

Front Porch Communities & Services

Independent Auditor's Report and Consolidated Financial Statements

March 31, 2016 and 2015



Front Porch Communities & Services

March 31, 2016 and 2015

Contents

Independent Auditor's Report	1
Consolidated Financial Statements	
Balance Sheets	3
Statements of Operations	4
Statements of Changes in Net Assets	5
Statements of Cash Flows	6
Notes to Financial Statements	7
Supplementary Information	
Consolidating Schedule – Balance Sheet Information – March 31, 2016	38
Consolidating Schedule – Statement of Operations Information – Year Ended March 31, 2016	39
Consolidating Schedule – Statement of Cash Flows Information – Year Ended March 31, 2016	40

Independent Auditor's Report

Board of Directors
Front Porch Communities & Services
Glendale, California

We have audited the accompanying consolidated financial statements of Front Porch Communities & Services (the Corporation), which comprise the consolidated balance sheets as of March 31, 2016 and 2015, and the related consolidated statements of operations, changes in net assets and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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, 2016 and 2015, and the results of its operations, the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying supplementary consolidating information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the 2016 consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the 2016 consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the 2016 consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the 2016 consolidated financial statements or to the 2016 consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the 2016 consolidated financial statements as a whole.

BKD, LLP

Tulsa, Oklahoma
July 21, 2016

Front Porch Communities & Services
Consolidated Balance Sheets
March 31, 2016 and 2015
(In Thousands)

Assets

	2016	2015
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

	<u>2016</u>	<u>2015</u>
Current Liabilities		
Current maturities of long-term debt	\$ 5,887	\$ 5,688
Accounts payable	9,002	4,773
Accrued payroll and related expenses	13,413	11,852
Accrued interest	3,526	3,495
Other accrued expenses	<u>10,677</u>	<u>6,169</u>
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	<u>273,995</u>	<u>262,795</u>
Total liabilities	<u>447,612</u>	<u>427,212</u>
Net Assets		
Unrestricted	184,425	190,339
Temporarily restricted	14,239	15,668
Permanently restricted	<u>6,322</u>	<u>6,439</u>
Total net assets	<u>204,986</u>	<u>212,446</u>
Total liabilities and net assets	<u><u>\$ 652,598</u></u>	<u><u>\$ 639,658</u></u>

Front Porch Communities & Services
Consolidated Statements of Operations
Years Ended March 31, 2016 and 2015
(In Thousands)

	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 restrictions 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 used for purchase of property and equipment	171	437
Increase (Decrease) in Unrestricted Net Assets	\$ (5,914)	\$ 20,473

Front Porch Communities & Services
Consolidated Statements of Changes in Net Assets
Years Ended March 31, 2016 and 2015
(In Thousands)

	<u>2016</u>	<u>2015</u>
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	<u>171</u>	<u>437</u>
Increase (decrease) in unrestricted net assets	<u>(5,914)</u>	<u>20,473</u>
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	<u>(171)</u>	<u>(437)</u>
Increase (decrease) in temporarily restricted net assets	<u>(1,429)</u>	<u>727</u>
Permanently Restricted Net Assets		
Contributions received	103	4
Change in value of trust	<u>(220)</u>	<u>68</u>
Increase (decrease) in permanently restricted net assets	<u>(117)</u>	<u>72</u>
Change in Net Assets	(7,460)	21,272
Net Assets, Beginning of Year	<u>212,446</u>	<u>191,174</u>
Net Assets, End of Year	<u><u>\$ 204,986</u></u>	<u><u>\$ 212,446</u></u>

Front Porch Communities & Services
Consolidated Statements of Cash Flows
Years Ended March 31, 2016 and 2015
(In Thousands)

	<u>2016</u>	<u>2015</u>
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	<u>(9,329)</u>	<u>(10,985)</u>
Net cash provided by operating activities	<u>44,824</u>	<u>48,597</u>
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	<u>600</u>	<u>(400)</u>
Net cash used in investing activities	<u>(58,771)</u>	<u>(31,572)</u>
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
Costs 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	<u>171</u>	<u>593</u>
Net cash provided by (used in) financing activities	<u>3,708</u>	<u>(7,525)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(10,239)	9,500
Cash and Cash Equivalents, Beginning of Year	<u>30,145</u>	<u>20,645</u>
Cash and Cash Equivalents, End of Year	<u><u>\$ 19,906</u></u>	<u><u>\$ 30,145</u></u>

See Notes to Consolidated Financial Statements

	<u>2016</u>	<u>2015</u>
Supplemental Cash Flows Information		
Property and equipment purchases included in accounts payable	\$ 6,744	\$ 1,759
Entrance fees included in accounts receivable	\$ 3,299	\$ 2,970
Cash Flows from Operating Activities		
Change in net assets	\$ (7,460)	\$ 21,272
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation	24,553	24,204
(Gain) loss on disposal of assets	(12)	73
Amortization of deferred costs	1,374	1,179
Loss on debt refinancing	-	617
Accretion of asset retirement obligations	91	(150)
Impairment related to construction projects	652	2,751
Amortization of bond premium included in interest expense	(32)	(32)
Provision for uncollectible accounts	1,676	396
Entrance fees received	21,555	27,234
Amortization of entrance fees	(10,884)	(9,917)
Realized and unrealized gain (loss) on investments, net	13,110	(10,468)
Realized and unrealized loss on derivative financial instruments, net	(242)	(3,850)
Amortized income on forward sale agreements	(437)	(437)
Change in interest in net assets of Pacific Homes Foundation	574	(163)
Change in receivables from supporting organizations	974	(494)
Contributions restricted by donor	(171)	(593)
Allowance on other receivables	-	404
Changes in operating assets and operating liabilities		
Accounts receivable, net	(1,144)	(2,590)
Prepaid expenses and other current assets	35	32
Accounts payable and accrued expenses	3,451	42
Other accrued liabilities	(2,839)	(913)
	<u>\$ 44,824</u>	<u>\$ 48,597</u>
Net cash provided by operating activities	<u>\$ 44,824</u>	<u>\$ 48,597</u>

Front Porch Communities & Services
Notes to Consolidated Financial Statements
March 31, 2016 and 2015
(In Thousands)

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 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 (CCRC), other multilevel retirement communities and other operations providing services that enhance the quality of life for those served through independent retirement living, assisted living, memory care, skilled nursing, social services, affordable housing and contract management of subsidized housing.

The Corporation operates the various communities under two different operating organizations. The services provided by these two operating organizations are summarized below as of March 31, 2016:

Operator	Residential Living Units	Memory Care Units	Care Center Beds	Total Units/Beds
Obligated Group	1,243	87	258	1,588
Front Porch Communities Operating Group, LLC	894	10	282	1,186
Total Front Porch Communities & Services	2,137	97	540	2,774

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 as of March 31, 2016:

Community	City	Type	Residential Living Units	Memory Care Units	Care Center Beds	Total Units/Beds
Owned Communities						
Carlsbad by the Sea	Carlsbad, CA	CCRC	159	-	33	192
Sunny View Retirement Community	Cupertino, CA	CCRC	95	23	48	166
Villa Gardens	Pasadena, CA	CCRC	194	18	54	266
Vista del Monte	Santa Barbara, CA	CCRC	169	10	29	208
Walnut Village	Anaheim, CA	CCRC	156	14	94	264
Wesley Palms	San Diego, CA	Rental	198	22	-	220
Leased Communities						
Cecil Pines	Jacksonville, FL	Rental	92	-	-	92
England Oaks	Alexandria, LA	Rental	180	-	-	180
Total Obligated Group			1,243	87	258	1,588

Front Porch Communities & Services
Notes to Consolidated Financial Statements
March 31, 2016 and 2015
(In Thousands)

Nonobligated Group

The following wholly owned subsidiaries of the Corporation are not members of the Obligated Group and are under “Other Entities” in the accompanying consolidated financial statements:

Front Porch Communities Operating Group, LLC

Front Porch Communities Operating Group, LLC (OpCo) is a California nonprofit limited liability company as described in Section 501(c)(3) of the Code. OpCo is exempt from federal income taxes on related income pursuant to Section 501 of the Code and is also exempt from state franchise taxes under similar provisions for the state of California. OpCo was formed in connection with the refinancing of certain Obligated Group debt as discussed in *Note 8* and operates exclusively to further the charitable purpose of its sole member, the Corporation.

OpCo currently leases property from the following entities and operates them in accordance with the Corporation’s management philosophies, policies and procedures and with existing Corporation staff members.

Community	City	Type	Residential Living Units	Memory Care Units	Care Center Beds	Total Units/Beds
Front Porch Communities & Services – Casa de Mañana, LLC	La Jolla, CA	Rental	188	-	-	188
Front Porch Communities & Services – Claremont Manor, LLC	Claremont, CA	Rental	203	10	59	272
Front Porch Communities & Services – Kingsley Manor, LLC	Los Angeles, CA	Rental	214	-	51	265
Front Porch Communities & Services – Fredericka Manor, LLC	Chula Vista, CA	Rental	289	-	172	461
Total OpCo			<u>894</u>	<u>10</u>	<u>282</u>	<u>1,186</u>

Front Porch Communities & Services – Casa de Mañana, LLC; Front Porch Communities & Services – Claremont Manor, LLC; Front Porch Communities & Services – Kingsley Manor, LLC; and Front Porch Communities & Services – Fredericka Manor, LLC

These four entities (collectively, the Real Estate LLCs) were formed in connection with the refinancing of certain Obligated Group debt. These entities own the real estate associated with each of the specified campuses and each has a nonrecourse loan against its property discussed in *Note 8*. As noted above, these entities each lease their property to OpCo, which holds the license to operate and is responsible for all operations of these campuses post-refinancing.

Front Porch Communities & Services
Notes to Consolidated Financial Statements
March 31, 2016 and 2015
(In Thousands)

CARING Housing Ministries, Inc.

CARING Housing Ministries, Inc. (CARING) manages 24 HUD-subsidized and tax credit facilities, which provide housing to approximately 2,300 residents. CARING's managed facilities are located throughout California and in Glendale, Arizona. CARING's management fees received from clients are based on a percentage of its clients' operating revenues or are earned on a per-unit-per-month basis. 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) (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 was formed to provide 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 Delaware for-profit limited liability company to 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
March 31, 2016 and 2015
(In Thousands)

The boards of FPE, Active Adult Communities and Development Company agreed to dissolve these entities on July 8, 2014. The dissolutions will be effective upon resolution of all outstanding liabilities and filing of the appropriate legal documents. Operations previously performed by these entities began to be performed by the Corporation effective July 1, 2014, and, therefore, are included with the Corporation effective July 1, 2014. However, the entities have not yet been legally dissolved as of March 31, 2016.

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.

The board of CTIW agreed to dissolve this entity on March 6, 2015. The dissolution will be effective upon filing of the appropriate legal documents. Operations previously performed by CTIW began to be performed by the Corporation effective April 1, 2015.

Principles of Consolidation

The consolidated financial statements of the Corporation include the accounts of the Obligated Group, OpCo, the Real Estate LLCs, CARING and Sunny View. All significant intercompany transactions and balances have been eliminated in consolidation.

Use of Estimates

The preparation of consolidated 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 consolidated 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, 2016 and 2015, cash equivalents consisted primarily of money market mutual funds of \$7,515 and \$23,167, respectively. These funds are not insured by the Federal Deposit Insurance Corporation (FDIC).

At March 31, 2016, the Corporation's cash accounts exceeded federally insured limits by \$8,106.

Front Porch Communities & Services
Notes to Consolidated Financial Statements
March 31, 2016 and 2015
(In Thousands)

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 accompanying 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.

Assets Limited as to Use

Assets limited as to use 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) entrance fees refundable within the first 90 days of residency in accordance with state law; (d) assets restricted by the donor for specific purposes; (e) 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; and (f) assets held in escrow for payment of property taxes and insurance, debt service, owner repairs and reserves for replacements pursuant to the loan agreements insured by HUD for the Real Estate LLCs. 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.

For receivables associated with services provided to patients who have third-party coverage, the Corporation analyzes contractually due amounts and provides an allowance for doubtful accounts and a provision for uncollectible accounts, if necessary.

For receivables associated with self-pay patients (which include both patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill), the Corporation records a significant provision for uncollectible accounts in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The difference between the standard rates (or the discounted rates if negotiated or provided by policy) and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for doubtful accounts.

Front Porch Communities & Services
Notes to Consolidated Financial Statements
March 31, 2016 and 2015
(In Thousands)

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 based on individual credit evaluation and specific circumstances of the account.

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.

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

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.

Long-Lived Asset Impairment

The Corporation evaluates the recoverability of the carrying value of long-lived assets whenever events or circumstances indicate the carrying amount may not be recoverable. If a long-lived asset is tested for recoverability and the undiscounted estimated future cash flows expected to result from the use and eventual disposition of the asset is less than the carrying amount of the asset, the asset cost is adjusted to fair value and an impairment loss is recognized as the amount by which the carrying amount of a long-lived asset exceeds its fair value.

As discussed in *Note 4*, the Corporation recorded asset impairments during fiscal years 2016 and 2015.

Front Porch Communities & Services
Notes to Consolidated Financial Statements
March 31, 2016 and 2015
(In Thousands)

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 the accompanying consolidated statements of changes in net assets. Transfers of assets between 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 \$7,055 and \$7,515 at March 31, 2016 and 2015, respectively, which are amortized using the effective-interest method over the terms of the bond issues. Deferred costs also include unamortized direct response advertising costs incurred in connection with acquiring initial continuing care contracts of \$1,992 and \$2,656 at March 31, 2016 and 2015, respectively, which are 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.

In conjunction with the partial redemption of the California Statewide Communities Development Authority 1999 Certificates of Participation as discussed in *Note 8*, the Corporation recorded a loss on extinguishment of debt in fiscal year 2015 of \$617 reflecting the write-off of unamortized deferred financing costs proportional to the amount of debt refinanced.

Deferred Revenue from Entrance 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 entrance fees. If the present value of the net cost of future services and the use of facilities exceeds the deferred revenue from entrance 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 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 based on the Corporation's weighted-average borrowing rate. As of March 31, 2016 and 2015, there was no estimated future service obligation related to Type A or Type B contracts.

Front Porch Communities & Services
Notes to Consolidated Financial Statements
March 31, 2016 and 2015
(In Thousands)

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 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.

Excess (Deficiency) of Revenues over Expenses

The accompanying consolidated statements of operations include excess (deficiency) of revenues over expenses. Changes in unrestricted net assets, which are excluded from excess (deficiency) of revenues over expenses, consistent with industry practice, include net assets released from restriction used for purchase of property and equipment.

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

Front Porch Communities & Services
Notes to Consolidated Financial Statements
March 31, 2016 and 2015
(In Thousands)

- Meals on Wheels Program
- Training sites for various colleges, universities and regional occupational programs
- Alzheimer's support groups

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.

Professional Liability and Workers' Compensation Claims

The Corporation recognizes an accrual for claim liabilities based on estimated ultimate losses and costs associated with settling claims and a receivable to reflect the estimated insurance recoveries, if any. Professional liability claims are described more fully in *Note 6*. Workers' compensation claims are described more fully in *Note 7*.

Income Taxes

The Corporation is a nonprofit organization as described in Section 501(c)(3) of the Code and has been recognized as exempt from federal income and state franchise taxes on related income pursuant to Section 509(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, 2016 and 2015, 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.

Front Porch Communities & Services
Notes to Consolidated Financial Statements
March 31, 2016 and 2015
(In Thousands)

Transfers Between Fair Value Hierarchy Levels

Transfers in and out of Level 1 (quoted market prices), Level 2 (other significant observable inputs) and Level 3 (significant unobservable inputs) are recognized on the period ending date.

Reclassifications

Certain reclassifications have been made to the 2015 consolidated financial statements to conform to the 2016 consolidated financial statement presentation. These reclassifications had no effect on the change in net assets.

Subsequent Events

Subsequent events have been evaluated through the date of the Independent Auditor's Report, which is the date the consolidated financial statements were issued.

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 services from patients and third-party payers at March 31 were:

	<u>2016</u>	<u>2015</u>
Medicare	30%	33%
Medi-Cal (including Medi-Cal managed care payers)	30%	32%
PPO/HMO (other contracted payers)	25%	26%
Patients and other	15%	9%
	<u>100%</u>	<u>100%</u>

Note 3: Investments and Investment Return

Short-term investments at fair value consisted of the following at March 31:

	<u>2016</u>	<u>2015</u>
U.S. Treasury and U.S. agency securities	\$ 1,502	\$ 278
Corporate bonds	5,178	2,931
	<u>\$ 6,680</u>	<u>\$ 3,209</u>

Front Porch Communities & Services
Notes to Consolidated Financial Statements
March 31, 2016 and 2015
(In Thousands)

Assets limited as to use at fair value consisted of the following at March 31:

	<u>2016</u>	<u>2015</u>
Cash	\$ 10,643	\$ 9,841
Certificates of deposit	1,252	1,465
Money market mutual funds	4,510	5,910
U.S. Treasury and U.S. agency securities	3,736	3,961
Corporate bonds and commercial paper	7,748	7,001
	<u>27,889</u>	<u>28,178</u>
Less amounts required to meet current obligations	<u>11,564</u>	<u>13,221</u>
	<u>\$ 16,325</u>	<u>\$ 14,957</u>

Assets limited as to use consist of amounts with restrictions for the following purposes as of March 31:

	<u>2016</u>	<u>2015</u>
Held by trustee under indenture agreements for bond fund and other reserves	\$ 16,143	\$ 16,990
HUD debt service	926	926
HUD facility reserves	4,884	3,877
HUD owner repairs	-	1,500
HUD property tax and insurance	172	434
Deposit subscriptions held in trust	1,146	514
90-day refundable accommodation fees	4,485	3,816
Restricted by donors for capital expenditures	109	97
Resident deposits held in trust	24	24
	<u>\$ 27,889</u>	<u>\$ 28,178</u>

Front Porch Communities & Services
Notes to Consolidated Financial Statements
March 31, 2016 and 2015
(In Thousands)

Long-term investments at fair value consisted of the following at March 31:

	<u>2016</u>	<u>2015</u>
Commodity mutual funds	\$ 13,610	\$ 12,736
Other mutual funds	12,485	12,687
U.S. Treasury and U.S. agency securities	7,525	3,885
Equity securities – domestic	149,585	144,835
Equity securities – international	36,605	37,392
Corporate bonds	13,773	12,835
Guaranteed investment contracts (at amortized cost)	<u>5,015</u>	<u>4,853</u>
	<u>\$ 238,598</u>	<u>\$ 229,223</u>

The guaranteed investment contracts (GIC) 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 invests 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, 2016, none of the mutual funds held by the Corporation were subject to any redemption provisions.

As discussed in *Note 9*, the Corporation entered into certain derivative instruments. The derivative instruments related to the Series 2007 forward delivery agreement and the interest rate cap purchased in 2015 are included in the accompanying consolidated balance sheets as derivative instruments under investments.

Total investment return is comprised of the following for the years ended March 31 and is included in unrestricted net assets:

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

Front Porch Communities & Services
Notes to Consolidated Financial Statements
March 31, 2016 and 2015
(In Thousands)

The change in temporarily restricted net assets for the years ended March 31, 2016 and 2015, includes investment return of \$(95) and \$639, respectively.

Note 4: Property and Equipment

A summary of property and equipment at March 31 follows:

	<u>2016</u>	<u>2015</u>
Land and land improvements	\$ 47,937	\$ 47,506
Buildings	300,509	300,509
Building improvements	125,879	120,782
Leasehold improvements	9,952	9,448
Equipment	132,177	126,495
Construction in progress	29,014	3,748
	<u>645,468</u>	<u>608,488</u>
Less accumulated depreciation	<u>342,126</u>	<u>318,804</u>
	<u>\$ 303,342</u>	<u>\$ 289,684</u>

During fiscal year 2015, the Corporation re-evaluated the potential expansion of the Villa Gardens facility and determined the most prudent course of action was to remodel and renovate the community. As part of this evaluation, the Corporation identified \$2,174 of capitalized predevelopment costs related to the planned expansion of the Villa Gardens facility that would not be utilized in the renovation of the main building. Therefore, the Corporation recorded an asset impairment for those predevelopment costs in 2015.

The Corporation recorded asset impairments of \$652 and \$577 in 2016 and 2015, respectively, to recognize the write-off of certain assets in Phases 1–4 and 8 of the Wesley Palms renovation project for assets not yet fully depreciated that will be replaced as part of the campus renovation. The Corporation expects to record additional adjustments for not yet fully depreciated assets over the course of the Wesley Palms renovation project as additional phases are undertaken. The estimated potential additional assets not yet fully depreciated that could be written off as the subsequent phases are authorized over the course of the five-year construction period are \$800.

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.

Front Porch Communities & Services
Notes to Consolidated Financial Statements
March 31, 2016 and 2015
(In Thousands)

Because PH Foundation was established to operate exclusively for the benefit of the Corporation and, upon dissolution, the net assets of PH Foundation would be 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. However, FACT Foundation, CLH and SVLCS 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, 2016 and 2015, the interest in the net assets of PH Foundation and receivables from supporting organizations are as follows:

	<u>2016</u>	<u>2015</u>
Interest in net assets of PH Foundation	<u>\$ 10,475</u>	<u>\$ 11,049</u>
Receivables from supporting organizations		
FACT Foundation	\$ 8,244	\$ 9,007
CLH	636	814
SVLCS	<u>1,737</u>	<u>1,770</u>
	<u>\$ 10,617</u>	<u>\$ 11,591</u>

Note 6: Professional Liability Claims

The Corporation purchases professional and general liability insurance under a claims-made policy. Under such a policy, only claims made and reported to the insurer during the policy term, regardless of when the incidents giving rise to the claims occurred, are covered. The Corporation also purchases excess umbrella liability coverage, which provides additional coverage above the basic policy limits up to the amount specified in the umbrella policy.

Based upon the Corporation's claims experience, no accrual had been made for the Corporation's portion of malpractice costs related to its deductible under its malpractice insurance policy as of March 31, 2016 and 2015. It is reasonably possible this estimate could change materially in the near term.

Front Porch Communities & Services
Notes to Consolidated Financial Statements
March 31, 2016 and 2015
(In Thousands)

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, 2016 and 2015, the Corporation had an excess workers' compensation policy in place for individual claims over \$750. This policy had a maximum coverage limit of \$25,000 for the years ended March 31, 2016 and 2015. Amounts accrued to cover potential workers' compensation claims, based on actuarial valuation, as of March 31 are as follows:

	2016	2015
Estimated amounts expected to be paid		
Within one year, included in accrued payroll and related expenses	\$ 2,535	\$ 2,825
In excess of one year, included in accrued workers' compensation	9,763	10,225
	\$ 12,298	\$ 13,050

While the ultimate amount of claims to be incurred is dependent on future developments, the Corporation's management believes the aggregate accrual is adequate to cover such amounts. However, by their nature, the amounts recorded are estimates and actual results could differ from the amounts recorded.

The liability for expected workers' compensation claims is presented excluding expected insurance recoveries. Estimated insurance recovery receivables of \$1,813 and \$1,794 are included as other receivables in the accompanying consolidated balance sheets at March 31, 2016 and 2015, respectively.

Front Porch Communities & Services
Notes to Consolidated Financial Statements
March 31, 2016 and 2015
(In Thousands)

Note 8: Long-Term Debt

The following is a summary of long-term debt at March 31:

	<u>2016</u>	<u>2015</u>
California Statewide Communities Development Authority Series 2015 Bonds, issued as drawdown bonds with principal amount up to \$72,000, variable interest at a specified percentage of LIBOR plus applicable spread paid monthly (1.63% and 1.46% at March 31, 2016 and 2015, respectively), principal due in varying installments between 2019 and 2040, paid semiannually. Bonds were placed directly with one investor with an initial 10-year hold period and are secured by an obligation issued under the Master Indenture. In 2025, the borrower and current investor can agree on new terms, the debt can be sold to a new investor or it must be redeemed and refinanced	\$ 20,578	\$ 3,461
California Statewide Communities Development Authority Series 2012 Bonds, variable interest at a specified percentage of LIBOR plus applicable spread paid monthly (1.53% and 1.36% at March 31, 2016 and 2015, respectively), principal due in varying installments between 2014 and 2043, paid annually. Bonds were placed directly with one investor with an initial five-year hold period and are secured by a first mortgage on the Walnut Village property. In 2017, the borrower and current investor can agree on new terms, the debt can be sold to a new investor or it must be redeemed and refinanced	33,200	33,800
California Statewide Communities Development Authority Series 2007A Certificates of Participation, interest at 5.125%, principal due in varying installments between 2031 and 2038, inclusive of unamortized premium of \$586 and \$617 at March 31, 2016 and 2015, respectively. During 2011, the Corporation repurchased \$4,750 of these certificates, which reduced the outstanding balance as of March 31, 2016 and 2015	68,836	68,867
California Statewide Communities Development Authority 1999 Certificates of Participation, interest at 5.375%, principal due in varying installments through 2031. During 2015, the Corporation used the proceeds received in conjunction with the HUD-insured loans obtained by the Real Estate LLCs to make partial prepayments on the outstanding 1999 Certificates of Participation in the amount of \$32,800	38,785	40,455

Front Porch Communities & Services
Notes to Consolidated Financial Statements
March 31, 2016 and 2015
(In Thousands)

	2016	2015
California Health Facilities Financing Authority Series 1999A Insured Health Facility Revenue Bonds, interest at 4.6% 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	\$ 2,700	\$ 2,960
California Health Facilities Financing Authority Series 1997A Insured Health Facility Revenue Bonds, interest at 5.3% to 5.5%, principal due in varying installments through 2020, collateralized by the gross revenues of Sunny View Retirement Community and a deed of trust on Sunny View Retirement Community	880	1,170
Mortgage payable to bank in monthly principal and interest installments of \$56 (including interest at 2.8%) through 2040 plus monthly deposits of \$12 for replacement reserves, collateralized by a deed of trust on substantially all of Kingsley Manor's real and personal property and insured by U.S. Department of Housing and Urban Development (HUD) under Section 232 of the <i>National Housing Act</i>	11,622	11,968
Mortgage payable to bank in monthly principal and interest installments of \$165 (including interest at 2.73%) through 2046 plus monthly deposits of \$23 for replacement reserves, collateralized by a deed of trust on substantially all of Claremont Manor's real and personal property and insured by HUD under Section 232 of the <i>National Housing Act</i>	40,035	40,910
Mortgage payable to bank in monthly principal and interest installments of \$138 (including interest at 3.74%) through 2044 plus monthly deposits of \$14 for replacement reserves, collateralized by a deed of trust on substantially all of Casa de Mañana's real and personal property and insured by HUD under Section 232 of the <i>National Housing Act</i>	28,492	29,071
Mortgage payable to bank in monthly principal and interest installments of \$169 (including interest at 3.35%) through 2040 plus monthly deposits of \$24 for replacement reserves, collateralized by a deed of trust on substantially all of Fredericka Manor's real and personal property and insured by HUD under Section 232 of the <i>National Housing Act</i>	33,980	34,852

Front Porch Communities & Services
Notes to Consolidated Financial Statements
March 31, 2016 and 2015
(In Thousands)

	2016	2015
Note payable to HUD in monthly principal and interest installments of \$21 (including interest at 6.875%) through 2020 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	\$ 774	\$ 969
Total long-term debt	279,882	268,483
Less current portion	5,887	5,688
	\$ 273,995	\$ 262,795

Under the terms of the Series 1999 and 2007 Bond Indentures, the Obligated Group 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.

Under the terms of the four HUD-insured mortgages, the Real Estate LLCs are required to maintain reserve accounts for replacements that are included in assets limited as to use on the accompanying consolidated balance sheets. The Real Estate LLCs are also subject to restrictions on acquisition, use and disposition of the mortgaged property and revenues derived therefrom.

Scheduled annual principal payments on long-term debt at March 31, 2016, are as follows:

2017	\$ 5,887
2018	6,142
2019	6,747
2020	7,607
2021	7,782
Thereafter	245,717
	\$ 279,882

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.

Front Porch Communities & Services
Notes to Consolidated Financial Statements
March 31, 2016 and 2015
(In Thousands)

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.

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. In July 2004, the Corporation entered into a basis swap. Additionally, in March 2015, the Corporation entered into an interest rate cap. 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 an upfront 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 are received each month, they are deposited into a GIC as collateral for the forward sale agreement until expiration on April 1, 2030.

In conjunction with the partial prepayments on the 1999 Certificates of Participation as discussed in *Note 8*, the Corporation terminated a portion of the reserve funds and GIC in the amount of \$2,641 during 2015. As a result of the partial terminations, the Corporation incurred a loss of \$622 during the year ended March 31, 2015, which is included in investment return on the accompanying consolidated statements of operations. The Corporation received cash payments of \$2,085 associated with the partial terminations during 2015, which are included in investing activities on the accompanying consolidated statements of cash flows. The notional amount of the GIC is \$3,257 at March 31, 2016 and 2015, 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, total \$5,015 and \$4,853 as of March 31, 2016 and 2015, respectively, and are classified as unrestricted investments in the accompanying consolidated balance sheets. The Corporation recognized interest income totaling \$437 in 2016 and 2015 related to the forward sale agreements.

Front Porch Communities & Services
Notes to Consolidated Financial Statements
March 31, 2016 and 2015
(In Thousands)

Basis Swap

Under a basis swap contract, the Corporation agrees to pay the counterparty the monthly Securities Industry and Financial Markets Association (SIFMA) Municipal Swap Index variable rate average while receiving 64% of the one-month London Interbank Offered Rate (LIBOR) plus a fixed spread. The basis swap notional amount is \$196,600. 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 a reduction to interest expense of \$1,764 and \$1,731 during the years ended March 31, 2016 and 2015, respectively.

Contained in the Corporation's master derivative agreement are provisions that allow the counterparty to the basis swap contract and the Corporation the right to request collateralization on the basis swap contract if either party's rating falls below a certain threshold. Neither the counterparty nor the Corporation have requested collateral be posted as of March 31, 2016.

Interest Rate Cap

In March 2015, in connection with the issuance of the 2015 bonds (see *Note 8*), the Corporation entered into a 10-year interest rate cap agreement pursuant to which the Corporation paid the cap counterparty a one-time upfront payment in exchange for the counterparty agreeing to make quarterly payments to the Corporation to the extent a specified floating rate based on a percentage of LIBOR exceeds 3%. The interest rate cap notional amount is \$27,619 and \$3,706 at March 31, 2016 and 2015, respectively. Amounts paid to the counterparty, combined with mark-to-market adjustments, totaled \$419 and \$859 as of March 31, 2016 and 2015, respectively, and are classified as an unrestricted investment in the accompanying consolidated balance sheets.

Front Porch Communities & Services
Notes to Consolidated Financial Statements
March 31, 2016 and 2015
(In Thousands)

The table below presents certain information regarding the Corporation's derivative financial instruments, none of which were hedging instruments, at March 31, 2016 and 2015:

Derivative Type	Financial Statement Location	2016	2015
		Fair Value	Fair Value
Asset Derivatives			
Interest rate cap	Derivative instruments	\$ 419	\$ 859
Basis swap agreement	Derivative instruments	7,912	7,279
		<u>\$ 8,331</u>	<u>\$ 8,138</u>
Liability Derivatives			
Forward delivery and sale agreements	Deferred interest – forward sale agreements	\$ (1,036)	\$ (1,360)
Net Income on Derivative Instruments			
Location of gain on derivative instruments not deemed hedging instruments	Other income (expense) – investment return	\$ 241	\$ 3,850

Note 10: Temporarily Restricted, Permanently Restricted and Designated Net Assets

Temporarily restricted net assets are available for the following purposes or periods at March 31:

	2016	2015
Resident assistance and special projects	\$ 7,003	\$ 8,019
Purchase of property and equipment	113	72
Scholarships	310	380
Time-restricted	5,468	5,939
Other	1,345	1,258
	<u>\$ 14,239</u>	<u>\$ 15,668</u>

Front Porch Communities & Services
Notes to Consolidated Financial Statements
March 31, 2016 and 2015
(In Thousands)

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:

	2016	2015
Available for resident assistance and operations	\$ 820	\$ 789
Capital expenditures	\$ 171	\$ 437

Permanently restricted net assets of \$6,322 and \$6,439 at March 31, 2016 and 2015, 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.

The Board designated \$2,000 of unrestricted net assets to establish The Front Porch Center for Innovation and Wellbeing/Innovation Initiative Fund (the Innovation Fund) and \$1,000 of unrestricted net assets to establish The Alhambra Affordable Housing Preservation and Development Fund (the Affordable Housing Fund) during the fiscal year ended March 31, 2014. Designated net assets remain under the control of the Board, which may, at its discretion, later use these designated funds for other purposes. Designated funds are included with investments on the accompanying consolidated balance sheets. During the fiscal year ended March 31, 2016, the Board released \$55 of funds originally designated for the Innovation Fund to cover certain operating costs. During the fiscal years ended March 31, 2014 and 2015, the Board released a total of \$600 of funds from the Affordable Housing Fund as an advance to Brookmore Apartment Corporation (Brookmore). In November 2015, Brookmore repaid the full advance to the Corporation. \$1,945 of the Innovation Fund and \$1,000 of the Affordable Housing Fund remain unreleased as of March 31, 2016.

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, 2016 and 2015, totaled \$1,558 and \$1,683, 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, based on historical cost-to-revenue ratios by community, of providing such under-reimbursed care in excess of reimbursements received was \$2,807 and \$2,358 for the years ended March 31, 2016 and 2015, respectively.

Front Porch Communities & Services
Notes to Consolidated Financial Statements
March 31, 2016 and 2015
(In Thousands)

Note 12: Functional Expenses

The Corporation provides services through independent retirement living, assisted living, memory care, skilled nursing and other services. Expenses related to providing these services, before other operating charges for the years ended March 31, 2016 and 2015, are as follows:

	2016	2015
Patient and resident care services	\$ 140,194	\$ 136,504
General and administrative	49,040	46,317
	\$ 189,234	\$ 182,821

Note 13: Employee Benefit Plans

403(b) Defined Contribution Plan and Supplemental Retirement

The Corporation sponsors a 403(b) defined contribution plan for its employees. Under the current plan, 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 all retirement plans, equal to the contributions, totaled \$2,230 and \$2,181 for the years ended March 31, 2016 and 2015, 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, 2016 and 2015, \$708 and \$2,907, respectively, of deferred compensation is accrued and included in other accrued liabilities in the accompanying consolidated balance sheets.

Front Porch Communities & Services
Notes to Consolidated Financial Statements
March 31, 2016 and 2015
(In Thousands)

Note 14: Disclosures About Fair Value of Assets and Liabilities

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. There is a hierarchy of three levels of inputs that may be used to measure fair value:

- Level 1** Quoted prices in active markets for identical assets or liabilities
- 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 supported by little or no market activity and significant to the fair value of the assets or liabilities

Front Porch Communities & Services
Notes to Consolidated Financial Statements
March 31, 2016 and 2015
(In Thousands)

Recurring Measurements

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, 2016 and 2015:

	2016				
	Fair Value Measurements Using				
	Fair Value	Quoted Prices			Significant Unobservable Inputs (Level 3)
		in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Financial assets					
Equities – domestic	\$ 149,585	\$ 149,585	\$ -	\$ -	-
Equities – international	\$ 36,605	\$ 36,605	\$ -	\$ -	-
Money market mutual funds	\$ 4,510	\$ 4,510	\$ -	\$ -	-
Certificates of deposit	\$ 1,252	\$ -	\$ 1,252	\$ -	-
Commodity mutual funds	\$ 13,610	\$ 13,610	\$ -	\$ -	-
Other mutual funds	\$ 12,485	\$ 12,485	\$ -	\$ -	-
U.S. Treasury and U.S. agency securities	\$ 12,763	\$ 8,266	\$ 4,497	\$ -	-
Corporate bonds and commercial paper	\$ 26,699	\$ 19,704	\$ 6,995	\$ -	-
Derivative instruments	\$ 8,331	\$ -	\$ 8,331	\$ -	-
Guaranteed investment contracts	\$ 5,015	\$ -	\$ 5,015	\$ -	-
Receivables from supporting organizations	\$ 10,617	\$ -	\$ -	\$ 10,617	-
Financial liabilities					
Deferred interest – forward sale agreements	\$ 1,036	\$ -	\$ 1,036	\$ -	-

Front Porch Communities & Services
Notes to Consolidated Financial Statements
March 31, 2016 and 2015
(In Thousands)

	2015			
	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	\$ 144,835	\$ 144,835	\$ -	\$ -
Equities – international	\$ 37,392	\$ 37,392	\$ -	\$ -
Money market mutual funds	\$ 5,910	\$ 5,910	\$ -	\$ -
Certificates of deposit	\$ 1,465	\$ -	\$ 1,465	\$ -
Commodity mutual funds	\$ 12,736	\$ 12,736	\$ -	\$ -
Other mutual funds	\$ 12,687	\$ 12,687	\$ -	\$ -
U.S. Treasury and U.S. agency securities	\$ 8,124	\$ 5,883	\$ 2,241	\$ -
Corporate bonds and commercial paper	\$ 22,767	\$ 15,551	\$ 7,216	\$ -
Derivative instruments	\$ 8,138	\$ -	\$ 8,138	\$ -
Guaranteed investment contracts	\$ 4,853	\$ -	\$ 4,853	\$ -
Receivables from supporting organizations	\$ 11,591	\$ -	\$ -	\$ 11,591
Financial liabilities				
Deferred interest – forward sale agreements	\$ 1,360	\$ -	\$ 1,360	\$ -

Following is a description of the valuation methodologies and inputs 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. There have been no significant changes in the valuation techniques during the year ended March 31, 2016. For assets classified within Level 3 of the fair value hierarchy, the process used to develop the reported fair value is described below.

Front Porch Communities & Services
Notes to Consolidated Financial Statements
March 31, 2016 and 2015
(In Thousands)

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 certain corporate bonds, GICs, commercial paper and certificates of deposit. In certain cases where Level 1 or Level 2 inputs are not available, investments are classified within Level 3 of the hierarchy.

Derivative Instruments and Guaranteed Investment Contracts

The fair value is estimated using forward looking interest rate curves and discounted cash flows that are observable or 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.

Level 3 Reconciliation

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:

	Receivables from Supporting Organizations
Balance, April 1, 2015	\$ 11,591
Total realized and unrealized gains and losses included in change in net assets	(974)
Balance, March 31, 2016	<u>\$ 10,617</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>\$ (974)</u>

Front Porch Communities & Services
Notes to Consolidated Financial Statements
March 31, 2016 and 2015
(In Thousands)

	Receivables from Supporting Organizations
Balance, April 1, 2014	\$ 11,097
Total realized and unrealized gains and losses included in change in net assets	494
Balance, March 31, 2015	<u>\$ 11,591</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>\$ 494</u>

Unobservable (Level 3) Inputs

At March 31, 2016 and 2015, the Corporation had one financial instrument, receivables from supporting organizations of \$10,617 and \$11,591, respectively, for which fair value was determined based on unobservable inputs. The primary valuation technique used is discounted cash flows of future distributions. The significant unobservable inputs used in this fair value measurement are probability of nonpayment and distribution rates. Significant increases (decreases) in any of those inputs in isolation would result in a significantly lower (higher) fair value measurement. Generally, changes in either of those inputs will not affect the other input.

Note 15: 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.

Front Porch Communities & Services
Notes to Consolidated Financial Statements
March 31, 2016 and 2015
(In Thousands)

The Corporation has AROs arising from regulatory requirements to perform asbestos abatement at the time certain property is disposed of. The liability, included in asset retirement obligations 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:

	2016	2015
Balance, beginning of year	\$ 2,577	\$ 2,776
Change in estimate and accretion expense	(389)	(199)
Balance, end of year	\$ 2,188	\$ 2,577

Note 16: 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.

Self-Insurance Claims

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

Front Porch Communities & Services
Notes to Consolidated Financial Statements
March 31, 2016 and 2015
(In Thousands)

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 Obligations

As discussed in *Note 15*, the Corporation has recorded a liability for its conditional AROs related to asbestos abatement.

Note 17: Repayable and Amortized Entrance Fees and Deferred Revenue

Entrance fee arrangements apply to five of the Corporation's facilities as of March 31, 2016 and 2015. For the right to occupy a unit for life and to receive certain services at these facilities, residents are required to pay an upfront entrance fee. The entrance 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 entrance 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.

Front Porch Communities & Services
Notes to Consolidated Financial Statements
March 31, 2016 and 2015
(In Thousands)

- If voluntary withdrawal or death occurs within 90 days of the contract date, an amount equal to the entrance 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 entrance 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, entrance 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 entrance fee will be repaid to the resident, estate, trust, heirs or representatives within 14 calendar days of the Corporation’s receipt of a new entrance fee or, in certain circumstances, monthly fee contract for the unit.

The estimated amount of entrance fees expected to be repaid to current residents, net of amounts estimated to be repaid within one year, amounted to \$8,526 and \$5,093 at March 31, 2016 and 2015, respectively, and is included in other accrued liabilities in the accompanying consolidated balance sheets. Amounts estimated to be repaid within one year totaled \$4,532 and \$2,638 at March 31, 2016 and 2015, 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, 2016 and 2015, \$85,435 and \$88,471, 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 entrance fees described above, is included in deferred revenue from entrance fees in the accompanying consolidated balance sheets.

Entrance fees subject to refund and actual refunds disbursed as of March 31 are as follows:

	Entrance Fees Subject to Refund as of March 31	Actual Refunds Disbursed for Year Ended March 31
2016	\$ 116,349	\$ 7,643
2015	\$ 112,711	\$ 3,935
2014	\$ 96,891	\$ 3,204
2013	\$ 82,302	\$ 2,814
2012	\$ 74,173	\$ 2,764

Supplementary Information

Front Porch Communities & Services
Consolidating Schedule – Balance Sheet Information
March 31, 2016
(In Thousands)

Assets

	Obligated Group	Other Entities	Eliminations	Consolidated
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)	-
	<u>39,767</u>	<u>17,921</u>	<u>(4,052)</u>	<u>53,636</u>
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
	<u>259,361</u>	<u>3,893</u>	<u>-</u>	<u>263,254</u>
	<u>233,001</u>	<u>70,341</u>	<u>-</u>	<u>303,342</u>
Property and Equipment, Net				
Other Assets				
Interest in net assets of Pacific Homes Foundation	10,475	-	-	10,475
Receivables 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
	<u>28,661</u>	<u>3,705</u>	<u>-</u>	<u>32,366</u>
Total other assets	<u>28,661</u>	<u>3,705</u>	<u>-</u>	<u>32,366</u>
Total assets	<u>\$ 560,790</u>	<u>\$ 95,860</u>	<u>\$ (4,052)</u>	<u>\$ 652,598</u>

Liabilities and Net Assets

	Obligated Group	Other Entities	Eliminations	Consolidated
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 and 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
	<u>32,064</u>	<u>14,493</u>	<u>(4,052)</u>	<u>42,505</u>
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
	<u>315,179</u>	<u>136,485</u>	<u>(4,052)</u>	<u>447,612</u>
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
	<u>245,611</u>	<u>(40,625)</u>	<u>-</u>	<u>204,986</u>
Total net assets	245,611	(40,625)	-	204,986
Total liabilities and net assets	\$ 560,790	\$ 95,860	\$ (4,052)	\$ 652,598

Front Porch Communities & Services
Consolidating Schedule – Statement of Operations Information
Year Ended March 31, 2016
(In Thousands)

	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 purchase of property and equipment	144	27	-	171
Increase (Decrease) in Unrestricted Net Assets	\$ (7,877)	\$ 1,963	\$ -	\$ (5,914)

Front Porch Communities & Services
Consolidating Schedule – Statement of Cash Flows Information
Year Ended March 31, 2016
(In Thousands)

	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	<u>34,144</u>	<u>10,680</u>	<u>-</u>	<u>44,824</u>
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	<u>(52,943)</u>	<u>(5,828)</u>	<u>-</u>	<u>(58,771)</u>
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
Costs of issuance of Series 2015 bond financing	(250)	-	-	(250)
Proceeds from restricted contributions	144	27	-	171
Net cash provided by (used in) financing activities	<u>6,549</u>	<u>(2,841)</u>	<u>-</u>	<u>3,708</u>
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	<u>\$ 13,549</u>	<u>\$ 6,357</u>	<u>\$ -</u>	<u>\$ 19,906</u>

	Obligated Group	Other Entities	Eliminations	Consolidated
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
Cash Flows from Operating Activities				
Change in net assets	\$ (9,423)	\$ 1,963	\$ -	\$ (7,460)
Adjustments to reconcile change in net assets to net cash provided by operating activities				
Depreciation	15,819	8,734	-	24,553
Gain on disposal of assets	(12)	-	-	(12)
Amortization of deferred costs	1,153	221	-	1,374
Accretion of asset retirement obligations	22	69	-	91
Impairment related to construction projects	652	-	-	652
Amortization of bond premium included in interest expense	(32)	-	-	(32)
Provision for uncollectible accounts	454	1,222	-	1,676
Entrance fees received	21,555	-	-	21,555
Amortization of entrance fees	(10,875)	(9)	-	(10,884)
Realized and unrealized gain on investments, net	13,110	-	-	13,110
Realized and unrealized gain on derivative financial instruments, net	(242)	-	-	(242)
Amortized income on forward sale agreements	(437)	-	-	(437)
Change in interest in net assets of Pacific Homes Foundation	574	-	-	574
Change in receivables from supporting organizations	974	-	-	974
Contributions restricted by donor	(144)	(27)	-	(171)
Changes in operating assets and operating liabilities				
Accounts receivable, net	450	(1,594)	-	(1,144)
Prepaid expenses and other current assets	(450)	485	-	35
Due to/from related parties	977	(977)	-	-
Accounts payable and accrued expenses	2,357	1,094	-	3,451
Other accrued liabilities	(2,338)	(501)	-	(2,839)
Net cash provided by operating activities	<u>\$ 34,144</u>	<u>\$ 10,680</u>	<u>\$ -</u>	<u>\$ 44,824</u>