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February 12, 2018

This Continuing Disclosure Quarterly 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”):

- \$100,040,000 California Statewide Communities Development Authority Revenue Bonds (Front Porch Communities and Services), Series 2017A

Continuing Disclosure Quarterly Report

Front Porch’s Continuing Disclosure Quarterly Report (the “Quarterly Report”) is attached hereto and contains the consolidated unaudited financial statements of Front Porch and affiliates for the fiscal quarter and year-to-date period ended December 31, 2017, 2016, and 2015. The Quarterly Report also contains the unaudited financial statements for the Obligated Group for the fiscal quarter and year-to-date period ended December 31, 2017, 2016, and 2015.

This Quarterly Report is provided solely pursuant to the continuing disclosure certificates relating to the above-referenced Bonds. The filing of this Quarterly 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 Quarterly Report relates (other than as contained in this Quarterly Report), or any other date specified with respect to any of the information contained in this Quarterly 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 Quarterly Report has been obtained from sources which are believed to be reliable. No statement in this Quarterly Report should be construed as a prediction or representation about future financial performance of Front Porch.

FRONT PORCH COMMUNITIES AND SERVICES

By: 
Eduardo Salvador
Chief Financial Officer



Consolidated and Obligated Group Financial Results
Quarter & Nine Months Ended December 31, 2017
(Unaudited)



Statements of Operations
Quarter ended December 31
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	Consolidated			Obligated Group		
	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
Unrestricted Revenues, Gains and Other Support						
Resident and patient service revenue (net of contractual discounts and allowances)	45,219	46,992	48,534	25,883	26,820	27,168
Provision for uncollectible accounts	(503)	(319)	(312)	62	(175)	(123)
Resident and net patient service revenue less provision for uncollectible accounts	44,716	46,673	48,222	25,945	26,645	27,045
Amortization of entrance fees	3,317	2,130	2,356	3,315	2,128	2,349
Other	131	156	261	1,212	1,297	1,470
Net assets released from restriction used for operations	115	125	163	106	118	158
Total unrestricted revenues, gains and other support	48,279	49,084	51,002	30,578	30,188	31,022
Expenses						
Medical services	11,844	12,100	12,916	6,782	7,089	7,292
Communities operating costs	4,901	4,698	4,993	2,826	2,770	2,919
Dietary services	7,409	7,588	8,060	4,304	4,446	4,713
Residential services	3,980	3,971	4,287	2,367	2,420	2,595
Administrative services	10,157	10,838	12,421	7,561	8,133	9,637
Depreciation	6,146	6,226	6,749	3,970	4,060	4,505
Amortization of deferred costs	343	341	292	288	287	240
Interest expense	2,301	2,486	2,301	1,196	1,384	1,231
Other	563	513	580	402	389	421
Total Expenses	47,644	48,761	52,599	29,696	30,978	33,553
Operating Income (Loss) Before Other Operating Charges	635	323	(1,597)	882	(790)	(2,531)
Other Operating Charges						
Asset Impairment - Wesley Palms	(448)	(356)	-	(448)	(356)	(5)
Operating Income (Loss)	187	(33)	(1,597)	434	(1,146)	(2,536)
Other Income						
Investment return	7,684	(6,539)	8,320	7,682	(6,542)	8,316
Loss on extinguishment of debt	-	-	(954)	-	-	(954)
Total other income (expense)	7,684	(6,539)	7,366	7,682	(6,542)	7,362
Excess (Deficiency) of Revenue Over Expenses	7,871	(6,572)	5,769	8,116	(7,688)	4,826
Contributions to affiliates	-	-	-	-	6,523	-
Net assets released from restriction for capital expenditures	35	112	(5)	24	7	(11)
Increase (Decrease) in Unrestricted Net Assets	\$ 7,906	\$ (6,460)	\$ 5,764	\$ 8,140	\$ (1,158)	\$ 4,815



Statements of Operations
Nine Months Ended December 31
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	<u>Consolidated</u>			<u>Obligated Group</u>		
	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
Unrestricted Revenues, Gains and Other Support						
Resident and patient service revenue (net of contractual discounts and allowances)	135,588	138,330	143,542	78,541	78,189	80,330
Provision for uncollectible accounts	(1,908)	(822)	(1,249)	(632)	(446)	(753)
Resident and net patient service revenue less provision for uncollectible accounts	133,680	137,508	142,293	77,909	77,743	79,577
Amortization of entrance fees	8,603	6,986	6,819	8,597	6,980	6,809
Other	335	437	558	3,545	3,858	4,136
Net assets released from restriction used for operations	478	487	531	450	464	513
Total unrestricted revenues, gains and other support	143,096	145,418	150,201	90,501	89,045	91,035
Expenses						
Medical services	35,052	35,176	38,010	20,042	20,306	21,461
Communities operating costs	14,512	14,229	15,098	8,602	8,478	8,890
Dietary services	21,478	22,035	23,796	12,502	12,817	13,752
Residential services	11,546	11,856	12,640	6,887	7,087	7,622
Administrative services	30,218	32,721	32,735	22,387	24,673	24,399
Depreciation	18,460	18,287	19,528	11,894	11,793	12,882
Amortization of deferred costs	1,031	1,022	927	865	861	769
Interest expense	7,108	7,316	7,485	3,642	3,988	4,253
Other	1,638	1,929	1,677	1,194	1,517	1,254
Total Expenses	141,043	144,571	151,896	88,015	91,520	95,282
Operating Income (Loss) Before Other Operating Charges	2,053	847	(1,695)	2,486	(2,475)	(4,247)
Other Operating Charges						
Asset Impairment - Wesley Palms	(447)	(356)	(371)	(448)	(356)	(371)
Operating Income (Loss)	1,606	491	(2,066)	2,038	(2,831)	(4,618)
Other Income						
Investment return	(12,305)	7,440	25,506	(12,312)	7,432	25,493
Loss on extinguishment of debt	-	-	(3,891)	-	-	(3,891)
Total other income (expense)	(12,305)	7,440	21,615	(12,312)	7,432	21,602
Excess (Deficiency) of Revenue Over Expenses	(10,699)	7,931	19,549	(10,274)	4,601	16,984
Contributions to affiliates	-	-	-	-	6,523	-
Net assets released from restriction for capital expenditures	140	161	122	129	27	75
Increase (Decrease) in Unrestricted Net Assets	\$ (10,559)	\$ 8,092	\$ 19,671	\$ (10,145)	\$ 11,151	\$ 17,059



Balance Sheets

At December 31

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	Consolidated			Obligated Group		
	2015	2016	2017	2015	2016	2017
Assets						
Current Assets						
Cash and cash equivalents	\$14,962	\$16,152	\$18,778	\$8,639	\$12,984	\$13,396
Short-term investments	2,992	7,734	11,826	2,992	7,734	11,826
Assets limited as to use - required for current liabilities	9,938	9,370	5,397	8,109	8,258	4,516
Patient accounts receivable, net	10,401	10,119	9,592	5,571	6,288	6,293
Prepaid expenses and other	4,899	3,758	4,062	2,759	2,911	3,208
Intercompany receivables	-	-	-	2,057	312	-
Total current assets	43,192	47,133	49,655	30,127	38,487	39,239
Investments						
Assets limited as to use, net of current portion	16,424	15,679	3,948	12,790	12,188	311
Long-term investments	236,036	257,760	280,880	236,036	257,760	280,880
Derivative instruments	8,386	5,552	162	8,386	5,552	162
Total investments	260,846	278,991	284,990	257,212	275,500	281,353
Property and Equipment, Net	294,250	318,789	338,222	224,377	249,129	268,242
Other Assets						
Interest in net assets of Pacific Homes Foundation	11,049	10,475	11,618	11,049	10,475	11,618
Receivables from supporting organizations	11,631	11,428	12,461	11,631	11,428	12,461
Other receivables	1,794	1,813	1,822	1,794	1,813	1,822
Deferred costs, net	9,391	8,024	830	6,044	4,895	830
Other assets	414	623	414	-	209	-
Total other assets	34,279	32,363	27,145	30,518	28,820	26,731
Total assets	\$632,567	\$677,276	\$700,012	\$542,234	\$591,936	\$615,565
Liabilities and Net Assets						
Current Liabilities						
Current maturities of long-term debt	\$5,763	\$6,021	\$3,139	\$2,895	\$3,010	-
Account payable	3,728	5,193	6,054	2,330	4,214	5,047
Accrued payroll and related expenses	9,987	12,241	12,112	5,276	8,084	7,090
Intercompany payables	-	-	-	109	-	77
Accrued interest	1,931	2,049	1,950	1,623	1,749	1,659
Other accrued expenses	6,855	11,750	12,476	6,070	10,987	11,675
Total current liabilities	28,264	37,254	35,731	18,303	28,044	25,548
Asset retirement obligations	2,619	2,212	2,215	681	233	241
Accrued workers compensation	10,225	9,763	9,449	5,315	5,496	6,173
Other accrued liabilities	13,435	15,367	17,681	10,309	12,102	14,273
Deferred interest - forward sale agreements	1,356	1,251	-	1,356	1,251	-
Refundable entrance fees	63,460	73,744	76,318	63,460	73,744	75,735
Deferred revenue from entrance fees	41,147	36,415	37,598	40,519	35,794	37,572
Long-term debt	270,709	287,791	270,482	157,947	178,115	166,896
Total liabilities	431,215	463,797	449,474	297,890	334,779	326,438
Net Assets:						
Unrestricted	179,780	192,517	227,413	222,781	236,202	266,010
Temporarily restricted	15,133	14,539	16,206	15,124	14,532	16,198
Permanently restricted	6,439	6,423	6,919	6,439	6,423	6,919
Total net assets	201,352	213,479	250,538	244,344	257,157	289,127
Total liabilities and net assets	\$632,567	\$677,276	\$700,012	\$542,234	\$591,936	\$615,565



Statements of Changes in Net Assets
Quarter ended December 31
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	<u>Consolidated</u>			<u>Obligated Group</u>		
	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
Unrestricted Net Assets						
Excess (deficiency) of revenues over expenses	\$7,871	\$ (6,572)	\$5,769	\$8,116	\$ (7,688)	\$4,826
Contributions to affiliates	-	-	-	-	6,523	-
Net assets released from restriction used for purchase of property and equipment	35	112	(5)	24	7	(11)
Increase (decrease) in unrestricted net assets	7,906	(6,460)	5,764	8,140	(1,158)	4,815
Temporarily Restricted Net Assets						
Contributions received and investment income	(11)	412	207	(31)	299	198
Net assets released from restriction for operations	(115)	(125)	(163)	(106)	(118)	(158)
Net assets released from restriction used for purchase of property and equipment	(35)	(112)	5	(24)	(7)	11
Increase (decrease) in temporarily restricted net assets	(161)	175	49	(161)	174	51
Permanently Restricted Net Assets						
Contributions received	-	101	-	-	101	-
Increase (decrease) in permanently restricted net assets	-	101	-	-	101	-
Change in Net Assets	7,745	(6,184)	5,813	7,979	(883)	4,866
Net Assets, Beginning of Year	193,607	219,663	244,725	236,365	258,040	284,261
Net Assets, End of Year	<u>\$201,352</u>	<u>\$213,479</u>	<u>\$250,538</u>	<u>\$244,344</u>	<u>\$257,157</u>	<u>\$289,127</u>



Statements of Changes in Net Assets
Nine Months Ended December 31
000's

	<u>Consolidated</u>			<u>Obligated Group</u>		
	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
Unrestricted Net Assets						
Excess (deficiency) of revenues over expenses	\$ (10,699)	\$7,931	\$19,549	\$ (10,274)	\$4,601	\$16,984
Contributions to affiliates	-	-	-	-	6,523	-
Net assets released from restriction used for purchase of property and equipment	140	161	122	129	27	75
Increase (decrease) in unrestricted net assets	<u>(10,559)</u>	<u>8,092</u>	<u>19,671</u>	<u>(10,145)</u>	<u>11,151</u>	<u>17,059</u>
Temporarily Restricted Net Assets						
Contributions received and investment income	83	948	914	34	785	844
Net assets released from restriction for operations	(478)	(487)	(531)	(450)	(464)	(513)
Net assets released from restriction used for purchase of property and equipment	(140)	(161)	(122)	(129)	(27)	(75)
Increase (decrease) in temporarily restricted net assets	<u>(535)</u>	<u>300</u>	<u>261</u>	<u>(545)</u>	<u>294</u>	<u>256</u>
Permanently Restricted Net Assets						
Contributions received	-	101	15	-	101	14
Increase (decrease) in permanently restricted net assets	<u>-</u>	<u>101</u>	<u>15</u>	<u>-</u>	<u>101</u>	<u>14</u>
Change in Net Assets	(11,094)	8,493	19,947	(10,690)	11,546	17,329
Net Assets, Beginning of Year	212,446	204,986	230,591	255,034	245,611	271,798
Net Assets, End of Year	<u>\$201,352</u>	<u>\$213,479</u>	<u>\$250,538</u>	<u>\$244,344</u>	<u>\$257,157</u>	<u>\$289,127</u>



Statements of Cash Flows
Nine Months Ended December 31
000's

	Consolidated			Obligated Group		
	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
Operating Activities						
Cash received from contract residents	\$32,905	\$34,302	\$31,857	\$32,794	\$34,164	\$31,638
Proceeds from entrance fees received	17,457	20,066	16,640	17,457	20,066	16,640
Cash received from and on behalf of noncontract residents	98,554	101,279	108,631	44,028	41,709	47,727
Reimbursement for services to nonresidents	2,191	2,657	2,445	660	831	894
Other receipts from operations	336	437	558	3,545	3,858	4,136
Unrestricted investment income received	5,237	5,652	7,045	5,230	5,643	7,032
Processing fees	147	42	55	147	42	55
Payments on forward sale agreements	(327)	(327)	(109)	(327)	(327)	(109)
Cash paid to suppliers, employees and others	(120,028)	(121,803)	(127,127)	(77,764)	(79,345)	(79,951)
Cash paid for interest on long-term debt, net of amounts capitalized	(8,638)	(8,762)	(9,167)	(5,208)	(5,477)	(5,974)
Net cash provided by operating activities	<u>27,834</u>	<u>33,543</u>	<u>30,828</u>	<u>20,562</u>	<u>21,164</u>	<u>22,088</u>
Investing Activities						
Capital expenditures	(23,474)	(35,945)	(35,814)	(19,011)	(27,703)	(28,846)
Proceeds from sale of trading investments	78,368	108,673	135,913	78,368	108,673	135,913
Purchase of trading investments	(101,346)	(122,754)	(130,866)	(101,346)	(122,545)	(130,866)
Purchase of assets limited as to use	(4,700)	(1,886)	(781)	(3,918)	(1,432)	(532)
Proceeds from sale of assets limited as to use	6,571	4,935	19,978	4,481	2,859	18,348
Proceeds from termination of derivative financial instrument	-	-	7,130	-	-	7,130
Repayment from (advances to) Brookmore Apartment Corporations	600	(209)	209	600	(209)	209
Net cash used in investing activities	<u>(43,981)</u>	<u>(47,186)</u>	<u>(4,231)</u>	<u>(40,826)</u>	<u>(40,357)</u>	<u>1,356</u>
Financing Activities						
Refunds of entrance fees	(6,799)	(4,081)	(3,972)	(6,799)	(4,081)	(3,972)
Principal payments on long-term debt	(2,270)	(4,561)	(2,435)	(2,270)	(2,345)	(2,435)
Principal payments on refinancing of long-term debt	-	-	(143,210)	-	-	(143,210)
Principal payment HUD loans	-	-	(2,293)	-	-	-
Proceeds from HUD-insured financing, net of issuance	(2,140)	-	-	-	-	-
Proceeds from refinancing 2007A	-	-	4,750	-	-	4,750
Proceeds from Series 2015, 2017A, & 2017B financing, net of issuance cost	12,173	18,515	122,982	12,173	18,515	122,982
Proceeds from restricted contributions	-	16	42	-	16	-
Contributions from Affiliates	-	-	-	-	6,523	-
Net cash provided by financing activities	<u>964</u>	<u>9,889</u>	<u>(24,136)</u>	<u>3,104</u>	<u>18,628</u>	<u>(21,885)</u>
Increase (Decrease) in Cash and Cash Equivalents	(15,183)	(3,754)	2,461	(17,160)	(565)	1,559
Cash and Cash Equivalents, Beginning of Year	30,145	19,906	16,317	25,799	13,549	11,837
Cash and Cash Equivalents, End of Year	\$14,962	\$16,152	\$18,778	\$8,639	\$12,984	\$13,396
Supplemental Cash Flows Information						
Property and equipment purchase included in accounts payable and other accrued expenses	-	4,868	3,417	-	4,868	3,417
Entrance fees included in accounts receivable	821	1,167	1,776	821	1,167	1,776



Average Available Units / Beds
Quarter Ended December 31, 2017

<u>Community Name</u>	<u>City</u>	<u>Type</u>	<u>Residential</u> <u>Living</u>	<u>Memory</u> <u>Care</u>	<u>Care</u> <u>Centers</u>	<u>Total</u> <u>Units/Beds</u>
<i>Obligated Group Communities</i>						
Carlsbad By The Sea	Carlsbad, CA	CCRC	159	**	33	192
Cecil Pines	Jacksonville, FL	Rental	92	**	**	92
England Oaks	Alexandria, LA	Rental	181	**	**	181
Sunny View	Cupertino, CA	CCRC	94	23	48	165
Villa Gardens	Pasadena, CA	CCRC	193	19	54	266
Vista del Monte	Santa Barbara, CA	CCRC	170	10	29	209
Walnut Village	Anaheim, CA	CCRC	156	14	94	264
Wesley Palms	San Diego, CA	Rental	213	22	**	235
Subtotal			1,258	88	258	1,604
<i>Non-Obligated Group Communities</i>						
Casa de Manana	La Jolla, CA	Rental	189	**	**	189
Claremont Manor	Claremont, CA	Rental	212	10	59	281
Fredericka Manor	Chula Vista, CA	Rental	286	**	172	458
Kingsley Manor	Los Angeles, CA	Rental	219	**	51	270
Subtotal			906	10	282	1,198
Total All Communities			2,164	98	540	2,802

** Not applicable



Average Available Units / Beds
Nine Months Ended December 31, 2017

<u>Community Name</u>	<u>City</u>	<u>Type</u>	<u>Residential</u> <u>Living</u>	<u>Memory</u> <u>Care</u>	<u>Care</u> <u>Centers</u>	<u>Total</u> <u>Units/Beds</u>
<i>Obligated Group Communities</i>						
Carlsbad By The Sea	Carlsbad, CA	CCRC	159	**	33	192
Cecil Pines	Jacksonville, FL	Rental	92	**	**	92
England Oaks	Alexandria, LA	Rental	181	**	**	181
Sunny View	Cupertino, CA	CCRC	94	23	48	165
Villa Gardens	Pasadena, CA	CCRC	192	19	54	265
Vista del Monte	Santa Barbara, CA	CCRC	170	10	29	209
Walnut Village	Anaheim, CA	CCRC	156	14	94	264
Wesley Palms	San Diego, CA	Rental	206	22	**	228
Subtotal			1,250	88	258	1,596
<i>Non-Obligated Group Communities</i>						
Casa de Manana	La Jolla, CA	Rental	189	**	**	189
Claremont Manor	Claremont, CA	Rental	207	10	59	276
Fredericka Manor	Chula Vista, CA	Rental	285	**	172	457
Kingsley Manor	Los Angeles, CA	Rental	218	**	51	269
Subtotal			899	10	282	1,191
Total All Communities			2,149	98	540	2,787

** Not applicable



Historical Average Occupancy
Quarter Ended December 31

Community Name	2015			2016			2017		
	Residential Living	Memory Care	Care Centers	Residential Living	Memory Care	Care Centers	Residential Living	Memory Care	Care Centers
<i>Obligated Group Communities</i>									
Carlsbad By The Sea	98.5%	**	88.8%	98.6%	**	93.0%	98.9%	**	91.8%
Cecil Pines	100.0%	**	**	99.7%	**	**	99.7%	**	**
England Oaks	95.4%	**	**	95.7%	**	**	95.0%	**	**
Sunny View	98.2%	94.3%	87.5%	98.9%	97.0%	90.2%	98.3%	98.7%	86.9%
Villa Gardens	98.6%	**	75.9%	98.8%	93.2%	65.4%	99.3%	100.0%	79.1%
Vista del Monte	99.2%	97.0%	76.9%	98.0%	90.0%	82.8%	86.6%	100.0%	70.0%
Walnut Village	93.1%	97.9%	80.9%	96.6%	97.9%	95.7%	96.6%	100.0%	90.1%
Wesley Palms	90.1%	96.8%	**	81.9%	100.0%	**	76.9%	96.8%	**
Subtotal	96.2%	96.2%	81.6%	81.9%	96.3%	86.6%	92.7%	98.9%	85.2%
<i>Non-Obligated Group Communities</i>									
Casa de Manana	96.8%	**	**	97.7%	**	**	98.0%	**	**
Claremont Manor	96.2%	97.0%	80.8%	90.8%	100.0%	80.2%	91.2%	93.0%	88.6%
Fredericka Manor	91.0%	**	91.5%	93.7%	**	93.2%	90.5%	**	92.4%
Kingsley Manor	99.1%	**	92.7%	99.2%	**	81.8%	99.0%	**	89.6%
Subtotal	95.3%	97.0%	89.5%	95.2%	100.0%	88.4%	94.3%	93.0%	91.1%
All Communities	95.8%	96.3%	85.7%	95.4%	96.6%	87.5%	93.4%	98.3%	88.3%

** Not applicable



**Historical Average Occupancy
Nine Months Ended December 31**

Community Name	2015			2016			2017		
	Residential Living	Memory Care	Care Centers	Residential Living	Memory Care	Care Centers	Residential Living	Memory Care	Care Centers
<i>Obligated Group Communities</i>									
Carlsbad By The Sea	97.9%	**	87.6%	98.0%	**	90.9%	97.0%	**	90.3%
Cecil Pines	99.7%	**	**	99.6%	**	**	99.8%	**	**
England Oaks	96.9%	**	**	95.6%	**	**	94.4%	**	**
Sunny View	99.2%	92.2%	90.4%	98.8%	97.8%	90.0%	97.9%	99.6%	86.3%
Villa Gardens	98.4%	**	74.6%	98.9%	95.8%	65.0%	98.2%	97.9%	70.6%
Vista del Monte	98.8%	98.0%	82.4%	95.9%	93.0%	76.6%	88.5%	96.0%	72.8%
Walnut Village	95.4%	99.3%	84.1%	95.9%	91.4%	86.2%	96.3%	100.0%	87.9%
Wesley Palms	89.9%	96.8%	**	84.8%	98.6%	**	78.2%	98.6%	**
Subtotal	96.5%	96.0%	83.6%	95.4%	96.0%	82.0%	92.7%	98.6%	82.6%
<i>Non-Obligated Group Communities</i>									
Casa de Manana	96.8%	**	**	98.0%	**	**	97.1%	**	**
Claremont Manor	95.9%	99.0%	84.9%	91.3%	100.0%	81.9%	94.4%	93.0%	86.4%
Fredericka Manor	86.0%	**	93.1%	91.8%	**	91.7%	91.1%	**	92.8%
Kingsley Manor	99.4%	**	93.9%	99.1%	**	77.1%	99.2%	**	84.1%
Subtotal	93.7%	98.0%	91.6%	94.7%	100.0%	87.0%	95.1%	93.0%	89.9%
All Communities	95.4%	96.3%	87.7%	95.1%	96.5%	84.6%	93.7%	98.0%	86.4%

** Not applicable



Care Center Payor Mix and Occupancy
Quarter ended December 31

<u>Payor</u>	<u>Consolidated</u>			<u>Obligated Group</u>		
	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
Private Pay	33.5%	26.2%	26.0%	41.9%	35.5%	35.5%
Medi-Cal ⁽¹⁾	38.7%	38.1%	40.3%	23.8%	24.6%	27.4%
Medicare	22.6%	27.0%	25.3%	29.8%	33.7%	31.0%
Managed Care	5.2%	8.7%	8.4%	4.5%	6.2%	6.1%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Average Beds Available	540	540	540	258	258	258
Average Occupancy	85.7%	87.5%	88.3%	81.6%	86.6%	85.2%

⁽¹⁾ Includes Medi-Cal Managed Care



Care Center Payor Mix and Occupancy
Nine Months Ended December 31

Payor	Consolidated			Obligated Group		
	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
Private Pay	31.2%	29.6%	25.6%	41.1%	38.8%	35.2%
Medi-Cal ⁽¹⁾	39.9%	37.5%	41.0%	25.0%	25.4%	29.0%
Medicare	24.4%	25.3%	25.5%	31.2%	31.5%	30.9%
Managed Care	4.5%	7.6%	7.9%	2.7%	4.3%	4.9%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Average Beds Available	540	540	540	258	258	258
Average Occupancy	87.7%	84.6%	86.4%	83.6%	82.0%	82.6%

⁽¹⁾ Includes Medi-Cal Managed Care



Management's Discussion Quarter ended December 31

Unaudited Results of Operations ⁽¹⁾ – Consolidated: Q3 FY18 Compared to Q3FY17

Residential Living occupancy was 93.4% for Q3 FY18 compared to 95.4% for Q3 FY17 reflecting lower occupancy at Wesley Palms and Vista del Monte. Wesley Palms is undergoing a major renovation that temporarily decreases Residential Living capacity to accommodate the phased construction. Upon the completion of the project, Residential Living capacity will increase with replacement of 150 independent living cottages with 170 patio homes. The final phase of the Wesley Palms project is expected to be completed in April 2019.

Summer House[®] occupancy was 98.3% for Q3 FY18 compared to 96.6% for Q3 FY17 with higher occupancy at Villa Gardens, Vista del Monte, Sunny View and Walnut Village. Construction in progress at Fredericka Manor will add a Summer House[®].

Care Center occupancy increased to 88.3% for Q3 FY18 from 87.5% during Q3 FY17 with higher occupancy at Villa Gardens, Claremont Manor, and Kingsley Manor offsetting declines in occupancy at other Care Centers. Changes in Care Center payer mix reflect increasing Medi-Cal utilization and declines in other payers. Average available beds for Q3 FY17 and Q3 FY18 remained at 540. In November 2017, management announced plans to close the 29-bed Care Center at Vista del Monte in Q4 FY18 and convert to expanded Summer House[®] capacity.

Resident and net patient service revenue, net of the provision for uncollectible accounts, increased to \$48.2M for Q3 FY18 from \$46.7M for Q3 FY17, a 3.3% improvement. Amortization of entrance fees increased to \$2.4M for Q3 FY18 from \$2.1M for Q3 FY17, a 10.6% increase. Total unrestricted revenues, gains and other support improved to \$51.0M for Q3 FY18 from \$49.1M for Q3 FY17, a 3.9% increase.

Total operating expenses less other operating charges increased 7.9% to \$52.6M for Q3 FY18 from \$48.8M for Q3 FY17 reflecting increasing wage and salary pressures. During Q3 FY18, management recorded a \$2.0M expense for a proposed settlement of two class action lawsuits filed against Front Porch over alleged “meal and rest break” violations. This expense is included in “administrative services.”

The legal settlement described above contributed to the increase in operating loss to \$1.6M for Q3 FY18 from a loss of \$0.03M for Q3 FY17.



Management's Discussion Nine Months Ended December 31

Unaudited Results of Operations ⁽¹⁾ – Consolidated: Nine Months Ended December 31, 2017 Compared to Nine Months Ended December 31, 2016

Residential Living occupancy declined to 93.7% for the nine months ended December 31, 2017, from 95.1% for the same period in the prior year, primarily due to lower occupancy at Wesley Palms and Vista del Monte. Wesley Palms is undergoing a major renovation that temporarily decreases Residential Living capacity to accommodate the phased construction. Upon the completion of the project, Residential Living capacity will increase with replacement of 150 independent living cottages with 170 patio homes. The final phase of the Wesley Palms project is expected to be completed in April 2019.

Summer House[®] occupancy improved to 98.0% from 96.5% for the same period in the prior year reflecting strong demand at all locations. Construction in progress at Fredericka Manor will add a Summer House[®].

Care Center occupancy improved to 86.4% for the nine months ended December 31, 2017, from 84.6% for the same period in the prior year reflecting improved occupancy at Villa Gardens, Kingsley Manor and Claremont Manor. Changes in Care Center payer mix reflect increasing Medi-Cal and Managed Care utilization with declines in Private Pay patients. Average available beds for the nine months ended December 31, 2017, and the same period for the prior year remained at 540. In November 2017, management announced plans to close the 29-bed Care Center at Vista del Monte in Q4 FY18 and convert to expanded Summer House[®] capacity.

Resident and net patient service revenue, net of the provision for uncollectible accounts, increased to \$142.3M for the nine months ended December 31, 2017, compared to \$137.5M for same period in the prior year, a 3.5% improvement. Amortization of entrance fees declined to \$6.8M for the nine months ended December 31, 2017, compared to \$7.0M for same period in the prior year. Proceeds from entrance fees declined to \$16.6M for the nine months ended December 31, 2017, compared to \$20.1M for same period in the prior year. Total unrestricted revenues, gains and other support improved to \$150.2M for the nine months ended December 31, 2017, compared to \$145.4M for same period in the prior year, a 3.3% increase.

Total operating expenses less other operating charges increased 5.1% to \$151.9M for the nine months ended December 31, 2017, compared to \$144.6M for same period in the prior year reflecting increasing wage and salary pressures. During Q3 FY18, management recorded a \$2.0M expense for a proposed settlement of two class action lawsuits filed against Front Porch over alleged “meal and rest break” violations. This expense is included in “administrative services.”

The legal settlement described above contributed to the operating loss of \$2.1M for the nine months ended December 31, 2017, compared to a gain of \$.5M for same period in the prior year. Investment return remained strong with a return of \$25.5M for the nine months ended December 31, 2017, compared to \$7.4M for same period in the prior year. Excess of revenue over expenses also improved to \$19.5M for the nine months ended December 31, 2017, compared to \$7.9M for same period in the prior year.



Management's Discussion Nine Months Ended December 31

Balance sheet and cash flow – Consolidated: December 31, 2017 Compared to December 31, 2016

Total assets increased to \$700.0M at December 31, 2017, compared to \$677.3M at December 31, 2016. Property and equipment, net increased to \$338.2M at December 31, 2017, compared to \$318.8 at December 31, 2016, reflecting continued capital improvements including the project at Wesley Palms. Long term debt decreased to \$270.5 million at December 31, 2017, compared to \$287.8M at December 31, 2016, reflecting the debt restructuring completed in Q2 FY18 and scheduled principal payments. Net assets increased by \$37.0 million to \$250.5 million at December 31, 2017, from \$213.5 million at December 31, 2016, driven primarily by strong investment income.

Total unrestricted cash and investments (cash and cash equivalents+short-term investments+long term investments) at December 31, 2017, increased to \$311.5M from \$281.6M at December 31, 2016. During the nine months ended December 31, 2017, uses of cash included the renovation at Villa Gardens, retirement of the 1999 Certificates of Participation and routine capital improvements at other Front Porch communities.

Note:

⁽¹⁾ Front Porch refers to independent and assisted living units as “Residential Living” units. Memory support units are collectively referred to by the brand name “Summer House[®].” Skilled-nursing beds are collectively referred to as “Care Center” beds.