98,530)	(59,807)	4,341	(153,996)
Cash paid for interest on long-term debt, net of amounts capitalized	(4,791)	(4,538)	-	(9,329)
Net cash provided by operating activities	34,144	10,680	-	44,824
Investing Activities				
Capital expenditures	(27,283)	(6,583)	-	(33,866)
Proceeds from sale of trading investments	99,719	-	-	99,719
Purchase of trading investments	(125,513)	-	-	(125,513)
Purchase of assets limited as to use	(3,276)	(1,231)	-	(4,507)
Proceeds from sale of assets limited as to use	2,810	1,986	-	4,796
Payment on note receivable from Brookmore Apartment Corporation	600			600
Net cash used in investing activities	(52,943)	(5,828)	-	(58,771)
Financing Activities				
Refunds of entrance fees	(7,643)	(1)	-	(7,644)
Principal payments on long-term debt	(2,820)	(2,867)	-	(5,687)
Proceeds from Series 2015 debt issuance	17,118	-	-	17,118
Cost of issuance of Series 2015 bond financing	(250)	-	-	(250)
Proceeds from restricted contributions	144	27	-	171
Net cash provided by (used in) financing activities	6,549	(2,841)	-	3,708
Net Increase (Decrease) in Cash and Cash Equivalents	(12,250)	2,011	-	(10,239)
Cash and Cash Equivalents, Beginning of Year	25,799	4,346	-	30,145
Cash and Cash Equivalents, End of Year	$ 13,549	$ 6,357	$ -	$ 19,906

Supplemental Cash Flows Information

Property and equipment purchases included in accounts payable	$ 4,296	$ 2,448	$ -	$ 6,744
Entrance fees included in accounts receivable	$ 3,299	$ -	$ -	$ 3,299

Sources of Revenue for Care Centers

($'s in 000's)

	Obligated Group	Other Entities	Consolidated
Operating Revenues:			
Medicare	$ 6,915	$ 3,482	$ 10,397
Medi-Cal	5,306	10,681	15,987
Managed Care	598	1,577	2,175
Private Pay	8,866	4,146	13,012
Total Operating Revenues	$ 21,685	$ 19,886	$ 41,571
Percent of Revenues:			
Medicare	31.9%	17.5%	25.0%
Medi-Cal	24.5%	53.7%	38.5%
Managed Care	2.8%	7.9%	5.2%
Private Pay	40.8%	20.9%	31.3%
	100.0%	100.0%	100.0%

Consolidated Available Units/Beds and Occupancy by Line of Service [4]

Year to Date

	Residential Living		Summer House		Care Center	
	Avail Units	%	Avail Units	%	Avail Beds	%
Carlsbad By The Sea	159	97.5%	N/A	N/A	33	87.9%
Casa de Manana	189	97.0%	N/A	N/A	N/A	N/A
Cecil Pines	92	99.5%	N/A	N/A	N/A	N/A
Claremont	204	96.3%	10	99.0%	59	83.1%
England Oaks	181	96.5%	N/A	N/A	N/A	N/A
Fredericka	290	87.4%	N/A	N/A	172	93.0%
Kingsley	214	99.4%	N/A	N/A	51	90.2%
Sunny View	95	99.1%	22	93.7%	48	91.7%
Villa Gardens	209	98.3%	3	100.0%	54	74.1%
Vista del Monte	171	98.0%	10	98.0%	29	82.8%
Walnut Village	156	95.1%	14	99.3%	94	84.0%
Wesley Palms	**See footnote [1]**		22	97.7%	N/A	N/A
Average [1]	**1,960**	**96.1%**	**81**	**97.2%**	**540**	**87.1%**
Average - Prior Year to Date [1]	**1,968**	**93.9%**	**69**	**89.3%**	**538**	**89.4%**
Wesley Palms [2]	293	67.2%	N/A	N/A	N/A	N/A
Wesley Palms [3]	219	89.8%	N/A	N/A	N/A	N/A

(1) The average occupancy percentages for residential living exclude Wesley Palms due to its renovation. Averages for prior year have been recalculated to include Wesley Palms Summer House, as it has not been impacted by the renovation.

(2) Residential living occupancy is based on 293 unit capacity.

(3) Residential living occupancy is based on reduced capacity.

(4) Methodology of calculating occupancy percentages has been changed to reflect average revenue-producing units rather than unit status as of the last day of the reporting period.

Obligated Group Available Units/Beds and Occupancy by Line of Service [4]

	Year to Date					
	Residential Living		Summer House		Care Center	
	Avail Units	%	Avail Units	%	Avail Beds	%
Carlsbad By The Sea	159	97.5%	N/A	N/A	33	87.9%
Cecil Pines	92	99.5%	N/A	N/A	N/A	N/A
England Oaks	181	96.5%	N/A	N/A	N/A	N/A
Sunny View	95	99.1%	22	93.7%	48	91.7%
Villa Gardens	209	98.3%	3	100.0%	54	74.1%
Vista del Monte	171	98.0%	10	98.0%	29	82.8%
Walnut Village	156	95.1%	14	99.3%	94	84.0%
Wesley Palms	See footnote [1]		22	97.7%	N/A	N/A
Average [1]	**1,063**	**97.5%**	**71**	**96.9%**	**258**	**83.3%**
Wesley Palms [2]	293	67.2%	N/A	N/A	N/A	N/A
Wesley Palms [3]	219	89.8%	N/A	N/A	N/A	N/A

(1) The average occupancy percentages for residential living exclude Wesley Palms due to its renovation. Averages for prior year have been recalculated to include Wesley Palms Summer House, as it has not been impacted by the renovation.

(2) Residential living occupancy is based on 293 unit capacity.

(3) Residential living occupancy is based on reduced capacity.

(4) Methodology of calculating occupancy percentages has been changed to reflect average revenue-producing units rather than unit status as of the last day of the reporting period.

front porch

As of March 31 ,2016

Obligated Group - Front Porch

Obligated Group Members

Front Porch Communities and Services

Communities leased or owned by Obligated Group

Carlsbad By The Sea
Carlsbad By The Sea Care Center

Cecil Pines (leased)

England Oaks & VOQ (leased)

Sunny View
Sunny View Summer House
Sunny View Care Center

Villa Gardens
Villa Gardens Summer House
Villa Gardens Care Center

Vista del Monte
Vista del Monte Summer House
Vista del Monte Care Center

Walnut Village
Walnut Summer House
Walnut Care Center

Wesley Palms
Wesley Palms Summer House

FTE Information

1,781 total FTE's employed

Debt Service Coverage for Obligated Group - Debt Covenant Basis

($'s in 000's)

Income Available for Debt Service:			
Excess of Revenues Over Expenses Before Discontinued Operations		$	(7,799)
Additions:	Depreciation and Amortization		16,972
	Interest Expense		4,823
	Entrance Fees Received, Net of Refunds		13,912
	Asset Impairments		652
	Unrealized Losses		15,102
Deductions:	Amortization of Accommodation Fees		(10,875)
	Amortization of Interest Income		(437)
Total		$	32,350
Debt Service Requirement:			
Principal Payments of Long Term Debt		$	2,820
Interest Expense			4,801
Total		$	7,621
Debt Service Coverage			4.24
Debt Service Coverage Covenant Requirement			1.25

No Default Certification

As required under the Continuing Disclosure Agreement for the 2007A Bonds, as of March 31, 2016, Front Porch certifies that there has been no Event of Default under the Bond Indenture or the Loan Agreement relating to the 2007 Bonds or the Master Indenture, and no event has occurred which, with the giving of notice or the passage of time, or both, would become an Event of Default.

Management's Discussion – FYE 3/31/16

Results of Operations - Consolidated

Residential occupancy strengthened in FY16 with average occupancy for the year of 96.1%, compared to 93.9% for the prior year, excluding the Wesley Palms campus which is undergoing renovation. Ten of Front Porch's twelve communities averaged 95% or higher occupancy in residential living for the fiscal year. Wesley Palms averaged 39 fewer available residential living units compared to the average available units of 258 for the prior fiscal year. Despite construction on the campus, Wesley Palms averaged 89.8% occupancy based on the reduced capacity.

Summer House, the Front Porch brand for memory care averaged 97.2% occupancy for FY16 compared to 89.3% for FY15. Residential living units at Villa Gardens and Sunny View were converted to memory care during the year, resulting in an increase in average available units of 12 for the year.

Care Center occupancy declined from 89.4% in FY15 to 87.1% in FY16. Payer mix deteriorated with private pay declining to 31% of net revenues in FY16 compared to 34% in FY15. Medi-Cal and Managed Care net revenues increased to a combined total of 44% of net revenues in FY16 compared to 43% in the prior year. Medicare net revenues made up the remaining 25% of net revenues in FY16 compared to 23% in the prior year.

Operating revenues increased 2.6% from $175.3 million in FY15 to $179.2 million in FY16, net of a $1.3 million higher allowance for bad debts and excluding an increase in amortization of entrance fees of $1.0 million. Total unrestricted revenues, gains and other support increased 2.6% from $186.5 million in FY15 to $191.4 million in FY16.

Operating expenses increased $ 3.5% from $182.8 million in FY15 to $189.2 million in FY16, primarily driven by labor costs. The increased California minimum wage and increased competition for talent contributed to increased salaries, wages and benefits as well as nursing registry costs. Interest expense was $0.6 million below prior year due primarily to debt refinancing that occurred in FY14 and FY15.

Operating income net of asset impairments was $1.5 million in FY16 compared to $0.9 million in FY15 which included a $2.2 million write-off of predevelopment costs at Villa Gardens. Operating income before other operating charges of $2.1 million in FY16 declined by $1.5 million due to the closure of a portion of the Wesley Palms campus during renovation. Residential living and memory care profitability improved, while Care Center profitability declined due to reduced census and an unfavorable payer mix. Investment returns of $(7.6) million, driven by unrealized losses of $15.1 million, resulted in a decrease in unrestricted net assets of $5.9 million.

Management's Discussion – FYE 3/31/16

Results of Operations - Obligated Group

Residential living occupancy averaged 97.5% for FY16 excluding the Wesley Palms campus. Seven of the eight communities averaged 95% or higher occupancy for the fiscal year. Walnut Village, which achieved stabilized occupancy of 90% in FY15, maintained average occupancy of 95% in residential living for FY16. Average available units at Wesley Palms declined by 39 units due to the campus renovation. Wesley Palms maintained an occupancy of 89.8% based on the reduced capacity.

Summer House occupancy averaged 96.9%. Residential living units at Villa Gardens and Sunny View were converted to memory care during the year to meet increasing demand for these services.

Care Center occupancy averaged 83.3% in FY16. Compared to the consolidated results, the Obligated Group has higher Medicare and private pay census, and lower Medi-Cal and managed care census.

The Obligated Group achieved revenues in FY16 of $120.3 million, net of a $0.5 million provision for uncollectible accounts and including amortization revenue of $10.9 million. Operating expenses before asset impairments in FY16 were $119.8 million, resulting in Operating Income before Other Operating Charges of $0.4 million. Profitability of Wesley Palms declined significantly versus prior year, reflecting a decrease in average available units to 219 for FY16 compared to 258 for FY15. Prior to the impact from the renovation, Wesley Palms had 293 available residential living units. Including the asset impairment for the Wesley Palms campus, the Obligated Group had an operating loss of $0.2 million for FY16. Investment return was $(7.6) million, driven by unrealized losses of $15.1 million, resulting in a decrease in unrestricted net assets for the Obligated Group of $7.9 million.

Comparative financial statements are not presented for the Obligated Group due to the transfer of Fredericka Manor out of the Obligated Group in November of 2014 when debt associated with the Fredericka campus was refinanced.

Management's Discussion – FYE 3/31/16

Balance sheet and cash flow - Consolidated

Total assets increased $12.9 million to $652.6 million at March 31, 2016, compared to $639.7 at March 31, 2015. During the same period, cash decreased by $10.2 million reflecting net transfers of $13.8 million to short-term and long-term investments during FY 2016. Short-term investments increased by $3.5 million and long-term investments increased by $9.4 million despite negative investment returns. Property and equipment increased by $13.7 million, reflecting continuing investment in the communities, primarily Wesley Palms and Villa Gardens. The increase in long-term debt reflected $17.1 million drawn down from Series 2015 financing proceeds. The decline in net assets of $7.5 million resulted from negative investment returns.

Cash decreased by $10.2 million, primarily due to cash used in investing activities. Cash generated by operations of $44.8 million declined $3.8 million primarily due to a decrease in initial entrance fees of $5.5 million following stabilized occupancy of Walnut Village.

Balance sheet and cash flow - Obligated Group

The Obligated Group ended FY16 with total assets of $561 million, liabilities of $315 million, unrestricted net assets of $225 million, and total net assets of $246 million. Cash generated from operations during FY16 was $34.1 million, with capital expenditures of $27.3 million, of which $17.1 million for Wesley Palms were funded with Series 2015 debt draw-downs. Villa Gardens invested $2.7 million for a multi-year project to modernize the main building and improve its amenities and service offerings.

Comparative financial statements are not presented for the Obligated Group due to the transfer of Fredericka Manor out of the Obligated Group in November of 2014 when debt associated with the Fredericka campus was refinanced.