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August 1, 2017

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, 2017 and 2016. The report also contains the financial statements for the Obligated Group for the fiscal year-to-date period ended March 31, 2017. 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

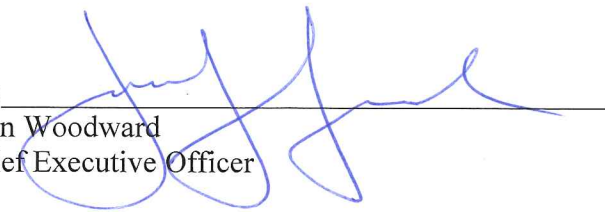
events have occurred since the end of the fiscal year to which this Continuing Disclosure Annual Report relates (other than as contained in this Continuing Disclosure Annual Report), or any other date specified with respect to any of the information contained in this Continuing Disclosure Annual Report, 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: _____

John Woodward
Chief Executive Officer





Continuing Disclosure Annual Report

Year Ended March 31, 2017

Consolidated Statements of Operations

(\$ in 000's)

	2017	2016
Unrestricted Revenues, Gains and Other Support		
Resident and patient service revenue (net of contractual discounts and allowances)	\$ 184,368	\$ 180,862
Provision for uncollectible accounts	(555)	(1,676)
Resident and net patient service revenue less provision for uncollectible accounts	183,813	179,186
Amortization of entrance fees	10,103	10,884
Other	683	489
Net assets released from restriction used for operations	841	820
Total unrestricted revenues, gains and other support	195,440	191,379
Expenses		
Medical services	47,612	46,808
Facility operating costs	19,141	19,099
Dietary services	29,486	28,590
Residential services	15,920	15,518
Administrative services	42,521	41,672
Depreciation	24,641	24,553
Amortization of deferred costs	1,362	1,374
Interest expense and other financing costs	9,786	9,422
Other	2,087	2,198
Total expenses	192,556	189,234
Operating Income Before Other Operating Charges	2,884	2,145
Other Operating Charges		
Asset impairment	(356)	(652)
Operating Income	2,528	1,493
Investment return *	20,546	(7,578)
Excess (Deficiency) of Revenues over Expenses	23,074	(6,085)
Net assets released from restriction for purchases of property and equipment	244	171
Increase (Decrease) in Unrestricted Net Assets	\$ 23,318	\$ (5,914)

* See detail of investment return on page 5.

Consolidated Balance Sheets

(\$ in 000's)

	2017	2016
Assets		
Current Assets		
Cash and cash equivalents	\$ 16,317	\$ 19,906
Short-term investments	11,330	6,680
Assets limited as to use - required for current liabilities	12,619	11,564
Patient accounts receivable, net of allowance; 2017 - \$687, 2016 - \$1,537	9,866	13,023
Prepaid expenses and other	2,473	2,463
Total current assets	<u>52,605</u>	<u>53,636</u>
Investments		
Assets limited as to use, net of current portion	15,923	16,325
Long-term investments	272,720	238,598
Derivative instruments	5,130	8,331
Total investments	<u>293,773</u>	<u>263,254</u>
Property and Equipment, Net		
	<u>324,740</u>	<u>303,342</u>
Other Assets		
Interest in net assets of Pacific Homes Foundation	11,618	10,475
Receivables from supporting organizations	11,644	10,617
Other receivables	1,822	1,813
Deferred costs, net of accumulated amortization; 2017 - \$4,528, 2016 - \$3,864	1,328	1,992
Other assets	623	414
Total other assets	<u>27,035</u>	<u>25,311</u>
Total assets	<u>\$ 698,153</u>	<u>\$ 645,543</u>
Liabilities and Net Assets		
Current Liabilities		
Current maturities of long-term debt	\$ 6,111	\$ 5,887
Accounts payable	8,234	9,002
Accrued payroll and related expenses	12,713	13,413
Accrued interest	3,601	3,526
Other accrued expenses	12,412	10,677
Total current liabilities	<u>43,071</u>	<u>42,505</u>
Asset retirement obligations	2,210	2,188
Accrued workers' compensation	9,449	9,763
Other accrued liabilities	17,629	14,833
Deferred interest - forward sale agreements	1,232	1,036
Refundable entrance fees	71,503	66,830
Deferred revenue from entrance fees	36,143	36,462
Long-term debt	286,325	266,940
Total liabilities	<u>467,562</u>	<u>440,557</u>
Net Assets		
Unrestricted	207,743	184,425
Temporarily restricted	15,944	14,239
Permanently restricted	6,904	6,322
Total net assets	<u>230,591</u>	<u>204,986</u>
Total liabilities and net assets	<u>\$ 698,153</u>	<u>\$ 645,543</u>

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

	2017	2016
Unrestricted Net Assets		
Excess (deficiency) of revenues over expenses	\$ 23,074	\$ (6,085)
Net assets released from restriction used for purchase of property and equipment	244	171
	23,318	(5,914)
Temporarily Restricted Net Assets		
Contributions received and investment income	1,459	120
Change in interest in net assets of Pacific Homes Foundation	1,331	(558)
Net assets released from restriction for operations	(841)	(820)
Net assets released from restriction used for purchase of property and equipment	(244)	(171)
	1,705	(1,429)
Permanently Restricted Net Assets		
Contributions received	54	103
Change in value of trust	528	(220)
	582	(117)
Change in Net Assets	25,605	(7,460)
Net Assets, Beginning of Year	204,986	212,446
	\$ 230,591	\$ 204,986

Consolidated Statements of Cash Flows

(\$ in 000's)

	2017	2016
Operating Activities		
Cash received from contract residents	\$ 46,172	\$ 44,079
Proceeds from entrance fees received *	25,490	21,555
Cash received from and on behalf of noncontract residents	135,044	132,987
Reimbursement for services to nonresidents	3,748	2,453
Other receipts from operations	683	489
Unrestricted investment income received	6,897	6,388
Processing fees	60	198
Cash paid to suppliers, employees, and others	(156,908)	(153,996)
Cash paid for interest on long-term debt, net of amounts capitalized	(9,669)	(9,329)
	51,517	44,824
Investing Activities		
Capital expenditures	(47,257)	(33,866)
Proceeds from sale of trading investments	131,701	99,719
Purchase of trading investments	(151,763)	(125,513)
Purchase of assets limited as to use	(2,837)	(4,507)
Proceeds from sale of assets limited as to use	2,184	4,796
Repayment from (advances to) Brookmore Apartment Corporation	(209)	600
	(68,181)	(58,771)
Financing Activities		
Refunds of entrance fees	(6,112)	(7,644)
Principal payments on long-term debt	(5,887)	(5,687)
Proceeds from Series 2015 debt issuance	24,830	17,118
Cost of issuance of Series 2015 bond financing	-	(250)
Proceeds from restricted contributions	244	171
	13,075	3,708
Decrease in Cash and Cash Equivalents	(3,589)	(10,239)
Cash and Cash Equivalents, Beginning of Year	19,906	30,145
Cash and Cash Equivalents, End of Year	\$ 16,317	\$ 19,906

Supplemental Cash Flows Information

Property and equipment purchases included in accounts payable and other accrued expenses	\$ 5,860	\$ 6,744
Entrance fees included in accounts receivable	\$ 1,355	\$ 3,299

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

	FY17	FY16
Initial entrance fees	-	1,230
Ongoing entrance fees	25,490	20,325
Total entrance fees received	25,490	21,555

Investment Return
(\$ in 000's)

	<u>2017</u>	<u>2016</u>
Interest and dividend income	\$ 6,897	\$ 6,389
Realized gains on sale of securities, net	9,783	2,233
Unrealized losses on investments valued at fair value, net	9,353	(15,343)
Unrealized gains on derivative financial instruments, net	(4,260)	241
Investment fees	(1,664)	(1,535)
Amortization of deferred interest income	437	437
Investment Return	<u>\$ 20,546</u>	<u>\$ (7,578)</u>

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)	\$ 104,407	\$ 80,230	\$ (269)	\$ 184,368
Provision for uncollectible accounts	(503)	(52)	-	(555)
Resident and net patient service revenue less provision for uncollectible accounts	103,904	80,178	(269)	183,813
Amortization of entrance fees	10,095	8	-	10,103
Other	5,261	-	(4,578)	683
Net assets released from restrictions used for operations	806	35	-	841
Total unrestricted revenues, gains and other support	120,066	80,221	(4,847)	195,440
Expenses				
Medical services	27,584	20,028	-	47,612
Facility operating costs	11,328	7,813	-	19,141
Dietary services	17,152	12,603	(269)	29,486
Residential services	9,618	6,302	-	15,920
Administrative services	33,234	13,840	(4,553)	42,521
Depreciation	15,897	8,744	-	24,641
Amortization of deferred costs	1,147	215	-	1,362
Interest expense and other financing costs	5,363	4,423	-	9,786
Other	1,676	411	-	2,087
Total expenses	122,999	74,379	(4,822)	192,556
Operating Income (Loss) Before Other Operating Charges	(2,933)	5,842	(25)	2,884
Other Operating Charges				
Asset impairment	(356)	-	-	(356)
Operating Income (Loss)	(3,289)	5,842	(25)	2,528
Investment return	20,535	11	-	20,546
Excess (Deficiency) of Revenues over Expenses	17,246	5,853	(25)	23,074
Contributions to affiliates	6,613	(6,613)	-	-
Net assets released from restriction used for purchases of property and equipment	41	203	-	244
Increase (Decrease) in Unrestricted Net Assets	\$ 23,900	\$ (557)	\$ (25)	\$ 23,318

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

Consolidating Schedule - Balance Sheet Information

(\$'s in 000's)

	Obligated Group	Other Entities	Eliminations *	Consolidated
Assets				
Current Assets				
Cash and cash equivalents	\$ 11,837	\$ 4,480	\$ -	\$ 16,317
Short-term investments	11,330	-	-	11,330
Assets limited as to use - required for current liabilities	10,616	2,003	-	12,619
Patient accounts receivable, net	6,609	3,257	-	9,866
Prepaid expenses and other	1,893	555	25	2,473
Intercompany receivables	330	997	(1,327)	-
Total current assets	42,615	11,292	(1,302)	52,605
Investments				
Assets limited as to use, net of current portion	12,027	3,896	-	15,923
Long-term Investments	272,720	-	-	272,720
Derivative instruments	5,130	-	-	5,130
Total investments	289,877	3,896	-	293,773
Property and Equipment, Net	255,082	69,683	(25)	324,740
Other Assets				
Interest in net assets of Pacific Homes Foundation	11,618	-	-	11,618
Receivable from supporting organizations	11,644	-	-	11,644
Other receivables	1,822	-	-	1,822
Deferred costs, net	1,328	-	-	1,328
Other assets	209	414	-	623
Total other assets	26,621	414	-	27,035
Total assets	\$ 614,195	\$ 85,285	\$ (1,327)	\$ 698,153
Liabilities and Net Assets				
Current Liabilities				
Current maturities of long-term debt	\$ 3,040	\$ 3,071	\$ -	\$ 6,111
Accounts payable	6,367	2,053	(186)	8,234
Accrued payroll & related expenses	8,661	4,052	-	12,713
Intercompany payables	-	1,116	(1,116)	-
Accrued interest	3,304	297	-	3,601
Other accrued expenses	11,460	952	-	12,412
Total current liabilities	32,832	11,541	(1,302)	43,071
Asset retirement obligations	235	1,975	-	2,210
Accrued workers' compensation	6,173	3,276	-	9,449
Other accrued liabilities	14,363	3,266	-	17,629
Deferred interest - forward sale agreements	1,232	-	-	1,232
Refundable entrance fees	71,503	-	-	71,503
Deferred revenue from entrance fees	35,524	619	-	36,143
Long-term debt	180,535	105,790	-	286,325
Total liabilities	342,397	126,467	(1,302)	467,562
Net Assets				
Unrestricted	248,950	(41,182)	(25)	207,743
Temporarily restricted	15,944	-	-	15,944
Permanently restricted	6,904	-	-	6,904
Total net assets	271,798	(41,182)	(25)	230,591
Total liabilities and net assets	\$ 614,195	\$ 85,285	\$ (1,327)	\$ 698,153

* 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	\$ 45,910	\$ 262	\$ -	\$ 46,172
Proceeds from entrance fees received	25,490	-	-	25,490
Cash received from and on behalf of noncontract residents	55,799	79,245	-	135,044
Reimbursement for services to nonresidents	1,003	2,745	-	3,748
Other receipts from operations	5,261	-	(4,578)	683
Unrestricted investment income received	6,887	10	-	6,897
Processing fees	60	-	-	60
Cash paid to suppliers, employees and others	(99,621)	(61,865)	4,578	(156,908)
Cash paid for interest on long-term debt, net of amounts capitalized	(5,303)	(4,366)	-	(9,669)
Net cash provided by operating activities	35,486	16,031	-	51,517
Investing Activities				
Capital expenditures	(38,885)	(8,372)	-	(47,257)
Proceeds from sale of trading investments	131,701	-	-	131,701
Purchase of trading investments	(151,763)	-	-	(151,763)
Purchase of assets limited as to use	(1,512)	(1,325)	-	(2,837)
Proceeds from sale of assets limited as to use	742	1,442	-	2,184
Advances to Brookmore Apartment Corporation	(209)	-	-	(209)
Net cash used in investing activities	(59,926)	(8,255)	-	(68,181)
Financing Activities				
Refunds of entrance fees	(6,113)	1	-	(6,112)
Principal payments on long-term debt	(2,920)	(2,967)	-	(5,887)
Proceeds from Series 2015 debt issuance	24,830	-	-	24,830
Contributions from (to) Affiliate	6,890	(6,890)	-	-
Proceeds from restricted contributions	41	203	-	244
Net cash provided by (used in) financing activities	22,728	(9,653)	-	13,075
Net Increase (Decrease) in Cash and Cash Equivalents	(1,712)	(1,877)	-	(3,589)
Cash and Cash Equivalents, Beginning of Year	13,549	6,357	-	19,906
Cash and Cash Equivalents, End of Year	\$ 11,837	\$ 4,480	\$ -	\$ 16,317

Supplemental Cash Flows Information

Property and equipment purchases included in accounts payable and other accrued expenses	\$ 3,514	\$ 2,346	\$ -	\$ 5,860
Entrance fees included in accounts receivable	\$ 1,355	\$ -	\$ -	\$ 1,355

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

	<u>Obligated Group</u>	<u>Other Entities</u>	<u>Consolidated</u>
Operating Revenues:			
Medicare	\$ 6,970	\$ 4,150	\$ 11,120
Medi-Cal	5,864	10,722	16,586
Managed Care	1,084	2,212	3,296
Private Pay	<u>8,239</u>	<u>3,884</u>	<u>12,123</u>
Total Operating Revenues	<u>\$ 22,157</u>	<u>\$ 20,968</u>	<u>\$ 43,125</u>

Percent of Revenues:

Medicare	31.5%	19.8%	25.8%
Medi-Cal	26.5%	51.1%	38.5%
Managed Care	4.9%	10.5%	7.6%
Private Pay	<u>37.1%</u>	<u>18.6%</u>	<u>28.1%</u>
	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

Consolidated Available Units/Beds and Occupancy by Line of Service

	Year to Date					
	Residential Living		Summer House		Care Center	
	Avail Units	%	Avail Units	%	Avail Beds	%
Carlsbad By The Sea	159	98.0%	N/A	N/A	33	91.8%
Casa de Manana	189	97.8%	N/A	N/A	N/A	N/A
Cecil Pines	92	99.6%	N/A	N/A	N/A	N/A
Claremont	209	91.7%	10	99.0%	59	81.9%
England Oaks	181	95.2%	N/A	N/A	N/A	N/A
Fredericka	288	91.6%	N/A	N/A	172	92.0%
Kingsley	217	99.1%	N/A	N/A	51	79.0%
Sunny View	95	98.4%	23	97.8%	48	91.3%
Villa Gardens	192	98.9%	19	96.3%	54	65.7%
Vista del Monte	169	95.7%	10	95.0%	29	75.2%
Walnut Village	156	95.7%	14	93.6%	94	88.6%
Wesley Palms	See footnote (1)		22	97.7%	N/A	N/A
Average ⁽¹⁾	1,945	96.0%	98	96.8%	540	85.5%
Average - Prior Year to Date ⁽¹⁾	1,960	96.1%	81	97.2%	540	87.1%
Wesley Palms ⁽²⁾	293	53.3%	N/A	N/A	N/A	N/A
Wesley Palms ⁽³⁾	189	82.7%	N/A	N/A	N/A	N/A

(1) The average occupancy percentages exclude Wesley Palms due to its renovation.

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

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

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

	Year to Date					
	Residential		Assisted Living		Care Center	
	Avail Units	%	Avail Units	%	Avail Beds	%
Carlsbad By The Sea	159	98.0%	N/A	N/A	33	91.8%
Cecil Pines	92	99.6%	N/A	N/A	N/A	N/A
England Oaks	181	95.2%	N/A	N/A	N/A	N/A
Sunny View	95	98.4%	23	97.8%	48	91.3%
Villa Gardens	192	98.9%	19	96.3%	54	65.7%
Vista del Monte	169	95.7%	10	95.0%	29	75.2%
Walnut Village	156	95.7%	14	93.6%	94	88.6%
Wesley Palms	See footnote (1)		22	97.7%	N/A	N/A
Average ⁽¹⁾	1,044	97.2%	88	96.5%	258	83.2%
Average - Prior Year to Date ⁽¹⁾	1,062	97.6%	71	96.9%	258	83.3%
Wesley Palms ⁽²⁾	293	53.3%	N/A	N/A	N/A	N/A
Wesley Palms ⁽³⁾	189	82.7%	N/A	N/A	N/A	N/A

(1) The average occupancy percentages exclude Wesley Palms due to its renovation.

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

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

Obligated Group - Front Porch

Obligated Group Members

Front Porch Communities and Services

Communities owned by Obligated Group

Carlsbad By The Sea
Carlsbad By The Sea Care Center

Cecil Pines

England Oaks & VOQ

Sunny View

Sunny View Summer House
Sunny View Care Center

Villa Gardens
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

1,843 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	\$ 17,246
Additions: Depreciation and Amortization	17,044
Interest Expense	5,363
Entrance Fees Received, Net of Refunds	19,377
Asset Impairments	356
Unrealized Gains	(5,093)
Deductions: Amortization of Accommodation Fees	(10,095)
Amortization of Interest Income	(437)
Total	<u>\$ 43,761</u>

Debt Service Requirement:

Principal Payments of Long Term Debt	\$ 2,920
Interest Expense	5,355
Total	<u>\$ 8,275</u>

Debt Service Coverage 5.29

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, 2017, 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 3/31/17**

The following discussion addresses the financial performance for the Consolidated Group and Obligated Group for the year ending March 31, 2017.

Results of Operations – Consolidated Group*Fiscal Year Ended March 31, 2017 – Consolidated Group.*

Residential living occupancy excluding Wesley Palms declined slightly from 96.1% for FY 16 to 96.0% for FY 17. Wesley Palms had 30 fewer residential living units available for FY 17 as compared to FY 16. Nine of the 12 communities averaged 95% or higher occupancy for FY17 as compared to ten of the 12 communities in FY 16. Residential living average available units excluding Wesley Palms for FY17 declined by 15 units to 1,945 compared to FY16 primarily due to the conversion of residential living units to memory care (Summer House) at Villa Gardens.

Summer House occupancy declined from 97.2% for FY 16 to 96.8% for FY 17. Average available units increased from 81 for FY 16 to 98 for FY 17 reflecting the conversion of residential living units to memory care (Summer House) at Villa Gardens.

Care Center occupancy declined from 87.1% for FY 16 to 85.5% for FY 17. Care Center average available beds of 540 for FY 17 remained flat compared to FY 16. Six out of the eight care centers experienced declines in census for FY17 compared to FY16 with Kingsley Manor, Villa Gardens and Vista del Monte suffering the largest declines. Comparing FY16 to FY17, Medicare as a portion of operating revenue increased from 25.0% to 25.8%. Medi-Cal and managed care combined increased from 43.7% to 46.1% while Private pay decreased from 31.3% to 28.1%.

Resident and net patient service revenues, net of the provisions for uncollectible accounts, increased from \$179.2 million for FY 16 to \$183.8 million for FY 17, an increase of 2.6%. Amortization of entrance fees declined from \$10.9 million for FY 16 to \$10.1 million for FY 17. Total unrestricted revenues, gains, and other support improved from \$191.4 million for FY 16 to \$195.4 million for FY17, an increase of 2.1%.

Total operating expenses increased 1.8% from \$189.2 million for FY 16 to \$192.6 million for FY 17, primarily driven by higher labor costs. The increased California minimum wage and competition for talent is driving higher salaries, wages and benefits as well as nursing registry costs.

Operating income increased from \$1.5 million for FY16 to \$2.5 million for FY17 primarily due to higher unrestricted revenues.



Management's Discussion – FYE 3/31/17

Balance Sheet – Consolidated Group

Fiscal Year Ended March 31, 2017.

Total assets of \$698.2 million for FY 17 increased \$52.7 million compared to \$645.5 million for FY 16. Cash and short-term investments increased \$1.0 million, from \$26.6 million for FY 16 to \$27.6 million for FY 17.

Long term investments increased by \$34.1 million, from \$238.6 million for FY 16 to \$272.7 million for FY 17, due to market performance.

Property and Equipment, Net increased by \$21.4 million from \$303.3 million for FY 16 to \$324.7 million for FY 17, reflecting continued investment in Wesley Palms.

Long term debt increased by \$19.4 million, from \$266.9 million for FY 16 to \$286.3 million for FY 17. This included \$6.1 million of additional debt drawn down on the Series 2015 financing for the Wesley Palms renovation project and principal payments of \$0.2 million that occurred during Q4 FY17.

Net assets increased by \$25.6 million, from \$205.0 million for FY16 to \$230.6 million for FY 17, driven primarily by positive investment returns.

Management's Discussion – FYE 3/31/17

Results of Operations –Obligated Group

Fiscal Year Ended March 31, 2017 – Obligated Group.

Residential living occupancy excluding Wesley Palms declined from 97.6% for FY 16 to 97.2% for FY 17. Wesley Palms had 30 fewer residential living units available for FY 17 as compared to FY 16. For FY 17 and FY 16, seven of the 8 Obligated Group communities averaged 95% or higher occupancy. Residential living average available units excluding Wesley Palms for FY17 declined by 19 units to 1,044 compared to FY16 primarily due to the conversion of residential living units to memory care at Villa Gardens.

Summer House occupancy declined slightly from 96.9% for FY 16 to 96.5% for FY 17. Average available units increased from 71 for FY 16 to 88 for FY 17 primarily due to the conversion of residential living units to memory care at Villa Gardens.

Care Center occupancy declined slightly from 83.3% for FY 16 to 83.2% for FY 17. Care Center average available beds of 258 for FY 17 remained flat compared to FY 16. Three out of the five care centers experienced declines in census for FY17 compared to FY16 with Villa Gardens and Vista del Monte suffering the largest declines. Comparing FY16 to FY17, Medicare as a portion of operating revenue remained flat at 32%. Medi-Cal and managed care combined increased from 27.3% to 31.4% while Private pay decreased from 40.8% to 37.1%.

Resident and net patient service revenues, net of the provisions for uncollectible accounts, increased from \$103.8 million for FY 16 to \$103.9 million for FY 17, an increase of 0.1%. Amortization of entrance fees declined from \$10.9 million for FY 16 to \$10.1 million for FY 17. Total unrestricted revenues, gains, and other support declined from \$120.3 million for FY 16 to \$120.1 million for FY17, a decrease of 0.2%.

Total operating expenses increased 2.7% from \$119.8 million for FY 16 to \$123.0 million for FY 17, primarily driven by higher labor costs. The increased California minimum wage and competition for talent is driving higher salaries, wages and benefits as well as nursing registry costs.

Operating income declined from a loss of \$0.2 million for FY16 to a loss of \$3.3 million for FY17 primarily due to the anticipated decline in operating performance from the Wesley Palms campus during renovation and higher labor costs.



Management's Discussion – FYE 3/31/17

Balance Sheet – Obligated Group

Fiscal Year Ended March 31, 2017 – Obligated Group.

Total assets of \$614.2 million for FY 17 increased \$57.2 million compared to \$557.0 million for FY 16. Cash and short-term investments increased \$3.0 million, from \$20.2 million for FY 16 to \$23.2 million for FY 17.

Long term investments increased by \$34.1 million, from \$238.6 million for FY 16 to \$272.7 million for FY 17, due to market performance.

Property and Equipment, Net increased by \$22.1 million from \$233.0 million for FY 16 to \$255.1 million for FY 17, primarily the result of additional assets purchased for the new construction at Wesley Palms.

Long term debt increased by \$22.2 million, from \$158.3 million for FY 16 to \$180.5 million for FY 17. This included \$6.1 million of additional debt drawn down on the Series 2015 financing for the Wesley Palms renovation project and principal payments of \$0.2 million that occurred during Q4 FY17.

Net assets increased by \$26.2 million, from \$245.6 million for FY16 to \$271.8 million for FY 17, driven primarily by positive investment returns.