front porch

GOVERNANCE AND MANAGEMENT REPORT

FISCAL 2014

front porch

OVERVIEW

Front Porch Communities and Services [FPCS] is one company among a family of Front Porch companies [see Appendix E]. FPCS is a California nonprofit public benefit corporation with a significant portion of its current business in the provision of housing and services to older adults and in the provision of affordable housing services (primarily management) through two wholly owned affiliates that serve a variety of populations as discussed later. The FPCS Mission of ***Meeting Needs Through Excellence In Human Serving*** is carried out through the family of companies and encompasses five business units serving the full-service retirement, active adult, and affordable housing markets on a national scope that, on a combined basis, have approximately 2,200 full and part-time employees and, in the case of Front Porch Communities and Services, revenues and expenses as reflected in the charts which follow this overview.

The Front Porch family of companies includes Front Porch Enterprises, also a California nonprofit public benefit corporation, Front Porch Development Company, a for-profit California corporation, and Front Porch Active Adult Communities, a Delaware limited liability corporation (LLC). Related to Front Porch Communities and Services are two companies whose financial statements consolidate into FPCS; the two companies are: (i) CARING Housing Ministries, a California nonprofit public benefit corporation, providing affordable housing and related management services [*please see Appendix F for a history and Profile of CARING Housing Ministries*], and (ii) Sunny View Lutheran Home – The West [SVLH-W], **a** California nonprofit public benefit corporation providing affordable housing in Cupertino, CA under the HUD 202/Section 8 housing program.

The current corporate structures are designed to provide flexibility and agile decision-making in meeting changing consumer needs and preferences, the development of new financial resources for meeting changing consumer needs and for addressing aging assets, primarily within Front Porch Communities and Services, as well as to create leadership depth and capacity to effectively meet a rapidly changing future.

In response to the growing complexities in the environments in which the Front Porch family of companies operates, Front Porch maintains an Office of In-House Corporate Counsel and a relationship with an external firm [Nielsen, Merksamer, Parrinello, Mueller & Naylor, LLP] to assist with governmental relations and pubic policy in itiatives.

Center for Technology Innovation and Wellbeing

During FY 2007-2008, the Board of Directors created the *Center for Technology Innovation and Wellbeing* as a California not-for-profit public benefit corporation to explore and address innovative uses of technology to empower individuals to live well. The goal is to harness technology solutions that support and enhance the wellbeing of individuals, both within the FPCS/CHM/SVLH-[W] residential environments and outside. The Center works collaboratively with a variety of stakeholders and in partnership with funding sources, researchers, universities, and technology partners. Seed funding for the Center has been provided by multi-year grants from the Pacific Homes Foundation and California Lutheran Homes *and Community Services.*

The focus of the Center thus far has been on research, testing/utilization of emerging technologies within Front Porch/CHM communities and in private home settings, establishing a cooperative working relationship with major technology companies, and adaptation of "off-the-shelf" technologies into the Front Porch family of residential settings.

Changes implemented during FY 2009-2010

In April of 2009, the Board decided to move from a Co-CEO management structure to a singular CEO structure and established a position of Special Counsel to the Office of the CEO, to be occupied by one of the incumbent Co-CEO's on a reduced-time basis with the other Co-CEO serving on a go forward basis as the sole CEO.

The Board took further action near the end of FY 2009 to create two unincorporated structures to complete a re-positioning begun in July of 2006. The first was to establish effective April 1, 2009 a Development Council with reporting/advising responsibilities to the Office of the CEO on the acquisition and utilization of capital within the family of companies. The second established a Center for Strategic Development *and Creative Business Solutions* and implemented the position of Chief Strategy Development Officer for the family of companies. This position is an added responsibility for the president of Front Porch Development Company, who also serves as the president of Front Porch Active Adult Communities.

Social Accountability in Action

In FY 2011 the company began to budget annually social accountability funds to better fulfill its obligations as a tax-exempt/charitable organization. In FY 2012 the social accountability program, under the auspices of the company's Organizational Accountability department was structured as a formal program, *Social Accountability in Action*, which includes an advisory panel to receive, review, and make funding recommendations to the Office of the CEO relative to allocation of the budgeted funds for achieving social accountability across the family of companies.

Changes implemented in FY 2014

During FY 2014 Front Porch Communities and Services was able to take advantage of very favorable interest rates available through the U.S. Department of Housing and Urban Development and re-finance three of its non-CCRC communities: Claremont Manor, Casa De Manana, and Kingsley Manor. It is anticipated that one additional non-CCRC community may be re-financed through this process in FY 2015 [Fredericka Manor] once a sprinkler system retro-fit is completed. In order to complete the re-financings in compliance with HUD requirements, four separate limited liability corporations were required, one for each of the communities re-financed and one to serve as an operating company [see organizational depiction in Appendix E]. A fifth LLC has been established and will be necessitated should Fredericka Manor be re-financed in the future.

Inauguration of:

HUMANLY POSSIBLE

In today's aging society, companies must constantly evolve to successfully meet the world's dramatically emerging needs. Front Porch was established to be a not-for-profit 'human serving' organization featuring innovative communities and programs that meet the needs of individuals, families and communities, primarily as they age but also during other times of exceptional need.

Humanly Possible℠, designed and encouraged by the Executive Committee of Front Porch after several years of self-reflection about the organization's future, and fully endorsed and subsequently funded by the Board of Directors, is a groundbreaking strategic approach to "innovation with a cause" and greater collaboration. It seeks to disrupt the status quo repeatedly and empower all levels of the organization to think, act, and try differently.

Front Porch's central mission is about meeting needs with excellence ... and Humanly Possible℠ underscores a culture aimed at doing everything humanly possible to creatively meet emerging needs now and in the future. This bold and transformative commitment is an expression of Front Porch's passion to create new opportunities and forge new directions. It will become an organization-wide focus for disruptive innovation, strategic development, and partnership.

Believing that human serving is facing a sea change in marketplaces, competition, changing consumer needs,and regulations, the Board and management believe now is the time to come together to create an imperative for transforming and embracing possibilities through innovation. Leadership in governance and management is dedicated to investing the time, energy and resources to help Front Porch address this cultural tipping point. Through Humanly Possible℠, the organization's capacity to identify, understand, and deliver solutions for meeting present unfulfilled needs as well as unarticulated, emerging, and future needs will be enhanced.

Humanly Possible℠ is designed to be a crucible where the right chemistry of the creative spirit of people is blended with the compelling needs of the aging and others with unique needs seeking solutions to achieve transformational results. "Humanly Possible" ℠ gives hope for the future of human serving, the people we serve, and work with colleagues and the communities in which we live."

Humanly Possible℠ is a rallying call for Front Porch to build upon its legacy, and significantly expand its work collaborating and forming innovative partnerships with other non-profit organizations, for-profit organizations, and academia in the larger community to advance and develop new approaches, methodologies and technology applications that go beyond the traditional walls of Front Porch communities to meet community-determined needs for people of all ages, though the focus will be upon older adults.

As a not-for-profit 'human serving' organization going new places, Front Porch must continue to innovate so we can help others thrive. At Front Porch we see the potential of human possibility every day with the remarkable people we are honored to serve, and through the compassion and resourcefulness of our team members. We see the shifts that define how people want to live their lives. So while we have celebrated many great accomplishments, we can't sit still. **Humanly Possible℠ is about every mind, every discipline and every level of the organization working together on what's possible, what's achievable, and what's next.**

Front Porch created its award-winning Center for Innovation and Wellbeing (CIW) to work with a variety of partners to find new models of care and service for underserved members of the community. For example, the *Model eHealth Community for Aging* (MeHCA) project (formed by the CIW) uses broadband-enabled technology to support needs and improve access to care for low-income older adults at affordable housing communities, community health clinics and other anchor institutions in Los Angeles' Koreatown neighborhood. This is but one of many emerging innovations that lead to better human serving.

During FY 2014, Front Porch enrolled select members of its leadership team in the groundbreaking *Innovator's Accelerator* program, becoming the first non-profit to do so. Joining a group of top Fortune 500 companies whose employees have participated, Front Porch leaders took part in the executive training course with 70 additional staff members scheduled to participate in the program throughout FY 2015.

In support of Humanly Possible℠ Front Porch is investing system-wide in its team members, business processes and strategy through educational programs, executive training, and peer-to-peer training focused around innovation. Team members will be encouraged to be creative with the support and tools necessary to initiate innovation to improve the lives of those they currently serve, and to create opportunities for the future.

A process to identify needs, generate ideas, evaluate, support and potentially scale those ideas is in place. All ideas, successful or not, will be celebrated. This approach empowers Front Porch to creatively meet needs to help the organization grow, become more efficient, innovate in ways it previously could not, and sustain its leadership position.

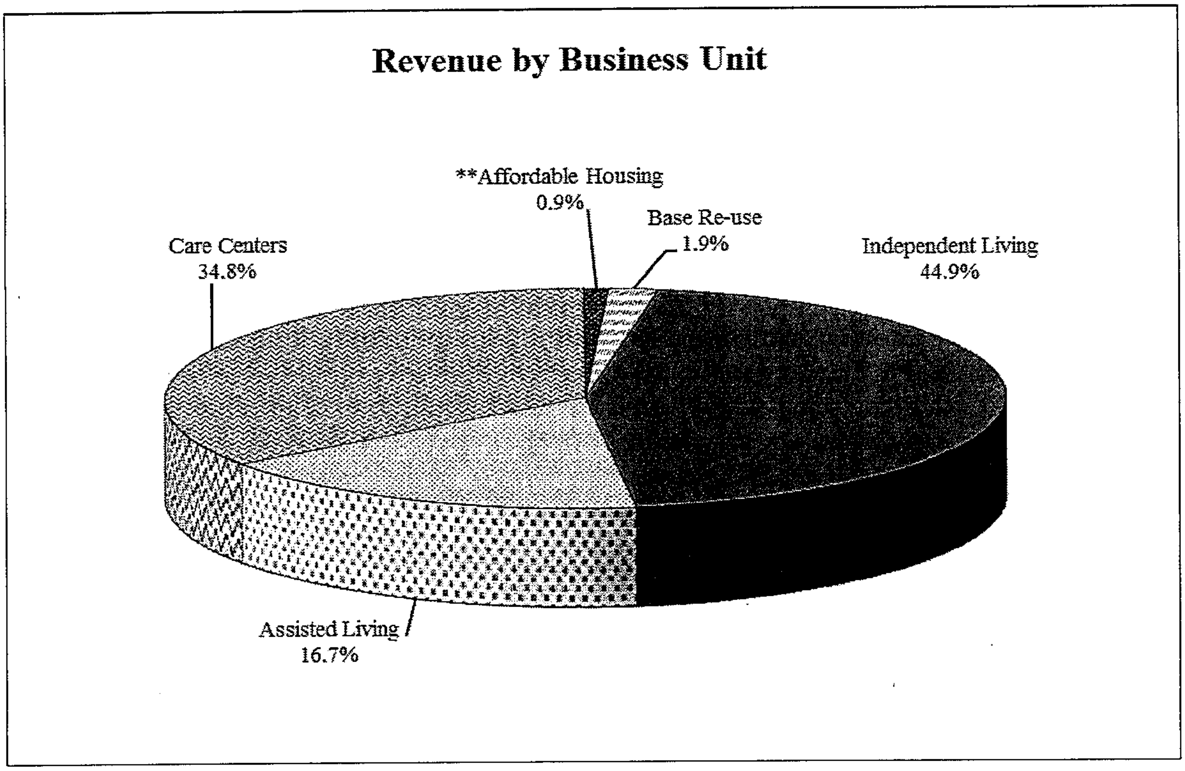
Humanly Possible℠ is an extension and articulation of what has always been at the heart of Front Porch since Front Porch was established in 1999 as a consolidating partnership. Front Porch has always sought to extended its care and service to those outside the older adult community through its work in areas such as affordable housing, memory care, technology, art, community outreach, and management services. Front Porch has its roots in partnership and innovation, helping other non-profits succeed, as well as partnering with the private sector to incubate technology solutions to help people live well.

Changes to be implemented in FY 2015

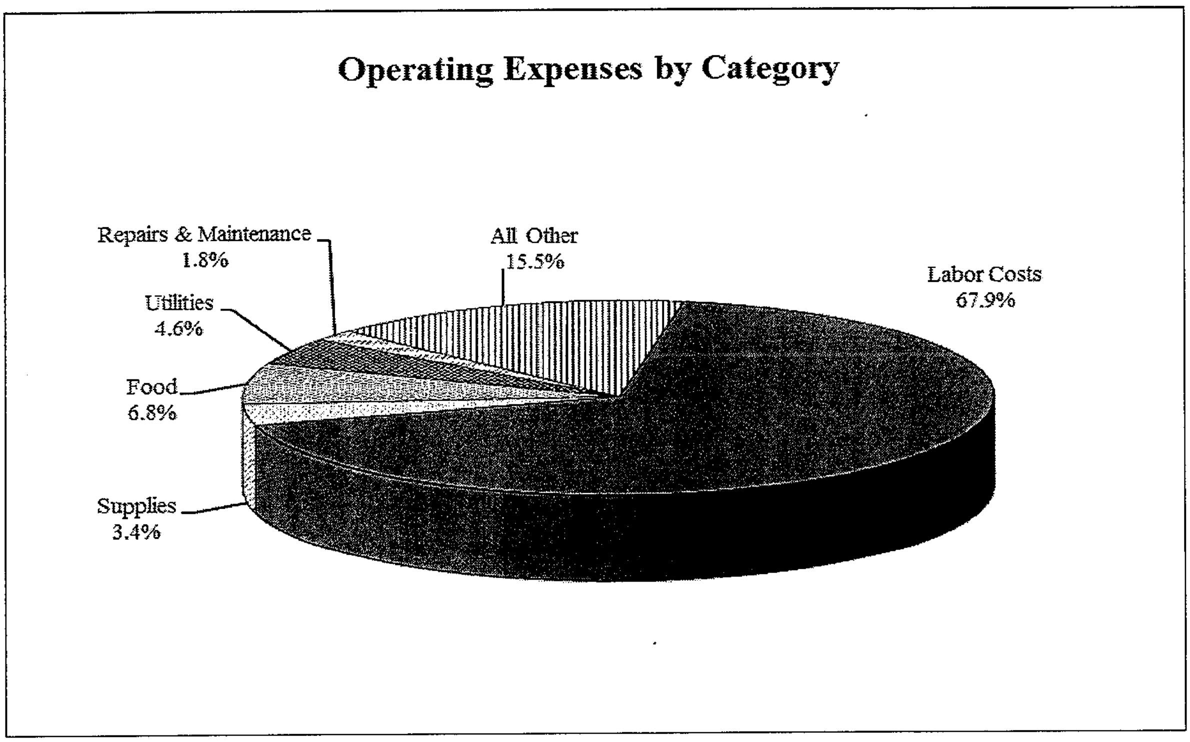
Following review and recommendation by the Office if In-House Counsel, based largely upon the conclusion that certain corporate structures have served well their original intent but now have outlived their benefit to the full endeavor, the organizational structure of the Front Porch family will be simplified in FY 2015 with the dissolution of Front Porch Enterprises, Front Porch Active Adult Communities, Front Porch Development Company, and The Center for Technology Innovation and Wellbeing. The Development function will return to a department within Front Porch Communities and Services itself, and the Center for Technology Innovation and Wellbeing (re-named the Center for Innovation and Wellbeing) will become an unincorporated activity as part of **Humanly Possible℠**, the culture-change initiative driven by the Executive Committee and Board of Directors as discussed immediately above in this document.

Revenues and Expenses

Revenues by Business Unit and *Operating Expenses by Category* for FYE 2014 were as indicated in the charts as follows.



**Includes Management Fees Only



FISCAL 2014 REPORT

What follows is an annual report on the corporation's [FPCS] governance and management structure, along with a summary of the compensation philosophy and policy designed to help ensure leadership excellence and continuity.

GOVERNANCE OF THE COMPANY

History

Front Porch Communities and Services was originally incorporated in 1995 (as The Internext Group) with its Articles of Incorporation amended in August of 1998 in preparation for the March 1999 consolidation of the operations and certain assets of California Lutheran Homes *and Community Services*, FACT Retirement Services and Pacific Homes, each also California nonprofit public benefit corporations. The Internext Group became ***Front Porch Communities and Services*** in 2002. FPCS is organized and operated exclusively for charitable purposes within the meaning of Section 501(c)(3) of the Internal Revenue Code. Subsequently, Sunny View Lutheran Home, a California nonprofit public benefit corporation, became part of the Front Porch family by transferring its property and operations known as Sunny View Retirement Community (formerly The Manor) into FPCS. Sunny View Lutheran Home retained its affordable housing community (The West) and became an affiliate corporation of FPCS. Sunny View Lutheran Communities and Services (SVLCS), also a California nonprofit public benefit corporation, retained certain programs and assets once a part of Sunny View Lutheran Home, and functions as a separate entity, uncontrolled by FPCS, and continues to support the historical work of Sunny View Retirement Community and Sunny View Lutheran Home (The West), now contained within FPCS. SVLCS thus joins California Lutheran Homes, the FACT Foundation, and the Pacific Homes Foundation as entities uncontrolled by FPCS but supporting historical missions placed by each predecessor entity into the Font Porch family of companies. Certain assets of each organization, based on accounting rules related to designations and restrictions are recorded in the Audit of Front Porch Communities and Services annually.

Each of the predecessor organizations receives staff support from the Organizational Advancement department of FPCS. Though uncontrolled by FPCS, each of the predecessor organizations has a history of continuing financial support for their respective historical missions now carried out in whole or in part within the Front Porch family of companies. Since the consolidation that led to Front Porch Communities and Services in 1999, philanthropy to the predecessor organizations in behalf of FPCS and to FPCS itself has totaled in excess of $54 million through FYE 2014.

BOARD OF DIRECTORS

Pursuant to the California Nonprofit Corporation Law, the Internal Revenue Service Code for organizations qualifying as tax-exempt and charitable under Section 501(c)(3), and the corporation's bylaws, Front Porch Communities and Services' business, property, and affairs are managed under the direction of the Board of Directors. Members of the Board are kept informed of the corporation's business through discussions with the CEO, the Special Counsel to the CEO, the President, and other officers of the corporation, certain monthly financial reports, quarterly financial statements shared with investors (holders of the company's tax exempt bonds), by regular and independent conversation with the annually engaged audit firm [for the current year and this report – BKD], and by reviewing other materials provided to them, as well as by participating in meetings of the Board and its committees and task forces. Additionally, the Vice President of Organizational Accountability, as Chief Compliance Officer and the person with oversight for the *Social Accountability in Action* program, reports directly and independently to the Audit Committee.

At each meeting of the Board, the Executive Committee, and the Audit Committee, executive sessions are held where directors meet with all staff excused.

During fiscal 2014 the Board held seven (7) meetings (three were conducted telephonically). The Executive Committee held six (6) meetings; the Audit Committee held two (2) meetings; the Business Development and Assessment Committee held three (3) meetings.

The Board of Directors is comprised of a maximum of eleven (11) persons [and by governing documents, a minimum of nine (9) persons]; all of whom are outside directors. The CEO and Special Counsel to the Office of the CEO, the President, and the Chief Financial Officer attend meetings with voice but no vote. Other management staff and or officers of other Front Porch entities attend meetings of the Board on an as-needed basis. [Please see Appendix A for the current Board of Director/CEO/President Roster and relevant Biographies.]

Generally, no members of the Board may serve more than two, successive, three-year terms. Exceptions to this are addressed in the bylaws when a director begins service through an unexpired term.

The Board is organized into three (3) classes. Each class' three-year term expires on a successive basis at the end of a calendar year. Class A consists of up to three (3) directors; Class B consists of up to four (4) directors; Class C consists of up to four (4) directors. Under the FPCS's bylaws, election of directors on a go-forward basis is by the Board of Directors following recommendation by the Executive Committee. Frequently, as it relates to filling vacancies on the Board of Directors, the Executive Committee of the Board engages an outside and independent firm/person to interview prospective new Board candidates and to provide feedback on each candidate's qualifications and "fittedness" for Board service in accordance with criteria established by the Executive Committee in consultation with the full Board.

In fiscal 2014, Class C Board Terms expired on 12-31-2013. Three (3) members of the Board (Class C Directors; Positions #9, #10, and #11), held respectively by Denzil Suite, Margol Kennison, and Scott Larson were eligible for re-appointment effective 1-1-2014, and these directors were unanimously re-elected retro-active to 1-1-2014 at the January 23rd, 2014 meeting of the Board of Directors. The remaining Class C director (Position #8), Elyse Weise, was not eligible for re-appointment as a result of term limits. Daniel Sudit was unanimously elected as successor for Class C; Position #8 effective 1-1-2014 at the January 23rd, 2014 meeting of the full Board.

Duty of Care and Conflict of Interest

Each director must sign a *Duty of Care and Conflict of Interest Statement* that is on file at the office of the corporation. See Appendix B attached.

Director Compensation

Directors receive reasonable remuneration in the form of modest annual retainers and Board meeting attendance fees. In addition, all out-of-pocket expenses to attend Board and committee meetings and/or directly to conduct the business of the Board of Directors are reimbursed. There are no fees paid for service on committees or for any meetings conducted telephonically.

Responsibilities of the Board of Directors

In general, the responsibilities of the Board of Directors include:

- Governance in accordance with the laws of incorporation, State of California and in concert with the requirements for being/maintaining status as a 501(c)(3) not-for-the-purpose-of profit/charitable organization under the auspices of the Internal Revenue Service.
- Governance as detailed in the corporation's articles and bylaws
- Corporate compliance
- Operating the corporation within the guidelines and regulations of the Securities and Exchange Commission
- Maintaining and operating within the prescribed system of "Duty of Care and Conflict of Interest"
- Fiduciary responsibilities, including serving *en-masse* as the company's Finance Committee, specifically in relation to budget review and approval (operating and capital), rate-determination, engagement of independent auditors (which may be delegated to the Audit Committee), engagement of investment manager(s), and determination of investment policy and strategy.

Since 2005, the Board has elected to voluntarily and fundamentally comply with the Sarbanes/Oxley law governing fiscal and audit matters of the corporation.

Committees of the Board

During Fiscal Year 2014, the Board of Directors continued to work through three standing committees: (a) Executive Committee, (b) Business Development and Assessment Committee, and (c) Audit Committee. The full Board serves as the Finance Committee with specific responsibility for Budget review and approval and rate determination. As noted earlier, meetings of the full Board always include executive sessions without management present, as do certain meetings of committees (e.g. Audit and Executive).

Executive Committee

The primary responsibilities of the Executive Committee include:

Recommending to the full Board of Directors board organization matters including:

- New Directors
- Officers
- Fee Structure
- Committees and Committee Membership
- Resident Representation Structure

The Executive Committee also is solely responsible, consistent with the current bylaws, for the oversight of the Office of the Chief Executive Officer, including reviews of compensation and the incumbent's performance, and engaging outside and independent consultation for comparative analyses and assisting in the determination of remuneration in accordance with the Board approved Compensation Philosophy, policies, and practices and applicable laws governing not-for-profit compensation.

The Executive Committee takes all actions deemed necessary and appropriate between regular or special meetings of the Board of Directors, except for those items expressly reserved for the full Board by California corporate law and the corporation's bylaws.

The Executive Committee authorizes release of quarterly financial statements as necessary.

Business Development and Assessment Committee

The primary responsibilities of the Business Development Committee include:

- Capital and asset utilization and planning
- New business development review and recommendations
- Risk management
- Investment oversight and management, including meetings with investment manager(s), reviewing and recommending investment strategies, policy and manager(s) for consideration/approval by the Board of Directors.

Audit Committee

The Audit Committee reviews and recommends approval of the annual audit to the Board of Directors and recommends to the Board of Directors the appointment of the independent auditing firm or, in instances where the same firm is to conduct the audit as in the previous year, selects the firm based upon an option in the Committee Charter. Once the independent auditing firm has been selected [by the Board of Directors or the Committee itself], the Audit Committee engages the approved auditing firm and reviews the audit scope of work and fee structure consistent with the approved Audit Committee Charter. In addition, the Audit Committee issues an annual report to the full Board summarizing the work of the committee and highlighting any unusual issues brought to the committee. The Committee also receives directly and independent of management the report of the Compliance Officer who also has oversight of the "Whistle-Blower" function.

Relationship with External Auditors

Following conclusion of the audit for FYE 2009, the Audit Committee entered into the annual process of reviewing the audit engagement. Charged by the Board with the responsibility to engage the auditors for FYE 2013, and upon full review of the proposed plan for conducting the audit for FYE 2013, the Audit Committee engaged BKD as the independent public accounting firm to audit the financial statements for the Fiscal Year ending March 31, 2013. This engagement decision was reported to and received affirmation from the Board of Directors.

Relationships Among Directors and Executive Officers

There are no family relationships among any of the Directors or executive officers of the corporation.

Loans to Directors, Officers and Employees

There are no loans from the corporation to any of the Directors, executive officers or employees.

Management

Mr. Gary Wheeler, who served with Mr. Mort Swales (since the inception of Front Porch as a consolidating entity in 1999) as a Co-CEO until March 31, 2009 and who assumed the role of CEO in April of 2009 continued to serve in that capacity throughout FY 2014. Mr. Swales continued his service throughout the year as Special Counsel to the Office of the CEO in a reduced-time capacity. In this capacity, Mr. Swales chaired the Front Porch Development Council as discussed earlier in this document. William Jennings. Jr., who serves as the President of the Front Porch Development Company and as the President of Front Porch Active Adult Communities, served also in the capacity of Chief Strategy Development Officer throughout FY 2013-2014, and provided executive leadership to the unincorporated Front Porch Center for Strategic Development *and Creative Business Solutions.*

Ms. Roberta Jacobsen continued to serve as President of Front Porch Communities and Services. Ms. Mary Miller served as the Chief Financial Officer for the Front Porch family of companies. Ms. Kari Olson, Chief Innovation and Technology Officer for the Front Porch family of companies, also served as the President of the Center for Technology Innovation and Wellbeing [re-named Center for Innovation and Wellbeing]. Ms. Nancy Spring continued her service as President of CARING Housing Ministries, responsible for the work in affordable housing.

Office of In-House Counsel

As noted previously, the Board created the Office of In-House Corporate Counsel with Mr. Joseph Butler continuing to serve throughout the fiscal year in that capacity.

Resident Representation

During Fiscal Year 2013 – 2014, as is customary, the Resident Representation practices were reviewed by the Executive Committee and Board and continued without change.

In addition to the eleven Directors, a Resident representative [Resident Organization President] is elected annually by peer residents from each community owned by Front Porch to attend regular meetings of the Board of Directors in compliance with Section 1771.8 of the California Health and Safety Code; Continuing Care Contract Statutes; Chapter 10 of Division 2, excluding the base-re-use communities, the affordable housing communities managed by the FPCS affiliate, CARING Housing Ministries, and the Front Porch affiliate, Sunny View Lutheran Home.

The **Resident Representatives** are responsible for assessing, representing, and voicing the consumer perspective to each other, to the Directors, and to senior management. Resident representatives also are charged with the responsibility of conveying and representing actions of the Board of Directors in a fair manner to the residents of the community from which they have been elected. Additionally, resident representatives attend the Presidents Forums that occur before each Board meeting, chaired by the President of FPCS.

Each elected Resident representative must also sign a *Duty of Care and Conflict of Interest Statement.* See Appendix C attached.

Duty of Care Conflict and of Interest Statements are also filed each year by the senior management of FPCS.

Organizational Accountability

The Organizational Accountability Group reports directly to the Office of the CEO, and in voluntary compliance with Sarbanes Oxley requirements also has direct-line reporting to the Audit Committee relative to claims of fraud. This Office also is responsible for monitoring the corporation's Service and Social Responsibilities, including assessment of the quality of all services provided, compliance with statutes and regulations, oversight of the Ethics Services, Values Integration and Mission Effectiveness, and assessment of customer and employee satisfaction. Each year an Annual Accountability Report is issued detailing the results of the corporation's fulfillment of its Social and Service responsibilities. The latest report is available on the company's website: www.frontporch.net .

During FY 2009 the Board of FPCS authorized management to implement an accountability assessment program, *Winner's Circle*, to replace the accreditation process known as CCAC/CARF in response to unfavorable evaluations of the CCAC/CARF program by residents and staff at the community and corporate levels of the organization. The replacement program was designed in consultation with a national task force of <u>independent</u> industry experts with diverse backgrounds and experience and endorsed by the Board of Directors for implementation. *Winner's Circle* continues to evolve with regular review and upgrading of the various standards designed to hold the organization and its operations to high standards that exceed those of the previous accreditation program. During FY 2013-2014, evaluation of the program continued to indicate very favorable response from the Winner's Circle external advisory board, residents and management. Subsequent to conclusion of fiscal year 2011, a full-time director was engaged to provide primary oversight to the *Winner's Circle* Program. The first, and still current, director is Mr. Robert Chillison. During FY 2012 a comprehensive review and amendments to the Winner's Circle *Standards* was conducted and subsequently implemented during FY 2013; it was maintained throughout FY 2014.

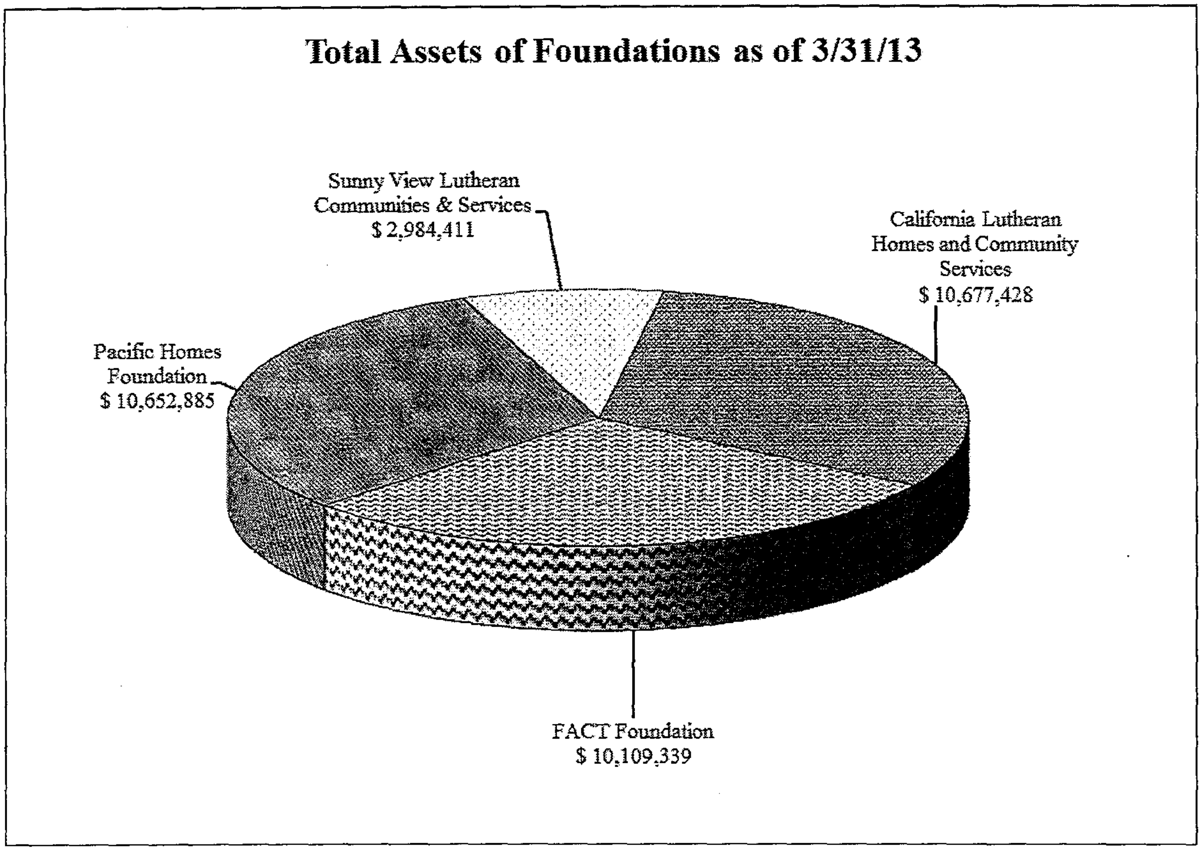
MANAGEMENT OF THE COMPANY

The Office of the CEO

The Office of the CEO fulfills the duties of the Chief Executive Officer with oversight of the whole of the Front Porch family of companies, as described above, including governance and board management, strategic facilitation, development, and implementation, new business development, regulatory compliance, management oversight of all affiliates/subsidiaries, and relationships with the Foundations/Predecessor Organizations. The Board considers leadership continuity, capacity, and depth a critical success factor in the life of all of Front Porch.

The Front Porch family of companies, including work in affordable housing, provided residential, development, and related services across more than 30 communities in four States during FY 2013-2014.

In addition to the executive oversight noted above, the corporation also provides management services to four foundations/predecessor organizations whose combined size is reflected in the chart below. The CEO and the Special Counsel to the CEO each serve on the board and are the respective President's/CEO's of two of the foundations/predecessor organizations [Mr. Swales with Pacific Homes and Mr. Wheeler with California Lutheran Homes *and Community Services*].



MANAGEMENT STRUCTURE

Management services and capacities are detailed in Appendix D.

Subsequent Event – New CEO Search Commences

Following the close of FYE 2014 it was announced that the search for a new CEO would commence following notification that Gary Wheeler, in concert with the ongong succession planning of the Board, will leave the Office of the CEO on or about December 31, 2014 and on a reduced-time basis continue as the President and Chief Executive Officer of California Lutheran Homes *and Community Services*, (an uncontrolled-by-Front Porch, not-for-profit organization that was instrumental in the formation of Front Porch and has provided both financial and program support within Front Porch and beyond since 1999). Mr. Wheeler has served as the California Lutheran Homes *and Community Services* CEO since January of 1991. The Executive Committee is responsible for the Office of the CEO and has maintained a succession plan throughout the life of Front Porch and is implementing that plan accordingly. A search firm has been engaged and the search has commenced with the goal of securing new CEO leadership by the conclusion of the current calendar year. In the event a successor CEO has not been engaged by that date, Mr. Wheeler will continue in the capacity until such time as a successor has been identified and engaged.

COMPENSATION

Not-for-profit management expertise remains significantly more critical and complex than in eras past. The consolidation originally achieved by Front Porch Communities and Services, and the subsequent re-positioning which occurred in July of 2006 and which has been maintained/strengthened since, are deemed by the Board, various stakeholders, regulatory and rating agencies as innovative, strategically significant, and are in response to the intensified competitiveness of the industry. Over the last sixty years, this arena of human service delivery has seen a dramatic shift in market share from the not-for-profit sector to the for-profit sector. As a result, the entire "industry" is under scrutiny by consumers and a myriad of regulatory entities.

In such an environment, the Front Porch family of companies recognizes the critical importance of having a compensation approach that remains competitive, flexible, and innovative [while meeting appropriate legal guidelines] to ensure the ability to motivate and retain the highest quality executives. To remain competitive, it is critical to achieve and maintain the ability through compensation practices to attract and *successfully* recruit <u>and</u> retain top management talent from both the not-for-profit and for-profit sectors; a goal not easily achieved given the inability to offer a "shareholder" position [stock-options, etc.] compared with the for-profit competition.

During FY 2008-2009 the Executive Committee of the Board worked with Watson Wyatt Worldwide [now Towers Watson] to review the Compensation Philosophy and make recommendation as to prudent changes to continue to achieve the goals cited above. Recommended changes (Executive Pay Strategy Overview) approved by the Executive Committee were taken to the Board for approval during FY 2009-2010 with implementation initiated in FY 2010-2011, as summarized below.

PHILOSOPHY

Front Porch Communities and Services is a not-for-profit organization dedicated to meeting needs by providing quality, accessible, and affordable human services to the communities in the markets it serves. FPCS is a unique company seeking to create an alternative for human serving organizations (primarily, but not exclusively, not-for-profit) to work in a consolidated system providing the advantages of economies of scale while maintaining and utilizing the individual identities, constituencies, and heritages of the consolidating organizations.

The FPCS vision and a primary goal is to grow through acquisition, affiliation and/or consolidation with other appropriately positioned organizations, significantly in (but not limited exclusively to) the eldercare arena and to develop through the Front Porch family of companies unique communities, capacities and services that meet changing consumer needs. In addition, all of Front Porch seeks to operate with the financial discipline of a well managed company(ies) and with an emphasis on sustaining commitment to the quality and affordability of services characteristic of the histories of the founding organizations, as well as other participating organizations. This performance-commitment and operating-challenge is impacted by the fact that Front Porch Communities and Services has chosen to use tax-exempt bond financing for much of its capital requirements and growth to date. Consequently, it has the obligation to maintain its performance in accordance with the parameters established by its bond covenants and other agreements with the investor/lending community.

Additionally, FPCS has the critical obligation to preserve its tax-exempt/charitable status and, as a result, has certain expectations as to social accountability. Part of the company's social accountability is met by the organization's commitment to the provision of affordable and accessible housing and related services through its wholly owned affiliates, CARING Housing Ministries, Inc. and Sunny View Lutheran Home. Additionally (and as noted previously), FPCS in FY 2009-2010 began funding annually through the budgeting process a financial commitment for pursuing social accountability [*Social Accountability in Action*]. Senior management is charged with effectively implementing this program as part of the assurance that exemption/charitability will be retained.

Guiding Principle

The goal of the compensation program for all of Front Porch is to help ensure the ability to attract, motivate and retain the highly talented individuals the Front Porch family needs to be an industry leader in a highly competitive environment. The program is developed and updated with independent compensation consultants to support the company's commitment to preserving and expanding not-for-profit human services and to effectively pursue the company's(ies') mission(s) and achieve business and growth strategies.

Aspects of the program include the following principles:

- Compensation related to performance
- Incentive compensation as a significant part of senior management total compensation to achieve the aggressive goals of the organization
- Where determined appropriate, and for the betterment of the organization as a whole, and to assure continuity and certain skill sets, retention compensation
- Compensation practices that balance short and long-term objectives, improve the "Mission Value ™" of the organization and reward individual, team, and corporate performance.

Executive Pay, Benefits and Perquisites Strategy

OBJECTIVES

<u>Provide a total pay, benefits and perquisites program that:</u>

- Is simple to understand
- Compensates executives fairly based on their role and responsibilities and in consideration of the executive talent market
- Provides stable income through base salary (the key for attraction and retention)
- Encourages performance and retention through variable incentive pay that is aligned with Front Porch's values and priorities
- Provides adequate individual protection and supports business needs through appropriate benefits and perquisites.

<u>Make decisions about executive pay, benefits and perquisites on an aggregated basis</u>

- Focus on overall market position and cost with a view to both (a) all elements of pay, benefits and perquisites, and (b) all executives of a similar role or level ...
- However, recognize that individual levels should reflect factors such as experience and performance.

MARKET FOR TALENT

U.S. Based organizations from which Front Porch may recruit executives (or to which it may lose executives):

- Similar size and complexity to Front Porch
- In not only the not-for-profit sector but also the for-profit sector
- In similar industries, including health services, human services, and retirement and assisted living communities.

TARGET OVERALL MARKET POSITIONING

Maximum Total pay, benefits and perquisites: *75th percentile of the defined executive talent market*

- **Base Salaries:** 50th percentile (but allow for individual differentiation as warranted)
- **Maximum Total Cash Compensation** (base salary plus maximum at-risk compensation when extraordinary performance is achieved): 75th percentile; may be lower when performance meets or falls below expectations
- **Benefits and perquisites:** 50th percentile.

Administration

In accordance with governing documents, the Compensation approach for senior management is under the sole jurisdiction of the Executive Committee of the Board of Directors. The outside directors serving on the Executive Committee set the overall compensation principles and policy of the company and review the entire compensation program regularly, with independent comparative review approximately every two to three years and, at the Committee's discretion, with major changes recommended to and approved by the full board. The Committee regularly engages outside, independent consultants in setting and determining whether the amounts and types of compensation the company pays its senior management is competitive, appropriate, and consistent with legal guidelines governing compensation of senior executives in not-for-profit corporations.

The Executive Committee of the Board of Directors establishes the compensation plan, including salary ranges, for members of the senior management team reporting to the Office of the CEO.

The latest independent salary survey related to senior management positions and resulting recommendations was undertaken in the Fall of 2012. The next comprehensive study will commence following the hiring of a successor CEO.

Appendix A

The Directors of FRONT PORCH Communities and Services [as of January 2014]

TERM ROSTER

Howard Hudson	*Class A – 12/31/14* *Position #1* *Appointed 01-19-12*	***Lynn North***	*Class B – 12/31/15* *Position #7* *Appointed 01-22-13*
Jennifer Perry	*Class A – 12/31/14* *Position #2* *Appointed 01-19-12*	***Daniel Sudit***	*Class C – 12/31/16* *Position #8* *Appointed 01-23-14*
William Witte	*Class A – 12/31/14* *Position #3* *Appointed 10-18-10*	***Denzil Suite***	*Class C – 12/31/16* *Position #9* *Appointed 10-18-10* [effective 1-1-2011]
Susan Whittaker	*Class B - 12/31/15* *Position #4* *Appointed 01-21-10*	***Margol Kennison***	*Class C – 12/31/16* *Position #10* *Appointed 07-28-11*
Thomas Porath	*Class B – 12/31/15* *Position #5* *Appointed 01-22-13*	***Scott Larson***	*Class C 12/31/16* *Position #11* *Appointed 10-18-10* [effective 1-1-2011]
Paula Woods	*Class B – 12/31/15* *Position #6* *Appointed 01-22-13*	***Gary Wheeler***	*Class D* *No Term Limit* • *CEO serves as non-Director with voice and no vote*
		Roberta Jacobsen	*Class D* *No Term Limit* • *President serves as non-Director with voice and no vote*

The Directors of FRONT PORCH Communities and Services
As of January 1, 2012

Biographies

Class A Directors (Terms Expiring on December 31, 2014)

Howard Hudson

[Initial Appointment: January 19, 2012]

Mr. Hudson is a Certified Public Accountant and owner/proprietor of Howard Hudson & Company in Santa Barbara, California. Howard Hudson & Company is a Certified Public Accounting firm with a focus on business development planning, income and payroll tax planning and preparation. Mr. Hudson also provides litigation support and expert witness services, as well as services in present value computation, computer consultation, and operational auditing. Clients served are diverse, including manufacturing operations, wholesale and retail outlets, restaurants, professional service organizations, homeowners associations and tax exempt organizations (including endowment and charitable trust funds). Mr. Hudson holds a Bachelor of Arts degree in Business Administration from the University of Redlands. He has and continues to participate in and provide leadership to numerous community and civic organizations and previously served on the Board of Directors for Pacific Homes prior to the consolidation into Front Porch. Mr. Hudson served on the Board of Directors of Front Porch Communities & Services from 2005 to 2010. Most recently, Mr. Hudson has served the Front Porch network as a Director for Brookmore Housing Corporation which contracts with CARING Housing Ministries for management services to affordable housing communities, primarily through tax credit programs.

Jennifer Perry

[Initial appointment: January 19, 2012]

Ms. Perry is an independent consultant providing a range of strategic planning, leadership development, governance and communication services to individual executives and businesses, including non-profit and for-profit organizations. Ms. Perry brings more than 20 years of executive and strategic planning experience to her clients. Prior to starting her own consulting firm, she worked for more than 10 years as an executive at St. Joseph Health System, a $4 billion multi-state organization of hospitals, medical groups and community health services. As Senior Vice President of Strategic Planning and Marketing at the corporate level, she was responsible for the development of the corporate strategic direction and annual objectives, provision of strategic planning, market research, surveys and business development support to more than 10 subsidiaries, as well as providing oversight of corporate communications. Her role involved facilitating effective implementation of system strategies and providing leadership to the governance functions for the Board of Trustees. During her tenure, Ms. Perry also managed the Advocacy/Public Policy and Research & Development functions.

Her previous experience includes management consulting with Deloitte Consulting and investment banking with Dean Witter Reynolds. Ms. Perry obtained her Master of Business Administration (MBA) degree in Management and Strategic Planning at the Wharton School of Business, University of Pennsylvania. She received her undergraduate degree from Pomona College of the Claremont Colleges in Southern California, obtaining a Bachelor of Arts degree, *cum laude*, in Economics.

Ms. Perry has had a tradition of volunteering in the community and has served on the Boards of numerous community groups and non-profit organizations.

William B. Witte

[Initial appointment: October 18, 2010]

Mr. Witte has been with Caruso Affiliated, one of the nation's preeminent retail and mixed-use real estate developers, owners, and operators, for nearly 15 years. Initially as EVP Finance, then as Chief Investment Officer, Mr. Witte has been responsible for overseeing all of the investment matters of Caruso Affiliated. Mr. Witte has over 25 years of experience in the real estate, financial, and capital markets. Before joining Caruso, Mr. Witte worked in investment banking, merchant banking, corporate finance, private banking, brokerage, and investment management for UBS, Bankers Trust Company, and Shearson Lehman Brothers. Mr. Witte is active in several local and regional charities, and he has been the Chairman of events for such institutions as the Salvation Army. He has been a long-standing member of the Board of Trustees for the House Research Institute, where he has served as Chairman of the Development, Audit, Finance, and Investment committees. Mr. Witte has been a guest speaker and panelist at numerous conferences, including those sponsored by California State University, Northridge, and University of California, Los Angeles. Mr. Witte graduated with top honors ("With Distinction") from Stanford University with a Bachelor of Science Degree in Petroleum Engineering.

Class B Directors (Terms Expiring on December 31, 2015)

Susan Whittaker

[Initial Appointment: January 21, 2010]

Susan Whittaker currently serves as Governance Counsel of St. Joseph Health System, its affiliated ministries and its sponsor, St. Joseph Health Ministry. Susan joined SJHS in 1986 as corporate counsel, after having served the ministry as outside counsel for two years. During the time she served as vice president of legal services, Susan formalized the first SJHS compliance program and served as its first chief compliance officer. Susan served as general counsel for twelve years, during which time the legal and compliance departments grew from a staff of four to a staff of twenty. Also, while serving as general counsel, Susan supported SJHS during significant growth; managing mergers and acquisitions, including the merger that created Covenant Health System as well as the transition to new sponsorship through creation of St. Joseph Health Ministry, the new public juridical person or PJP that assumed sponsorship of SJHS in 2008.

Susan has degrees in nursing, health care administration and law; and recently completed a masters program for Theology at the Aquinas Institute. Prior to joining the St. Joseph ministries, she was a neonatal intensive care nurse and started the first perinatal clinical research center in the United States. She also worked in private practice with the healthcare law firm of Carpenter, Higgins & Simonds in San Francisco, California. She is a frequent speaker on health law matters and has had over twenty articles published since 1980.

Thomas Porath

[Initial appointment: January 22, 2013]

Mr. Porath is an independent consultant, recently retired from Towers Watson where he held the position of US West Division Manager and assumed strategic role in providing expertise in human capital issues to many large clients, including emerging growth organizations, public institutions and non-profit corporations. Mr. Porath advised on issues, domestically and internationally, in the areas of human resource management, strategic planning, group benefit plans, executive compensation, mergers and acquisitions, and human resources technology. Prior to his tenure with Towers Watson, Mr. Porath was Vice President of Management Compensation Group/Health Care at MCG, Vice President of Corporate Services at St. Joseph Health System in Orange, California, and served as CEO for a consulting firm with engagements in the US, Canada, Europe and South Pacific. Mr. Porath is a frequent speaker at national associations and served on several health care system and hospital boards as well as editorial boards for a number of health care industry publications. Mr. Porath earned Master's degrees in history, theology and organizational psychology with post-graduate work in business and human behavior.

Paula Woods

[Initial appointment: January 22, 2013]

Ms. Woods is co-founder and principal of Woods/Liddell Group, a Los Angeles-based consultancy whose mission is to enable a healthier, more just and vibrant society by providing strategic, management and governance advisory services to non-profit leaders. With over 25 years of consulting, nonprofit and board experience, she brings a wealth of knowledge to boards and management teams representing a wide range of organizations including health systems, foundations, federally qualified health centers, community development corporations, homeless/homeless healthcare agencies, supportive housing developers, and collaborative groups.

Ms. Woods has served on several boards of directors, where she chaired or was a member of executive, executive compensation, finance, governance, investment, quality, strategic planning, and work life committees. She previously served on the boards of St. Joseph Health System (Orange, CA), Catholic Healthcare Partners (Cincinnati, OH), Watts Health Systems (Los Angeles, CA) and the California Council for the Humanities (San Francisco, CA).

Prior to establishing Woods/Liddell Group, she held executive positions at a Fortune 500 diversified healthcare company and was a senior manager and associate director of Ernst & Whinney's Western Region Health Care Strategy Practice. Ms. Woods earned her bachelor's degree from the University of Southern California and her Masters in Public Health from UCLA with an emphasis in Hospital Administration.

Lynn North

[Initial appointment: January 22, 2013]

Ms. North has been in the top 10% as a realtor for the past 8 years with the prestigious Alain Pinel Realtors in the Bay Area. She has served as coordinator and director of programs and is currently in various leadership positions at Immanuel Lutheran Church in Los Altos, California. Previously, she was director of telecommunications business development at Network Appliance. Her background in sales, product strategy, channel marketing and organizational development included multiple senior level positions through a long tenure at SBC Pacific Bell. She holds a Bachelor of Science degree in organizational behavior from the University of San Francisco and accounting and financial management certificates from the Wharton School of Business. Ms. North has served on numerous boards of directors and has received various recognitions for her community service, including the Rotary International Paul Harris Award in 2000.

Class C Directors (Terms Expiring December 31, 2016)

Daniel Sudit

[Initial appointment: January 23, 2014]

Mr. Sudit is the Regional President and Managing Director of BMO Private Bank's Seattle office, which provides comprehensive financial services to affluent clients. Mr. Sudit oversees the delivery of the organization's complete suite of private banking, financial planning, investment management, philanthropic, wealth transfer and estate planning services and solutions through a team of over 15 people in the office in Seattle. He joined BMO in 2008 and has more than 15 years experience in financial services. Mr. Sudit earned his bachelor's degree from University of California at Berkeley, a juris doctor degree from New England School of Law and a master of law in taxation from Georgetown University Law. Along with his service on the Front Porch Communities and Services board, he also sits on the board of the Seattle Public Library Foundation.

Denzil Suite

[Initial appointment: October 18, 2010 effective 1-1-2011]

Dr. Denzil Suite, Ph.D. is the Vice President of Student Life at the University of Washington. In that capacity, he provides leadership and direction for strategic planning, assessment, and staff development for a comprehensive division of programs and services. He leads a large team of individuals in creating and maintaining a healthy campus environment through services, programs, and innovative learning experiences beyond the classroom, and through a highly collaborative relationship with other senior UW leaders. Previously, Dr. Suite served as Associate Vice President for Student Affairs and Associate Professor for Clinical Education at the University of Southern California. He has taught courses on Student Development Theory, the History of Higher Education in America, and on Intervention Strategies. Dr. Suite has been invited to speak about educational issues at several national conferences and at universities around the country. He has conducted workshops for the Santa Monica Rape Treatment Center, the California Campus Police Officers Association, Association of Higher Education Attorneys, and several other groups. He currently serves on the advisory board for the Legal Issues in Higher Education Conference.

Margol Kennison

[Initial appointment: July 28, 2011]

Mrs. Margol L. Kennison holds a Certificate of Financial Management from the John F. Kennedy University School of Finance, is a Licensed Enrolled Agent and the owner of Lee's Tax and Bookkeeping Services. She has held numerous positions in the Sacramento Lions Club, including Chairperson of the Multiple District Women's Development Team and has participated in the International Association of Lions Club events. Mrs. Margol L. Kennison is an active member of St. Andrews African Methodist Episcopal Church, the National Association of Enrolled Agents, National Society of Accountants and the American Institute of Professional Bookkeepers.

Scott Larson

[Initial appointment: October 18, 2010 – effective 1-1-2011]

Mr. Larson is the Executive Director of HomeAid Orange County, the founding chapter of a national non-profit organization with the mission to build and maintain dignified housing where homeless families and individuals can rebuild their lives. Recently, Larson added to his roles Managing Director of HomeAid Inland Empire. He is also a member of the board of directors of HomeAid America and chairman of the HomeAid America chapter advisory council. Established in 1989 by the Orange County Chapter of the Building Industry Association of Southern California (BIA/OC), HomeAid acts as the housing developer and liaison between service providers, community volunteers, builders and specialty contractors. Mr. Larson has more than 26 years of professional experience in the non-profit and building industries. He holds a Masters in Business Administration from the University of Phoenix, a Bachelor of Arts degree in education from Biola University and certificate in fundraising from the University of California, Irvine. Mr. Larson is a strong advocate of homeless initiatives in Orange County and serves as a member of the County of Orange Ending Homelessness 2020 Board and has previously been a Commissioner for the Housing and Community Development Department of Orange County. He also actively serves as a leadership coach in the Fieldstone Foundation Executive Coaching Network.

Office of the Chief Executive Officer

Chief Executive Officer

Gary Wheeler

[Initial appointment: January 12, 1999]

Mr. Wheeler serves as Chief Executive Officer for Front Porch and as President/CEO for California Lutheran Homes *and Community Services*. Previously, Mr. Wheeler was President/CEO of Lutheran Social Services of Southern California. Mr. Wheeler also served as President/Chief Executive Officer of The Paragon Foundation, Alhambra, CA. Prior to service in California, Mr. Wheeler held various positions in Michigan, including President/CEO of Community Opportunity Center and Director of the Office of Governmental Affairs and Director of the Division for Services to persons with Developmental Disabilities, Lutheran Social Services of Michigan. Mr. Wheeler holds a Bachelors Degree in Psychology from Wayne State University, Detroit, MI and a Masters Degree from Wittenberg University, Springfield, OH. He completed post-graduate work towards a Ph.D. in organizational development at Wayne State University. Mr. Wheeler was the recipient of various scholastic and civic awards, is a member of various public associations and has served on the Board of Directors for numerous nonprofit organizations, including most recently the John Douglas French Alzheimer's Research Foundation.

President

Roberta Jacobsen

[Initial appointment: July 2006]

Mrs. Jacobsen has over thirty years of experience in the long term health care and retirement housing industry. She joined Pacific Homes in 1978 as a consultant and has subsequently worked in administration and management at the facility and corporate level. Mrs. Jacobsen holds Masters degrees from California State University at Los Angeles and an M.B.A. from Pepperdine University. She is actively involved in Aging Services of California where she is Past Chair of the Board of Directors and represented California on the House of Delegates of the American Association of Homes and Services for the Aging.

April, 2014

Appendix B

FRONT PORCH

DUTY OF CARE

AND

CONFLICT OF INTEREST

DIRECTORS

I hereby certify that I have carefully read and hereby acknowledge receipt of a copy of the Duty of Care and Conflict of Interest Statement attached hereto (the "Statement"). In signing this instrument, I have considered not only the literal expression of the policies encompassed in the Statement, but also what I believe to be the spirit of such policies as well. I hereby certify that except as hereinafter stated, to the best of my knowledge, after having made reasonable inquiry, neither I nor any of my relatives by blood or marriage have any direct or indirect interest that conflicts with the interests of Front Porch.

The exceptions are as follows: (If none state "none".)

____

____

____

If any situation should arise in the future, which, as discussed in the Statement, may involve me or my relatives by blood or marriage in a conflict of interest, I will promptly disclose the circumstances to the Chair of the Board or CEO of Front Porch.

Dated: __________________________

Name: __________________________

Signature: ______________________

DUTY OF CARE

AND

CONFLICT OF INTEREST STATEMENT

FOR THE BOARD OF DIRECTORS

OF

FRONT PORCH

(1) Duty of Care

A director shall perform the duties of a director, including duties as a member of any committee of the Board upon which the director may serve, in good faith, in a manner such director believes to be in the best interests of the corporation and with such care, including reasonable inquiry, as an ordinarily prudent person in a like position would use under similar circumstances.

In performing the duties of a director, a director shall be entitled to rely on information, opinions, reports or statements, including financial statements and other financial data, in each case prepared or presented by:

(a) One or more officers or employees of the corporation whom the director believes to be reliable and competent in the matters presented;

(b) Counsel, independent accountants or other persons as to matters which the director believes to be within such person's professional or expert competence; or

(c) A committee of the Board upon which the director does not serve, as to matters within its designated authority, which committee the director believes to merit confidence, so long as, in any such case, the director acts in good faith, after reasonable inquiry when the need therefore is indicated by the circumstances and without knowledge that would cause such reliance to be unwarranted.

(2) Actions to Benefit Corporation

All actions of a director affecting the corporation shall be for its best interests and not for his or her personal advantage. A director should conduct all such activities in such a way that no conflict will arise between other interests and the interests of the corporation. Even the appearance of such conflicts should be avoided.

(3) Gifts, Gratuities, etc.

No director shall accept any fee, commission, gift, loan, remuneration or favor of any material kind either with respect to any transaction to which the corporation is a party or which might influence his or her actions affecting the corporation.

(4) Loans

The corporation shall not make any loan of money or property to or guarantee the obligation of, any director or officer; provided, however, that this corporation may advance money to a director or officer of the corporation or any subsidiary for expenses reasonably anticipated to be incurred in performance of the duties of such director or officer so long as such individual in performance of the duties of such director or officer would be entitled to be reimbursed for such expenses absent that advance.

(5) Outside Interests

Directors shall scrupulously avoid any employment, investment, or other activity, which might conflict with the interests of the corporation.

(6) Self-Dealing Transactions

The corporation shall not engage in any self-dealing transactions. A self-dealing transaction is a transaction to which this corporation is a party and in which one or more f its directors and/or officers has a financial interest or is an employee or holds an equity or debt interest in a corporation, partnership or association that has an interest in the transaction. A self-dealing transaction shall also include transactions as described above that involve the blood relatives or spouse of a board member or officer.

(7) Confidential Information

Directors should maintain in confidence information learned during the course of their activities on behalf of the corporation when such information is not generally available to the public. This principle does not preclude public disclosure of information which is properly in the public domain or which should be released in fulfilling the corporation's accountability to the public.

(8) Interpretation

The potential conflicts of interest referred to in this Statement are by way of example only and are not intended to be an exhaustive list of all transactions by which the corporation may be affected or injured. It is assumed that directors will recognize other analogous situations in which conflicting interests may arise, and that directors will comply with their duty to bring such situations to the attention of the Chair of the Board or CEO of the corporation. The fact that directors may have one of the interests described in this Statement does not necessarily mean that a conflict exists, or that the conflict, if it exists, is of such a material nature to be of practical importance.

However, it is the policy of the Board that the existence of ANY interest described herein shall be disclosed before any transaction is consummated. Directors have a continuing responsibility to scrutinize any transaction in which they are directly or indirectly involved for potential conflicts of interest and to make a full disclosure to the Chair of the Board or CEO of the corporation who shall bring the matter to the attention of the Executive Committee. The Executive Committee shall then determine whether a conflict of interest exists and shall take appropriate action. All decisions regarding conflicts of interest rest in the sole discretion of the Executive Committee in the exercise of its ultimate judgment of the best interests of the corporation.

Appendix C

RESPONSIBILITIES, DUTY OF CARE AND CONFIDENTIALITY
AND
CONFLICT OF INTEREST STATEMENT
FOR
RESIDENT REPRESENTATIVES

I hereby certify that I have carefully read and hereby acknowledge receipt of a copy of the Responsibilities, Duty of Care and Confidentiality and Conflict of Interest Statement attached hereto (the "Statement"). In signing this instrument, I have considered not only the literal expression of the policies encompassed in the Statement, but also what I believe to be the spirit of such policies as well. I hereby certify that except as hereinafter stated, to the best of my knowledge, after having made reasonable inquiry, neither I nor any of my relatives by blood or marriage has any direct or indirect interest that conflicts with the interests of Front Porch.

The exceptions are as follows: (If none state "none".)
____
____

If any situation should arise in the future, which, as discussed in the Statement, may involve me or my relatives by blood or marriage in a conflict of interest; I will promptly disclose the circumstances to the Chair of the Board or the CEO of Front Porch.

Dated: ____________________

____
Name

Resident Representative
____
Position

RESPONSIBILITIES, DUTY OF CARE AND CONFIDENTIALITY
AND
CONFLICT OF INTEREST STATEMENT
FOR THE RESIDENT REPRESENTATIVES
OF
FRONT PORCH

(1) Responsibilities of Resident Representatives

The responsibilities of Resident Representatives are described in some detail in the document attached hereto as Exhibit "A", entitled "Responsibilities of Resident Representatives to the Board of Directors of Front Porch." The text of Exhibit "A" is not restated in this document but shall be considered incorporated in this document as if set forth at length herein.

(2)Confidentiality and Duty of Care with respect thereto

(a) Confidentiality Resident Representatives should be mindful of the importance of keeping confidential all information which is indeed confidential. Resident Representatives may share information from board meetings with other residents, unless the information is confidential or doing so would violate fiduciary duties to the corporation.

(b) Duty of Care In the context of the maintenance of confidentiality, Resident Representatives shall perform their duties in good faith and with such care, including reasonable inquiry, as an ordinarily prudent person in a like position would use under similar circumstances.

(3)Gifts, Gratuities, etc.

No Resident Representative shall accept any fee, commission, gift, loan, remuneration or favor of any material kind either with respect to any transaction to which the corporation is a party or which might influence his or her actions affecting the corporation.

(4)Loans

The corporation shall not make any loan of money or property to or guarantee the obligation of, any Resident Representative; provided, however, that the corporation may advance money to a Resident Representative of the corporation for expenses reasonably anticipated to be incurred in performance of the duties of such Resident Representative so long as such individual in performance of the duties of such Resident Representative would be entitled to be reimbursed for such expenses absent that advance.

(5)Outside Interests

Resident Representatives shall scrupulously avoid any employment, investment, or other activity, which might conflict with the interests of the corporation.

(6)Self-Dealing Transactions

The corporation shall not engage in any self-dealing transactions. A self-dealing transaction is a transaction to which this corporation is a party and in which one or more of its directors and/or officers and/or Resident Representatives has a financial interest or is an employee or holds an equity or debt interest in a corporation, partnership or association that has an interest in the transaction. A self-dealing transaction shall also include transactions as described above that involve the blood relatives or spouse of one of the above individuals.

(7)Interpretation

The potential conflicts of interest referred to in this Statement are by way of example only and are not intended to be an exhaustive list of all transactions by which the corporation may be affected or injured. It is assumed that Resident Representatives will recognize other analogous situations in which conflicting interests may arise, and that Resident Representatives will comply with their duty to bring such situations to the attention of the Chair of the Board or the CEO of the corporation. The fact that Resident Representatives may have one of the interests described in this Statement does not necessarily mean that a conflict exists, or that the conflict, if it exists, is of such a material nature to be of practical importance.

However, it is the policy of the Board that the existence of ANY interest described herein shall be disclosed before any transaction is consummated. Resident Representatives have a continuing responsibility to scrutinize any transaction in which they are directly or indirectly involved for potential conflicts of interest and to make a full disclosure to the Chair of the Board or the CEO of the corporation who shall bring the matter to the attention of the Executive Committee. The Executive Committee shall then determine whether a conflict of interest exists and shall take appropriate action. All decisions regarding conflicts of interest rest in the sole discretion of the Executive Committee in the exercise of its ultimate judgment of the best interests of the corporation.

#50668 6-29-04

RESPONSIBLITIES OF RESIDENT REPRESENTATIVES

TO THE BOARD OF DIRECTORS OF

Front Porch*

Three groups of persons are specifically afforded the opportunity to regularly attend the meetings of the Board of Directors for Front Porch.

- The **Elected Directors** are legally responsible for the governance of the organization. They set policy, provide oversight and determine strategic directions.

- The members of **Senior Management** are responsible for executing Board policy, pursuing the strategic directions and providing management and oversight to operations.

- The **Resident Representatives** are responsible for assessing, representing, and voicing the consumer perspective to each other, to the Board members and to Senior Management. They also assist the Board and Senior Management in the interpretation of policy and strategic directions to the Residents at each **community.**

Common Responsibilities:

While each group comes to the table of the Board of Directors with distinct and specific areas of responsibility, there are certain responsibilities common to all. To a great extent, it is the mutual pursuit of the common responsibilities that will cause Front Porch to excel. Similarly, it is the mutual pursuit of the common responsibilities that will allow management of disagreement in behalf of the common good. These common responsibilities include:

- Assuring implementation of the vision and mission of Front Porch, in particular:

  a) Preserving the not-for-profit heritage of doing good ... and ... doing it well (Vision),

  and

  b) Creating a human service delivery system that makes a difference in the quality of life of those served *(Mission).*

- Adhering to and valuing the standards of partnership that characterize Front Porch as articulated in the document "Partnerships: A Way of Life."

- Representing **all** residents and other service consumers served by Front Porch.

- Participating in such a way that the Core Values of Front Porch are assured.
- Honoring and maintaining the highest standards of confidentiality.

Exhibit A

- Assisting in assuring the social responsibility of Front Porch.
- Being cognizant of, openly stating when necessary, and avoiding as best as possible matters involving conflict of interest, up to and including absenting oneself from direct conflicts of interest.
- Participating in discussions and decisions in ways that assist in assuring favorable financial performance for Front Porch *as a whole.*
- Reviewing written materials in advance of Board meetings.

Responsibilities Unique to Resident Representatives:

It is incumbent on the Resident Representatives who are elected to attend the meetings of the Board of Directors of Front Porch that they:

- Understand, respect and maintain the distinction between the role of elected Board members with all the attendant responsibilities and liabilities for governance *versus* the role of the Resident Representatives to assess and voice the consumer perspective and provide feedback to the Board and Senior Management.
- Assist the elected members of the Board of Directors and the Offices of the CEO and President in presenting Front Porch and the actions of its Board of Directors positively before the Presidents and All-Residents Forums and other gatherings of Residents.

The effectiveness of Front Porch is possible to the extend that each group (Board Members, Resident Representatives and Senior Management) understands its specific role and responsibilities, effectively pursues the same, and mutually fulfills the responsibilities common to all.

(*An excerpt from the document, "Resident Representation of the Board of Directors for Front Porch.")

Revised:

4-29-99	6-4-99	8-22-02
5-11-99	1-7-02	7-1-04
3-31-09		

Appendix D

FRONT PORCH Family of Companies

Management Services

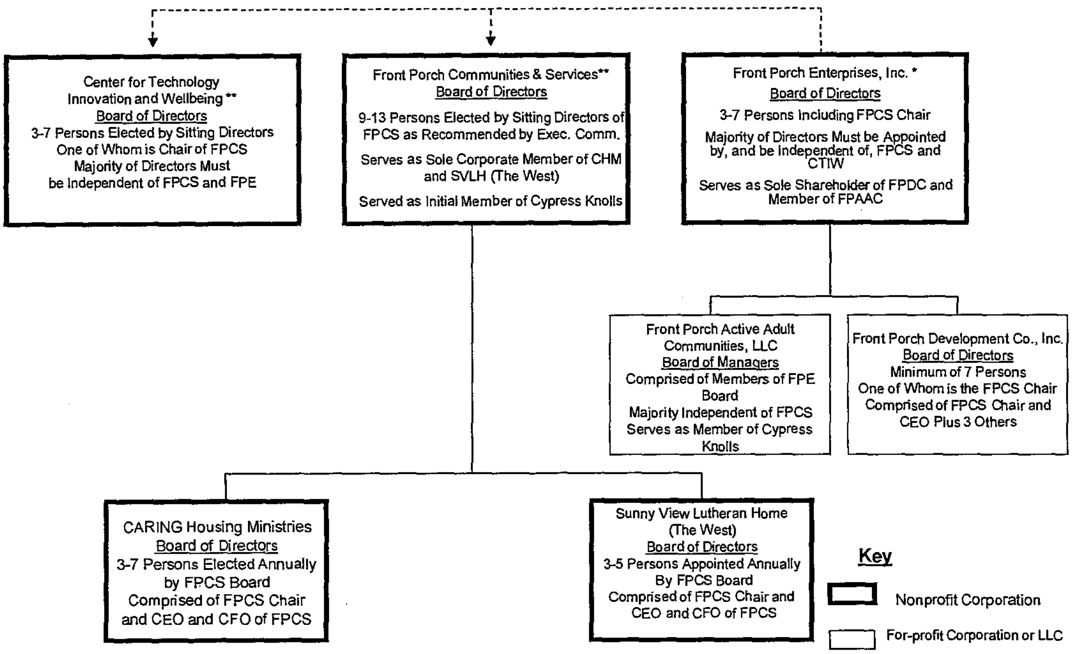
Service	Staff
• Financial Management	Mary Miller, Chief Financial Officer
• Information/Technology Services and Systems Innovation	Kari Olson, Chief Innovation and Technology Officer; President Center for Innovation and Wellbeing
• Business Development	Bill Jennings, Chief Strategy Development Officer; President, FP Development Company
• Operations	
- Communities and Services	Roberta Jacobsen, President, FPCS
- Active Adult Communities	Bill Jennings, Manager, FPAAC
- Affordable Housing and Services	Nancy Spring, President, CHM
- Technology Innovation Wellbeing	Kari Olson, President CTIW
- Strategy Development and Business Solutions	Bill Jennings, Director CSDBS
• Organizational Accountability: [Quality Assurance; Corporate Compliance; Ethics; Social Accountability; Winner's Circle]	Terry Bluemer, Senior Vice President
• Human Resources	Desiree Burton, Senior Vice President
• Organizational Advancement: [Constituent Relations; Foundation Services; Branding; Public Relations]	Lee Ratta, Senior Vice President
• Legal Counsel and Related Services	Joseph Butler
• Sales and Marketing	Joan Woodworth, Senior Vice President
• Office of the CEO	Gary Wheeler, CEO
	Mort Swales, Special Counsel

Front Porch Family of Companies [See organizational chart; Appendix E]:

FPCS	Front Porch Communities & Services
FPE	Front Porch Enterprises
FPAAC	Front Porch Active Adult Communities
FPDC	Front Porch Development Company
CHM	CARING Housing Ministries
SVLH	Sunny View Lutheran Home [The West]
CTIW	Center for Technology Innovation Wellbeing
CSDBS	Center for Strategic Development *and Business Solutions*

Organizational Chart during most of FY 2014

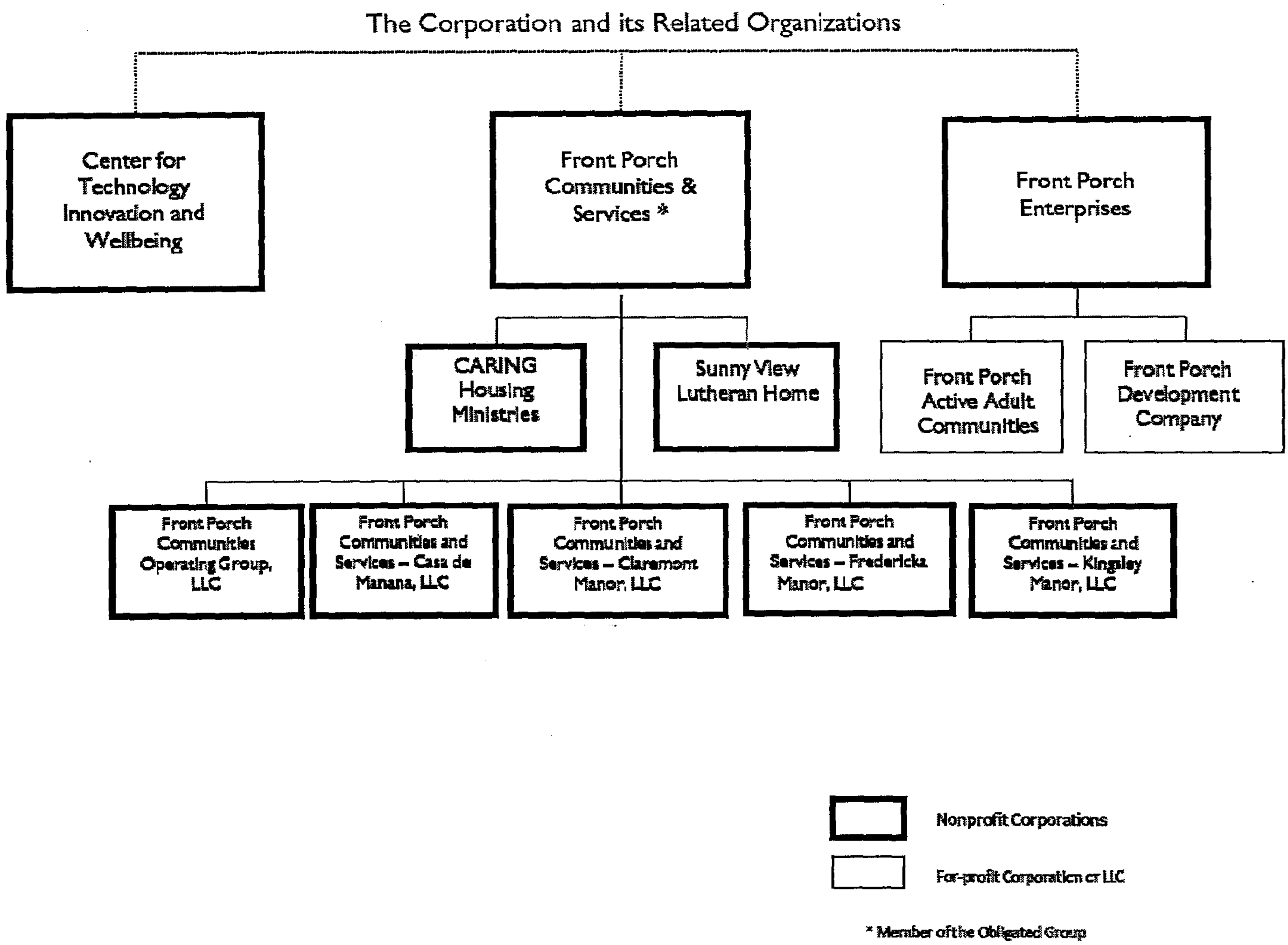
The Front Porch Family of Companies



* FPE serves as supporting organization to FPCS and CTIW
** Supported organization of FPE

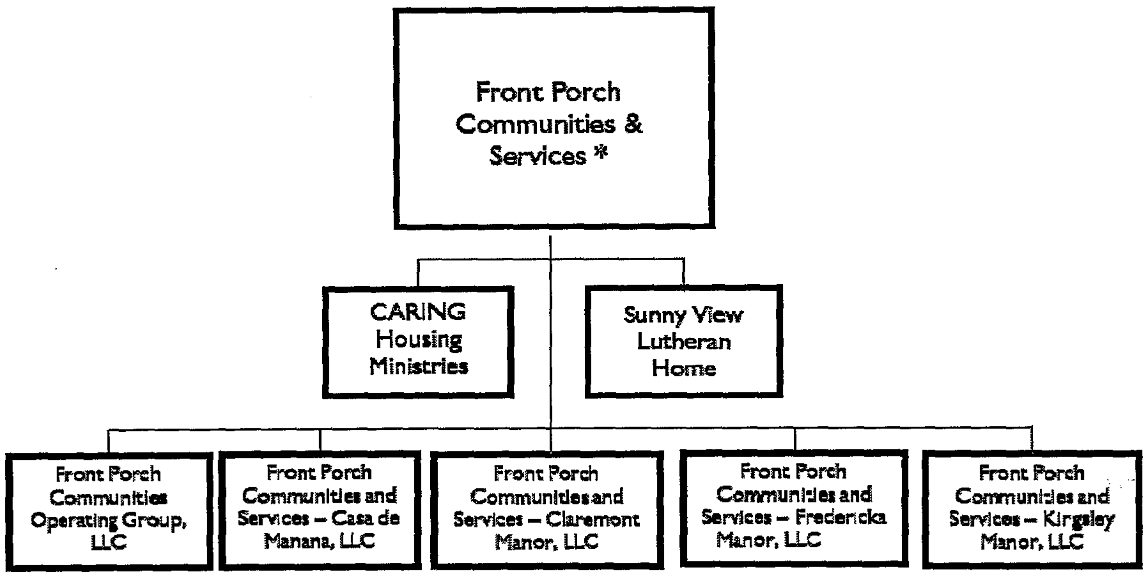
Rev.2 (03/20/13)

Organizational Chart at conclusion of FYE 2014



Organizational Chart projected at conclusion of FYE 2015

The Corporation and its Related Organizations



* Member of the Obligated Group

front porch

HISTORY

CARING Housing Ministries

CARING was formed as a subsidiary of California Lutheran Homes *and Community Services* in 1980. The original intent of the corporation was to expand services to other organizations outside the California Lutheran Homes corporate structure. The anticipated services were broad ranged and included developing expertise and competency in affordable housing management and development services as well as collaborations to provide supportive services to the resident populations.

In 1992 CARING, as a for-profit corporate subsidiary, was dissolved, and CARING, with a specific focus in the affordable housing arena, became a division of California Lutheran Homes *and Community Services.*

In 1995 The Internext Group was formed as a joint venture between California Lutheran Homes *and Community Services* and Pacific Homes (FACT Retirement Services was included in the joint venture in the Fall of 1996), and CARING became a not-for-profit subsidiary affiliate corporation of the Internext joint venture corporate structure. CARING, at the time of the creation of The Internext Group managed six separate affordable housing communities for seniors, families and persons with disabilities in California and Phoenix, Arizona. In the Spring of 2002, The Internext Group changed its name to Front Porch; CARING remained a wholly owned affiliate of Front Porch.

In 1998 CARING entered into an agreement with National Housing Ministries (NHM) to provide executive leadership for its Western Region Office. This arrangement was the result of the retirement of the CEO of NHM and the intent of the NHM Board of Directors to consolidate Western Region operations into CARING, once tax-credits were secured on certain properties and those properties were completely rehabilitated with the tax-credit financing. The Board of Directors for NHM had been in place without turnover since the corporation's inception and their desire to retire led them to the decision to consolidate operations into CARING.

National Housing Ministries

National Housing Ministries (NHM) was a not-for-profit housing management and sponsorship corporation founded in 1976. NHM was the successor to the American Baptist Management Corporation and the American Baptist Service Corporation, both of which initiated a ministry in housing in the early 1960s.

NHM had a distinguished 25-year record of developing, sponsoring and managing affordable housing to persons of diverse economic means, with special emphasis upon those with low and moderate incomes. The NHM management portfolio focused upon communities for people who are capable of providing for their own independence and includes the elderly, disabled, persons who are chronically mentally ill, as well as families with children. The communities managed by NHM were organized geographically into Western and Eastern Regions.

CARING Housing Ministries

Now fully consolidated, CARING Housing Ministries (CHM) is a not-for-profit, wholly owned affiliate of Front Porch. It manages 25 affordable housing communities serving approximately 3,500 individuals residing in about 2,100 affordable housing units. The consolidation was completed by FYE 2002 with a co-location of corporate office services on the campus of The Alhambra occurring in early 2001. CARING's Home Office is now located in El Monte, CA.

A separate not-for-profit corporation, Brookmore, which is the Managing General Partner affordable housing communities that have been developed and/or rehabilitated by tax-credit financing, has now entered into a tripartite agreement with Front Porch and California Lutheran Homes for it goverance structure. This unique and innovative collaboration will enable Front Porch to continue its mission with CHM of developing and preserving affordable housing while sharing in the goverance control of affordable housing communities.

AFFORDABLE HOUSING CORPORATE STRUCTURES

The typical structures for affordable housing communities vary depending upon the type of program and funding, but components usually include a sponsor, and/or managing general partner, management agent and/or a developer/owner.

Certain programs and financing vehicles require a not-for-profit sponsor and/or owner. As an example, the HUD 202 program requires a not-for-profit sponsor(s) that has/have the responsibility to assist with the filing of the loan application, appointing the board of directors, and assuring availability of minor funding until the project is complete and reimbursement of the up-front costs is achieved through the loan/grant closing. It also is not unusual to see a variety of partnerships between for-profit and not-for-profit organizations in the development and operation of affordable housing communities using the IRS – Low Income Housing Tax Credit program. Regardless of any partnership arrangement, most affordable housing communities must be in single asset corporation or Limited Partnership. This can create board management challenges for organizations with large portfolios of affordable housing.

PORTFOLIO

Occupancy management in an affordable housing community is unlike the management of occupancy in residential care, assisted living or skilled nursing. By and large, there is always great demand for such housing and therefore always a waiting list. Marketing, as such, is a matter of ensuring that prospective residents meet the appropriate program requirements to move in. The vacancies that occur are as a result of units in transition. These units either are being refurbished following vacancy or they are being vacated and the new resident is in the process of moving in.

STAFFING PATTERNS

Typical Community

The typical community has a manager and/or administrator, maintenance supervisor and security personnel. In some cases, depending upon the size of the community, there may be a janitor and/or an administrative assistant. Some senior communities benefit from Resident Services Coordinator grants for case management. It is not uncommon to have either the manager or maintenance supervisor serve in a live-in capacity.

Wages for these positions tend to be at the very low end of the wage scale, (some compensation packages do provide for on-site housing) and benefits are usually minimal as most programs involve a degree of subsidization that requires costs to be pre-approved through the annual budgeting process. Within most of the HUD financing programs, there is a growing recognition of the need for service coordinators and the funding of these positions is becoming more common in the annual expense/budgeting approval process and through specialized grants for this specific purpose.

Corporate Services

CARING Housing Ministries has a staff of 18 working in its home office in El Monte, including the President. Corporate staffing includes personnel in the areas of accounting/finance, operations, training, administration, property supervision, program services, maintenance services and risk management. Certain corporate service positions (particularly in the area of maintenance) can be reimbursable from the communities' budget either in whole or in part depending upon circumstances.

REVENUE/INCOME

Fees/Rates

A large percentage of the income in affordable housing comes in the form of program subsidies. These subsidies can either be project-based or resident-based. While a large part of the resident population has their rent subsidized, there are a number of residents that pay below the market rate in Tax Credit financed communities and are not under any subsidy program.
The below market and market rate rents are set by formula determined by program guidelines and typically based upon area rental rates.

The current monthly unit rents range from $400.00 to $1,500, with the number of bedrooms, nature of the subsidy (if any) and location accounting for the different rates. The average unit rent of the communities managed by CHM is approximately $700.00

The resident's portion of the monthly fees ranges from $0 to $1,200. The average payment by a resident in the communities managed by CHM is $400.00. The amount any resident pays in a subsidized program is determined by the nature of the program and is based upon the resident's income.

Income

The total annual rental income for the CHM communities for 2014 is approximately 30 million dollars.

The monthly management charge to each community ranges from $30.00 per unit per month to $63.00 per unit per month depending upon location, size, and or program. This method of charging management fees at the community level on a certain dollar amount per unit has evolved away from the traditional percentage of revenue and favors the manager as it provides a steady stream of revenues even if there are units unoccupied. Additional income sources for CHM include accounting fees; consulting fees and reimbursement of specific management tasks conducted by CHM corporate employees

FINANCING/PROGRAM STRUCTURES

Financing Overview

The financing structures vary by program and or individual development project. In general each development project will be financed through: (a) low interest loans, (b) higher interest loans with attached subsidy, (c) mortgage grants in return for a forty/fifty five (40/55) year commitment to serve very low income residents, (d) tax-credits and (e) economic development bonds. (f) a combination of financing mechanism including CRA (Community Redevelopment Agency) funding. The current trend in affordable housing financing is multi-source financing. The traditional single source federal programs have all but disappeared.
This brings new and complicated operational issues to the table as various financing mechanisms may not have compatible regulatory requirements. Current program financing and target markets are detailed in the following section

Program Overview

HUD 202 - 100% guaranteed 30-50 year loan at 3%. This type of financing is for elderly and disabled markets and originally carried no rental assistance subsidy but subsequent subsidies have been attached.

HUD 202/8 - 100% guaranteed 40-year loan at 9.25%. This type of financing is for elderly and disabled markets and carries monthly rental assistance subsidies.

HUD 236 - 100% guaranteed loan at 1% over the life of the mortgage. This type of financing is for elderly and disabled. Rental assistance subsidies have been attached on a limited basis subsequent to original financing *(many of these mortgages are now maturing and as a result there is a significant risk of losing many affordable housing units as owners/sponsors are looking to opt out of these programs

HUD 202 & 811 PRAC (project rental assistance contract) - no mortgage and a 40 year commitment to serve very low income elderly, disabled and the chronically mentally ill markets.

Tax Credits - state regulated and IRS controlled loans provided by 15 year tax credits that are purchased and provide a dollar for dollar tax relief to the purchaser. This type of financing is for elderly and disabled and family markets. Typically of all the total tax credits purchased, costs for administrating the loan are 17%, leaving 83% for the development of the community.

Tax Free Economic Development Bonds - bond financing combined with other financing sources. This type of financing carries no rent subsidy and has a capped rent structure.

HUD 221-D-3 - below market interest loans used for assisted living that carry no rent subsidy.

HUD FHA Refinancing instruments – initiated to preserve the affordable housing stock with the infusion of capital and protection of Section 8 project based subsidies.

SUCCESS DRIVERS

The primary keys to successfully operating an affordable housing community include:

- Property management/maintenance of physical plant
- Occupancy/eligibility management
- Reserve stewardship/budget development

- Accurate and timely accounting and management reports
- Service coordination
- Governance training and support
- Community relationships

SUMMARY

The affordable housing service line represents a different business approach than many of the other service lines within Front Porch, even though the customer may be of similar age and there is a residential component. In market rate residential, assisted living and skilled nursing services, Front Porch is truly a service provider that also has a real estate component of the service delivery. In the affordable housing service line there is a landlord/tenant relationship. Even if there is a service coordinator on staff to only facilitate the provision of services by outside agencies. CHM supports and participates in the Front Porch Winner's Circle accreditation for the provision of value added supporting housing.

There is, as evidenced by the status of waiting lists, a great need for affordable housing throughout the country, and new housing allotments by HUD have not and will not keep pace with the demand. This service line truly meets unmet needs and is the type of need expected to be met by not-for-profit organizations. It is the right thing to do and further serves to justify the corporation's tax-exempt/charitable status. Like all service targeted for the economically disadvantaged, there is little-to-no profit in meeting those needs and economic viability results from building critical mass.

Front Porch views the work done-through and commitment-to CARING *Housing Ministries* a matter of *doing the right things and doing things right* ... as a not-for-profit organization attending to the three essentials for being not for profit: fiscal responsibility; service responsibility; social responsibility.

Front Porch Communities & Services

Auditor's Report and Consolidated Financial Statements

March 31, 2014 and 2013

BKD LLP
CPAs & Advisors

Front Porch Communities & Services

March 31, 2014 and 2013

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Independent Auditor's Report

Board of Directors
Front Porch Communities & Services
Glendale, California

We have audited the accompanying consolidated financial statements of Front Porch Communities & Services (the Corporation), which comprise the consolidated balance sheets as of March 31, 2014 and 2013, and the related consolidated statements of operations, changes in net assets and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Front Porch Communities & Services as of March 31, 2014 and 2013, and the results of its operations, the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in *Note 20* to the consolidated financial statements, in 2014, the Corporation adopted new accounting guidance for classification and recognition of revenue on refundable entrance fees in accordance with Accounting Standards Update 2012-01. Our opinion is not modified with respect to this matter.

Supplementary Information

Our 2014 audit was conducted for the purpose of forming an opinion on the 2014 consolidated financial statements taken as a whole. The accompanying supplementary consolidating information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the 2014 consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the 2014 consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the 2014 consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the 2014 consolidated financial statements or to the 2014 consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the 2014 consolidated financial statements as a whole.

BKD, LLP

Tulsa, Oklahoma
July 28, 2014

Front Porch Communities & Services

Consolidated Balance Sheets

March 31, 2014 and 2013

(In Thousands)

Assets

	2014	2013 (Restated – *Note 20*)
Current Assets		
Cash and cash equivalents	$ 20,645	$ 20,287
Short-term investments	11,438	-
Assets limited as to use – required for current liabilities	14,551	14,903
Patient accounts receivable, net of allowance; 2014 – $737, 2013 – $755	8,313	8,431
Prepaid expenses and other	2,953	4,257
Assets held for sale	-	3,713
Total current assets	57,900	51,591
Investments		
Assets limited as to use, net of current portion	18,700	26,193
Long-term investments	200,019	169,538
Derivative instruments	4,179	7,190
Total investments	222,898	202,921
Property and Equipment, Net	294,120	286,144
Other Assets		
Interest in net assets of Pacific Homes Foundation	10,886	9,877
Receivables from supporting organizations	11,097	10,437
Other receivables	1,906	1,818
Deferred costs, net of accumulated amortization of $10,010 in 2014 and $7,509 in 2013	9,098	8,927
Other assets	502	-
Total other assets	33,489	31,059
Total assets	$ 608,407	$ 571,715

Liabilities and Net Assets

	2014	2013 (Restated – *Note 20*)
Current Liabilities		
Current maturities of long-term debt	$ 5,889	$ 5,879
Accounts payable	7,504	6,084
Accrued payroll and related expenses	11,048	11,666
Accrued interest	4,318	6,417
Other accrued expenses	5,172	4,488
Total current liabilities	33,931	34,534
Asset retirement obligations	2,776	2,751
Accrued workers' compensation	10,320	8,390
Other accrued liabilities	12,737	11,164
Deferred interest – forward sale agreements	3,707	6,926
Refundable entrance fees	48,414	40,769
Deferred revenue from entrance fees	42,345	40,018
Long-term debt	263,003	264,931
Total liabilities	417,233	409,483
Net Assets		
Unrestricted	169,866	142,495
Temporarily restricted	14,941	13,698
Permanently restricted	6,367	6,039
Total net assets	191,174	162,232
Total liabilities and net assets	$ 608,407	$ 571,715

Front Porch Communities & Services

Consolidated Statements of Operations

Years Ended March 31, 2014 and 2013

(In Thousands)

	2014	2013 (Restated – *Note 20*)
Unrestricted Revenues, Gains and Other Support		
Resident and patient service revenue (net of contractual discounts and allowances)	$ 167,169	$ 162,820
Provision for uncollectible accounts	(243)	(1,232)
Resident and net patient service revenue less provision for uncollectible accounts	166,926	161,588
Amortization of entrance fees	8,935	8,408
Other	451	434
Net assets released from restriction used for operations	678	630
Total unrestricted revenues, gains and other support	176,990	171,060
Expenses		
Medical services	42,584	40,596
Facility operating costs	17,614	16,644
Dietary services	26,297	24,733
Residential services	14,313	13,494
Administrative services	36,750	36,772
Depreciation	21,863	20,620
Amortization of deferred costs	1,193	1,163
Interest expense and other financing costs	11,435	11,972
Other	1,248	1,403
Total expenses	173,297	167,397
Operating Income Before Other Operating Charges	3,693	3,663
Other Operating Charges		
Asset impairment – Wesley Palms redevelopment	-	(2,968)
Operating Income	3,693	695
Other Income (Expense)		
Investment return	15,098	15,098
Loss on extinguishment of debt	(1,294)	(425)
Total other income (expense)	13,804	14,673
Excess of Revenues over Expenses Before Discontinued Operations	17,497	15,368
Gain (Loss) from Discontinued Operations	9,240	(2)
Excess of Revenues over Expenses	26,737	15,366
Net assets released from restriction for purchases of property and equipment	634	1,708
Increase in Unrestricted Net Assets	$ 27,371	$ 17,074

Front Porch Communities & Services

Consolidated Statements of Changes in Net Assets

Years Ended March 31, 2014 and 2013

(In Thousands)

	2014	2013 (Restated – *Note 20*)
Unrestricted Net Assets		
Excess of revenues over expenses	$ 26,737	$ 15,366
Net assets released from restriction used for purchase of property and equipment	634	1,708
Increase in unrestricted net assets	27,371	17,074
Temporarily Restricted Net Assets		
Contributions received and investment income	1,582	996
Change in interest in net assets of Pacific Homes Foundation	973	1,328
Net assets released from restriction for operations	(678)	(630)
Net assets released from restriction used for purchase of property and equipment	(634)	(1,708)
Increase (decrease) in temporarily restricted net assets	1,243	(14)
Permanently Restricted Net Assets		
Contributions received	88	-
Change in value of trust	88	113
Change in interest in net assets of Pacific Homes Foundation	152	-
Increase in permanently restricted net assets	328	113
Change in Net Assets	28,942	17,173
Net Assets, Beginning of Year, as Previously Reported	162,232	147,320
Change in Accounting Principle (*Note 20*)	-	(2,261)
Net Assets, Beginning of Year, as Restated	162,232	145,059
Net Assets, End of Year	$ 191,174	$ 162,232

Front Porch Communities & Services
Consolidated Statements of Cash Flows
Years Ended March 31, 2014 and 2013
(In Thousands)

	2014	2013 (Restated – *Note 20*)
Operating Activities		
Cash received from contract residents	$ 41,644	$ 40,953
Proceeds from entrance fees received	22,942	19,278
Cash received from and on behalf of noncontract residents	123,019	117,198
Reimbursement for services to nonresidents	2,974	3,501
Other receipts from operations	451	434
Unrestricted investment income received	5,597	5,503
Processing fees	169	302
Payments on forward sale agreements	(437)	(437)
Cash paid to suppliers, employees and others	(136,462)	(135,175)
Cash paid for interest on long-term debt, net of amounts capitalized	(13,179)	(11,920)
Net cash provided by operating activities	46,718	39,637
Investing Activities		
Capital expenditures	(28,684)	(24,038)
Proceeds from sale of trading investments	60,630	97,435
Purchase of trading investments	(88,918)	(96,560)
Purchase of assets limited as to use	(10,606)	(1,905)
Proceeds from sale of assets limited as to use	11,229	3,913
Proceeds from partial termination of derivative financial instrument	4,422	-
Investment in Brookmore Apartment Corporation	(200)	-
Deposit received related to sale of The Alhambra	1,115	655
Proceeds from sale of The Alhambra	12,515	-
Transaction costs paid related to sale of The Alhambra	(595)	(513)
Net cash used in investing activities	(39,092)	(21,013)
Financing Activities		
Refunds of entrance fees	(3,204)	(2,813)
Principal payments on long-term debt	(6,784)	(6,809)
Principal payments on refinancing of long-term debt	(79,705)	(37,000)
Proceeds from Series 2012 debt issuance, net of issuance costs	-	34,319
Proceeds from HUD-insured financing, net of issuance costs	81,944	-
Proceeds from restricted contributions	481	822
Net cash used in financing activities	(7,268)	(11,481)

See Notes to Consolidated Financial Statements

	2014	2013 (Restated – *Note 20*)
Net Increase in Cash and Cash Equivalents	$ 358	$ 7,143
Cash and Cash Equivalents, Beginning of Year	20,287	13,144
Cash and Cash Equivalents, End of Year	$ 20,645	$ 20,287
Supplemental Cash Flows Information		
Property and equipment purchases included in accounts payable	$ 3,823	$ 2,136
Entrance fees included in accounts receivable	$ 531	$ 1,076
Cash Flows from Operating Activities		
Change in net assets	$ 28,942	$ 17,173
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation	21,863	20,620
Loss on disposal of assets	92	-
Gain on sale of The Alhambra	(9,200)	-
Amortization of deferred costs	1,193	1,163
Loss on debt refinancing	1,294	425
Accretion of asset retirement obligations	387	144
Impairment of construction project	-	2,968
Amortization of bond premium included in interest expense	(32)	(32)
Provision for uncollectible accounts	243	1,232
Entrance fees received	22,942	19,278
Amortization of entrance fees	(8,935)	(8,408)
Realized and unrealized gain on investments, net	(16,600)	(9,127)
Realized and unrealized gain (loss) on derivative financial instruments, net	5,998	(1,410)
Payments on forward sale	(437)	(437)
~~Change in interest in net assets of Pacific Homes Foundation~~	~~(1,009)~~	~~(856)~~
Change in receivables from supporting organizations	(660)	(182)
Contributions restricted by donor	(481)	(822)
Changes in operating assets and operating liabilities		
Accounts receivable, net	402	(1,060)
Prepaid expenses and other current assets	(308)	1,058
Accounts payable and accrued expenses	(1,631)	(870)
Other accrued liabilities	2,655	(1,220)
Net cash provided by operating activities	$ 46,718	$ 39,637

Front Porch Communities & Services

Notes to Consolidated Financial Statements

March 31, 2014 and 2013

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

Front Porch Communities & Services (the Corporation) is a California nonprofit public benefit corporation as described in Section 501(c)(3) of the Internal Revenue Code (the Code). The Corporation is exempt from federal income taxes on related income pursuant to Section 501 of the Code and is also exempt from state franchise taxes under similar provisions for the state of California. The Corporation owns and operates continuing care retirement communities (CCRCs), other multilevel retirement communities and other operations providing services that enhance the quality of life for those served through independent retirement living, assisted living, memory care, skilled nursing, social services, affordable housing and contract management of subsidized housing.

Obligated Group

Certain operations of the Corporation, hereinafter referred to as the Obligated Group, are aggregated to facilitate long-term borrowings and include the following:

Facility	City	Type	Independent Living Units	Assisted Living Units	Memory Care Units	Skilled Nursing Units	Total Units
Owned Communities							
Carlsbad by the Sea	Carlsbad, CA	CCRC	142	15	N/A	33	190
Fredericka Manor	Chula Vista, CA	Rental	234	70	N/A	172	476
Sunny View Retirement Community	Cupertino, CA	CCRC	68	33	12	48	161
Villa Gardens	Pasadena, CA	CCRC	164	43	N/A	54	261
Vista del Monte	Santa Barbara, CA	CCRC	138	34	10	29	211
Walnut Village	Anaheim, CA	CCRC	155	-	14	94	263
Wesley Palms	San Diego, CA	Rental	202	65	22	N/A	289
Leased Communities							
Cecil Pines	Jacksonville, FL	Rental	92	N/A	N/A	N/A	92
England Oaks	Alexandria, LA	Rental	182	N/A	N/A	N/A	182
			1,377	260	58	430	2,125

The Alhambra has been excluded from the above table as its operations were discontinued in February 2011 (see *Note 19*).

Nonobligated Group

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

Front Porch Communities Operating Group, LLC

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

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

Facility	City	Type	Independent Living Units	Assisted Living Units	Memory Care Units	Skilled Nursing Units	Total Units
Front Porch Communities & Services – Casa de Mañana, LLC	La Jolla, CA	Rental	159	30	N/A	N/A	189
Front Porch Communities & Services – Claremont Manor, LLC	Claremont, CA	Rental	167	37	6	59	269
Front Porch Communities & Services – Kingsley Manor, LLC	Los Angeles, CA	Rental	114	90	N/A	49	253

The Front Porch Communities & Services – Fredericka Manor, LLC is expected to be leased and operated consistent with the other leased communities, as noted above, following its refinancing, which is expected to be completed during fiscal year ending March 31, 2015.

There was no activity for OpCo for the year ended March 31, 2013.

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

These four entities (collectively, the Real Estate LLCs) were formed in connection with the refinancing of certain Obligated Group debt. These entities, except for Front Porch Communities & Services – Fredericka Manor, LLC (Fredericka Manor), own the real estate associated with each of the specified campuses and each has a nonrecourse loan against its property discussed in *Note 8*. As noted above, these entities each lease their property to OpCo, which holds the license to operate and is responsible for all operations of these campuses post-refinancing. There was no activity for the above entities for the year ended March 31, 2013, and there was no activity for Fredericka Manor for the year ended March 31, 2014.

CARING Housing Ministries, Inc.

CARING Housing Ministries, Inc. (CARING) manages 23 HUD-subsidized and tax credit facilities, which provide housing to approximately 2,300 residents. CARING's managed facilities are located throughout California and in Glendale, Arizona. CARING's management fees received from clients are based on a percentage of its clients' operating revenues or are earned on a per-unit-per-month basis. CARING is a California nonprofit corporation, and the Corporation is the sole corporate member of CARING.

Sunny View Lutheran Home

Sunny View Lutheran Home (Sunny View) (formerly, Sunny View West), is a California nonprofit corporation that owns a 100-unit, HUD-subsidized senior living facility located in Cupertino, California. Sunny View does not own or operate Sunny View Retirement Community, which is owned and operated by the Corporation. The Corporation is the sole corporate member of Sunny View.

Related Parties

The following related parties are not consolidated into the Corporation:

Front Porch Enterprises, Inc.

Front Porch Enterprises, Inc. (FPE) was created as a California nonprofit corporation in July 2006. FPE was formed to provide support, financial and otherwise, to organizations engaged in housing, health and human services, education and research and sponsors affordable housing communities. FPE serves as the sole corporate member of Front Porch Active Adult Communities, LLC and the sole shareholder of Front Porch Development Company, Inc., described below. The Corporation and FPE are not affiliated, though there is overlap in the membership of the two boards. FPE is not included in the accompanying consolidated financial statements because the Corporation does not control FPE through majority ownership or control of the majority voting interest of the board.

Front Porch Active Adult Communities, LLC

Front Porch Active Adult Communities, LLC (Active Adult Communities) was created in January 2006 as a for-profit Delaware limited liability company that was created to own and operate active adult communities in Mexico and elsewhere. FPE is the sole member of Active Adult Communities.

Front Porch Development Company, Inc.

Front Porch Development Company, Inc. (Development Company) was created in February 2006 as a California for-profit corporation organized for the purpose of providing real estate development services to the Corporation, Active Adult Communities and other unrelated entities. Development Company is a wholly owned subsidiary of FPE.

The Boards of FPE, Active Adult Communities and Development Company agreed to dissolve these entities on July 8, 2014. The dissolutions will be effective upon filing of the appropriate legal documents.

Center for Technology Innovation and Wellbeing

Center for Technology Innovation and Wellbeing (CTIW) was formed in June 2008 as a nonprofit entity for the purpose of exploring innovative uses of technology to empower individuals to live well, especially in their later years. The CTIW bylaws provide that directors, officers and employees of the Corporation are precluded from constituting a majority of CTIW's directors. As a result, CTIW is not included in the accompanying consolidated financial statements of the Corporation because the Corporation does not control CTIW through majority ownership or control of the majority voting interest of the board.

Principles of Consolidation

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

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

The Corporation considers all liquid investments with original maturities of three months or less to be cash equivalents. At March 31, 2014 and 2013, cash equivalents consisted primarily of money market mutual funds of approximately $11,076,000 and $19,786,000, respectively. These funds are not insured by the Federal Deposit Insurance Corporation (FDIC).

At March 31, 2014, the Corporation's cash accounts exceeded federally insured limits by approximately $9,389,000.

Investments and Investment Return

Investments in equity securities having a readily determinable fair value and in all debt securities are carried at fair value. Guaranteed investment contracts are carried at amortized cost, which approximates fair value. Other investments are valued at the lower of cost (or fair value at the time of donation, if acquired by contribution) or fair value. Investment return includes dividend, interest and other investment income; realized and unrealized gains and losses on investments carried at fair value; and realized gains and losses on other investments. Investment return that is initially restricted by donor stipulation and for which the restriction will be satisfied in the same year is included in unrestricted net assets. Other investment return is reflected in the accompanying consolidated statements of operations and changes in net assets as unrestricted, temporarily restricted or permanently restricted based upon the existence and nature of any donor or legally imposed restrictions.

Assets Limited as to Use

Assets limited as to use represent: (a) funds held by a trustee that are legally restricted for bond reserve accounts and construction projects; (b) deposit subscriptions held in trust; (c) accommodation fees refundable within the first 90 days of residency in accordance with state law; (d) assets restricted by the donor for specific purposes; (e) HUD facility reserves and tenant deposits held in accordance with regulatory agreements governing the operation of Sunny View requiring HUD approval prior to any withdrawals; and (f) assets held in escrow for payment of property taxes and insurance, debt service, owner repairs and reserves for replacements pursuant to the loan agreements insured by HUD for the Real Estate LLCs. Amounts required to meet certain current liabilities of the Corporation are classified as current assets.

Patient Accounts Receivable

As a part of its mission to serve the community, the Corporation provides care to residents even though they may participate in programs that do not pay full charges or they may lack adequate insurance or private means. The Corporation manages their private resources and/or collection risk by regularly reviewing their accounts and contracts and by providing appropriate allowances based upon a review of outstanding receivables, historical collection information and existing economic conditions.

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

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

As a service to the resident, the Corporation bills third-party payers directly and bills the resident when the resident's liability is determined. Accounts receivable are stated at net realizable value from third-party payers, residents and others. Accounts receivable are due in full when billed and are considered delinquent and subsequently written off as bad debts on individual credit evaluation and specific circumstances of the account.

Property and Equipment

Property and equipment are recorded at cost and depreciated on a straight-line basis over the estimated useful life of each asset. Assets under leasehold improvements are depreciated over the shorter of the lease term or their respective estimated useful lives.

The estimated useful lives for each major depreciable classification of property and equipment are as follows:

Land improvements	2–25 years
Building and leasehold improvements	5–40 years
Equipment	3–20 years

Donations of property and equipment are reported at fair value as an increase in unrestricted net assets unless use of the assets is restricted by the donor. Monetary gifts that must be used to acquire property and equipment are reported as restricted support. The expiration of such restrictions is reported as an increase in unrestricted net assets when the donated asset is placed in service.

Long-Lived Asset Impairment

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

As discussed in *Note 4*, the Corporation recorded an asset impairment during fiscal year 2013. No asset impairment was recognized during fiscal year 2014.

Interest in Net Assets of and Receivables from Foundations

The Corporation recognizes its rights to assets held by a recipient organization in accordance with Accounting Standards Codification (ASC) Topic 958, *Not-for-Profit Entities*. Such rights are recognized as an asset, unless the donor has explicitly granted the recipient organization variance power, that is, the unilateral power to redirect the use of the assets. Those rights are either an interest in the net assets of the recipient organization, a beneficial interest in the recipient organization or a receivable. The Corporation accounts for its interest in the net assets of the Pacific Homes Foundation (Interest) in a manner similar to the equity method (see *Note 5*). Changes in the Interest are included in the accompanying consolidated statements of changes in net assets. Transfers of assets between the Pacific Homes Foundation and the Corporation are recognized as increases or decreases in the Interest.

Deferred Costs

Deferred costs include unamortized deferred financing costs of approximately $5,779,000 and $4,944,000 at March 31, 2014 and 2013, respectively, which are amortized using the effective-interest method over the terms of the bond issues. Deferred costs also include unamortized direct response advertising costs incurred in connection with acquiring initial continuing care contracts of approximately $3,319,000 and $3,983,000 at March 31, 2014 and 2013, respectively, which are amortized on a straight-line basis over the estimated remaining life expectancy of residents under the newly acquired continuing care contracts. Indirect advertising costs are expensed as incurred.

In conjunction with the partial redemption of the California Statewide Communities Development Authority 1999 Certificates of Participation as discussed in *Note 8*, the Corporation recorded a loss on extinguishment of debt in fiscal year 2014 of approximately $1,294,000 and a loss of approximately $425,000 in fiscal year 2013 reflecting the write-off of unamortized deferred financing costs proportional to the amount of debt refinanced.

Deferred Revenue from Entrance Fees

Fees paid by residents upon entering into a continuing care contract, net of the portion thereof that is refundable to the resident, are recorded as deferred revenue and are amortized into income using the straight-line method over the estimated remaining life expectancy of the resident.

Estimated Future Service Obligation

Annually, the Corporation calculates the present value of the net cost of future services and the use of facilities to be provided to current residents by contract type and compares those amounts with the balance of deferred revenue from entrance fees. If the present value of the net cost of future services and the use of facilities exceeds the deferred revenue from entrance fees, a liability is recorded (estimated future service obligation) with a corresponding charge to income. As of February 2006, while honoring previously issued contract types, the Corporation discontinued the use of all other contract types with the exception of Type B contracts. Type A contracts previously offered stipulated that the amount charged to the resident would not change when the resident's level of care changes; Type B contracts stipulate that the amount charged to the resident will change if the resident's level of care changes. The obligations for Type A and Type B contracts are discounted at 5.0% in 2014 and 2013 based on the Corporation's current borrowing rates. As of March 31, 2014 and 2013, there was no future service obligation related to Type A or Type B contracts.

Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are classified as such based on donor stipulations that they be used in a later period, for a specific purpose or both. Permanently restricted net assets have been restricted by donors to be maintained by the Corporation in perpetuity, the income from which is expendable as specified by the donor. Such net assets are to be used for future capital expenditures and to support the activities of the Corporation's retirement communities as specified by the donor.

Excess of Revenues over Expenses

The accompanying consolidated statements of operations include excess of revenues over expenses. Changes in unrestricted net assets, which are excluded from excess of revenues over expenses, consistent with industry practice, include net assets released from restrictions used for capital expenditures.

Resident and Net Patient Service Revenue

Resident and net patient service revenue includes monthly fees from residents and patient service revenue. Resident revenue consists of payments from residents for monthly service fees. Net patient service revenue is recognized as care is provided. Reimbursement for services provided to Medicare patients is based upon the Medicare Prospective Payment System (PPS) for long-term care providers. Under PPS, routine, ancillary and capital costs are pulled into a revised, single-payment stream. Reimbursement is made prospectively according to resident care classifications with each class assigned a fixed reimbursement rate.

Charity Care

The Corporation provides charity care to residents who are unable to pay for services or monthly service fees. The amount of charity care is included in net revenue and is not separately classified from the provision for uncollectible accounts.

Benefits to the Broader Community

The Corporation's retirement communities provide many benefits to the broader community. Most of these services are provided at no charge. Examples of these services include:

- Adult education classes
- Community centers used for other groups
- Retired Senior Volunteer Program
- Polling place for elections
- Adult literacy assistance services
- Meals-on-Wheels Program
- Training sites for various colleges, universities and regional occupational programs
- Alzheimer's support groups

Contributions

The Corporation reports donations of cash and other assets as either temporarily restricted support or permanently restricted support if they are received with donor stipulations that limit the use of the donated asset. In the case of temporarily restricted support, when a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the accompanying consolidated financial statements as net assets released from restrictions used for operations or capital expenditures. Donor-restricted contributions whose restrictions are met within the same year as received are reflected as unrestricted contributions in the accompanying consolidated financial statements.

The Corporation reports gifts of property and equipment (or other long-lived assets) as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Corporation reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

Professional Liability and Workers' Compensation Claims

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

Income Taxes

The Corporation is a nonprofit organization as described in Section 501(c)(3) of the Code and has been recognized as exempt from federal income and state franchise taxes on related income pursuant to Section 509(a)(2) of the Code and similar provisions of the California Franchise Tax Code. However, the Corporation is subject to income taxes on any net income that is derived from a trade or business, regularly carried on and not in furtherance of the purposes for which it was granted exemption. For the fiscal years ended March 31, 2014 and 2013, no income tax provision has been recorded as the net income from any unrelated trade or business and, in the opinion of management, is not material to the accompanying consolidated financial statements taken as a whole.

The Corporation files tax returns in the U.S. federal jurisdiction. With a few exceptions, the Corporation is no longer subject to U.S. federal examinations by tax authorities for years before 2011.

Transfers Between Fair Value Hierarchy Levels

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

Reclassifications

Certain reclassifications have been made to the 2013 consolidated financial statements to conform to the 2014 consolidated financial statement presentation. These reclassifications had no effect on the change in net assets.

Subsequent Events

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

Note 2: Concentration of Credit Risk

The Corporation grants credit without collateral to its skilled nursing patients, most of whom are area residents and are insured under third-party payer agreements. The mix of net receivables related to skilled nursing patients from patients and third-party payers at March 31, 2014 and 2013, were:

	2014	2013
Medicare	31%	37%
Medi-Cal	32%	30%
PPO/HMO (other contracted payers)	25%	24%
Patients and other	12%	9%
	100%	100%

Note 3: Investments and Investment Return

Short-term investments at fair value consisted of the following at March 31 (in thousands):

	2014	2013
U.S. Treasury and U.S. agency securities	$ 574	$ -
Corporate bonds	10,864	-
	$ 11,438	$ -

Assets limited as to use at fair value consisted of the following at March 31 (in thousands):

	2014	2013
Cash	$ 9,460	$ 4,848
Certificates of deposit	1,911	1,710
Money market mutual funds	5,979	7,069
U.S. Treasury and U.S. agency securities	3,410	4,063
Corporate bonds and commercial paper	12,491	23,406
	33,251	41,096
Less amounts required to meet current obligations	14,551	14,903
	$ 18,700	$ 26,193

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

	2014	2013
Held by trustee under indenture agreements for bond fund and other reserves	$ 22,552	$ 35,163
HUD debt service	926	-
HUD facility reserves	2,502	1,090
HUD owner repairs	2,622	-
HUD property tax and insurance	494	-
Deposit subscriptions held in trust	1,291	579
90-day refundable accommodation fees	2,759	4,159
Restricted by donors for capital expenditures	82	82
Resident deposits held in trust	23	23
	$ 33,251	$ 41,096

Long-term investments at fair value consisted of the following at March 31 (in thousands):

	2014	2013
Commodity mutual funds	$ 13,852	$ 16,405
Other mutual funds	14,468	14,158
U.S. Treasury and U.S. agency securities	6,133	4,882
Equity securities – domestic	107,580	68,971
Equity securities – international	34,801	46,147
Corporate bonds	14,245	-
Guaranteed investment contracts	8,940	18,975
	$ 200,019	$ 169,538

The guaranteed investment contracts (GIC) represent investments administered by an independent professional investment corporation in a managed investment pool with a guaranteed specified rate of interest. Interest payments on the GICs are due to the Corporation semiannually. The assets of the pool are invested in U.S. government obligations, corporate securities, taxable municipal securities, mortgage-backed securities and mutual funds.

The Corporation invests in certain mutual funds that have required holding periods and varying redemption penalties if sold prior to the end of the holding period. However, at March 31, 2014, none of the mutual funds held by the Corporation are subject to any redemption provisions.

As discussed in *Note 9*, the Corporation entered into certain derivative instruments. The derivative instrument related to the Series 2007 forward delivery agreement is included in the accompanying consolidated balance sheets as a derivative instrument under investments.

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

	2014	2013
Interest and dividend income	$ 5,160	$ 5,066
Realized gains on sales of securities, net	7,041	9,612
Realized gains (losses) on derivative financial instruments, net	(2,254)	1,541
Unrealized gains (losses) on investments valued at fair value, net	8,820	(485)
Unrealized losses on derivative financial instruments, net	(3,744)	(131)
Investment fees	(1,100)	(942)
Amortization of deferred interest income	437	437
Other investment income	738	-
Investment return	$ 15,098	$ 15,098

The change in temporarily restricted net assets for the years ended March 31, 2014 and 2013, includes investment return of approximately $897,000 and $533,000, respectively.

Note 4: Property and Equipment

A summary of property and equipment at March 31, 2014 and 2013, follows (in thousands):

	2014	2013
Land and land improvements	$ 47,446	$ 46,597
Buildings	299,746	297,659
Building improvements	110,188	99,552
Leasehold improvements	10,697	5,881
Equipment	116,874	105,069
Construction in progress	6,263	8,013
	591,214	562,771
Less accumulated depreciation	297,094	276,627
	$ 294,120	$ 286,144

During 2013, the Corporation re-evaluated the redevelopment of the Wesley Palms facility and determined the most prudent course of action was to remodel and renovate the facility instead of a complete redevelopment. As part of this evaluation, the Corporation identified approximately $2,968,000 of capitalized costs related to the redevelopment of the Wesley Palms facility that would not be utilized in the renovation of the facility. Therefore, the Corporation recorded an asset impairment for those redevelopment costs in 2013.

Note 5: Interest in Net Assets of and Receivables from Supporting Organizations

Pacific Homes Foundation (PH Foundation), FACT Foundation, California Lutheran Homes (CLH) and Sunny View Lutheran Communities and Services (SVLCS) are not-for-profit corporations established for the charitable purpose of promoting and supporting the work of the Corporation and the retirement communities. The four organizations have separate boards of directors over which the Corporation does not exercise control.

Because PH Foundation was established to operate exclusively for the benefit of the Corporation, and upon dissolution, the net assets of PH Foundation are transferred to the Corporation to be used to benefit the residents of the former Pacific Homes communities, and since variance power from the donors does not exist, the Corporation records its interest in the net assets of PH Foundation. However, FACT Foundation, CLH and SVLCS are not organized solely for the benefit of the Corporation, and upon dissolution the net assets may be directed to other not-for-profit organizations. Consequently, the Corporation records a receivable from these three supporting organizations related only to those net assets restricted by the donor for the benefit of the Corporation.

As of March 31, 2014 and 2013, the interest in the net assets of PH Foundation and receivables from supporting organizations are as follows (in thousands):

	2014	2013
Interest in net assets of PH Foundation	$ 10,886	$ 9,877
Receivables from supporting organizations		
FACT Foundation	$ 8,655	$ 7,649
CLH	662	910
SVLCS	1,780	1,878
	$ 11,097	$ 10,437

Note 6: Professional Liability Claims

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

Based upon the Corporation's claims experience, an accrual had been made for the Corporation's portion of malpractice costs related to its deductible under its malpractice insurance policy, amounting to approximately $800,000 as of March 31, 2013. No such accrual was deemed necessary as of March 31, 2014. It is reasonably possible that this estimate could change materially in the near term.

Note 7: Workers' Compensation

Effective March 31, 2003, the Corporation became qualified to self-insure its workers' compensation claims in California. In addition, for the years ended March 31, 2014 and 2013, the Corporation had an excess workers' compensation policy in place for individual claims over $750,000. This policy had a maximum coverage limit of $25,000,000 for the years ended March 31, 2014 and 2013. Amounts accrued to cover potential workers' compensation claims, based on actuarial valuation, as of March 31, 2014 and 2013, are as follows (in thousands):

	2014	2013
Estimated amounts expected to be paid		
Within one year, included in accrued payroll and related expenses	$ 3,075	$ 2,131
In excess of one year, included in other accrued liabilities	10,320	8,390
	$ 13,395	$ 10,521

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

The liability for expected workers' compensation claims is presented excluding expected insurance recoveries. Estimated insurance recovery receivables of approximately $1,906,000 and $1,818,000 are included as other receivables in the accompanying consolidated balance sheets at March 31, 2014 and 2013, respectively.

Note 8: Long-Term Debt

The following is a summary of long-term debt at March 31, 2014 and 2013 (in thousands):

	2014	2013
California Statewide Communities Development Authority Series 2012 Bonds, variable interest at 65% of LIBOR plus applicable spread paid monthly (1.35% and 1.38% at March 31, 2014 and 2013, respectively), principal due in varying installments between 2014 and 2043, paid annually. Bonds were placed directly with one investor with an initial 5-year hold period and are secured by a first mortgage on the Walnut Village property. In 2017, the borrower and current investor can agree on new terms, the debt can be sold to a new investor or it must be redeemed and refinanced	$ 34,400	$ 35,000
California Statewide Communities Development Authority Series 2007A Certificates of Participation, interest at 5.125%, principal due in varying installments between 2031 and 2038, inclusive of unamortized premium of $649 and $681 at March 31, 2014 and 2013, respectively. During 2011, the Corporation repurchased $4,750 of these certificates which reduce the outstanding balance as of March 31, 2014 and 2013	68,899	68,931
California Statewide Communities Development Authority 1999 Certificates of Participation, interest at 5.375%, principal due in varying installments through 2031. During 2014, the Corporation used the proceeds received in conjunction with the HUD-insured loans obtained by the Real Estate LLCs to make partial prepayments on the outstanding 1999 Certificates of Participation in the amount of $79,705	76,095	160,420
California Health Facilities Financing Authority Series 1999A Insured Health Facility Revenue Bonds, interest at 4.6% to 5.1%, principal due in varying installments through 2024, collateralized by the gross revenues of Sunny View Retirement Community and a deed of trust on Sunny View Retirement Community	3,210	3,445
California Health Facilities Financing Authority Series 1997A Insured Health Facility Revenue Bonds, interest at 5.3% to 5.5%, principal due in varying installments through 2020, collateralized by the gross revenues of Sunny View Retirement Community and a deed of trust on Sunny View Retirement Community	1,440	1,695

	2014	2013
Mortgage payable to bank in monthly principal and interest installments of $56 (including interest at 2.8%) through 2040 plus monthly deposits of $12 for replacement reserves, collateralized by a deed of trust on substantially all of Kingsley Manor's real and personal property and insured by U.S. Department of Housing and Urban Development (HUD) under Section 232 of the *National Housing Act*	$ 12,306	$ -
Mortgage payable to bank in monthly principal and interest installments of $165 (including interest at 2.73%) through 2046 plus monthly deposits of $23 for replacement reserves, collateralized by a deed of trust on substantially all of Claremont Manor's real and personal property and insured by HUD under Section 232 of the *National Housing Act*	41,762	-
Mortgage payable to bank in monthly principal and interest installments of $138 (including interest at 3.74%) through 2044 plus monthly deposits of $14 for replacement reserves, collateralized by a deed of trust on substantially all of Casa de Mañana's real and personal property and insured by HUD under Section 232 of the *National Housing Act*	29,630	-
Note payable to HUD in monthly principal and interest installments of $21 (including interest at 6.875%) through 2020 plus monthly deposits of $11 for replacement reserves, collateralized by the revenues of Sunny View and a deed of trust on substantially all of Sunny View's real and personal property	1,150	1,319
Total long-term debt	268,892	270,810
Less current portion	5,889	5,879
	$ 263,003	$ 264,931

Under the terms of the Series 1999 and 2007 Bond Indentures, the Corporation is required to place its project funds, funded interest and debt service reserve funds in restricted accounts for those purposes. The related debt agreements contain various restrictive covenants, which, among other things, require the maintenance of certain financial ratios, including a debt service coverage ratio of 1.25. The bonds are collateralized by the gross revenues of the Obligated Group.

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

Scheduled annual principal payments on long-term debt at March 31, 2014, are as follows (in thousands):

2015	$ 5,889
2016	6,203
2017	6,443
2018	6,695
2019	6,341
Thereafter	237,321
	$ 268,892

Note 9: Derivative Instruments

The Corporation accounts for its derivative instruments in accordance with ASC Topic 815, *Derivatives and Hedging.* ASC Topic 815 requires that all derivative instruments be recorded on the accompanying consolidated balance sheets at their respective fair values. Changes in the fair value of a derivative are recorded as a component of investment return.

The Corporation uses interest rate-related derivative instruments to manage its interest rate exposure on its tax-exempt debt. By using derivative financial instruments to hedge exposures to changes in interest rates, the Corporation exposes itself to credit risk and market risk. Credit risk is the failure of the counterparty to perform under the terms of the derivative contract. Market risk is the adverse effect on the value of a financial instrument that results from a change in interest rates. The market risk associated with interest rate contracts is managed by establishing and monitoring parameters that limit the types and degree of market risk that may be undertaken.

The Corporation primarily uses fixed-rate debt to finance its operations. The debt obligations prevent the Corporation from reducing interest costs in periods of declining interest rates. In July 2002, management entered into two forward sale agreements for proceeds of $13,325,000. In July 2004, the Corporation entered into a basis swap. Additionally, in July 2007, the Corporation entered into a forward delivery agreement and two investment agreements related to certain Series 2007 bond proceeds. Following is a summary of the Corporation's derivative instruments:

Forward Sale Agreements and Guaranteed Investment Contract – Series 1999

In July 2002, the Corporation entered into forward sale agreements as a means to receive an up-front payment in exchange for rights to the future interest earnings on the investments temporarily held in the Corporation's debt service (principal and interest) and reserve funds to pay the principal and interest payments on the 1999 Certificates of Participation. Proceeds from the forward sale agreements were received over the first 44 months of the forward sale agreements and are being amortized into interest income over the 332-month term of the forward sale agreements. As proceeds were received each month, they are deposited into a GIC as collateral for the forward sale agreement until expiration on April 1, 2030.

In conjunction with the partial prepayment on the 1999 Certificates of Participation as discussed in *Note 8*, the Corporation terminated a portion of the reserve funds and GIC in the amount of $6,180,008. As a result of the partial terminations, the Corporation incurred a loss of approximately $2,254,000 during the year ended March 31, 2014, which is included in investment return on the accompanying consolidated statements of operations. The Corporation received cash payments of $4,422,000 associated with the partial terminations, which are included in investing activities on the accompanying consolidated statements of cash flows. The notional amount of the GIC is $5,895,992 and $12,078,000 at March 31, 2014 and 2013, respectively, and allows for certain permitted withdrawals, as defined, that allow the Corporation to withdraw such funds to support debt service payments and operating expenses (including payroll) if funds from other sources are not available. As such, amounts deposited in the GIC, including mark-to-market adjustments, total approximately $7,977,000 and $17,823,000 as of March 31, 2014 and 2013, respectively, and are classified as unrestricted investments in the accompanying consolidated balance sheets. The Corporation recognized interest income totaling $437,000 in 2014 and 2013 related to the forward sale agreements.

Forward Delivery Agreements – Series 2007

In July 2007, the Corporation entered into a forward delivery agreement with a financial institution with a par amount of $3,741,000. In connection with this forward delivery agreement, the financial institution delivered qualifying securities to the Corporation to provide an agreed-upon fixed rate of return for the Series 2007A debt service reserve fund. The forward delivery agreement was scheduled to mature on April 1, 2037. On January 11, 2013, the Corporation entered into a termination agreement with the counterparty for which the Corporation was compensated with a cash payment of $1,541,000, which is included in investment return on the accompanying consolidated statements of operations. The Series 2007 debt service reserve fund has been invested in permitted securities with a professional management firm.

Basis Swap

Under a basis swap contract, the Corporation agrees to pay the counterparty the monthly Securities Industry and Financial Markets Association (SIFMA) Municipal Swap Index variable rate average while receiving 64% of the one-month London Interbank Offered Rate (LIBOR) plus a fixed spread. The basis swap notional amount is $196,600,000. The Corporation's largest exposure under this contract is a significant reduction in the U.S. federal tax rate on individuals. Under this contract, the Corporation recorded a reduction to interest expense of approximately $1,774,000 and $1,746,000 during the years ended March 31, 2014 and 2013, respectively.

Contained in the Corporation's master derivative agreement are provisions that allow the counterparty to the basis swap contract and the Corporation the right to request collateralization on the basis swap contract if either party's rating falls below a certain threshold. Neither the counterparty nor the Corporation have requested collateral be posted as of March 31, 2014.

The table below presents certain information regarding the Corporation's derivative financial instruments, none of which were hedging instruments, at March 31, 2014 and 2013 (in thousands):

		2014	2013
		Asset Derivatives	
Derivative Type	Balance Sheet Location	Fair Value	Fair Value
Basis swap agreement	Derivative instruments	$ 4,179	$ 7,190
		Liability Derivatives	
Forward delivery and sale agreements	Deferred interest – forward sale agreements	$ (3,707)	$ (6,926)
		Net Income on Derivative Instruments	
Location of gain on derivative instruments not deemed hedging instruments	Other income (expense) – investment return	$ (5,998)	$ 1,410

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

Temporarily restricted net assets are available for the following purposes or periods at March 31, 2014 and 2013 (in thousands):

	2014	2013
Resident assistance and special projects	$ 7,691	$ 7,481
Purchase of property and equipment	102	245
Scholarships	301	259
Time-restricted	5,651	4,640
Other	1,196	1,073
	$ 14,941	$ 13,698

Temporarily restricted net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified as follows (in thousands):

	2014	2013
Available for resident assistance and operations	$ 678	$ 630
Capital expenditures	$ 634	$ 1,708

Permanently restricted net assets of $6,367,000 and $6,039,000 at March 31, 2014 and 2013, respectively, consist of investments to be held in perpetuity, the income from which is expendable to support resident assistance, scholarships, operations and other purposes as specified by the donor.

During the fiscal year ended March 31, 2014, the Board designated $2,000,000 of unrestricted net assets to establish The Front Porch Center for Innovation and Wellbeing/Innovation Initiative Fund and $1,000,000 of unrestricted net assets to establish The Alhambra Affordable Housing Preservation and Development Fund. Designated net assets remain under the control of the Board of Directors, which may at its discretion later use these designated funds for other purposes. Designated funds are included with investments on the accompanying consolidated balance sheets. During the fiscal year ended March 31, 2014, the Board released $200,000 of funds originally designated for affordable housing to invest in Brookmore Apartment Corporation. The remaining $2,800,000 remains unreleased as of March 31, 2014.

Note 11: Uncompensated Community Benefits

Each year, the Corporation provides services to residents with limited means and benefits to the broader community. The approximate cost of such services for the years ended March 31, 2014 and 2013, totaled $1,575,000 and $2,355,000, respectively. Additionally, the Corporation accepts Medi-Cal patients for which it is reimbursed at amounts that do not cover the cost of health care services provided. The estimated cost, based on historical cost-to-revenue ratios by community, of providing such under-reimbursed care in excess of reimbursements received was $2,472,000 and $2,155,000 for the years ended March 31, 2014 and 2013, respectively.

Note 12: Functional Expenses

The Corporation provides services through independent retirement living, assisted living, memory care, skilled nursing and other services. Expenses related to providing these services, before other operating charges for the years ended March 31, 2014 and 2013, respectively, are as follows (in thousands):

	2014	2013
Patient and resident care services	$ 126,517	$ 122,615
General and administrative	46,780	44,782
	$ 173,297	$ 167,397

Note 13: Employee Benefit Plans

403(b) Defined Contribution Plan and Supplemental Retirement

The Corporation sponsors a 403(b) defined contribution plan for its employees. Under the current plan, all employees with at least one year of service are eligible to participate and the Corporation contributes an amount equal to 3% of each participant's compensation. Additionally, the Corporation provides an executive supplemental retirement plan and contributes 4.5% of each participant's compensation. Expense for all retirement plans, equal to the contributions, totaled approximately $2,137,000 and $2,164,000 for the years ended March 31, 2014 and 2013, respectively.

Deferred Compensation Plan

The Corporation offers a nonqualified deferred compensation plan to a select group of management that provides the opportunity to defer a specified percentage of their cash compensation. Participants may elect to defer up to 30% of their annual base salary. In addition, the Corporation offers an at-risk compensation plan that requires a mandatory 30% of any at-risk pay awarded to be held as deferred compensation. Participants may elect to defer the remaining 70% of their award. The Corporation's obligations under this plan are unfunded for tax purposes and for purposes of Title 1 of the *Employee Retirement Income Security Act of 1974* and are unsecured general obligations of the Corporation to pay in the future the value of the deferred compensation adjusted to reflect the performance, whether positive or negative, of selected investment measurement options chosen by each participant during the deferral period. As of March 31, 2014 and 2013, approximately $2,983,000 and $2,478,000, respectively, of deferred compensation is accrued and included in other accrued liabilities in the accompanying consolidated balance sheets.

Note 14: Related-Party Transactions

As discussed in *Note 1*, the Corporation has a relationship with both Front Porch Enterprises, Inc. (FPE) and Center for Technology Innovation and Wellbeing (CTIW). The Corporation does not have control over FPE or CTIW through majority ownership or control of the majority voting interests of the boards. The Corporation has elected not to consolidate FPE or CTIW in the accompanying consolidated financial statements. The unaudited financial position and results of operations of FPE and CTIW as of and for the years ended March 31, 2014 and 2013, are summarized below (in thousands):

	2014	2013
Total assets	$ 364	$ 1,355
Total liabilities	$ 260	$ 9,568
Total equity (deficit)	104	(8,213)
Total liabilities and equity	$ 364	$ 1,355
Revenues, including investment return	$ 1,301	$ 1,052
Increase (decrease) in unrestricted net assets	$ 8,327	$ (376)

Development Company

In April 2007, the Corporation entered into a service agreement with Development Company to secure project development and management services for the Corporation's development projects, which, in fiscal 2014 and 2013, included The Alhambra, Villa Gardens, Sunny View, Casa de Mañana and Wesley Palms. Services rendered to the Corporation totaled approximately $909,000 and $1,165,000 for the years ended March 31, 2014 and 2013, respectively. At March 31, 2014 and 2013, amounts payable to Development Company totaled approximately $0 and $25,000, respectively, for these services.

Note 15: Disclosures About Fair Value of Assets and Liabilities

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

Level 1 Quoted prices in active markets for identical assets or liabilities

Level 2 Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities

Level 3 Unobservable inputs supported by little or no market activity and significant to the fair value of the assets or liabilities

Recurring Measurements

The following tables present the fair value measurements of assets and liabilities recognized in the accompanying consolidated balance sheets measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at March 31, 2014 and 2013 (in thousands):

	March 31, 2014			
		Fair Value Measurements Using		
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial assets				
Equities – domestic	$ 107,580	$ 107,580	$ -	$ -
Equities – international	$ 34,801	$ 32,369	$ 2,432	$ -
Money market mutual funds	$ 5,979	$ 5,979	$ -	$ -
Certificates of deposit	$ 1,911	$ -	$ 1,911	$ -
Commodity mutual funds	$ 13,852	$ 13,852	$ -	$ -
Other mutual funds	$ 14,468	$ 14,468	$ -	$ -
U.S. Treasury and U.S. agency securities	$ 10,117	$ 10,091	$ 26	$ -
Corporate bonds and commercial paper	$ 37,600	$ 24,091	$ 13,509	$ -
Derivative instruments	$ 4,179	$ -	$ 4,179	$ -
Guaranteed investment contracts	$ 8,940	$ -	$ 8,940	$ -
Receivables from supporting organizations	$ 11,097	$ -	$ -	$ 11,097
Financial liabilities				
Deferred interest – forward sale agreements	$ (3,707)	$ -	$ (3,707)	$ -

	March 31, 2013			
		Fair Value Measurements Using		
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial assets				
Equities – domestic	$ 68,971	$ 68,971	$ -	$ -
Equities – international	$ 46,147	$ 46,147	$ -	$ -
Money market mutual funds	$ 7,069	$ 7,069	$ -	$ -
Certificates of deposit	$ 1,710	$ -	$ 1,710	$ -
Commodity mutual funds	$ 16,405	$ 16,405	$ -	$ -
Other mutual funds	$ 14,158	$ 14,158	$ -	$ -
U.S. Treasury and U.S. agency securities	$ 8,945	$ 6,819	$ 2,126	$ -
Corporate bonds and commercial paper	$ 23,406	$ 1,871	$ 21,535	$ -
Derivative instruments	$ 7,190	$ -	$ 7,190	$ -
Guaranteed investment contracts	$ 18,975	$ -	$ 18,975	$ -
Receivables from supporting organizations	$ 10,437	$ -	$ -	$ 10,437
Financial liabilities				
Deferred interest – forward sale agreements	$ (6,926)	$ -	$ (6,926)	$ -

Following is a description of the valuation methodologies and inputs used for assets and liabilities measured at fair value on a recurring basis and recognized in the accompanying consolidated balance sheets, as well as the general classification of such assets and liabilities pursuant to the valuation hierarchy. There have been no significant changes in the valuation techniques during the year ended March 31, 2014. For assets classified within Level 3 of the fair value hierarchy, the process used to develop the reported fair value is described below.

Investments

Where quoted market prices are available in an active market, investments are classified within Level 1 of the valuation hierarchy. Level 1 investments include various mutual funds, certain corporate bonds and commercial paper, U.S. Treasury and U.S. agency securities and exchange-traded equity securities. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of investments with similar characteristics or discounted cash flows. Level 2 investments include certain corporate bonds, commercial paper and certificates of deposit. In certain cases where Level 1 or Level 2 inputs are not available, investments are classified within Level 3 of the hierarchy.

Derivative Instruments and Guaranteed Investment Contracts

The fair value is estimated using forward looking interest rate curves and discounted cash flows that are observable or that can be corroborated by observable market data and, therefore, are classified within Level 2 of the valuation hierarchy.

Receivables from Supporting Organizations

Fair value is estimated at the present value of the future distributions from the supporting organizations. Due to the nature of the valuation inputs, the receivables from supporting organizations are classified within Level 3 of the hierarchy.

Level 3 Reconciliation

The following is a reconciliation of the beginning and ending balances of recurring fair value measurements recognized in the accompanying consolidated balance sheets using significant unobservable (Level 3) inputs (in thousands):

	Receivables from Supporting Organizations
Balance, April 1, 2013	$ 10,437
Total realized and unrealized gains and losses included in change in net assets	660
Balance, March 31, 2014	$ 11,097
Total gains or losses for the period included in change in net assets attributable to the change in unrealized gains or losses related to assets and liabilities still held at the reporting date	$ 660

		Receivables from Supporting Organizations
Balance, April 1, 2012	$	10,255
Total realized and unrealized gains and losses included in change in net assets		182
Balance, March 31, 2013	$	10,437
Total gains or losses for the period included in change in net assets attributable to the change in unrealized gains or losses related to assets and liabilities still held at the reporting date	$	182

Nonrecurring Measurements

At March 31, 2013, certain long-lived assets were valued at fair value due to an impairment recorded. The fair value of the remaining approximately $168,000 of capitalized costs related to redevelopment was estimated based on a review of capitalized costs that could be used in the revised plan. Therefore, the fair value measurements of these long-lived assets are classified within Level 3 of the valuation hierarchy.

Unobservable (Level 3) Inputs

At March 31, 2014 and 2013, the Corporation had one financial instrument, receivables from supporting organizations of $11,097,000 and $10,437,000, respectively, for which fair value was determined based on unobservable inputs. The primary valuation technique used is discounted cash flows of future distributions. The significant unobservable inputs used in this fair value measurement are probability of nonpayment and distribution rates. Significant increases (decreases) in any of those inputs in isolation would result in a significantly lower (higher) fair value measurement. Generally, changes in either of those inputs will not affect the other input.

Fair Value of Financial Instruments

The following tables present estimated fair values of the Corporation's financial instruments and the level within the fair value hierarchy in which the fair value measurements fall at March 31, 2014 and 2013 (in thousands):

	March 31, 2014			
		Fair Value Measurements Using		
	Carrying Amount	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial assets				
Cash and cash equivalents	$ 20,645	$ 20,645	$ -	$ -
Equities – domestic	$ 107,580	$ 107,580	$ -	$ -
Equities – international	$ 34,801	$ 32,369	$ 2,432	$ -
Money market mutual funds	$ 5,979	$ 5,979	$ -	$ -
Certificates of deposit	$ 1,911	$ -	$ 1,911	$ -
Commodity mutual funds	$ 13,852	$ 13,852	$ -	$ -
Other mutual funds	$ 14,468	$ 14,468	$ -	$ -
U.S. Treasury and U.S. agency securities	$ 10,117	$ 10,091	$ 26	$ -
Corporate bonds and commercial paper	$ 37,600	$ 24,091	$ 13,509	$ -
Derivative instruments	$ 4,179	$ -	$ 4,179	$ -
Guaranteed investment contracts	$ 8,940	$ -	$ 8,940	$ -
Interest in net assets of PH Foundation	$ 10,886	$ -	$ 10,886	$ -
Receivables from supporting organizations	$ 11,097	$ -	$ -	$ 11,097
Financial liabilities				
Deferred interest – forward sale agreements	$ 3,707	$ -	$ 3,707	$ -
Long-term debt	$ 268,892	$ -	$ 267,924	$ -

	March 31, 2013			
		Fair Value Measurements Using		
	Carrying Amount	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial assets				
Cash and cash equivalents	$ 20,287	$ 20,287	$ -	$ -
Equities – domestic	$ 68,971	$ 68,971	$ -	$ -
Equities – international	$ 46,147	$ 46,147	$ -	$ -
Money market mutual funds	$ 7,069	$ 7,069	$ -	$ -
Certificates of deposit	$ 1,710	$ -	$ 1,710	$ -
Commodity mutual funds	$ 16,405	$ 16,405	$ -	$ -
Other mutual funds	$ 14,158	$ 14,158	$ -	$ -
U.S. Treasury and U.S. agency securities	$ 8,945	$ 6,819	$ 2,126	$ -
Corporate bonds and commercial paper	$ 23,406	$ 1,871	$ 21,535	$ -
Derivative instruments	$ 7,190	$ -	$ 7,190	$ -
Guaranteed investment contracts	$ 18,975	$ -	$ 18,975	$ -
Interest in net assets of PH Foundation	$ 9,877	$ -	$ 9,877	$ -
Receivables from supporting organizations	$ 10,437	$ -	$ -	$ 10,437
Financial liabilities				
Deferred interest – forward sale agreements	$ 6,926	$ -	$ 6,926	$ -
Long-term debt	$ 270,810	$ -	$ 273,930	$ -

The following methods were used to estimate the fair value of all other financial instruments recognized in the accompanying consolidated balance sheets at amounts other than fair value.

Cash and Cash Equivalents and Interest in Net Assets of PH Foundation

The carrying amount approximates fair value.

Long-Term Debt

Fair values of the Corporation's certificates of participation and revenue bonds are based on current traded values. The fair value of the Corporation's note and mortgage payable debt is estimated using discounted cash flow analysis based on the Corporation's current incremental borrowing rates for similar types of borrowing arrangements.

Note 16: Asset Retirement Obligations

ASC Topic 410, *Asset Retirement and Environmental Obligations*, requires that an asset retirement obligation (ARO) associated with the retirement of a tangible long-lived asset be recognized as a liability in the period in which it is incurred or becomes determinable (as defined by the standard) even when the timing and/or method of settlement may be conditional on a future event.

The Corporation has AROs arising from regulatory requirements to perform asbestos abatement at the time certain property is disposed of. The liability, included in asset retirement obligation in the accompanying consolidated balance sheets, was initially measured at fair value based upon historical removal costs per square foot applied to assets identified requiring asbestos abatement and is subsequently adjusted for accretion expense and changes in the amount or timing of the estimated cash flows. The corresponding asset retirement costs are capitalized as part of the carrying amount of the related long-lived asset and depreciated over the asset's useful life. The following table presents the activity for the AROs for the years ended March 31, 2014 and 2013, (in thousands):

	2014	2013
Balance, beginning of year	$ 2,751	$ 2,675
Write-off of liability on sale of The Alhambra (see *Note 19*)	(314)	-
Change in estimate and accretion expense	339	76
Balance, end of year	$ 2,776	$ 2,751

Note 17: Significant Estimates and Concentrations

Accounting principles generally accepted in the United States of America require disclosure of certain significant estimates and current vulnerabilities due to certain concentrations. Those matters include the following:

Allowance for Net Patient Service Revenue Adjustments

Estimates of allowances for adjustments included in net patient service revenue are described in *Note 1*.

Investments

The Corporation invests in various investment securities. Investment securities are exposed to various risks, such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the accompanying consolidated balance sheets.

Self-Insurance Claims

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

Litigation

In the normal course of business, the Corporation is, from time to time, subject to allegations that may or do result in litigation. The Corporation evaluates such allegations by conducting investigations to determine the validity of each potential claim. Based upon the advice of counsel and, with respect to workers' compensation claims, an independent actuary, management records an estimate of the amount of ultimate expected loss, if any, for each of these matters. Events could occur that would cause the estimate of ultimate loss to differ materially in the near term.

Regulatory Matters

The health care industry is subject to numerous laws and regulations of federal, state and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government health care program participation requirements and reimbursement for patient services. Government activity has continued with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by health care providers. Violations of these laws and regulations could result in expulsion from government health care programs with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed. In addition, changes to the regulatory environment could negatively impact the Corporation's financial position.

Asset Retirement Obligation

As discussed in *Note 16*, the Corporation has recorded a liability for its conditional asset retirement obligations related to asbestos abatement.

Labor Agreements

Approximately 10% of the Corporation's employees were covered by a collective bargaining agreement as of March 31, 2014. This agreement expires February 2015.

Note 18: Repayable and Amortized Entrance Fees and Deferred Revenue

Entrance fee arrangements apply to five of the Corporation's facilities as of March 31, 2014 and 2013. For the right to occupy a unit for life and to receive certain services at these facilities, residents are required to pay an up-front entrance fee. The entrance fee is based upon the type of unit rented and the monthly payment plan selected by the resident. In addition, residents are charged monthly service fees. Service fees are established at the inception of residency and may be increased by the Corporation, provided a 60-day advance notice is given to the resident.

The resident may voluntarily withdraw from the facility upon rendering proper notification. Upon voluntary withdrawal, a repayment of part or all of the entrance fees and monthly care fees may occur. The following is a summary of the withdrawal clauses:

- If the resident voluntarily withdraws within the first seven days, all amounts will be repaid.
- If voluntary withdrawal or death occurs within 90 days of the contract date, an amount equal to the entrance fee and the monthly care fee, less any amounts used to care for the resident during the time of the residency, will be repaid to the resident, estate, trust, heirs or representatives.
- For amortized contracts, if voluntary withdrawal occurs subsequent to the 90-day period, the amount repaid shall be equal to the entrance fee, less an amount amortized on a basis ranging from 60 to 67 months from the date of the agreement. If voluntary withdrawal occurs after the "amortization period," as defined in the resident contract, no repayment shall be awarded. If death occurs more than 90 days after the contract date, entrance fees are either retained by the Corporation or partially refunded based upon the individual facility's contracts.
- For repayable contracts, upon withdrawal of a resident for any reason subsequent to the 90-day period, the repayable percentage of the entrance fee will be repaid to the resident, estate, trust, heirs or representatives within 14 calendar days of the Corporation's receipt of a new entrance fee or, in certain circumstances, monthly fee contract for the unit.

The estimated amount of entrance fees expected to be repaid to current residents, net of amounts estimated to be repaid within one year amounted to approximately \$3,764,000 and \$2,963,000 at March 31, 2014 and 2013, respectively, and is included in other accrued liabilities in the accompanying consolidated balance sheets. Amounts estimated to be repaid within one year totaled \$2,369,000 and \$1,813,000 at March 31, 2014 and 2013, respectively, and are recorded as other current accrued expenses in the accompanying consolidated balance sheets. These estimates are based on the Corporation's historical repayment experience and the Corporation's repayment policy. At March 31, 2014 and 2013, approximately \$73,484,000 and \$63,507,000, respectively, are contractually repayable under these agreements, which represent the amount due to residents if all residents were to cancel their contracts at that date based on the repayment policies above. The contractually repayable amount, net of estimated repayable entrance fees described above is included in deferred revenue from entrance fees in the accompanying consolidated balance sheets.

Entrance fees subject to refund and actual refunds disbursed as of March 31, 2014, are as follows (in thousands):

	Entrance Fees Subject to Refund as of March 31	Actual Refunds Disbursed for Year Ended March 31
2014	$ 96,891	$ 3,107
2013	$ 82,302	$ 2,814
2012	$ 74,173	$ 2,764
2011	$ 70,215	$ 2,109
2010	$ 66,963	$ 2,453

Note 19: Discontinued Operations

In February 2011, the Corporation discontinued the operations of The Alhambra retirement community as it could no longer meet the needs of the broader Alhambra community with retirement housing and services, and the Corporation identified a buyer for the site who plans to develop the property into residential housing.

In April 2011, the Corporation entered into a Purchase Agreement and Joint Escrow Instructions (the Purchase Agreement) related to the sale of the land and facility in Alhambra, California, for $15,800,000. The purchase price of $15,800,000 was to be paid to the Corporation at various stages with the final payment to be made no later than October 2012, unless the Corporation elected to use a portion of the purchase price to provide financing to the project.

As the entitlements process progressed, it was necessary to reduce project density to obtain city approval. Accordingly, the Corporation agreed to reduce the purchase price by approximately $1,300,000 in exchange for a profit-sharing arrangement that will become effective once a specified level of return on the project is achieved. The Corporation also agreed to extend the closing date to August 1, 2013, in exchange for an amended and accelerated deposit structure. In June 2013, the buyer again requested a delay in the closing date. The Corporation agreed to extend the closing date until December 31, 2013, in exchange for payments from the buyer which covered the Corporation's holding and opportunity costs of delayed receipt of the remaining purchase price during the period from August 1 until December 31, 2013.

On December 31, 2013, sale of The Alhambra closed and the Corporation received final payment of approximately $12,515,000 which resulted in a gain on sale of approximately $9,200,000 which is included in the gain from discontinued operations on the accompanying consolidated statements of operations.

The financial results for The Alhambra for the years ended March 31, 2014 and 2013, were as follows (in thousands):

	2014	2013
Total revenue	$ 235	$ 194
Total operating expenses	(195)	(196)
Gain on sale of assets	9,200	-
Gain (loss) from discontinued operations	$ 9,240	$ (2)

Note 20: Change in Accounting Principle

On April 1, 2013, the Corporation elected to adopt Accounting Standards Update (ASU) No. 2012-01, *Health Care Entities (Topic 954)*, which changes the way continuing care retirement communities (CCRCs) account for refundable entrance fees. If there is no specific language in the resident contract limiting refunds to the proceeds from reoccupancy of the unit, all related revenue (the full refundable amount) should be recorded as a liability on the balance sheet. Comparative financial statements of prior years have been adjusted to apply the new method retrospectively.

The following financial statement line items for fiscal year 2013 were affected by the change in accounting principle (in thousands):

	As Originally Reported	As Adjusted	Effect of Change
Balance Sheet			
Refundable entrance fees	$ -	$ 40,769	$ 40,769
Deferred revenue from entrance fees	$ 77,526	$ 40,018	$ (37,508)
Total liabilities	$ 406,222	$ 409,483	$ 3,261
Unrestricted net assets	$ 145,756	$ 142,495	$ (3,261)
Total net assets	$ 165,493	$ 162,232	$ (3,261)
Statement of Operations			
Amortization of entrance fees	$ 9,408	$ 8,408	$ (1,000)
Total unrestricted revenues, gains and other support	$ 172,060	$ 171,060	$ (1,000)
Operating income before other operating charges	$ 4,663	$ 3,663	$ (1,000)
Operating income	$ 1,695	$ 695	$ (1,000)
Excess of revenues over expenses before discontinued operations	$ 16,368	$ 15,368	$ (1,000)
Excess of revenues over expenses	$ 16,366	$ 15,366	$ (1,000)
Increase in unrestricted net assets	$ 18,074	$ 17,074	$ (1,000)
Statement of Change in Net Assets			
Unrestricted net assets			
Excess of revenues over expenses	$ 16,366	$ 15,366	$ (1,000)
Increase in unrestricted net assets	$ 18,074	$ 17,074	$ (1,000)
Change in net assets	$ 18,173	$ 17,173	$ (1,000)
Net assets, beginning of year	$ 147,320	$ 145,059	$ (2,261)
Net assets, end of year	$ 165,493	$ 162,232	$ (3,261)
Statement of Cash Flows			
Change in net assets	$ 18,173	$ 17,173	$ (1,000)
Adjustments to reconcile change in net assets to net cash provided by operating activities			
Amortization of entrance fees	$ (9,408)	$ (8,408)	$ 1,000

Supplementary Information

Front Porch Communities & Services
Consolidating Schedule – Balance Sheet Information
March 31, 2014
(In Thousands)

Assets

	Obligated Group	Other Entities	Eliminations	Consolidated
Current Assets				
Cash and cash equivalents	$ 15,025	$ 5,620	$ -	$ 20,645
Short-term investments	11,438	-	-	11,438
Assets limited as to use – required for current liabilities	10,485	4,066	-	14,551
Patient accounts receivable, net	6,315	1,998	-	8,313
Prepaid expenses and other	2,451	502	-	2,953
Intercompany receivables	5,520	1,650	(7,170)	-
Total current assets	51,234	13,836	(7,170)	57,900
Investments				
Assets limited as to use, net of current portion	16,189	2,511	-	18,700
Long-term investments	200,019	-	-	200,019
Derivative instruments	4,179	-	-	4,179
Total investments	220,387	2,511	-	222,898
Property and Equipment, Net	243,766	50,354	-	294,120
Other Assets				
Interest in net assets of Pacific Homes Foundation	10,886	-	-	10,886
Receivables from supporting organizations	11,097	-	-	11,097
Other receivables	1,906	-	-	1,906
Deferred costs, net	6,527	2,571	-	9,098
Other assets	200	302	-	502
Total other assets	30,616	2,873	-	33,489
Total assets	$ 546,003	$ 69,574	$ (7,170)	$ 608,407

Liabilities and Net Assets

	Obligated Group	Other Entities	Eliminations	Consolidated
Current Liabilities				
Current maturities of long-term debt	$ 3,960	$ 1,929	$ -	$ 5,889
Accounts payable	5,862	1,689	(47)	7,504
Accrued payroll and related expenses	9,837	1,211	-	11,048
Intercompany payables	2,704	4,419	(7,123)	-
Accrued interest	4,095	223	-	4,318
Other accrued expenses	5,057	115	-	5,172
Total current liabilities	31,515	9,586	(7,170)	33,931
Asset retirement obligations	1,543	1,233	-	2,776
Accrued workers' compensation	10,320	-	-	10,320
Other accrued liabilities	10,726	2,011	-	12,737
Deferred interest – forward sale agreements	3,707	-	-	3,707
Refundable entrance fees	48,414	-	-	48,414
Deferred revenue from entrance fees	41,700	645	-	42,345
Long-term debt	180,084	82,919	-	263,003
Total liabilities	328,009	96,394	(7,170)	417,233
Net Assets				
Unrestricted	196,686	(26,820)	-	169,866
Temporarily restricted	14,941	-	-	14,941
Permanently restricted	6,367	-	-	6,367
Total net assets	217,994	(26,820)	-	191,174
Total liabilities and net assets	$ 546,003	$ 69,574	$ (7,170)	$ 608,407

Front Porch Communities & Services
Consolidating Schedule – Statement of Operations Information
Year Ended March 31, 2014
(In Thousands)

	Obligated Group	Other Entities	Eliminations	Consolidated
Unrestricted Revenues, Gains and Other Support				
Resident and patient service revenue (net of contractual discounts and allowances)	$ 138,084	$ 29,352	$ (267)	$ 167,169
Provision for uncollectible accounts	(200)	(43)	-	(243)
Resident and net patient service revenue less provision for uncollectible accounts	137,884	29,309	(267)	166,926
Amortization of entrance fees	8,927	8	-	8,935
Other	2,063	-	(1,612)	451
Net assets released from restrictions used for operations	633	45	-	678
Total unrestricted revenues, gains and other support	149,507	29,362	(1,879)	176,990
Expenses				
Medical services	36,910	5,674	-	42,584
Facility operating costs	14,307	3,307	-	17,614
Dietary services	21,669	4,895	(267)	26,297
Residential services	11,901	2,412	-	14,313
Administrative services	31,986	6,376	(1,612)	36,750
Depreciation	18,443	3,420	-	21,863
Amortization of deferred costs	1,106	87	-	1,193
Interest expense and other financing costs	9,007	2,428	-	11,435
Other	822	426	-	1,248
Total expenses	146,151	29,025	(1,879)	173,297
Operating Income	3,356	337	-	3,693
Other Income (Expense)				
Investment return	15,090	8	-	15,098
Loss on extinguishment of debt	(1,294)	-	-	(1,294)
Total other income (expense)	13,796	8	-	13,804
Excess of Revenues over Expenses Before Discontinued Operations	17,152	345	-	17,497
Gain from Discontinued Operations	9,240	-	-	9,240
Excess of Revenues over Expenses	26,392	345	-	26,737
Contributions to affiliates	(471)	471	-	-
Net transfer of excess proceeds from HUD borrowings	29,213	(29,213)	-	-
Net assets released from restriction used for purchases of property and equipment	530	104	-	634
Increase (Decrease) in Unrestricted Net Assets	$ 55,664	$ (28,293)	$ -	$ 27,371

Front Porch Communities & Services
Consolidating Schedule – Statement of Cash Flows Information
Year Ended March 31, 2014
(In Thousands)

	Obligated Group	Other Entities	Eliminations	Consolidated
Operating Activities				
Cash received from contract residents	$ 41,435	$ 209	$ -	$ 41,644
Proceeds from entrance fees received	22,942	-	-	22,942
Cash received from and on behalf of noncontract residents	97,937	25,082	-	123,019
Reimbursement for services to nonresidents	1,190	1,784	-	2,974
Other receipts from operations	2,063	-	(1,612)	451
Unrestricted investment income received	5,597	-	-	5,597
Processing fees	169	-	-	169
Payments on forward sale agreements	(437)	-	-	(437)
Cash paid to suppliers, employees and others	(121,131)	(16,943)	1,612	(136,462)
Cash paid for interest on long-term debt, net of amounts capitalized	(11,110)	(2,069)	-	(13,179)
Net cash provided by operating activities	38,655	8,063	-	46,718
Investing Activities				
Capital expenditures	(23,607)	(5,077)	-	(28,684)
Proceeds from sale of trading investments	60,630	-	-	60,630
Purchase of trading investments	(88,918)	-	-	(88,918)
Purchase of assets limited as to use	(5,101)	(5,505)	-	(10,606)
Proceeds from sale of assets limited as to use	11,178	51	-	11,229
Proceeds from partial termination of derivative financial instrument	4,422	-	-	4,422
Investment in OpCo	(2,274)	2,274	-	-
Investment in Brookmore Apartment Corporation	(200)	-	-	(200)
Deposit received related to sale of The Alhambra	1,115	-	-	1,115
Proceeds from sale of The Alhambra	12,515	-	-	12,515
Transaction costs paid related to sale of The Alhambra	(595)	-	-	(595)
Purchase of capital assets from Obligated Group	-	(75,348)	75,348	-
Proceeds from sale of assets to Real Estate LLCs	75,348	-	(75,348)	-
Net cash provided by investing activities	44,513	(83,605)	-	(39,092)
Financing Activities				
Refunds of entrance fees	(3,204)	-	-	(3,204)
Principal payments on long-term debt	(5,710)	(1,074)	-	(6,784)
Principal payments on refinancing of long-term debt	(79,705)			(79,705)
Proceeds from HUD-insured financing, net of issuance costs	-	81,944	-	81,944
Proceeds from restricted contributions	351	130	-	481
Net cash provided by (used in) financing activities	(88,268)	81,000	-	(7,268)
Net Increase (Decrease) in Cash and Cash Equivalents	(5,100)	5,458	-	358
Cash and Cash Equivalents, Beginning of Year	20,125	162	-	20,287
Cash and Cash Equivalents, End of Year	$ 15,025	$ 5,620	$ -	$ 20,645

	Obligated Group	Other Entities	Eliminations	Consolidated
Supplemental Cash Flows Information				
Property and equipment purchases included in accounts payable	$ 2,858	$ 965	$ -	$ 3,823
Entrance fees included in accounts receivable	$ 531	$ -	$ -	$ 531
Cash Flows from Operating Activities				
Change in net assets	$ 57,235	$ (28,293)	$ -	$ 28,942
Adjustments to reconcile change in net assets to net cash provided by operating activities				
Depreciation	18,443	3,420	-	21,863
Loss on disposal of assets	92	-	-	92
Gain on sale of The Alhambra	(9,200)	-	-	(9,200)
Amortization of deferred costs	1,106	87	-	1,193
Loss on debt refinancing	1,294	-	-	1,294
Net transfer of excess proceeds from HUD borrowings	(29,213)	29,213	-	-
Accretion of asset retirement obligations	243	144	-	387
Amortization of bond premium included in interest expense	(32)	-	-	(32)
Provision for uncollectible accounts	200	43	-	243
Entrance fees received	22,942	-	-	22,942
Amortization of entrance fees	(8,927)	(8)	-	(8,935)
Realized and unrealized gain on investments, net	(16,600)	-	-	(16,600)
Realized and unrealized gain on derivative financial instruments, net	5,998	-	-	5,998
Payments on forward sale	(437)	-	-	(437)
Change in interest in net assets of Pacific Homes Foundation	(1,009)	-	-	(1,009)
Change in receivables from supporting organizations	(660)	-	-	(660)
Contributions restricted by donor	(351)	(130)	-	(481)
Changes in operating assets and operating liabilities				
Accounts receivable, net	2,412	(2,010)	-	402
Prepaid expenses and other current assets	(1,348)	1,040	-	(308)
Due to/from related parties	(542)	542	-	-
Accounts payable and accrued expenses	(3,650)	2,019	-	(1,631)
Other accrued liabilities	659	1,996	-	2,655
Net cash provided by operating activities	$ 38,655	$ 8,063	$ -	$ 46,718