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January 28, 2019

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, 2018, 2017, and 2016. 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, 2018, 2017, and 2016.

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, 2018**  
**(Unaudited)**



**Statements of Operations**  
**Quarter ended December 31**  
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|   | Consolidated      |                 |                    | Obligated Group   |                 |                    |
|---|-------------------|-----------------|--------------------|-------------------|-----------------|--------------------|
|   | 2016              | 2017            | 2018               | 2016              | 2017            | 2018               |
| <b>Unrestricted Revenues, Gains and Other Support</b>   |                   |                 |                    |                   |                 |                    |
| Resident and net patient service revenue less provision for uncollectible accounts <sup>(1)</sup> | 46,673            | 48,222          | 49,270             | 26,645            | 27,045          | 27,410             |
| Amortization of entrance fees   | 2,130             | 2,356           | 2,216              | 2,128             | 2,349           | 2,215              |
| Other   | 156               | 261             | 1,064              | 1,297             | 1,470           | 1,943              |
| Net assets released from restriction used for operations  | 125               | 163             | 182                | 118               | 158             | 176                |
| <b>Total unrestricted revenues, gains and other support</b>                                       | <b>49,084</b>     | <b>51,002</b>   | <b>52,732</b>      | <b>30,188</b>     | <b>31,022</b>   | <b>31,744</b>      |
| <b>Expenses</b>   |                   |                 |                    |                   |                 |                    |
| Medical services  | 12,100            | 12,916          | 12,886             | 7,089             | 7,292           | 7,059              |
| Communities operating costs   | 4,698             | 4,993           | 5,247              | 2,770             | 2,919           | 3,131              |
| Dietary services  | 7,588             | 8,060           | 8,586              | 4,446             | 4,713           | 5,097              |
| Residential services  | 3,971             | 4,287           | 4,439              | 2,420             | 2,595           | 2,696              |
| Administrative services   | 10,838            | 12,421          | 10,578             | 8,133             | 9,637           | 7,609              |
| Depreciation  | 6,226             | 6,749           | 7,348              | 4,060             | 4,505           | 5,035              |
| Amortization of deferred costs  | 341               | 292             | 288                | 287               | 240             | 236                |
| Interest expense and other financing costs  | 2,486             | 2,301           | 2,450              | 1,384             | 1,231           | 1,408              |
| Other   | 513               | 580             | 594                | 389               | 421             | 437                |
| <b>Total Expenses</b>   | <b>48,761</b>     | <b>52,599</b>   | <b>52,416</b>      | <b>30,978</b>     | <b>33,553</b>   | <b>32,708</b>      |
| <b>Operating Income (Loss) Before Other Operating Charges</b>                                     | <b>323</b>        | <b>(1,597)</b>  | <b>316</b>         | <b>(790)</b>      | <b>(2,531)</b>  | <b>(964)</b>       |
| <b>Other Operating Charges</b>  |                   |                 |                    |                   |                 |                    |
| Asset Impairment - Wesley Palms   | (356)             | -               | -                  | (356)             | (5)             | -                  |
| <b>Operating Income (Loss)</b>  | <b>(33)</b>       | <b>(1,597)</b>  | <b>316</b>         | <b>(1,146)</b>    | <b>(2,536)</b>  | <b>(964)</b>       |
| <b>Other Income</b>   |                   |                 |                    |                   |                 |                    |
| Investment return   | (6,539)           | 8,320           | (32,757)           | (6,542)           | 8,316           | (32,764)           |
| Loss on extinguishment of debt  | -                 | (954)           | -                  | -                 | (954)           | -                  |
| <b>Total other income</b>   | <b>(6,539)</b>    | <b>7,366</b>    | <b>(32,757)</b>    | <b>(6,542)</b>    | <b>7,362</b>    | <b>(32,764)</b>    |
| <b>Excess of Revenue Over Expenses</b>  | <b>(6,572)</b>    | <b>5,769</b>    | <b>(32,441)</b>    | <b>(7,688)</b>    | <b>4,826</b>    | <b>(33,728)</b>    |
| Contribution from/to affiliates   | -                 | -               | -                  | 6,523             | -               | -                  |
| Net assets released from restriction for purchase of property and equipment                       | 112               | (5)             | 123                | 7                 | (11)            | 123                |
| <b>Increase in Net Assets without donor restriction</b>   | <b>\$ (6,460)</b> | <b>\$ 5,764</b> | <b>\$ (32,318)</b> | <b>\$ (1,158)</b> | <b>\$ 4,815</b> | <b>\$ (33,605)</b> |

<sup>(1)</sup> Provision for uncollectible accounts has been re-instated to reflect a reduction to revenue. In Q1, provision for uncollectible accounts had been reflected as an expense. After careful examination of the new accounting principles it was determined there would be no material change.



**Statements of Operations**  
**Nine Months Ended December 31**  
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|   | <u>Consolidated</u> |                  |                    | <u>Obligated Group</u> |                  |                    |
|---|---------------------|------------------|--------------------|------------------------|------------------|--------------------|
|   | <u>2016</u>         | <u>2017</u>      | <u>2018</u>        | <u>2016</u>            | <u>2017</u>      | <u>2018</u>        |
| <b>Unrestricted Revenues, Gains and Other Support</b>   |                     |                  |                    |                        |                  |                    |
| Resident and net patient service revenue less provision for uncollectible accounts <sup>(1)</sup> | 137,508             | 142,293          | 147,100            | 77,743                 | 79,577           | 82,052             |
| Amortization of entrance fees   | 6,986               | 6,819            | 6,754              | 6,980                  | 6,809            | 6,751              |
| Other   | 437                 | 558              | 1,188              | 3,858                  | 4,136            | 4,513              |
| Net assets released from restriction used for operations  | 487                 | 531              | 481                | 464                    | 513              | 457                |
| <b>Total unrestricted revenues, gains and other support</b>                                       | <b>145,418</b>      | <b>150,201</b>   | <b>155,523</b>     | <b>89,045</b>          | <b>91,035</b>    | <b>93,773</b>      |
| <b>Expenses</b>   |                     |                  |                    |                        |                  |                    |
| Medical services  | 35,176              | 38,010           | 38,132             | 20,306                 | 21,461           | 20,914             |
| Communities operating costs   | 14,229              | 15,098           | 15,786             | 8,478                  | 8,890            | 9,308              |
| Dietary services  | 22,035              | 23,796           | 24,647             | 12,817                 | 13,752           | 14,484             |
| Residential services  | 11,856              | 12,640           | 13,165             | 7,087                  | 7,622            | 8,059              |
| Administrative services   | 32,721              | 32,735           | 31,858             | 24,673                 | 24,399           | 22,986             |
| Depreciation  | 18,287              | 19,528           | 21,622             | 11,793                 | 12,882           | 14,789             |
| Amortization of deferred costs  | 1,022               | 927              | 866                | 861                    | 769              | 708                |
| Interest expense and other financing costs  | 7,316               | 7,485            | 7,180              | 3,988                  | 4,253            | 4,030              |
| Other   | 1,929               | 1,677            | 1,794              | 1,517                  | 1,254            | 1,322              |
| <b>Total Expenses</b>   | <b>144,571</b>      | <b>151,896</b>   | <b>155,050</b>     | <b>91,520</b>          | <b>95,282</b>    | <b>96,600</b>      |
| <b>Operating Income (Loss) Before Other Operating Charges</b>                                     | <b>847</b>          | <b>(1,695)</b>   | <b>473</b>         | <b>(2,475)</b>         | <b>(4,247)</b>   | <b>(2,827)</b>     |
| <b>Other Operating Charges</b>  |                     |                  |                    |                        |                  |                    |
| Asset Impairment - Wesley Palms   | (356)               | (371)            | (53)               | (356)                  | (371)            | (53)               |
| <b>Operating Income (Loss)</b>  | <b>491</b>          | <b>(2,066)</b>   | <b>420</b>         | <b>(2,831)</b>         | <b>(4,618)</b>   | <b>(2,880)</b>     |
| <b>Other Income</b>   |                     |                  |                    |                        |                  |                    |
| Investment return   | 7,440               | 25,506           | (20,251)           | 7,432                  | 25,493           | (20,269)           |
| Loss on extinguishment of debt  | -                   | (3,891)          | -                  | -                      | (3,891)          | -                  |
| <b>Total other income</b>   | <b>7,440</b>        | <b>21,615</b>    | <b>(20,251)</b>    | <b>7,432</b>           | <b>21,602</b>    | <b>(20,269)</b>    |
| <b>Excess of Revenue Over Expenses</b>  | <b>7,931</b>        | <b>19,549</b>    | <b>(19,831)</b>    | <b>4,601</b>           | <b>16,984</b>    | <b>(23,149)</b>    |
| Contribution from/to affiliates   | -                   | -                | -                  | 6,523                  | -                | -                  |
| Net assets released from restriction for purchase of property and equipment                       | 161                 | 122              | 398                | 27                     | 75               | 398                |
| <b>Increase in Net Assets without donor restriction</b>   | <b>\$ 8,092</b>     | <b>\$ 19,671</b> | <b>\$ (19,433)</b> | <b>\$ 11,151</b>       | <b>\$ 17,059</b> | <b>\$ (22,751)</b> |

<sup>(1)</sup> Provision for uncollectible accounts has been re-instated to reflect a reduction to revenue. In Q1, provision for uncollectible accounts had been reflected as an expense. After careful examination of the new accounting principles it was determined there would be no material change.



## Balance Sheets

At December 31

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|   | Consolidated     |                  |                  | Obligated Group  |                  |                  |
|---|------------------|------------------|------------------|------------------|------------------|------------------|
|   | 2016             | 2017             | 2018             | 2016             | 2017             | 2018             |
| <b>Assets</b>   |                  |                  |                  |                  |                  |                  |
| <b>Current Assets</b>                                       |                  |                  |                  |                  |                  |                  |
| Cash and cash equivalents                                   | \$16,152         | \$18,778         | \$13,656         | \$12,984         | \$13,396         | \$11,915         |
| Short-term investments                                      | 7,734            | 11,826           | 7,660            | 7,734            | 11,826           | 7,660            |
| Assets limited as to use - required for current liabilities | 9,370            | 5,397            | 9,836            | 8,258            | 4,516            | 9,087            |
| Patient accounts receivable, net                            | 10,119           | 9,592            | 8,244            | 6,288            | 6,293            | 5,163            |
| Prepaid expenses and other                                  | 3,758            | 4,062            | 3,403            | 2,911            | 3,208            | 2,515            |
| Intercompany receivables                                    | -                | -                | -                | 312              | -                | 570              |
| Total current assets  | 47,133           | 49,655           | 42,799           | 38,487           | 39,239           | 36,910           |
| <b>Investments</b>  |                  |                  |                  |                  |                  |                  |
| Assets limited as to use, net of current portion            | 15,679           | 3,948            | 4,713            | 12,188           | 311              | 1                |
| Long-term investments                                       | 257,760          | 280,880          | 260,495          | 257,760          | 280,880          | 260,495          |
| Derivative instruments                                      | 5,552            | 162              | 187              | 5,552            | 162              | 187              |
| Total investments   | 278,991          | 284,990          | 265,395          | 275,500          | 281,353          | 260,683          |
| <b>Property and Equipment, Net</b>                          | <b>318,789</b>   | <b>338,222</b>   | <b>355,743</b>   | <b>249,129</b>   | <b>268,242</b>   | <b>279,432</b>   |
| <b>Other Assets</b>   |                  |                  |                  |                  |                  |                  |
| Interest in net assets of Pacific Homes Foundation          | 10,475           | 11,618           | 12,245           | 10,475           | 11,618           | 12,246           |
| Receivables from supporting organizations                   | 11,428           | 12,461           | 11,900           | 11,428           | 12,461           | 11,900           |
| Other receivables   | 1,813            | 1,822            | 1,738            | 1,813            | 1,822            | 1,738            |
| Deferred costs, net   | 8,024            | 830              | 166              | 4,895            | 830              | 166              |
| Other assets  | 623              | 414              | 414              | 209              | -                | -                |
| Total other assets  | 32,363           | 27,145           | 26,463           | 28,820           | 26,731           | 26,050           |
| <b>Total assets</b>   | <b>\$677,276</b> | <b>\$700,012</b> | <b>\$690,400</b> | <b>\$591,936</b> | <b>\$615,565</b> | <b>\$603,075</b> |
| <b>Liabilities and Net Assets</b>                           |                  |                  |                  |                  |                  |                  |
| <b>Current Liabilities</b>                                  |                  |                  |                  |                  |                  |                  |
| Current maturities of long-term debt                        | \$6,021          | \$3,139          | \$3,071          | \$3,010          | -                | -                |
| Account payable   | 5,193            | 6,054            | 4,699            | 4,214            | 5,047            | 3,680            |
| Accrued payroll and related expenses                        | 12,241           | 12,112           | 12,133           | 8,084            | 7,090            | 7,583            |
| Intercompany payables                                       | -                | -                | -                | -                | 77               | -                |
| Accrued interest  | 2,049            | 1,950            | 1,425            | 1,749            | 1,659            | 1,143            |
| Other accrued expenses                                      | 11,750           | 12,476           | 10,621           | 10,987           | 11,675           | 9,593            |
| Total current liabilities                                   | 37,254           | 35,731           | 31,949           | 28,044           | 25,548           | 21,999           |
| Asset retirement obligations                                | 2,212            | 2,215            | 2,158            | 233              | 241              | 238              |
| Accrued workers compensation                                | 9,763            | 9,449            | 8,716            | 5,496            | 6,173            | 5,837            |
| Other accrued liabilities                                   | 15,367           | 17,681           | 21,529           | 12,102           | 14,273           | 17,986           |
| Deferred interest - forward sale agreements                 | 1,251            | -                | -                | 1,251            | -                | -                |
| Refundable entrance fees                                    | 73,744           | 76,318           | 73,846           | 73,744           | 75,735           | 73,619           |
| Deferred revenue from entrance fees                         | 36,415           | 37,598           | 40,562           | 35,794           | 37,572           | 40,542           |
| Long-term debt  | 287,791          | 270,482          | 282,575          | 178,115          | 166,896          | 181,862          |
| Total liabilities   | 463,797          | 449,474          | 461,335          | 334,779          | 326,438          | 342,083          |
| <b>Net Assets:</b>  |                  |                  |                  |                  |                  |                  |
| Without donor restriction <sup>(1)</sup>                    | 192,517          | 227,413          | 206,033          | 236,202          | 266,010          | 237,967          |
| With donor restriction <sup>(1)</sup>                       | 20,962           | 23,125           | 23,032           | 20,955           | 23,117           | 23,025           |
| Total net assets  | 213,479          | 250,538          | 229,065          | 257,157          | 289,127          | 260,992          |
| <b>Total liabilities and net assets</b>                     | <b>\$677,276</b> | <b>\$700,012</b> | <b>\$690,400</b> | <b>\$591,936</b> | <b>\$615,565</b> | <b>\$603,075</b> |

(1) Without Donor Restriction was previously labeled Unrestricted Net Assets.  
With Donor Restriction includes Temporarily and Permanently Restricted Net Assets.



**Statements of Changes in Net Assets**  
**Quarter ended December 31**  
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|  | <u>Consolidated</u>     |                         |                         | <u>Obligated Group</u>  |                         |                         |
|--|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|
|  | <u>2016</u>             | <u>2017</u>             | <u>2018</u>             | <u>2016</u>             | <u>2017</u>             | <u>2018</u>             |
| <b>Net Assets without Donor Restriction<sup>(1)</sup></b>                        |                         |                         |                         |                         |                         |                         |
| Excess of revenues over expenses   | \$ (6,572)              | \$5,769                 | \$ (32,441)             | \$ (7,688)              | \$4,826                 | \$ (33,728)             |
| Contributions to affiliates  | -                       | -                       | -                       | 6,523                   | -                       | -                       |
| Net assets released from restriction used for purchase of property and equipment | 112                     | (5)                     | 123                     | 7                       | (11)                    | 123                     |
| Increase in Net Assets without Donor Restriction                                 | (6,460)                 | 5,764                   | (32,318)                | (1,158)                 | 4,815                   | (33,605)                |
| <b>Net Assets with Donor Restriction<sup>(1)</sup></b>                           |                         |                         |                         |                         |                         |                         |
| Contributions received and investment income                                     | 513                     | 207                     | (617)                   | 400                     | 198                     | (622)                   |
| Net assets released from restriction for operations                              | (125)                   | (163)                   | (182)                   | (118)                   | (158)                   | (176)                   |
| Net assets released from restriction used for purchase of property and equipment | (112)                   | 5                       | (123)                   | (7)                     | 11                      | (123)                   |
| Increase (decrease) in Net Assets with Donor Restriction                         | 276                     | 49                      | (922)                   | 275                     | 51                      | (921)                   |
| <b>Change in Net Assets</b>  | <b>(6,184)</b>          | <b>5,813</b>            | <b>(33,240)</b>         | <b>(883)</b>            | <b>4,866</b>            | <b>(34,526)</b>         |
| <b>Net Assets, Beginning of Year</b>   | <b>219,663</b>          | <b>244,725</b>          | <b>262,305</b>          | <b>258,040</b>          | <b>284,261</b>          | <b>295,518</b>          |
| <b>Net Assets, End of Year</b>   | <b><u>\$213,479</u></b> | <b><u>\$250,538</u></b> | <b><u>\$229,065</u></b> | <b><u>\$257,157</u></b> | <b><u>\$289,127</u></b> | <b><u>\$260,992</u></b> |

<sup>(1)</sup> Net Assets without Donor Restriction was previously labeled Unrestricted Net Assets.  
Net Assets with Donor Restriction includes Temporarily and Permanently Restricted Net Assets.



**Statements of Changes in Net Assets**  
**Nine Months Ended December 31**  
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|  | <u>Consolidated</u>     |                         |                         | <u>Obligated Group</u>  |                         |                         |
|--|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|
|  | <u>2016</u>             | <u>2017</u>             | <u>2018</u>             | <u>2016</u>             | <u>2017</u>             | <u>2018</u>             |
| <b>Net Assets without Donor Restriction<sup>(1)</sup></b>                        |                         |                         |                         |                         |                         |                         |
| Excess of revenues over expenses   | \$7,931                 | \$19,549                | \$(19,831)              | \$4,601                 | \$16,984                | \$(23,149)              |
| Contributions to affiliates  | -                       | -                       | -                       | 6,523                   | -                       | -                       |
| Net assets released from restriction used for purchase of property and equipment | 161                     | 122                     | 398                     | 27                      | 75                      | 398                     |
| Increase in Net Assets without Donor Restriction                                 | <u>8,092</u>            | <u>19,671</u>           | <u>(19,433)</u>         | <u>11,151</u>           | <u>17,059</u>           | <u>(22,751)</u>         |
| <b>Net Assets with Donor Restriction<sup>(1)</sup></b>                           |                         |                         |                         |                         |                         |                         |
| Contributions received and investment income                                     | 1,049                   | 929                     | 188                     | 886                     | 858                     | 156                     |
| Net assets released from restriction for operations                              | (487)                   | (531)                   | (481)                   | (464)                   | (513)                   | (457)                   |
| Net assets released from restriction used for purchase of property and equipment | (161)                   | (122)                   | (398)                   | (27)                    | (75)                    | (398)                   |
| Increase (decrease) in Net Assets with Donor Restriction                         | <u>401</u>              | <u>276</u>              | <u>(691)</u>            | <u>395</u>              | <u>270</u>              | <u>(699)</u>            |
| <b>Change in Net Assets</b>  | <b>8,493</b>            | <b>19,947</b>           | <b>(20,124)</b>         | <b>11,546</b>           | <b>17,329</b>           | <b>(23,450)</b>         |
| <b>Net Assets, Beginning of Year</b>   | <b>204,986</b>          | <b>230,591</b>          | <b>249,189</b>          | <b>245,611</b>          | <b>271,798</b>          | <b>284,442</b>          |
| <b>Net Assets, End of Year</b>   | <b><u>\$213,479</u></b> | <b><u>\$250,538</u></b> | <b><u>\$229,065</u></b> | <b><u>\$257,157</u></b> | <b><u>\$289,127</u></b> | <b><u>\$260,992</u></b> |

<sup>(1)</sup> Net Assets without Donor Restriction was previously labeled Unrestricted Net Assets.  
Net Assets with Donor Restriction includes Temporarily and Permanently Restricted Net Assets.



**Statements of Cash Flows**  
**Nine Months Ended December 31**  
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|   | <u>Consolidated</u>    |                        |                        | <u>Obligated Group</u> |                        |                        |
|---|------------------------|------------------------|------------------------|------------------------|------------------------|------------------------|
|   | <u>2016</u>            | <u>2017</u>            | <u>2018</u>            | <u>2016</u>            | <u>2017</u>            | <u>2018</u>            |
| <b>Operating Activities</b>   |                        |                        |                        |                        |                        |                        |
| Cash received from contract residents   | \$34,302               | \$31,857               | \$31,300               | \$34,164               | \$31,638               | \$31,191               |
| Proceeds from entrance fees received  | 20,066                 | 16,640                 | 20,095                 | 20,066                 | 16,640                 | 20,095                 |
| Cash received from and on behalf of noncontract residents                               | 101,279                | 108,631                | 114,717                | 41,709                 | 47,727                 | 50,665                 |
| Reimbursement for services to nonresidents  | 2,657                  | 2,445                  | 1,912                  | 831                    | 894                    | 643                    |
| Other receipts from operations  | 437                    | 558                    | 1,188                  | 3,858                  | 4,136                  | 4,513                  |
| Unrestricted investment income received   | 5,652                  | 7,045                  | 6,375                  | 5,643                  | 7,032                  | 6,367                  |
| Processing fees   | 42                     | 55                     | 64                     | 42                     | 55                     | 64                     |
| Proceeds from forward sale  | (327)                  | (109)                  | -                      | (327)                  | (109)                  | -                      |
| Cash paid to suppliers, employees and others  | (121,803)              | (127,127)              | (129,618)              | (79,345)               | (79,951)               | (78,846)               |
| Cash paid for interest on long-term debt, net of amounts capitalized                    | (8,762)                | (9,167)                | (9,100)                | (5,477)                | (5,974)                | (6,001)                |
| Net cash provided by operating activities   | <u>33,543</u>          | <u>30,828</u>          | <u>36,933</u>          | <u>21,164</u>          | <u>22,088</u>          | <u>28,691</u>          |
| <b>Investing Activities</b>   |                        |                        |                        |                        |                        |                        |
| Capital expenditures  | (35,945)               | (35,814)               | (34,619)               | (27,703)               | (28,846)               | (24,751)               |
| Proceeds from sale of trading investments   | 108,673                | 135,913                | 106,676                | 108,673                | 135,913                | 106,676                |
| Purchase of trading investments   | (122,754)              | (130,866)              | (109,569)              | (122,545)              | (130,866)              | (109,569)              |
| Purchase of assets limited as to use  | (1,886)                | (781)                  | (5,129)                | (1,432)                | (532)                  | (4,169)                |
| Proceeds from sale of assets limited as to use  | 4,935                  | 19,978                 | 4,155                  | 2,859                  | 18,348                 | 3,580                  |
| Proceeds from termination of derivative financial instrument                            | -                      | 7,130                  | -                      | -                      | 7,130                  | -                      |
| Advances to Brookmore Apartment Corporation   | (209)                  | 209                    | -                      | (209)                  | 209                    | -                      |
| Net cash used in investing activities   | <u>(47,186)</u>        | <u>(4,231)</u>         | <u>(38,486)</u>        | <u>(40,357)</u>        | <u>1,356</u>           | <u>(28,233)</u>        |
| <b>Financing Activities</b>   |                        |                        |                        |                        |                        |                        |
| Refunds of entrance fees  | (4,081)                | (3,972)                | (6,050)                | (4,081)                | (3,972)                | (5,694)                |
| Principal payments on long-term debt  | (4,561)                | (2,435)                | -                      | (2,345)                | (2,435)                | -                      |
| Principal payments on refinancing of long-term debt                                     | -                      | (143,210)              | -                      | -                      | (143,210)              | -                      |
| Principal payment HUD loans   | -                      | (2,293)                | (2,374)                | -                      | -                      | -                      |
| Proceeds from refinancing 2007A   | -                      | 4,750                  | -                      | -                      | 4,750                  | -                      |
| Proceeds from Series 2015, 2017A, & 2017B financing, net of issuance cost               | 18,515                 | 122,982                | 10,521                 | 18,515                 | 122,982                | 10,521                 |
| Proceeds from contributions with donor restrictions                                     | 16                     | 42                     | 87                     | 16                     | -                      | 87                     |
| Contributions from Affiliates   | -                      | -                      | -                      | 6,523                  | -                      | -                      |
| Net cash used in financing activities   | <u>9,889</u>           | <u>(24,136)</u>        | <u>2,184</u>           | <u>18,628</u>          | <u>(21,885)</u>        | <u>4,914</u>           |
| <b>Increase (Decrease) in Cash and Cash Equivalents</b>                                 | <b>(3,754)</b>         | <b>2,461</b>           | <b>631</b>             | <b>(565)</b>           | <b>1,559</b>           | <b>5,372</b>           |
| <b>Cash and Cash Equivalents, Beginning of Year</b>                                     | <b>19,906</b>          | <b>16,317</b>          | <b>13,025</b>          | <b>13,549</b>          | <b>11,837</b>          | <b>6,543</b>           |
| <b>Cash and Cash Equivalents, End of Year</b>   | <b><u>\$16,152</u></b> | <b><u>\$18,778</u></b> | <b><u>\$13,656</u></b> | <b><u>\$12,984</u></b> | <b><u>\$13,396</u></b> | <b><u>\$11,915</u></b> |
| <b>Supplemental Cash Flows Information</b>  |                        |                        |                        |                        |                        |                        |
| Property and equipment purchase included in accounts payable and other accrued expenses | 4,868                  | 3,417                  | 1,500                  | 4,868                  | 3,417                  | 1,676                  |
| Entrance fees included in accounts receivable   | 1,167                  | 1,776                  | 1,495                  | 1,167                  | 1,776                  | 3,114                  |





**Average Available Units / Beds**  
**Quarter Ended December 31, 2018**

| <u>Community Name</u>                         | <u>City</u>       | <u>Type</u> | <u>Residential</u><br><u>Living</u> | <u>Memory</u><br><u>Care</u> | <u>Care</u><br><u>Centers</u> | <u>Total</u><br><u>Units/Beds</u> |
|---|-------------------|-------------|-------------------------------------|------------------------------|-------------------------------|-----------------------------------|
| <i><b>Obligated Group Communities</b></i>     |                   |             |                                     |                              |                               |                                   |
| Carlsbad By The Sea                           | Carlsbad, CA      | CCRC        | 158                                 | **                           | 33                            | 191                               |
| Cecil Pines                                   | Jacksonville, FL  | Rental      | 92                                  | **                           | **                            | 92                                |
| England Oaks                                  | Alexandria, LA    | Rental      | 179                                 | **                           | **                            | 179                               |
| Sunny View                                    | Cupertino, CA     | CCRC        | 93                                  | 22                           | 48                            | 163                               |
| Villa Gardens                                 | Pasadena, CA      | CCRC        | 193                                 | 18                           | 54                            | 265                               |
| Vista del Monte                               | Santa Barbara, CA | CCRC        | 167                                 | 10                           | **                            | 177                               |
| Walnut Village                                | Anaheim, CA       | CCRC        | 156                                 | 14                           | 99                            | 269                               |
| Wesley Palms                                  | San Diego, CA     | Rental      | 245                                 | 22                           | **                            | 267                               |
| <b>Subtotal</b>                               |                   |             | <b>1,283</b>                        | <b>86</b>                    | <b>234</b>                    | <b>1,603</b>                      |
| <i><b>Non-Obligated Group Communities</b></i> |                   |             |                                     |                              |                               |                                   |
| Casa de Manana                                | La Jolla, CA      | Rental      | 188                                 | **                           | **                            | 188                               |
| Claremont Manor                               | Claremont, CA     | Rental      | 217                                 | 10                           | 59                            | 286                               |
| Fredericka Manor                              | Chula Vista, CA   | Rental      | 285                                 | 16                           | 174                           | 475                               |
| Kingsley Manor                                | Los Angeles, CA   | Rental      | 220                                 | **                           | 51                            | 271                               |
| <b>Subtotal</b>                               |                   |             | <b>910</b>                          | <b>26</b>                    | <b>284</b>                    | <b>1,220</b>                      |
| <b>Total All Communities</b>                  |                   |             | <b>2,193</b>                        | <b>112</b>                   | <b>518</b>                    | <b>2,823</b>                      |

\*\* Not applicable



**Average Available Units / Beds**  
**Nine Months Ended December 31, 2018**

| <u>Community Name</u>                         | <u>City</u>       | <u>Type</u> | <u>Residential</u><br><u>Living</u> | <u>Memory</u><br><u>Care</u> | <u>Care</u><br><u>Centers</u> | <u>Total</u><br><u>Units/Beds</u> |
|---|-------------------|-------------|-------------------------------------|------------------------------|-------------------------------|-----------------------------------|
| <i><b>Obligated Group Communities</b></i>     |                   |             |                                     |                              |                               |                                   |
| Carlsbad By The Sea                           | Carlsbad, CA      | CCRC        | 159                                 | **                           | 33                            | 192                               |
| Cecil Pines                                   | Jacksonville, FL  | Rental      | 92                                  | **                           | **                            | 92                                |
| England Oaks                                  | Alexandria, LA    | Rental      | 180                                 | **                           | **                            | 180                               |
| Sunny View                                    | Cupertino, CA     | CCRC        | 93                                  | 22                           | 48                            | 163                               |
| Villa Gardens                                 | Pasadena, CA      | CCRC        | 191                                 | 18                           | 54                            | 263                               |
| Vista del Monte                               | Santa Barbara, CA | CCRC        | 168                                 | 10                           | **                            | 178                               |
| Walnut Village                                | Anaheim, CA       | CCRC        | 156                                 | 14                           | 99                            | 269                               |
| Wesley Palms                                  | San Diego, CA     | Rental      | 235                                 | 22                           | **                            | 257                               |
| <b>Subtotal</b>                               |                   |             | <b>1,274</b>                        | <b>86</b>                    | <b>234</b>                    | <b>1,594</b>                      |
| <i><b>Non-Obligated Group Communities</b></i> |                   |             |                                     |                              |                               |                                   |
| Casa de Manana                                | La Jolla, CA      | Rental      | 188                                 | **                           | **                            | 188                               |
| Claremont Manor                               | Claremont, CA     | Rental      | 215                                 | 10                           | 59                            | 284                               |
| Fredericka Manor                              | Chula Vista, CA   | Rental      | 285                                 | 12                           | 174                           | 471                               |
| Kingsley Manor                                | Los Angeles, CA   | Rental      | 219                                 | **                           | 51                            | 270                               |
| <b>Subtotal</b>                               |                   |             | <b>907</b>                          | <b>22</b>                    | <b>284</b>                    | <b>1,213</b>                      |
| <b>Total All Communities</b>                  |                   |             | <b>2,181</b>                        | <b>108</b>                   | <b>518</b>                    | <b>2,807</b>                      |

\*\* Not applicable



**Historical Average Occupancy**  
**Quarter Ended December 31**

| Community Name                         | 2016               |               |              | 2017               |              |              | 2018               |              |              |
|--|--------------------|---------------|--------------|--------------------|--------------|--------------|--------------------|--------------|--------------|
|  | 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                    | 98.6%              | **            | 93.0%        | 98.9%              | **           | 91.8%        | 98.1%              | **           | 87.0%        |
| Cecil Pines                            | 99.7%              | **            | **           | 99.7%              | **           | **           | 100.0%             | **           | **           |
| England Oaks                           | 95.7%              | **            | **           | 95.0%              | **           | **           | 89.2%              | **           | **           |
| Sunny View                             | 98.9%              | 97.0%         | 90.2%        | 98.3%              | 98.7%        | 86.9%        | 97.9%              | 88.9%        | 85.4%        |
| Villa Gardens                          | 98.8%              | 93.2%         | 65.4%        | 99.3%              | 100.0%       | 79.1%        | 97.3%              | 98.4%        | 85.7%        |
| Vista del Monte                        | 98.0%              | 90.0%         | 82.8%        | 86.6%              | 100.0%       | 70.0%        | 91.6%              | 90.0%        | **           |
| Walnut Village                         | 96.6%              | 97.9%         | 95.7%        | 96.6%              | 100.0%       | 90.1%        | 97.6%              | 100.0%       | 85.9%        |
| Wesley Palms                           | 81.9%              | 100.0%        | **           | 76.9%              | 96.8%        | **           | 84.5%              | 100.0%       | **           |
| <b>Subtotal</b>                        | <b>81.9%</b>       | <b>96.3%</b>  | <b>86.6%</b> | <b>92.7%</b>       | <b>98.9%</b> | <b>85.2%</b> | <b>93.4%</b>       | <b>95.7%</b> | <b>85.9%</b> |
| <i>Non-Obligated Group Communities</i> |                    |               |              |                    |              |              |                    |              |              |
| Casa de Manana                         | 97.7%              | **            | **           | 98.0%              | **           | **           | 98.6%              | **           | **           |
| Claremont Manor                        | 90.8%              | 100.0%        | 80.2%        | 91.2%              | 93.0%        | 88.6%        | 92.2%              | 90.0%        | 84.2%        |
| Fredericka Manor                       | 93.7%              | **            | 93.2%        | 90.5%              | **           | 92.4%        | 81.1%              | 91.1%        | 93.7%        |
| Kingsley Manor                         | 99.2%              | **            | 81.8%        | 99.0%              | **           | 89.6%        | 99.5%              | **           | 90.8%        |
| <b>Subtotal</b>                        | <b>95.2%</b>       | <b>100.0%</b> | <b>88.4%</b> | <b>94.3%</b>       | <b>93.0%</b> | <b>91.1%</b> | <b>91.8%</b>       | <b>90.7%</b> | <b>91.2%</b> |
| <b>All Communities</b>                 | <b>95.4%</b>       | <b>96.6%</b>  | <b>87.5%</b> | <b>93.4%</b>       | <b>98.3%</b> | <b>88.3%</b> | <b>92.7%</b>       | <b>94.5%</b> | <b>88.8%</b> |

\*\* Not applicable



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

| Community Name                         | 2016               |               |              | 2017               |              |              | 2018               |              |              |
|--|--------------------|---------------|--------------|--------------------|--------------|--------------|--------------------|--------------|--------------|
|  | 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                    | 98.0%              | **            | 90.9%        | 97.0%              | **           | 90.3%        | 97.2%              | **           | 88.2%        |
| Cecil Pines                            | 99.6%              | **            | **           | 99.8%              | **           | **           | 99.8%              | **           | **           |
| England Oaks                           | 95.6%              | **            | **           | 94.4%              | **           | **           | 90.0%              | **           | **           |
| Sunny View                             | 98.8%              | 97.8%         | 90.0%        | 97.9%              | 99.6%        | 86.3%        | 97.9%              | 90.6%        | 83.5%        |
| Villa Gardens                          | 98.9%              | 95.8%         | 65.0%        | 98.2%              | 97.9%        | 70.6%        | 97.6%              | 97.8%        | 83.7%        |
| Vista del Monte                        | 95.9%              | 93.0%         | 76.6%        | 88.5%              | 96.0%        | 72.8%        | 88.9%              | 97.0%        | **           |
| Walnut Village                         | 95.9%              | 91.4%         | 86.2%        | 96.3%              | 100.0%       | 87.9%        | 98.0%              | 100.0%       | 88.2%        |
| Wesley Palms                           | 84.8%              | 98.6%         | **           | 78.2%              | 98.6%        | **           | 83.1%              | 95.9%        | **           |
| <b>Subtotal</b>                        | <b>95.4%</b>       | <b>96.0%</b>  | <b>82.0%</b> | <b>92.7%</b>       | <b>98.6%</b> | <b>82.6%</b> | <b>92.9%</b>       | <b>95.7%</b> | <b>86.2%</b> |
| <i>Non-Obligated Group Communities</i> |                    |               |              |                    |              |              |                    |              |              |
| Casa de Manana                         | 98.0%              | **            | **           | 97.1%              | **           | **           | 97.7%              | **           | **           |
| Claremont Manor                        | 91.3%              | 100.0%        | 81.9%        | 94.4%              | 93.0%        | 86.4%        | 91.9%              | 86.0%        | 81.7%        |
| Fredericka Manor                       | 91.8%              | **            | 91.7%        | 91.1%              | **           | 92.8%        | 83.7%              | 75.0%        | 93.0%        |
| Kingsley Manor                         | 99.1%              | **            | 77.1%        | 99.2%              | **           | 84.1%        | 99.3%              | **           | 88.8%        |
| <b>Subtotal</b>                        | <b>94.7%</b>       | <b>100.0%</b> | <b>87.0%</b> | <b>95.1%</b>       | <b>93.0%</b> | <b>89.9%</b> | <b>92.3%</b>       | <b>80.1%</b> | <b>89.9%</b> |
| <b>All Communities</b>                 | <b>95.1%</b>       | <b>96.5%</b>  | <b>84.6%</b> | <b>93.7%</b>       | <b>98.0%</b> | <b>86.4%</b> | <b>92.7%</b>       | <b>92.6%</b> | <b>88.2%</b> |

\*\* Not applicable



**Care Center Payor Mix and Occupancy**  
**Quarter ended December 31**

| <u>Payor</u>            | <u>Consolidated</u> |             |             | <u>Obligated Group</u> |             |             |
|-------------------------|---------------------|-------------|-------------|------------------------|-------------|-------------|
|                         | <u>2016</u>         | <u>2017</u> | <u>2018</u> | <u>2016</u>            | <u>2017</u> | <u>2018</u> |
| Private Pay             | 26.2%               | 26.0%       | 22.7%       | 35.5%                  | 35.5%       | 29.5%       |
| Medi-Cal <sup>(1)</sup> | 38.1%               | 40.3%       | 44.9%       | 24.6%                  | 27.4%       | 34.5%       |
| Medicare                | 27.0%               | 25.3%       | 24.3%       | 33.7%                  | 31.0%       | 31.6%       |
| Managed Care            | 8.7%                | 8.4%        | 8.1%        | 6.2%                   | 6.1%        | 4.4%        |
| <b>Total</b>            | 100.0%              | 100.0%      | 100.0%      | 100.0%                 | 100.0%      | 100.0%      |
| Average beds available  | 540                 | 540         | 518         | 258                    | 258         | 234         |
| Average occupancy       | 87.5%               | 88.3%       | 88.8%       | 86.6%                  | 85.2%       | 85.9%       |

<sup>(1)</sup> Includes Medi-Cal Managed Care

\* Provision for uncollectible accounts has been re-instated to reflect a reduction to revenue. In Q1, provision for uncollectible accounts had been reflected as an expense. After careful examination of the new accounting principles it was determined there would be no material change.



**Care Center Payor Mix and Occupancy**  
**Nine Months Ended December 31**

| <u>Payor</u>            | <u>Consolidated</u> |             |             | <u>Obligated Group</u> |             |             |
|-------------------------|---------------------|-------------|-------------|------------------------|-------------|-------------|
|                         | <u>2016</u>         | <u>2017</u> | <u>2018</u> | <u>2016</u>            | <u>2017</u> | <u>2018</u> |
| Private Pay             | 29.6%               | 25.6%       | 23.7%       | 38.8%                  | 35.2%       | 31.3%       |
| Medi-Cal <sup>(1)</sup> | 37.5%               | 41.0%       | 44.1%       | 25.4%                  | 29.0%       | 34.3%       |
| Medicare                | 25.3%               | 25.5%       | 23.3%       | 31.5%                  | 30.9%       | 30.0%       |
| Managed Care            | 7.6%                | 7.9%        | 8.9%        | 4.3%                   | 4.9%        | 4.4%        |
| <b>Total</b>            | 100.0%              | 100.0%      | 100.0%      | 100.0%                 | 100.0%      | 100.0%      |
| Average beds available  | 540                 | 540         | 518         | 258                    | 258         | 234         |
| Average occupancy       | 84.6%               | 86.4%       | 88.2%       | 82.0%                  | 82.6%       | 86.2%       |

<sup>(1)</sup> Includes Medi-Cal Managed Care

\* Provision for uncollectible accounts has been re-instated to reflect a reduction to revenue. In Q1, provision for uncollectible accounts had been reflected as an expense. After careful examination of the new accounting principles it was determined there would be no material change.

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.

**Unaudited Results of Operations – Consolidated:** Q3 FY19 compared to Q3 FY18

Residential Living occupancy declined from 93.4% for Q3 FY18 to 92.7% for Q3 FY19 with Fredericka Manor and England Oaks experiencing the largest declines. Wesley Palms, while undergoing a major renovation, increased Residential Living occupancy from 76.9% for Q3 FY18 to 84.5% for Q3 FY19 as new units became available. Upon completion of the project, Wesley Palms’ Residential Living capacity will increase from 150 independent living cottages to 170 patio homes. The Wesley Palms project is expected to be completed by October 2019.

While demand remains strong at all locations, Summer House® expansion resulted in a decline in occupancy from 98.3% for Q3 FY18 to 94.5% for Q3 FY19. A new Summer House® with 22 units was completed at Fredericka Manor in July 2018 and 82% occupied at December 31, 2018. Expansion of the Summer House® at Vista del Monte is in progress and will result in 14 additional units following the completion of construction expected in May 2019. This expansion is located in space previously occupied by the Care Center that was closed in Q4 FY18.

Care Center occupancy slightly increased from 88.3% for Q3 FY18 to 88.8% for Q3 FY19 as three of seven Care Centers improved over prior year led by Villa Gardens Care Center. The closure of the Vista del Monte Care Center in Q4 FY18 also contributed to improvement in overall occupancy. Changes in Care Center payor mix reflect declining revenues from Private Pay, Medicare, and Managed Care while Medi-Cal revenues continue to increase. Average available beds decreased from 540 in Q3 FY18 to 518 in Q3 FY19 due to the closure of the Vista del Monte Care Center in Q4 FY18.

Resident and net patient service revenue less provision for uncollectible accounts increased from \$48.2M for Q3 FY18 to \$49.3M for Q3 FY19, a 2.2% improvement. Amortization of entrance fees decreased from \$2.4M for Q3 FY18 to \$2.2M for Q3 FY19, a 5.9% decrease. Total unrestricted revenues, gains and other support improved from \$51.0M for Q3 FY18 to \$52.7M for Q3 FY19, a 3.4% increase.

Total operating expenses decreased from \$52.6M for Q3 FY18 to \$52.4M for Q3 FY19, a 0.3% decrease. Operating loss improved from a loss of (\$1,597K) for Q3 FY18 to an operating gain of \$316K for Q3 FY19.

## **Unaudited Results of Operations – Consolidated: Nine Months Ended December 31, 2018 Compared to Nine Months Ended December 31, 2017**

Residential Living occupancy declined from 93.7% for FY18 December 31 YTD to 92.7% for FY19 December 31 YTD primarily due to lower occupancy at Fredericka Manor and Claremont Manor. Wesley Palms, while undergoing a major renovation, increased Residential Living occupancy from 78.2% for FY18 December 31 YTD to 83.1% for FY19 December 31 YTD as new units became available. Upon the completion of the Wesley Palms' project, Residential Living will increase capacity from 150 independent living cottages to 170 patio homes. The Wesley Palms project is expected to be completed by October 2019.

While demand remains strong at all locations, Summer House<sup>®</sup> expansion resulted in a decline in occupancy from 98.0% for FY18 December 31 YTD to 92.6% for FY19 December 31 YTD. A new Summer House<sup>®</sup> with 22 units was completed at Fredericka Manor in July 2018 and 82% occupied at December 31, 2018. Expansion of the Summer House<sup>®</sup> at Vista del Monte is in progress and will result in 14 additional units following the completion of construction expected in May 2019. This expansion is located in space previously occupied by the Care Center that was closed in Q4 FY18.

Care Center occupancy improved from 86.4% for FY18 December 31 YTD to 88.2% for FY19 December 31 YTD led by Villa Gardens and Kingsley Manor. The closure of the Vista del Monte Care Center in Q4 FY18 also contributed to improvement in overall occupancy. Changes in Care Center payor mix reflect declining revenue from Private pay and Medicare while Medical and Managed Care revenue continue to increase. Average available beds decreased from 540 in FY18 December 31 YTD to 518 in FY19 December 31 YTD due to the closure of the Vista del Monte Care Center.

Resident and net patient service revenue less provision for uncollectible accounts increased from \$142.3M for FY18 December 31 YTD to \$147.1M for FY19 December 31 YTD, a 3.4% improvement. Amortization of entrance fees remained stable at \$6.8M for FY18 December 31 YTD and FY19 December 31 YTD. Total unrestricted revenues, gains and other support improved from \$150.2M for FY18 December 31 YTD to \$155.5M for FY19 December 31 YTD, a 3.5% increase.

Total operating expenses increased from \$151.9M for FY18 December 31 YTD to \$155.1M for FY19 December 31 YTD, a 2.1% increase. Operating performance improved from a loss of (\$2,066K) for FY18 December 31 YTD to an operating gain of \$420K for FY19 December 31 YTD.



## **Balance sheet and cash flow – Consolidated: December 31, 2018 Compared to December 31, 2017**

Total assets decreased from \$700.0M at December 31, 2017 to \$690.4M at December 31, 2018. Cash and cash equivalents plus short term investments decreased from \$30.6M at December 31, 2017 to \$21.3M at December 31, 2018. Long term investments decreased from \$280.9M at December 31, 2017 to \$260.5M at December 31, 2018. Property and equipment, net increased from \$338.2M at December 31, 2017 to \$355.7M at December 31, 2018 reflecting continued capital improvements including the redevelopment at Wesley Palms. Long term debt increased from \$270.5M at December 31, 2017 to \$282.6M at December 31, 2018 as a result of continuing to draw down from the \$21.5M Series 2017B debt for Wesley Palms. Net assets decreased from \$250.5M at December 31, 2017 to \$229.1M at December 31, 2018.

Cash provided by operating activities increased from \$30.8M at December 31, 2017 to \$36.9M at December 31, 2018. Net entrance fees increased from \$12.7M at December 31, 2017 to \$14.0M at December 31, 2018. Capital expenditures decreased from \$35.8M at December 31, 2017 to \$34.6M at December 31, 2018. Cash and cash equivalents decreased from \$18.8M at December 31, 2017 to \$13.7M at December 31, 2018.

### **Accounting for leases**

The Corporation is currently evaluating the impact that Accounting Standards Update 2016-02, Leases will have on the consolidated financial statements and the fiscal year in which the Corporation will implement the new standard which is required to be adopted in the Corporation's fiscal year 2020. When the standard is adopted it is expected to have a material impact on the consolidated financial statements due to the recognition of additional assets and liabilities for operating leases.