

New Issue – Book Entry Only

Rating†: S&P: “A-”

Fitch: “A”

*In the opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the Authority, based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986, and is exempt from State of California personal income taxes. In the further opinion of Bond Counsel, interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Bond Counsel observes that such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. Bond Counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of, or the amount, accrual or receipt of interest on, the Bonds. See “Tax Matters” herein.*

**\$98,455,000\***

## **CALIFORNIA STATEWIDE COMMUNITIES DEVELOPMENT AUTHORITY**

### **Revenue Bonds**

### **(Front Porch Communities and Services)**

### **Series 2017A**

**Maturities, Principal Amounts, Interest Rates, Yields and CUSIPs are Shown on the Inside Cover**

The Bonds are issuable only as fully-registered bonds, without coupons, in book-entry form, in denominations of \$5,000 or any integral multiple thereof, and when issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York (“DTC”). DTC will act as securities depository for the Bonds. Purchases will be made only in book-entry form through the Participants (as herein defined) in DTC, and no physical delivery of the Bonds will be made to Beneficial Owners (as herein defined) except as described herein.

Principal of and interest on the Bonds will be paid from Revenues pledged under the Bond Indenture, including payments made by Front Porch Communities and Services (the “Corporation”) under the Loan Agreement. The obligation of the Corporation to make such payments under the Loan Agreement is evidenced and secured by the Series 2017A Obligation, issued pursuant to the Master Indenture (each as herein defined), whereunder Members of an obligated group are jointly and severally obligated to make payments on the Series 2017A Obligation in an amount sufficient to pay principal (or Redemption Price) of, and interest on the Bonds when due. The Corporation is currently the only Member of the Obligated Group. Interest on the Bonds is payable on each April 1 and October 1, commencing April 1, 2018.

The Bonds are subject to optional, mandatory and extraordinary redemption prior to maturity as described herein under “THE BONDS – Redemption of the Bonds.”

THE BONDS DO NOT CONSTITUTE A DEBT OR LIABILITY OF THE STATE OF CALIFORNIA OR OF ANY POLITICAL SUBDIVISION THEREOF, OTHER THAN THE AUTHORITY, BUT SHALL BE PAYABLE SOLELY FROM THE FUNDS PROVIDED THEREFOR. THE AUTHORITY SHALL NOT BE OBLIGATED TO PAY THE PRINCIPAL (OR REDEMPTION PRICE) OF THE BONDS OR INTEREST THEREON, EXCEPT FROM THE FUNDS PROVIDED THEREFOR UNDER THE BOND INDENTURE AND NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE STATE OF CALIFORNIA OR OF ANY POLITICAL SUBDIVISION THEREOF, INCLUDING THE AUTHORITY, IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL (OR REDEMPTION PRICE) OR INTEREST ON THE BONDS. THE ISSUANCE OF THE BONDS SHALL NOT DIRECTLY OR INDIRECTLY OR CONTINGENTLY OBLIGATE THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION THEREOF TO LEVY OR TO PLEDGE ANY FORM OF TAXATION OR TO MAKE ANY APPROPRIATION FOR THEIR PAYMENT. THE AUTHORITY HAS NO TAXING POWER. MOREOVER, NEITHER THE AUTHORITY NOR THE PROGRAM PARTICIPANTS SHALL BE LIABLE FOR ANY OTHER COSTS, EXPENSES, LOSSES, DAMAGES, CLAIMS OR ACTIONS, IN CONNECTION WITH THE LOAN AGREEMENT, THE BONDS OR THE BOND INDENTURE, EXCEPT ONLY TO THE EXTENT AMOUNTS ARE RECEIVED FOR THE PAYMENT THEREOF FROM THE CORPORATION UNDER THE LOAN AGREEMENT.

This cover page contains certain information for immediate reference only. It is not intended to be a complete summary of the terms of or security for the Bonds. Investors must read this entire Official Statement, including the Appendices, to obtain information essential to the making of an informed investment decision. Capitalized terms used on this cover page and not defined are defined elsewhere in this Official Statement.

*The Bonds are offered when, as and if issued and received by the Underwriter, subject to prior sale, withdrawal, or modification of the offer without any notice, and to the approval of the validity of the Bonds and certain other legal matters by Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the Authority, and the approval of certain matters for the Authority by Orrick, Herrington & Sutcliffe LLP. Certain legal matters will be passed upon for the Corporation by its counsel, Arnold & Porter Kaye Scholer LLP, San Francisco, California and for the Underwriter by its counsel, Gilmore & Bell, P.C., Kansas City, Missouri. Ponder & Co. has acted as financial advisor to the Corporation in connection with the issuance of the Bonds. It is expected that the Bonds in definitive form will be available for delivery to DTC on or about September \_\_, 2017.*

**BofA MERRILL LYNCH**

The date of this Official Statement is August \_\_, 2017.

\* Preliminary, subject to change.

† For an explanation of the ratings on the Bonds, see “RATINGS” herein.

front porch

## MATURITY SCHEDULE

**\$98,455,000\***

**CALIFORNIA STATEWIDE COMMUNITIES DEVELOPMENT AUTHORITY**

**Revenue Bonds**

**(Front Porch Communities and Services)**

**Series 2017A**

**Date of Delivery: September \_\_, 2017**

### Serial Bonds

<b><u>Maturity</u></b> <b><u>(April 1)</u></b>	<b><u>Principal</u></b> <b><u>Amount</u></b>	<b><u>Interest Rate</u></b>	<b><u>Yield</u></b>	<b><u>CUSIP®</u></b>
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\$ _____	* _____	% Term Bonds due April 1, 20__	Yield _____	% CUSIP® _____
\$ _____	* _____	% Term Bonds due April 1, 20__	Yield _____	% CUSIP® _____

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\* *Preliminary*, subject to change.

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# FRONT PORCH COMMUNITIES AND SERVICES

## Retirement Communities



**Carlsbad By The Sea\***  
2855 Carlsbad Blvd.  
Carlsbad, CA 92008



**Casa de Mañana**  
849 Coast Blvd.  
La Jolla, CA 92037



**Claremont Manor**  
650 Harrison Ave.  
Claremont, CA 91711



**Fredericka Manor**  
183 Third Ave.  
Chula Vista, CA 91910



**Kingsley Manor**  
1055 N. Kingsley Dr.  
Los Angeles, CA 90029



**Sunny View\***  
22445 Cupertino Rd.  
Cupertino, CA 95014



**Villa Gardens\***  
842 E. Villa St.  
Pasadena, CA 91101



**Vista del Monte\***  
3775 Modoc Rd.  
Santa Barbara, CA 93105



**Walnut Village\***  
891 S. Walnut St.  
Anaheim, CA 92802

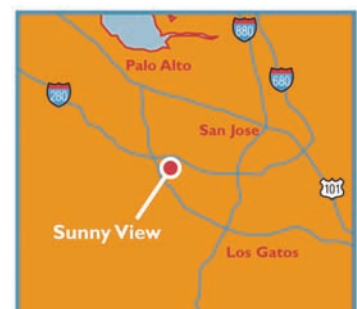


**Wesley Palms\***  
2404 Loring St.  
San Diego, CA 92109

\* Obligated Group Communities



Note: Maps not to scale.



## Active Adult Communities



**Cecil Pines\***  
6008 Lake Cove Ave.  
Jacksonville, FL 32221



**England Oaks\***  
6956 England Dr.  
Alexandria, LA 71303



\*Obligated Group Communities

## Affordable Housing

### Communities for Families

Access Village<sup>+</sup>  
1730 N. Towne Ave.  
Claremont, CA 91711  
<sup>+</sup>Head of household must have mobility disability

Casa de Canoga  
20727 S. Vanowen St.  
Canoga Park, CA 91306

Foster Avenue Apartments  
13630 Foster Ave.  
Baldwin Park, CA 91706

Simpson Arbor Apartments  
7507 Simpson Ave.  
North Hollywood, CA 91605

Towne Square Apartments  
11650 Towne Ave.  
Los Angeles, CA 90061

### Communities for Seniors

Emerson Village  
755 N. Palomares St.  
Pomona, CA 91767

Good Shepherd Homes  
510-512 Centinella Ave.  
Inglewood, CA 90302

Good Shepherd Manor  
4411 11th Avenue  
Los Angeles, CA 90043

La Pintoresca  
1275 N. La Pintoresca  
Pasadena, CA 91103

Long Beach  
Lutheran Towers  
2340 E. Fourth St.  
Long Beach, CA 90814

Pilgrim Tower for the  
Deaf and Elderly  
1207 S. Vermont Ave.  
Los Angeles, CA 90006

Seaview Lutheran Plaza  
2800 Pacific View Dr.  
Corona del Mar, CA 92625

South Bay  
Retirement Residence  
1001 W. Cressey St.  
Compton, CA 90222

St. John's Manor  
7215 N. 51st Ave.  
Glendale, AZ 85301

Sunny View West  
22449 Cupertino Rd.  
Cupertino, CA 95014

Vista Towers  
3000 Leeward Ave.  
Los Angeles, CA 90005

### Communities for People Who Have Been Diagnosed as Chronically Mentally Ill 'Homes for Life'

Ashtabula Homes  
386 E. Ashtabula St.  
Pasadena, CA 91104

Garden Villas  
5530 Klump Ave.  
North Hollywood, CA 91601

Harbor Gateway A  
1418 W. 218th St.  
Los Angeles, CA 90501

Harbor Gateway B  
1435 W. 223rd St.  
Los Angeles, CA 90501

Harbor Gateway C  
21218 Mariposa Ave.  
Torrance, CA 90502

Palms Court  
3819 Motor Ave.  
Culver City, CA 90232

Sequoia Apartments  
14404 Hamlin St.  
Van Nuys, CA 91401

Van Nuys Apartments  
13457 Vanowen St.  
Van Nuys, CA 91405

Vanowen Apartments  
14419 Vanowen St.  
Van Nuys, CA 91405

## **REGARDING USE OF THIS OFFICIAL STATEMENT**

Except for information concerning the Authority that appears under “THE AUTHORITY,” and “LITIGATION – The Authority,” none of the information in this Official Statement has been supplied or verified by the Authority, and the Authority takes no responsibility for and makes no representation or warranty, express or implied, as to the accuracy or completeness of such information. The information and expressions of opinion in this Official Statement are subject to change without notice and neither the delivery of this Official Statement nor any sale of the Bonds made hereunder shall, under any circumstances, create any indication that there has been no change in the affairs of the Authority, the Corporation or DTC since the date hereof.

The Underwriter has reviewed the information in this Official Statement in accordance with, and as part of, its responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy or completeness of that information.

No dealer, broker, salesman or other person has been authorized by the Authority, the Corporation or the Underwriter to give any information or to make any representations, other than those contained in this Official Statement, and, if given or made, such other information or representations must not be relied upon as having been authorized by any of the foregoing. Statements contained in this Official Statement which involve estimates, forecasts or matters of opinion, whether or not expressly so described, are intended solely as such and are not to be construed as a representation of fact.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITER MAY EFFECT CERTAIN TRANSACTIONS THAT STABILIZE THE PRICE OF THE BONDS. SUCH TRANSACTIONS MAY CONSIST OF BIDS OR PURCHASES FOR THE PURPOSES OF MAINTAINING THE PRICE OF THE BONDS. IN ADDITION, IF THE UNDERWRITER OVERALLOTS (THAT IS, SELLS MORE THAN THE AGGREGATE PRINCIPAL AMOUNT OF THE BONDS SET FORTH ON THE COVER PAGE OF THIS OFFICIAL STATEMENT) AND THEREBY CREATES A SHORT POSITION IN SUCH BONDS IN CONNECTION WITH THE OFFERING, THE UNDERWRITER MAY REDUCE THAT SHORT POSITION BY PURCHASING BONDS IN THE OPEN MARKET. IN GENERAL, PURCHASES OF A SECURITY FOR THE PURPOSE OF STABILIZATION OR TO REDUCE A SHORT POSITION COULD CAUSE THE PRICE OF A SECURITY TO BE HIGHER THAN IT MIGHT OTHERWISE BE IN THE ABSENCE OF SUCH PURCHASES. THE UNDERWRITER MAKES NO REPRESENTATION OR PREDICTION AS TO THE DIRECTION OR THE MAGNITUDE OF ANY EFFECT THAT THE TRANSACTIONS DESCRIBED ABOVE MAY HAVE ON THE PRICE OF THE BONDS. IN ADDITION, THE UNDERWRITER MAKES NO REPRESENTATION THAT THEY WILL ENGAGE IN SUCH TRANSACTIONS OR THAT SUCH TRANSACTIONS, IF COMMENCED, WILL NOT BE DISCONTINUED WITHOUT NOTICE.

**NEITHER THE BONDS NOR ANY OTHER SECURITY RELATING TO THE BONDS HAS BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AND NEITHER THE BOND INDENTURE NOR THE MASTER INDENTURE HAS BEEN QUALIFIED UNDER THE TRUST INDENTURE ACT OF 1939, IN RELIANCE UPON EXEMPTIONS CONTAINED IN SUCH ACTS. THE EXEMPTIONS FROM REGISTRATION AND FROM QUALIFICATION IN ACCORDANCE WITH APPLICABLE PROVISIONS OF FEDERAL OR STATE SECURITIES LAWS CANNOT BE REGARDED AS A RECOMMENDATION THEREOF. NO STATE NOR ANY AGENCY THEREOF HAS PASSED UPON THE MERITS OF THE BONDS OR ANY RELATED SECURITY OR THE ACCURACY OR COMPLETENESS OF THIS OFFICIAL STATEMENT. ANY REPRESENTATION TO THE CONTRARY MAY BE A CRIMINAL OFFENSE.**

### **CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS**

This Official Statement contains “forward-looking statements.” These forward-looking statements include statements about the Corporation’s future plans and strategies, and other statements that are not historical in nature. These forward-looking statements are based on the current expectations of management of the Corporation. Forward-looking statements involve future risks and uncertainties that could cause actual results and experience to differ materially from the anticipated results or other expectations expressed in forward-looking statements. These future risks and uncertainties include those discussed in the “BONDHOLDERS’ RISKS” section of this Official Statement. The Corporation undertakes no obligation to update any forward-looking statements contained in this Official Statement to reflect future events or developments.



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## SUMMARY STATEMENT

The information set forth in this Summary Statement is subject in all respects to more complete information set forth elsewhere in this Official Statement, which should be read in its entirety. The offering of the Bonds to potential investors is made only by means of this entire Official Statement. No person is authorized to detach this Summary Statement from this Official Statement or otherwise to use it without this entire Official Statement. Certain capitalized terms used in this Summary Statement and not otherwise defined herein are defined in Appendix C or elsewhere in this Official Statement.

### The Bonds

The California Statewide Communities Development Authority (the “Authority”) is issuing its \$98,455,000\* aggregate principal amount of Revenue Bonds (Front Porch Communities and Services), Series 2017A (the “Bonds”). The Bonds will be issued pursuant to a Bond Indenture, dated as of September 1, 2017 (the “Bond Indenture”), between the Authority and The Bank of New York Mellon Trust Company, N.A., as bond trustee (the “Bond Trustee”). The Authority will loan the proceeds of the Bonds to Front Porch Communities and Services (the “Corporation”) pursuant to a Loan Agreement dated as of September 1, 2017 (the “Loan Agreement”) between the Authority and the Corporation. A description of the Bonds is contained in this Official Statement under the caption “THE BONDS.”

### The Corporation and the Obligated Group

The Corporation is a California nonprofit public benefit corporation and the sole member of an Obligated Group (the “Obligated Group”) established under the Master Trust Indenture dated as of September 1, 2017 (the “Master Indenture”), between the Corporation and The Bank of New York Mellon Trust Company, N.A., as master trustee (the “Master Trustee”).

The Corporation provides housing and services to residents of its senior living and active adult communities and supports development and management of affordable housing for seniors, families and persons with disabilities. The Corporation has received a determination letter from the Internal Revenue Service stating that it is exempt from federal income tax under Section 501(a) of the Internal Revenue Code of 1986, as amended (the “Code”), as an organization described in Section 501(c)(3) of the Code. For more information concerning the history, governance, organization, communities, operations and financial performance of the Corporation, see Appendix A.

### Plan of Finance

The proceeds of the Bonds will be used to: (1) partially finance the acquisition, construction, improvement, renovation and equipping of the Corporation’s Community located in Pasadena, California (the “Villa Gardens Project”); (2) refund the Authority’s \$73,000,000 original aggregate principal amount Revenue Bonds (Front Porch Communities and Services), Series 2007A (the “Series 2007A Bonds”), all of which currently remains outstanding, and \$35,000,000 original aggregate principal amount Variable Rate Revenue Bonds (Front Porch Communities and Services), Series 2012 (the “Series 2012 Bonds” and, collectively with the Series 2007A Bonds, the “Refunded Bonds”), \$32,000,000 of which currently remains outstanding; and (3) pay certain expenses of issuing the Bonds and the refunding of the Refunded Bonds.

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\* Preliminary, subject to change.

See “PLAN OF FINANCE” for a discussion of the Villa Gardens Project and the refunding of the Refunded Bonds. See “OTHER FINANCING TRANSACTIONS” for a description of certain other transactions expected to occur around the time of the issuance of the Bonds.

### **Security for the Bonds**

The Bonds are limited obligations of the Authority payable solely from Revenues received by the Bond Trustee under the Bond Indenture. Revenues generally consist of Loan Repayments to be made by the Corporation under the Loan Agreement. The Corporation’s obligations under the Loan Agreement will be secured by Master Indenture Obligation No. 3 (the “Series 2017A Obligation”) in the original principal amount of \$98,455,000\*, issued under Supplement No. 3 pursuant to the Master Indenture. The Authority will pledge and assign certain of its rights under the Loan Agreement and the Series 2017A Obligation to the Bond Trustee as security for the Bonds.

Pursuant to the Master Indenture, each Member of the Obligated Group, so long as any of the Master Indenture Obligations remain outstanding, agrees to deposit all of the Gross Revenues of the Obligated Group with a depository bank or banks in a fund designated as the “Gross Revenue Fund” and, subject to the provisions of the Master Indenture permitting application of the Gross Revenues for the purposes and upon the terms and conditions set forth therein, shall grant a security interest (to the extent permitted by law) to the Master Trustee in all of its right, title, and interest in the Gross Revenue Fund and all of the Gross Revenues of the Obligated Group to secure the required payments and the performance by the Members of the Obligated Group of their obligations under the Master Indenture. See “MASTER INDENTURE – Gross Revenues” in Appendix C.

“Gross Revenues” means, unless the context provides otherwise, all revenues, income, receipts and money received in any period by the Obligated Group (other than the proceeds of borrowing and other moneys received from the operation of, or pertaining to, the HUD Facilities, except with the express written consent of HUD), including, but without limiting the generality of the foregoing, (a) gross revenues derived from its or their operation of the facilities owned and/or operated by the Obligated Group Members, (b) gifts, grants, bequests, donations and contributions exclusive of any gifts, grants, bequests, donations and contributions to the extent specifically restricted by the donor to a particular purpose inconsistent with their use for the payment of principal of, redemption premium, if any, and interest on Indebtedness or for the payment of operating expenses, (c) proceeds derived from (1) insurance and condemnation proceeds, (2) accounts receivable, (3) securities and other investments, (4) inventory and other tangible and intangible property, (5) medical or hospital insurance or indemnity programs or agreements, and (6) contract rights and other rights and assets now or hereafter owned, held or possessed by or on behalf of any Obligated Group Member, and (d) rentals received from the lease of office space.

In the Loan Agreement, the Corporation agrees to make the Loan Repayments to the Bond Trustee, which payments, in the aggregate, are required to be in an amount sufficient for the payment in full of all amounts payable with respect to the Bonds, including the total interest payable on the Bonds to the respective dates of maturity of the Bonds or earlier redemption, the principal (or Redemption Price) of the Bonds, less any amounts available for such payment as provided in the Bond Indenture. The Bonds are otherwise payable from investment earnings and proceeds of insurance or condemnation awards, each in the manner and to the extent set forth in the Bond Indenture. See “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS.”

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\* Preliminary, subject to change.



Neither the Bonds nor the Series 2017A Obligation is currently secured by a mortgage, deed of trust or any other pledge of real property, and the Master Indenture does not contain any covenant or requirement that the Corporation provide any such security for the holders of Master Indenture Obligations. See “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS – The Master Indenture – *Security Interest in Gross Revenues*” for a description of the Corporation’s pledge of Gross Revenues and the Gross Revenue Fund.

### **Other Master Indenture Obligations**

On the date of the issuance of the Bonds, the Corporation, as Obligated Group Representative, will issue Master Indenture Obligation No. 1 and Master Indenture Obligation No. 2 (together, the “Series 2015 Master Indenture Obligations”) to secure the Corporation’s obligations related to the Authority’s Variable Rate Revenue Bonds (Front Porch Communities and Services – Wesley Palms Project) Series 2015 (the “Series 2015 Bonds”) and the Amended and Restated Credit Agreement with Compass Mortgage Corporation dated as of September 1, 2017 (the “Amended and Restated Compass Credit Agreement”) related to the Series 2015 Bonds, respectively. After the issuance of the Bonds and the related Series 2017A Obligation under the Master Indenture, the Corporation expects to issue Master Indenture Obligation No. 4 and Master Indenture Obligation No. 5 (together, the “Series 2017B Obligations,” and together with the Series 2015 Master Indenture Obligations, the “Direct Purchase Bonds Master Indenture Obligations”) to secure the Corporation’s obligations related to the Authority’s Variable Rate Revenue Bonds (Front Porch Communities and Services – Wesley Palms Project) Series 2017B (the “Series 2017B Bonds,” and together with the Series 2015 Bonds, the “Direct Purchase Bonds”) and the Credit Agreement with Compass Mortgage Corporation related to the Series 2017B Bonds (the “Series 2017B Compass Credit Agreement,” and together with the Amended and Restated Compass Credit Agreement, the “Direct Purchase Bonds Credit Agreements”). The Series 2015 Bonds were issued in 2015 as draw-down bonds in an amount not to exceed \$72,000,000. The Series 2017B Bonds are expected to be issued before the end of calendar year 2017 as draw-down bonds in an amount not to exceed \$21,500,000. The Series 2015 Bonds were, and the Series 2017B Bonds are expected to be, purchased by Compass Mortgage Corporation in direct purchase transactions. See “FINANCIAL INFORMATION – The Financing for the Wesley Palms Project” in Appendix A. See “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS – Additional Covenants Related to the Direct Purchase Bonds.” After the issuance of the Bonds and the planned issuance of the Series 2017B Bonds, the Corporation would have Outstanding Master Indenture Obligations in the aggregate principal amount of \$191,955,000.\*

### **Certain Covenants of the Corporation**

*Debt Service Coverage.* The Master Indenture requires that the Obligated Group maintain an Annual Debt Service Coverage Ratio for each Fiscal Year, commencing April 1, 2017, of not less than 1.2:1.0. An Event of Default under the Master Indenture will be triggered if the Annual Debt Service Coverage Ratio for any Fiscal Year is less than 1.0:1.0. See “MASTER INDENTURE – Debt Service Coverage” in Appendix C.

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\* *Preliminary*, subject to change.

*Additional Indebtedness.* Indebtedness in addition to the Bonds may be incurred by Obligated Group Members and secured on a parity with Master Indenture Obligations for the purposes, upon the terms and subject to the conditions provided in the Master Indenture. Each Master Indenture Obligation will be the primary obligation of the Obligated Group Members and each Member will be jointly and severally obligated for the payment of any and all amounts payable under the Master Indenture Obligation. Subject to the conditions therein, the Master Indenture also permits Obligated Group Members to incur secured and unsecured indebtedness in addition to Master Indenture Obligations and to enter into Guarantees. See “MASTER INDENTURE – Limitation on Indebtedness” in Appendix C.

*Negative Pledge.* Each Obligated Group Member agrees that it will not create or suffer to be created or permit the existence of any Lien upon Property now owned or hereafter acquired by it other than Permitted Liens (including the pledge of Gross Revenues and the Gross Revenue Fund described herein). See “MASTER INDENTURE – Against Encumbrances” in Appendix C.

### **Bondholders’ Risks**

There are risks associated with the purchase of the Bonds. See the information under “BONDHOLDERS’ RISKS” herein for a discussion of certain of these risks.

### **Continuing Disclosure**

Pursuant to the terms of the Continuing Disclosure Agreement the Corporation has agreed to provide certain quarterly and annual financial and operating information regarding the Corporation as described under “CONTINUING DISCLOSURE.” The form of the Continuing Disclosure Agreement is attached as Appendix E.

*[Remainder of page intentionally left blank.]*

## Debt Service Coverage and Liquidity Ratios

The following table sets forth, for the Fiscal Years ended March 31, 2015, 2016 and 2017, the historical pro forma Debt Service Coverage Ratio based upon the consolidated audited financial statements of the Corporation, assuming, for purposes of calculating Pro Forma Maximum Annual Debt Service, that the Series 2017A Bonds and the Series 2017B Bonds are issued, the Series 2007A Bonds and the Series 2012 Bonds are refunded, and the Cash Redeemed Prior Debt is redeemed with cash, all as of the first day of the Fiscal Year ended March 31, 2015. The Debt Service Coverage Ratio and Maximum Annual Debt Service are calculated in accordance with the definitions contained in the Master Indenture.

### Historical Pro Forma MADS Coverage Ratio (Dollars in thousands)

Item	Consolidated Operations Fiscal Year ended March 31			Obligated Group Fiscal Year ended March 31		
	2015	2016	2017	2015	2016	2017
<b>Excess of revenues over expenses</b>	\$20,036	\$(6,085)	\$23,074	\$22,029	\$(7,799)	\$17,246
<b>Additions:</b>						
Depreciation	24,204	24,553	24,641	17,087	15,819	15,897
Amortization of Deferred Costs	1,179	1,374	1,362	1,003	1,153	1,147
Interest Expense	9,980	9,422	9,786	6,201	4,823	5,363
Entrance Fees Received	27,234	21,555	25,489	27,234	21,555	25,490
Unrealized Losses (Gains)	(3,744)	15,102	(5,093)	(3,744)	15,102	(5,093)
Asset Impairment	2,751	652	356	2,751	652	356
Loss on extinguishment of debt	617	0	0	617	0	0
<b>Deductions:</b>						
Refunds of Entrance Fees	(3,935)	(7,643)	(6,112)	(3,935)	(7,643)	(6,113)
Amortization of Entrance Fees	(9,917)	(10,884)	(10,103)	(9,907)	(10,875)	(10,095)
Amortization of Deferred Interest Income	(437)	(437)	(437)	(437)	(437)	(437)
<b>Total Income Available for Debt Service</b>	67,968	47,609	62,963	58,899	32,350	43,761
<b>Pro Forma MADS <sup>(1)</sup></b>	18,878	18,878	18,878	12,371	12,371	12,371
<b>Historical Pro Forma MADS Coverage Ratio</b>	<b>3.60</b>	<b>2.52</b>	<b>3.34</b>	<b>4.76</b>	<b>2.61</b>	<b>3.54</b>

<sup>(1)</sup> Preliminary, subject to change. Historical Proforma MADS is calculated using the following assumptions: (a) the Series 2017A Bonds will be issued in the amount of \$98.455 million and will bear interest at an assumed average coupon rate of 4.94%; (b) the Series 2015 Bonds are outstanding in the maximum principal amount of \$72.0 million and bear interest at 3.70% (*The Bond Buyer's* Thirty-Year Revenue Bond Index as of July 20, 2017) with level debt service payments over 22 years, (c) the Series 2017B Bonds are issued and outstanding in the maximum principal amount of \$21.5 million and bear interest using the same interest rate and payment terms as the Series 2015 Bonds, and (d) the Cash Redeemed Prior Debt is no longer outstanding. The Series 2017B Bonds are described in the Official Statement under the caption "OTHER FINANCING TRANSACTIONS – The Series 2017B Direct Purchase Bonds."

The following table sets forth Days Cash on Hand for the Consolidated Group and the Obligated Group as of March 31, 2015, 2016 and 2017, based upon the audited consolidated financial statements of the Corporation.

**Days Cash on Hand**  
(Dollars in thousands)

Item	Consolidated Operations As of March 31			Obligated Group As of March 31		
	2015	2016	2017	2015	2016	2017
Cash and cash equivalents	\$30,145	\$19,906	\$16,317	\$25,799	\$13,549	\$11,837
Short term investment	3,209	6,680	11,330	3,209	6,680	11,330
Long term investment	229,223	238,598	272,720	229,223	238,598	272,720
Total unrestricted cash & investment	262,577	265,184	300,367	258,231	258,827	295,887
Operating expenses before redevelopment costs	182,816	189,234	192,556	127,503	119,841	122,999
Less: depreciation	(24,204)	(24,553)	(24,641)	(17,087)	(15,819)	(15,897)
Less: amortization of deferred cost	(1,179)	(1,374)	(1,362)	(1,003)	(1,153)	(1,147)
Operating expenses less depr & amort	157,433	163,307	166,553	109,413	102,869	105,955
Divided # days per year	365	366	365	365	366	365
Daily avg oper exp excl depr & amort	431	446	456	300	281	290
<b>Days Cash on Hand</b>	<b>609</b>	<b>597</b>	<b>658</b>	<b>861</b>	<b>921</b>	<b>1,019</b>

The following table sets forth Cash to Debt Ratios for the Consolidated Group and the Obligated Group as of March 31, 2015, 2016 and 2017, based upon the audited consolidated financial statements of the Corporation.

**Cash to Debt**  
*(Dollars in thousands)*

<b>Item</b>	<b>Consolidated Operations As of March 31</b>			<b>Obligated Group As of March 31</b>		
	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>
Cash and cash equivalents	\$30,145	\$19,906	\$16,317	\$25,799	\$13,549	\$11,837
Short-term investments	3,209	6,680	11,330	3,209	6,680	11,330
Long-term investments	229,223	238,598	272,720	229,223	238,598	272,720
Unrestricted cash & investments	262,577	265,184	300,367	258,231	258,827	295,887
Long Term Indebtedness <sup>(1)</sup>	\$268,483	\$279,882	\$298,793	\$150,713	\$164,979	\$186,857
<b>Cash to debt ratio</b>	<b>0.98</b>	<b>0.95</b>	<b>1.01</b>	<b>1.71</b>	<b>1.57</b>	<b>1.58</b>

<sup>(1)</sup> Long-Term Indebtedness shown includes unamortized debt issuance costs, which are excluded from the Consolidated Group and Obligated Group balance sheets shown in Appendix A in accordance with accounting principles generally accepted in the United States of America, and excludes approximately \$5,000,000 of Series 2007A Bonds owned by the Corporation.

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## **OFFICIAL STATEMENT**

**\$98,455,000\***

### **CALIFORNIA STATEWIDE COMMUNITIES DEVELOPMENT AUTHORITY**

#### **Revenue Bonds**

#### **(Front Porch Communities and Services)**

#### **Series 2017A**

### **INTRODUCTION**

This Introduction is intended only to serve as a brief description of this Official Statement and is expressly qualified by reference to the Official Statement as a whole, as well as the documents summarized or described herein. All capitalized terms used in this Official Statement and not otherwise defined herein are defined in Appendix C. The Official Statement speaks only as of its date, and the information contained herein is subject to change. The descriptions and summaries of various documents hereinafter set forth do not purport to be comprehensive or definitive, and reference is made to each document for the complete details of all terms and conditions. All statements herein regarding any such documents are qualified in their entirety by reference to such documents.

### **The Bonds**

The California Statewide Communities Development Authority (the “Authority”) is issuing its \$98,455,000\* aggregate principal amount of Revenue Bonds (Front Porch Communities and Services), Series 2017A (the “Bonds”). The Bonds will be issued pursuant to a Bond Indenture, dated as of September 1, 2017 (the “Bond Indenture”), between the Authority and The Bank of New York Mellon Trust Company, N.A., as bond trustee (the “Bond Trustee”). The Authority will loan the proceeds of the Bonds to Front Porch Communities and Services (the “Corporation”) pursuant to a Loan Agreement dated as of September 1, 2017 (the “Loan Agreement”) between the Authority and the Corporation. A description of the Bonds is contained in this Official Statement under the caption “THE BONDS.”

The proceeds of the Bonds will be loaned to the Corporation to: (1) partially finance the acquisition, construction, improvement, renovation and equipping of the Corporation’s Community located in Pasadena, California (the “Villa Gardens Project”); (2) refund the Authority’s (i) \$73,000,000 original aggregate principal amount Revenue Bonds (Front Porch Communities and Services), Series 2007A (the “Series 2007A Bonds”), all of which currently remains outstanding, and (ii) \$35,000,000 original aggregate principal amount Variable Rate Revenue Bonds (Front Porch Communities and Services), Series 2012 (the “Series 2012 Bonds” and, together with the Series 2007A Bonds, the “Refunded Bonds”), \$32,000,000 of which currently remains outstanding; and (3) pay certain expenses of issuing the Bonds and the refunding of the Refunded Bonds. See “PLAN OF FINANCE.”

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\* Preliminary, subject to change.

## **The Corporation and the Obligated Group**

The Corporation is a California nonprofit public benefit corporation and the sole member of an Obligated Group (the “Obligated Group”) established under the Master Trust Indenture dated as of September 1, 2017 (the “Master Indenture”), between the Corporation and The Bank of New York Mellon Trust Company, N.A., as master trustee (the “Master Trustee”).

The Corporation provides housing and services to residents of its senior living and active adult communities and supports development and management of affordable housing for seniors, families and persons with disabilities. The Corporation has received a determination letter from the Internal Revenue Service stating that it is exempt from federal income tax under Section 501(a) of the Internal Revenue Code of 1986, as amended (the “Code”), as an organization described in Section 501(c)(3) of the Code. For more information concerning the history, governance, organization, communities, operations and financial performance of the Corporation, see Appendix A.

## **Security for the Bonds**

The Bonds are limited obligations of the Authority payable solely from Revenues received by the Bond Trustee under the Bond Indenture. Revenues generally consist of Loan Repayments to be made by the Corporation under the Loan Agreement. The Corporation’s obligations under the Loan Agreement will be secured by Obligation No. 3 (the “Series 2017A Obligation”) in the original principal amount of \$98,455,000\*, issued under Supplement No. 3 pursuant to the Master Indenture. The Authority will pledge and assign certain of its rights under the Loan Agreement and the Series 2017A Obligation to the Bond Trustee as security for the Bonds.

Pursuant to the Master Indenture, each Member of the Obligated Group, so long as any of the Master Indenture Obligations remain outstanding, agrees to deposit all of the Gross Revenues of the Obligated Group with a depository bank or banks in a fund designated as the “Gross Revenue Fund” and, subject to the provisions of the Master Indenture permitting application of the Gross Revenues for the purposes and upon the terms and conditions set forth therein, shall grant a security interest (to the extent permitted by law) to the Master Trustee in all of its right, title, and interest in the Gross Revenue Fund and all of the Gross Revenues of the Obligated Group to secure the required payments and the performance by the Members of the Obligated Group of their Master Indenture Obligations under the Master Indenture, and such pledge will be secured by a deposit account control agreement entered into among each Obligated Group Member, the depository bank or banks, and the Master Trustee. See “Master Indenture – Gross Revenues” in Appendix C.

In the Loan Agreement, the Corporation agrees to make the Loan Repayments to the Bond Trustee, which payments, in the aggregate, are required to be in an amount sufficient for the payment in full of all amounts payable with respect to the Bonds, including the total interest payable on the Bonds to the respective dates of maturity of the Bonds or earlier redemption, the principal (or Redemption Price) of the Bonds, less any amounts available for such payment as provided in the Bond Indenture. The Bonds are otherwise payable from investment earnings and proceeds of insurance or condemnation awards, each in the manner and to the extent set forth in the Bond Indenture. See “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS.”

Neither the Bonds nor the Series 2017A Obligation is currently secured by a mortgage, deed of trust or any other pledge of real property, and the Master Indenture does not contain any covenant or requirement that the Corporation provide any such security for the holders of Master Indenture Obligations. See “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS – The Master Indenture – *Security Interest in Gross Revenues*” for a description of the Corporation’s pledge of Gross Revenues and the Gross Revenue Fund.

### **Other Master Indenture Obligations**

On the date of the issuance of the Bonds, the Corporation, as Obligated Group Representative, will issue Master Indenture Obligation No. 1 and Master Indenture Obligation No. 2 (together, the “Series 2015 Master Indenture Obligations”) to secure the Corporation’s obligations related to the Authority’s Variable Rate Revenue Bonds (Front Porch Communities and Services – Wesley Palms Project) Series 2015 (the “Series 2015 Bonds”) and the Amended and Restated Credit Agreement with Compass Mortgage Corporation dated as of September 1, 2017 (the “Amended and Restated Compass Credit Agreement”) related to the Series 2015 Bonds, respectively. After the issuance of the Bonds and the related Series 2017A Obligation under the Master Indenture, the Corporation expects to issue Master Indenture Obligation No. 4 and Master Indenture Obligation No. 5 (together, the “Series 2017B Obligations,” and together with the Series 2015 Master Indenture Obligations, the “Direct Purchase Bonds Master Indenture Obligations”) to secure the Corporation’s obligations related to the Authority’s Variable Rate Revenue Bonds (Front Porch Communities and Services – Wesley Palms Project) Series 2017B (the “Series 2017B Bonds,” and together with the Series 2015 Bonds, the “Direct Purchase Bonds”) and the Credit Agreement with Compass Mortgage Corporation related to the Series 2017B Bonds (the “Series 2017B Compass Credit Agreement,” and together with the Amended and Restated Compass Credit Agreement, the “Direct Purchase Bonds Credit Agreements”). The Series 2015 Bonds were issued in 2015 as draw-down bonds in an amount not to exceed \$72,000,000. The Series 2017B Bonds are expected to be issued before the end of calendar year 2017 as draw-down bonds in an amount not to exceed \$21,500,000. The Series 2015 Bonds were, and the Series 2017B Bonds are expected to be, purchased by Compass Mortgage Corporation in direct purchase transactions. See “FINANCIAL INFORMATION – The Financing for the Wesley Palms Project” in Appendix A. See “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS – Additional Covenants Related to the Direct Purchase Bonds.” After the issuance of the Bonds and the planned issuance of the Series 2017B Bonds, the Corporation would have Outstanding Master Indenture Obligations in the aggregate principal amount of \$191,955,000.\*

Subject to the conditions contained therein, the Master Indenture also permits the Corporation and future Members of the Obligated Group to incur secured and unsecured indebtedness in addition to the Master Indenture Obligations and to enter into Guaranties. See “MASTER INDENTURE – Limitation on Indebtedness” and “– Against Encumbrances” in Appendix C.

### **Bondholders’ Risks**

There are risks associated with the purchase of the Bonds. See the information under “BONDHOLDERS’ RISKS” herein for a discussion of certain of these risks.

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\* *Preliminary*, subject to change.

## **Continuing Disclosure**

Pursuant to the terms of the Master Indenture and the Continuing Disclosure Agreement the Corporation has agreed to provide certain quarterly and annual financial and operating information regarding the Corporation as described under “CONTINUING DISCLOSURE.” The form of the Continuing Disclosure Agreement is attached as Appendix E.

## **THE AUTHORITY**

The Authority is a joint powers agency organized pursuant to a Joint Powers Agreement among a number of California counties, cities and special districts entered into pursuant to the provisions relating to the joint exercise of powers contained in Chapter 5 of Division 7 of Title 1 (commencing with Section 6500) of the California Government Code. The Authority is authorized to participate in financings for the benefit of certain organizations described under Section 501(c)(3) of the Internal Revenue Code of 1986 (the “Code”).

The Authority has entered into, sold and delivered obligations, and will in the future enter into, sell and deliver obligations, other than the Bonds, which other obligations are and will be secured by instruments separate and apart from the Bond Indenture and the Loan Agreement. The holders of such obligations of the Authority have no claim on the security for the Bonds and the holders of the Bonds will have no claim on the security of such other obligations issued by the Authority.

## **PLAN OF FINANCE**

### **General**

The Authority will loan the proceeds of the Bonds to the Corporation pursuant to the Loan Agreement, which proceeds, together with other available moneys, will be used to (1) pay a portion of the costs of the Villa Gardens Project, (2) refund the Refunded Bonds, and (3) pay certain expenses of issuing the Bonds and the refunding of the Refunded Bonds.

### **The Refundings**

A portion of the proceeds of the Bonds will be used to refund the Refunded Bonds. The refundings are part of a comprehensive plan by the Corporation to: 1) reduce its interest expense on fixed rate bonds; 2) reduce its exposure to variable interest rate debt; and 3) reduce future debt service spikes.

*Series 2007A Bonds.* The Authority issued the Series 2007A Bonds on June 6, 2007, in the original principal amount of \$73,000,000, all of which is outstanding as of the date of this Official Statement. The proceeds of the Series 2007A Bonds were loaned to the Corporation and used to finance and refinance the acquisition, construction and equipping of capital improvements at the Corporation’s Community in Anaheim, California known as “Walnut Village.” A portion of the proceeds of the Bonds will be deposited with the bond trustee for the Series 2007A Bonds and used to redeem the Series 2007A Bonds, within approximately 30 days of the issuance of the Bonds, at a redemption price of 100% of the principal amount thereof plus accrued and unpaid interest to the redemption date thereof.

*Series 2012 Bonds.* The Authority issued the Series 2012 Bonds on June 28, 2012, in the original principal amount of \$35,000,000, \$32,000,000 of which is outstanding as of the date of this Official Statement. The Series 2012 Bonds were purchased by Compass Mortgage Corporation in a direct purchase transaction. The proceeds of the Series 2012 Bonds were loaned to the Corporation and used to refinance the acquisition, construction and equipping of capital improvements at Walnut Village. A portion of the proceeds of the Bonds will be deposited with the bond trustee for the Series 2012 Bonds and used to redeem the Series 2012 Bonds, concurrently with the issuance of the Bonds, at a redemption price of 100% of the principal amount thereof plus accrued and unpaid interest to the redemption date thereof.

### **The Villa Gardens Project**

The Villa Gardens Project consists of approximately \$10 million in various capital improvements to the Corporation's community located in Pasadena, California known as "Villa Gardens." Approximately \$5 million of the Corporation's funds already have been spent on the Villa Gardens Project, which will be reimbursed with proceeds of the Bonds. The Corporation has spent approximately \$5 million to upgrade all of the hallways on each floor, solariums, and elevator renovations. The Corporation plans to spend an additional \$5 million of available Corporation money to complete a lobby renovation, addition of a Bistro, a lounge expansion and a new art studio during its fiscal year ending March 31, 2018. These improvements update the public areas and amenities offered at Villa Gardens. The Villa Gardens project is expected to be completed by March 31, 2018. See "COMMUNITIES - Capital Improvement Program" in **Appendix A** for additional information about the Villa Gardens Project and the Corporation's other capital improvement projects, including the substantial renovations to the Corporation's community in San Diego, California known as "Wesley Palms."

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## Estimated Sources and Uses of Funds

The table below shows the estimated sources and uses of funds for the Bonds, exclusive of investment earnings.

Sources of Funds*:	
Principal amount of Bonds	\$ 98,455,000
Net original issue premium	8,774,152
Series 2007 debt service reserve fund	<u>4,187,661</u>
Total Sources	\$111,416,813
Uses of Funds*:	
Villa Gardens Project	\$ 5,000,000
Refunded Bonds	105,000,000
Costs of issuance <sup>(1)</sup>	<u>1,416,813</u>
Total Uses	\$111,416,813

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\* Preliminary, subject to change.

- (1) Includes Underwriter's discount, the Underwriter's reimbursable expenses, legal and accounting fees, trustees' fees, financial printing costs, rating agency charges and other expenses associated with the issuance of the Bonds and the refunding of the Refunded Bonds.

## OTHER FINANCING TRANSACTIONS

### The Series 2017B Direct Purchase Bonds

In addition to the Bonds, the Authority is expected to issue the Series 2017B Bonds in the aggregate principal amount of \$21,500,000\*. The Series 2017B Bonds will be issued pursuant to a bond indenture between the Authority and the The Bank of New York Mellon Trust Company, as bond trustee. The Authority will loan the proceeds of the Series 2017B Bonds to the Corporation pursuant to a loan agreement between the Authority and the Corporation, which proceeds, together with other available moneys, will be used to: (1) finance the acquisition, construction, improvement, renovation and equipping of the Corporation's Community located in San Diego County, California (the "Wesley Palms Project") and (2) pay certain expenses of issuing the Series 2017B Bonds. See "COMMUNITIES – Capital Improvement Program – *Wesley Palms*" in Appendix A. The Corporation's obligations under the loan agreement related to the Series 2017B Bonds will be secured by Master Indenture Obligation No. 4 in the original principal amount of \$21,500,000\*, issued under Supplement No. 4 pursuant to the Master Indenture, and the Corporation's obligations related to the Series 2017B Compass Credit Agreement will be secured by Master Indenture Obligation No. 5.

The Series 2017B Bonds will be tax-exempt, draw-down revenue bonds purchased in a private placement by Compass Mortgage Corporation. The Series 2017B Bonds are expected to be issued before the end of calendar year 2017. The Series 2017B Bonds are expected to bear interest at a variable rate based

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\* Preliminary, subject to change.



on LIBOR, and are expected to be subject to a mandatory tender on January 1, 2025. See “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS – Additional Covenants Related to the Direct Purchase Bonds.”

The Series 2017B Bonds will be issued under a separate plan of finance and are not required to be issued concurrently with the Bonds. **The Series 2017B Bonds are not offered pursuant to this Official Statement.**

### **Cash Redemptions and Derivative Terminations**

In addition to using the proceeds of the Bonds to refund the Refunded Bonds described above, the Corporation has used and will use available Corporation money for the purpose of redeeming the California Health Facilities Financing Authority Insured Health Facility Revenue Bonds (Sunny View Lutheran Home), 1997 Series A (the “1997 Series A Bonds”), and further plans to use available Corporation money for the purpose of redeeming or prepaying, respectively, the California Health Facilities Financing Authority Insured Health Facility Revenue Bonds (Sunny View Lutheran Homes), 1999 Series A (the “1999 Series A Bonds”), and the Authority’s Certificates of Participation Evidencing Proportionate Interest of the Holders Thereof in Installment Payments to be Paid by California Statewide Communities Development Authority from Payments Received From the Internext Group, 1999 (the “Series 1999 COPs” and, together with the 1997 Series A Bonds and the 1999 Series A Bonds, the “Cash Redeemed Prior Debt”), which were outstanding in the amounts set forth below:

#### **Cash Redeemed Prior Debt Principal Amount Outstanding as of March 31, 2017**

1997 Series A Bonds	\$ 580,000
1999 Series A Bonds	2,425,000
Series 1999 COPs	<u>37,040,000</u>
Total:	\$40,045,000

On June 28, 2017, the Corporation deposited with the trustee for the 1997 Series A Bonds money which, together with other trustee-held funds was sufficient funds to redeem such bonds, and the 1997 Series A Bonds will be redeemed on July 31, 2017. The Corporation intends to deposit on August 2, 2017, money which, together with other trustee-held funds, will be sufficient to redeem the 1999 Series A Bonds and the Series 1999 COPs on or about September 1, 2017, at a redemption or prepayment price of 100% of the principal amount thereof, plus accrued and unpaid interest to the applicable redemption or prepayment date thereof.

The Corporation uses interest rate-related derivative instruments to manage its interest rate exposure on its tax-exempt debt. As described in Note 9 in the consolidated audited financial statements for the fiscal year ending March 31, 2017, attached in Appendix B, the Corporation as has four derivative agreements: (1) a Forward Sale Agreement entered into in connection with the Series 1999 Bonds, (2) a Guaranteed Investment Contract entered into in connection with the Series 1999 Bonds, (3) a Basis Swap, and (4) an Interest Rate Cap Agreement entered into in connection with the Series 2015 Bonds.

The Corporation intends to terminate the Forward Sale Agreement, the Guaranteed Investment Contract and the Basis Swap in connection with issuance of the Bonds. The terminations are expected to produce positive cash flows, which together with the release of certain cash reserves for the Cash Redeemed Prior Debt, is expected to make approximately \$13,000,000 available to the Corporation to be applied to the redemption of the Cash Redeemed Prior Debt or other purposes.

After the issuance of the Bonds and the application of the proceeds thereof to refund the Refunded Bonds, the refunding of the Cash Redeemed Prior Debt, the Bonds and the Series 2015 Bonds will be the only outstanding obligations of the Corporation secured by Master Indenture Obligations. The Series 2017B Bonds are expected to be issued after the issuance of the Bonds. See “FINANCIAL INFORMATION – Financing for the Wesley Palms Project” in Appendix A.

*[Remainder of page intentionally left blank.]*

## ESTIMATED ANNUAL DEBT SERVICE REQUIREMENTS

The following table sets forth, for each of the Corporation's fiscal years ending March 31, the amount estimated to be required for payment of principal of and interest on the Bonds and the Direct Purchase Bonds. Amounts shown are rounded to the nearest dollar.

Year Ending March 31,	Bonds			Direct Purchase Bonds <sup>¥</sup>	Aggregate Obligated Group Debt Service
	Principal	Interest	Total		
2018					
2019				\$6,285,914	
2020				6,285,914	
2021				6,285,914	
2022				6,285,914	
2023				6,285,914	
2024				6,285,914	
2025				6,285,914	
2026				6,285,914	
2027				6,285,914	
2028				6,285,914	
2029				6,285,914	
2030				6,285,914	
2031				6,285,914	
2032				6,285,914	
2033				6,285,914	
2034				6,285,914	
2035				6,285,914	
2036				6,285,914	
2037				6,285,914	
2038				6,285,914	
2039				6,285,914	
2040				6,285,914	
2041					
2042					
2043					
2044					
2045					
2046					
2047					
Totals				\$138,290,113	

<sup>¥</sup> Debt service shown on the Direct Purchase Bonds assumes the Series 2015 Bonds are outstanding in the maximum principal amount of \$72.0 million, the Series 2017B Bonds are issued and outstanding in the maximum principal amount of \$21.5 million, and that both series bear interest at 3.70% (*The Bond Buyer's* Thirty-Year Revenue Bond Index as of July 20, 2017) with level debt service payments over 22 years. See "OTHER FINANCING TRANSACTIONS – The Series 2017B Direct Purchase Bonds" and "FINANCIAL INFORMATION – Financing for the Wesley Palms Project" in Appendix A for descriptions of the Direct Purchase Bonds.

## **THE BONDS**

### **Description of the Bonds**

The Bonds are dated their date of issuance. The Bonds will bear interest from their date of issuance, payable on April 1 and October 1 in each year (each an “Interest Payment Date”), commencing on April 1, 2018. The Bonds bear interest at the rate per annum and mature (subject to the redemption provisions described below) as set forth on the inside cover page hereof. The Bonds will be issued only as fully registered bonds without coupons in the denominations of \$5,000 or any integral multiple thereof.

For a description of the method of payment of principal of and interest on the Bonds and matters pertaining to transfers and exchanges while in the Book-Entry System, see the information in Appendix E. In the event the Book-Entry System is discontinued, the following provisions would apply. The principal of the Bonds payable upon maturity or redemption are payable at the Corporate Trust Office of the Bond Trustee upon presentation and surrender of the Bonds to be paid. Interest payments on any Bond shall be made on each Interest Payment Date to the registered owner thereof as of the first day (whether or not a Business Day) of the month during which each Interest Payment Date falls (the “Record Date”) (except with respect to interest in default for which a special record date shall be established) by check mailed to such owner at such owner’s address as it appears on the registration books which are maintained by the Bond Trustee. In addition, any Holder of \$1,000,000 or more in aggregate principal amount of Bonds may request that any principal or interest payment be made by wire transfer in immediately available funds to an account within the United States designated by such Holder by delivering to the Bond Trustee a written request no later than one Business Day prior to the applicable Record Date.

### **Registration, Transfer and Exchange**

In the event that the Book-Entry System is discontinued, the following provisions also would apply. The Bonds may be transferred upon surrender of the Bonds at the Corporate Trust Office of the Bond Trustee, accompanied by a written instrument of transfer satisfactory to the Bond Trustee which has been executed by the registered owner or such owner’s legal representative duly authorized in writing. The Bonds, upon presentation thereof at the Corporate Trust Office of the Bond Trustee, may also be exchanged for other Bonds of the same series and any authorized denominations having the same form, terms, interest rates, maturity and aggregate principal amount as the Bonds being exchanged. The Bond Trustee shall require the payment by the Bondholder requesting such exchange or transfer of any tax or governmental charge required to be paid with respect to such exchange or transfer. The Bond Trustee shall not be required to transfer or exchange any Bond after such Bond has been called for redemption nor during the period of 15 days next preceding the giving of notice of redemption for such Bond.

## Redemption of the Bonds

The Bonds are subject to mandatory, optional and extraordinary redemption, all as described below.

*Mandatory Sinking Account Redemption Without Premium – The Bonds.* The Bonds maturing on April 1, 20\_\_ and April 1, 20\_\_ are subject to mandatory redemption prior to their respective stated maturities, in part, randomly, from Mandatory Sinking Account Payments and on the dates established in the Bond Indenture for the Bonds, as provided below, at a price equal to the principal amount of the Bonds to be redeemed plus accrued interest to the redemption date, without premium.

### Bonds due April 1, 20\_\_

<b>Year (April 1)</b>	<b>Principal Amount</b>
	\$

†

†Maturity

### Bonds due April 1, 20\_\_

<b>Year (April 1)</b>	<b>Principal Amount</b>
	\$

†

†Maturity

*Optional Redemption.* The Bonds maturing on or after April 1, 20\_\_, are subject to optional redemption prior to their respective stated maturities, at the option of the Authority (which option shall be exercised only upon request of the Corporation to the Bond Trustee given at least 35 days prior to such redemption date unless waived by the Bond Trustee in its sole discretion), from any source of available funds, as a whole or in part on any date on or after April 1, 20\_\_, in such amounts and maturities as may be specified by the Corporation (or if the Corporation fails to specify such maturities, in inverse order of maturity), by lot within a maturity, at a redemption price of 100% of the principal amount thereof, plus accrued interest thereon to the redemption date, without premium.

*Extraordinary Redemption In the Event of Damage, Destruction or Condemnation.* The Bonds of each series are subject to redemption prior to their respective stated maturities, at the option of the Authority (which option shall be exercised only upon request of the Corporation at least 35 days prior to such redemption date unless waived by the Bond Trustee in its sole discretion) in whole or in part (in such amounts and maturities as may be specified by the Corporation, or, if the Corporation fails to specify such maturities, in inverse order of maturity, and by lot within a maturity), on any date from hazard insurance and condemnation proceeds received with respect to the facilities of any Members and deposited in the

Special Redemption Account. Bonds selected for redemption as described above shall be redeemed at a redemption price equal to 100% of the principal amount of the Bonds called for redemption, plus accrued interest thereon to the redemption date, without premium.

*Purchase in Lieu of Redemption.* Each Holder or Beneficial Owner, by purchase and acceptance of any Bond, irrevocably grants to the Corporation the option to purchase such Bond at any time such Bond is subject to optional redemption as described in the Bond Indenture. Such Bond is to be purchased at a purchase price equal to the then applicable redemption price of such Bond. The Corporation shall also direct the Bond Trustee to provide notice of mandatory purchase, such notice to be provided, as and to the extent applicable, in accordance with the provisions of the Bond Indenture regarding notice of redemption and to select Bonds subject to mandatory purchase in the same manner as Bonds called for redemption pursuant to the Bond Indenture. On the date fixed for purchase of any Bond in lieu of redemption, the Corporation shall pay the purchase price of such Bond to the Bond Trustee in immediately available funds, and the Bond Trustee shall pay the same to the Holders of the Bonds being purchased against delivery thereof. No purchase of any Bond in lieu of redemption shall operate to extinguish the indebtedness of the Corporation evidenced by such Bond. No Holder or Beneficial Owner may elect to retain a Bond subject to mandatory purchase in lieu of redemption. The Corporation may exercise its option to purchase Bonds, in whole or in part, in accordance with the purchase in lieu of redemption provisions in the Bond Indenture.

### **Selection of Bonds for Redemption or Purchase**

Whenever provision is made in the Bond Indenture for the redemption or purchase in lieu of redemption of less than all of a series of the Bonds of any maturity or any given portion thereof, the Bond Trustee shall select the Bonds of such series to be redeemed from all Bonds of the same series subject to redemption or purchase or such given portion thereof not previously called for redemption or purchase, randomly in such manner as deemed appropriate by the Bond Trustee; provided, however, that in such cases as provided in the Bond Indenture where the Corporation is to specify the maturities of Bonds to be redeemed or purchased, the Bond Trustee shall redeem or purchase Bonds in accordance with any such specification.

### **Notice of Redemption or Purchase**

If any Bonds are to be redeemed or purchased, notice of redemption or purchase in accordance with the Bond Indenture shall be given by mailing of a notice by first class mail at least 20 days but not more than 50 days prior to the date fixed for redemption/purchase to (i) the Holders of each of the Bonds to be redeemed or purchased at the address shown on the registration books of Bond Trustee, (ii) the Securities Depository and the securities information services designated by the Corporation or selected by the Bond Trustee to comply with custom or other rules of any securities and exchange commission or brokerage board. The notice shall also state that on such date there will become due and payable on each said Bond the Redemption Price thereof, or, in the case of a Bond to be redeemed in part only, the specified portion of the principal amount thereof in the case of a Bond to be redeemed in part only, together with interest accrued thereon, and that on and after the redemption or purchase date specified in the notice, interest on the Bonds, or portions thereof, thus called shall cease to accrue, and that such Bonds shall be surrendered.

Any notice of optional redemption or purchase may be rescinded by written notice given by the Corporation to the Bond Trustee no later than five Business Days prior to the date specified for redemption or purchase. The Bond Trustee shall give notice of such rescission as soon thereafter as practicable to the same parties and in the same manner as the notice of redemption or purchase was given as described above. The Corporation may also instruct the Bond Trustee to provide conditional notice of redemption, where the Bonds may be redeemed only upon receipt of moneys or any other event. If the conditions for such



redemption are not satisfied, the Bond Trustee shall revoke such notice by the same means and to the same parties as the conditional notice of redemption, and the Bonds shall remain outstanding.

Failure by the Bond Trustee to mail notice of redemption or purchase to any one or more of the respective Holders of any Bonds designated for redemption or purchase (or failure by any Bondholder to receive notice) or to the Securities Depository and the securities information services selected by the Bond Trustee to comply with custom or the rules or any securities and exchange commission or brokerage board, shall not affect the sufficiency of the proceedings for redemption or purchase with respect to the Holders to whom notice was mailed.

### **Effect of Redemption**

Notice of redemption having been duly given according to the Bond Indenture, and moneys for payment of the Redemption Price of, together with interest accrued to the redemption date on, the Bonds (or portions thereof) so called for redemption being held by the Bond Trustee, on the redemption date designated in such notice, the Bonds (or portions thereof) so called for redemption shall become due and payable at the Redemption Price specified in such notice and interest accrued thereon to the redemption date, interest on the Bonds so called for redemption shall cease to accrue, said Bonds (or portions thereof) shall cease to be entitled to any benefit or security under the Bond Indenture, and the Holders of said Bonds shall have no rights in respect thereof except to receive payment of said Redemption Price and accrued interest to the date fixed for redemption from funds held by the Bond Trustee for such payment. All Bonds so redeemed shall be cancelled upon surrender thereof.

## **SECURITY AND SOURCE OF PAYMENT FOR THE BONDS**

### **General**

The Bonds are limited obligations of the Authority, payable solely from the Revenues pledged under the Bond Indenture for such payment. Revenues consist primarily of Loan Repayments required to be made by the Corporation pursuant to the Loan Agreement in amounts sufficient to pay the principal of and interest on the Bonds when such becomes due. Under the Bond Indenture, the Authority will assign its right, title and interest in the Revenues and other assets pledged pursuant to the Bond Indenture, and in the Loan Agreement and Series 2017A Obligation to the Bond Trustee (except for (i) the right to receive any Administrative Fees and Expenses and Additional Payments to the extent payable to the Authority, (ii) the right of the Authority to any indemnification and expenses under the Loan Agreement, (iii) the obligation of the Corporation to make deposits pursuant to the Tax Certificate, and (iv) any rights of the Authority to receive notices, certificates, reports or opinions or make inspections). The Bond Indenture does not create a debt service reserve fund for the benefit and security of the Bonds. See "BOND INDENTURE" in Appendix C.

## **Limited Liability of the Authority**

THE BONDS DO NOT CONSTITUTE A DEBT OR LIABILITY OF THE STATE OF CALIFORNIA OR OF ANY POLITICAL SUBDIVISION THEREOF, OTHER THAN THE AUTHORITY, BUT SHALL BE PAYABLE SOLELY FROM THE FUNDS PROVIDED THEREFOR. THE AUTHORITY SHALL NOT BE OBLIGATED TO PAY THE PRINCIPAL (OR REDEMPTION PRICE) OF THE BONDS OR INTEREST THEREON, EXCEPT FROM THE FUNDS PROVIDED THEREFOR UNDER THE BOND INDENTURE AND NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE STATE OF CALIFORNIA OR OF ANY POLITICAL SUBDIVISION THEREOF, INCLUDING THE AUTHORITY, IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL (OR REDEMPTION PRICE) OF OR INTEREST ON THE BONDS. THE ISSUANCE OF THE BONDS SHALL NOT DIRECTLY OR INDIRECTLY OR CONTINGENTLY OBLIGATE THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION THEREOF TO LEVY OR TO PLEDGE ANY FORM OF TAXATION OR TO MAKE ANY APPROPRIATION FOR THEIR PAYMENT. THE AUTHORITY HAS NO TAXING POWER. MOREOVER, NEITHER THE AUTHORITY NOR THE PROGRAM PARTICIPANTS SHALL BE LIABLE FOR ANY OTHER COSTS, EXPENSES, LOSSES, DAMAGES, CLAIMS OR ACTIONS, IN CONNECTION WITH THE LOAN AGREEMENT, THE BONDS OR THE BOND INDENTURE, EXCEPT ONLY TO THE EXTENT AMOUNTS ARE RECEIVED FOR THE PAYMENT THEREOF FROM THE CORPORATION UNDER THE LOAN AGREEMENT.

## **The Master Indenture**

The Corporation will enter into the Master Indenture with the Master Trustee on the date of issuance of the Bonds. The Corporation is currently the only Member of the Obligated Group. Other entities may become Members of the Obligated Group in accordance with the procedures set forth in the Master Indenture. Each Obligated Group Member is jointly and severally obligated to pay when due the principal of, premium, if any, and interest on each Master Indenture Obligation, including the Series 2017A Obligation, which will evidence and secure the Corporation's obligation to make Loan Repayments under the Loan Agreement. For more information, see "SUMMARY OF PRINCIPAL DOCUMENTS" in Appendix C.

The Master Indenture imposes certain limited covenants upon the Obligated Group Members for the benefit of the holders of Master Indenture Obligations (including the Series 2017A Obligation), including covenants, among others, relating to (i) the admission of an Obligated Group Member into and the withdrawal of an Obligated Group Member from the Obligated Group, (ii) limitations on mergers involving an Obligated Group Member, (iii) limitations on the creation of Liens by an Obligated Group Member, (iv) limitations upon the sale, lease or other disposition of Property of the Obligated Group, (v) limitations on Obligated Group Members' incurrence of Indebtedness and (vi) maintenance of a specified minimum annual debt service coverage ratio. See below for further summary of certain of these covenants and "MASTER INDENTURE" in Appendix C.

*Obligated Group Members.* Under certain conditions described in the Master Indenture, Members may be added to the Obligated Group from time to time and made jointly and severally liable with respect to the Series 2017A Obligation, and all other Master Indenture Obligations outstanding under the Master Indenture. Additionally, in accordance with the Master Indenture, Members may withdraw from the Obligated Group from time to time. See "MASTER INDENTURE – Membership in Obligated Group" and "– Withdrawal From Obligated Group" in Appendix C. The Corporation is currently the only Obligated Group Member.

*Covenant Against Liens.* Pursuant to the Master Indenture, each Obligated Group Member agrees that it will not create or suffer to be created or permit the existence of any Lien upon any of its Property other than Permitted Liens (which Permitted Liens include the pledge of Gross Revenues and the Gross Revenue Fund pursuant to the Master Indenture). See the definition of “Permitted Liens” in “SUMMARY OF PRINCIPAL DOCUMENTS – DEFINITIONS OF CERTAIN TERMS IN THE MASTER INDENTURE” and “—MASTER INDENTURE – Against Encumbrances” in Appendix C.

*Security Interest in Gross Revenues.* Pursuant to the Master Indenture, the Corporation has agreed, and each future Member of the Obligated Group will agree, so long as any of the Master Indenture Obligations remain outstanding, to deposit all of the Gross Revenues of the Obligated Group with a depository bank or banks in an account designated as the “Gross Revenue Fund” and, subject to the provisions of the Master Indenture permitting application of the Gross Revenues for the purposes and upon the terms and conditions set forth therein, shall grant a security interest (to the extent permitted by law) to the Master Trustee in all of its right, title, and interest in the Gross Revenue Fund and all of the Gross Revenues of the Obligated Group to secure the required payments and the performance by the Members of the Obligated Group of their obligations under the Master Indenture. “Gross Revenues” means, unless the context provides otherwise, all revenues, income, receipts and money received in any period by the Obligated Group (other than the proceeds of borrowing and other moneys received from the operation of, or pertaining to, the HUD Facilities, except with the express written consent of HUD), including, but without limiting the generality of the foregoing, (a) gross revenues derived from its or their operation of the facilities owned and/or operated by the Obligated Group Members, (b) gifts, grants, bequests, donations and contributions exclusive of any gifts, grants, bequests, donations and contributions to the extent specifically restricted by the donor to a particular purpose inconsistent with their use for the payment of principal of, redemption premium, if any, and interest on Indebtedness or for the payment of operating expenses, (c) proceeds derived from (1) insurance and condemnation proceeds, (2) accounts receivable, (3) securities and other investments, (4) inventory and other tangible and intangible property, (5) medical or hospital insurance or indemnity programs or agreements, and (6) contract rights and other rights and assets now or hereafter owned, held or possessed by or on behalf of any Obligated Group Member, and (d) rentals received from the lease of office space. The security interest in Gross Revenues described above will be perfected under the UCC by filing and maintenance of UCC financing statements. The security interest in the Gross Revenue Fund described above will be perfected pursuant to an account control agreement among the Master Trustee, the Corporation and the relevant depository bank. See “Security and Enforceability – Perfection of a Security Interest” below. See “Master Indenture – Gross Revenues” in Appendix C.

*Additional Indebtedness.* Indebtedness in addition to the Bonds may be incurred by Obligated Group Members and secured on a parity with Master Indenture Obligations for the purposes, upon the terms and subject to the conditions provided in the Master Indenture. Each Master Indenture Obligation will be the primary obligation of the Obligated Group Members and each Member will be jointly and severally obligated for the payment of any and all amounts payable under the Master Indenture Obligation. Subject to the conditions therein, the Master Indenture also permits Obligated Group Members to incur secured and unsecured indebtedness in addition to Master Indenture Obligations and to enter into Guarantees. See “MASTER INDENTURE – Limitation on Indebtedness” in Appendix C.

*Debt Service Coverage.* The Master Indenture requires that the Obligated Group maintain an Annual Debt Service Coverage Ratio for each Fiscal Year, commencing April 1, 2017, of not less than 1.2:1.0. An Event of Default under the Master Indenture will be triggered if the Annual Debt Service Coverage Ratio for any Fiscal Year is less than 1.0:1.0. See “MASTER INDENTURE – Debt Service Coverage” in Appendix C.

*Master Indenture Obligations.* Under the Master Indenture, the Obligated Group Representative is authorized by the Obligated Group Members to incur, pursuant to a supplement to the Master Indenture, on

behalf of the Obligated Group Members, Master Indenture Obligations to evidence or secure Indebtedness (or other obligations of an Obligated Group Member not constituting Indebtedness). The Obligated Group Members are jointly and severally liable with respect to the payment of each Master Indenture Obligation, including the Series 2017A Obligation, incurred under the Master Indenture. The Corporation has issued the Series 2017A Obligation under the Master Indenture to evidence its obligation to make Loan Repayments under the Loan Agreement. Payments of the principal of, premium, if any, and interest on the Series 2017A Obligation are required to be sufficient to pay the principal (or Redemption Price) of and interest on the Bonds, when due. On the date of the issuance of the Bonds, the Corporation, as Obligated Group Representative, will issue the Direct Purchase Bonds Master Indenture Obligations related to the Series 2015 Bonds and the Amended and Restated Compass Credit Agreement to secure the Corporation's related obligations in respect of the Series 2015 Bonds. Other than the Series 2017A Obligation and the Series 2015 Bonds Master Indenture Obligations, on the date of the issuance of the Bonds, there will be no other Master Indenture Obligations outstanding under the Master Indenture. See "OTHER FINANCING TRANSACTIONS – The Series 2017B Direct Purchase Bonds" for a discussion of the planned issuance of the Series 2017B Bonds and the related Master Indenture Obligations.

### **Security and Enforceability.**

*Security for Master Indenture Obligations.* All Master Indenture Obligations issued and Outstanding under the Master Indenture are equally and ratably secured by the Master Indenture except to the extent specifically provided otherwise in the Master Indenture. Any one or more series of Master Indenture Obligations may, so long as any Liens created in connection therewith constitute Permitted Liens, be secured by security (including, without limitation, letters of credit, lines of credit, insurance, Liens on Property of the Members, or security interests in a depreciation reserve, debt service or interest reserve or debt service or similar funds). Such security need not extend to any other Indebtedness (including any other Master Indenture Obligations or series of Master Indenture Obligations). Consequently, the Related Supplement pursuant to which any one or more series of Master Indenture Obligations is issued may provide for such supplements or amendments to the provisions of the Master Indenture, as are necessary to provide for such security and to permit realization upon such security solely for the benefit of the Master Indenture Obligations entitled thereto.

*Perfection of a Security Interest.* Each Obligated Group Member (currently only the Corporation) will covenant to deposit all of the Gross Revenues of the Obligated Group in the Gross Revenue Fund (subject to the provisions of the Master Indenture permitting application of the Gross Revenues for the purposes and upon the terms and conditions set forth therein), and pursuant to the Master Indenture will grant to the Master Trustee a security interest in all its right, title, and interest in and to the Gross Revenues and the Gross Revenue Fund and the proceeds thereof. To perfect this security interest in the Gross Revenues and the Gross Revenue Fund, each Member of the Obligated Group will agree to cause to be filed UCC financing statements as may be necessary to perfect or continue the perfection of the security interest in the Gross Revenues, and will enter into an account control agreement with the relevant bank and the Master Trustee in order to perfect the security interest in the Gross Revenue Fund. The security interest of the Master Trustee may not be effective against third parties with perfected security interests. Even if perfected, the grant of a security interest in Gross Revenues and the Gross Revenue Fund may be subordinate to the interest and claims of others in several instances. Some examples of cases of subordination of prior interests and claims are (i) statutory liens, (ii) rights arising in favor of the United States of America or any agency thereof, (iii) present or future prohibitions against assignment, including collateral assignment, in any federal statutes or regulations, (iv) constructive trusts, equitable liens or other rights imposed or conferred by any state or federal court in the exercise of its equitable jurisdiction, (v) federal or state bankruptcy laws that may affect the enforceability of the Master Indenture or grant of a security interest in Gross Revenues and the Gross Revenue Fund and (vi) liens on investments and investment accounts constituting Gross Revenues and the Gross Revenue Fund in favor of secured parties

who have entered into control agreements with respect to such investments and investment accounts. See “BONDHOLDERS’ RISKS – Certain Matters Relating to the Security Interest in Gross Revenues.”

*Enforceability of the Master Indenture, the Loan Agreement and the Series 2017A Obligation.* The legal right and practical ability of the Bond Trustee to enforce rights and remedies under the Loan Agreement and of the Master Trustee to enforce its rights and remedies under the Master Indenture and the Series 2017A Obligation may be limited by laws relating to bankruptcy, insolvency, reorganization, fraudulent conveyance or moratorium and by other similar laws affecting creditors rights and by application of equitable principles. In addition, enforcement of such rights and remedies will depend upon the exercise of various remedies specified by such documents, which, in many instances, may require judicial actions that are subject to discretion and delay, that otherwise may not be readily available or that may be limited by certain legal principles.

The Corporation will be the initial Obligated Group Member. If additional Members join the Obligated Group, the joint and several obligation described herein of each Obligated Group Member to make payments of debt service on a Master Indenture Obligation, the proceeds of which Master Indenture Obligation were not loaned or otherwise made available to that Obligated Group Member, may not be enforceable to the extent that the payments (i) will be made on a Master Indenture Obligation issued for a purpose that is not consistent with the charitable purposes of the entity from which the payment or transfer is requested or is subject to the application of charitable trust principles or state laws, regulations, policies or procedures which may vary from jurisdiction to jurisdiction; (ii) will be made from any property that is donor restricted or that is subject to a direct or express trust that does not permit the use of the property for payments; (iii) would result in the cessation or discontinuation of any material portion of the services previously provided by the entity from which payment or transfer is requested; or (iv) will be made pursuant to any loan violating applicable usury laws. Due to the absence of clear legal precedent in this area, the extent to which the property of any Obligated Group Member may be applied or transferred as described above cannot be determined and could be substantial.

An Obligated Group Member may not be required to make payments on a Master Indenture Obligation issued by or for the benefit of another Obligated Group Member to the extent that any payment or transfer would render the paying or transferring Obligated Group Member insolvent or would conflict with, not be permitted by or would be subject to recovery for the benefit of other creditors of the Obligated Group Member under applicable fraudulent conveyance, bankruptcy, insolvency, moratorium or other similar laws affecting the enforcement of creditors’ rights. There is no clear precedent in the law as to whether payments by any Obligated Group Member on a Master Indenture Obligation issued by or for the benefit of another Obligated Group Member or other person may be avoided by a trustee in bankruptcy in the event of a bankruptcy of the Obligated Group Member or by third party creditors in an action brought pursuant to California fraudulent conveyances statutes. Under the United States Bankruptcy Code, a trustee in bankruptcy and, under California fraudulent conveyances statutes, a creditor of a guarantor may avoid any obligation incurred by a guarantor, if, among other bases therefor, (i) the guarantor has not received fair consideration or reasonably equivalent value in exchange for the guaranty, and (ii) the guaranty renders the guarantor insolvent, as defined in the United States Bankruptcy Code or California fraudulent conveyances statutes, or the guarantor is undercapitalized.

Application by courts of the tests of “insolvency,” “reasonably equivalent value” and “fair consideration” has resulted in a conflicting body of case law. It is possible that, in an action to force any Obligated Group Member to pay debt service on a Master Indenture Obligation issued by or for the benefit of another entity, a court might not enforce the obligation in the event it is determined that the paying entity is analogous to a guarantor and that fair consideration or reasonably equivalent value for the guaranty was not received and that the incurrence of the obligation has rendered and will render the paying entity insolvent or the paying entity is or will thereby become undercapitalized.

There exists, in addition to the foregoing, common law authority and authority under certain statutes pursuant to which courts may terminate the existence of a nonprofit corporation or undertake supervision of its affairs on various grounds, including a finding that such corporation has insufficient assets to carry out its stated charitable purposes or has taken some action which renders it unable to carry out its purposes. Such court action may arise on the court’s own motion or pursuant to a petition of the state Attorney General or other persons who have interests different from those of the general public, pursuant to the common law and statutory power to enforce charitable trusts and to see to the application of their funds to their intended charitable uses.

The various legal opinions delivered concurrently with the issuance of the Bonds are qualified as to the enforceability of the various legal instruments by limitations imposed by state and federal laws, rulings, policy and decisions affecting remedies and by bankruptcy, reorganization or other laws of general application affecting the enforcement of creditors’ rights or the enforceability of certain remedies or document provisions. See “BONDOHLERS’ RISKS – Enforceability of Remedies.”

*Amendments to Master Indenture, Bond Indenture and Loan Agreement.* Certain amendments to the Master Indenture may be made with the consent of the holders of not less than a majority of the principal amount of outstanding Master Indenture Obligations. These amendments may adversely affect the security of the Holders of the Bonds, and a majority may be composed wholly or partially of the holders of Master Indenture Obligations other than the Series 2017A Obligation. Certain amendments to the Bond Indenture and the Loan Agreement may be made with the consent of the Holders of not less than a majority of the outstanding principal amount of the Bonds outstanding under the Bond Indenture. Such amendments may adversely affect the security of the Holders of the Bonds.

*Bankruptcy.* In the event of bankruptcy of an Obligated Group Member, the rights and remedies of the Bondholders are subject to various provisions of the federal Bankruptcy Code. If an Obligated Group Member were to file a petition in bankruptcy, payments made by that Obligated Group Member during the 90-day (or perhaps one-year) period immediately preceding the filing of such petition may be avoidable as preferential transfers to the extent such payments allow the recipients thereof to receive more than they would have received in the event of such Obligated Group Member’s liquidation. Security interests and other liens granted to the Bond Trustee or the Master Trustee and perfected during such preference period also may be avoided as preferential transfers to the extent such security interest or other lien secures obligations that arose prior to the date of such perfection. Such a bankruptcy filing would operate as an automatic stay of the commencement or continuation of any judicial or other proceeding against such Member and its property and as an automatic stay of any act or proceeding to enforce a lien upon or to otherwise exercise control over such property, as well as various other actions to enforce, maintain or enhance the rights of the Bond Trustee and the Master Trustee, other than the right to apply pledged Gross Revenues to payment of the Master Indenture Obligations.

The Members of the Obligated Group can use the Gross Revenues and proceeds thereof to pay the necessary operating expenses of the project or system from which such Gross Revenues or proceeds are derived, despite any security interest of the Master Trustee therein, but such funds might not be available to such Members to pay other creditors and for the financial rehabilitation of the Obligated Group. The rights of the Bond Trustee and Master Trustee to enforce their respective interests and liens could be delayed during the pendency of the rehabilitation proceeding.

A Member could file a plan for the adjustment of its debts in any such proceeding, which could include provisions modifying or altering the rights of creditors generally or any class of them, secured or unsecured. In a case under chapter 11 of the Bankruptcy Code, creditors are not authorized to file a plan for the reorganization of the debtor. The plan, when confirmed by a court, binds all creditors who had notice or knowledge of the plan and, with certain exceptions, discharges all claims against the debtor to the extent provided for in the plan. No plan may be confirmed unless certain conditions are met, among which conditions are that the plan shall have been accepted by each class of claims impaired thereunder. Each class of claims has accepted the plan if (with certain exceptions) creditors holding at least two-thirds in dollar amount and more than one-half in number of the claims in the class which vote to accept or reject the plan cast votes in its favor. Even if the plan is not so accepted, it may be confirmed if the court finds that the plan is fair and equitable with respect to each class of non-accepting creditors impaired thereunder and does not discriminate unfairly.

In the event of bankruptcy of a Member, there is no assurance that certain covenants, including tax covenants, contained in the Bond Indenture, the Loan Agreement or the Master Indenture and certain other documents would survive. Accordingly, a bankruptcy trustee could take action that would adversely affect the exclusion of interest on the Bonds from gross income of the Bondholders for federal income tax purposes.

In addition, the obligation of the Corporation to pay principal and interest with respect to the Bonds is not secured by a lien on or security interest in any assets or revenues of the Corporation or the Obligated Group other than the pledge under the Master Indenture on Gross Revenues and the Gross Revenue Fund, payments made on the Series 2017A Obligation and the lien on certain funds held by the Bond Trustee under the Bond Indenture, as described in Appendix C. Except with respect to such pledge of Gross Revenues and the Gross Revenue Fund and such funds held under the Bond Indenture, in the event of a bankruptcy of the Corporation, the Holders would not have a claim against the Corporation as secured creditors of the Corporation.

### **The Loan Agreement**

The Loan Agreement provides that the Authority will loan the proceeds of the Bonds to the Corporation and that the Corporation will repay such loan by making payments to the Bond Trustee in amounts sufficient to pay the principal of, redemption premium, if any, and interest on the Bonds when due. The Authority will pledge and assign certain of its rights under the Loan Agreement to the Bond Trustee as security for the Bonds. For more information on the Loan Agreement, see Appendix C.

## **Additional Covenants Related to the Direct Purchase Bonds**

The Amended and Restated Compass Credit Agreement contains, and the Series 2017B Compass Credit Agreement is expected to contain, certain covenants, agreements and events of default not applicable to the Bonds or the holders of the Bonds, which may be waived by Compass Mortgage Corporation or amended by the Corporation and Compass Mortgage Corporation without the consent of the holders of the Bonds. The Corporation's covenants and agreements in the Direct Purchase Bonds Credit Agreements will include:

- an agreement to pay (i) certain fees, (ii) certain costs related to indemnification of Compass Mortgage Corporation, and (iii) increased payments if the related Direct Purchase Bonds are deemed taxable, or if certain changes in law increase Compass Mortgage Corporation's costs with respect to the related Direct Purchase Bonds;
- an agreement not to enter into any management agreement without the consent of Compass Mortgage Corporation;
- an agreement not to withdraw from the Obligated Group; and
- a covenant in favor of Compass Mortgage Corporation to the effect that if the Corporation or another Obligated Group Member (if ever any) enters into a financing with certain terms deemed more favorable than those currently benefitting Compass Mortgage Corporation, the Compass terms will automatically be deemed amended to be consistent with such more favorable terms.

The Corporation's failure to comply with certain covenants and agreements contained in the Direct Purchase Bonds Credit Agreements, including those described above, is an event of default under the relevant Direct Purchase Bonds Credit Agreement. An event of default under a Direct Purchase Bonds Credit Agreement will give Compass Mortgage Corporation the ability to accelerate the amounts owed by the Corporation with respect to the related Direct Purchase Bonds and declare an Event of Default under the Related Bond Indentures for the Direct Purchase Bonds, which constitutes an Event of Default under the Master Indenture. See "MASTER INDENTURE – Events of Default" in Appendix C.

The Corporation intends to make redacted forms of the Direct Purchase Bonds Credit Agreements available on EMMA. The Corporation's ability to make redacted forms of the Direct Purchase Bonds Credit Agreements available on EMMA is subject to certain consent rights of Compass Mortgage Corporation.

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## **BONDHOLDERS' RISKS**

*The purchase and ownership of the Bonds involves investment risks that are discussed throughout this Official Statement. Prospective purchasers of the Bonds should evaluate all of the information presented in this Official Statement. This section on Bondholders' Risks focuses primarily on the general risks associated with the Corporation or senior living community operations, whereas Appendix A describes the Corporation and the Obligated Group (of which the Corporation is currently the sole Member) specifically. These should be read together.*

### **General**

Except as noted under "SECURITY AND SOURCE OF PAYMENT FOR THE BONDS," the Bonds are payable from Loan Repayments made pursuant to the Loan Agreement and from funds provided under the Series 2017A Obligation and the Bond Indenture. No representation or assurance can be made that revenues will be realized by the Corporation or any future Members of the Obligated Group in amounts sufficient to pay principal of and interest on the Bonds.

The receipt of future revenues by the Corporation will be subject to, among other factors, federal and state policies affecting the senior housing and health care industries (including changes in reimbursement rates and policies), increased competition from other senior housing and health care providers, the capability of the management of the Corporation and future economic and other conditions that are impossible to predict. The extent of the ability of the Corporation to generate future revenues has a direct effect upon the payment of principal of, premium, if any, and interest on the Bonds. Neither the Underwriter nor the Authority has made any independent investigation of the extent to which any such factors may have an adverse effect on the revenues of the Corporation.

This discussion of risk factors is not, and is not intended to be, exhaustive.

### **Failure to Achieve Sufficient Occupancy and to Maintain Turnover or Occupancy; Uncertainty of Revenues**

The ability of the Corporation to generate sufficient revenues is dependent, among other things, upon the ability of the Corporation to attract sufficient numbers of residents to its Communities. The ability of the Corporation to achieve and then to maintain substantial occupancy depends to some extent on factors outside its control. The success of the Corporation's Communities is dependent on numerous factors including (but not limited to): the maintenance of high future occupancy levels at the Corporation's Communities by eligible residents who will be able to pay the fees charged, the capabilities of the management of the Communities, the availability of alternative housing opportunities in the general area and future economic and other conditions which are unpredictable. See "RISK FACTORS – General Risks of the Communities" and "- Nature of the Income of the Elderly." Any of these factors may affect revenues and payments on the Bonds. No representation or assurance can be made that revenues will be realized by the Corporation in amounts sufficient to make the required payments on the Bonds.

## **Regulatory Matters**

*General.* Health and elder care communities and facilities are subject to regulation by state, local and other regulatory or accrediting agencies created to oversee planning and development of health care resources and services, the governmental and private agencies that administer the Medicare and Medicaid programs and other federal, state and local governmental agencies. Renewal and continuance of certain licenses, certifications and accreditations issued by these agencies are based on inspections, surveys, audits, investigations or other reviews, some of which may require or include affirmative action or response by the management of the Corporation. These activities generally are conducted in the normal course of business. Nevertheless, an adverse result could be the cause of loss or reduction in a Community's scope of licensure, certification or accreditation or could reduce payments received. In certain instances, failure to comply with the guidelines promulgated by such agencies can result in penalties to the facility (including fines or loss of licensure, certification, accreditation or eligibility for certain reimbursement programs).

*Compliance.* State licensing requirements are subject to change, and there can be no assurance that the Corporation will be able to maintain all licenses needed to operate its Communities as planned or that it will not incur substantial costs in doing so. Failure to comply with state licensing or certification requirements could result in the loss by the Corporation of the right to conduct all or a portion of its business. Further, the Corporation's Communities are subject to periodic inspection by governmental and other regulatory authorities to assure continued compliance with various standards and to provide for continued licensing under state law.

From time to time, the Corporation may receive notices from state regulatory agencies relating to alleged deficiencies for failure to comply with components of the licensure regulations. While the Corporation will endeavor to comply with all applicable regulatory requirements, it may become subject from time to time to various sanctions and penalties resulting from deficiencies alleged by state survey agencies or even threats to revoke licensure in certain instances. There can be no assurance that the Corporation will not be subject to sanctions and penalties in the future as a result of such actions.

*Other Government Regulation.* The Corporation's Communities are and will continue to be subject to rules and regulations promulgated by various agencies and bodies of federal, State and local governments which have jurisdiction over such matters as health care, employment, safety, traffic and health. The impact of such rules and regulations on the Corporation's Communities is unknown and cannot be predicted. Future orders, pursuant to existing or subsequently enacted rules or regulations, may require the expenditure by the Corporation of substantial sums to effect compliance.

## **State Regulation of the Senior Care and Housing Sector**

Continuing care retirement communities generally provide housing, meals, residential services, other amenities and nursing care to individuals of retirement age who, initially, live independently in their own apartments. The operation of continuing care retirement communities usually involves (i) a written contract under which the provider of continuing care services agrees to provide the resident of the community with accommodations, meals, laundry services, housekeeping, social and recreational activities, assisted living services and certain health-related care; (ii) the payment of an entrance fee and monthly service fees (often varying in amount according to the size of a resident's residential living apartment and to the level of care a resident requires) by each resident designed to meet all general costs of the community's operation; (iii) the existence on the premises of specialized units for assisted living and often a skilled nursing facility; and (iv) the provision of facilities and services generally designed to meet the social, physical and psychological needs of residents. For more detailed information regarding the Communities as to such operational matters, see Appendix A.

Generally, an agreement to provide one or more elements of care to an elderly resident for the duration of his or her life or for a term in excess of one year in exchange for the transfer of consideration for the purpose of assuring care or related services is regarded as a continuing care contract and is subject to regulation under the California Health and Safety Code (the “Health and Safety Code”). Any person or organization agreeing to provide such care must first obtain: (i) one or more written licenses to operate a residential care facility for the elderly from the California Department of Social Services (“DSS”) pursuant to Division 2, Chapter 3.2 of the Health and Safety Code; (ii) where there is a skilled nursing facility on the premises, one or more written licenses to operate such facility from the California Department of Public Health (“DPH”) pursuant to Division 2, Chapter 2 of the Health and Safety Code; and (iii) a certificate of authority (“Certificate of Authority”) from DSS pursuant to Chapter 10 of Division 2 of the Health and Safety Code, to enter into continuing care contracts with residents.

A provider under a continuing care contract (a “Continuing Care Provider”) must maintain at all times qualifying assets (“Qualifying Assets”) as a liquid reserve in an amount at least equal to the sum of (a) the amount the provider is required to hold as a debt service reserve under Section 1792.3 of the Health and Safety Code (the “Debt Service Reserve Amount”) and (b) the amount the Continuing Care Provider is required to hold as an operating expense reserve under Section 1792.4 of the Health and Safety Code (the “Operating Expense Reserve Amount”). The Debt Service Reserve Amount is the amount equal to the sum of (i) all regular principal and interest payments, and credit enhancement premiums, paid by the provider during the immediately preceding fiscal year on account of any fully amortizing long-term debt owed by the provider; (ii) facility rental or leasehold payments, and any related payments, paid by the provider during the immediately preceding fiscal year; and (iii) all payments paid by the Continuing Care Provider during the immediately preceding fiscal year on account of any debt that provides for a balloon payment. The Operating Expense Reserve Amount is an amount that equals or exceeds 75 days’ net operating expenses, which includes all expenses of the Continuing Care Provider except (w) interest and credit enhancement expenses factored into the Debt Service Reserve Amount described above, (x) depreciation or amortization expenses, (y) an amount equal to the reimbursement paid to the Continuing Care Provider during the past 12 months for services to residents other than residents holding continuing care contracts, and (z) extraordinary expenses that DSS determines may be excluded by the Continuing Care Provider. A Continuing Care Provider that has been in operation for less than 12 months calculates its net operating expenses by using its actual expenses for the months it has operated and, for the remaining months, the projected net operating expense amounts it submitted to DSS as part of its application for a Certificate of Authority. Qualifying Assets are: (1) cash; (2) certificates of deposit and United States Treasury securities with a maturity of five years or less; (3) certain investment securities (as defined in Section 1771(i)(2) of the Health and Safety Code); (4) certain equity securities, including mutual funds (as defined in Section 1771(e)(7) of the Health and Safety Code); and (5) certain lines of credit and letters of credit meeting the requirements of Section 1792.2(a)(5) of the Health and Safety Code. A Continuing Care Provider is not required to set aside, deposit into escrow, or otherwise restrict the assets it holds as its liquid reserve, unless DSS expressly requires it to do so because DSS has reason to believe the Continuing Care Provider is insolvent, in imminent danger of becoming insolvent, in a financially unsound or unsafe condition, or in a condition such that it may otherwise be unable fully to perform its obligations pursuant to continuing care contracts.

Any provider offering refundable contracts is required to maintain a refund reserve in trust for each resident holding a refundable contract. The amount of the reserve for each resident is calculated by multiplying the refundable portion of the resident's entrance fee by a factor, using an interest rate of six percent or less from compound interest tables, that will grow at the assumed compound interest rate to one dollar at the end of the resident's life expectancy (based on the life expectancy table set forth in Section 1792.6). A contract is not deemed refundable and a provider does not need to establish a refund reserve where the provider's obligation to repay all or part of the resident's entrance fee is conditioned upon re-occupancy of the apartment and where the conditional repayment promise is not referred to as a "refund."

A recent California law applicable to entrance fee agreements entered into on or after January 1, 2017, requires payment of interest on amounts not repaid within specified periods after termination of the agreement. See "Recent Legislation Affecting Repayable Entrance Fee Contracts" below.

A Continuing Care Provider must also file an annual audit and report with DSS within four months after the end of such Continuing Care Provider's fiscal year. In addition, a Continuing Care Provider must file, on an annual basis, a report disclosing operational data, margin ratios, liquidity indicators and capital structure indicators. Continuing Care Providers offering "Type A" continuing care contracts, such as the Corporation, must also file an actuary's opinion with respect to the Continuing Care Provider's financial condition. Any forms, including the form of any exhibit, attachment or addendum referred to or incorporated by reference in a continuing care contract, must be filed with and approved by DSS prior to its implementation.

A Certificate of Authority may be suspended, conditioned or revoked by DSS if it finds that the Continuing Care Provider has done any of the following: (i) violated the statutes, or the rules and regulations governing continuing care (the "Continuing Care Law"); (ii) aided, abetted, or permitted the violation of the Continuing Care Law; (iii) had a license suspended or revoked; (iv) made a material misstatement, misrepresentation, or fraud in obtaining its licenses, permits or Certificates of Authority; (v) demonstrated a lack of fitness or trustworthiness; (vi) engaged in any fraudulent or dishonest practices or management in the conduct of business; (vii) misappropriated, converted, or withheld moneys; (viii) after request by DSS for an examination, access to records, or information, refused to be examined or otherwise to cooperate; (ix) manifested an unsound financial condition; (x) used methods and practices in the conduct of business so as to render further transactions by the provider hazardous or injurious to the public; (xi) failed to maintain at least the minimum statutory reserves required by the Continuing Care Law; (xii) failed to comply with the requirements of the Continuing Care Law for maintaining escrow accounts for funds; (xiii) failed to file its annual report; (xiv) violated a condition of its permit to accept deposits or Certificates of Authority; (xv) failed to comply with its approved financial and marketing plan or to secure approval of a modified plan; (xvi) materially changed or deviated from an approved plan of operation without the prior consent of DSS; (xvii) failed to fulfill its obligations under continuing care contracts; (xviii) made material misrepresentations to depositors, prospective residents or residents of a continuing care retirement community; (xix) failed to submit proposed changes to continuing care contracts prior to use, or using a continuing care contract that has not been previously approved by DSS; or (xx) failed to diligently submit materials requested by DSS or required by the Continuing Care Law. The suspension or revocation of a Certificate of Authority by DSS, or the voluntary return of such a Certificate by a Continuing Care Provider, does not release such provider from the obligations assumed at the time continuing care contracts were executed.

There is no guarantee that the Corporation's Certificates of Authority and licenses to operate the applicable Communities will not be suspended, conditioned or revoked. Further, there is no assurance that future legislation in California will not have an adverse impact on the ability of the Corporation to operate the Communities as now operated. To date, the Corporation's existing Certificates of Authority have never been suspended, conditioned or revoked.

In addition to suspending, limiting or revoking a Certificate of Authority, if a Continuing Care Provider fails to establish or depletes the reserves or escrow account required under the Continuing Care Law, is insolvent or in imminent danger of becoming insolvent, is in a financially unsound or unsafe condition, fails to submit a plan or to obtain DSS's approval of a plan submitted, is unable fully to perform its obligations under continuing care contracts or residents are otherwise placed in serious jeopardy, DSS may petition the superior court in the county in which such community is located for an order appointing a qualified administrator to operate the community and its assets.

In the case of any violation or threatened violation of the Continuing Care Law, DSS may institute a proceeding or may request the Attorney General of the State to institute a proceeding to obtain injunctive or other equitable relief in the superior court in and for the county in which the violation has occurred or will occur, or in which the principal place of business of the Continuing Care Provider is located. If at any time DSS determines that further efforts to rehabilitate the Continuing Care Provider would not be in the best interest of the residents or prospective residents, or would not be economically feasible, DSS may apply to the court for an order of liquidation and dissolution or may apply for other appropriate relief for dissolving the property and bringing to conclusion its business affairs. Upon issuance of an order directing the liquidation or dissolution of the provider, DSS is required to revoke the Continuing Care Provider's Certificate of Authority.

Pursuant to Sections 1773 and 1789.4 of the Health and Safety Code, a provider may not sell or transfer ownership (including the granting of any interest in the community, such as a mortgage or deed of trust) of a continuing care retirement community without the approval of DSS. Pursuant to Health and Safety Code Section 1779.4, as a condition to the receipt of a license to operate as a continuing care retirement community, a provider must also record a Notice of Statutory Limitation on Transfer with respect to the real property on which the community is located, indicating that use and transfer of the property is subject to the conditions and limitations imposed by the Health and Safety Code, which Notice is required to be recorded prior to encumbering the continuing care retirement community property with a proposed encumbrance securing financing. The limitations on transfer imposed by the Health and Safety Code Section 1789.4 include approval by DSS following review of an application that identifies the purchaser, the terms of the sale, a plan for ensuring performance of the existing continuing care contract obligations and notice to and acknowledgment by the residents. Further, unless a new provider assumes all of the continuing care obligations of the selling provider at the close of the sale or transfer, the selling provider must set up a trust fund or secure a performance bond to ensure the fulfillment of all of its continuing care contract obligations. The purchaser must also make application for and obtain the appropriate licenses and Certificate of Authority before executing any continuing care contracts or assuming the selling provider's continuing care contracts. The Corporation has recorded the foregoing statutory limitation on transfer with respect to the Communities.

The Corporation's Communities that hold a Certificate of Authority consist of Carlsbad By The Sea, Sunny View, Villa Gardens, Vista Del Monte, and Walnut Village. See "COMMUNITIES" in Appendix A.

For information regarding risk of suspension or revocation of any of the Corporation's licenses, see "BONDHOLDERS' RISKS – Regulatory Matters" and "– State Regulation of the Senior Care and Housing Sector."

### **General Risks of the Communities**

There are many diverse factors not within the Corporation's control that have a substantial bearing on the risks generally incident to the operation of its Communities. These factors include generally imposed fiscal policies, adverse use of adjacent or neighboring real estate, the ability to maintain the Communities, community acceptance of the Communities, changes in demand for the Communities, changes in the number and type of competing communities and facilities, changes in the costs of operation of the Communities, changes in the laws of the State affecting assisted living programs, the limited income of the elderly, changes in the assisted living and health care industries, difficulties in or restrictions on the Corporation's ability to raise rates charged, general economic conditions and the availability of working capital. In recent years, a significant number of retirement communities and facilities throughout the United States have defaulted on various financing obligations or otherwise have failed to perform as originally expected. There can be no assurance the Corporation's Communities will not experience one or more of the adverse factors that caused other communities to fail. Many other factors may adversely affect the operation of communities like the Corporation's Communities and cannot be determined at this time.

### **Nature of the Income of the Elderly**

A large percentage of the monthly income of the residents of the Corporation's Communities is fixed income derived from pensions, investments and Social Security. In addition, some future residents will be liquidating assets in order to pay the monthly and other fees. If, due to inflation or otherwise, substantial increases in fees are required to cover increases in operating costs, wages, benefits and other expenses, some residents may have difficulty paying or may be unable to pay such increased fees. The Corporation's inability to collect from residents the full amount of their payment obligations may jeopardize the ability of the Corporation to pay amounts due under the Loan Agreement.

### **Completion of the Construction Projects**

There can be no assurances given that the Corporation's ongoing construction projects, including the project at Wesley Palms, will be completed, or that such construction projects can be completed for the cost and within the time projected by the Corporation. Although the construction projects relate to a minority of the Corporation's 12 Communities, it is possible that failure to complete the construction projects, or to complete them in a timely fashion at the estimated cost, or the failure to enroll residents at the affected communities once the construction projects are completed, could adversely affect the ability of the Corporation to generate sufficient revenues to conduct its planned operations and to make payments with respect to the Bonds.

Whether or not the construction projects will be completed on schedule depends upon a large number of factors, many of which may be beyond the control of the Corporation. These include, but are not limited to, adverse weather, strikes, delays in the delivery of or shortages of materials, delays in the issuance of required building permits, environmental restrictions or similar unknown or unforeseeable contingencies. Further, there can be no assurance that the construction projects will conform to construction specifications or state or local regulations. The occurrence of any of the foregoing could result in increases in construction

costs or considerable delays in, or complete impossibility of, completion of any of the construction projects, resulting in a failure to achieve anticipated operating results. Construction costs could exceed the amounts originally forecast due to a number of factors.

### **Certain Matters Relating to the Security Interest in Gross Revenues**

The effectiveness of the security interest in Gross Revenues granted under the Master Indenture may be limited by a number of factors, including: (i) the absence of an express provision permitting assignment of interests in receivables due under the contracts with third party payors (including proceeds thereof), and present or future prohibitions against assignment contained in any applicable statutes or regulations; (ii) commingling of Gross Revenues with other moneys of the Corporation not so pledged under the Master Indenture; (iii) statutory liens; (iv) rights arising in favor of the United States of America or any agency thereof; (v) constructive trusts, equitable or other rights impressed, conferred or otherwise imposed by a federal or state court in the exercise of equitable jurisdiction; (vi) federal bankruptcy laws which may affect the enforceability of the security interest in the Gross Revenues of the Corporation which are earned by the Corporation within 90 days preceding or, in certain circumstances with respect to related corporations, within one year preceding and after any effectual institution of bankruptcy proceedings by or against the Corporation or any future Member of the Obligated Group; (vii) rights of third parties in Gross Revenues converted to cash and not in the possession of the Master Trustee; (viii) claims that might arise if appropriate financing or continuation statements are not filed in accordance with the California Uniform Commercial Code as from time to time in effect; and (ix) possible limitations upon the right of the Master Trustee, in the event of the bankruptcy of the Corporation or a future Member of the Obligated Group, to collect and retain proceeds of accounts receivable from Medicare, Medicaid and other governmental programs.

### **Enforceability of Remedies**

The Bonds are secured by an assignment by the Authority to the Bond Trustee of certain rights under the Loan Agreement (except as provided therein). The legal right and practical ability of the Bond Trustee to enforce the rights and remedies under the Loan Agreement may be limited by laws relating to bankruptcy (see “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS – Security and Enforceability - *Bankruptcy*”), insolvency, reorganization, fraudulent conveyance or moratorium and by other similar laws affecting creditor rights. In addition, the enforcement of such rights and remedies will depend upon the exercise of various remedies specified by such documents which may in many instances require judicial actions that are often subject to discretion and delay or that otherwise may not be readily available or may be limited. The practical realization of recovery from the Corporation upon any default will depend upon the exercise of various remedies specified by the Loan Agreement and the Bond Indenture. These and other remedies may require judicial actions, which are often subject to discretion and delay. Under existing law (including, without limitation, the Bankruptcy Code), the remedies specified by the Loan Agreement may not be readily available or may be limited. The same limitations also will apply to enforcement of the corresponding Obligation issued the Master Indenture in support of the Corporation’s obligations.

In addition, there exists common law authority and authority under certain statutes for the ability of the courts to terminate the existence of a nonprofit corporation or undertake supervision of its affairs on various grounds, including a finding that such corporation has insufficient assets to carry out its stated charitable purposes. Such court action may arise on the court's own motion or pursuant to a petition of the state Attorney General or such other persons who have interests different from those of the general public, pursuant to the common law and statutory power to enforce charitable trusts and to see the application of their funds to their intended charitable uses.

The various legal opinions to be delivered concurrently with the execution and delivery of the Bonds will be qualified as to the enforceability of the various legal instruments by limitations imposed by State and federal laws, rulings and decisions affecting remedies, and by bankruptcy, reorganization or other laws of general application affecting the enforcement of creditors' rights or the enforceability of certain remedies or document provisions.

With regard to the Series 2017A Obligation issued under the Master Indenture, the obligations of the Corporation and any future Members of the Obligated Group under the Series 2017A Obligation will be limited to the same extent as the obligations of debtors typically are affected by bankruptcy, insolvency and the application of general principles of creditors' rights and as additionally described below.

The accounts of the Corporation and any future additional Members of the Obligated Group will be combined for financial reporting purposes and will be used in determining whether various covenants and tests contained in the Master Indenture (including tests relating to the incurrence of additional indebtedness) are met, notwithstanding the uncertainties as to the enforceability of certain obligations of the Obligated Group contained in the Master Indenture which bear on the availability of the assets and revenues of the Obligated Group to pay debt service on Obligations, including the Series 2017A Obligations pledged under the Bond Indenture as security for the Bonds. The obligation described herein of the Obligated Group to make payments of debt service on Obligations issued under the Master Indenture (including transfers in connection with voluntary dissolution or liquidation) may not be enforceable to the extent (1) enforceability may be limited by applicable bankruptcy, moratorium, reorganization or similar laws affecting the enforcement of creditors' rights and by general equitable principles and (2) such payments (i) are requested with respect to payments on any Obligations issued by a Member other than the Member from which such payment is requested, issued for a purpose which is not consistent with the charitable purposes of the Member of the Obligated Group from which such payment is requested or issued for the benefit of a Member of the Obligated Group which is not a tax-exempt organization; (ii) are requested to be made from any moneys or assets which are donor-restricted or which are subject to a direct or express trust which does not permit the use of such moneys or assets for such a payment; (iii) would result in the cessation or discontinuation of any material portion of the health care or related services previously provided by the Member of the Obligated Group from which such payment is requested; or (iv) are requested to be made pursuant to any loan violating applicable usury laws. The extent to which the assets of any future Member of the Obligated Group may fall within the categories (ii) and (iii) above with respect to the Series 2017A Obligation cannot now be determined.

A Member of the Obligated Group may not be required to make any payment on any Obligation, or portion thereof, the proceeds of which were not loaned or otherwise disbursed to such Member of the Obligated Group to the extent that such payment would render such Member of the Obligated Group insolvent or which would conflict with or not be permitted by or which is subject to recovery for the benefit of other creditors of such Member of the Obligated Group under applicable laws. There is no clear precedent in the law as to whether such payments from a Member of the Obligated Group in order to pay debt service on the Series 2017A Obligation may be voided by a trustee in bankruptcy in the event of bankruptcy of a Member of the Obligated Group, or by third-party creditors in an action brought pursuant to state fraudulent conveyance statutes. Under the United States Bankruptcy Code, a trustee in bankruptcy and, under state



fraudulent conveyance statutes and common law, a creditor of a related guarantor, may avoid any obligation incurred by a related guarantor if, among other bases therefor, (1) the guarantor has not received fair consideration or reasonably equivalent value in exchange for the guaranty and (2) the guaranty renders the guarantor insolvent, as defined in the Bankruptcy Code or state fraudulent conveyance statutes, or the guarantor is undercapitalized.

Application by courts of the tests of “insolvency,” “reasonably equivalent value” and “fair consideration” has resulted in a conflicting body of case law. It is possible that, in an action to force a Member of the Obligated Group to pay debt service on an Obligation for which it was not the direct beneficiary, a court might not enforce such a payment in the event it is determined that the Member of the Obligated Group is analogous to a guarantor of the debt of the Member of the Obligated Group who directly benefited from the borrowing and that sufficient consideration for the Member of the Obligated Group's guaranty was not received and that the incurrence of such Obligation has rendered or will render the Member of the Obligated Group insolvent.

### **Rate Setting**

Future legislation granting full or partial rate fixing authority to a State or federal agency could prevent the Corporation from increasing rates adequately to cover potential increases in its operating costs or other expenses.

### **Health Care Reform; Budgetary Restrictions**

The current President and many members of Congress have expressed their intent to repeal and replace The Patient Protection and Affordable Care Act, commonly referred to as the “Affordable Care Act.” The Corporation cannot predict whether any meaningful repeal of the Affordable Care Act will occur or the scope or terms of any replacement of the Affordable Care Act. Any repeal or replacement could directly and adversely affect (1) the health insurance coverage and costs provided by the Corporation to its employees, which costs are a substantial portion of the salary and benefits offered by the Corporation, (2) the costs to residents of certain services provided by the Corporation and the sources of funds available for residents to pay such costs, or (3) the willingness of prospective residents to consider the Community as a retirement option.

Attempts to substantially modify the Affordable Care Act could take the form of legislation or executive orders, which if passed or adopted, may have sweeping impact and possibly significant intended and unintended consequences on health care providers, including the Corporation. Such legislation or executive orders could adversely impact the Corporation's results of operations, including reductions in reimbursements under the Medi-Cal program, reduced private insurance reimbursements or coverage, migration of patients from private insurance programs to a government-sponsored insurance program, increased compliance costs for Medicare and any government-sponsored insurance programs and other increased operating costs for the Corporation, as an employer in its community.

In addition to pending bills, new federal and state legislative proposals are likely to be considered in the future to regulate or alter the methods of financing and delivery of health care services, to further reduce payments and change payment methodology under the Medicare program, to enhance competition in the health care industry and health care cost containment, to curtail the installation of new health care facilities, and to mandate minimum levels of charity or free care required to be provided by tax-exempt hospitals and health care providers. Any new legislation or government policies, if enacted into law, could adversely affect the revenues and operations of the Corporation.

As a general matter, federal and state governments have in the past, and may in the future, make changes to their respective budgets, which budget reductions may include reductions to the Medicare or Medicaid programs. Additionally, federal health care reform legislation has resulted in significant reimbursement cuts, and future health care reform efforts (including current efforts to repeal and replace the Affordable Care Act) may result in additional cuts. The reduction of Medicare or Medicaid spending may have a material adverse effect upon facilities that accept Medicare and Medicaid payments such as the Corporation.

Also, through legislation, the federal government has created a debt “ceiling” or limit on the amount of debt that may be issued by the United States Treasury. In past years, political disputes have arisen within the federal government related to debt ceiling increase authorization. Any failure by the Congress to increase the federal debt ceiling may impact the federal government's ability to incur additional debt, pay its existing debt, or to satisfy its obligations relating to the Medicare and Medicaid programs. It is not possible to determine what impact any failure to increase the federal debt ceiling could have on the operations and financial condition of the Corporation and its Communities, although such impact could potentially be material.

### **Claims and Insurance Coverage**

Past increases in costs of insurance coverage for retirement communities and health care facilities have been attributed to a number of factors, including, most notably, an epidemic increase in litigation against retirement communities and health care facilities. In many instances, plaintiffs in elder abuse actions have access to various enhanced remedies, such as attorneys’ fees, post-death pain and suffering, and punitive damages in certain circumstances. As a result, simple negligence cases are increasingly re-characterized as abuse cases. Congressional reports on abuse and increased enforcement activities by State regulatory agencies have also contributed to this phenomenon. Liability insurance does not provide coverage for judgments for punitive damages where prohibited by law, or for the payment of claims of intentional acts.

Litigation may also arise from the corporate and business activities of the Corporation including from its status as an employer. Many of these risks would be covered by insurance, but some might not be. For example, certain antitrust claims, claims arising from alleged violations of the California Labor Code and applicable regulations, claims arising from physical harm or assault, including sexual molestation, business disputes and workers’ compensation claims may not be covered by insurance or other sources and may, in whole or in part, be a liability of the Corporation if determined or settled adversely.

### **Seismic Risk**

According to the Seismic Safety Commission of the State of California, the State is mapped into seismic hazard zones 3 and 4. Seismic hazard zones account for geographic variation in the expected levels of earthquake ground shaking and are based on the historical records of earthquakes and the location of known earthquake faults. Several earthquake faults run through California, including in the location of some of the Corporation’s Communities. Local building codes take into account the likelihood of ground shaking and are intended to provide safety to the building occupants. See “FINANCIAL INFORMATION – Insurance” in Appendix A for a discussion of the Corporation’s insurance coverage. The Corporation’s California Communities are excluded from insurance coverage for damages caused by earthquakes.

There can be no assurance that the occurrence of a significant seismic event in any area in which the Corporation operates would not have a material adverse effect on the Communities, the operations of the Corporation or the ability of the Corporation to make the Loan Repayments.

## **Cybersecurity Risks**

The Corporation relies on its information systems to provide security for processing, transmission and storage of confidential resident and other information, including information relating to health protected by HIPAA. Although the Corporation has taken steps to protect the security of its information systems and the data maintained in those systems, it is possible that these security measures will not prevent improper access or disclosure of personally identifiable information, as in the event of cyber-attacks. Security breaches, including electronic break-ins, computer viruses, attacks by hackers and similar breaches can create system disruptions or shutdowns or the unauthorized disclosure of confidential information. If personal or otherwise protected information of residents or others is improperly accessed, tampered with or distributed, the Corporation may incur significant costs to remediate possible injury to the affected residents or other persons, and the Corporation may be subject to sanctions and civil penalties if it is found to be in violation of the privacy or security rules under HIPAA or other similar federal or state laws protecting confidential patient health information. Any failure to maintain proper functionality and security of information systems could interrupt the Corporation's operations, damage its reputation, subject it to liability claims or regulatory penalties and could have a material adverse effect on its operations, financial condition and results of operations.

## **Drought and other Climatological Occurrences**

California recently emerged from one of its most extreme droughts on record. In 2014, California Governor Jerry Brown declared a state of emergency due to drought and severe water supply conditions in various parts of the State. In 2015, the California Public Utilities Commission ordered the water companies under its jurisdiction to notify customers of emergency regulations that were put into place by the State Water Resources Control Board in order to preserve sufficient potable water and ensure safe drinking water for Californians. Governor Brown lifted the drought emergency in most of California in April, 2017. A resumption of widespread drought conditions could have significant negative impact on the economy of the State, which could have an adverse effect on the revenues and operations of the Corporation.

In May 2009, the California Climate Change Center released a final paper, titled "The Impacts of Sea-Level Rise on the California Coast," which posited that increases in sea level will be a significant consequence of climate change in the 21<sup>st</sup> century. A substantial sea-level rise would increase the likelihood and intensity of floods in areas that are already at risk of flooding, as well as increase the overall area at risk of flooding. Sea-level rise would also likely accelerate shoreline recession in areas where the coast erodes easily, which may include the complete erosion of barrier dunes currently protecting certain areas from floods. Certain of the Corporation's communities are on or near the California coast, and may be subject to damage or disruption as a result of flooding. Climate-related occurrences, including flooding and erosion resulting from sea-level rise, may have an adverse effect on the revenues and operations of the Corporation.

## **Competition**

The Communities are located in areas where other continuing care retirement communities and other competitive facilities, including acute-care hospitals and other facilities with substantial capacity that accept a wider range of acuity, exist, and may in the future be developed. The Communities may also face additional competition in the future as a result of changing demographic conditions and the construction of new, or the renovation or expansion of existing continuing care communities in the geographic areas served by the Communities. The Obligated Group presently faces and will continue to face competition from other forms of retirement living, including condominiums, apartment buildings and communities or facilities not specifically designed for the elderly, some of which may be designed to offer similar facilities but not necessarily similar services, at lower prices. In addition, there are few entry barriers to future competitors because competing communities and facilities generally do not require a certificate of need approval for independent living communities, although continuing care communities would be required to obtain a Certificate of Authority from DSS. All of these factors combine to make the elderly housing industry volatile and subject to material change that cannot be currently predicted. See “OPERATIONS – Competition” in Appendix A.

## **California Budgets**

California has faced in the past severe financial challenges, including erosion of general fund tax revenues, falling real estate values, slow economic growth and high unemployment. Shortfalls between revenues and spending have in the past and may in the future result in cutbacks to State and local government health care programs. Nonetheless, California’s economy has rebounded to steady growth, although slower than previous economic recoveries, with rising employment and recovery in the housing market.

It is impossible to predict what actions will be taken in future years by the State Legislature, the Governor of the State or citizen initiative actions to address California’s economic situation. Despite current budget predictions, the financial challenges that California had faced in the past may return in the future. It is possible that such financial challenges could adversely affect the State’s credit rating and, therefore, the credit rating on the Bonds. In addition, no assurance can be provided that any financial challenges that the State may face will not affect the State’s ability to perform its obligations with respect to the Insurance Program.

## **Recent Legislation Affecting Repayable Entrance Fee Contracts**

On July 25, 2016, Governor Brown signed a bill which aims to protect CCRC residents and their estates against significant delays in the repayment of residents’ entrance fees when contracts condition the repayment on the reletting of CCRC units (the “Monning Bill”). The Monning Bill provides that any unpaid entrance fee repayments shall accrue interest at the following rates: 4% simple interest on entrance fee repayments unpaid after 180 days after termination of the contract, 6% simple interest on repayments unpaid after 240 days after contract termination, and annually compounded interest of 6% on repayments unpaid after one year and 240 days after contract termination. Such legislation could adversely affect the Corporation if it is unable to relet units previously occupied by repayable contract holders within the prescribed times. In such event, the Corporation would need to make the prescribed interest payments to the former residents or their estates. If the Corporation were unable to pass on the cost of any interest payments or foregone interest income in the form of increased monthly fees, the Corporation’s cost of operations would increase, reducing the Corporation’s net earnings and liquidity.

## **Energy Costs**

Deregulation of the electrical and natural gas industry in California, together with changes in the supply and sale patterns of electricity and natural gas, has resulted in increased costs of energy to businesses located in California and possible disruption in supply. Significant increases in the cost of energy could materially adversely affect the financial condition of the Corporation.

## **Environmental Laws and Regulations**

There are potential risks relating to liabilities for environmental hazards with respect to the ownership or long-term leasing of any real property. If hazardous substances are found to be located on property, owners of such property may be held liable for costs and other liabilities related to the removal of such substances, which costs and liabilities could exceed the value of a facility.

At the present time, management of the Corporation is not aware of any pending or threatened claim, investigation or enforcement action regarding such environmental issues which, if determined adversely to the Corporation, would have material adverse consequences. In the event such enforcement actions were initiated, the Corporation could be liable for the costs of removing or otherwise treating pollutants or contaminants located at its Communities. In addition, under certain environmental statutes, in the event an enforcement action was initiated, a lien could attach to one or more of the Corporation's Communities, which would adversely affect the Corporation's ability to generate revenues from the operation of the Communities sufficient to meet the debt service requirements with respect to the Bonds and its obligations under the Loan Agreement.

## **Taxation of Interest on the Bonds**

Because the exclusion for federal income tax purposes of the interest on the Bonds from the gross income of the owners thereof depends upon events occurring after the date of execution and delivery of the Bonds, the opinion of Bond Counsel described under "TAX MATTERS" herein assumes the compliance by the Corporation with the provisions of the Code and the regulations relating thereto. No opinion is expressed by Bond Counsel with respect to the exclusion from gross income of the interest on the Bonds in the event of noncompliance with such provisions. The failure of the Corporation to comply with the provisions of the Code and the regulations thereunder may cause the interest on the Bonds to become includable in the gross income of the owners thereof as of the date of execution and delivery of the Bonds.

The Corporation has not sought to obtain a private letter ruling from the Internal Revenue Service (the "IRS") with respect to the Bonds, and the opinion of Bond Counsel is not binding on the IRS. There is no assurance that an IRS examination of the Bonds will not adversely affect the market value of the Bonds. See "TAX MATTERS."

## **Possible Future Federal Tax Legislation**

It is possible that future tax legislation could require that the interest on the Bonds be included in the gross income of the owners for federal income tax purposes, and the value or marketability of the Bonds could be adversely affected by any such legislation. See "TAX MATTERS."

## Internal Revenue Code Compliance

The IRS has determined that the Corporation is a tax-exempt organization described in Section 501(c)(3) of the Internal Revenue Code of 1986, as amended (the “Code”), and exempt from taxation under Section 501(a) of the Code. As a tax-exempt, charitable organization, the Corporation and its operations are subject to various requirements specified by the Code and the regulations promulgated thereunder. Compliance with those requirements is necessary to maintain the tax-exempt status of the Corporation. If the Corporation should fail to meet any of the requirements specified by the Code and regulations thereunder as necessary to maintain its tax-exempt status, action could be initiated by federal or state tax authorities to attempt to subject the Corporation, its property, and its revenues to taxation. If successful, such action could cause interest on the Bonds to be taxable to the owners thereof. Under the Code as amended to the date of this Official Statement, the failure of the Corporation to maintain its tax-exempt status could constitute a default under the Loan Agreement. The Corporation has covenanted in the Loan Agreement that it will not take or omit to take any action, if such act or omission would cause the interest on the Bonds to be includable in the gross income of any owner for federal income tax purposes. Loss of tax-exempt status by the Corporation could result in loss of tax-exemption of the Bonds, and defaults in covenants regarding the Bonds would likely be triggered. Such an event would have material adverse consequences on the financial condition of the Corporation.

The maintenance by the Corporation of tax-exempt status depends, in part, upon the maintenance of its status as an organization described in Section 501(c)(3) of the Code. The maintenance of such status is contingent upon compliance with general rules promulgated in the Code and related regulations regarding the organization and operation of tax-exempt entities, including their operation primarily for charitable purposes. The IRS has announced that it intends to closely scrutinize transactions between nonprofit corporations and for-profit entities, including transactions relating to the Anti-Kickback Law, and has issued revised audit guidelines for tax-exempt health care entities. Although specific activities of health care entities have been the subject of interpretations by the IRS in the form of Private Letter Rulings, many activities have not been addressed in any official opinion, interpretation or policy of the IRS. Because the Corporation conducts operations involving private parties, there can be no assurance that certain of the Corporation’s transactions would not be challenged by the IRS.

On July 31, 1996, the Federal Taxpayers Bill of Rights 2 (the “Taxpayers Act”) was signed into law. The Taxpayers Act provides the IRS with an “intermediate” tax enforcement tool to combat violations by tax-exempt organizations of the private inurement prohibition of the Code. Previous to this “intermediate sanctions” law, the IRS could punish such violations only through revocation of an organization’s tax-exempt status.

Intermediate sanctions may now be imposed where there is an “excess benefit transaction,” generally defined to involve a disqualified person (i.e., an insider) engaging in an economic transaction with a tax-exempt organization at other than fair market value.

A disqualified person who benefits from an excess benefit transaction will be required to restore the excess benefit to the exempt organization and will be subject to a “first tier” penalty excise tax equal to 25% of the amount of the excess benefit. Organizational managers (e.g., directors) who participate in an excess benefit transaction knowing it to be improper are subject to a “first-tier” penalty excise tax of 10% of the amount of the excess benefit, subject to a maximum penalty of \$10,000. A “second tier” penalty excise tax of 200% of the amount of the excess benefit may be imposed on the disqualified person (but not the organizational manager) if the excess benefit transaction is not corrected in a specified time period. The intermediate sanctions law is effective retroactively to September 15, 1995.

## **State Medicaid Program**

California's Medicaid program (known as "Medi-Cal") and other state health care programs are an important payor source for the Corporation, and may become a proportionately larger source of revenue as federal health care reform is implemented, expanding Medicaid coverage to significant numbers of uninsured Americans. These programs often pay providers at levels that may be below the actual cost of the care provided. As Medi-Cal and other state health care programs are partially funded by the states, the financial condition of the states in which the Communities are located may result in lower funding levels and/or payment delays in the future. These could have a material adverse impact on health care providers.

## **Property Taxes; State and Local Tax Exemption**

Local property tax assessors take differing positions as to whether or not communities such as those owned by the Corporation are exempt from property taxation. The Corporation's California Communities currently qualify for the "welfare exemption" from California property taxes, though the Corporation pays certain fees and assessments to local taxing authorities relating to the Communities. A failure to obtain or continue exemptions or to follow annual procedures in any year could subject the Corporation to tax in that year. In addition, budgetary pressures on local government may lead to increasing pressures for state legislation to amend the property tax statutes to subject to taxation various properties owned by nonprofit organizations or to condition exemption from taxation upon the performance of specific types or level of charitable activity.

It is possible that legislation may be proposed to strengthen the role of the California Franchise Tax Board and the Attorney General in supervising nonprofit health care providers. It is likely that the loss by the Corporation of federal tax exemption also would trigger a challenge to the state tax exemption of the Corporation. Depending on the circumstances, such event could be adverse and material.

In recent years, state, county, and local taxing authorities have been undertaking audits and reviews of the operations of tax-exempt organizations with respect to their property tax exemption for both real and personal property. The Corporation expects the majority of its real and personal property to be exempt from property taxes. Investigations or audits could lead to challenges of the property tax exemption with respect to Communities of the Corporation that, if successful, could adversely and materially affect the property tax exemption with respect to certain of the Communities or property of the Corporation.

It is not possible to predict the scope or effect of future legislative or regulatory actions with respect to taxation of not-for-profit corporations. There can be no assurance that future changes in the laws and regulations of federal, state or local governments will not materially or adversely affect the operations and financial condition of the Corporation by requiring it to pay income or local property taxes.

## **Unrelated Business Taxation**

Changes in tax laws regarding not-for-profit organizations could adversely affect certain of the Corporation's revenues. Recently Congress and the IRS have focused more closely on issues of tax-exemption, such as the scope of activities constituting unrelated business taxable income. The effect on the Corporation, however, is likely to be de minimus because the Corporation believes none of its contemplated activities will give rise to such income.

## **Lack of Marketability for the Bonds**

Although the Underwriter intends, but is not obligated, to make a market for the Bonds, there can be no assurance that there will be a secondary market for the Bonds, and the absence of such a market for the Bonds could result in investors not being able to resell the Bonds should they need to or wish to do so.

## **Amendments to Documents**

Certain amendments to the documents may be made without the consent of the owners of the Bonds and other amendments may be made with the consent of the owners of a majority in an aggregate principal amount of all outstanding Bonds. Such amendments could affect the security for the Bonds. Certain amendments may be made without the consent of the owners of the Bonds if the amendment does not materially adversely affect the interest of the owners of the Bonds. See Appendix C.

## **Other Considerations**

*Reduced Demand.* The reduced need for assisted living services arising from future scientific advances, preventive medicine, home healthcare services, alternative delivery systems, changes in demographics, or a decline in the population or the economic condition of the service area of the Corporation's Communities may adversely affect the Corporation's revenues.

*Changes in Tax Policy.* Taxing authorities in certain jurisdictions have sought to impose or increase taxes related to the property and operations of nonprofit organizations, including nursing homes and retirement centers, particularly where such authorities are dissatisfied with the amount of service provided to indigents. The Corporation believes its planned services to indigents will be adequate, but it is possible that future administrative or judicial proceedings will have the effect of requiring the Corporation to increase its services to indigent residents to retain its tax-exempt status, which would have an adverse effect on the revenues of the Corporation.

*Cost Increases.* Cost increases without corresponding increases in revenues would result from, among other factors, increases in insurance premiums, increases in the salaries, wages and fringe benefits of employees, increases in costs associated with advances in medical technology or with inflation and future legislation which would prevent or limit the ability of the Corporation to increase revenues from operating its Communities or providing services. In addition, it is possible that the State of California will pass legislation requiring certain tax-exempt organizations, such as the Corporation, to pay certain fees for municipal services, which may in turn increase the Corporation's operating costs. At present, many charitable organizations similar to the Corporation are not required to pay fees for municipal services in respect of such real property unless the fees represent user fees of general application. Furthermore, the Code places certain limitations on the ability to finance certain projects, invest bond proceeds and advance refund prior tax-exempt bond issues. These limitations may increase the interest costs for future borrowings by the Corporation.

*Governmental Approvals.* The possible inability to obtain future governmental approvals to undertake projects necessary to remain competitive both as to rates and charges as well as quality and scope of care could adversely affect the operations of the Corporation.

*Natural Disasters.* The occurrence of natural disasters, including earthquakes, floods, hurricanes and tornadoes, may damage the Communities operated by the Corporation or interrupt utility service to the Communities, otherwise impair the operations of the Communities, or the generation of revenues from the Communities. The Corporation may not be able to obtain insurance against all such hazards at commercially reasonable rates.



*Adverse Relations.* Adverse community relations or publicity involving the Corporation's Communities could affect the demand for the services provided by the Communities, or the generation of revenues from the Communities.

*Other Legislation.* Assisted living and certain retirement communities, such as the Corporation's Communities, are subject to a wide variety of federal, state and local environmental and occupational health and safety laws and regulations that address, among other things, operations of communities and properties owned or operated by nursing facilities. Among the types of regulatory requirements faced by assisted living communities are: air and water quality control requirements; waste management requirements; specific regulatory requirements applicable to asbestos; requirements related to polychlorinated biphenyls and radioactive substances; requirements for providing notice to employees and members of the public about hazardous materials handled by or located at the nursing facility or hospital; requirements for training employees in the proper handling and management of hazardous materials and wastes; and other requirements. The Corporation may be subject to liability for investigating and remedying any hazardous substances that have come to be located on the property, including any such substances that may have migrated off of the property. Typical operations of assisted living communities include, to some extent, and in various combinations, the handling, use, storage, transportation, disposal and discharge of hazardous, infectious, toxic, radioactive, flammable and other hazardous materials, wastes, pollutants or contaminants. For this reason, operations of assisted living communities are susceptible to the practical, financial and legal risks associated with compliance with such laws and regulations. Such risks may result in damage to individuals, property or the environment; may interrupt operations or increase their cost or both; may result in legal liability, damages, injunctions or fines; or may trigger investigations, administrative proceedings, penalties or other government agency actions. There can be no assurance that the Corporation will not encounter such risks in the future, and such risks may result in material adverse consequences to the operations or financial condition of the Corporation.

*Impact of Disruptions in the Credit Markets and General Economic Factors.* A financial market disruption, such as the economic recession that began in 2008, may have negative repercussions upon the national and global economies, including a scarcity of credit, lack of confidence in the financial sector, extreme volatility in the financial markets, increased interest rates, reduced business activity, increased consumer bankruptcies and increased business failures and bankruptcies. The health care and senior care sectors were materially adversely affected by the 2008 recession and would likely be materially adversely affected by any future economic recession or financial market disruption. Consequences of the 2008 recession generally included realized and unrealized investment portfolio losses, reduced investment income, limitations on access to the credit markets, difficulties in extending existing or obtaining new liquidity facilities, difficulties in remarketing revenue bonds subject to tender, requiring the expenditure of internal liquidity to fund tenders of revenue bonds, and increased borrowing costs. Future financial market disruptions cannot be predicted and there can be no assurance that future financial disruptions will not materially or adversely affect the operations and financial condition of the Corporation or future Members of the Obligated Group.

*Other Factors.* The occurrence of any of the following events, or other unanticipated events, could affect adversely the operation of the Corporation:

- (a) shortages of personnel rendering services at assisted living communities and nursing facilities;
- (b) shortages in nursing staff;

- (c) reinstatement or establishment of mandatory wage or price controls;
- (d) increases in the cost or limitations on the availability of insurance;
- (e) expansion of programs paying or increasing payments for in-home care;
- (f) employee strikes, other adverse labor actions or disputes with members of the professional staff;
- (g) a decline in the population, a change in the age composition of the population or a decline in the economic conditions of the market area; or
- (h) increases in the cost of public utilities, including electricity, natural gas, water and sewer services.

### **RATINGS**

S&P Global Ratings, a division of Standard & Poor's Financial Services, LLC, ("S&P") has assigned a rating of "A-" to the Bonds and Fitch, Inc. ("Fitch") has assigned a rating of "A" to the Bonds. The ratings and an explanation of their significance may be obtained from the rating agencies furnishing such ratings. Such ratings reflect only the views of the rating agencies.

The Corporation has furnished S&P and Fitch with certain information and materials relating to the Bonds and the Corporation that have not been included in this Official Statement. Generally, rating agencies base their ratings on the information and materials so furnished and on investigations, studies, and assumptions by the rating agencies. There is no assurance that a particular rating will be maintained for any given period of time or that it will not be lowered or withdrawn entirely if, in the judgment of the agency originally establishing the rating, circumstances so warrant. None of the Authority, the Underwriter nor the Corporation has undertaken any responsibility to bring to the attention of the holders of the Bonds any proposed revision or withdrawal of a rating of the Bonds or to oppose any such proposed revision or withdrawal. Any such change in or withdrawal of such rating could have an adverse effect on the market price and marketability of the Bonds.

### **INDEPENDENT AUDITORS**

The consolidated financial statements of Front Porch Communities & Services as of and for the years ended March 31, 2017 and 2016 and accompanying supplementary information as of and for the year ended March 31, 2017 included as Appendix B in this Official Statement have been audited by BKD LLP, independent auditors, as stated in their report appearing herein. The Corporation did not request BKD, LLP perform any updating procedures subsequent to the date of its audit report on the March 31, 2017, financial statements.

## **LITIGATION**

### **Authority**

To the knowledge of the Authority, there is no action, suit, proceeding, inquiry or investigation, at law or in equity, before or by any court, governmental agency, public board or body, pending against the Authority seeking to restrain or enjoin the sale or issuance of the Bonds, or in any way contesting or affecting any proceedings of the Authority taken concerning the sale thereof, the pledge or application of any moneys or security provided for the payment of the Bonds, the validity or enforceability of the documents executed by the Authority in connection with the Bonds, the completeness or accuracy of the Official Statement or the existence or powers of the Authority relating to the sale of the Bonds.

### **The Corporation**

The Corporation has been advised that no litigation, proceedings or investigations are pending or, to its knowledge, are threatened which in any manner questions the right of the Corporation to secure the Bonds in accordance with the provisions of the Bond Indenture, the Loan Agreement or the Master Indenture. There is no litigation, proceeding or investigation pending or, to the Corporation's knowledge, threatened against the Corporation, except litigation, proceedings or investigations in which the probable ultimate recoveries and the estimated costs and expenses of defense, in the opinion of its counsel either will be entirely within the applicable insurance policy limits of the Corporation (subject to applicable deductibles) or will not have a materially adverse effect on the operations or condition, financial or otherwise, of the Corporation. See "FINANCIAL INFORMATION – Litigation" in Appendix A.

## **LEGAL MATTERS**

The Bonds are being offered when, as and if issued and received by the Underwriter, subject to prior sale, withdrawal or modification of the offer without notice. The validity of the Bonds and certain other legal matters are subject to the approving opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the Authority. A complete copy of the proposed form of Bond Counsel opinion is contained in Appendix D hereto. Bond Counsel undertakes no responsibility for the accuracy, completeness or fairness of this Official Statement. Certain legal matters will be passed upon for the Corporation by its General Counsel and by its special counsel, Arnold & Porter Kaye Scholer LLP, San Francisco, California, and for the Underwriter by its counsel, Gilmore & Bell, P.C., Kansas City, Missouri.

## **TAX MATTERS**

In the opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the Authority ("Bond Counsel"), based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the "Code") and is exempt from State of California personal income taxes. Bond Counsel is of the further opinion that interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Bond Counsel observes that such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. A complete copy of the proposed form of opinion of Bond Counsel is set forth in Appendix D hereto.

To the extent the issue price of any maturity of the Bonds is less than the amount to be paid at maturity of such Bonds (excluding amounts stated to be interest and payable at least annually over the term of such Bonds), the difference constitutes “original issue discount,” the accrual of which, to the extent properly allocable to each Beneficial Owner thereof, is treated as interest on the Bonds which is excluded from gross income for federal income tax purposes and State of California personal income taxes. For this purpose, the issue price of a particular maturity of the Bonds is the first price at which a substantial amount of such maturity of the Bonds is sold to the public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers). The original issue discount with respect to any maturity of the Bonds accrues daily over the term to maturity of such Bonds on the basis of a constant interest rate compounded semiannually (with straight-line interpolations between compounding dates). The accruing original issue discount is added to the adjusted basis of such Bonds to determine taxable gain or loss upon disposition (including sale, redemption, or payment on maturity) of such Bonds. Beneficial Owners of the Bonds should consult their own tax advisors with respect to the tax consequences of ownership of Bonds with original issue discount, including the treatment of Beneficial Owners who do not purchase such Bonds in the original offering to the public at the first price at which a substantial amount of such Bonds is sold to the public.

Bonds purchased, whether at original issuance or otherwise, for an amount higher than their principal amount payable at maturity (or, in some cases, at their earlier call date) (“Premium Bonds”) will be treated as having amortizable bond premium. No deduction is allowable for the amortizable bond premium in the case of bonds, like the Premium Bonds, the interest on which is excluded from gross income for federal income tax purposes. However, the amount of tax-exempt interest received, and a Beneficial Owner’s basis in a Premium Bond, will be reduced by the amount of amortizable bond premium properly allocable to such Beneficial Owner. Beneficial Owners of Premium Bonds should consult their own tax advisors with respect to the proper treatment of amortizable bond premium in their particular circumstances.

The Code imposes various restrictions, conditions and requirements relating to the exclusion from gross income for federal income tax purposes of interest on obligations such as the Bonds. The Authority and the Corporation have made certain representations and covenanted to comply with certain restrictions, conditions and requirements designed to ensure that interest on the Bonds will not be included in federal gross income. Inaccuracy of these representations or failure to comply with these covenants may result in interest on the Bonds being included in gross income for federal income tax purposes, possibly from the date of original issuance of the Bonds. The opinion of Bond Counsel assumes the accuracy of these representations and compliance with these covenants. Bond Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken), or events occurring (or not occurring), or any other matters coming to Bond Counsel’s attention after the date of issuance of the Bonds may adversely affect the value of, or the tax status of interest on, the Bonds. Accordingly, the opinion of Bond Counsel is not intended to, and may not, be relied upon in connection with any such actions, events or matters.

In addition, Bond Counsel has relied, among other things, on the opinion of Arnold & Porter Kaye Scholer LLP, special counsel to the Corporation (the “Corporation Counsel”) regarding the current qualification of the Corporation as an organization described in Section 501(c)(3) of the Code. Such opinion is subject to a number of qualifications and limitations. Bond Counsel has also relied upon representations of the Corporation concerning its “unrelated trade or business” activities as defined in Section 513(a) of the Code. Neither Bond Counsel nor Corporation Counsel has given any opinion or assurance concerning Section 513(a) of the Code and neither Bond Counsel nor Corporation Counsel can give or has given any opinion or assurance about the future activities of the Corporation, or about the effect of future changes in the Code, the applicable regulations, the interpretation thereof or the resulting changes in enforcement thereof by the Internal Revenue Service. Failure of the Corporation or any future Member of the Obligated Group to be organized and operated in accordance with the IRS’s requirements for the maintenance of its status as an organization described in Section 501(c)(3) of the Code, or to operate the facilities financed

and refinanced by the Bonds in a manner that is substantially related to each Member's charitable purpose under Section 513(a) of the Code, may result in interest payable with respect to the Bonds being included in federal gross income, possibly from the date of the original issuance of the Bonds.

Although Bond Counsel is of the opinion that interest on the Bonds is excluded from gross income for federal income tax purposes and is exempt from State of California personal income taxes, the ownership or disposition of, or the accrual or receipt of amounts treated as interest on, the Bonds may otherwise affect a Beneficial Owner's federal, state or local tax liability. The nature and extent of these other tax consequences depends upon the particular tax status of the Beneficial Owner or the Beneficial Owner's other items of income or deduction. Bond Counsel expresses no opinion regarding any such other tax consequences.

Current and future legislative proposals, if enacted into law, clarification of the Code or court decisions may cause interest on the Bonds to be subject, directly or indirectly, in whole or in part, to federal income taxation, or to be subject to or exempted from state income taxation, or otherwise prevent Beneficial Owners from realizing the full current benefit of the tax status of such interest. The introduction or enactment of any such legislative proposals or clarification of the Code or court decisions may also affect, perhaps significantly, the market price for, or marketability of, the Bonds. Prospective purchasers of the Bonds should consult their own tax advisors regarding the potential impact of any pending or proposed federal or state tax legislation, regulations or litigation as to which Bond Counsel is expected to express no opinion.

The opinion of Bond Counsel is based on current legal authority, covers certain matters not directly addressed by such authorities, and represents Bond Counsel's judgment as to the proper treatment of the Bonds for federal income tax purposes. It is not binding on the IRS or the courts. Furthermore, Bond Counsel cannot give and has not given any opinion or assurance about the future activities of the Authority or the Corporation, or about the effect of future changes in the Code, the applicable regulations, the interpretation thereof or the enforcement thereof by the IRS. The Authority and the Corporation have covenanted, however, to comply with the requirements of the Code.

Bond Counsel's engagement with respect to the Bonds ends with the issuance of the Bonds, and, unless separately engaged, Bond Counsel is not obligated to defend the Authority, the Corporation or the Beneficial Owners regarding the tax-exempt status of the Bonds in the event of an audit examination by the IRS. Under current procedures, parties other than the Authority, the Corporation and their appointed counsel, including the Beneficial Owners, would have little, if any, right to participate in the audit examination process. Moreover, because achieving judicial review in connection with an audit examination of tax-exempt bonds is difficult, obtaining an independent review of IRS positions with which the Authority or the Corporation legitimately disagrees, may not be practicable. Any action of the IRS, including but not limited to selection of the Bonds for audit, or the course or result of such audit, or an audit of bonds presenting similar tax issues may affect the market price for, or the marketability of, the Bonds, and may cause the Authority, the Corporation or the Beneficial Owners to incur significant expense.

## CONTINUING DISCLOSURE

The Corporation, on behalf of the Obligated Group, will enter into a Continuing Disclosure Agreement for the Bonds (the “Continuing Disclosure Agreement”) for the benefit of the Bondholders to provide certain information annually and to provide notice of certain events to the Municipal Securities Rulemaking Board on EMMA pursuant to the requirements of the Rule 15c2-12. The information to be provided on an annual and quarterly basis, the events which will be noticed on an occurrence basis and the other terms of the Continuing Disclosure Agreement, including termination, amendment and remedies, are set forth in the form of such agreement included as Appendix E.

Failure by the Corporation to comply with the Continuing Disclosure Agreement will not constitute an Event of Default under the Master Indenture, the Bond Indenture or the Loan Agreement, and Bondholders are limited to the remedies described in the Continuing Disclosure Agreement, as set forth in Appendix E. Such failure must be reported in accordance with the Rule and must be considered by any broker, dealer or municipal securities dealer before recommending the purchase or sale of the Bonds.

The Corporation has previously entered into or assumed responsibility for certain continuing disclosure undertakings entered into pursuant to SEC Rule 15c2-12 relating to prior debt obligations. The Corporation believes it has complied in all material respects with its prior continuing disclosure undertakings, except:

- the Corporation did not timely file notices of two rating changes affecting certain outstanding obligations;
- the Corporation filed quarterly reports late in certain instances, including filings made 20 and 61 days late; and
- the Corporation’s annual reports for the Fiscal Years ended March 31, 2012 and 2013 omitted a required certification regarding the absence of any events of default.

Notice of the rating changes and filings containing the previously omitted certifications regarding the absence of any events of default were posted on EMMA in July 2017. The Corporation believes it has established processes designed to ensure that in the future it will make its continuing disclosure filings as required.

*[Remainder of page intentionally left blank.]*

## **UNDERWRITING**

The Bonds are being purchased by Merrill Lynch, Pierce, Fenner & Smith Incorporated (the “Underwriter”) at an aggregate purchase price of \$\_\_\_\_\_, which reflects the aggregate principal amount of the Bonds plus original issue premium of \$\_\_\_\_\_ less original issue discount of \$\_\_\_\_\_ and underwriting discount of \$\_\_\_\_\_. The Corporation has agreed to indemnify the Underwriter and the Authority against certain liabilities arising out of materially incorrect information contained in or material information omitted from this Official Statement. The Bond Purchase Agreement provides that the Underwriter is obligated to purchase all of the Bonds of each series, if any Bonds of such series are purchased, but such obligation is subject to certain conditions.

The Underwriter may offer and sell the Bonds to certain dealers and others at prices or yields different from the prices or yields stated on the cover page of this Official Statement. The offering prices or yields may be changed from time to time without notice by the Underwriter. The Underwriter reserves the right to join with dealers and other underwriters in offering the Bonds to the public.

The Underwriter and its respective affiliates are full service financial institutions engaged in various activities, which may include sales and trading, commercial and investment banking, advisory, investment management, investment research, principal investment, hedging, market making, brokerage and other financial and non-financial activities and services. Under certain circumstances, the underwriter and its affiliates may have certain creditor and/or other rights against the Authority and the Corporation and its affiliates in connection with such activities. In the various course of their various business activities, the underwriter and its respective affiliates, officers, directors and employees may purchase, sell or hold a broad array of investments and actively trade securities, derivatives, loans, commodities, currencies, credit default swaps and other financial instruments for their own account and for the accounts of their customers, and such investment and trading activities may involve or relate to assets, securities and/or instruments of the Authority and the Corporation (directly, as collateral securing other obligations or otherwise) and/or persons and entities with relationships with the Authority and the Corporation. The underwriter and its respective affiliates may also communicate independent investment recommendations, market color or trading ideas and/or publish or express independent research views in respect of such assets, securities or instruments and may at any time hold, or recommend to clients that they should acquire, long and/or short positions in such assets, securities and instruments.

## **FINANCIAL ADVISOR**

Ponder & Co. (“Ponder”) has served as financial advisor to the Corporation for purposes of assisting with the development and implementation of a bond structure in connection with the bonds and related financings. Ponder has not been engaged by the Corporation to compile, create, or interpret any information in this Official Statement relating to the Corporation, including without limitation any of the financial and operating data of the Corporation, whether historical or projected. Any information contained in this Official Statement concerning the Corporation has not been independently verified by Ponder and inclusion of such information is not, and should not be construed as, a representation by Ponder as to its accuracy or completeness or otherwise. Ponder is not a public accounting firm and has not been engaged by the Corporation to review or audit any information in this Official Statement in accordance with auditing standard generally accepted in the United States.

## **CERTAIN RELATIONSHIPS**

Gilmore & Bell, P.C., Kansas City, Missouri, has represented the Underwriter in connection with the issuance of the Bonds. Gilmore & Bell, P.C., also represents the Authority from time to time, but has not done so in connection with the issuance of the Bonds.

A member of the Corporation's Board of Directors is a Senior Vice-President of Bank of America, N.A., an affiliate of the Underwriter.

## **MISCELLANEOUS**

The summaries or descriptions of provisions of the Continuing Disclosure Agreement, the Bonds, the Loan Agreement, the Bond Indenture and the Master Indenture, and all references to other materials not purported to be quoted in full, are only brief outlines of some of the provisions thereof and do not purport to summarize or describe all of the provisions thereof. Reference is made to the Continuing Disclosure Agreement, the Bonds, the Loan Agreement, the Bond Indenture and the Master Indenture, for a full and complete statement of the provisions thereof. Such documents are on file at the offices of the Underwriter and following delivery of the Bonds will be on file at the offices of the Bond Trustee.

So far as any statements made in this Official Statement involve matters of opinion or estimates whether or not expressly stated, they are set forth as such and not as representations of fact, and no representation is made that any of such statements will be realized. Neither this Official Statement nor any statement that may have been made orally or in writing as a contract with the owners of the Bond.

It is anticipated that CUSIP identification numbers will be printed on the Bonds, but neither the failure to print such numbers nor any error in the printing of such numbers shall constitute grounds for a failure or refusal by any purchaser thereof to accept delivery of and payment for any Bonds.

The attached Appendices A, B, C, D, E and F are integral parts of this Official Statement and must be read together with all of the foregoing statements.

All information contained herein relating to the Corporation has been provided and approved by the Corporation for use within this Official Statement.

All projections, estimates and other statements in this Official Statement involving matters of opinion, whether or not expressly so stated, are intended as such and not as representation of fact. This Official Statement is not to be construed as a contract or agreement between the Authority or the Corporation and the purchasers or owners of any of the Bonds.

*[Remainder of page intentionally left blank.]*



This Official Statement has been duly delivered by the Authority, and duly authorized, executed and delivered by the Corporation. The Authority has not, however, prepared nor made any independent investigation of the information contained in this Official Statement except the information under the captions “THE AUTHORITY” and “LITIGATION – Authority.”

**FRONT PORCH COMMUNITIES AND  
SERVICES**

By: \_\_\_\_\_  
Chief Executive Officer

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## **APPENDIX A**

### **INFORMATION CONCERNING FRONT PORCH COMMUNITIES AND SERVICES**

**The information in this Appendix A has been provided by Front Porch Communities and Services.**

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## **INTRODUCTION**

### **Overview**

Front Porch Communities and Services (“Corporation”) is a California nonprofit public benefit corporation incorporated in 1995 that provides housing and services to residents of its senior living and active adult communities and that supports development and management of affordable housing for seniors, families and persons with disabilities. The Corporation currently has more than 2,200 employees serving over 5,000 residents.

The Corporation, directly or through its subsidiaries, operates ten (10) multi-level senior living and two (2) active adult communities containing 2,136 residential units, 98 memory support units, and 540 skilled-nursing beds (collectively, the “Communities”). All of the Communities are located in California, except England Oaks in Louisiana and Cecil Pines in Florida. Five (5) of the Corporation’s Communities are entrance fee continuing care retirement communities (“CCRCs”), while the remainder are rental communities. A subsidiary of the Corporation, CARING Housing Ministries, manages more than 1,600 affordable housing units.

The Corporation seeks to provide residents the opportunity to live an engaged life, to pursue their passions and find joy, meaning and purpose in community with others and is dedicated to providing quality, accessible, and affordable human services to individuals in the markets it serves. The Corporation offers the advantages of economies of scale while maintaining the individual identities, constituencies and heritages of its individual senior living Communities. The Corporation continues to cultivate partnerships, joint ventures, and affiliations to develop facilities and services that meet the changing needs of its residents. This goal is supported by the strategic vision of Humanly Possible® – a commitment to disruptive innovation, collaboration and partnership in the pursuit of creatively meeting needs.

The Corporation is a tax-exempt charitable organization under Section 501(c)(3) of the Internal Revenue Code and analogous provisions of the California Revenue and Taxation Code.

Capitalized terms used in this Appendix A and not specifically defined herein have the meaning assigned to such terms in Appendix C or as elsewhere defined in the Official Statement.

### **History**

The Corporation was incorporated in 1995 as The Internext Group. Its Articles of Incorporation were amended in August 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. The Corporation changed its name to Front Porch Communities and Services in 2002.

In 2006, the Corporation purchased a continuing care retirement community, Sunny View Retirement Community, and an affordable housing community, Sunny View Lutheran Home (“Sunny View West”).

### **Mission, Vision and Values**

The mission of the Corporation is “Meeting Needs through Excellence in Human Serving.” The vision of the Corporation is “preserving the not-for-profit heritage of ‘Doing Good . . . and Doing Well’ through a human services delivery system that makes a difference in the quality of life of those served.” The Corporation has identified six key values behind this vision:

- Customer Satisfaction
- Integrity in Relationships
- Individual Initiative, Expression and Creativity

- Teamwork and Trust
- Fiscal Responsibility
- Innovative Services and Products

The mission, vision and values of the Corporation permeate the planning and daily operations of the Corporation. As described under the caption “GOVERNANCE – Organizational Accountability” below, the Corporation annually measures all of its operations to evaluate whether it is furthering its mission, vision and values.

## **ORGANIZATION**

### **The Corporation**

The Corporation is the only member of the Obligated Group established pursuant to the Master Indenture described in the front part of the Official Statement. The Corporation owns and operates six (6) multi-level senior living Communities in California and leases and operates an active adult Community in Louisiana and another in Florida (collectively, the “Obligated Group Communities”). The names and locations of the Obligated Group Communities are as follows:

<b>Obligated Group Communities</b>	<b>Location</b>
Carlsbad By The Sea	Carlsbad, CA
Sunny View Retirement Community	Cupertino, CA
Villa Gardens	Pasadena, CA
Vista del Monte	Santa Barbara, CA
Walnut Village	Anaheim, CA
Wesley Palms	San Diego, CA
Cecil Pines <sup>(1)</sup>	Jacksonville, FL
England Oaks <sup>(1)</sup>	Alexandria, LA

<sup>(1)</sup> Cecil Pines and England Oaks are classified by the Corporation as “Active Adult Communities.”

Each of the Obligated Group Communities is described below under the caption “COMMUNITIES – The Obligated Group Communities.”

In addition, the Corporation is the sole member, or parent organization, of the following entities:

CARING Housing Ministries (“CHM”)  
Sunny View Lutheran Home (“SVLH”)  
Front Porch Communities Operating Group, LLC (“Front Porch OpCo”)  
Front Porch Communities and Services – Casa de Mañana, LLC (“Casa de Mañana, LLC”)  
Front Porch Communities and Services – Claremont Manor, LLC (“Claremont Manor, LLC”)  
Front Porch Communities and Services – Fredericka Manor, LLC (“Fredericka Manor, LLC”)  
Front Porch Communities and Services – Kingsley Manor, LLC (“Kingsley Manor, LLC”).

Casa de Mañana, LLC, Claremont Manor, LLC, Fredericka Manor, LLC and Kingsley Manor, LLC, each California limited liability companies, are collectively referred to as the “Front Porch Real Estate LLCs”. The Front Porch Real Estate LLCs are the respective owners of four (4) Communities which are now operated by Front Porch OpCo and which were formerly owned and operated by the Corporation. As the sole member of

these member-managed limited liability companies, the Corporation has exclusive control over their facilities and operations.

The following Communities are owned by the Front Porch Real Estate LLCs of the same name and are not members of the Obligated Group:

<b>Non-Obligated Group Communities</b>	<b>Location</b>
Casa de Mañana	La Jolla, CA
Claremont Manor	Claremont, CA
Fredericka Manor	Chula Vista, CA
Kingsley Manor	Los Angeles, CA

In 2012 the Corporation formed the Front Porch Real Estate LLCs and Front Porch OpCo for the purpose of obtaining long-term bank loans insured by the U.S Department of Housing and Urban Development (“HUD”) under Section 232 of the National Housing Act (the “HUD-insured Loans”) in amounts sufficient to refinance portions of certain then existing debt of the Corporation allocable to each Front Porch Real Estate LLC community. Since HUD-insured loans were only available to single asset entities, each Front Porch Real Estate LLC was formed to hold title to its respective Community, serve as borrower on its respective HUD-insured loan and act as lessor of its respective Community to Front Porch OpCo as lessee. At the time each HUD-insured Loan was closed (between September 2013 and December 2014), the real and personal property of the affected Community was transferred to the respective Front Porch Real Estate LLC, the Community’s allocable portion of certain of the Corporation’s then existing debt was paid off and the Community was removed from the Obligated Group by utilizing the disposition of assets tests contained in the Corporation’s then-existing master indenture. The Corporation is the sole managing member of Front Porch OpCo and each of the Front Porch Real Estate LLCs. The Corporation provides management and administrative services for Front Porch OpCo and the Front Porch Real Estate LLCs which do not have any employees. Front Porch OpCo operates and maintains the Front Porch Real Estate LLC Communities on a day-to-day basis with personnel who are employees of the Corporation.

The Corporation (including the eight (8) Obligated Group Communities), Front Porch OpCo, the Front Porch Real Estate LLCs, CHM and SVLH, together with their facilities, operations and financial positions are referred to and presented in this Appendix A as the “Consolidated Group” or the “Consolidated Group Operations.” The audited financial statements of the Corporation attached in Appendix B consolidate the financial position of the Consolidated Group for purposes of generally accepted accounting principles.

With respect to the Obligated Group, the audited consolidated financial statements in Appendix B also contain supplemental consolidating schedules that separately present the financial position of the Corporation as the only member of the Obligated Group. The supplemental schedules attached to the audit reflect only the operations of the Corporation at its eight (8) Obligated Group Communities. As reflected in such supplemental schedules, for the Fiscal Year ended March 31, 2017, the Obligated Group’s revenues accounted for 61.4% of the Consolidated Group’s total revenues and the Obligated Group’s assets accounted for 88.0% of the Consolidated Group’s assets.

### **CHM and the Affordable Housing Communities**

CHM is a California nonprofit corporation and subsidiary of the Corporation. The Corporation is the sole member of CHM.

CHM manages 25 affordable housing communities serving approximately 2,500 individuals residing in more than 1,600 affordable housing units. CHM has a staff of 18 working in its home office in El Monte, California. Corporate staffing of CHM includes personnel in the areas of accounting/finance, operations, training, administration, property supervision, program services, maintenance services and risk management.

SVLH owns the 100-unit HUD-subsidized affordable housing community known as Sunny View West (“Sunny View West”). Sunny View West is located in Cupertino, California and is managed by CHM. The Corporation is the sole member of SVLH. SVLH has no employees and management and administrative services are provided to SVLH by the Corporation.

The 25 affordable housing communities, including Sunny View West, managed by CHM are referred to herein as the “Affordable Housing Communities”.

The assets and operations of CHM and SVLH are included in the Consolidated Group but are excluded from the Obligated Group.

### **Certain Initiatives and Programs of the Corporation**

The Front Porch Center for Innovation and Wellbeing™ (“CIW”) is a program designed to collaborate with a variety of partners to explore innovative uses of technology to empower individuals to live well, especially in their later years. Core initiatives focus on how technology can: assist in maintaining brain health; enhance social connectedness; promote engagement and growth; empower control over health and wellness; prevent emergencies or serious events; and increase resources and support for formal and informal caregivers. The CIW integrates residents, staff, research partners and technology companies to identify potential opportunities, test them out, find the ones that work and then rapidly deploy these solutions.

Humanly Possible® is another program of the Corporation designed to encourage innovation and greater collaboration among all levels of the Front Porch organization. Humanly Possible® also supports outside collaboration including the formation of innovative partnerships with other nonprofit organizations, for-profit companies and academia to advance and develop new approaches, methodologies and technology applications for delivering services to the senior population.

### **Philanthropic Support**

The Corporation supports, and its Communities are, in turn, supported by, four philanthropic partner organizations:

- *California Lutheran Homes* (“CLH”). CLH is a California nonprofit public benefit corporation dedicated primarily to supporting residential, health, social and related services for older adults and other persons. As a social ministry organization dedicated to the well-being of persons in need, CLH raises and distributes funds to the Carlsbad By The Sea and Walnut Village communities in support of residents who experience financial hardship, the purchase of equipment to improve the residents’ quality of life, and the renovation and replacement of existing capital assets; and provides seed capital for affordable housing projects and the development of innovative services, and funds for employee scholarships. For the Fiscal Year ended March 31, 2017, CLH distributed \$354,662 in grants and designated temporarily restricted contributions benefiting the residents and employees of Walnut Village and Carlsbad By The Sea, former Californian Lutheran Homes Communities.



- *FACT Foundation.* FACT Foundation is a California nonprofit public benefit corporation established for the purpose of raising funds to support housing, care and other services for the residents of Villa Gardens and Vista del Monte retirement communities. FACT Foundation operates as a separate legal entity with a separate board of directors over which no other entity exercises control. FACT Foundation also raises and distributes funds to the retirement communities for direct assistance to residents who experience financial hardship, for the purchase of equipment to improve the residents' quality of life, for the renovation and replacement of existing capital assets and for employee scholarships. FACT Foundation manages an employee emergency assistance program for the benefit of all Corporation employees below the corporate director level. Unrelated to its support of residents at the Villa Gardens and Vista del Monte retirement communities, FACT Foundation administers disaster assistance funds contributed by California teachers that are used to provide grants to California public school teachers in accordance with guidelines received from the California Teachers Association (CTA). For the Fiscal Year ended March 31, 2017, the FACT Foundation distributed \$390,496 in grants and designated temporarily restricted contributions benefiting the residents and employees of Villa Gardens and Vista del Monte.
- *Pacific Homes Foundation ("PHF").* Pacific Homes Foundation, a California nonprofit public benefit corporation established to raise, administer and distribute funds for the benefit of residents and staff of Casa de Mañana, Claremont Manor, Fredericka Manor, Kingsley Manor and Wesley Palms, which are the former Pacific Homes communities that, in March 1999, became a part of the Corporation. In addition to programs of direct financial assistance to residents who experience financial hardship, PHF also raises and distributes funds for the purchase of equipment to improve the residents' quality of life and the renovation and replacement of existing capital assets. PHF operates scholarship programs to support employees and their children. PHF's articles of incorporation provide that all funds raised, except for those required for operation of PHF, be distributed to or held for the benefit of the former Pacific Homes communities (Casa de Mañana, Claremont Manor, Fredericka Manor, Kingsley Manor and Wesley Palms). For the Fiscal Year ended March 31, 2017, PHF distributed \$867,013 in grants and designated temporarily restricted contributions benefiting the residents and employees of the former Pacific Homes communities.
- *Sunny View Lutheran Communities and Services ("SVLCS")* is a California nonprofit public benefit corporation dedicated primarily to providing residential, health, social and related services to older adults and other people. It is a recognized social service ministry of the Lutheran Church providing for the wellbeing of people in need. The Sunny View Foundation, a program of SVLCS, raises and distributes funds to Sunny View Retirement Community for support of charitable care to residents, the purchase of equipment to improve the residents' quality of life, the renovation and replacement of existing capital assets and employee scholarships. SVLCS, through the Sunny View Foundation, also raises funds and distributes them to meet the needs of residents of Sunny View West. For the Fiscal Year ended March 31, 2017, SVLCS distributed \$169,203 in grants and designated temporarily restricted contributions benefiting the residents and employees of Sunny View Retirement Community and Sunny View West.

Except for the Chief Executive Officer of CLH, each of these foundations is staffed by the Corporation at no cost to the foundations. Since the consolidation in 1999, philanthropy has totaled in excess of \$63 million through the Fiscal Year ended March 31, 2017. Certain assets of each organization, based on accounting rules related to designations and restrictions, are accounted for as described in Note 5 to the audited financial statements in Appendix B.

## **Related Parties and Affiliates**

*Brookmore Apartment Corporation.* A separate nonprofit corporation, Brookmore Apartment Corporation (“Brookmore”), is the managing general partner of certain affordable housing communities developed and/or rehabilitated with tax-credit financing. In 2013, Brookmore entered into an agreement with the Corporation and CLH with respect to its governance structure. Currently, CLH appoints one Director to Brookmore’s Board of Directors; the Corporation appoints three Directors; and three Directors are designated by a majority vote of those directors who are not designated by either the Corporation or by CLH. The agreement also includes a mechanism for the Corporation and CLH, at their election, to provide proportionate seed-capital funding, along with Brookmore, for the acquisition and/or rehabilitation of affordable housing communities. This unique and innovative collaboration is expected to enable the Corporation to continue, through Brookmore, its mission with CHM of developing and preserving affordable housing while sharing in the governance control of affordable housing communities.

Brookmore is not a member of the Obligated Group. Its operations are not included in the description of the operations of the Consolidated Group.

*Other Entities Affiliated with the Corporation.* The following entities are affiliated with the Corporation but are no longer active and have minimal or no assets or revenues: Front Porch Enterprises, Inc., Front Porch Active Adult Communities, LLC and Front Porch Development Company, Inc. These entities are in the process of being dissolved as soon as various regulatory requirements are satisfied. The purposes for which these entities were formed are described in Note 1 to the audited financial statements in Appendix B.

## **GOVERNANCE**

### **General**

The Corporation operates the Communities from its corporate office in Glendale, California, where it employs approximately 70 people to provide management, compliance and accounting support to more than 2,200 employees serving over 5,000 residents in its communities and affordable housing units. The corporate office provides general administration, management, finance, legal, information services, human resources, and plant and facilities management for the Communities. Approximately four times a year the management of the Corporation conducts meetings, at which all the executive directors and administrators of the Communities gather to review the Corporation’s operations, policies and procedures. Each Community is managed by an executive director responsible for the operation of his or her Community in accordance with established goals and operating practices, as well as industry regulations.

### **Board of Directors**

The affairs of the Corporation are governed by a Board of Directors composed of a maximum of 13 persons and a minimum of nine persons. The current Board consists of 10 Directors. Directors are nominated by the Executive Committee and elected by the full Board. Generally, no member of the Board may serve more than two successive three-year terms. An exception is addressed in the bylaws when a director begins service during an unexpired term.

The Board is organized into three classes of Directors. The director positions of each class have a three-year term (which may be renewed for a second three-year term) that expires at the end of a calendar year on a staggered basis. The Executive Committee addresses vacancies by reviewing candidates and making recommendations to the Board of Directors. Directors are elected by a vote of the entire Board.

Each Director signs an annual *Duty of Care and Conflict of Interest Statement*.

Directors receive reasonable remuneration in the form of annual retainers and Board meeting attendance fees. In addition, all out-of-pocket expenses to attend Board and Committee meetings and/or to conduct the business of the Board of Directors are reimbursed.

The members of the Board of Directors of the Corporation as of July 21, 2017 were as follows:

<b>Name</b>	<b>Occupation</b>	<b>Board Member Since</b>	<b>Term Expires December 31</b>
Jennifer Perry <sup>(1)</sup> <i>Chair</i>	Principal-Health Care for FMG Leading-human capital strategic advising, executive coaching, leadership development, culture and large scale organizational change.	2012	2017
Thomas Porath <sup>(1)</sup> <i>Chair-elect</i>	Independent consultant-retired US West Division Manager of Towers Watson, human resource management	2013	2018
Lynn North <sup>(1)</sup>	Realtor, Alain Pinel	2013	2018
Howard Hudson <sup>(3)</sup>	Owner, Howard Hudson & Company-certified public accounting	2012	2017
Marion McGovern <sup>(3)</sup>	Entrepreneur and business author; co-founded M Squared Consulting; recently published <i>Thriving in the Gig Economy</i>	2017	2019
Deborah Proctor <sup>(2)</sup>	Retired President and CEO of St. Joseph Health System, Orange County, CA	2017	2019
Daniel Sudit <sup>(3)</sup>	Partner, Crewe Advisors-wealth advisory and investment management	2014	2019
Oliver Wesson <sup>(3)</sup>	Senior Vice President, Bank of America-Global Commercial Banking-Healthcare and Institutions Group	2017	2019
William Witte <sup>(2)</sup>	President, Salem Partners Wealth Management-investment banking and wealth management	2010 <sup>(4)</sup>	2017
Paula Woods <sup>(2)</sup>	Co-Founder of Woods/Liddell Group - strategic planning and leadership development	2013	2018

<sup>(1)</sup> Member of Executive Committee.

<sup>(2)</sup> Member of Business Development and Assessment Committee.

<sup>(3)</sup> Member of Audit Committee.

<sup>(4)</sup> First elected October 18, 2010, to fill a vacancy of an unexpired term including December 31, 2011.

A Resident Director is scheduled for election to the Board at its meeting scheduled for July 25, 2017, to fill the unexpired term of the prior Resident Director who died in March 2017. The term of this Resident Director will expire on December 31, 2018. A Committee assignment will be designated at the time of this appointment.

## Other Relationships

Oliver Wesson, a member of the Board and the Audit Committee, is currently employed by Bank of America. The Underwriter, Bank of America Merrill Lynch, is an affiliate of Bank of America.

## Resident Representation to the Board of Directors

A Resident Representative to the Board of Directors is elected annually by his/her peer residents from each California Community owned by the Corporation or leased by Front Porch OpCo. Resident Representatives attend, but do not vote at, regular meetings of the Board of Directors in compliance with applicable statutes. Resident Representatives also do not sit on Board Committees. Resident Representatives to the Board are in addition to the voting Resident-Director elected to the Board from among candidates proposed by residents of the California Communities.

The Resident Representatives are responsible for assessing, representing, and voicing the resident perspective to each other, to the Board of Directors and to the Corporation's 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.

## Standing Committees of the Board of Directors

The Board of Directors currently has three standing committees: (a) Executive Committee, (b) Audit Committee and (c) Business Development and Assessment Committee. Only Board members may serve on Board Committees, except the Chief Executive Officer serves *ex officio* on the Executive Committee. During Fiscal Year 2017, the Board met three times and the Executive Committee met five times.

- *Executive Committee.* This Committee consists of the Board Chair and two to four additional Directors, one of whom, by tradition, is the Chair-elect. In addition to having the authority of the Board to take all necessary and appropriate action between regular or special meetings of the Board (except as otherwise provided in the Corporation's bylaws), the Committee's primary responsibilities include providing recommendations to the full Board on matters such as (1) the election of new Directors and the Chair and Chair-elect of the Board, (2) compensation of Directors, (3) Board Committees and Committee membership and (4) the resident representation structure. Consistent with the Corporation's bylaws, the Executive Committee is responsible for oversight of the Chief Executive Officer including review of compensation and performance.
- *Audit Committee.* This Committee consists of four Directors. The primary responsibilities are to review and recommend approval of the appointment of the independent auditing firm and approval of the annual audit to the Board of Directors. Once the independent auditing firm has been selected by the Board, the Audit Committee engages the auditing firm and establishes the scope of work and fee consistent with the Audit Committee charter. An annual report is submitted to the full Board summarizing the work of the Audit Committee and highlighting any unusual issues brought to its attention.
- *Business Development and Assessment Committee.* This Committee consists of four Directors. The primary responsibilities include oversight of (1) capital and asset utilization and planning, (2) new business development projects, (3) risk management and (4) investment management.

Members of the Board are informed of the Corporation's business through Board and Committee meetings and discussions with the Chief Executive Officer and other officers of the Corporation. The Board is routinely provided interim financial and operating reports and conducts independent discussions with the Corporation's auditors as part of their annual review.

The Chief Executive Officer, the President and the Chief Financial Officer attend Board meetings. Other management staff and/or officers of the Corporation attend Board meetings on an as-needed basis. Executive sessions may be held, without management present, at each meeting of the Board, the Executive Committee, the Audit Committee, and the Business Development and Assessment Committee. The Senior Vice President of Organizational Accountability, as Chief Compliance Officer, reports directly and independently to the Audit Committee and has oversight of the compliance program.

## **Management**

The Chief Executive Officer has oversight of the Consolidated Group 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 philanthropic partner organizations. The Board of Directors considers leadership continuity, capacity and depth as critical success factors for the Corporation.

On March 27, 2015, John Woodward was unanimously selected by the Board of Directors to become the Chief Executive Officer of the Corporation effective May 6, 2015, following the planned retirement of Gary Wheeler on December 31, 2014.

The position of Chief Financial Officer is currently open. The Corporation has hired a search firm to conduct a national search for a new Chief Financial Officer.

The members of the Corporation's senior management and the President of CHM are identified below.

**John Woodward, *Chief Executive Officer*.** Mr. Woodward became Chief Executive Officer in 2015. His career includes over 30 years of investment banking and consulting experience assisting a wide range of not-for-profit organizations, including health care systems, academic medical centers, and large senior living organizations. His role involved planning and implementing major expansion programs, reorganizations, mergers and the acquisition of facilities. As an advisor to senior management and boards of directors, he has participated in strategic planning as well as legislative initiatives. Mr. Woodward was actively involved in the combination of the three predecessor organizations—FACT Retirement Services, California Lutheran Homes and Community Services, and Pacific Homes—to form The Internext Group that was later renamed Front Porch Communities and Services. He also participated in discussions resulting in the affiliation and eventual acquisition of Sunny View Lutheran Home located in Cupertino. His educational background includes A.B. degrees in economics and mathematics from the University of California at Santa Cruz and an M.B.A. from the University of Chicago with a specialization in hospital administration.

**Roberta Jacobsen, *President*.** Mrs. Jacobsen became President in July 2006, after serving as Senior Vice President, Operations since 2001. She 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.

**Kari Olson, *Chief Innovation and Technology Officer and President of the Front Porch Center for Innovation and Wellbeing™*.** Ms. Olson has over twenty years of experience in the long term health care and retirement housing industry. She joined California Lutheran Homes and Community Services in 1995 and has held a number of senior leadership roles with the Corporation or an affiliated organization. In 2010, Ms. Olson launched the award-winning Front Porch Center for Innovation and Wellbeing™ and in 2013 became the Chief Innovation Officer. In her current role, Ms. Olson leads the business innovation strategy for the Corporation and its partners while also leading business and resident technology initiatives. Prior to joining the Corporation, Ms. Olson led major technology initiatives in the health care and social services sectors and worked as a technology consultant to a variety of national clients. Ms. Olson is actively involved in the Aging 2.0 Alliance

and Leading Age Center for Aging Services Technologies (CAST) where she is currently serving as a commissioner and steering committee member. She has also served as a CAST Boomer Technology Needs Research chair, co-chair of the Provider Workgroup and Leading Age Innovation Cabinet member. She speaks nationally about the Corporation's work in innovation and technology. She holds a Bachelor of Arts degree in economics from UCLA.

**Joseph Butler, *General Counsel and Secretary.*** Mr. Butler became the General Counsel of the Corporation in 2007. He has been practicing law in the Los Angeles community for over forty years and has a broad range of legal experience. Prior to joining the Corporation, he was a partner in the Los Angeles office of McKenna, Long & Aldridge. He is also a former Assistant United States Attorney for the Central District of California. He graduated with a B.A. from the University of California at Los Angeles in 1972 and received his law degree from the University of San Diego School of Law in 1975. He has been a member of the State Bar of California since 1975.

**Sally Plank, *Senior Vice President, Organizational Accountability Group.*** Ms. Plank was appointed to her current position in October 2016. She has over 30 years of managerial and operational experience in the Healthcare and Long term care industry. She worked for 10 years at ARAMARK in dining service management and in leadership positions for their Healthcare Contract Management Division. Ms. Plank has worked in the CCRC environment in numerous operational positions, including Executive Director at Sunny View Retirement Community from 2002 – 2016. Under her leadership, the Sunny View Retirement Community developed several important initiatives and projects for the Corporation. She has been directly involved in all aspects of measuring quality, regulatory and corporate compliance and customer/resident satisfaction measurement. She has been an active Board and Committee member for Leading Age of California for the past decade. She has a Master's degree in Health Care Administration from Case Western University in Cleveland, Ohio.

**Desiree Burton, *Senior Vice President, Human Resources.*** Ms. Burton became the Senior Vice President, Human Resources in July 2006. Ms. Burton has over 27 years of experience in human resources. Before coming to the Corporation in 2001, her experience was in the banking industry. At the Corporation, she has developed and implemented new benefit structures, negotiated union contracts, implemented a new compensation strategy and reduced workers' compensation costs. At her prior organizations, she developed and implemented business staffing strategies, improved workflow redundancies, and provided leadership to executives, implemented training courses and has successfully integrated organizations during mergers. Ms. Burton holds a Certificate in Retail Bank Management, specializing in Human Resources, from the University of Virginia.

**Lee Ratta, *Senior Vice President, Organizational Advancement Group.*** Ms. Ratta became Senior Vice President, Organizational Advancement Group in July 2006. With over 30 years of experience in marketing communications, Ms. Ratta has been with the Corporation since 1993 overseeing brand development, corporate communications/public relations, reputation management, online marketing including web and social media, branding/marketing communications for Corporation's communities and partners; as well as philanthropic partner operations, fund development, volunteer services and outreach program management. Ms. Ratta's prior experience includes national advertising/PR agency strategic planning leadership for a variety of clients including healthcare entities. Ms. Ratta holds a Bachelor of Arts degree from Simmons College in Boston, Massachusetts.

**Joan Woodworth, *Senior Vice President, Sales and Marketing.*** Ms. Woodworth became Senior Vice President in July 2006, and has been with the Corporation since 2000. She works with operations, sales and marketing teams leveraging over 30 years of experience in health care to provide training, mentoring, monitoring, motivation, education and support. Ms. Woodworth has developed sales awards programs and targeted low occupancy communities with special incentive plans resulting in overall occupancy that consistently exceeds industry average. Her previous experience includes managing a sales force throughout California, Arizona, Washington and Hawaii. She holds a Bachelor's degree from Salem State University in Massachusetts as well as many sales and marketing related certificates.

**Soraya Diaz**, *President of CARING Housing Ministries*. Ms. Diaz became President of CARING Housing Ministries in July 2017. She began her tenure as Director of Operations of CHM in 1999. Ms. Diaz has over 32 years of experience in the affordable housing industry. She has been responsible for the oversight of the operations and a wide range responsibilities which include interpreting and implementing regulatory occupancy requirements and budget development of the managed communities. These communities have layered sources of funding which include a variety of HUD programs, State Low Income Housing Tax Credit, HOME funds, and California Housing Finance Agency. She has been involved in planning, program development and policy analysis, of new and current clients. Ms. Diaz has a Bachelor's degree in Business from the University of Phoenix. She holds a Certificate as Occupancy Specialist and a Certificate as Tax Credit Specialist from the National Center of Housing Management as well as a National Affordable Housing Professional Certificate from the National Affordable Housing Management Association.

**Debbie Rompal**, *VP Financial Services and Corporate Controller*. Mrs. Rompal became VP Financial Services and Corporate Controller in January 2010, after serving as Controller, Assistant Controller and other financial positions since 1999. She has over thirty years of experience in the long term health care and retirement housing industry. She joined Pacific Homes in 1990 as an accountant. Mrs. Rompal also serves as CFO for Pacific Homes Foundation, FACT Foundation and California Lutheran Homes.

### **Organizational Accountability**

The Corporation's Senior Vice President for the Organizational Accountability Group reports directly to the Chief Executive Officer, with direct access to the Board of Directors' Audit Committee relative to statutory and regulatory compliance matters. The Senior Vice President for the Organizational Accountability Group is responsible for monitoring the Corporation's service and social responsibilities including the assessment of quality of all services, compliance with applicable statutes and regulations and assessment of resident and employee satisfaction.

### **Compensation Program**

In accordance with the Corporation's governing documents and policies, compensation for senior management is under the jurisdiction of the Executive Committee of the Board of Directors. The 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 are competitive, appropriate, and consistent with legal guidelines governing compensation of senior executives in nonprofit corporations.

The goal of the Corporation's compensation program is to help ensure its ability to attract, motivate and retain the highly talented individuals that the Corporation needs to be an industry leader in a 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 mission and achieve business and growth strategies.

## COMMUNITIES

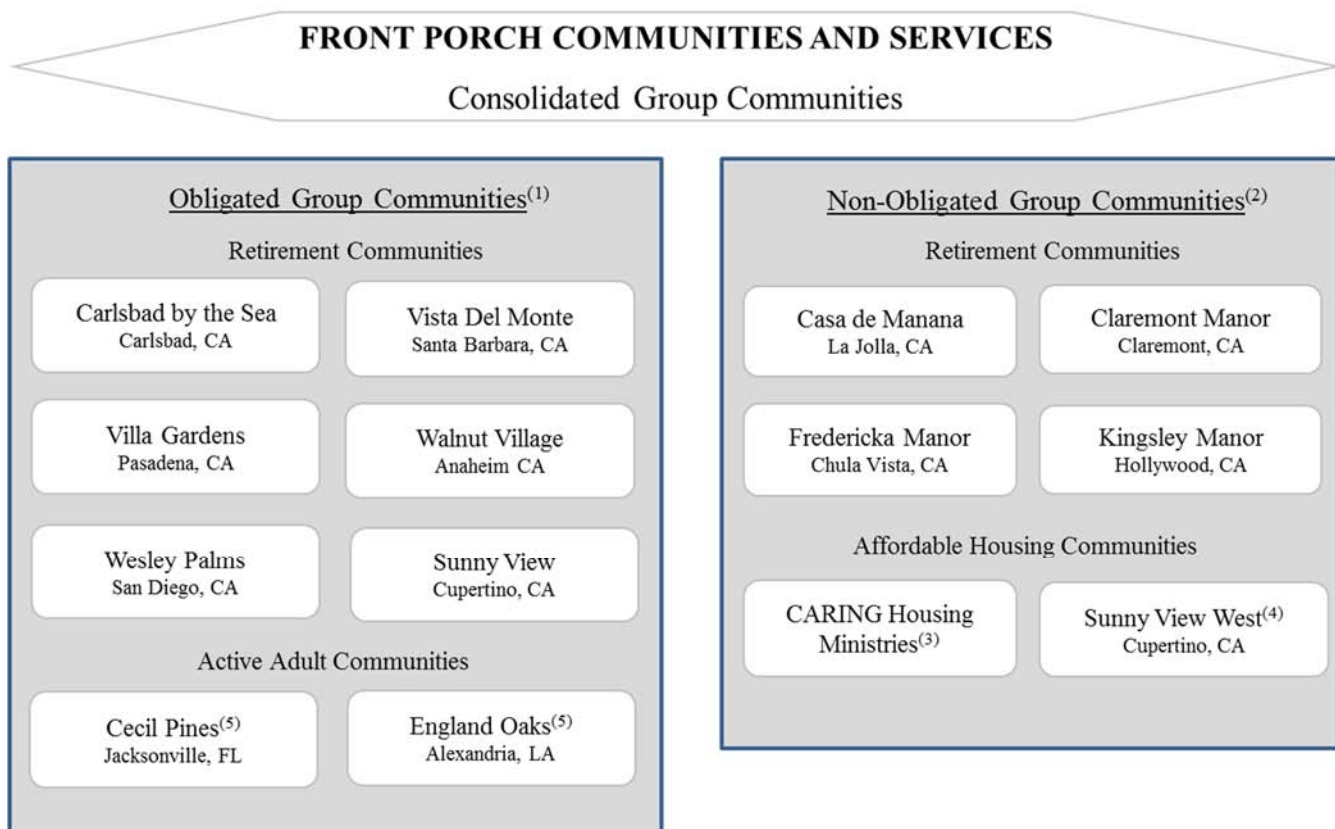
### General

The Corporation, directly or through its subsidiaries, operates ten (10) multi-level senior living and two (2) active adult Communities containing 2,136 residential units, 98 memory support units, and 540 skilled-nursing beds. All of the Communities are located in California, except England Oaks in Louisiana and Cecil Pines in Florida. Five (5) of the Corporation's Communities are CCRCs, while the remainder are rental communities. The Communities offer residents a wide variety of contract options, prices, and locations.

Independent and assisted living units are referred to as "Residential Living Units." Memory support units are collectively referred to as "Memory Care" units or by the brand name "Summer House<sup>®</sup>" and skilled-nursing beds are collectively referred to as "Care Center" beds.

### The Consolidated Group Communities

The following chart provides an overview of Communities of the Consolidated Group and identifies which of the Communities are included in the Obligated Group.



<sup>(1)</sup> These Communities are owned or leased by the Corporation and their revenue and property are subject to the covenants and agreements contained in the Master Indenture.

<sup>(2)</sup> These Communities are owned by the affiliates of the Corporation and are NOT subject to the covenants and agreements contained in the Master Indenture.

<sup>(3)</sup> CHM manages 25 affordable housing communities serving approximately 2,500 individuals residing in more than 1,600 affordable housing units.

<sup>(4)</sup> Sunny View West is a 100-unit, HUD-subsidized affordable housing community. Sunny View West is owned by SVLH and operated by CHM.

<sup>(5)</sup> Cecil Pines and England Oaks are leased by the Corporation.



**Locations of the Consolidated Group Communities**

The following map shows the locations of the Communities owned or leased by entities in the Consolidated Group.

**California Communities**



**Non-Obligated Group Communities**

- Casa de Mañana
- Claremont Manor
- Fredericka Manor
- Kingsley Manor

**Active Adult Communities**



## **The Obligated Group Communities**

The following is a description of the Obligated Group Communities.

Carlsbad By The Sea, Carlsbad, California. Carlsbad By The Sea is a continuing care retirement community situated on approximately 3.8 acres adjacent to the Pacific Ocean in the village of Carlsbad, California. Carlsbad By The Sea's facilities and offerings to residents include:

- 160 apartments;
- 33 bed Medicare-certified skilled nursing and rehabilitative care center;
- Truly Yours assisted living and personal care services available;
- Residences are available on a month-to-month fee basis with no entrance fees;
- Entrance fee options range from non-refundable to 90% repayable contracts; and
- Supported philanthropically by CLH.

Sunny View Retirement Community, Cupertino, California. Sunny View is a continuing care retirement community situated on approximately 12 acres near the foothills of Cupertino in a residential neighborhood. Sunny View has a spiritual focus. Sunny View shares its campus with Sunny View West, an affordable housing community managed by CHM. Sunny View's facilities and offerings to residents include:

- 95 private residences;
- 23 residences in Summer House® at Sunny View memory care neighborhood;
- 48 bed Medicare-certified skilled nursing and rehabilitative care center;
- Truly Yours assisted living and personal care services available;
- Residences are available on a month-to-month fee basis with no entrance fees;
- Entrance fee options include amortized and repayable contracts; and
- Supported philanthropically by the SVLCS.

Villa Gardens, Pasadena, California. Villa Gardens Retirement Community is a continuing care retirement community situated on approximately five acres in a residential area near downtown Pasadena. Villa Gardens facilities and offerings to residents include:

- 195 private residences;
- 19 residences in Summer House® at Villa Gardens memory care neighborhood;
- 54 bed Medicare-certified skilled nursing and rehabilitative care center;
- Truly Yours assisted living and personal care services;
- Residences are available on a month-to-month fee basis with no entrance fees;
- Entrance fee options include amortized and repayable contracts;
- State-of-the-art fitness and aquatic center; and
- Supported philanthropically by the FACT Foundation.

Vista del Monte, Santa Barbara, California. Vista del Monte is a continuing care retirement community situated on approximately 9.8 acres in Santa Barbara's Hidden Valley. Vista del Monte's facilities and offerings to residents include:

- 170 private residences;
- 10 residences in Pinegrove memory care;
- 29 bed Medicare-certified skilled nursing and rehabilitative care center;
- Offers residents Truly Yours assisted living and personal care services;
- Residences are available on a month-to-month fee basis with no entrance fees;
- Entrance fee options range from non-refundable to 90% repayable contracts;

- The Vista del Monte Fitness and Aquatics Center is a resource for residents and the Santa Barbara community; and
- Supported philanthropically by the FACT Foundation.

Walnut Village, Anaheim, California. Walnut Village is a continuing care retirement community situated on approximately 8.5 acres in Anaheim California. Walnut Village's facilities and offerings to residents include:

- 156 private residences;
- 14 residences in Summer House® at Walnut Village;
- 99 bed Medicare-certified skilled nursing and rehabilitative care center;
- Offers residents Truly Yours assisted living and personal care services;
- Residences are available on a month-to-month fee basis with no entrance fees;
- Entrance fee options include amortized and refundable to 90% repayable contracts;
- Indoor fitness and aquatic center with Masters swimming pool, a performing arts center and lifelong learning center; and
- Supported philanthropically by CLH.

Wesley Palms, San Diego, California. Wesley Palms is a retirement community situated on approximately 35 acres in Pacific Beach overlooking Mission Bay and the Pacific Ocean. The Community is undergoing an extensive revitalization adding new patio homes in the California mid-century style. See "Capital Improvement Program – *Wesley Palms*" below. Wesley Palms' facilities and offerings to residents include:

- 291 private residences;
- 22 residences in Summer House® at Wesley Palms, a uniquely designed memory care neighborhood with individual cottages;
- Truly Yours assisted living and personal care services;
- All residences are available on a month-to-month fee basis with no entrance fees; and
- Supported philanthropically by PHF.

The Corporation leases and operates two "Active Adult Communities" in Louisiana and Florida, which are described below.

Cecil Pines, Jacksonville, Florida. Cecil Pines is an active adult senior living community situated on approximately 53 acres on the grounds of the former Cecil Naval Air Field just outside of Jacksonville, Florida. Cecil Pines is operated by the Corporation under the terms of a 2000 lease with the City of Jacksonville, Florida that expires in 2020 with a mutual right to extend the term for three periods of ten years each. Cecil Pines' facilities and offerings to residents include:

- 92 single and duplex private residences offering maintenance free living (inside and out);
- Community meeting rooms and gathering areas;
- All residences are available on a month-to-month fee basis with no entrance fees;
- An adjacent public golf course; and
- Organized community activities.

England Oaks, Alexandria, Louisiana. England Oaks is an active adult senior living community situated on approximately 63 acres on the grounds of the former England Air Force base near Alexandria, Louisiana. Established in 1986, England Oaks was the first active adult community in the country created from former military officer housing on a closed military base. England Oaks is operated by the Corporation under the terms of a lease with the England Economic and Industrial Development District that expires in 2024 with

a lessee option to renew for up to three additional terms of ten years each with the England Economic and Industrial Development District. England Oaks' facilities and offerings to residents include:

- 182 single and duplex private residences offering maintenance free living (inside and out);
- A central clubhouse and pool;
- Community meeting rooms and gathering areas;
- All residences are available on a month-to-month fee basis with no entrance fees; and
- Organized community activities.

### **Consolidated Group Communities Not Included in the Obligated Group**

The following Communities are owned by the Front Porch Real Estate LLCs and leased to and operated by Front Porch OpCo. The Front Porch Real Estate LLCs are included in the Consolidated Group but are not members of the Obligated Group. See the description of Front Porch OpCo and the Front Porch Real Estate LLCs under the caption "ORGANIZATION."

Casa de Mañana, La Jolla, California. Casa de Mañana is a residential care facility situated on approximately five acres overlooking the ocean near the village of La Jolla. Casa de Mañana's facilities and offerings to residents include:

- 190 private residences;
- Truly Yours assisted living and personal care services; and
- All residences are available on a month-to-month fee basis with no entrance fees.

Claremont Manor, Claremont, California. Claremont Manor is a residential care facility situated on approximately 15.2 acres near the Village of Claremont and the campuses of the Claremont Colleges. Claremont Manor's facilities and offerings to residents include:

- 224 private residences;
- 10 residences in Summer House® at Claremont Manor;
- 59 bed Medicare-certified skilled nursing and rehabilitation center;
- Truly Yours assisted living and personal care services;
- All residences are available on a month-to-month fee basis with no entrance fees; and
- Supported philanthropically by PHF.

Fredericka Manor, Chula Vista, California. Fredericka Manor is a residential care facility situated on approximately 24 acres located near the Third Avenue Downtown Village in Chula Vista, California. Fredericka Manor's facilities and offerings to residents include:

- 293 private residences;
- Summer House® at Fredericka Manor memory care neighborhood will be completed in 2018;
- 112-bed Medicare-certified skilled nursing and rehabilitation center;
- 60-bed specialized Alzheimer's skilled nursing unit;
- Truly Yours assisted living and personal care services;
- All residences are available on a month-to-month fee basis with no entrance fees; and
- Supported philanthropically by PHF.

Kingsley Manor, Los Angeles, California. Kingsley Manor is a residential care facility situated on approximately three acres in the heart of Hollywood. Kingsley Manor's facilities and offerings to residents include:

- 223 private residences;
- 51-bed Medicare-certified skilled nursing and rehabilitative care center;
- Truly Yours assisted living and personal care services;
- All residences are available on a month-to-month fee basis with no entrance fees; and
- Supported philanthropically by PHF.

See "Licenses" below for a description of the licenses issued by the State of California to each of the California Communities.

### Unit Mix by Community

The Corporation refers to independent and assisted living units as "Residential Living Units." Memory support units are collectively referred to as "Memory Care" units or by the brand name "Summer House®" and skilled-nursing beds are collectively referred to as "Care Center" beds.

The following is a list of daily average available unit mix at all of the Communities for Fiscal Year ended March 31, 2017:

<u>Community Name</u>	<u>City</u>	<u>Type</u>	<u>Residential Living Units</u>	<u>Memory Care Units</u>	<u>Care Center Beds</u>	<u>Total Units/Beds</u>
<b><i>Obligated Group Communities</i></b>						
Carlsbad By The Sea	Carlsbad, CA	CCRC	159	-	33	192
Cecil Pines	Jacksonville, FL	Rental	92	-	-	92
England Oaks	Alexandria, LA	Rental	181	-	-	181
Sunny View	Cupertino, CA	CCRC	95	23	48	166
Villa Gardens	Pasadena, CA	CCRC	192	19	54	265
Vista del Monte	Santa Barbara, CA	CCRC	169	10	29	208
Walnut Village	Anaheim, CA	CCRC	156	14	94	264
Wesley Palms	San Diego, CA	Rental	189	22	-	211
<b>Sub-total</b>			1,233	88	258	1,579
<b><i>Non-Obligated Group Communities</i></b>						
Casa de Mañana	La Jolla, CA	Rental	189	-	-	189
Claremont Manor	Claremont, CA	Rental	209	10	59	278
Fredericka Manor	Chula Vista, CA	Rental	288	-	172	460
Kingsley Manor	Los Angeles, CA	Rental	217	-	51	268
<b>Sub-total</b>			903	10	282	1,195
<b>Total All Communities</b>			2,136	98	540	2,774

## Revenues by Business Lines

The following table shows the revenues of the Corporation by business line and other sources for the Fiscal Year ended March 31, 2017:

<b>Business Line<sup>(1)</sup></b>	<b>Consolidated Group</b>	<b>Obligated Group</b>
Residential Living	62.2%	61.3%
Memory Care	4.4%	6.5%
Care Centers	30.8%	27.5%
Other	2.6% <sup>(2)</sup>	4.7% <sup>(3)</sup>
<b>Total</b>	<b>100%</b>	<b>100%</b>

<sup>(1)</sup> “Residential Living Units” includes independent and assisted living units. Memory support units are referred to as “Memory Care” units. Skilled-nursing beds are referred to as “Care Center” beds.

<sup>(2)</sup> Includes revenues from the gift and sundries stores located at all of the Communities and revenues from the Affordable Housing Communities.

<sup>(3)</sup> Includes revenues from the gift and sundries stores located at the Obligated Group Communities, the art gallery located at Carlsbad By The Sea and development fees related to the operations of CHM.

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## Revenues by Community

The table below shows the revenues of each Community and other sources for the Fiscal Year ended March 31, 2017:

### Revenues by Community and Other Sources (Dollars in millions)

Community Name	Fiscal Year ended March 31, 2017		
	Revenues	Consolidated Group	Obligated Group
<b>Obligated Group</b>			
Carlsbad By The Sea	\$19.17	9.6%	16.0%
Cecil Pines	1.25	0.6%	1.0%
England Oaks	2.12	1.1%	1.8%
Sunny View Retirement Community	16.37	8.2%	13.6%
Villa Gardens	23.73	11.8%	19.8%
Vista del Monte	17.89	8.9%	14.9%
Walnut Village	22.23	11.1%	18.5%
Wesley Palms	11.75	5.9%	9.8%
Other <sup>(1)</sup>	5.55	2.8%	4.7%
<b>Obligated Group Total</b>	<b>\$120.06</b>	<b>60.0%</b>	<b>100.0%</b>
<b>Non-Obligated Group</b>			
Casa de Mañana	13.60	6.8%	
Claremont Manor	18.70	9.3%	
Fredericka Manor	30.52	15.2%	
Kingsley Manor	12.97	6.5%	
Other <sup>(2)</sup>	4.43	2.2%	
<b>Non-Obligated Group Total</b>	<b>\$80.22</b>	<b>40.0%</b>	
<b>Totals<sup>(3)</sup></b>	<b>\$200.28</b>	<b>100.0%</b>	
<b>Obligated Group Revenues as of a % of Total</b>	<b>60.0%</b>		

<sup>(1)</sup> Includes revenues from the gift and sundries stores located at certain Communities, the art gallery located at Carlsbad By The Sea and development fees related to the operations of CHM.

<sup>(2)</sup> Includes revenues from the Affordable Housing Communities and revenues from the gift and sundries stores located at the Communities owned by the Front Porch Real Estate LLCs.

<sup>(3)</sup> "Totals" excludes the eliminations shown on the schedules attached to the audited financial statement in Appendix B.

## Services Provided at the Communities

The Corporation offers a wide variety of residential services across its various Communities. These services are organized by the Corporation as follows:

*Residential Living:* Full-service community living including a private residence within the community (ranging from studios and apartments/villas to cottages/patio homes with up to three bedrooms), restaurant-style dining, maintenance, housekeeping, transportation, most utilities, whole person wellbeing offerings, volunteer services, fitness and life enrichment programs including lifelong learning, and recreational opportunities and on-site security. Monthly fees include use of all amenities and common spaces within the community such as landscaped grounds, library, dog park/outdoor areas, putting greens/shuffleboard/bocce courts, pools/fitness center, arts and creative programming areas, chapel, sundry store, gardens and gathering places (indoor and out) ranging from gazebos to pubs.

*Truly Yours assisted living and personal care services (a Front Porch brand):* Truly Yours offers assisted living and personal care services delivered to the privacy of a resident's home. Each Truly Yours plan is customized to the specific needs of the individual and priced in accordance with a 'points system' to meet the changing needs of residents as they age in place at a Front Porch retirement community. Truly Yours services are offered at all 10 Communities in California.

*Summer House<sup>®</sup> memory care (a Front Porch brand):* Summer House<sup>®</sup> is a unique concept in memory care support for those with Alzheimer's and dementia-related diseases who need an extra level of care, but do not require skilled nursing care. Each Summer House<sup>®</sup> is a well-designed family-style "neighborhoods" set within a Community. All are intimate in scale (from 10 to 22 accommodations) with protected courtyards and community spaces for dining and 'life enrichment' opportunities. A distinguishing feature of Summer House<sup>®</sup> is the one-on-one and small group programming and the use of innovative technologies designed to engage residents in meaningful ways. Six of the 10 Communities in California include Summer House<sup>®</sup> memory care units.

*Skilled nursing and rehabilitative care centers:* Eight of the 10 Communities in California offer Medicare-certified sub-acute skilled nursing and rehabilitative care ranging in size from 33 to 199 beds.

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## Fees and Monthly Charges

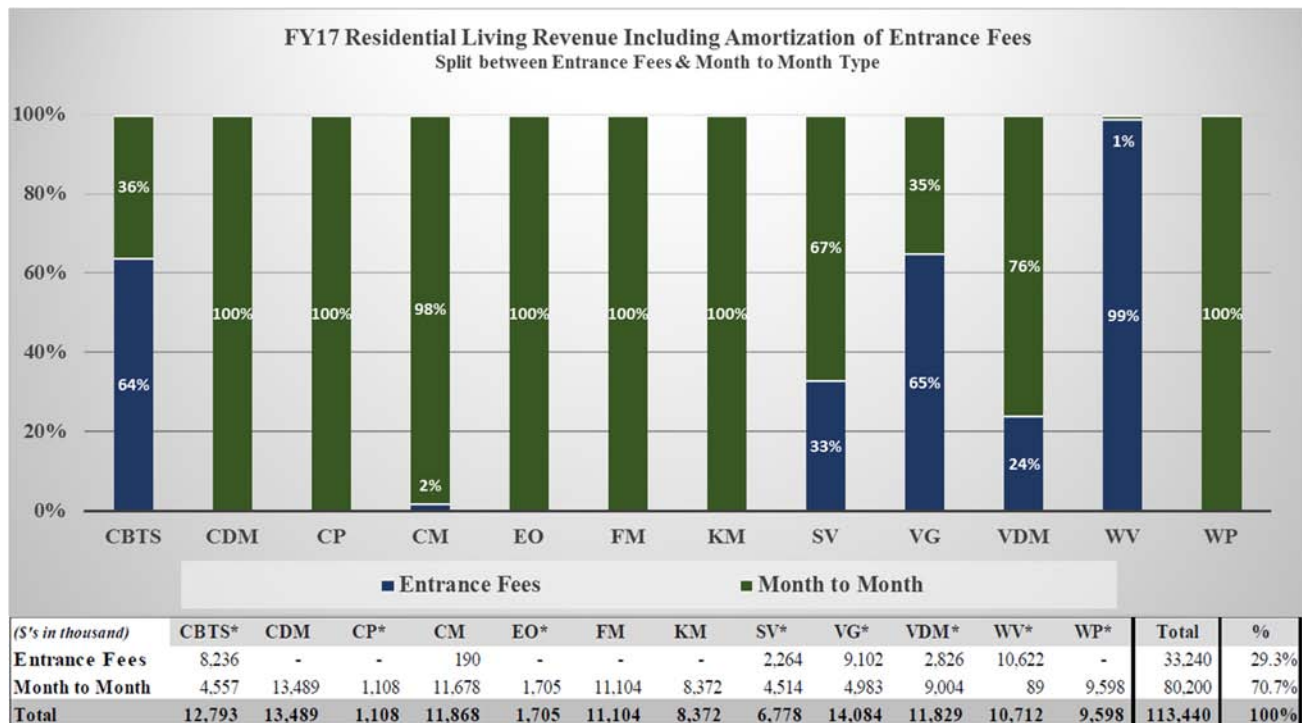
Depending upon the Community, the Corporation offers residents three different fee structures: month-to-month payments, entrance fees or a combination of entrance fees and month to month payments. The ranges of fees for the various fee structures for each Community is set forth in the following table.

### Fees and Monthly Charges

As of April 1, 2017

<u>Name of Community</u>	<u>Contract Structures</u>	<u>Fee Structure Ranges</u>
<b><i>Obligated Group Communities</i></b>		
Carlsbad By The Sea	Month-to-month	\$4,050 - \$6,020
	Entrance Fee	\$102,000 - \$1,316,000
	Monthly Service Fee (Entrance Fee)	\$3,035 - \$7,005
Cecil Pines	Month-to-month	\$1,083 - \$1,428
England Oaks	Month-to-month	\$850 - \$1,085
Sunny View Retirement Community	Month-to-month	\$4,220 - \$9,280
	Entrance Fee	\$95,000 - \$305,000
	Monthly Service Fee (Entrance Fee)	\$3,654 - \$5,430
Villa Gardens	Month-to-month	\$4,005 - \$11,720
	Entrance Fee	\$131,000 - \$1,000,000
	Monthly Service Fee (Entrance Fee)	\$2,515 - \$5,835
Vista del Monte	Month-to-month	\$3,995 - \$9,950
	Entrance Fee	\$108,000 - \$340,007
	Monthly Service Fee (Entrance Fee)	\$2,850 - \$9,460
Walnut Village	Month-to-month	\$4,685 - \$7,785
	Entrance Fee	\$99,999 - \$620,900
	Monthly Service Fee (Entrance Fee)	\$3,310 - \$6,900
Wesley Palms	Month-to-month	\$2,540 - \$9,600
<b><i>Non-Obligated Group Communities</i></b>		
Casa de Mañana	Month-to-month	\$3,310 - \$11,893
Claremont Manor	Month-to-month	\$3,035 - \$8,047
Fredericka Manor	Month-to-month	\$2,085 - \$7,738
Kingsley Manor	Month-to-month	\$2,615 - \$8,430

The following graph illustrates the source of revenues by Community separately identifying revenues derived from entrance fee and month-to-month contracts. As the graph below shows, 70.7% of the revenues from the Communities for the Fiscal Year ended March 31, 2017, were derived from payments under month-to-month contracts.



\* Obligated Group Community

## Licenses

Five of the California communities in the Obligated Group (Carlsbad By The Sea, Sunny View, Villa Gardens, Vista del Monte and Walnut Village) operate as CCRCs as they each have a Certificate of Authority (the “COA”) issued by the State of California Department of Social Services, Continuing Care Contracts Branch. A COA permits the Corporation to enter into continuing care contracts with residents at those communities which are defined by the State of California as agreements between a person 62 years or older and the provider where, in exchange for payment, a promise is made to provide a range of services at the community for a period longer than one year. The Corporation must submit audited financial statements and reserve reports annually to the State.

All ten (10) California Communities are licensed as a Residential Care Facility for the Elderly by the State of California Department of Social Services.

The California Department of Health Services has licensed the skilled nursing beds in each of the California Communities.

The Administrator of each of the Corporation’s skilled nursing facilities in California is licensed by the Department of Health Services as a Skilled Nursing Administrator. The Executive Director of each Community is also licensed by the Department of Social Services as an Independent Living and Assisted Living Administrator.

## Capital Improvement Program

The Consolidated Group regularly invests in improvement, modernization and redevelopment of all of the Communities in order that they can remain marketable, attractive and competitive. The Corporation uses a combination of operating cash flow, reserves, and debt to fund its capital improvement program. The following table provides the cash used for capital improvements to the Communities for the last five Fiscal Years and the Fiscal Year ending March 31, 2018.

Capital Expenditures (in thousands)		
Fiscal Year Ended March 31	Amount (Excluding Wesley Palms)	Amount (Including Wesley Palms)
2013	\$17,737	\$24,038
2014	27,291	28,684
2015	21,918	24,656
2016 <sup>(1)</sup>	17,066	33,866
2017	24,513	47,257
Five Year Average	\$21,705	\$31,700
2018 <sup>(2)</sup>	\$34,068	\$56,314

<sup>(1)</sup> Wesley Palms renovation began.

<sup>(2)</sup> Budgeted capital expenditures. Includes the projects described below.

In addition to its regular capital improvements program, the Corporation is in the process of completing or expects to begin the following capital projects in the near future:

*Wesley Palms.* In 2015, the Corporation began a \$93.6 million multi-year renovation and construction project for the purpose of repositioning Wesley Palms (the “Wesley Palms Project”). Prior to the start of the project, Wesley Palms included 121 independent living units in the main building, 150 independent living cottages and 22 Summer House<sup>®</sup> units. The Wesley Palms Project involves replacement of all 150 independent living cottages with 170 patio homes. The number of independent living units in the main building and Summer House<sup>®</sup> units will not change, but all 121 independent living units in the main building will be renovated with updated kitchens, flooring, electrical and paint. Construction is sequenced in 9 phases to allow current residents to remain at Wesley Palms during construction.

At June 30, 2017, approximately \$50 million had been expended on the Wesley Palms Project. Phase 1, 2 and 3 are complete and at least 95% occupied. Phase 4 is scheduled to be complete by the end of July 2017 and Phase 8 consisting of the main building renovation is scheduled to be complete in August 2017. The remaining four phases are scheduled to be complete in April 2019. The Project is currently on budget and expected to be completed as scheduled.

Additional information describing the cost and financing of the Wesley Palms Project is contained under the caption FINANCIAL INFORMATION – Financing for the Wesley Palms Project.” The Corporation expects to arrange for the issuance of a new series of tax-exempt revenues bonds to pay for the remaining costs of the Wesley Palms Project. See “OTHER FINANCING TRANSACTIONS – The Series 2017B Direct Purchase Bonds” in the front part of the Official Statement.

*Villa Gardens.* The Corporation is in the process of completing \$10 million in various capital improvement projects at Villa Gardens. The Corporation will use \$5 million of the proceeds of the Series 2017A Bonds to reimburse it for costs spent to date. The completed work includes an upgrade to all of the

hallways on each floor, solariums, and elevator renovations. During the Fiscal Year ending March 31, 2018 the Corporation expects to spend an additional \$5 million from its own funds to complete a lobby renovation, addition of a Bistro, a lounge expansion and a new art studio. These improvements were needed to update the public areas and amenities offered at Villa Gardens in order to remain competitive with new retirement communities in the area. The Villa Gardens project is expected to be completed by March 31, 2018. These efforts are expected to generate interest and attract younger prospects, along with improving the lives of current residents who call Villa Gardens their home. No new licensing is required for these projects and occupancy has remained at nearly 100% during construction. See “PLAN OF FINANCE – The Villa Gardens Project” in the front part of the Official Statement.

*Fredericka Manor.* The Corporation is in the process of renovating 13 residential units at Fredericka Manor into 22 memory care accommodations with the ability to accommodate an additional eight semi-private rooms totaling 30 memory care beds for the entire project and one multipurpose common area. The total cost of the project is projected to be approximately \$4 million and the project is expected to be operational in January of 2020. The Fredericka Manor improvements are expected to be paid from funds generated by the operations of the Fredericka Manor Community.

### **Expansion Plans**

The Corporation routinely evaluates opportunities for affiliation, joint venture and other arrangements with other organizations as well as opportunities for the acquisition of other organizations or properties, including retirement community and nursing care properties. The Corporation has no current plans to acquire another community, merge into another organization or dispose of one or more of its Communities.

## **RESIDENCY AGREEMENTS**

### **Terms of Residency Agreements**

Each resident of a Community (excluding residents at Cecil Pines and England Oaks, who sign rental agreements) is required to enter into an agreement with the Corporation or Front Porch OpCo, as applicable (the “Residency Agreement”). The Residency Agreement provides that the resident will pay the Corporation a non-refundable processing fee, a monthly fee, and in certain Communities, an entrance fee. See “Entrance Fees and Entrance Fee Contracts” below. The processing fee presently ranges from \$250 to \$500. In all cases, the fee structures may be adjusted from time to time upon 30 to 60 days’ written notice.

Under the terms of the Residency Agreement, the Corporation agrees to provide an unfurnished living unit that includes building and grounds maintenance, utilities (except telephone), up to three daily meals, and regularly scheduled housekeeping and linen services, recreation and social services, and transportation services. Assistance with self-administered medications and care of minor ailments is also provided. Optional services are available for additional fees.

The Corporation has four types of contracts with residents:

Extensive (Type A) - Includes housing, residential services, amenities and limited, specific health-related services with annual increases in monthly payments, to cover normal operating costs and inflation adjustments. Type A contracts allow residents to transfer to other levels of care at their current monthly rate. 1.3% of the residents of the Communities are covered by a Type A Contract. The Corporation stopped offering residents Type A Contracts in April of 2006.

Modified (Type B) - Includes housing, residential services and amenities and a specific amount of health care with annual increases in monthly payments to cover normal operating costs and inflation adjustments. Residents pay either a discounted rate or the full per diem rates for required health care services. 24.5% of the residents of the Communities are covered by a Type B Contract.

Fee-for-Service (Type C) - Includes housing, residential services and amenities for the fees stated in the Residency Agreement. Access to healthcare services is available, but at full fee-for-service rates. 4.1% of the residents of the Communities are covered by a Type C Contract.

Rental (Type D) - Allows residents the opportunity to rent their housing and provides, includes access to certain healthcare services which would be paid on a full fee-for-service basis. 70.1% of the residents of the Communities are covered by a Type D Contract.

The Corporation considers applications for residence at a Community based upon the guidelines for the acceptance of residents described below and maintains sole discretion on the decision to accept the resident. An application for residence in an independent living unit will be accepted only if the applicant demonstrates the ability to live independently at the time the Residency Agreement is executed and meets the financial obligations of the independent living unit. At least one independent living resident must be 60 years of age or older at the time of establishing occupancy. No dependent children may reside in a Community unless otherwise agreed by the Corporation.

In the event a resident should consistently require special care, the resident may be transferred to an assisted living unit, memory care, skilled nursing facility, or other outside facility. While the Corporation attempts to ensure that space in its Care Centers is available to residents of its residential units, no assurance of availability is provided in the Residency Agreement. In the event such a transfer is necessary, the Corporation relies on the recommendation of licensed physicians and the Corporation's professional staff.

With respect to the Residency Agreement entered into for Communities that charge entrance fees, the Corporation has a 90-day cancellation period during which either the resident or the Corporation may terminate with or without cause. If a decision is made to terminate a residence during the cancellation period, a portion of the monthly fee and any entrance fee paid is refunded. If residence is terminated for any reason after 90 days, the Corporation must refund a portion of any entrance fee paid as provided in each agreement. See "Entrance Fees and Entrance Fee Contracts" below. The Corporation reserves the right to request a resident leave for good cause, upon giving the resident 90 days' written notice. A resident may also leave voluntarily for any reason upon 90 days' written notice.

The Residency Agreement also sets forth a statement of the respective rights of residents and the Corporation and certain required statutory disclosures.

In order to reserve an independent living unit, a prospective resident must execute a Residency Agreement, provide a self-disclosure of health and financial resources, and place a deposit equal to 10% of the entrance fee on the selected independent living unit.

The Corporation has a separate Residency Agreement for residents entering the skilled nursing facilities from its Communities (the "Care Center Admission Agreement"). Under the Care Center Admission Agreement, the resident pays a basic daily rate, presently ranging from \$250 - \$400 per day depending on the type of room and the cost of providing care. The basic daily rate includes general nursing care, dietary services, housekeeping services, linens, beddings and an activity program. Rates from third-party payors (Medicare, managed care contracts, insurance, etc.) may be higher or lower than private rates, but generally include other services such as therapy or medications. Medi-Cal (California's Medicaid program) rates are typically lower than private rates. See "FINANCIAL INFORMATION - Care Center Payor Mix and Occupancy."

The form and content of the Care Center Admission Agreement is regulated by the State of California Department of Health Services.

## **Agreements to Make a Temporary or Permanent Transfer**

Each resident agrees to make a temporary transfer to an assisted living unit, memory care or the skilled nursing facility if deemed appropriate, in the event that the Community determines that such resident is unable to live independently in his or her independent living unit. To the extent feasible, the Community will make all determinations concerning temporary or permanent transfers in consultation with the resident, family members or representatives, the resident's primary physician, the Community's Medical Advisor, and the Executive Director. A resident will be considered a permanent transferee and will forfeit rights to his or her independent living unit if he or she is unlikely to return to such unit within 90 days and is moved to the assisted living/dementia care units.

## **Entrance Fees and Entrance Fee Contracts**

Five of the Corporation's twelve Communities offer residents the option of paying entrance fees or a combination of entrance fees and month-to-month payments. Entrance fees (net of repayments) amounted to 9.9% of the revenues of the Consolidated Group and 16.1% of the revenues of the Obligated Group for the Fiscal Year ended March 31, 2017.

The Corporation offers three basic types of entrance fee contracts: (1) non-refundable amortized contracts; (2) 90% repayable contracts; and (3) 50% repayable contracts. For the fiscal year ended March 31, 2017, the non-refundable amortized contracts accounted for 48% of the Corporation's entrance fee contracts and contributed 37% of the Corporation's entrance fee revenue, the 90% repayable contracts accounted for 49% of the Corporation's entrance fee contracts and contributed 61% of the Corporation's entrance fee revenue, and the 50% repayable contracts accounted for 3% of the Corporation's entrance fee contracts and contributed 2% of the Corporation's entrance fee revenue. See Note 17 in the audited financial statements in Appendix B.

Amortized contracts are amortized into income using a straight line method over the estimated remaining life expectancy of the resident. If a voluntary withdrawal occurs within the 90-day period, the amount refunded 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. After that period there is no refund of any portion of the then fully amortized entrance fee. Repayable contracts are subject to refund after the unit has been resold and in accordance with the California State Department of Social Services CCRC Statutes.

## **Changes in Occupancy**

If an independent living unit is occupied by two persons and one surrenders possession of the unit other than by death or by transfer to the other resident, the obligations of the person remaining in the unit under the Residency Agreement remain in legal force and effect, except that the monthly service fee will be adjusted to reflect the single occupancy rate then in effect for the unit.

## **Financial Assistance**

The Corporation may assist residents who become unable to pay in full the monthly service fee or other charges by reason of circumstances beyond the resident's control. If the Corporation determines that there are facts justifying such assistance, the Corporation may subsidize in whole or in part a resident's monthly service fee and other charges. Any decision to grant financial assistance to a resident will be within the sole discretion of the Corporation and will be limited by the Corporation's obligation to meet its commitments to all residents and to operate on a sound financial basis.

## OPERATIONS

### General

The Corporation's management team is responsible for the operations of all of the Communities. See "GOVERNANCE – Management" herein. The Corporation does not utilize management agreements with third parties to provide overall management of the Communities although it does contract with certain providers to provide specific services at the Communities.

### Historical Units/Beds by Community

The following table shows the average number of units/beds by Community and primary business line for the Fiscal Years ended March 31, 2015, 2016 and 2017.

Community Name	Average Available Units/Beds by Community								
	2015			2016			2017		
	Residential Living	Memory Care	Care Centers	Residential Living	Memory Care	Care Centers	Residential Living	Memory Care	Care Centers
<b><i>Obligated Group</i></b>									
Carlsbad By The Sea	158	**	33	159	**	33	159	**	33
Cecil Pines	92	**	**	92	**	**	92	**	**
England Oaks	181	**	**	181	**	**	181	**	**
Fredericka Manor <sup>(1)</sup>	178	**	100	**	**	**	**	**	**
Sunny View	96	16	48	95	22	48	95	23	48
Villa Gardens	213	**	54	209	3	54	192	19	54
Vista del Monte	170	10	29	171	10	29	169	10	29
Walnut Village	156	14	94	156	14	94	156	14	94
Wesley Palms	258	22	**	219	22	**	189	22	**
Obligated Group total	1,502	62	358	1,282	71	258	1,233	88	258
<b><i>Non-Obligated Group</i></b>									
Casa de Mañana	188	**	**	189	**	**	189	**	**
Claremont Manor	208	7	59	204	10	59	209	10	59
Fredericka Manor <sup>(1)</sup>	121	**	72	290	**	172	288	**	172
Kingsley Manor	207	**	49	214	**	51	217	**	51
Non-Obligated Group total	724	7	180	897	10	282	903	10	282
<b>Consolidated total</b>	<b>2,226</b>	<b>69</b>	<b>538</b>	<b>2,179</b>	<b>81</b>	<b>540</b>	<b>2,136</b>	<b>98</b>	<b>540</b>

\*\* Not applicable.

<sup>(1)</sup> Fredericka Manor percentages are the average from April 1, 2014 through October 28, 2014. Fredericka Manor was moved from the Obligated Group to the Non-Obligated Group in connection with the closing of the HUD-insured Loan on October 29, 2014.

## Historical Occupancy

The following table shows the average annual historical occupancy by Community and by unit type for the Fiscal Years ended March 31, 2015, 2016 and 2017.

Community Name	Average Occupancy by Community								
	2015			2016			2017		
	Residential Living	Memory Care	Care Centers	Residential Living	Memory Care	Care Centers	Residential Living	Memory Care	Care Centers
<b>Obligated Group</b>									
Carlsbad By The Sea	99.4%	**	87.9%	97.5%	**	87.9%	98.0%	**	91.8%
Cecil Pines	100.0%	**	**	99.5%	**	**	99.6%	**	**
England Oaks	97.2%	**	**	96.5%	**	**	95.2%	**	**
Fredericka Manor <sup>(1)</sup>	82.6%	**	94.5%	**	**	**	**	**	**
Sunny View	99.0%	93.8%	89.6%	99.1%	93.7%	91.7%	98.4%	97.8%	91.3%
Villa Gardens	96.7%	**	79.6%	98.3%	100.0%	74.1%	98.9%	96.3%	65.7%
Vista del Monte	99.4%	100.0%	89.7%	98.0%	98.0%	82.8%	95.7%	95.0%	75.2%
Walnut Village	86.5%	71.4%	87.2%	95.1%	99.3%	84.0%	95.7%	93.6%	88.6%
Wesley Palms <sup>(2)</sup>	89.5%	95.5%	**	89.8%	97.7%	**	82.7%	97.7%	**
Obligated Group total	92.9%	90.3%	86.4%	96.2%	96.9%	83.3%	94.9%	96.5%	83.2%
<b>Non-Obligated Group</b>									
Casa de Manana	95.2%	**	**	97.0%	**	**	97.8%	**	**
Claremont Manor	92.8%	100.0%	84.7%	96.3%	99.0%	83.1%	91.7%	99.0%	81.9%
Fredericka Manor <sup>(1)</sup>	83.8%	**	94.8%	87.4%	**	93.0%	91.6%	**	92.0%
Kingsley Manor	99.5%	**	91.8%	99.4%	**	90.2%	99.1%	**	79.0%
Non-Obligated Group total	91.9%	100.0%	92.1%	94.3%	99.0%	90.6%	94.7%	99.0%	87.5%
<b>Consolidated total</b>	<b>93.8%</b>	<b>91.3%</b>	<b>89.4%</b>	<b>95.5%</b>	<b>97.2%</b>	<b>87.1%</b>	<b>94.8%</b>	<b>96.8%</b>	<b>85.5%</b>

\*\* Not applicable

<sup>(1)</sup> Fredericka Manor percentages are the average from April 1, 2014 through October 28, 2014. Fredericka Manor was moved from the Obligated Group to the Non-Obligated Group in connection with the closing of the HUD-insured Loan on October 29, 2014.

<sup>(2)</sup> As of June 30, 2017, 28 of the 29 independent living units in Phase 1 and 2 at Wesley Palms have been occupied and 12 of the 26 units in Phase 3 have been occupied with 5 other units reserved. There are 16 reserved out of the 26 units in construction for Phase 4.

## Marketing

The Corporation's Sales and Marketing Department focuses on fostering full occupancy. This is done through motivation, training, mentoring and supporting operations and sales team members. Staffed with three FTE's and one sales training consultant, the Department's team members have more than 20 years of longevity with the Corporation and 30 years of combined sales and sales leadership experience.

Each Community has a full-time Director of Sales and Marketing who, together with the Executive Director, are responsible to ensure that quality leads are being directed to the Community and that the leads are converted to move-ins, which in turn, generate the high occupancy levels. Communities have a variety of sales positions including sales managers and sales and marketing assistants. Each Community develops and owns a Fiscal Year Sales and Marketing Plan which documents detailed goals and strategies for lead generation.



## Competition

The primary competitor for each of the Communities is the prospective resident's own home and the emergence of available technologies and services to keep the prospect in their home. In addition, each Community has up to eight "brick and mortar" retirement community competitors within their primary market area. The Corporation conducts a competitive analysis annually focusing on rates and services which are shared with the sales teams. In person and telephonic mystery shops are conducted of the competition in focus markets. Competitor ads, direct mail and e-blasts are collected, monitored and shared with the sales teams and the Organizational Advancement Group to ensure the competitiveness of each Community.

## Resident Turnover

The following table describes the turnover in Residential Living and Memory Care residents for all of the Communities for the years shown.

<b>Consolidated Group</b>				
<b>Accommodations Vacated - Discharge Rate</b>				
<b>Three Year Trailing Average</b>	<b>Death</b>	<b>Withdrawal</b>	<b>Transfers<sup>(3)</sup></b>	<b>Total</b>
2012-2014 <sup>(1)</sup>	7%	8%	8%	23%
2013-2015 <sup>(2)</sup>	7%	8%	7%	22%
2014-2016 <sup>(2)</sup>	7%	9%	5%	21%
2015-2017 <sup>(2)</sup>	9%	9%	3%	21%

<sup>(1)</sup> FY 2013-2014 excludes Walnut Village due to renovation.

<sup>(2)</sup> FY 2014-2016 and FY 2015-2017 excludes Wesley Palms due to renovation.

<sup>(3)</sup> Transfers to other nursing care facilities and Care Centers.

## Resident Fee Adjustments

The Corporation has the authority to increase the resident's Monthly Service Fees with 60 days' notice. Historically, the Corporation has annually increased Monthly Service Fees on April 1st, which corresponds to the first day of the new Fiscal Year of the Corporation. The following table shows the percentage by which rates were increased for the past six years.

<b>Consolidated Annual Rate Increase</b>			
<b>Fiscal Year</b>	<b>Residential Living</b>	<b>Memory Care</b>	<b>Care Center</b>
2013	3.95% (IL) / 4.45% (AL) <sup>(1)</sup>	4.45%	4.95%
2014	3.75% (IL) / 4.25% (AL) <sup>(1)</sup>	4.25%	4.50%
2015	4.00% (IL) / 4.50% (AL) <sup>(1)</sup>	4.50%	5.00%
2016	4.75%	4.75%	4.75%
2017	4.25%	4.25%	4.90%
2018	4.50%	4.50%	4.50%

<sup>(1)</sup> Independent Living Units (IL) and Assisted Living Units (AL). In 2016 the Corporation stopped using the term "Assisted Living Units". The services typically offered to residents of assisted living units are offered by the Corporation as part of a package of services known as Truly Yours services. See "COMMUNITIES - Services Provided at the Communities - *Truly Yours assisted living and personal care services (a Front Porch brand).*"

Additionally, the Corporation has the authority to increase the resident care services (“Truly Yours”) for Residential Living residents with 60 days’ notice. Some examples of resident care services are medication management, outside pharmacy, toileting and incontinent care, companion care, laundry services, wound care and escort services to/from doctors, etc. These services are on a fee basis and vary among Communities. The cost to deliver these services are labor intensive, therefore, annual increases are initiated to maintain acceptable margins.

Entrance fees are adjusted based on market demand and closely parallel the real estate market.

### Care Center Payor Mix and Occupancy

The table below sets forth the percentage of gross resident service revenues for Care Center beds (nursing care), net of contractual adjustments, for the Consolidated Group and the Obligated Group by payor source for the three Fiscal Years ended March 31, 2015, 2016 and 2017.

Payor	Consolidated Group Fiscal Year ended March 31			Obligated Group Fiscal Year ended March 31		
	2015	2016	2017	2015	2016	2017
Private Pay	34%	31%	28%	38%	41%	37%
Medi-Cal	37%	39%	38%	30%	24%	26%
Medicare	23%	25%	26%	26%	32%	32%
Managed Care Insurance	6%	5%	8%	6%	3%	5%
<b>Total</b>	100%	100%	100%	100%	100%	100%
Average Beds Available	538	540	540	358	258	258
Occupancy Percentage	89%	87%	86%	86%	83%	83%

Unlike a typical Continuing Care Retirement Community, most of the Care Center beds are occupied by residents from the surrounding area who were not current residents of one of the Corporation’s Communities before moving into a Care Center bed.

## FINANCIAL INFORMATION

### General

The Corporation is focused on improving and enhancing existing revenue sources, adding new revenue sources, and controlling operating expense growth. The Corporation has implemented policies to monitor accounts receivables and promote workplace safety to minimize workers’ compensation claims. Management of the Corporation believes that its strong liquidity position allows it to respond to economic challenges, which have historically caused a decline in average occupancy levels in the Care Centers compared to historical averages (consistent with industry trends).

The Corporation continues to reinvest in capital projects to maintain necessary infrastructure and offer residents competitive facilities. Management of the Corporation believes that this approach to reinvestment has contributed to consistent asset growth and strong occupancy levels.

## **Budgeting**

The Corporation maintains a conservative but disciplined approach to its annual budgeting process. Key macro level targets are established by senior management after evaluating opportunities across each line of business amid the current economic climate. Once key operating targets have been established, the Executive Directors of each Community and Department heads develop their budgets. Key assumptions are discussed and developed on occupancy, revenue rate growth, labor increases, insurance, workers' compensation, product, unit and payor mix. Additionally, operating expense line items are reviewed to ensure reasonableness with particular attention to labor, food and utilities.

## **Financial Results**

The following financial data for the Fiscal Years ended March 31, 2015, 2016 and 2017 for the Consolidated Group and the Obligated Group has been derived from the consolidated audited financial statements of the Corporation and the unaudited supplementary information included in the consolidated audited financial statements of the Corporation for such years. Such financial data is included in **Appendix B** to this Official Statement.

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**Front Porch Consolidated Group and Obligated Group**  
**Statements of Operations**  
**Fiscal Years ended March 31**  
*(in thousands)*

	<b>Consolidated Group</b>			<b>Obligated Group</b>		
	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>
<b>Unrestricted Revenues, Gains and Other Support</b>						
Resident and patient service revenue (net of contractual discounts and allowances)	\$175,695	\$180,862	\$184,368	\$118,907	\$104,253	\$104,407
Provision for uncollectible accounts	(396)	(1,676)	(555)	(70)	(454)	(503)
Resident and net patient service revenue less provision for uncollectible accounts	175,299	179,186	183,813	118,837	103,799	103,904
Amortization of entrance fees	9,917	10,884	10,103	9,907	10,875	10,095
Other	499	489	683	3,732	4,829	5,261
Net assets released from restriction used for operations	789	820	841	718	779	806
Total unrestricted revenues, gains and other support	186,504	191,379	195,440	133,194	120,282	120,066
<b>Expenses</b>						
Medical services	44,156	46,808	47,612	31,300	26,751	27,584
Communities operating costs	19,259	19,099	19,141	13,015	11,326	11,328
Dietary services	27,753	28,590	29,486	18,795	16,616	17,152
Residential services	14,686	15,518	15,920	9,996	9,225	9,618
Administrative services	39,157	41,672	42,521	28,149	32,557	33,234
Depreciation	24,204	24,553	24,641	17,087	15,819	15,897
Amortization of deferred costs	1,179	1,374	1,362	1,003	1,153	1,147
Interest expense	9,980	9,422	9,786	6,201	4,823	5,363
Other	2,442	2,198	2,087	1,957	1,571	1,676
Total Expenses	182,816	189,234	192,556	127,503	119,841	122,999
<b>Operating Income (Loss) Before Other Operating Charges</b>	3,688	2,145	2,884	5,691	441	(2,933)
<b>Other Operating Charges</b>						
Asset Impairment – Wesley Palms	(2,751)	(652)	(356)	(2,751)	(652)	(356)
<b>Operating Income (Loss)</b>	937	1,493	2,528	2,940	(211)	(3,289)
<b>Other Income</b>						
Investment return	19,716	(7,578)	20,546	19,706	(7,588)	20,535
Loss on extinguishment of debt	(617)	-	-	(617)	-	-
Total other income (expense)	19,099	(7,578)	20,546	19,089	(7,588)	20,535
<b>Excess (Deficiency) of Revenues Over Expenses</b>	20,036	(6,085)	23,074	22,029	(7,799)	17,246
Contributions to affiliates	-	-	-	(241)	(222)	6,613
Change in Obligated Group entity	-	-	-	14,228	-	-
Net assets released from restriction for capital expenditures	437	171	244	225	144	41
<b>Increase (Decrease) in Unrestricted Net Assets</b>	\$20,473	\$ (5,914)	\$23,318	\$36,241	\$ (7,877)	\$23,900

**Front Porch Consolidated Group and Obligated Group**  
**Balance Sheets**  
**As of March 31**  
*(in thousands)*

	<b>Consolidated Group</b>			<b>Obligated Group</b>		
	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>
<b>Assets</b>						
<b>Current Assets</b>						
Cash and cash equivalents	\$30,145	\$19,906	\$16,317	\$25,799	\$13,549	\$11,837
Short-term investments	3,209	6,680	11,330	3,209	6,680	11,330
Assets limited as to use – required for current liabilities	13,221	11,564	12,619	9,637	9,441	10,616
Patient accounts receivable, net	12,945	13,023	9,866	7,718	7,423	6,609
Prepaid expenses and other	2,518	2,463	2,473	1,505	1,936	1,893
Intercompany receivables	--	--	--	1,824	738	330
Total current assets	62,038	53,636	52,605	49,692	39,767	42,615
<b>Investments</b>						
Assets limited as to use, net of current portion	14,957	16,325	15,923	11,770	12,432	12,027
Long-term investments	229,223	238,598	272,720	229,223	238,598	272,720
Derivative instruments	8,138	8,331	5,130	8,138	8,331	5,130
Total investments	252,318	263,254	293,773	249,131	259,361	289,877
<b>Property and Equipment, Net</b>	<u>289,684</u>	<u>303,342</u>	<u>324,740</u>	<u>217,708</u>	<u>233,001</u>	<u>255,082</u>
<b>Other Assets</b>						
Interest in net assets of Pacific Homes Foundation	11,049	10,475	11,618	11,049	10,475	11,618
Receivables from supporting organizations	11,591	10,617	11,644	11,591	10,617	11,644
Other receivables	1,794	1,813	1,822	1,794	1,813	1,822
Deferred costs, net	10,171	1,992	1,328	6,659	1,992	1,328
Other assets	1,013	414	623	600	-	209
Total other assets	35,618	25,311	27,035	31,693	24,897	26,621
Total assets	<u>\$639,658</u>	<u>\$645,543</u>	<u>\$698,153</u>	<u>\$548,224</u>	<u>\$557,026</u>	<u>\$614,195</u>
<b>Liabilities and Net Assets</b>						
<b>Current Liabilities</b>						
Current maturities of long-term debt	\$5,688	\$5,887	\$6,111	\$2,820	\$2,920	\$3,040
Accounts payable	4,773	9,002	8,234	3,483	6,824	6,367
Accrued payroll and related expenses	11,852	13,413	12,713	7,880	9,418	8,661
Intercompany payables	-	-	-	109	-	-
Accrued interest	3,495	3,526	3,601	3,180	3,220	3,304
Other accrued expenses	6,169	10,677	12,412	5,882	9,682	11,460
Total current liabilities	31,977	42,505	43,071	23,354	32,064	32,832
Asset retirement obligations	2,577	2,188	2,210	666	228	235
Accrued workers compensation	10,225	9,763	9,449	5,315	5,496	6,173
Other accrued liabilities	13,298	14,833	17,629	10,257	11,630	14,363
Deferred interest – forward sale agreements	1,360	1,036	1,232	1,360	1,036	1,232
Refundable entrance fees	60,082	66,830	71,503	60,082	66,830	71,503
Deferred revenue from entrance fees	44,898	36,462	36,143	44,263	35,836	35,524
Long-term debt	262,795	266,940	286,325	147,893	158,295	180,535
Total liabilities	427,212	440,557	467,562	293,190	311,415	342,397
<b>Net assets:</b>						
Unrestricted	190,339	184,425	207,743	232,927	225,050	248,950
Temporarily restricted	15,668	14,239	15,944	15,668	14,239	15,944
Permanently restricted	6,439	6,322	6,904	6,439	6,322	6,904
Total net assets	212,446	204,986	230,591	255,034	245,611	271,798
Total liabilities and net assets	<u>\$639,658</u>	<u>\$645,543</u>	<u>\$698,153</u>	<u>\$548,224</u>	<u>\$557,026</u>	<u>\$614,195</u>

## Pro Forma Debt Service Coverage Ratio

The following table sets forth, for the Fiscal Years ended March 31, 2015, 2016 and 2017, the historical pro forma Debt Service Coverage Ratio based upon the consolidated audited financial statements of the Corporation, assuming, for purposes of calculating Pro Forma Maximum Annual Debt Service, that the Series 2017A Bonds and the Series 2017B Bonds are issued, the Series 2007A Bonds and the Series 2012 Bonds are refunded, and the Cash Redeemed Prior Debt is redeemed with cash, all as of the first day of the Fiscal Year ended March 31, 2015. The Debt Service Coverage Ratio and Maximum Annual Debt Service are calculated in accordance with the definitions contained in the Master Indenture.

### Historical Pro Forma MADS Coverage Ratio (Dollars in thousands)

Item	Consolidated Operations			Obligated Group		
	Fiscal Year ended March 31			Fiscal Year ended March 31		
	2015	2016	2017	2015	2016	2017
<b>Excess of revenues over expenses</b>	\$20,036	\$(6,085)	\$23,074	\$22,029	\$(7,799)	\$17,246
<b>Additions:</b>						
Depreciation	24,204	24,553	24,641	17,087	15,819	15,897
Amortization of Deferred Costs	1,179	1,374	1,362	1,003	1,153	1,147
Interest Expense	9,980	9,422	9,786	6,201	4,823	5,363
Entrance Fees Received	27,234	21,555	25,489	27,234	21,555	25,490
Unrealized Losses (Gains)	(3,744)	15,102	(5,093)	(3,744)	15,102	(5,093)
Asset Impairment	2,751	652	356	2,751	652	356
Loss on extinguishment of debt	617	0	0	617	0	0
<b>Deductions:</b>						
Refunds of Entrance Fees	(3,935)	(7,643)	(6,112)	(3,935)	(7,643)	(6,113)
Amortization of Entrance Fees	(9,917)	(10,884)	(10,103)	(9,907)	(10,875)	(10,095)
Amortization of Deferred Interest	(437)	(437)	(437)	(437)	(437)	(437)
<b>Total Income Available for Debt Service</b>	<b>67,968</b>	<b>47,609</b>	<b>62,963</b>	<b>58,899</b>	<b>32,350</b>	<b>43,761</b>
<b>Pro Forma MADS <sup>(1)</sup></b>	<b>18,878</b>	<b>18,878</b>	<b>18,878</b>	<b>12,371</b>	<b>12,371</b>	<b>12,371</b>
<b>Historical Pro Forma MADS Coverage Ratio</b>	<b>3.60</b>	<b>2.52</b>	<b>3.34</b>	<b>4.76</b>	<b>2.61</b>	<b>3.54</b>

<sup>(1)</sup> Preliminary, subject to change. Historical Proforma MADS is calculated using the following assumptions: (a) the Series 2017A Bonds will be issued in the amount of \$98.455 million and will bear interest at an assumed average coupon rate of 4.94%; (b) the Series 2015 Bonds are outstanding in the maximum principal amount of \$72.0 million and bear interest at 3.70% (*The Bond Buyer's* Thirty-Year Revenue Bond Index as of July 20, 2017) with level debt service payments over 22 years, (c) the Series 2017B Bonds are issued and outstanding in the maximum principal amount of \$21.5 million and bear interest using the same interest rate and payment terms as the Series 2015 Bonds, and (d) the Cash Redeemed Prior Debt is no longer outstanding. The Series 2017B Bonds are described in the Official Statement under the caption "OTHER FINANCING TRANSACTIONS – The Series 2017B Direct Purchase Bonds."

## Liquidity – Days Cash on Hand

The following table sets forth Days Cash on Hand for the Consolidated Group and the Obligated Group as of March 31, 2015, 2016 and 2017, based upon the audited consolidated financial statements of the Corporation.

Days Cash on Hand (Dollars in thousands)						
Item	Consolidated Operations As of March 31			Obligated Group As of March 31		
	2015	2016	2017	2015	2016	2017
Cash and cash equivalents	\$30,145	\$19,906	\$16,317	\$25,799	\$13,549	\$11,837
Short term investment	3,209	6,680	11,330	3,209	6,680	11,330
Long term investment	229,223	238,598	272,720	229,223	238,598	272,720
Total unrestricted cash & investment	<u>262,577</u>	<u>265,184</u>	<u>300,367</u>	<u>258,231</u>	<u>258,827</u>	<u>295,887</u>
Operating expenses before redevelopment costs	182,816	189,234	192,556	127,503	119,841	122,999
Less: depreciation	(24,204)	(24,553)	(24,641)	(17,087)	(15,819)	(15,897)
Less: amortization of deferred cost	<u>(1,179)</u>	<u>(1,374)</u>	<u>(1,362)</u>	<u>(1,003)</u>	<u>(1,153)</u>	<u>(1,147)</u>
Operating expenses less depr & amort	157,433	163,307	166,553	109,413	102,869	105,955
Divided # days per year	<u>365</u>	<u>366</u>	<u>365</u>	<u>365</u>	<u>366</u>	<u>365</u>
Daily avg oper exp excl depr & amort	431	446	456	300	281	290
<b>Days Cash on Hand</b>	<b>609</b>	<b>597</b>	<b>658</b>	<b>861</b>	<b>921</b>	<b>1,019</b>

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## Cash to Debt Ratios

The following table sets forth Cash to Debt Ratios for the Consolidated Group and the Obligated Group as of March 31, 2015, 2016 and 2017, based upon the audited consolidated financial statements of the Corporation.

### Cash to Debt (Dollars in thousands)

Item	Consolidated Operations As of March 31			Obligated Group As of March 31		
	2015	2016	2017	2015	2016	2017
Cash and cash equivalents	\$30,145	\$19,906	\$16,317	\$25,799	\$13,549	\$11,837
Short-term investments	3,209	6,680	11,330	3,209	6,680	11,330
Long-term investments	229,223	238,598	272,720	229,223	238,598	272,720
Unrestricted cash & investments	262,577	265,184	300,367	258,231	258,827	295,887
Long Term Indebtedness <sup>(1)</sup>	\$268,483	\$279,882	\$298,793	\$150,713	\$164,979	\$186,857
<b>Cash to debt ratio</b>	<b>0.98</b>	<b>0.95</b>	<b>1.01</b>	<b>1.71</b>	<b>1.57</b>	<b>1.58</b>

<sup>(1)</sup> Long-Term Indebtedness shown includes unamortized debt issuance costs, which are excluded from the Consolidated Group and Obligated Group balance sheets shown in this Appendix A in accordance with accounting principles generally accepted in the United States of America, and excludes approximately \$5,000,000 of Series 2007A Bonds owned by the Corporation.

## Management's Discussion

The following discussion addresses the financial performance for the Consolidated Group and the Obligated Group, respectively, for the Fiscal Years ended March 31, 2017, 2016 and 2015.

### Results of Operations – Consolidated Group

#### *Fiscal Year Ended March 31, 2017 – Consolidated Group.*

Residential Living occupancy declined slightly from 95.5% for Fiscal Year 2016 to 94.8% for Fiscal Year 2017, due in large part to the Wesley Palms Project. Wesley Palms had 30 fewer Residential Living units available for Fiscal Year 2017 as compared to Fiscal Year 2016. Nine of the 12 Communities averaged 95% or higher occupancy for Fiscal Year 2017 as compared to ten of the 12 Communities in Fiscal Year 2016. Residential Living average available units for Fiscal Year 2017 declined by 43 units to 2,136 units compared to Fiscal Year 2016, primarily due to the Wesley Palms Project and the conversion of Residential Living units to Memory Care (Summer House<sup>®</sup>) at Villa Gardens.

Summer House<sup>®</sup> occupancy declined slightly from 97.2% for Fiscal Year 2016 to 96.8% for Fiscal Year 2017. Average available units increased from 81 units for Fiscal Year 2016 to 98 units for Fiscal Year 2017 reflecting the conversion of Residential Living units to Memory Care (Summer House<sup>®</sup>) at Villa Gardens.

Care Center occupancy declined from 87.1% for Fiscal Year 2016 to 85.5% for Fiscal Year 2017. Care Center average available beds of 540 for Fiscal Year 2017 remained flat compared to Fiscal Year 2016. Six out of the eight Care Centers experienced declines in census for Fiscal Year 2017 compared to Fiscal Year 2016 with Kingsley Manor, Villa Gardens and Vista del Monte suffering the largest declines. Comparing Fiscal Year 2016 to Fiscal Year 2017, Medicare as a portion of operating



revenue increased from 25.0% to 26.0%, Medi-Cal and managed care combined increased from 44.0% to 46.0%, and private pay decreased from 31.0% to 28.0%.

Resident and net patient service revenues, net of the provisions for uncollectible accounts, increased 2.6% from \$179.2 million for Fiscal Year 2016 to \$183.8 million for Fiscal Year 2017. Amortization of entrance fees declined from \$10.9 million for Fiscal Year 2016 to \$10.1 million for Fiscal Year 2017. Total unrestricted revenues, gains, and other support improved 2.1% from \$191.4 million for Fiscal Year 2016 to \$195.4 million for Fiscal Year 2017.

Total operating expenses increased 1.8% from \$189.2 million for Fiscal Year 2016 to \$192.6 million for Fiscal Year 2017, primarily driven by higher labor costs. The increased California minimum wage and competition for talent is driving higher salaries, wages and benefits, as well as nursing registry costs.

Operating income increased from \$1.5 million for Fiscal Year 2016 to \$2.5 million for Fiscal Year 2017 primarily due to higher unrestricted revenues.

*Fiscal Year Ended March 31, 2016 – Consolidated Group.*

Residential Living occupancy increased from 93.8% for Fiscal Year 2015 to 95.5% for Fiscal Year 2016, due primarily to improvement at Walnut Village, Fredericka Manor and Claremont Manor. Ten of the 12 Communities averaged 95% or higher occupancy for Fiscal Year 2016 as compared to eight of the 12 Communities in Fiscal Year 2015. Residential Living average available units for Fiscal Year 2016 declined by 47 units to 2,179 units compared to Fiscal Year 2015 primarily due to the Wesley Palms Project. Despite construction on the campus, Wesley Palms averaged 89.8% occupancy based on the reduced capacity.

Summer House<sup>®</sup> increased from 91.3% for Fiscal Year 2015 to 97.2% for Fiscal Year 2016 with Walnut Village realizing the largest improvement. Average available units increased from 69 units for Fiscal Year 2015 to 81 units for Fiscal Year 2016 as incremental units were added at Sunny View and Claremont Manor.

Care Center occupancy declined from 89.4% in Fiscal Year 2015 to 87.1% in Fiscal Year 2016. Care Center average available beds increased slightly from 538 beds for Fiscal Year 2015 to 540 beds for Fiscal Year 2016. Six out of the eight Care Centers experienced declines in census for Fiscal Year 2016 compared to Fiscal Year 2015 with Vista Del Monte and Villa Gardens suffering the largest declines. Comparing Fiscal Year 2015 to Fiscal Year 2016, Medicare as a portion of operating revenue increased from 23.0% to 25.0%, Medi-Cal and managed care combined increased slightly from 43.0% to 44.0%, and private pay decreased from 34.0% to 31.0%.

Resident and net patient service revenues, net of the provisions for uncollectible accounts, increased 2.2% from \$175.3 million for Fiscal Year 2015 to \$179.2 million for Fiscal Year 2016. Amortization of entrance fees increased from \$9.9 million for Fiscal Year 2015 to \$10.9 million for Fiscal Year 2016. Total unrestricted revenues, gains, and other support improved 2.6% from \$186.5 million for Fiscal Year 2015 to \$191.4 million for Fiscal Year 2016.

Total operating expenses increased 3.5% from \$182.8 million for Fiscal Year 2015 to \$189.2 million for Fiscal Year 2016, primarily driven by higher labor costs to attract and retain talent.

Operating income increased from \$0.9 million for Fiscal Year 2015 to \$1.5 million for Fiscal Year 2016 primarily due to higher unrestricted revenues. Also, Fiscal Year 2015 included a \$2.2 million write-off of predevelopment costs at Villa Gardens.

*Fiscal Year Ended March 31, 2015 – Consolidated Group.*

Residential living occupancy increased from 92.5% for Fiscal Year 2014 to 93.8% for Fiscal Year 2015. Eight of the 12 Communities averaged 95% or higher occupancy for Fiscal Year 2015 as compared to five of the 12 Communities in Fiscal Year 2014. Residential living average available units for Fiscal Year 2015 increased by 1 unit to 2,295 units compared to Fiscal Year 2014. Prior to Fiscal Year 2015, Summer House® units were not reported separately from assisted living units. In order to accurately reflect capacity for Fiscal Year 2014 and Fiscal Year 2015, assisted living and Summer House® units were combined with residential living units for this comparison.

Summer House® achieved 91.3% occupancy for Fiscal Year 2015. Prior to Fiscal Year 2015, Summer House® units were not reported separately from assisted living units. There were 69 average available units for Fiscal Year 2015.

Care Center occupancy declined from 90.3% in Fiscal Year 2014 to 89.4% in Fiscal Year 2015. Care Center average available beds remained flat at 538 beds for Fiscal Year 2015 compared to Fiscal Year 2014. Four out of the eight Care Centers experiencing declines in census for Fiscal Year 2015 compared to Fiscal Year 2014 with Villa Gardens and Claremont Manor suffering the largest declines. Comparing Fiscal Year 2014 to Fiscal Year 2015, Medicare as a portion of operating revenue remained flat at 23.0%, Medi-Cal and managed care combined increased slightly from 40.4% to 43.0%, and private pay decreased from 36.6% to 34.0%.

Resident and net patient service revenues, net of the provisions for uncollectible accounts, increased 5.0% from \$166.9 million for Fiscal Year 2014 to \$175.3 million for Fiscal Year 2015. Amortization of entrance fees increased from \$8.9 million for Fiscal Year 2014 to \$9.9 million for Fiscal Year 2015. Total unrestricted revenues, gains, and other support improved 5.4% from \$177.0 million for Fiscal Year 2014 to \$186.5 million for Fiscal Year 2015.

Total operating expenses increased 4.5% from \$174.9 million for Fiscal Year 2014 to \$182.8 million for Fiscal Year 2015, primarily driven by higher labor costs to attract and retain talent.

Operating income decreased from \$2.1 million for Fiscal Year 2014 to \$0.9 million for Fiscal Year 2015 primarily due to write-off of predevelopment costs at Villa Gardens and the asset impairment expense related to Wesley Palms.

**Balance Sheet – Consolidated Group**

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

Total assets of \$698.2 million for Fiscal Year 2017 increased \$52.7 million compared to \$645.5 million for Fiscal Year 2016. Cash and short-term investments increased \$1.0 million from \$26.6 million for Fiscal Year 2016 to \$27.6 million for Fiscal Year 2017.

Long-term investments increased by \$34.1 million from \$238.6 million for Fiscal Year 2016 to \$272.7 million for Fiscal Year 2017, due to market performance.

Net property and equipment increased by \$21.4 million from \$303.3 million for Fiscal Year 2016 to \$324.7 million for Fiscal Year 2017, reflecting continued investment in Wesley Palms.

Long-term debt increased by \$19.4 million from \$266.9 million for Fiscal Year 2016 to \$286.3 million for Fiscal Year 2017. This included \$6.1 million of additional debt drawn down on the Series 2015 Bonds for the Wesley Palms Project and principal payments of \$0.2 million that occurred during the fourth quarter of Fiscal Year 2017.

Net assets increased by \$25.6 million from \$205.0 million for Fiscal Year 2016 to \$230.6 million for Fiscal Year 2017, driven primarily by positive investment returns.

*Fiscal Year Ended March 31, 2016 – Consolidated Group.*

Total assets of \$645.5 million for Fiscal Year 2016 increased \$5.8 million compared to \$639.7 million for Fiscal Year 2015. Cash and short-term investments decreased \$6.7 million from \$33.3 million for Fiscal Year 2015 to \$26.6 million for Fiscal Year 2016.

Long-term investments increased by \$9.4 million from \$229.2 million for Fiscal Year 2015 to \$238.6 million for Fiscal Year 2016, due to market performance.

Net property and equipment increased by \$13.6 million from \$289.7 million for Fiscal Year 2015 to \$303.3 million for Fiscal Year 2016, reflecting continued investment in the Communities.

Long-term debt increased by \$4.1 million from \$262.8 million for Fiscal Year 2015 to \$266.9 million for Fiscal Year 2016.

Net assets decreased by \$7.4 million from \$212.4 million for Fiscal Year 2015 to \$205.0 million for Fiscal Year 2016.

*Fiscal Year Ended March 31, 2015 – Consolidated Group.*

Total assets of \$639.7 million for Fiscal Year 2015 increased \$31.4 million compared to \$608.3 million for Fiscal Year 2014. Cash and short-term investments increased \$1.1 million from \$32.2 million for Fiscal Year 2014 to \$33.3 million for Fiscal Year 2015.

Long-term investments increased by \$32.0 million from \$197.2 million for Fiscal Year 2014 to \$229.2 million for Fiscal Year 2015, due to market performance.

Net property and equipment decreased by \$4.2 million from \$293.9 million for Fiscal Year 2014 to \$289.7 million for Fiscal Year 2015.

Long-term debt decreased by \$0.2 million from \$263.0 million for Fiscal Year 2014 to \$262.8 million for Fiscal Year 2015.

Net assets increased by \$21.9 million from \$190.5 million for Fiscal Year 2014 to \$212.4 million for Fiscal Year 2015.

**Results of Operations – Obligated Group**

*Fiscal Year Ended March 31, 2017 – Obligated Group.*

Residential Living occupancy declined from 96.2% for Fiscal Year 2016 to 94.9% for Fiscal Year 2017, due in large part to the Wesley Palms Project. Wesley Palms had 30 fewer residential living units available for Fiscal Year 2017 as compared to Fiscal Year 2016. For Fiscal Year 2017 and Fiscal Year 2016, seven of the eight Obligated Group Communities averaged 95% or higher occupancy. Residential Living average available units for Fiscal Year 2017 declined by 50 units to 1,232 units compared to Fiscal Year 2016 primarily due to the Wesley Palms Project and the conversion of Residential Living units to Memory Care at Villa Gardens.

Summer House<sup>®</sup> occupancy declined slightly from 96.9% for Fiscal Year 2016 to 94.9% for Fiscal Year 2017. Average available units increased from 71 units for Fiscal Year 2016 to 88 units for

Fiscal Year 2017 primarily due to the conversion of Residential Living units to Memory Care at Villa Gardens.

Care Center occupancy declined slightly from 83.3% for Fiscal Year 2016 to 83.2% for Fiscal Year 2017. Care Center average available beds of 258 for Fiscal Year 2017 remained flat compared to Fiscal Year 2016. Three out of the five Care Centers experienced declines in census for Fiscal Year 2017 compared to Fiscal Year 2016 with Villa Gardens and Vista del Monte suffering the largest declines. Comparing Fiscal Year 2016 to Fiscal Year 2017, Medicare as a portion of operating revenue remained flat at 32%, Medi-Cal and managed care combined increased from 27.0% to 31.0%, and private pay decreased from 41.0% to 37.0%.

Resident and net patient service revenues, net of the provisions for uncollectible accounts, increased 0.1% from \$103.8 million for Fiscal Year 2016 to \$103.9 million for Fiscal Year 2017. Amortization of entrance fees declined from \$10.9 million for Fiscal Year 2016 to \$10.1 million for Fiscal Year 2017. Total unrestricted revenues, gains, and other support declined 0.2% from \$120.3 million for Fiscal Year 2016 to \$120.1 million for Fiscal Year 2017.

Total operating expenses increased 2.6% from \$119.8 million for Fiscal Year 2016 to \$123.0 million for Fiscal Year 2017, primarily driven by higher labor costs. The increased California minimum wage and competition for talent is driving higher salaries, wages and benefits, as well as nursing registry costs.

Operating income declined from a loss of \$0.2 million for Fiscal Year 2016 to a loss of \$3.3 million for Fiscal Year 2017 primarily due to the anticipated decline in operating performance from the Wesley Palms campus during renovation and higher labor costs.

#### *Fiscal Year Ended March 31, 2016 – Obligated Group.*

Residential Living occupancy increased from 92.9% for Fiscal Year 2015 to 96.2% for Fiscal Year 2016, primarily due to the improvement experienced at Walnut Village as they achieved stabilized occupancy in Fiscal Year 2016. Seven of the eight Obligated Group Communities averaged 95% or higher occupancy for Fiscal Year 2016 as compared to six of the eight Obligated Group Communities in Fiscal Year 2015. Residential Living average available units for Fiscal Year 2016 declined by 220 units to 1,282 units compared to Fiscal Year 2015 primarily due to Fredericka Manor transferring out of the Obligated Group to an affiliate of the Corporation and the Wesley Palms Project.

Summer House<sup>®</sup> occupancy increased from 90.3% for Fiscal Year 2015 to 96.9% for Fiscal Year 2016, primarily due to the improvement experienced at Walnut Village. Average available units increased from 62 units for Fiscal Year 2015 to 71 units for Fiscal Year 2016 primarily due to the incremental units added at Sunny View.

Care Center occupancy declined from 86.4% for Fiscal Year 2015 to 83.3% for Fiscal Year 2016. Care Center average available beds declined from 358 beds for Fiscal Year 2015 to 258 beds for Fiscal Year 2016 due to Fredericka Manor transferring out of the Obligated Group to an affiliate of the Corporation. Three out of the five Care Centers experienced declines in census for Fiscal Year 2016 compared to Fiscal Year 2015 with Vista del Monte and Villa Gardens suffering the largest declines. Comparing Fiscal Year 2015 to Fiscal Year 2016, Medicare as a portion of operating revenue increased from 26% to 32%, Medi-Cal and managed care combined decreased from 36.0% to 27.0%, and private pay increased from 38.0% to 41.0%.

Resident and net patient service revenues, net of the provisions for uncollectible accounts, decreased 12.6% from \$118.8 million for Fiscal Year 2015 to \$103.8 million for Fiscal Year 2016. Amortization of entrance fees increased from \$9.9 million for Fiscal Year 2015 to \$10.9 million for Fiscal Year 2016. Total unrestricted revenues, gains, and other support declined 9.7% from \$133.2

million for Fiscal Year 2015 to \$120.3 million for Fiscal Year 2016 primarily due to Fredericka Manor transferring out of the Obligated Group to an affiliate of the Corporation.

Total operating expenses decreased 6.0% from \$127.5 million for Fiscal Year 2015 to \$119.8 million for Fiscal Year 2016.

Operating income declined from \$2.9 million for Fiscal Year 2015 to a loss of \$0.2 million for Fiscal Year 2016 primarily due to the anticipated decline in operating performance from the Wesley Palms Project, Fredericka Manor transferring out of the Obligated Group to an affiliate of the Corporation and higher labor costs.

*Fiscal Year Ended March 31, 2015 – Obligated Group.*

Residential Living occupancy increased from 91.7% for Fiscal Year 2014 to 92.9% for Fiscal Year 2015. Six of the eight Obligated Group Communities averaged 95% or higher occupancy for Fiscal Year 2015 as compared to five of the eight Obligated Group Communities in Fiscal Year 2014. Residential Living average available units for Fiscal Year 2015 decreased by 152 units to 1,502 units compared to Fiscal Year 2014. In Fiscal Year 2014, Casa de Mañana, Claremont Manor, and Kingsley Manor were all transferred out of the Obligated Group to an affiliate of the Corporation mid-year. In Fiscal Year 2015, Fredericka Manor was transferred out of the Obligated Group to an affiliate of the Corporation. Also, prior to Fiscal Year 2015, Summer House<sup>®</sup> units were not reported separately from assisted living units. In order to accurately reflect capacity for Fiscal Year 2014 and Fiscal Year 2015, assisted living and Summer House<sup>®</sup> were combined with Residential Living for this comparison.

Summer House<sup>®</sup> achieved 90.3% occupancy for Fiscal Year 2015. Prior to Fiscal Year 2015, Summer House<sup>®</sup> units were not reported separately from assisted living units. There were 62 average available units for Fiscal Year 2015.

Care Center occupancy declined from 90.1% in Fiscal Year 2014 to 86.4% in Fiscal Year 2015. Care Center average available beds declined from 538 beds for Fiscal Year 2014 to 358 beds for Fiscal Year 2015. This was due to the impact from Claremont Manor and Kingsley Manor transferring out of the Obligated Group to an affiliate of the Corporation. Three out of the six Obligated Group Care Centers experienced declines in census for Fiscal Year 2015 compared to Fiscal Year 2014 with Villa Gardens and Walnut Village suffering the largest declines. Comparing Fiscal Year 2014 to Fiscal Year 2015, Medicare as a portion of operating revenue increased from 24.0% to 26%, Medi-Cal and managed care combined decreased slightly from 38.5% to 36.0%, and private pay increased slightly from 37.5% to 38.0%.

Resident and net patient service revenues, net of the provisions for uncollectible accounts, decreased 13.9% from \$137.9 million for Fiscal Year 2014 to \$118.8 million for Fiscal Year 2015. Amortization of entrance fees increased from \$8.9 million for Fiscal Year 2014 to \$9.9 million for Fiscal Year 2015. Total unrestricted revenues, gains, and other support decreased 10.9% from \$149.5 million for Fiscal Year 2014 to \$133.2 million for Fiscal Year 2015. In Fiscal Year 2014, Casa de Mañana, Claremont Manor, and Kingsley Manor were all transferred out of the Obligated Group to an affiliate of the Corporation mid-year. In Fiscal Year 2015, Fredericka Manor transferred out of the Obligated Group to an affiliate of the Corporation.

Total operating expenses decreased 12.8% from \$146.2 million for Fiscal Year 2014 to \$127.5 million for Fiscal Year 2015.

Operating income increased from \$1.5 million for Fiscal Year 2014 to \$2.9 million for Fiscal Year 2015.

## **Balance Sheet – Obligated Group**

### *Fiscal Year Ended March 31, 2017 – Obligated Group.*

Total assets of \$614.2 million for Fiscal Year 2017 increased \$57.2 million compared to \$557.0 million for Fiscal Year 2016. Cash and short-term investments increased \$3.0 million from \$20.2 million for Fiscal Year 2016 to \$23.2 million for Fiscal Year 2017.

Long-term investments increased by \$34.1 million from \$238.6 million for Fiscal Year 2016 to \$272.7 million for Fiscal Year 2017, due to market performance.

Net property and equipment increased by \$22.1 million from \$233.0 million for Fiscal Year 2016 to \$255.1 million for Fiscal Year 2017, primarily the result of additional assets purchased for the Wesley Palms Project.

Long-term debt increased by \$22.2 million from \$158.3 million for Fiscal Year 2016 to \$180.5 million for Fiscal Year 2017. This included \$6.1 million of additional debt drawn down on the Series 2015 Bonds for the Wesley Palms Project and principal payments of \$0.2 million that occurred during the fourth quarter of Fiscal Year 2017.

Net assets increased by \$26.2 million from \$245.6 million for Fiscal Year 2016 to \$271.8 million for Fiscal Year 2017, driven primarily by positive investment returns.

### *Fiscal Year Ended March 31, 2016 – Obligated Group.*

Total assets of \$557.0 million for Fiscal Year 2016 increased \$8.8 million compared to \$548.2 million for Fiscal Year 2015. Cash and short-term investments decreased \$8.8 million from \$29.0 million for Fiscal Year 2015 to \$20.2 million for Fiscal Year 2016.

Long-term investments increased by \$9.4 million from \$229.2 million for Fiscal Year 2015 to \$238.6 million for Fiscal Year 2016, due to market performance.

Net property and equipment increased by \$15.3 million from \$229.2 million for Fiscal Year 2015 to \$238.6 million for Fiscal Year 2016.

Long-term debt increased by \$10.4 million from \$147.9 million for Fiscal Year 2015 to \$158.3 million for Fiscal Year 2016. This included \$17.1 million of additional debt drawn down on the Series 2015 Bonds for the Wesley Palms Project.

Net assets decreased by \$9.4 million from \$255.0 million for Fiscal Year 2015 to \$245.6 million for Fiscal Year 2016, driven primarily by positive investment returns.

### *Fiscal Year Ended March 31, 2015 – Obligated Group.*

Total assets of \$548.2 million for Fiscal Year 2015 increased \$2.7 million compared to \$545.5 million for Fiscal Year 2014. Cash and short-term investments increased \$2.4 million from \$26.6 million for Fiscal Year 2014 to \$29.0 million for Fiscal Year 2015.

Long-term investments increased by \$32.0 million from \$197.2 million for Fiscal Year 2014 to \$229.2 million for Fiscal Year 2015, due to market performance.

Net property and equipment decreased by \$25.8 million from \$243.5 million for Fiscal Year 2014 to \$217.7 million for Fiscal Year 2015.

Long-term debt decreased by \$32.2 million from \$180.1 million for Fiscal Year 2014 to \$147.9 million for Fiscal Year 2015.

Net assets increased by \$38.1 million from \$216.9 million for Fiscal Year 2014 to \$255.0 million for Fiscal Year 2015.

### **Revenues and Assets Attributable to the Obligated Group**

For the Fiscal Year ended March 31, 2017, revenues of the Obligated Group accounted for 61.4% of the Consolidated Group's total revenues and the Obligated Group's assets accounted for 87.6% of the Consolidated Group's assets.

### **Front Porch OpCo and the Front Porch Real Estate LLCs**

Front Porch OpCo leases Casa de Mañana, Claremont Manor, Fredericka Manor and Kingsley Manor from the applicable Front Porch Real Estate LLC pursuant to a master lease agreement (the "Lease Agreement"). Each of these Communities and their related revenues, which are collected by Front Porch OpCo, are mortgaged and pledged to secure the respective HUD-insured Loan. The Lease Agreement provides Front Porch OpCo with exclusive operating and management control over these Communities. The lease payments under the Lease Agreement equal approximately 105% of annual debt service on the applicable HUD-insured Loan plus other amounts required under each HUD-insured Loan. In addition, Front Porch OpCo is responsible under the Lease Agreement for property taxes, insurance, maintenance and repairs and funding of replacement reserves.

Subject to the documents and agreements evidencing and related to the HUD-insured Loans, Front Porch OpCo and the Front Porch Real Estate LLCs are permitted to transfer excess operating cash flow to the Corporation. The amounts of excess operating cash flow transferred by Front Porch OpCo and by the Front Porch Real Estate LLCs to the Corporation totaled \$6,890,000 for the Fiscal year ended March 31, 2017.

The ownership and control of the Front Porch Real Estate LLCs and the lease of their four Communities to Front Porch OpCo allows the Corporation to satisfy the requirements of the HUD-insured Loans while also realizing the maximum financial and operational control of the four Communities.

### **Financing for the Wesley Palms Project**

On March 20, 2015, the Corporation borrowed not to exceed \$72,000,000 aggregate principal amount of California Statewide Communities Development Authority Variable Rate Revenue Bonds (Front Porch Communities and Services – Wesley Palms Project), Series 2015 (the "Series 2015 Bonds") which were purchased directly by Compass Mortgage Corporation. The Series 2015 Bonds were issued on a draw-down basis whereby Compass Mortgage Corporation periodically purchases bonds and the proceeds of the purchases are used to pay project costs. The Series 2015 Bonds currently bear interest at a variable rate based on LIBOR, and are subject to a mandatory tender on January 1, 2025. In connection with the issuance of the Series 2015 Bonds, the Corporation entered into a 10-year interest rate cap pursuant to which the Corporation paid the cap counterparty a one-time upfront payment in exchange for the counterparty agreeing to make quarterly payments to the Corporation to the extent a specified floating rate based on a percentage of LIBOR exceeds 3%.

Proceeds of the Series 2015 Bonds have been and will continue to be used to finance the costs related to construction, renovation, improvement and equipping for Wesley Palms (the “Wesley Palms Project”). In addition, proceeds of the Series 2015 Bonds have been and will be used to pay capitalized interest and costs of issuance for the Series 2015 Bonds. As of June 30, 2017, Compass Mortgage Corporation has purchased approximately \$51 million of the Series 2015 Bonds, and the Corporation has spent the proceeds of such purchases on the Wesley Palms Project. The Corporation anticipates the draw-down period will continue through about May 2018 when the full \$72,000,000 principal amount of the Series 2015 Bonds is expected to have been drawn. Prior to the end of the draw-down period, all interest due on the Series 2015 Bonds will be funded from Series 2015 Bond proceeds.

In addition to the Series 2015 Bonds, the Corporation expects the Authority to issue the Series 2017B Bonds in the not to exceed principal amount of \$21,500,000 before the end of calendar year 2017, the proceeds of which will be used to pay costs of the Wesley Palms Project. See “OTHER FINANCING TRANSACTIONS – The Series 2017B Direct Purchase Bonds” in this Official Statement. The Series 2015 Bonds and the Series 2017B Bonds are referred to in this Official Statement as the “Direct Purchase Bonds.” See “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS – Additional Covenants Related to the Direct Purchase Bonds” in this Official Statement for a discussion of the Corporation’s covenants and agreements with Compass Mortgage Corporation related to the Direct Purchase Bonds.

The Corporation currently expects to refund the Direct Purchase Bonds, with proceeds of Long-Term Indebtedness sometime before January 1, 2025.

### Changes to Outstanding Indebtedness

As described in the Official Statement under the captions “PLAN OF FINANCE – The Refundings” and “OTHER FINANCING TRANSACTIONS,” the Corporation is refunding certain indebtedness, and has redeemed or will redeem certain outstanding bonds and certificates of participation with cash.

The Series 2017B Bonds are expected to be issued by December 31, 2017. The following table compares the long-term indebtedness derived from the audited financial statements in Appendix B (modified by assuming the draw-down bonds were fully drawn) to the projected total long-term indebtedness of the Obligated Group as of December 31, 2017.

### Summary of Projected Change in Long-Term Indebtedness

Long-Term Indebtedness	Principal Outstanding Balance	
	As of March 31, 2017	Projected as of December 31, 2017
1997 Series A Bonds	\$ 580,000	\$ -0-
1999 Series A Bonds	2,425,000	-0-
Series 1999 COPs	37,040,000	-0-
Series 2007A	73,000,000 <sup>(1)</sup>	-0-
Series 2012	32,000,000	-0-
Series 2015	72,000,000 <sup>(2)</sup>	72,000,000 <sup>(2)</sup>
Series 2017A	-0-	98,455,000*
Series 2017B	-0-	21,500,000 <sup>(2)</sup>
Totals	\$217,045,000	191,955,000

\* Preliminary, subject to change.

<sup>(1)</sup> Includes approximately \$5 million in Series 2007A Bonds owned by the Corporation.

<sup>(2)</sup> Maximum amount that can be drawn under the Series 2015 and Series 2017B Bonds, respectively. Amount drawn as of June 30, 2017, on the Series 2015 Bonds was approximately \$50 million.



## Derivatives

The Corporation uses interest rate-related derivative instruments to manage its interest rate exposure on its tax-exempt debt. As described in Note 9 in the consolidated audited financial statements for the Fiscal Year ended March 31, 2017 attached in Appendix B, the Corporation has four derivative agreements: (1) a Forward Sale Agreement entered into in connection with the Series 1999 Bonds, (2) a Guaranteed Investment Contract entered into in connection with the Series 1999 Bonds, (3) a Basis Swap, and (4) an Interest Rate Cap Agreement entered into in connection with the Series 2015 Bonds.

The Corporation intends to terminate the Forward Sale Agreement, the Guaranteed Investment Contract and the Basis Swap in connection with the issuance of the Series 2017 Bonds. See “OTHER FINANCING TRANSACTIONS – Cash Redemptions and Derivative Terminations” in the front part of this Official Statement.

## Investments

*Investment Policy.* The Board of Directors has adopted a formal investment policy that sets forth the Corporation’s guiding policies on investment objectives and risk tolerance (the “Investment Policy”). The Investment Policy also establishes target asset allocations and benchmarks that are used by the Corporation to monitor performance.

*Investment Objectives.* The Investment Policy contains both absolute and relative investment objectives.

### Absolute objectives:

- The long-term objective is to provide growth of capital and income.
- Although some components of the portfolio may be more aggressive, overall the investments should be conservative in nature with a moderate degree of risk.
- Diversification will be employed to reduce risk.

### Relative Objectives:

- Generate a return in excess of the passive portfolio benchmark for comparable asset classes.
- Exceed the rate of inflation by 5% annually over a normal market cycle of 5 to 7 years.
- Exceed the 50<sup>th</sup> percentile return of a universe comprised of funds or managers with similar objectives and/or styles.

The Investment Policy provides for quarterly reviews of investment performance by the Business Development and Assessment Committee of the Board.

*Asset Allocations.* The asset allocation target ranges in the Investment Policy represent a long-term view. The Investment Policy recognizes that short term market volatility may cause the asset mix to fall outside the targeted ranges. Recommendations for any material rebalancing will be made by management to the Business Development & Assessment Committee as the need arises.

<u>Asset Class</u>	<u>Allocation</u>
Cash & Fixed Income	15-40%
Domestic Equities	20-50%
International Equities	10-30%
Commodities & Real Estate	10-20%
Alternative Investments	0-5%

*Financial Assets and Historical Returns.* The following tables are derived from the consolidated audited financial statements of the Corporation and present the fair value measurements of financial assets as of March 31, 2015, 2016 and 2017, excluding the receivables due the Corporation from the FACT Foundation, CLH and SVLCS.

Type of Asset	Fair Value of Financial Assets as of March 31 (in thousands)		
	2015	2016	2017
Equity securities – domestic	\$144,835	\$149,585	\$154,530
Equity securities – international	37,392	36,605	56,301
Money market mutual funds	5,910	4,510	10,379
Certificates of deposit	1,465	1,252	1,367
Commodity mutual funds	12,736	13,610	16,442
Other mutual funds	12,687	12,485	13,763
U.S. Treasury and U.S. Agency securities	8,124	12,763	12,375
Corporate bonds	22,767	26,699	32,038
Guaranteed investment contracts	4,853	5,015	4,588
<b>Totals</b>	<b>\$250,769</b>	<b>\$262,524</b>	<b>\$301,783</b>
<b>Average Annual Growth</b>	<b>6.6%</b>	<b>4.7%</b>	<b>15.0%</b>

## Retirement and Deferred Compensation Plans

The Corporation sponsors a Section 403(b) defined contribution plan and a nonqualified deferred compensation plan. See Note 13 to the audited financial statements in Appendix B.

## Insurance

The Master Indenture requires the Corporation to maintain insurance, which may include one or more self-insurance programs, covering such risks and in such amounts as, in its judgment, are adequate to protect it and its properties and operations and as are, with respect to health care activities and properties, customary for health care providers of similar size and character. Although not required by the Master Indenture the Corporation maintains similar insurance for all of the other members of the Consolidated Group.

The Corporation maintains insurance covering such risks and in such amounts as in its judgment are adequate to protect it and its properties and operations and as are customary for senior living providers of similar size and character. Presently, the Corporation maintains both primary and excess general and professional liability coverage. The Corporation's primary liability coverage carries limits of \$2 million each occurrence and \$5 million in the aggregate per each location. The Corporation's excess liability coverage carries a combined single limit of \$9 million. (The primary limits for the Corporation's Cecil Pines Community are \$1 million per occurrence and \$2 million in the aggregate plus excess coverage of \$10 million.) The Corporation's general and professional liability coverages carry no deductible. In addition, the Corporation maintains property (including business interruption), automobile liability (primary and excess), cyber, crime, errors and omissions, and Directors & Officers, Employment Practices Liability and Fiduciary Liability coverages. The Corporation's Employment Practices Liability coverage carries a \$150,000 deductible. The Corporation is self-insured for workers' compensation claims for its California-based employees up to \$750,000 per occurrence and is covered by an excess workers' compensation policy with limits of \$25 million per occurrence. The Corporation carries a workers' compensation policy with statutory limits for its employees based in Arizona, Louisiana and Florida. The Corporation's property insurance coverage covers all properties on a blanket basis at full replacement cost, subject to certain limits, including limits relating to damage caused by flooding and earth movement. The Corporation's California Communities are excluded from coverage for damage caused by earth movement.

## **Environmental Matters**

The Corporation is unaware of any material environmental problems at any of the ten (10) Communities it owns and operates in California. With respect to the two Communities that the Corporation leases and operates in Alexandria, Louisiana and Jacksonville, Florida that consist of former Officers housing on military air installations closed in the 1990s (and which have been re-purposed as civilian airports), the Corporation is unaware of any material environmental problems that pose a threat to health or safety.

## **Employees and Labor Relations**

The Corporation employed more than 2,200 employees as of April 1, 2017. None of the Corporation's employees are represented by a union. The Corporation considers its relationship with its employees to be satisfactory and enhanced by emphasis on teamwork and communication at all levels. Management conducts regular employee town halls, surveys and training sessions as part of its employee relations programs.

## **Litigation**

In the normal course of business, members of the Consolidated Group are subject to allegations that may or do result in litigation or administrative claims. The Corporation evaluates such claims by conducting investigations to determine the validity of each potential claim.

The Corporation has been named as a defendant in two wage and hour lawsuits brought on behalf of current and former non-exempt hourly Certified Nursing Assistants and Licensed Vocational Nurses and Registered Nurses. The lawsuits are in the early stages and to date no substantive hearings have been held. The plaintiffs are requesting that the court recognize their claims on behalf of all employees that may be similarly situated. The Corporation does not have insurance for these claims.

Lawsuits of this type have become common in California. Both suits include claims that the Corporation failed to provide these employees with meal and rest breaks and required or allowed them to work "off the clock" and seek unpaid wages and overtime for the putative classes as well as derivative penalties for associated statutory violations. The statutes under which these claims have been brought provide for a per-violation penalty. The Corporation has denied the allegations in the complaints and believes it has defenses to such claims. The Corporation also intends to vigorously challenge certification of both lawsuits as class actions which, as a practical matter, will be determinative of their outcome. Depending on whether the lawsuits are certified as class actions and on how any penalties that might be awarded are calculated, the maximum exposure could be significant. While it is impossible to predict the outcome of these lawsuits, management of the Corporation is of the opinion that even if the plaintiffs were to succeed in such lawsuits, the Corporation has adequate resources to cover any damages that would be awarded in such lawsuits and that the payment of such amounts would not, in the context of the overall financial resources of the Corporation, have a material adverse impact on the ability of any member of the Consolidated Group to operate any of the Communities or would have a material adverse impact on the financial position or results of operations of any member of the Consolidated Group.

In addition, the Corporation has been named as a defendant in a representative action under California's Private Attorney General Act ("PAGA") and has received notice of a second similar complaint. PAGA, which is codified in California's Labor Code, authorizes aggrieved employees to file lawsuits to recover civil penalties on behalf of themselves, other employees and the State of California for Labor Code violations. The complaint seeks statutory penalties for plaintiff and all similarly aggrieved employees for late-payment of wages and wage statement violations occurring during the one-year period preceding the filing of the complaint. The Corporation does not have insurance for these claims. While it is impossible to predict the outcome of these complaints, management of the Corporation is of the opinion that even if the complainants were to succeed in such actions, the Corporation has adequate resources to cover any damages that would be awarded and that the payment of such amounts would not, in the context of the overall financial resources of the Corporation, have a material adverse impact on the ability of any member of the Consolidated Group to operate any of the Communities or would have a material adverse impact on the financial position or results of operations of any member of the Consolidated Group.

*[Remainder of page intentionally left blank.]*

## **APPENDIX B**

### **Financial Statements of Front Porch Communities and Services**

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# **Front Porch Communities & Services**

Independent Auditor's Report and Consolidated Financial Statements

March 31, 2017 and 2016







# Front Porch Communities & Services

## March 31, 2017 and 2016

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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, 2017 and 2016, and the related consolidated statements of operations, changes in net assets and cash flows for the years then ended, and the related notes to the consolidated financial statements.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditor's Responsibility***

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

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

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

### ***Opinion***

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Front Porch Communities & Services as of March 31, 2017 and 2016, 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 18* to the consolidated financial statements, in 2017, the Corporation adopted new accounting guidance for classification of debt issuance costs in accordance with Accounting Standards Update 2015-03, *Interest – Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs*. Our opinion is not modified with respect to this matter.

### ***Supplementary Information***

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying supplementary consolidating information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the 2017 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 2017 consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the 2017 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 2017 consolidated financial statements or to the 2017 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 2017 consolidated financial statements as a whole.

*BKD, LLP*

Tulsa, Oklahoma  
July 18, 2017

**Front Porch Communities & Services**  
**Consolidated Balance Sheets**  
**March 31, 2017 and 2016**  
**(In Thousands)**

**Assets**

	<b>2017</b>	<b>2016</b>
<b>Current Assets</b>		
Cash and cash equivalents	\$ 16,317	\$ 19,906
Short-term investments	11,330	6,680
Assets limited as to use – required for current liabilities	12,619	11,564
Patient accounts receivable, net of allowance; 2017 – \$687, 2016 – \$1,537	9,866	13,023
Prepaid expenses and other	2,473	2,463
	<u>52,605</u>	<u>53,636</u>
<b>Total current assets</b>		
	<u>52,605</u>	<u>53,636</u>
<b>Investments</b>		
Assets limited as to use, net of current portion	15,923	16,325
Long-term investments	272,720	238,598
Derivative instruments	5,130	8,331
	<u>293,773</u>	<u>263,254</u>
<b>Total investments</b>		
	<u>293,773</u>	<u>263,254</u>
<b>Property and Equipment, Net</b>	<u>324,740</u>	<u>303,342</u>
<b>Other Assets</b>		
Interest in net assets of Pacific Homes Foundation	11,618	10,475
Receivables from supporting organizations	11,644	10,617
Other receivables	1,822	1,813
Deferred costs, net of accumulated amortization; 2017 – \$4,528, 2016 – \$3,864	1,328	1,992
Other assets	623	414
	<u>27,035</u>	<u>25,311</u>
<b>Total other assets</b>		
	<u>27,035</u>	<u>25,311</u>
<b>Total assets</b>	<u>\$ 698,153</u>	<u>\$ 645,543</u>

## Liabilities and Net Assets

	2017	2016
<b>Current Liabilities</b>		
Current maturities of long-term debt	\$ 6,111	\$ 5,887
Accounts payable	8,234	9,002
Accrued payroll and related expenses	12,713	13,413
Accrued interest	3,601	3,526
Other accrued expenses	12,412	10,677
	<hr/>	<hr/>
Total current liabilities	43,071	42,505
Asset retirement obligations	2,210	2,188
Accrued workers' compensation	9,449	9,763
Other accrued liabilities	17,629	14,833
Deferred interest – forward sale agreements	1,232	1,036
Refundable entrance fees	71,503	66,830
Deferred revenue from entrance fees	36,143	36,462
Long-term debt	286,325	266,940
	<hr/>	<hr/>
Total liabilities	467,562	440,557
	<hr/>	<hr/>
<b>Net Assets</b>		
Unrestricted	207,743	184,425
Temporarily restricted	15,944	14,239
Permanently restricted	6,904	6,322
	<hr/>	<hr/>
Total net assets	230,591	204,986
	<hr/>	<hr/>
Total liabilities and net assets	\$ 698,153	\$ 645,543
	<hr/>	<hr/>

**Front Porch Communities & Services**  
**Consolidated Statements of Operations**  
**Years Ended March 31, 2017 and 2016**  
**(In Thousands)**

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

**Front Porch Communities & Services**  
**Consolidated Statements of Changes in Net Assets**  
**Years Ended March 31, 2017 and 2016**  
**(In Thousands)**

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

**Front Porch Communities & Services**  
**Consolidated Statements of Cash Flows**  
**Years Ended March 31, 2017 and 2016**  
**(In Thousands)**

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

See Notes to Consolidated Financial Statements



	<b>2017</b>	<b>2016</b>
<b>Supplemental Cash Flows Information</b>		
Property and equipment purchases included in accounts payable and other accrued expenses	\$ 5,860	\$ 6,744
Entrance fees included in accounts receivable	\$ 1,355	\$ 3,299
<b>Cash Flows from Operating Activities</b>		
Change in net assets	\$ 25,605	\$ (7,460)
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation	24,641	24,553
Gain on disposal of assets	(22)	(12)
Amortization of deferred costs	1,362	1,374
Accretion of asset retirement obligations	74	91
Impairment related to construction projects	356	652
Amortization of bond premium included in interest expense	(32)	(32)
Provision for uncollectible accounts	555	1,676
Entrance fees received	25,490	21,555
Amortization of entrance fees	(10,103)	(10,884)
Realized and unrealized (gain) loss on investments, net	(19,136)	13,110
Realized and unrealized (gain) loss on derivative financial instruments, net	4,260	(242)
Amortized income on forward sale agreements	(437)	(437)
Change in interest in net assets of Pacific Homes Foundation	(1,143)	574
Change in receivables from supporting organizations	(1,027)	974
Contributions restricted by donor	(244)	(171)
Changes in operating assets and operating liabilities		
Accounts receivable, net	656	(1,144)
Prepaid expenses and other current assets	(19)	35
Accounts payable and accrued expenses	286	3,451
Other accrued liabilities	395	(2,839)
Net cash provided by operating activities	<u>\$ 51,517</u>	<u>\$ 44,824</u>

# Front Porch Communities & Services

## Notes to Consolidated Financial Statements

March 31, 2017 and 2016

(In Thousands)

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

#### Nature of Operations

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

The Corporation operates the various communities under two different operating organizations. The services provided by these two operating organizations are summarized below as of March 31, 2017:

Operator	Residential Living Units	Memory Care Units	Care Center Beds	Total Units/Beds
Obligated Group	1,246	88	258	1,592
Front Porch Communities Operating Group, LLC	897	10	282	1,189
Total Front Porch Communities & Services	2,143	98	540	2,781

#### Obligated Group

Certain operations of the Corporation, hereinafter referred to as the Obligated Group, are aggregated to facilitate long-term borrowings and include the following as of March 31, 2017:

Community	City	Type	Residential Living Units	Memory Care Units	Care Center Beds	Total Units/Beds
Owned Communities						
Carlsbad by the Sea	Carlsbad, CA	CCRC	158	-	33	191
Sunny View Retirement Community	Cupertino, CA	CCRC	93	23	48	164
Villa Gardens	Pasadena, CA	CCRC	191	19	54	264
Vista del Monte	Santa Barbara, CA	CCRC	170	10	29	209
Walnut Village	Anaheim, CA	CCRC	156	14	94	264
Wesley Palms	San Diego, CA	Rental	206	22	-	228
Leased Communities						
Cecil Pines	Jacksonville, FL	Rental	92	-	-	92
England Oaks	Alexandria, LA	Rental	180	-	-	180
Total Obligated Group			1,246	88	258	1,592

# Front Porch Communities & Services

## Notes to Consolidated Financial Statements

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(In Thousands)

### Nonobligated Group

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

#### *Front Porch Communities Operating Group, LLC*

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

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

Community	City	Type	Residential Living Units	Memory Care Units	Care Center Beds	Total Units/Beds
Front Porch Communities and Services – Casa de Mañana, LLC	La Jolla, CA	Rental	188	-	-	188
Front Porch Communities and Services – Claremont Manor, LLC	Claremont, CA	Rental	207	10	59	276
Front Porch Communities and Services – Kingsley Manor, LLC	Los Angeles, CA	Rental	217	-	51	268
Front Porch Communities and Services – Fredericka Manor, LLC	Chula Vista, CA	Rental	285	-	172	457
Total OpCo			897	10	282	1,189

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

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

# **Front Porch Communities & Services**

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### ***CARING Housing Ministries, Inc.***

CARING Housing Ministries, Inc. (CARING) manages 24 HUD-subsidized and tax credit facilities, which provide housing to approximately 2,300 residents. CARING's managed facilities are located throughout California and in Glendale, Arizona. CARING's management fees received from clients are based on a percentage of its clients' operating revenues or are earned on a per-unit-per-month basis. CARING is a California nonprofit corporation, and the Corporation is the sole corporate member of CARING.

### ***Sunny View Lutheran Home***

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

## **Related Parties**

The following related parties are not consolidated into the Corporation:

### ***Front Porch Enterprises, Inc.***

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

### ***Front Porch Active Adult Communities, LLC***

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

### ***Front Porch Development Company, Inc.***

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

# **Front Porch Communities & Services**

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The boards of FPE, Active Adult Communities and Development Company agreed to dissolve these entities on July 8, 2014. The dissolutions will be effective upon resolution of all outstanding liabilities and filing of the appropriate legal documents. Operations previously performed by these entities began to be performed by the Corporation effective July 1, 2014, and, therefore, are included with the Corporation effective July 1, 2014. However, the entities have not yet been legally dissolved as of March 31, 2017.

### ***Center for Technology Innovation and Wellbeing***

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

The board of CTIW agreed to dissolve this entity on March 6, 2015. The dissolution will be effective upon filing of the appropriate legal documents. Operations previously performed by CTIW began to be performed by the Corporation effective April 1, 2015. However, CTIW has not yet been legally dissolved as of March 31, 2017.

### ***Principles of Consolidation***

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

### ***Use of Estimates***

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

### ***Cash and Cash Equivalents***

The Corporation considers all liquid investments with original maturities of three months or less to be cash equivalents. At March 31, 2017 and 2016, cash equivalents consisted primarily of money market mutual funds of \$7,994 and \$7,515, respectively. These funds are not insured by the Federal Deposit Insurance Corporation (FDIC).

At March 31, 2017, the Corporation's cash accounts exceeded federally insured limits by \$5,975.

# **Front Porch Communities & Services**

## **Notes to Consolidated Financial Statements**

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**(In Thousands)**

### ***Investments and Investment Return***

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

### ***Assets Limited as to Use***

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

### ***Patient Accounts Receivable***

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

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

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

# Front Porch Communities & Services

## Notes to Consolidated Financial Statements

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

### ***Property and Equipment***

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

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

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

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

### ***Long-Lived Asset Impairment***

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

As discussed in *Note 4*, the Corporation recorded asset impairments during fiscal years 2017 and 2016.

# **Front Porch Communities & Services**

## **Notes to Consolidated Financial Statements**

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### ***Interest in Net Assets of and Receivables from Foundations***

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

### ***Deferred Costs***

Deferred costs include unamortized direct response advertising costs incurred in connection with acquiring initial continuing care contracts of \$1,328 and \$1,992 at March 31, 2017 and 2016, 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.

### ***Deferred Revenue from Entrance Fees***

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

### ***Estimated Future Service Obligation***

Annually, the Corporation calculates the present value of the net cost of future services and the use of facilities to be provided to current residents by contract type and compares those amounts with the balance of deferred revenue from entrance fees. If the present value of the net cost of future services and the use of facilities exceeds the deferred revenue from entrance fees, a liability is recorded (estimated future service obligation) with a corresponding charge to income. As of February 2006, while honoring previously issued contract types, the Corporation discontinued the use of all other contract types with the exception of Type B contracts. Type A contracts previously stipulated that the amount charged to the resident would not change when the resident's level of care changes; Type B contracts stipulate that the amount charged to the resident will change if the resident's level of care changes. The obligations for Type A and Type B contracts are discounted based on the Corporation's weighted-average borrowing rate. As of March 31, 2017 and 2016, there was no estimated future service obligation related to Type A or Type B contracts.



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***Temporarily and Permanently Restricted Net Assets***

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

***Excess (Deficiency) of Revenues over Expenses***

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

***Resident and Net Patient Service Revenue***

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

***Charity Care***

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

***Benefits to the Broader Community***

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

- Adult education classes
- Community centers used for other groups
- Retired Senior Volunteer Program
- Polling place for elections
- Adult literacy assistance services

# Front Porch Communities & Services

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- 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, 2017 and 2016, no income tax provision has been recorded as the net income from any unrelated trade or business, in the opinion of management, is not material to the accompanying consolidated financial statements taken as a whole. The Corporation files tax returns in the U.S. federal jurisdiction.

# Front Porch Communities & Services

## Notes to Consolidated Financial Statements

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### ***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.

### ***Subsequent Events***

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

### **Note 2: Concentration of Credit Risk**

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

	<b>2017</b>	<b>2016</b>
Medicare	27%	30%
Medi-Cal (including Medi-Cal managed care payers)	28%	30%
PPO/HMO (other contracted payers)	30%	25%
Patients and other	15%	15%
	<u>100%</u>	<u>100%</u>

### **Note 3: Investments and Investment Return**

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

	<b>2017</b>	<b>2016</b>
U.S. Treasury and U.S. agency securities	\$ 2,304	\$ 1,502
Corporate bonds	9,026	5,178
	<u>\$ 11,330</u>	<u>\$ 6,680</u>

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

	<b>2017</b>	<b>2016</b>
Cash	\$ 10,809	\$ 10,643
Certificates of deposit	1,367	1,252
Money market mutual funds	10,379	4,510
U.S. Treasury and U.S. agency securities	3,848	3,736
Corporate bonds and commercial paper	2,139	7,748
	<u>28,542</u>	<u>27,889</u>
Less amounts required to meet current obligations	<u>12,619</u>	<u>11,564</u>
	<u><u>\$ 15,923</u></u>	<u><u>\$ 16,325</u></u>

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

	<b>2017</b>	<b>2016</b>
Held by trustee under indenture agreements for bond fund and other reserves	\$ 16,283	\$ 16,143
HUD debt service	-	926
HUD facility reserves	5,828	4,884
HUD property tax and insurance	37	172
Deposit subscriptions held in trust	1,319	1,146
90-day refundable accommodation fees	4,859	4,485
Restricted by donors for capital expenditures	192	109
Resident deposits held in trust	24	24
	<u>28,542</u>	<u>27,889</u>
	<u><u>\$ 28,542</u></u>	<u><u>\$ 27,889</u></u>

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

	<b>2017</b>	<b>2016</b>
Commodity mutual funds	\$ 16,442	\$ 13,610
Other mutual funds	13,763	12,485
U.S. Treasury and U.S. agency securities	6,223	7,525
Equity securities – domestic	154,530	149,585
Equity securities – international	56,301	36,605
Corporate bonds	20,873	13,773
Guaranteed investment contracts	4,588	5,015
	<u>\$ 272,720</u>	<u>\$ 238,598</u>

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

The Corporation invests in certain mutual funds that have required holding periods and varying redemption penalties if sold prior to the end of the holding period. However, at March 31, 2017, none of the mutual funds held by the Corporation were subject to any redemption provisions.

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

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

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

The change in temporarily restricted net assets for the years ended March 31, 2017 and 2016, includes investment return of \$672 and \$(95), respectively.

**Front Porch Communities & Services**  
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**Note 4: Property and Equipment**

A summary of property and equipment at March 31 follows:

	<b>2017</b>	<b>2016</b>
Land and land improvements	\$ 50,221	\$ 47,937
Buildings	307,414	300,509
Building improvements	137,505	125,879
Leasehold improvements	10,408	9,952
Equipment	145,710	132,177
Construction in progress	39,532	29,014
	<u>690,790</u>	<u>645,468</u>
Less accumulated depreciation	<u>366,050</u>	<u>342,126</u>
	<u><u>\$ 324,740</u></u>	<u><u>\$ 303,342</u></u>

The Corporation recorded asset impairments of \$356 and \$652 in 2017 and 2016, respectively, to recognize the write-off of certain assets in Phases 3–5 and 8 of the Wesley Palms renovation project for assets not yet fully depreciated that will be replaced as part of the campus renovation. The Corporation expects to record additional adjustments for not yet fully depreciated assets over the course of the Wesley Palms renovation project as additional phases are undertaken. The estimated potential additional assets not yet fully depreciated that could be written off as the subsequent phases are authorized over the course of the five-year construction period are \$500.

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

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As of March 31, 2017 and 2016, the interest in the net assets of PH Foundation and receivables from supporting organizations are as follows:

	<b>2017</b>	<b>2016</b>
Interest in net assets of PH Foundation	\$ 11,618	\$ 10,475
Receivables from supporting organizations		
FACT Foundation	\$ 8,969	\$ 8,244
CLH	847	636
SVLCS	1,828	1,737
	<u>\$ 11,644</u>	<u>\$ 10,617</u>

**Note 6: Professional Liability Claims**

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

Based upon the Corporation's claims experience, no accrual had been made for the Corporation's portion of malpractice costs related to its deductible under its malpractice insurance policy as of March 31, 2017 and 2016. It is reasonably possible this estimate could change materially in the near term.

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**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, 2017 and 2016, the Corporation had an excess workers' compensation policy in place for individual claims over \$750. This policy had a maximum coverage limit of \$25,000 for the years ended March 31, 2017 and 2016. Amounts accrued to cover potential workers' compensation claims, based on actuarial valuation, as of March 31 are as follows:

	<u>2017</u>	<u>2016</u>
Estimated amounts expected to be paid		
Within one year, included in accrued payroll and related expenses	\$ 2,644	\$ 2,535
In excess of one year, included in accrued workers' compensation	<u>9,449</u>	<u>9,763</u>
	<u><u>\$ 12,093</u></u>	<u><u>\$ 12,298</u></u>

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

The liability for expected workers' compensation claims is presented excluding expected insurance recoveries. Estimated insurance recovery receivables of \$1,822 and \$1,813 are included as other receivables in the accompanying consolidated balance sheets at March 31, 2017 and 2016, respectively.



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**Note 8: Long-Term Debt**

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

	<b>2017</b>	<b>2016</b>
California Statewide Communities Development Authority Series 2015 Bonds, issued as drawdown bonds with principal amount up to \$72,000, variable interest at a specified percentage of LIBOR plus applicable spread paid monthly (1.85% and 1.63% at March 31, 2017 and 2016, respectively), principal due in varying installments between 2019 and 2040, paid semiannually. Unamortized debt issuance costs were \$1,601 and \$1,802 at March 31, 2017 and 2016, respectively. The effective interest rate was 4.13% and 4.17% for the years ended March 31, 2017 and 2016, respectively. Bonds were placed directly with one investor with an initial 10-year hold period and are secured by an obligation issued under the Master Indenture. In 2025, the borrower and current investor can agree on new terms, the debt can be sold to a new investor or it must be redeemed and refinanced	\$ 45,408	\$ 20,578
California Statewide Communities Development Authority Series 2012 Bonds, variable interest at a specified percentage of LIBOR plus applicable spread paid monthly (1.81% and 1.53% at March 31, 2017 and 2016, respectively), principal due in varying installments between 2014 and 2043, paid annually. Unamortized debt issuance costs were \$34 and \$170 at March 31, 2017 and 2016, respectively. The effective interest rate was 1.91% and 2.04% for the years ended March 31, 2017 and 2016, respectively. Bonds were placed directly with one investor with an initial five-year hold period and are secured by a first mortgage on the Walnut Village property. In 2017, the borrower and current investor can agree on new terms, the debt can be sold to a new investor or it must be redeemed and refinanced	32,600	33,200

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	<b>2017</b>	<b>2016</b>
California Statewide Communities Development Authority Series 2007A Revenue Bonds, interest at 5.125%, principal due in varying installments between 2031 and 2038. Unamortized debt issuance costs were \$1,047 and \$1,107 at March 31, 2017 and 2016, respectively. The effective interest rate was 6.58% and 6.67% for the years ended March 31, 2017 and 2016, respectively. During 2011, the Corporation repurchased \$4,750 of these certificates, which reduced the outstanding balance as of March 31, 2017 and 2016	\$ 68,804	\$ 68,836
California Statewide Communities Development Authority 1999 Certificates of Participation, interest at 5.375%, principal due in varying installments through 2031. Unamortized debt issuance costs were \$598 and \$682 at March 31, 2017 and 2016, respectively. The effective interest rate was 7.02% and 7.17% for the years ended March 31, 2017 and 2016, respectively. During 2015, the Corporation used the proceeds received in conjunction with the HUD-insured loans obtained by the Real Estate LLCs to make partial prepayments on the outstanding 1999 Certificates of Participation in the amount of \$32,800	37,040	38,785
California Health Facilities Financing Authority Series 1999A Insured Health Facility Revenue Bonds, interest at 4.6% to 5.1%, principal due in varying installments through 2024, collateralized by the gross revenues of Sunny View Retirement Community and a deed of trust on Sunny View Retirement Community	2,425	2,700
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	580	880

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	<b>2017</b>	<b>2016</b>
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 HUD under Section 232 of the <i>National Housing Act</i> . Unamortized debt issuance costs were \$424 and \$459 at March 31, 2017 and 2016, respectively. The effective interest rate was 3.16% and 3.24% for the years ended March 31, 2017 and 2016, respectively	\$ 11,266	\$ 11,622
Mortgage payable to bank in monthly principal and interest installments of \$165 (including interest at 2.73%) through 2046 plus monthly deposits of \$23 for replacement reserves, collateralized by a deed of trust on substantially all of Claremont Manor's real and personal property and insured by HUD under Section 232 of the <i>National Housing Act</i> . Unamortized debt issuance costs were \$961 and \$1,021 at March 31, 2017 and 2016, respectively. The effective interest rate was 2.92% and 2.94% for the years ended March 31, 2017 and 2016, respectively	39,135	40,035
Mortgage payable to bank in monthly principal and interest installments of \$138 (including interest at 3.74%) through 2044 plus monthly deposits of \$14 for replacement reserves, collateralized by a deed of trust on substantially all of Casa de Mañana's real and personal property and insured by HUD under Section 232 of the <i>National Housing Act</i> . Unamortized debt issuance costs were \$744 and \$793 at March 31, 2017 and 2016, respectively. The effective interest rate was 3.97% and 4.02% for the years ended March 31, 2017 and 2016, respectively	27,890	28,492
Mortgage payable to bank in monthly principal and interest installments of \$169 (including interest at 3.35%) through 2040 plus monthly deposits of \$24 for replacement reserves, collateralized by a deed of trust on substantially all of Fredericka Manor's real and personal property and insured by HUD under Section 232 of the <i>National Housing Act</i> . Unamortized debt issuance costs were \$946 and \$1,018 at March 31, 2017 and 2016, respectively. The effective interest rate was 3.61% and 3.67% for the years ended March 31, 2017 and 2016, respectively	33,079	33,980

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	<b>2017</b>	<b>2016</b>
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	\$ 566	\$ 774
Total long-term debt	298,793	279,882
Less unamortized debt issuance costs	6,357	7,055
Less current portion	6,111	5,887
	<u>\$ 286,325</u>	<u>\$ 266,940</u>

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

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

Scheduled annual principal payments on long-term debt at March 31, 2017, are as follows:

<b>Year Ending March 31,</b>	
2018	\$ 6,111
2019	6,747
2020	7,607
2021	7,782
2022	8,066
Thereafter	262,480
	<u>\$ 298,793</u>

Subsequent to March 31, 2017, the Corporation notified its existing bondholders that it is evaluating the cash defeasance of certain existing bonds through the issuance of new debt. The decision to defease any existing bonds is solely at the discretion of the Corporation and there is no assurance of cash defeasance.

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### 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. In July 2004, the Corporation entered into a basis swap. Additionally, in March 2015, the Corporation entered into an interest rate cap. Following is a summary of the Corporation's derivative instruments:

#### ***Forward Sale Agreements and Guaranteed Investment Contract – Series 1999***

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

The notional amount of the GIC is \$3,257 at March 31, 2017 and 2016, 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 \$4,588 and \$5,015 as of March 31, 2017 and 2016, respectively, and are classified as unrestricted investments in the accompanying consolidated balance sheets. The Corporation recognized interest income totaling \$437 in 2017 and 2016 related to the forward sale agreements.

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### ***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 \$137,300 and \$143,800 at March 31, 2017 and 2016, respectively. The Corporation's largest exposure under this contract is a significant reduction in the U.S. federal tax rate on individuals. Under this contract, the Corporation recorded a reduction to interest expense of \$1,229 and \$1,764 during the years ended March 31, 2017 and 2016, 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, 2017.

### ***Interest Rate Cap***

In March 2015, in connection with the issuance of the 2015 bonds (see *Note 8*), the Corporation entered into a 10-year interest rate cap agreement pursuant to which the Corporation paid the cap counterparty a one-time upfront payment in exchange for the counterparty agreeing to make quarterly payments to the Corporation to the extent a specified floating rate based on a percentage of LIBOR exceeds 3%. The interest rate cap notional amount is \$47,665 and \$27,619 at March 31, 2017 and 2016, respectively. Amounts paid to the counterparty, combined with mark-to-market adjustments, totaled \$443 and \$419 as of March 31, 2017 and 2016, respectively, and are classified as an unrestricted investment in the accompanying consolidated balance sheets.

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The table below presents certain information regarding the Corporation's derivative financial instruments, none of which were hedging instruments, at March 31, 2017 and 2016:

Derivative Type	Financial Statement Location	2017	2016
		Asset Derivatives	
		Fair Value	Fair Value
Interest rate cap	Derivative instruments	\$ 443	\$ 419
Basis swap agreement	Derivative instruments	4,687	7,912
		<u>\$ 5,130</u>	<u>\$ 8,331</u>
		Liability Derivatives	
Forward delivery and sale agreements	Deferred interest – forward sale agreements	<u>\$ (1,232)</u>	<u>\$ (1,036)</u>
		Net Income on Derivative Instruments	
Location of gain on derivative instruments not deemed hedging instruments	Other income (expense) – investment return	<u>\$ (4,260)</u>	<u>\$ 241</u>

### 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:

	2017	2016
Resident assistance and special projects	\$ 7,151	\$ 7,003
Purchase of property and equipment	113	113
Scholarships	385	310
Time-restricted	6,033	5,468
Other	2,262	1,345
	<u>\$ 15,944</u>	<u>\$ 14,239</u>

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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:

	2017	2016
Available for resident assistance and operations	\$ 841	\$ 820
Capital expenditures	\$ 244	\$ 171

Permanently restricted net assets of \$6,904 and \$6,322 at March 31, 2017 and 2016, respectively, consist of investments to be held in perpetuity, the income from which is expendable to support resident assistance, scholarships, operations and other purposes as specified by the donor.

The Board designated \$2,000 of unrestricted net assets to establish The Front Porch Center for Innovation and Wellbeing/Innovation Initiative Fund (the Innovation Fund) and \$1,000 of unrestricted net assets to establish The Alhambra Affordable Housing Preservation and Development Fund (the Affordable Housing Fund) during the fiscal year ended March 31, 2014. Designated net assets remain under the control of the Board, which may, at its discretion, later use these designated funds for other purposes. Designated funds are included with investments on the accompanying consolidated balance sheets. During the fiscal year ended March 31, 2017, the Board released \$2 of funds originally designated for the Innovation Fund to cover certain operating costs and released \$209 of funds from the Affordable Housing Fund as an advance to Brookmore Apartment Corporation. During the fiscal year ended March 31, 2016, the Board released \$55 of funds originally designated for the Innovation Fund to cover certain operating costs. \$1,943 of the Innovation Fund and \$791 of the Affordable Housing Fund remain unreleased as of March 31, 2017.

### 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, 2017 and 2016, totaled \$1,607 and \$1,558, 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 \$2,327 and \$2,807 for the years ended March 31, 2017 and 2016, respectively.



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**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 are as follows:

	<b>2017</b>	<b>2016</b>
Patient and resident care services	\$ 143,007	\$ 140,194
General and administrative	49,549	49,040
	<u>\$ 192,556</u>	<u>\$ 189,234</u>

**Note 13: Employee Benefit Plans**

***403(b) Defined Contribution Plan and Supplemental Retirement***

The Corporation sponsors a 403(b) defined contribution plan for its employees. Under the current plan, all employees with at least one year of service are eligible to participate, and the Corporation contributes an amount equal to 3% of each participant's compensation. Additionally, the Corporation provides an executive supplemental retirement plan and contributes 4.5% of each participant's compensation. Expense for all retirement plans, equal to the contributions, totaled \$2,209 and \$2,230 for the years ended March 31, 2017 and 2016, 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, 2017 and 2016, \$1,157 and \$708, respectively, of deferred compensation is accrued and included in other accrued liabilities in the accompanying consolidated balance sheets.

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**Note 14: Disclosures About Fair Value of Assets and Liabilities**

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

- Level 1** Quoted prices in active markets for identical assets or liabilities
- Level 2** Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities
- Level 3** Unobservable inputs supported by little or no market activity and significant to the fair value of the assets or liabilities

# Front Porch Communities & Services

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### 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, 2017 and 2016:

		2017			
		Fair Value Measurements Using			
		Quoted Prices in Active Markets for Identical Assets (Level 1)			
		Significant Other Observable Inputs (Level 2)		Significant Unobservable Inputs (Level 3)	
		Fair Value			
Financial assets					
Equities – domestic	\$	154,530	\$	154,530	\$ -
Equities – international	\$	56,301	\$	56,301	\$ -
Money market mutual funds	\$	10,379	\$	10,379	\$ -
Certificates of deposit	\$	1,367	\$	-	\$ 1,367
Commodity mutual funds	\$	16,442	\$	16,442	\$ -
Other mutual funds	\$	13,763	\$	13,763	\$ -
U.S. Treasury and U.S. agency securities	\$	12,375	\$	6,460	\$ 5,915
Corporate bonds and commercial paper	\$	32,038	\$	30,080	\$ 1,958
Derivative instruments	\$	5,130	\$	-	\$ 5,130
Guaranteed investment contracts	\$	4,588	\$	-	\$ 4,588
Receivables from supporting organizations	\$	11,644	\$	-	\$ -
Financial liabilities					
Deferred interest – forward sale agreements	\$	1,232	\$	-	\$ 1,232

# Front Porch Communities & Services

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

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, 2017. For assets classified within Level 3 of the fair value hierarchy, the process used to develop the reported fair value is described below.

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### ***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, U.S. Treasury and U.S. agency securities, GICs, commercial paper, derivative instruments and certificates of deposit. In certain cases where Level 1 or Level 2 inputs are not available, investments are classified within Level 3 of the hierarchy.

### ***Derivative Instruments and Guaranteed Investment Contracts***

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

### ***Receivables from Supporting Organizations***

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

### ***Level 3 Reconciliation***

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

	<b>Receivables from Supporting Organizations</b>
Balance, April 1, 2016	\$ 10,617
Total realized and unrealized gains and losses included in change in net assets	<u>1,027</u>
Balance, March 31, 2017	<u><u>\$ 11,644</u></u>
Total gains or losses for the period included in change in net assets attributable to the change in unrealized gains or losses related to assets and liabilities still held at the reporting date	<u><u>\$ 1,027</u></u>

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	<b>Receivables from Supporting Organizations</b>
Balance, April 1, 2015	\$ 11,591
Total realized and unrealized gains and losses included in change in net assets	<u>(974)</u>
Balance, March 31, 2016	<u><u>\$ 10,617</u></u>
Total gains or losses for the period included in change in net assets attributable to the change in unrealized gains or losses related to assets and liabilities still held at the reporting date	<u><u>\$ (974)</u></u>

***Unobservable (Level 3) Inputs***

At March 31, 2017 and 2016, the Corporation had one financial instrument, receivables from supporting organizations of \$11,644 and \$10,617, respectively, for which fair value was determined based on unobservable inputs. The primary valuation technique used is discounted cash flows of future distributions. The significant unobservable inputs used in this fair value measurement are probability of nonpayment and distribution rates. Significant increases (decreases) in any of those inputs in isolation would result in a significantly lower (higher) fair value measurement. Generally, changes in either of those inputs will not affect the other input.

**Note 15: Asset Retirement Obligations**

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

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

	2017	2016
Balance, beginning of year	\$ 2,188	\$ 2,577
Change in estimate and accretion expense	22	(389)
Balance, end of year	<u>\$ 2,210</u>	<u>\$ 2,188</u>

### Note 16: Significant Estimates and Concentrations

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

#### ***Allowance for Net Patient Service Revenue Adjustments***

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

#### ***Investments***

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

#### ***Self-Insurance Claims***

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

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***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 an independent actuary with respect to workers' compensation claims, 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.

Certain employee wage and hours claims have been brought against the Corporation. Management has evaluated these claims internally and is considering multiple options, including potential settlement or other negotiations. No material provision has been made in the accompanying financial statements for any adverse outcome that might ultimately result from these matters, as the amount of any such loss is not reasonably estimable. Events could occur that would cause the estimate of ultimate loss to differ materially in the near term.

***Regulatory Matters***

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

***Asset Retirement Obligations***

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

**Note 17: Repayable and Amortized Entrance Fees and Deferred Revenue**

Entrance fee arrangements apply to five of the Corporation's facilities as of March 31, 2017 and 2016. For the right to occupy a unit for life and to receive certain services at these facilities, residents are required to pay an upfront entrance fee. The entrance fee is based upon the type of unit rented and the monthly payment plan selected by the resident. In addition, residents are charged monthly service fees. Service fees are established at the inception of residency and may be increased by the Corporation, provided a 60-day advance notice is given to the resident.



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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 \$10,560 and \$8,526 at March 31, 2017 and 2016, respectively, and is included in other accrued liabilities in the accompanying consolidated balance sheets. Amounts estimated to be repaid within one year totaled \$5,472 and \$4,532 at March 31, 2017 and 2016, 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, 2017 and 2016, \$98,630 and \$85,435, 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.

**Front Porch Communities & Services**  
**Notes to Consolidated Financial Statements**  
**March 31, 2017 and 2016**  
**(In Thousands)**

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

	<b>Entrance Fees Subject to Refund as of March 31</b>	<b>Actual Refunds Disbursed for Year Ended March 31</b>
2017	\$ 123,677	\$ 6,110
2016	\$ 116,349	\$ 7,643
2015	\$ 112,711	\$ 3,935
2014	\$ 96,891	\$ 3,204
2013	\$ 82,302	\$ 2,814

**Note 18: Change in Accounting Principle**

In 2017, the Corporation adopted Accounting Standards Update 2015-03, *Interest – Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs*. In all prior years, debt issuance costs were shown gross as an asset on the consolidated balance sheet. The new standard requires those costs to be shown net as a decrease in the carrying value of long-term debt. The new standard was adopted and comparative financial statements of prior years have been adjusted to apply the new standard retrospectively. There were no changes to the accompanying consolidated statements of operations, changes in net assets or cash flows for the years ended March 31, 2017 and 2016. The following financial statement line items for fiscal year 2016 were affected by the change in accounting principle:

	<b>As Originally Reported</b>	<b>As Adjusted</b>	<b>Effect of Change</b>
Deferred costs, net	\$ 9,047	\$ 1,992	\$ (7,055)
Total other assets	\$ 32,366	\$ 25,311	\$ (7,055)
Total assets	\$ 652,598	\$ 645,543	\$ (7,055)
Long-term debt	\$ 273,995	\$ 266,940	\$ (7,055)
Total liabilities	\$ 447,612	\$ 440,557	\$ (7,055)
Total liabilities and net assets	\$ 652,598	\$ 645,543	\$ (7,055)

## **Supplementary Information**

**Front Porch Communities & Services**  
**Consolidating Schedule – Balance Sheet Information**  
**March 31, 2017**  
**(In Thousands)**

**Assets**

	<b>Obligated Group</b>	<b>Other Entities</b>	<b>Eliminations</b>	<b>Consolidated</b>
<b>Current Assets</b>				
Cash and cash equivalents	\$ 11,837	\$ 4,480	\$ -	\$ 16,317
Short-term investments	11,330	-	-	11,330
Assets limited as to use – required for current liabilities	10,616	2,003	-	12,619
Patient accounts receivable, net	6,609	3,257	-	9,866
Prepaid expenses and other	1,893	555	25	2,473
Intercompany receivables	330	997	(1,327)	-
Total current assets	42,615	11,292	(1,302)	52,605
<b>Investments</b>				
Assets limited as to use, net of current portion	12,027	3,896	-	15,923
Long-term investments	272,720	-	-	272,720
Derivative instruments	5,130	-	-	5,130
Total investments	289,877	3,896	-	293,773
<b>Property and Equipment, Net</b>	255,082	69,683	(25)	324,740
<b>Other Assets</b>				
Interest in net assets of Pacific Homes Foundation	11,618	-	-	11,618
Receivables from supporting organizations	11,644	-	-	11,644
Other receivables	1,822	-	-	1,822
Deferred costs, net	1,328	-	-	1,328
Other assets	209	414	-	623
Total other assets	26,621	414	-	27,035
Total assets	\$ 614,195	\$ 85,285	\$ (1,327)	\$ 698,153

## Liabilities and Net Assets

	Obligated Group	Other Entities	Eliminations	Consolidated
<b>Current Liabilities</b>				
Current maturities of long-term debt	\$ 3,040	\$ 3,071	\$ -	\$ 6,111
Accounts payable	6,367	2,053	(186)	8,234
Accrued payroll and related expenses	8,661	4,052	-	12,713
Intercompany payables	-	1,116	(1,116)	-
Accrued interest	3,304	297	-	3,601
Other accrued expenses	11,460	952	-	12,412
Total current liabilities	32,832	11,541	(1,302)	43,071
Asset retirement obligations	235	1,975	-	2,210
Accrued workers' compensation	6,173	3,276	-	9,449
Other accrued liabilities	14,363	3,266	-	17,629
Deferred interest – forward sale agreements	1,232	-	-	1,232
Refundable entrance fees	71,503	-	-	71,503
Deferred revenue from entrance fees	35,524	619	-	36,143
Long-term debt	180,535	105,790	-	286,325
Total liabilities	342,397	126,467	(1,302)	467,562
<b>Net Assets</b>				
Unrestricted	248,950	(41,182)	(25)	207,743
Temporarily restricted	15,944	-	-	15,944
Permanently restricted	6,904	-	-	6,904
Total net assets	271,798	(41,182)	(25)	230,591
Total liabilities and net assets	\$ 614,195	\$ 85,285	\$ (1,327)	\$ 698,153

**Front Porch Communities & Services**  
**Consolidating Schedule – Statement of Operations Information**  
**Year Ended March 31, 2017**  
**(In Thousands)**

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

**Front Porch Communities & Services**  
**Consolidating Schedule – Statement of Cash Flows Information**  
**Year Ended March 31, 2017**  
**(In Thousands)**

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

	Obligated Group	Other Entities	Eliminations	Consolidated
<b>Supplemental Cash Flows Information</b>				
Property and equipment purchases included in accounts payable and other accrued expenses	\$ 3,514	\$ 2,346	\$ -	\$ 5,860
Entrance fees included in accounts receivable	\$ 1,355	\$ -	\$ -	\$ 1,355
<b>Cash Flows from Operating Activities</b>				
Change in net assets	\$ 26,187	\$ (557)	\$ (25)	\$ 25,605
Adjustments to reconcile change in net assets to net cash provided by operating activities				
Depreciation	15,897	8,744	-	24,641
Gain on disposal of assets	(2)	(20)	-	(22)
Amortization of deferred costs	1,147	215	-	1,362
Accretion of asset retirement obligations	8	66	-	74
Impairment related to construction projects	356	-	-	356
Amortization of bond premium included in interest expense	(32)	-	-	(32)
Provision for uncollectible accounts	503	52	-	555
Entrance fees received	25,490	-	-	25,490
Amortization of entrance fees	(10,095)	(8)	-	(10,103)
Realized and unrealized gain on investments, net	(19,136)	-	-	(19,136)
Realized and unrealized loss on derivative financial instruments, net	4,260	-	-	4,260
Amortized income on forward sale agreements	(437)	-	-	(437)
Change in interest in net assets of Pacific Homes Foundation	(1,143)	-	-	(1,143)
Change in receivables from supporting organizations	(1,027)	-	-	(1,027)
Contributions restricted by donor	(41)	(203)	-	(244)
Contributions from (to) affiliates	(6,890)	6,865	25	-
Changes in operating assets and operating liabilities				
Accounts receivable, net	(1,635)	2,291	-	656
Prepaid expenses and other current assets	33	(52)	-	(19)
Due to/from related parties	408	(408)	-	-
Accounts payable and accrued expenses	261	25	-	286
Other accrued liabilities	1,374	(979)	-	395
Net cash provided by operating activities	<u>\$ 35,486</u>	<u>\$ 16,031</u>	<u>\$ -</u>	<u>\$ 51,517</u>



## **APPENDIX C**

### **Summary of Principal Documents**

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## APPENDIX C

### SUMMARY OF PRINCIPAL DOCUMENTS

The following is a summary of certain provisions of the Master Indenture, Supplement No. 3, the Bond Indenture and the Loan Agreement that are not described elsewhere in this Official Statement. The Bonds are issued and secured pursuant to the Bond Indenture, the Loan Agreement and the Series 2017A Obligation (referred to in this Summary of Principal Documents as “Obligation No. 3” or “Master Indenture Obligation No. 3”). These summaries do not purport to be comprehensive and reference should be made to the Master Indenture, the Bond Indenture, the Loan Agreement and Supplement No. 3 for a full and complete statement of their provisions.

Unless the context otherwise requires, the terms defined in this summary shall, for all purposes of this summary, have the meanings herein specified, to be equally applicable to both singular and plural forms of any of the terms herein defined. Unless otherwise defined in this summary, all terms used herein or elsewhere in the Official Statement shall have the meanings assigned to such terms in the Master Indenture, Supplemental Master Indenture or Bond Indenture, as applicable.

### DEFINITIONS OF CERTAIN TERMS IN THE MASTER INDENTURE

*“Accountant”* means any independent certified public accountant or firm of such accountants selected by the Obligated Group Representative.

*“Affiliated Corporation”* means any partnership, limited liability company, corporation or any other organization which, directly or indirectly through one or more intermediaries, controls, is controlled by or is under common control with an Obligated Group Member.

*“Annual Debt Service”* means for each Fiscal Year the sum (without duplication) of the aggregate amount of principal and interest scheduled to become due and payable in such Fiscal Year on all Long-Term Indebtedness of the Obligated Group then Outstanding (by scheduled maturity, acceleration, mandatory redemption or otherwise, but not including purchase price becoming due as a result of mandatory or optional tender or put), less (1) any amounts of such principal or interest to be paid during such Fiscal Year from (a) the proceeds of Indebtedness or (b) moneys or Government Obligations deposited in trust for the purpose of paying such principal or interest and (2) any Debt Service Subsidy payable in such Fiscal Year; provided that if an Identified Financial Product Agreement has been entered into by any Member with respect to Long-Term Indebtedness, interest on such Long-Term Indebtedness shall be included in the calculation of Annual Debt Service by including for each Fiscal Year an amount equal to the amount of interest payable on such Long-Term Indebtedness in such Fiscal Year at the rate or rates stated in such Long-Term Indebtedness plus any Financial Product Payments under an Identified Financial Product Agreement payable in such Fiscal Year minus any Financial Product Receipts under an Identified Financial Product Agreement receivable in such Fiscal Year; provided that in no event shall any calculation made pursuant to this clause result in a number less than zero being included in the calculation of Annual Debt Service.

*“Annual Debt Service Coverage Ratio”* means for any Fiscal Year, the ratio determined by dividing Income Available for Debt Service for that Fiscal Year by the Annual Debt Service for such Fiscal Year.

*“Authorized Representative”* means with respect to each Obligated Group Member, its chairman or vice chairman of the board, president, chief executive officer, chief financial officer, or any other person designated as an Authorized Representative of such Obligated Group Member by a Certificate of

that Obligated Group Member signed by its chairman or vice chairman of the board, president, chief executive officer, or chief financial officer and filed with the Master Trustee.

*“Balloon Indebtedness”* means Long-Term Indebtedness, twenty-five percent (25%) or more of the principal of which (calculated as of the date of issuance) becomes due during any period of twelve (12) consecutive months if such maturing principal amount is not required to be amortized below such percentage by mandatory redemption prior to such 12-month period.

*“Book Value”* means, when used in connection with Property, Plant and Equipment or other Property of any Obligated Group Member, the value of such property, net of accumulated depreciation, as it is carried on the books of the Obligated Group Member and in conformity with GAAP, and when used in connection with Property, Plant and Equipment or other Property of the Obligated Group, means the aggregate of the values so determined with respect to such Property of each Obligated Group Member determined in such a way that no portion of such value of Property of any Obligated Group Member is included more than once. For purposes of performing certain calculations under the Master Indenture, the Obligated Group Representative may treat “total assets” as shown on the Obligated Group’s audited financial statements as the Book Value of the Obligated Group’s Property.

*“Certificate”, “Statement”, “Request”, “Consent” or “Order”* of any Obligated Group Member or of the Master Trustee means, respectively, a written certificate, statement, request, consent or order signed in the name of such Obligated Group Member by its Authorized Representative or in the name of the Master Trustee by its Responsible Officer. Any such instrument and supporting opinions or certificates, if any, may, but need not, be combined in a single instrument with any other instrument, opinion or certificate and the two or more so combined shall be read and construed as a single instrument. If and to the extent required by the Master Indenture, each such instrument shall include the statements provided for in the Master Indenture.

*“Code”* means the Internal Revenue Code of 1986 and the regulations promulgated thereunder.

*“Completion Indebtedness”* means any Long-Term Indebtedness incurred for the purpose of financing the completion of construction or equipping of any project for which Long-Term Indebtedness or Interim Indebtedness has theretofore been incurred in accordance with the provisions of the Master Indenture, to the extent necessary to provide a completed and fully equipped facility of the type and scope contemplated at the time said Long-Term Indebtedness or Interim Indebtedness was incurred, and in accordance with the general plans and specifications for such facility as originally prepared in connection with said Long-Term Indebtedness or Interim Indebtedness as certified by an Officer's Certificate.

*“Corporate Trust Office”* means the office of the Master Trustee at which its corporate trust business is conducted, which is located at 400 South Hope Street, Suite 500, Los Angeles, CA 90071; Attention: Global Corporate Trust Services.

*“Corporation”* means Front Porch Communities and Services, a nonprofit public benefit corporation duly organized and existing under the laws of the State of California, or any corporation which is the surviving, resulting or transferee corporation in any merger, consolidation or transfer of assets permitted under the Master Indenture.

*“Debt Service Coverage Ratio”* means, for any period of time, the ratio determined by dividing Income Available for Debt Service by Maximum Annual Debt Service.

*“Debt Service Subsidy”* means direct subsidy payments payable to an Obligated Group Member (or a Related Bond Issuer on behalf of an Obligated Group Member) pursuant to Section 54AA of the

Internal Revenue Code of 1986 with respect to Indebtedness of such Obligated Group Member or Related Bonds, or any similar federal or state program providing for payment to an Obligated Group Member (or a Related Bond Issuer on behalf of an Obligated Group Member) of all or a portion of debt service on Indebtedness of an Obligated Group Member.

“*Default*” means an event that, with the passage of time or the giving of notice or both, would become an Event of Default.

“*Event of Default*” means any of the events specified as such in the Master Indenture. See “Master Indenture – Events of Default.”

“*Fair Market Value*,” when used in connection with Property, means the fair market value of such Property as determined by either:

(a) an appraisal of the portion of such Property which is real property made within three years of the date of determination by a “Member of the Appraisal Institute” and by an appraisal of the portion of such Property which is not real property made within three years of the date of determination by any expert qualified in relation to the subject matter, provided that any such appraisal shall be performed by an Independent Consultant;

(b) a bona fide offer for the purchase of such Property made on an arm’s-length basis within six months of the date of determination, as established by an Officer’s Certificate; or

(c) an officer of the Obligated Group Representative (whose determination shall be made in good faith and set forth in an Officer’s Certificate filed with the Master Trustee) if the fair market value of such Property as set forth in such Officer’s Certificate is less than or equal to the greater of \$5,000,000 or two and one-half percent (2.5%) of cash and equivalents as shown on the financial statements.

“*Financial Product Agreement*” means any interest rate exchange agreement, hedge or similar arrangement, including, *inter alia*, an interest rate swap, asset swap, a constant maturity swap, a forward or futures contract, cap, collar, option, floor, forward or other hedging agreement, arrangement or security, direct funding transaction or other derivative, however denominated and whether entered into on a current or forward basis.

“*Financial Product Extraordinary Payments*” means any payments required to be paid to a counterparty by an Obligated Group Member pursuant to a Financial Product Agreement in connection with the termination thereof, tax gross-up payments, expenses, default interest, and any other payments or indemnification obligations to be paid to a counterparty by an Obligated Group Member under a Financial Product Agreement, which payments are not Financial Product Payments.

“*Financial Product Payments*” means regularly scheduled payments required to be paid to a counterparty by an Obligated Group Member pursuant to a Financial Product Agreement.

“*Financial Product Receipts*” means regularly scheduled payments required to be paid to an Obligated Group Member by a counterparty pursuant to a Financial Product Agreement.

“*Fiscal Year*” means the period beginning on April 1 of each year and ending on the next succeeding March 31, or any other twelve-month period thereafter designated by the Obligated Group Representative as the fiscal year of the Obligated Group.

“GAAP” means accounting principles generally accepted in the United States of America, consistently applied.

“*Governing Body*” means, when used with respect to any Obligated Group Member, its board of directors, board of trustees or other board or group of individuals in which all of the powers of such Obligated Group Member are vested, except for those powers reserved to the corporate membership of such Obligated Group Member by the articles of incorporation or bylaws of such Obligated Group Member.

“*Government Issuer*” means any municipal corporation, political subdivision, state, territory or possession of the United States, or any constituted authority or agency or instrumentality of any of the foregoing empowered to issue obligations on behalf thereof, which obligations would constitute Related Bonds under the Master Indenture.

“*Government Obligations*” means: (1) direct obligations of the United States of America (including obligations issued or held in book-entry form on the books of the Department of the Treasury of the United States of America) or obligations the timely payment of the principal of and interest on which are fully and unconditionally guaranteed by the United States of America; (2) obligations issued or guaranteed by any agency, department or instrumentality of the United States of America if the obligations issued or guaranteed by such entity are rated in one of the two highest Rating Categories of a Rating Agency; (3) certificates which evidence ownership of the right to the payment of the principal of and interest on obligations described in clauses (1) and/or (2), provided that such obligations are held in the custody of a bank or trust company in a special account separate from the general assets of such custodian; and (4) obligations the interest on which is excluded from gross income for purposes of federal income taxation pursuant to Section 103 of the Internal Revenue Code of 1986, and the timely payment of the principal of and interest on which is fully provided for by the deposit in trust of cash and/or obligations described in clauses (1), (2) and/or (3).

“*Government Restriction*” means federal, state or other applicable governmental laws or regulations affecting any Obligated Group Member and its facilities placing restrictions and limitations on the (i) fees and charges to be fixed, charged or collected by any Obligated Group Member or (ii) the timing of the receipt of such revenues.

“*Gross Revenue Fund*” means the fund so designated and established pursuant to the Master Indenture. See “Master Indenture – Gross Revenues” in this Appendix C.

“*Gross Revenues*” means unless the context provides otherwise, all revenues, income, receipts and money received in any period by the Obligated Group (other than the proceeds of borrowing and other moneys received from the operation of, or pertaining to, the HUD Facilities, except with the express written consent of HUD), including, but without limiting the generality of the foregoing,

(a) gross revenues derived from its or their operation of the facilities owned and/or operated by the Obligated Group Members,

(b) gifts, grants, bequests, donations and contributions exclusive of any gifts, grants, bequests, donations and contributions to the extent specifically restricted by the donor to a particular purpose inconsistent with their use for the payment of principal of, redemption premium, if any, and interest on Indebtedness or for the payment of operating expenses,

(c) proceeds derived from

- (1) insurance and condemnation proceeds,
  - (2) accounts receivable,
  - (3) securities and other investments,
  - (4) inventory and other tangible and intangible property,
  - (5) medical or hospital insurance or indemnity programs or agreements, and
  - (6) contract rights and other rights and assets now or thereafter owned, held or possessed by or on behalf of any Obligated Group Member, and
- (d) rentals received from the lease of office space.

*“Guaranty”* means any obligation of any Obligated Group Member guaranteeing, directly or indirectly, any obligation of any other Person which would, if such other Person were an Obligated Group Member, constitute Indebtedness.

*“Holder”* means the registered owner of any Master Indenture Obligation in registered form or the bearer of any Master Indenture Obligation in coupon form which is not registered or is registered to bearer or the party or parties to any contractual obligation designated to be an Obligation set forth in a related Supplement and identified therein as the party to whom payment is due thereunder or the “holder” thereof.

*“HUD”* means the Department of Housing and Urban Development, an agency of the United States Government.

*“HUD Facilities”* means any facility owned or operated by an Obligated Group Member which is subject to a regulatory agreement between such Obligated Group Member and HUD.

*“Identified Financial Product Agreement”* means a Financial Product Agreement identified to the Master Trustee in a Certificate of the Obligated Group Representative as having been entered into by an Obligated Group Member with a Qualified Provider with respect to Indebtedness (which is either then-Outstanding or to be issued after the date of such Certificate) identified in such Certificate.

*“Immaterial Affiliates”* means Persons that are not Members of the Obligated Group and whose combined or consolidated unrestricted net assets, as shown on their financial statements for their most recently completed fiscal year, were less than ten percent (10%) of the combined or consolidated unrestricted net assets of the Obligated Group as shown on the financial statements, plus the unrestricted net assets of such Persons as if they were Members of the Obligated Group for such period, for the most recently completed Fiscal Year of the Obligated Group.

*“Income Available for Debt Service”* means, unless the context provides otherwise, with respect to the Obligated Group as to any period of time, net income, or excess of revenues over expenses (excluding income from all Irrevocable Deposits) before depreciation, amortization, and interest expense, as determined in accordance with GAAP and as shown on the financial statements, adjusted as follows (i) minus amortization of deferred revenue from entrance fees, plus proceeds from entrance fees minus refunds of entrance fees of the Obligated Group; and (ii) minus amortization of other deferred revenues received by the Obligated Group not otherwise recognized in the change of Unrestricted Net Assets of the Obligated Group, provided, that no determination thereof shall take into account:

(a) any revenue or expense of a Person which is not a Member of the Obligated Group (and for the avoidance of doubt, revenue or expense of a Person that becomes a Member of the Obligated Group shall not be included to the extent attributable to the period prior to such Person becoming a Group Member);

(b) gifts, grants, bequests, donations or contributions, to the extent specifically restricted by the donor to a particular purpose inconsistent with their use for the payment of principal of, redemption premium and interest on Indebtedness or the payment of operating expenses;

(c) the net proceeds of insurance (other than business interruption insurance), settlements in lieu of condemnation awards and condemnation awards;

(d) any gain or loss resulting from the extinguishment or refinancing of Indebtedness;

(e) any gain or loss resulting from the sale, exchange or other disposition of capital assets not in the ordinary course of business;

(f) any gain or loss resulting from any discontinued operations;

(g) any gain or loss resulting from pension terminations, settlements or curtailments;

(h) any unusual charges for employee severance;

(i) adjustments to the value of assets or liabilities resulting from changes in GAAP;

(j) unrealized gains or losses on investments, including “other than temporary” declines in Book Value;

(k) gains or losses resulting from changes in valuation of any hedging, derivative, interest rate exchange or similar contract;

(l) any Financial Product Extraordinary Payments or similar payments on any hedging, derivative, interest rate exchange or similar contract that does not constitute a Financial Product Agreement;

(m) unrealized gains or losses from the write-down, reappraisal or revaluation of assets; or

(n) other nonrecurring items of any extraordinary nature which do not involve the receipt, expenditure or transfer of assets.

“*Indebtedness*” means any Guaranty (other than any Guaranty by any Obligated Group Member of Indebtedness of any other Obligated Group Member) and any obligation of any Obligated Group Member (a) for repayment of borrowed money other than intercompany loans between Obligated Group Members, (b) with respect to finance leases or (c) under installment sale agreements; provided, however, that if more than one Obligated Group Member shall have incurred or assumed a Guaranty of a Person other than an Obligated Group Member, or if more than one Obligated Group Member shall be obligated to pay any obligation, for purposes of any computations or calculations under the Master Indenture such Guaranty or obligation shall be included only one time. Indebtedness shall not include any amounts owed



by any Obligated Group Member to Residents or their estates under any Residence Agreements. Financial Product Agreements shall not constitute Indebtedness. Indebtedness of any Obligated Group Member shall include the Indebtedness of any partnership in which such Obligated Group Member is a general partner, except to the extent any such partnership Indebtedness is nonrecourse to such Obligated Group Member.

*“Independent Consultant”* means a firm (but not an individual) which (1) is in fact independent, (2) does not have any direct financial interest or any material indirect financial interest in any Obligated Group Member (other than the agreement pursuant to which such firm is retained), (3) is not connected with any Obligated Group Member as an officer, employee, promoter, trustee, partner, director or person performing similar functions and (4) is qualified to pass upon questions relating to the financial affairs of organizations similar to the Obligated Group or facilities of the type or types operated by the Obligated Group and having the skill and experience necessary to render the particular opinion or report required by the provision of the Master Indenture in which such requirement appears.

*“Industry Restrictions”* means federal, state or other applicable governmental laws or regulations, including conditions imposed specifically on the Obligated Group Members or the Obligated Group Members’ facilities, or general industry standards or general industry conditions placing restrictions and limitations on the rates, fees and charges to be fixed, charged and collected by the Obligated Group Members.

*“Interim Indebtedness”* means Indebtedness with an original maturity not in excess of one year, the proceeds of which are to be used to provide interim financing for capital improvements in anticipation of the issuance of Long-Term Indebtedness. Interim Indebtedness shall be considered Long-Term Indebtedness for purposes of the Master Indenture.

*“Irrevocable Deposit”* means the irrevocable deposit in trust of cash in an amount, or Government Obligations, or other securities permitted for such purpose pursuant to the terms of the documents governing the payment of or discharge of Indebtedness, the principal of and interest on which will be an amount, and under terms sufficient to pay all or a portion of the principal of, premium, if any, and interest on, as the same shall become due, any such Indebtedness which would otherwise be considered Outstanding. The trustee of such deposit may be the Master Trustee, a Related Bond Trustee or any other trustee or escrow agent authorized to act in such capacity.

*“Lien”* means any mortgage or pledge of, or security interest in, or lien or encumbrance on, any Property of an Obligated Group Member (i) which secures any Indebtedness or any other obligation of such Obligated Group Member or (ii) which secures any obligation of any Person other than an Obligated Group Member, and excluding liens applicable to Property in which an Obligated Group Member has only a leasehold interest unless the lien secures Indebtedness of that Obligated Group Member.

*“Long-Term Indebtedness”* means Indebtedness other than Short-Term Indebtedness.

*“Master Indenture”* means the Master Trust Indenture, dated as of September 1, 2017, between the Corporation and the Master Trustee, as originally executed and as it may from time to time be supplemented, modified or amended in accordance with the terms thereof.

*“Master Indenture Obligation”* means any obligation of the Obligated Group issued pursuant to the Master Indenture, as a joint and several obligation of each Obligated Group Member, which may be in any form set forth in a Related Supplement, including, but not limited to, bonds, notes, obligations, debentures, reimbursement agreements, loan agreements, Financial Product Agreements or leases. Reference to a Series of Master Indenture Obligations or to Master Indenture Obligations of a Series

means Master Indenture Obligations or Series of Master Indenture Obligations issued pursuant to a single Related Supplement.

*“Master Trustee”* means The Bank of New York Mellon Trust Company, N.A., a national banking association organized under the laws of the United States of America, and, subject to the limitations contained in the Master Indenture, any other corporation or association that may be co-trustee with the Master Trustee, and any successor or successors to said trustee or co-trustee in the trusts created thereunder.

*“Maximum Annual Debt Service”* means the greatest amount of Annual Debt Service becoming due and payable in any Fiscal Year including the Fiscal Year in which the calculation is made or any subsequent Fiscal Year; provided, however, that for the purposes of computing Maximum Annual Debt Service:

(a) with respect to a Guaranty, (i) if the Obligated Group Members have made a payment pursuant to such Guaranty within twenty-four (24) months immediately preceding the date of such computation, one hundred percent (100%) of the Annual Debt Service (calculated as if such Person were an Obligated Group Member) guaranteed by the Obligated Group Members under the Guaranty shall be included in the calculation of Annual Debt Service in the year in which such payment was made and for two Fiscal Years thereafter and (ii) otherwise, there shall be included in the calculation of Annual Debt Service a percentage of the Annual Debt Service (calculated as if such Person were an Obligated Group Member) guaranteed by the Obligated Group Members under the Guaranty, based on the ratio of Income Available for Debt Service of the Person whose indebtedness is guaranteed by the Obligated Group Member (calculated as if such Person were an Obligated Group Member), over the Annual Debt Service of such Person (calculated as if such Person were an Obligated Group Member) (the “Ratio”). The applicable percentage of Annual Debt Service on such indebtedness shall be included in the calculation of Annual Debt Service, as follows:

<u>Ratio</u>	<u>Percentage of Annual Debt Service on such Indebtedness to be Included</u>
Below 1.0	100%
1.0 to 1.25	50%
1.25 to 2.0	20%
2.0 or greater	0%

(b) if interest on Long-Term Indebtedness is payable pursuant to a variable interest rate formula (or if Financial Product Payments under an Identified Financial Product Agreement or Financial Product Receipts under an Identified Financial Product Agreement are determined pursuant to a variable rate formula), the interest rate on such Long-Term Indebtedness (or the variable rate formula for such Financial Product Payments under an Identified Financial Product Agreement or Financial Product Receipts under an Identified Financial Product Agreement) for periods when the actual interest rate cannot yet be determined shall be assumed to be equal to (i) if such Long-Term Indebtedness (or Identified Financial Product Agreement) was Outstanding during the twelve (12) calendar months immediately preceding the date of calculation, an average of the interest rates per annum which were in effect, and (ii) if such Long-Term Indebtedness (or Identified Financial Product Agreement) was not Outstanding during the twelve (12) calendar months immediately preceding the date of calculation, at the election of the Obligated Group Representative, either (x) an average of the SIFMA Swap Index during the twelve (12) calendar months immediately preceding the date of calculation plus 100 basis points or (y) an average of the interest rates per annum which would have been in effect for any twelve (12)

consecutive calendar months during the eighteen (18) calendar months immediately preceding the date of calculation, as specified in a Certificate of the Obligated Group Representative or, at the sole option of the Obligated Group Representative, such interest rate as shall be specified in a written statement from an investment banking or financial advisory firm selected by the Obligated Group Representative;

(c) if moneys or Government Obligations have been deposited with a trustee or escrow agent in an amount, together with earnings thereon, sufficient to pay all or a portion of the principal of or interest on Long-Term Indebtedness as it comes due, such principal or interest, as the case may be, to the extent provided for, shall not be included in computations of Maximum Annual Debt Service;

(d) debt service on Long-Term Indebtedness incurred to finance capital improvements shall be included in the calculation of Maximum Annual Debt Service only in proportion to the amount of interest on such Long-Term Indebtedness which is payable in the then current Fiscal Year from sources other than proceeds of such Long-Term Indebtedness (other than proceeds deposited in debt service reserve funds) held by a trustee or escrow agent for such purpose; and

(e) with respect to Balloon Indebtedness or Interim Indebtedness, such Balloon Indebtedness or Interim Indebtedness shall be treated, at the sole option of the Obligated Group Representative, as Long-Term Indebtedness bearing interest at an interest rate equal to either (i) a fixed rate equal to the Thirty-Year Revenue Bond Index most recently published in *The Bond Buyer* prior to the date of calculation or (ii) such interest rate as shall be specified in a written statement from an investment banking or financial advisory firm selected by the Obligated Group Representative, and with substantially level debt service over a period of up to thirty (30) years (which period shall be designated by the Obligated Group Representative) from the date of calculation.

“*Merger Transaction*” has the meaning set forth in the Master Indenture. See “Master Indenture – Merger, Consolidation, Sale or Conveyance” in this Appendix C.

“*Nonrecourse Indebtedness*” means any Indebtedness which is not a general obligation and which is secured by a Lien, liability for which is effectively limited to the Property, Plant and Equipment subject to such Lien with no recourse, directly or indirectly, to any other Property of any Obligated Group Member.

“*Obligated Group*” means all Obligated Group Members.

“*Obligated Group Member*” or “*Member*” means each Person that is obligated under the Master Indenture from and after the date upon which such Person joins the Obligated Group, but excluding any Person which withdraws from the Obligated Group to the extent and in accordance with the provisions of the Master Indenture, from and after the date of such withdrawal.

“*Obligated Group Representative*” means the Corporation or such other Obligated Group Member (or Obligated Group Members acting jointly) as may have been designated pursuant to written notice to the Master Trustee executed by the Corporation or a successor Obligated Group Representative.

“*Officer’s Certificate*” means a certificate signed by an Authorized Representative of the Obligated Group Representative.

“*Opinion of Bond Counsel*” means a written opinion signed by an attorney or firm of attorneys experienced in the field of public finance whose opinions are generally accepted by purchasers of bonds issued by or on behalf of a Government Issuer.

*“Opinion of Counsel”* means a written opinion signed by a reputable and qualified attorney or firm of attorneys who may be counsel for the Obligated Group Representative.

*“Outstanding,”* when used with reference to Indebtedness or Master Indenture Obligations, means, as of any date of determination, all Indebtedness or Master Indenture Obligations theretofore issued or incurred and not paid and discharged other than (1) Master Indenture Obligations theretofore cancelled by the Master Trustee or delivered to the Master Trustee for cancellation or otherwise deemed paid in accordance with the terms of the Master Indenture, (2) Master Indenture Obligations in lieu of which other Master Indenture Obligations have been authenticated and delivered or which have been paid pursuant to the provisions of a Related Supplement regarding mutilated, destroyed, lost or stolen Master Indenture Obligations unless proof satisfactory to the Master Trustee has been received that any such Master Indenture Obligation is held by a bona fide purchaser, (3) any Master Indenture Obligation held by any Obligated Group Member and (4) Indebtedness deemed paid and no longer outstanding pursuant to the terms thereof; provided, however, that if two or more obligations which constitute Indebtedness represent the same underlying obligation (as when a Master Indenture Obligation secures an issue of Related Bonds and another Master Indenture Obligation secures repayment obligations to a bank under a letter of credit which secures such Related Bonds) for purposes of calculating compliance with the various financial covenants contained in the Master Indenture, but only for such purposes, only one of such Master Indenture Obligations shall be deemed Outstanding and the Master Indenture Obligation so deemed to be Outstanding shall be that Master Indenture Obligation which produces the greatest amount of Annual Debt Service to be included in the calculation of such covenants.

*“Parity Financial Product Extraordinary Payments”* means Financial Product Extraordinary Payments that (1) are with respect to a Financial Product Agreement secured or evidenced by an Obligation and (2) have been specified to be payable on a parity with Financial Product Payments in the Related Supplement authorizing the issuance of such Obligation.

*“Permitted Liens”* means and include:

(a) Any judgment lien or notice of pending action against any Obligated Group Member so long as the judgment or pending action is being contested and execution thereon is stayed or while the period for responsive pleading has not lapsed;

(b) (i) Rights reserved to or vested in any municipality or public authority by the terms of any right, power, franchise, grant, license, permit or provision of law, affecting any Property, to (A) terminate such right, power, franchise, grant, license or permit, provided that the exercise of such right would not materially impair the use of such Property or materially and adversely affect the Value thereof, or (B) purchase, condemn, appropriate or recapture, or designate a purchase of, such Property; (ii) any liens on any Property for taxes, assessments, levies, fees, water and sewer charges, and other governmental and similar charges and any liens of mechanics, materialmen, laborers, suppliers or vendors for work or services performed or materials furnished in connection with such Property, which are not delinquent, or the amount or validity of which are being contested and execution thereon is stayed or, with respect to liens of mechanics, materialmen and laborers, have been due and payable or which are not delinquent, or the amount or validity of which, are being contested or, with respect to liens of mechanics, materialmen and laborers, have been due for less than ninety (90) days, or the amount or validity of which are being contested; (iii) easements, rights-of-way, servitudes, restrictions and other minor defects, encumbrances, and irregularities in the title to any Property which do not materially impair the use of such Property or materially and adversely affect the Value thereof; (iv) rights reserved to or vested in any municipality or public authority to control or regulate any Property or to use such Property in any manner, which rights do not materially impair the use of such Property in any manner, or materially and adversely affect the Value thereof; (v) to the extent that it affects title to any Property, any lien created by the

Master Indenture; (vi) landlord's liens; and (vii) minor encumbrances (not securing Indebtedness) imposed or suffered from time to time on any Property that do not materially and adversely affect the interests of the Master Trustee or the Holders;

(c) Any Lien described in **Appendix A** to the Master Indenture which is existing on the date of execution of the Master Indenture or as **Appendix A** may be supplemented upon addition of an Obligated Group Member with respect to Liens existing on the Property of such additional Obligated Group Member, provided that no such Lien (or the amount of Indebtedness or other obligations secured thereby) may be increased, extended, renewed or modified to apply to any Property of any Obligated Group Member not subject to such Lien on such date, unless such Lien as so extended, renewed or modified otherwise qualifies as a Permitted Lien;

(d) Any Lien in favor of the Master Trustee securing all Outstanding Master Indenture Obligations equally and ratably;

(e) Liens arising by reason of good faith deposits by any Obligated Group Member in the ordinary course of business (for other than borrowed money), deposits with any Obligated Group Member in connection with leases of real estate, bids or contracts (other than contracts for the payment of money), deposits by any Obligated Group Member to secure public or statutory obligations, or deposits to secure, or in lieu of, surety, stay or appeal bonds, and deposits as security for the payment of taxes or assessments or other similar charges;

(f) Any Lien arising by reason of deposits with, or the giving of any form of security to, any governmental agency or any body created or approved by law or governmental regulation for any purpose at any time as required by law or governmental regulation as a condition to the transaction of any business or the exercise of any privilege or license, or to enable any Obligated Group Member to maintain self-insurance or to participate in any funds established to cover any insurance risks or in connection with workers' compensation, unemployment insurance, pension or profit sharing plans or other similar social security plans, or to share in the privileges or benefits required for companies participating in such arrangements or to otherwise participate in other alternative risk management programs;

(g) Any Lien arising by reason of any escrow established to pay debt service with respect to Indebtedness or by reason of deposits to any reserve fund, excess depreciation fund, debt service fund or a special redemption fund in respect to any Indebtedness;

(h) Any Lien in favor of a trustee on the proceeds of Indebtedness prior to the application of such proceeds;

(i) Liens securing Indebtedness which is insured or guaranteed under a federal program which pledges the full faith and credit of the United States of America as security for such program, or under a program of any state which pledges the full faith and credit of such state as security for such program, so long as the Indebtedness so secured does not exceed ninety percent (90%) of the Book Value of the Property of the Obligated Group Member securing such Indebtedness being financed or refinanced with the proceeds of such Indebtedness;

(j) Liens on moneys deposited by residents or patients with any Obligated Group Member as security for or as prepayment for the cost of resident or patient care or other care;

(k) Liens on Property received by any Obligated Group Member through gifts, grants, bequests or research grants, such Liens being due to restrictions on such gifts, grants, bequests or research grants or the income thereon, up to the Fair Market Value of such Property;

(l) Rights of the United States of America, including, without limitation, the Federal Emergency Management Agency (“FEMA”), or the State of California, including without limitation the California Emergency Management Agency, by reason of FEMA and other federal and State of California funds made available to any Obligated Group Member under federal or State of California statutes;

(m) Liens on Property securing Indebtedness incurred to refinance Indebtedness previously secured by a Lien on such Property, provided that (i) the principal amount of such new Indebtedness does not exceed the principal amount of such refinanced Indebtedness, (ii) the Property securing such Indebtedness is not changed, and (iii) the obligor with respect to such Indebtedness, whether direct or contingent, is not changed unless such Indebtedness is permitted under the Master Indenture;

(n) Liens granted by an Obligated Group Member to another Obligated Group Member;

(o) Liens securing Nonrecourse Indebtedness incurred pursuant to the provisions of the Master Indenture;

(p) Liens consisting of purchase money security interests (as defined in the UCC) and lessors’ interest in capitalized leases provided the Lien secures Indebtedness permitted by the Master Indenture;

(q) Liens on revenues constituting rentals in connection with any other Lien permitted under the Master Indenture on the Property from which such rentals are derived;

(r) the lease or license of the use of a part of the Obligated Group Members’ facilities for use in performing professional or other services necessary for the proper and economical operation of such facilities in accordance with customary business practices in the industry;

(s) Liens created on amounts deposited by an Obligated Group Member pursuant to a security annex or similar document to collateralize obligations of such Obligated Group Member under a Financial Product Agreement;

(t) Liens junior to Liens in favor of the Master Trustee;

(u) Liens in favor of banking or other depository institutions arising as a matter of law encumbering the deposits of any Obligated Group Member held in the ordinary course of business by such banking institution (including any right of setoff or statutory bankers’ liens) so long as such deposit account is not established or maintained for the purpose of providing such Lien, right of setoff or bankers’ lien;

(v) Uniform Commercial Code financing statements filed with the Secretary of State of the State (or such other office maintaining such records) in connection with an operating lease entered into by any Obligated Group Member in the ordinary course of business so long as such financing statement does not evidence the grant of a Lien other than a Permitted Lien;

(w) Rights of tenants under leases or rental agreements pertaining to Property, Plant and Equipment owned by any Obligated Group Member so long as the lease arrangement is in the ordinary course of business of the Obligated Group Member;

(x) deposits of Property by any Obligated Group Member to meet regulatory requirements for a governmental workers' compensation, unemployment insurance or social security program, other than any Lien imposed by ERISA;

(y) deposits to secure the performance of another party with respect to a bid, trade contract, statutory obligation, surety bond, appeal bond, performance bond or lease, and other similar obligations incurred in the ordinary course of business of an Obligated Group Member;

(z) Liens resulting from deposits to secure bids from or the performance of another party with respect to contracts incurred in the ordinary course of business of an Obligated Group Member (other than contracts creating or evidencing an extension of credit to the depositor or otherwise for the payment of Indebtedness);

(aa) present or future zoning laws, ordinances or other laws or regulations restricting the occupancy, use or enjoyment of Property, Plant and Equipment of any Obligated Group Member;

(bb) Any Lien on Property due to the rights of third-party payors for recoupment of amounts paid to any Obligated Group Member;

(cc) Any Lien existing for not more than 10 days after the Obligated Group Member shall have received notice thereof;

(dd) A lease and leaseback arrangement or similar arrangements entered into by any Obligated Group Member with a Related Bond Issuer to the extent required in connection with the issuance of a series of Related Bonds which arrangement does not subject the Property subject to such arrangement to a Lien securing the Indebtedness incurred in connection with such Related Bonds;

(ee) Liens existing on any Property (or revenues therefrom) prior to the time of its acquisition by an Obligated Group Member through purchase, merger, consolidation or otherwise, whether or not assumed by the Obligated Group Member, if the principal amounts secured by any such Lien shall not exceed the greater of the cost or fair market value of such Property as determined in good faith by the Obligated Group Member; provided, that no such Lien (or the amount of Indebtedness secured thereby) may be increased, extended, renewed or modified to apply to any Property or revenues not subject to such Lien on such date unless such Lien as so increased, extended, renewed or modified otherwise qualifies as a Permitted Lien under the Master Indenture;

(ff) The interests of HUD under any regulatory agreements or deeds of trust relating to any HUD Facilities; and

(gg) Any other Lien on Property provided that the Value of all Property encumbered by all Liens permitted under this clause (gg) does not exceed twenty percent (20%) of the sum of the Book Value of all Property of the Obligated Group Members, calculated at the time of creation of such Lien.

*"Person"* means an individual, corporation, limited liability company, firm, association, partnership, trust or other legal entity or group of entities, including a governmental entity or any agency or political subdivision thereof.

*"Property"* means any and all rights, titles and interests in and to any and all assets of any Obligated Group Member, whether real or personal, tangible or intangible and wherever situated. For purposes of performing certain calculations under the Master Indenture, the Obligated Group

Representative may treat “total assets” as shown on the Obligated Group’s audited financial statements as the Book Value of the Obligated Group’s Property.

*“Property, Plant and Equipment”* means all Property of any Obligated Group Member which is considered property, plant and equipment of such Obligated Group Member under GAAP.

*“Qualified Provider”* means any financial institution or insurance company or other entity which is a party to a Financial Product Agreement if (i) the unsecured long-term debt obligations of such provider (or of the parent or a subsidiary of such provider if such parent or subsidiary guarantees or otherwise assures the performance of such provider under such Financial Product Agreement), or (ii) obligations secured or supported by a letter of credit, contract, guarantee, agreement, insurance policy or surety bond issued by such provider (or such guarantor or assuring parent or subsidiary), are rated in one of the three highest Rating Categories of a Rating Agency at the time of the execution and delivery of the Financial Product Agreement.

*“Rating Agency”* means Fitch Inc., Moody’s Investors Service, Inc., S&P Global Ratings, and any other national rating agency then rating Master Indenture Obligations or Related Bonds.

*“Rating Category”* means a generic securities rating category, without regard to any refinement or gradation of such rating category by a numerical modifier, outlook or otherwise.

*“Related Bonds”* means the revenue bonds or other obligations (including, without limitation, installment sale or lease obligations evidenced by certificates of participation) issued by any Government Issuer, the proceeds of which are loaned or otherwise made available to an Obligated Group Member in consideration of the execution, authentication and delivery of a Master Indenture Obligation or Master Indenture Obligations to or for the order of such Government Issuer.

*“Related Bond Indenture”* means any indenture, bond resolution, trust agreement or other comparable instrument pursuant to which a series of Related Bonds are issued.

*“Related Bond Issuer”* means the Government Issuer of any issue of Related Bonds.

*“Related Bond Trustee”* means the trustee and its successors in the trusts created under any Related Bond Indenture, and if there is no such trustee, means the Related Bond Issuer.

*“Related Supplement”* means an indenture supplemental to, and authorized and executed pursuant to the terms of, the Master Indenture.

*“Required Payment”* means any payment, whether at maturity, by acceleration, redemption or otherwise, including without limitation, Financial Product Payments, Financial Product Extraordinary Payments and the purchase price of Related Bonds tendered or deemed tendered for purchase pursuant to the terms of a Related Bond Indenture, required to be made by any Obligated Group Member pursuant to any Related Supplement or any Master Indenture Obligation.

*“Residence Agreement”* means each continuing care and residency agreement, or other similar agreement now existing or thereafter created, including any amendments thereto, between any Obligated Group Member and any Resident with respect to any of the facilities owned and/or operated by any Obligated Group Member.

*“Resident”* means each Person residing at a facility owned and/or operated by any Obligated Group Member under terms of a Residence Agreement.



*“Responsible Officer”* means, with respect to the Master Trustee, any managing director, any vice president, any assistant vice president, any assistant secretary, any assistant treasurer or any other officer of the Master Trustee customarily performing functions similar to those performed by the persons above designated or to whom any corporate trust matter is referred because of such person’s knowledge of and familiarity with the particular subject and having direct responsibility for the administration of the Master Indenture.

*“Short-Term Indebtedness”* means all Indebtedness (other than Interim Indebtedness) having an original maturity less than or equal to one year and not renewable at the option of an Obligated Group Member for a term greater than one year from the date of original incurrence or issuance, or Indebtedness with a maturity greater than one year or renewable at the option of an Obligated Group Member for a term greater than one year, if by the terms of such Indebtedness, for a period of at least twenty (20) consecutive days during each calendar year no Indebtedness is permitted to be Outstanding thereunder. For purposes of this definition, (i) only the stated maturity of Indebtedness (and not any tender or put right of the holder of such Indebtedness) shall be taken into account in determining if such Indebtedness constitutes Short-Term Indebtedness under the Master Indenture and (ii) classification of Indebtedness as current or short-term under GAAP shall not be controlling. Interim Indebtedness shall not constitute Short-Term Indebtedness for any purpose under the Master Indenture.

*“SIFMA Swap Index”* means, on any date, a rate determined on the basis of the seven-day high grade market index of tax-exempt variable rate demand obligations, as produced by Municipal Market Data and published or made available by the Securities Industry & Financial Markets Association (formerly the Bond Market Association) (“SIFMA”) or any Person acting in cooperation with or under the sponsorship of SIFMA or if such index is no longer available “SIFMA Swap Index” shall refer to a substantially comparable index selected by the Obligated Group Representative, with the advice of an investment banking or financial advisory firm.

*“State”* means the State of California.

*“Subordinated Indebtedness”* means Long-Term Indebtedness specifically subordinated as to payment and security to the payment of all Required Payments and other obligations of the Obligated Group Members under the Master Indenture.

*“Surviving Entity”* has the meaning set forth in the Master Indenture. See “Master Indenture – Merger, Consolidation, Sale or Conveyance” in this Appendix C.

*“Tax Exempt Organization”* means a Person organized under the laws of the United States of America or any state thereof which is an organization described in Section 501(c)(3) of the Code and exempt from federal income taxes under Section 501 (a) of the Code (other than the tax on unrelated business income under Section 511 of the Code), or corresponding provisions of federal income tax laws from time to time in effect.

*“Total Operating Revenues”* means, for the period of calculation in question, the total unrestricted revenues, gains and other support, as shown on the financial statements for the most recent Fiscal Year for which financial statements have been delivered.

*“Transaction Test”* means, with respect to any specified transaction, that (i) no Event of Default or Default then exists and (ii) if such transaction had occurred as of the first day of the most recent full Fiscal Year preceding such transaction for which financial statements are available, the Obligated Group would be able to satisfy the conditions for the issuance of \$1.00 of additional Long-Term Indebtedness set

forth in the Master Indenture, as of the final day of such full Fiscal Year taking into account the Income Available for Debt Service generated for such Fiscal Year.

“*UCC*” means the Uniform Commercial Code of the State, as amended from time to time.

“*Unrestricted Net Assets*” means for the period of calculation in question, the unrestricted net assets, as shown on the financial statements for the most recent Fiscal Year for which financial statements have been delivered.

“*Value*,” when used with respect to Property, means the aggregate value of all such Property, with each component of such Property valued, at the option of the Obligated Group Representative, at either its Fair Market Value or its Book Value.

#### **DEFINITIONS OF CERTAIN TERMS IN THE BOND INDENTURE AND THE LOAN AGREEMENT**

“*Act*” means the Joint Exercise of Powers Act, constituting Chapter 5 of Division 7 of Title 1 of the Government Code of the State of California, as now in effect and as it may from time to time thereafter be amended or supplemented.

“*Additional Payments*” means the payments so designated and required to be made by the Corporation pursuant to the Loan Agreement.

“*Administrative Fees and Expenses*” means any application, commitment, financing or similar fee charged, or reimbursement for administrative or other expenses incurred, by the Authority or the Bond Trustee.

“*Authority*” means the California Statewide Communities Development Authority, or its successors and assigns.

“*Beneficial Owner*” means any Person which has or shares the power, directly or indirectly, to make investment decisions concerning ownership of any of the Bonds (including any Person holding Bonds through nominees, depositories or other intermediaries).

“*Bond Counsel*” means legal counsel of recognized national standing in the field of obligations the interest on which is excluded from gross income for federal income tax purposes, selected by the Corporation and not objected to by the Authority.

“*Bond Indenture*” means the Bond Indenture, as originally executed or as it may from time to time be supplemented, modified or amended by any Supplemental Bond Indenture.

“*Bond Trustee*” means The Bank of New York Mellon Trust Company, N.A., a national banking association duly organized and existing under the laws of the United States of America, or its successor, as Bond Trustee as provided in the Bond Indenture.

“*Bond Year*” means the period of twelve consecutive months ending on August 14 in any year in which Bonds are Outstanding, except for the initial Bond Year which commences on the date the Bonds are issued.

“*Bonds*” means the California Statewide Communities Development Authority Revenue Bonds (Front Porch Communities and Services), Series 2017A, authorized by, and at any time Outstanding pursuant to, the Bond Indenture.

“*Business Day*” means a day that is not a Saturday, Sunday or legal holiday on which banking institutions in the State of California, the State of New York or in any state in which the office of the Master Trustee or the Bond Trustee is located are authorized to remain closed or a day on which the New York Stock Exchange is closed.

“*Code*” means the Internal Revenue Code of 1986, as amended.

“*Continuing Disclosure Agreement*” means that certain Continuing Disclosure Agreement, by the Corporation, as originally executed and as it may be amended in accordance with its terms.

“*Corporate Trust Office*” means the office of the Bond Trustee, which as of the date hereof is located at 400 South Hope Street, Suite 500, Los Angeles, CA 90071, Attention: Global Corporate Trust Services Department, or such other or additional offices as shall be specified by the Bond Trustee in writing delivered to the Authority and the Corporation.

“*Event of Default*” means any of the events so specified in the Bond Indenture.

“*Fitch*” means Fitch Ratings, its successors and assigns, or, if such entity shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, any other nationally recognized securities rating agency designated by the Corporation by notice to the Authority and the Bond Trustee.

“*Holder*” or “*Bondholder*,” whenever used with respect to a Bond, means the Person in whose name such Bond is registered.

“*Interest Account*” means the account by that name established in the Revenue Fund pursuant to the Bond Indenture.

“*Interest Payment Date*” means April 1 and October 1 of each year, commencing April 1, 2018.

“*Investment Securities*” means any of the following:

- (A) United States Government Obligations;
- (B) Obligations of any of the following federal agencies which obligations represent the full faith and credit of the United States of America (including stripped securities if the agency has stripped them itself):
  - (1) U.S. Export-Import Bank (Eximbank Direct obligations or fully guaranteed certificates of beneficial ownership);
  - (2) Farmers Home Administration;
  - (3) Federal Financing Bank;
  - (4) Federal Housing Administration Debentures;
  - (5) General Services Administration;

(6) Government National Mortgage Association (“GNMA”) (including guaranteed mortgage-backed bonds and guaranteed pass-through obligations);

(7) U.S. Maritime Administration (guaranteed Title XI financing); and

(8) U.S. Department of Housing and Urban Development (including project notes, local authority bonds, new communities debentures, U.S. government guaranteed debentures, U.S. Public Housing Notes and Bonds and U.S. government guaranteed public housing notes and bonds;

(C) Debentures, bonds, notes or other evidence of indebtedness issued or guaranteed by any of the following U.S. government agencies which obligations are not fully guaranteed by the full faith and credit of the United States of America (including stripped securities if the agency has stripped them itself):

(1) Federal Home Loan Bank System (senior debt obligations);

(2) Resolution Funding Corporation (REFCORP) obligations;

(3) Federal Home Loan Mortgage Corporation (FHLMC or “Freddie Mac”) senior debt obligations or participation certificates;

(4) Federal National Mortgage Association (FNMA or “Fannie Mae”) mortgage-backed securities and senior debt obligations; and

(5) Farm Credit System – consolidated systemwide bonds and notes;

(D) Money market funds registered under the Federal Investment Company Act of 1940, whose shares are registered under the Federal Securities Act of 1933, and having at the time of purchase a rating by S&P of AAAM-G; AAA-m; or AA-m and, if rated by Moody’s, rated Aaa, Aa1 or Aa2, including funds for which the Bond Trustee and its affiliates retain a fee for services provided to the fund, whether as custodian, transfer agent, investment advisor or otherwise;

(E) Certificates of deposit secured at all times by collateral described in paragraph (A) above if issued by commercial banks, savings and loan associations or mutual savings banks; the collateral must be held by a third party and the Bond Trustee, on behalf of the Bondholders, must have a perfected first security interest in such collateral;

(F) Certificates of deposit, savings accounts, deposit accounts or money market deposits which are fully insured by FDIC, including BIF and SAIF (including those of the Bond Trustee and its affiliates);

(G) Commercial paper which is rated at the time of purchase “P-1” or better by Moody’s and “A-1” or better by S&P;

(H) Municipal obligations issued by any state or municipality which at the time of purchase have a rating by both Moody’s and S&P in one of the two highest Rating Categories by such rating agencies;

(I) Federal funds or bankers acceptances with a maximum term of one year of any bank which at the time of investment has an unsecured, uninsured and unguaranteed obligation rating of “Prime

– 1” or “A3” or better by Moody’s and “A-1” or “A” or better by S&P (including those of the Bond Trustee and its affiliates);

(J) Repurchase agreements with respect to obligations listed in paragraph (A) or (B) above if entered into with a bank, a trust company or a broker or dealer (as defined by the Securities Exchange Act of 1934) that is a dealer in government bonds, that reports to, trades with, and is recognized as a primary dealer by a Federal Reserve Bank, if such obligations that are the subject of such repurchase agreement are delivered to the Bond Trustee or are supported by a safekeeping receipt issued by a depository (other than the Bond Trustee), provided that such repurchase agreement must provide that the value of the underlying obligations shall be maintained at a current market value, calculated no less frequently than monthly, of not less than the repurchase price; and

(K) Investment agreements with any financial institution that at the time of investment has long-term obligations rated in one of the three highest Rating Categories by each Rating Agency then rating both the Bonds and such obligations (but in all cases by at least one Rating Agency then rating the Bonds).

*“Loan Agreement”* means certain Loan Agreement, by and between the Authority and the Corporation, dated as of September 1, 2017, as originally executed and as it may from time to time be supplemented, modified or amended in accordance with the terms thereof and of the Bond Indenture.

*“Loan Default Event”* means any of the events described under the caption “LOAN AGREEMENT – Events of Default” below.

*“Loan Repayments”* means the payments so designated and required to be made by the Corporation pursuant to the Loan Agreement.

*“Mandatory Sinking Account Payment”* means the amount required to be paid on any single date for the retirement of Term Bonds.

*“Master Indenture”* means that certain Master Trust Indenture, dated as of September 1, 2017, as supplemented to the date thereof, between the Corporation and the Master Trustee, as originally executed and as it has been and may from time to time be supplemented, modified or amended in accordance with the terms thereof.

*“Master Trustee”* means The Bank of New York Mellon Trust Company, N.A., a national banking association duly organized and existing under the laws of the United States of America, or its successor, as master trustee under the Master Indenture.

*“Moody’s”* means Moody’s Investors Service, its successors and assigns, or, if such entity shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, any other nationally recognized securities rating agency designated by the Corporation by notice to the Authority and the Bond Trustee.

*“New Project”* means the acquisition, construction, improvement, renovation and equipping of the Facilities located in the City of Pasadena.

*“Obligated Group”* means all Obligated Group Members.

*“Obligated Group Member” or “Member”* means each Person that is obligated under the Bond Indenture from and after the date upon which such Person joins the Obligated Group, but excluding any

Person which withdraws from the Obligated Group to the extent and in accordance with the provisions of the Master Indenture, from and after the date of such withdrawal.

*“Obligation No. 3” or “Master Indenture Obligation No. 3”* means the Master Indenture Obligation issued under the Master Indenture and Supplement No. 3.

*“Opinion of Counsel”* means a written opinion of counsel (who may be counsel for the Authority) selected by the Corporation and not objected to by the Authority or the Bond Trustee.

*“Optional Redemption Account”* means the account by that name in the Redemption Fund established pursuant to the Bond Indenture.

*“Outstanding,”* when used as of any particular time with reference to Bonds, means all Bonds theretofore, or thereupon being, authenticated and delivered by the Bond Trustee under the Bond Indenture except: (1) Bonds theretofore cancelled by the Bond Trustee or surrendered to the Bond Trustee for cancellation; (2) Bonds with respect to which all liability of the Authority shall have been discharged in accordance with the Bond Indenture; and (3) Bonds for the transfer or exchange of or in lieu of or in substitution for which other Bonds shall have been authenticated and delivered by the Bond Trustee pursuant to the Bond Indenture.

*“Person”* means an individual, corporation, firm, association, partnership, trust or other legal entity or group of entities, including a governmental entity or any agency or political subdivision thereof.

*“Principal Account”* means the account by that name established in the Revenue Fund pursuant to the Bond Indenture.

*“Principal Payment Date”* means, with respect to a Bond, the date on which principal on the Bonds is due and payable, whether by reason of at maturity or upon redemption from Mandatory Sinking Account Payments.

*“Prior Project”* means the acquisition, construction, improvement, renovation and equipping of the Facilities located in the City of Anaheim that were financed and refinanced with proceeds of the Series 2007A Bonds and the Series 2012 Bonds.

*“Program Participants”* means the Cities of Anaheim and Pasadena and the County of San Diego.

*“Project”* means the Prior Project and the New Project.

*“Project Fund”* means the fund so designated and established pursuant to the Bond Indenture.

*“Rating Agency”* means S&P, Moody’s, Fitch or any national rating agency then rating the Bonds.

*“Rating Category”* means one of the general rating categories of a Rating Agency without regard to any refinement or gradation of such rating category by numerical modifier or otherwise.

*“Rebate Fund”* means the fund by that name established pursuant to the Bond Indenture.

*“Record Date”* means the first (1st) day (whether or not a Business Day) of the month during which each Interest Payment Date falls.

*“Redemption Fund”* means the fund by that name established pursuant to the Bond Indenture.

*“Redemption Price”* means, with respect to any Bond (or portion thereof), the principal amount of such Bond (or portion) plus the applicable premium, if any, payable upon redemption thereof pursuant to the provisions of such Bond and the Bond Indenture.

*“Revenue Fund”* means the fund by that name established pursuant to the Bond Indenture.

*“Revenues”* means all amounts received by the Authority or the Bond Trustee for the account of the Authority pursuant or with respect to the Loan Agreement or Obligation No. 3, including, without limiting the generality of the foregoing, Loan Repayments (including both timely and delinquent payments, any late charges, and whether paid from any source), prepayments, insurance proceeds, condemnation proceeds, and all interest, profits or other income derived from the investment of amounts in any fund or account established pursuant to the Bond Indenture, but not including any Additional Payments or Administrative Fees and Expenses or any moneys required to be deposited to the Rebate Fund.

*“S&P”* means S&P Global Ratings, its successors and assigns, or, if such entity shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, any other nationally recognized securities rating agency designated by the Corporation by notice to the Authority and the Bond Trustee.

*“Securities Depository”* means The Depository Trust Company and its successors and assigns, or any other Securities Depository selected as set forth in the Bond Indenture which agrees to follow the procedures required to be followed by such Securities Depository in connection with the Bonds.

*“Serial Bonds”* means the Bonds falling due by their terms in specified years, for which no Mandatory Sinking Account Payments have been established.

*“Series 2007A Bonds”* means the California Statewide Communities Development Authority Revenue Bonds (Front Porch Communities and Services Project), Series 2007A, originally issued in the aggregate principal amount of \$73,000,000.

*“Series 2012 Bonds”* means the California Statewide Communities Development Authority Variable Rate Revenue Bonds (Front Porch Communities and Services Project), Series 2012, originally issued in the aggregate principal amount of \$35,000,000.

*“Sinking Account”* means each subaccount in the Principal Account so designated and established pursuant to the Bond Indenture.

*“Special Record Date”* means the date established by the Bond Trustee pursuant to the Bond Indenture as a record date for the payment of defaulted interest on the Bonds.

*“Special Redemption Account”* means the account by that name in the Redemption Fund established pursuant to the Bond Indenture.

*“State”* means the State of California.

*“Supplemental Bond Indenture”* means any indenture duly authorized and entered into between the Authority and the Bond Trustee, supplementing, modifying or amending the Bond Indenture; but only

if and to the extent that such Supplemental Bond Indenture is specifically authorized under the Bond Indenture.

*“Supplement No. 3”* means that certain Supplemental Master Trust Indenture for Master Indenture Obligation No. 3, dated as of September 1, 2017, between the Corporation and the Master Trustee, supplementing the Master Indenture, as the same may be amended or supplemented in accordance with its terms.

*“Tax Certificate”* means the Tax Certificate and Agreement delivered by the Authority and the Corporation at the time of issuance and delivery of the Bonds, as the same may be amended or supplemented in accordance with its terms.

*“Term Bonds”* means the Bonds payable at or before their specified maturity date or dates from Mandatory Sinking Account Payments established for the purpose and calculated to retire such Bonds on or before their specified maturity date or dates.

*“United States Government Obligations”* means noncallable direct obligations of the United States of America (including obligations issued or held in book-entry form on the books of the Department of the Treasury of the United States of America) and obligations of any agency or instrumentality of the United States of America the timely payment of the principal of and interest on of which are unconditionally guaranteed by the United States of America.

## **MASTER INDENTURE**

The Master Indenture authorizes the issuance of Master Indenture Obligations by the Obligated Group. A Master Indenture Obligation is stated in the Master Indenture to be a joint and several obligation of the Corporation and each other Obligated Group Member. The following are summaries of certain provisions of the Master Indenture. Other provisions are summarized in this Official Statement under the caption “SECURITY AND SOURCE OF PAYMENT FOR THE BONDS.” This summary does not purport to be complete or definitive and is qualified in its entirety by reference to the full terms of the Master Indenture.

### **Use of GAAP**

Where the character or amount of any asset or liability or item of income or expense is required to be determined or any consolidation, combination or other accounting computation is required to be made for the purposes of the Master Indenture or any agreement, document or certificate executed and delivered in connection with or pursuant to the Master Indenture, such determination or computation shall be done in accordance with GAAP in effect on, at the sole option of the Obligated Group Representative, (i) the date such determination or computation is made for any purpose of the Master Indenture or (ii) the date of execution and delivery of the Master Indenture if the Obligated Group Representative delivers an Officer’s Certificate to the Master Trustee describing why then current GAAP is inconsistent with the intent of the parties on the date of execution and delivery of the Master Indenture; provided that intercompany balances and liabilities among the Obligated Group Members shall be disregarded and that the requirements set forth in the Master Indenture shall prevail if inconsistent with GAAP. Anything to the contrary in the Master Indenture notwithstanding, any lease that would be properly classified as an “operating lease” under GAAP as of the date of the Master Indenture or the date the lease is entered into by the parties thereto, shall continue to be treated as an “operating lease” under GAAP in effect at such time for all purposes under the Master Indenture notwithstanding any change in treatment of such operating lease under GAAP.



## **Authorization of Master Indenture Obligations**

Each Obligated Group Member authorizes pursuant to the Master Indenture to be issued from time to time Master Indenture Obligations or Series of Master Indenture Obligations, without limitation as to amount, except as provided in the Master Indenture or as may be limited by law, and subject to the terms, conditions and limitations established in the Master Indenture and in any Related Supplement.

## **Issuance of Master Indenture Obligations**

From time to time when authorized by the Master Indenture and subject to the terms, limitations and conditions established in the Master Indenture or in a Related Supplement, the Obligated Group Representative may authorize the issuance of a Master Indenture Obligation or a Series of Master Indenture Obligations by entering into a Related Supplement. The Master Indenture Obligation or the Master Indenture Obligations of any such Series may be issued and delivered to the Master Trustee for authentication upon compliance with the provisions of the Master Indenture and of any Related Supplement.

## **Payment of Required Payments**

(a) Each Obligated Group Member jointly and severally covenants to promptly pay, or cause to be paid, all Required Payments at the place, on or before the dates and in the manner provided in the Master Indenture or in any Related Supplement or Master Indenture Obligation. Each Obligated Group Member acknowledges that the time of such payment and performance is of the essence of the Master Indenture Obligations under the Master Indenture. Each Obligated Group Member further covenants to faithfully observe and perform all of the conditions, covenants and requirements of the Master Indenture, any Related Supplement and any Master Indenture Obligation.

The obligation of each Obligated Group Member with respect to Required Payments shall not be abrogated, prejudiced or affected by:

(i) the granting of any extension, waiver or other concession given to any Obligated Group Member by the Master Trustee or any Holder or by any compromise, release, abandonment, variation, relinquishment or renewal of any of the rights of the Master Trustee or any Holder or anything done or omitted or neglected to be done by the Master Trustee or any Holder in exercise of the authority, power and discretion vested in them by the Master Indenture, or by any other dealing or thing which, but for this provision, might operate to abrogate, prejudice or affect such obligation; or

(ii) the liability of any other Obligated Group Member under the Master Indenture ceasing for any cause whatsoever, including the release of any other Obligated Group Member pursuant to the provisions of the Master Indenture or any Related Supplement; or

(iii) any Obligated Group Member's failing to become liable as, or losing eligibility to become, an Obligated Group Member with respect to a Master Indenture Obligation.

Subject to the provisions of the Master Indenture permitting withdrawal from the Obligated Group as described below under the caption "Withdrawal from Obligated Group," the obligation of each Obligated Group Member to make Required Payments is a continuing one and is to remain in effect until all Required Payments have been paid or deemed paid in full in accordance with the Master Indenture. All moneys from time to time received by the Obligated Group Representative or the

Master Trustee to reduce liability on Master Indenture Obligations, whether from or on account of the Obligated Group Members or otherwise, shall be regarded as payments in gross without any right on the part of any one or more of the Obligated Group Members to claim the benefit of any moneys so received until the whole of the amounts owing on Master Indenture Obligations has been paid or satisfied and so that in the event of any such Obligated Group Member's filing bankruptcy, the Obligated Group Representative or the Master Trustee shall be entitled to prove up the total indebtedness or other liability on Master Indenture Obligations Outstanding as to which the liability of such Obligated Group Member has become fixed.

Each Master Indenture Obligation shall be a primary obligation of the Obligated Group Members and shall not be treated as ancillary to or collateral with any other obligation and shall be independent of any other security so that the covenants and agreements of each Obligated Group Member under the Master Indenture shall be enforceable without first having recourse to any such security or source of payment and without first taking any steps or proceedings against any other Person. The Obligated Group Representative and the Master Trustee are each empowered to enforce each covenant and agreement of each Obligated Group Member under the Master Indenture and to enforce the making of Required Payments. Each Obligated Group Member thereby authorizes each of the Obligated Group Representative and the Master Trustee to enforce or refrain from enforcing any covenant or agreement of the Obligated Group Members under the Master Indenture and to make any arrangement or compromise with any Obligated Group Member or Obligated Group Members as the Obligated Group Representative or the Master Trustee may deem appropriate, consistent with the Master Indenture and any Related Supplement. Each Obligated Group Member waives pursuant to the Master Indenture in favor of the Obligated Group Representative and the Master Trustee all rights against the Obligated Group Representative, the Master Trustee and any other Obligated Group Member, insofar as is necessary to give effect to any of the provisions of this section.

#### **Covenants of Corporate Existence, Maintenance of Properties, Etc.**

Each Obligated Group Member agrees:

(a) Except as otherwise expressly provided in the Master Indenture, to preserve its corporate or other legal existence and all its rights and licenses to the extent necessary or desirable in the operation of its business and affairs and to be qualified to do business in each jurisdiction where its ownership of Property or the conduct of its business requires such qualification; provided, however, that nothing in the Master Indenture contained shall be construed to obligate it to retain or preserve any of its rights or licenses no longer used or, in the judgement of the Governing Body, useful in the conduct of its business or affairs.

(b) At all times to cause its Property, Plant and Equipment to be maintained, preserved and kept in good repair, working order and condition, reasonable wear and tear excepted, and all needed and proper repairs, renewals and replacements thereof to be made; provided, however, that nothing contained in this subsection shall be construed to (i) prevent it from ceasing to operate any immaterial portion of its Property, Plant and Equipment, (ii) prevent it from ceasing to operate any material portion of its Property, Plant and Equipment if in its judgment it is advisable not to operate the same, and within a reasonable time endeavors to effect disposition of such material portion of its Property, Plant and Equipment, or (iii) obligate it to retain, preserve, repair, renew or replace any Property, Plant and Equipment no longer used or useful in the conduct of its business.

(c) To procure and maintain all necessary licenses and permits necessary, in the judgment of its Governing Body, to the operation of its Property, Plant and Equipment; provided, however, that it need not comply with this subsection if and to the extent that its Governing Body shall

have determined in good faith, evidenced by a resolution of the Governing Body, that such compliance is not in its best interests and that lack of such compliance would not materially impair its ability to pay its Indebtedness when due.

(d) Not take any action, including any action which would result in the alteration or loss of its status as a Tax Exempt Organization, which, or fail to take any action which failure, in the Opinion of Bond Counsel, would result in the inclusion of interest on any Related Bond in gross income for purposes of federal income taxation. The foregoing notwithstanding, any Member of the Obligated Group that is a Tax-Exempt Organization may take actions which could result in the alteration or loss of its status as a Tax Exempt Organization if (i) prior thereto there is delivered to the Master Trustee an Opinion of Bond Counsel to the effect that such action would not adversely affect the validity of any Related Bond and would not, in and of itself, result in the inclusion of interest on any Related Bond in gross income for purposes of federal income taxation and (ii) prior thereto there is delivered to the Master Trustee an Opinion of Counsel to the effect that such action would not adversely affect the enforceability in accordance with its terms of the Master Indenture against any Member of the Obligated Group and either (A) an Opinion of Counsel for such Member of the Obligated Group to the effect that such actions would not subject any Related Bond or any Master Indenture Obligation to registration under the Securities Act of 1933, as amended, or any state securities law, or require the qualification of any Related Bond Indenture, loan document or the Master Indenture or any Supplement under the Trust Indenture Act of 1939, as amended, or any state securities law, or (B) an Opinion of Counsel that such Related Bond or Master Indenture Obligation has been so registered and such Related Bond Indenture, loan document or Master Indenture or Supplement has been so qualified.

### **Gross Revenues**

(a) Each Member covenants and agrees that, so long as any of the Master Indenture Obligations remain Outstanding, all of the Gross Revenues of the Obligated Group shall be deposited as soon as practicable upon receipt in a deposit account or securities account designated as the "Gross Revenue Fund" which the Members shall establish and maintain, subject to the provisions of subsection (b) of this Section, at such banking institution or securities intermediary as the Members shall from time to time designate in writing to the Master Trustee for such purpose (the "Depository Bank(s)") and which has entered into a deposit account control agreement (the "Account Control Agreement") with the Members and the Master Trustee. The Master Trustee acknowledges that one or more accounts can constitute the Gross Revenue Fund. As security for the performance by each of the Members of its obligations under the Master Indenture, each Member under the Master Indenture pledges and assigns to the Master Trustee, and grants to the Master Trustee a security interest in, all its right, title and interest, whether now owned or thereafter acquired, in and to the Gross Revenues and the Gross Revenue Fund and the proceeds thereof (collectively, the "Collateral"). Each of the Members shall cause to be filed Uniform Commercial Code financing statements, and shall execute and deliver such other documents (including, but not limited to, amendments to such Uniform Commercial Code financing statements) as may be necessary or reasonably requested by the Master Trustee in order to perfect or maintain the perfection of such security interest to the extent a security interest in the Gross Revenues and the Gross Revenue Fund can be perfected under the Uniform Commercial Code. Each Member under the Master Indenture irrevocably authorizes the Master Trustee to execute and file any continuation statements and amendments thereto as may be required to perfect or to continue the perfection of the security interest in the Collateral, including, without limitation, continuation statements that describe the collateral as being of an equal or lesser scope, or with greater or lesser detail, than as set forth in the definition of Collateral. Each Member represents and warrants that it is a nonprofit corporation organized solely under the laws of the State of California or other duly formed and organized entity under the laws of the state in which such entity was formed and organized and that its complete legal name is as set forth on the signature page of the Master Indenture or Related Supplement, as applicable, executed by such Member. Each Member

covenants that it will not change its name or its type or jurisdiction of organization unless (i) it gives thirty (30) days' notice of such change to the Master Trustee and (ii) before such change occurs it takes all actions as are necessary or advisable to maintain and continue the first priority perfected security interest of the Master Trustee in the Collateral.

(b) Gross Revenues and amounts in the Gross Revenue Fund may be used and withdrawn by any Member at any time for any lawful purpose, except as thereafter provided. In the event that any Member is delinquent for more than one business day in the payment of any required payment with respect to any Master Indenture Obligation issued pursuant to a Related Supplement, the Master Trustee, upon notice from any Member or actual knowledge of such delinquency, shall notify the Corporation and the Depository Bank(s) of such delinquency, and exclusive control over the Gross Revenue Fund shall be exercised by the Master Trustee and as provided in the Account Control Agreement. All Gross Revenues shall continue to be deposited in the Gross Revenue Fund as provided in subsection (a) of this Section 3.03 and the Master Trustee shall continue to exercise exclusive control over the Gross Revenue Fund until the amounts on deposit in said account are sufficient to pay in full (or have been used to pay in full) all required payments in default and until all other then-existing Events of Default known to the Master Trustee shall have been made good or cured to the satisfaction of the Master Trustee or provision deemed by the Master Trustee to be adequate shall have been made therefor, whereupon the Gross Revenue Fund (except for Gross Revenues required to make such payments or cure such defaults) shall be returned to the name and credit of the appropriate Member. During any period that the Gross Revenue Fund is subject to the exclusive control of the Master Trustee, the Master Trustee shall use and withdraw from time to time amounts in said fund, to make required payments as such payments become due (whether by maturity, prepayment, redemption, acceleration or otherwise), and, if such amounts shall not be sufficient to pay in full all such payments due on any date, then to the payment of required payments on Obligations, ratably, without any discrimination or preference, and to such other payments in the order which the Master Trustee, in its discretion, shall determine to be in the best interests of the Holders of the Master Indenture Obligations, without discrimination or preference. During any period that the Gross Revenue Fund is subject to the exclusive control of the Master Trustee, no Member shall be entitled to use or withdraw any of the Gross Revenues unless (and then only to the extent that) the Master Trustee in its sole discretion so directs for the payment of current or past due operating expenses of such Member; provided, however, that Members shall be entitled to withdraw amounts not constituting Gross Revenues from the Gross Revenue Fund and may submit requests to the Master Trustee as to which expenses to pay out of Gross Revenues and in which order. Each Member agrees to execute and deliver all instruments as may be required to implement this Section. Each Member further agrees that a failure to comply with the terms of this Section shall cause irreparable harm to the Master Trustee or the Holders from time to time of the Obligations, and shall entitle the Master Trustee, with or without notice to the Members, to take immediate action to compel the specific performance of the obligations of each of the Members as provided in this Section.

(c) Upon receipt of Gross Revenues, each Member covenants and agrees: (i) to deposit all Gross Revenues in the Gross Revenue Fund and not in any other fund or account (other than accounts that are subject to instructions requiring that all moneys therein shall on each Business Day be swept into the Gross Revenue Fund); (ii) that the Gross Revenue Fund shall at all times be subject to an Account Control Agreement with the Depository Bank; and (iii) that the Gross Revenue Fund will not be moved from the Depository Bank without the prior written consent of the Master Trustee, which consent shall not be unreasonably withheld.

### **Against Encumbrances**

(a) Each Obligated Group Member agrees that it will not create or suffer to be created or permit the existence of any Lien upon Property now owned or thereafter acquired by it other

than Permitted Liens. Each Obligated Group Member, respectively, further covenants and agrees that if such a Lien (other than a Permitted Lien) is nonetheless created by someone other than an Obligated Group Member and is assumed by any Obligated Group Member, the Obligated Group Representative will make or cause to be made effective a provision whereby all Master Indenture Obligations will be secured prior to any such Indebtedness or other obligation secured by such Lien.

(b) Upon written request of the Obligated Group Representative, the Master Trustee shall execute and deliver such releases, subordinations, requests for reconveyance, termination statements or other instruments as may be reasonably requested by the Obligated Group Representative in connection with (1) the disposition of Property in accordance with the provisions of the Master Indenture as described below under the caption “Limitation on Disposition of Assets” and the applicable provisions of any Related Supplement, (2) the withdrawal of a Member pursuant to the Master Indenture as described below under the caption “Withdrawal from Obligated Group” and the applicable provisions of any Related Supplement and (3) the granting by an Obligated Group Member of any Lien which constitutes a Permitted Lien under the Master Indenture, as certified to the Master Trustee in writing by the Obligated Group Representative.

### **Debt Service Coverage**

(a) Each Obligated Group Member agrees to manage its business such that the Annual Debt Service Coverage Ratio for each Fiscal Year, commencing April 1, 2018, will not be less than 1.20:1.0, as set forth in the Officer’s Certificate delivered pursuant to the Master Indenture provisions described under (b)(iii)(A) under “Master Indenture - Filing of Financial Statements, Certificate of No Default, Other Information” in this Appendix C, except as specifically provided in the provisions of the Master Indenture relating to debt service coverage.

(b) If for any Fiscal Year the Annual Debt Service Coverage Ratio as set forth in the Officer’s Certificate delivered pursuant to the Master Indenture described under (c) under “Filing of Financial Statement, Certificate of No Default, Other Information” in this Appendix C is less than 1.20 to 1.0, the Obligated Group Representative covenants to promptly retain an Independent Consultant to make recommendations to increase Income Available for Debt Service in the following Fiscal Year to the level required or, if in the opinion of the Independent Consultant the attainment of such level is impracticable, to the highest level attainable. The Obligated Group Representative agrees to transmit a copy thereof to the Master Trustee within twenty (20) days of the receipt of such recommendations. Each Obligated Group Member shall, promptly upon its receipt of such recommendations, subject to applicable requirements or restrictions imposed by law and to a good faith determination by the Governing Body of the Obligated Group Representative that such recommendations are in the best interest of the Obligated Group, take such action as shall be in substantial conformity with such recommendations.

(c) If the Obligated Group substantially complies with the recommendations of the Independent Consultant, the Obligated Group will be deemed to have complied with the covenants set forth in the Master Indenture for such Fiscal Year, notwithstanding that the Annual Debt Service Coverage Ratio Service is less than 1.20:1.0; except as provided in subsection (f) below.

(d) If a report of an Independent Consultant is delivered to the Master Trustee, which report shall state that Government Restrictions or Industry Restrictions have been imposed which make it impossible for the Annual Debt Service Coverage Ratio to be at least 1.20 to 1.0, then the required amount of Income Available for Debt Service shall be reduced to the maximum coverage permitted by such Government Restrictions or Industry Restrictions; except as provided in subsection (f) below.

(e) Notwithstanding the foregoing, an Obligated Group Member may permit the rendering of services or the use of its Property without charge or at reduced charges, at the discretion of the Governing Body of such Obligated Group Member, to the extent necessary for maintaining its tax-exempt status or the tax-exempt status of its Property, Plant and Equipment or its eligibility for grants, loans, subsidies or payments from governmental entities, or in compliance with any recommendation for free services that may be made by an Independent Consultant; except as provided in subsection (f) below.

(f) An Event of Default shall exist if the Annual Debt Service Coverage Ratio for any Fiscal Year shall be less than 1.0:1.0. Notwithstanding the foregoing, the Obligated Group Members shall not be excused from taking any action or performing any duty required under the Master Indenture and no other Event of Default shall be waived by the operation of the provisions of this subsection (f).

### **Merger, Consolidation, Sale or Conveyance**

Each Obligated Group Member covenants that it will not merge or consolidate with any other Person that is not an Obligated Group Member or sell or convey all or substantially all of its assets to any Person that is not an Obligated Group Member (a “Merger Transaction”) unless:

- (a) After giving effect to the Merger Transaction,
  - (i) the successor or surviving entity (thereinafter, the “Surviving Entity”) is an Obligated Group Member, or
  - (ii) the Surviving Entity shall
    - (A) be a corporation or other entity organized and existing under the laws of the United States of America or any state thereof, and
    - (B) become an Obligated Group Member pursuant to the Master Indenture and, pursuant to the Related Supplement required by the Master Indenture as described below under the caption “Membership in Obligated Group,” shall expressly assume in writing the due and punctual payment of all Required Payments of the disappearing Obligated Group Member thereunder;
- (b) The Master Trustee receives an Officer’s Certificate to the effect that the Transaction Test is satisfied in connection with the Merger Transaction;
- (c) So long as any Related Bonds that are tax-exempt obligations are Outstanding, the Master Trustee receives an Opinion of Bond Counsel to the effect that, under then existing law, the consummation of the Merger Transaction would not, in and of itself, result in the inclusion of interest on such Related Bonds in gross income for purposes of federal income taxation;
- (d) The Master Trustee receives an Opinion of Counsel to the effect that (i) all conditions as described under this caption “Merger, Consolidation, Sale or Conveyance” relating to the Merger Transaction have been complied with and the Master Trustee is authorized to join in the execution of any instrument required to be executed and delivered; (ii) the Surviving Entity meets the conditions set forth in the Master Indenture as described in this section and all Master Indenture Obligations then Outstanding; (iii) the Merger Transaction will not adversely affect the validity of any Master Indenture Obligations then Outstanding and such Master Indenture Obligations then Outstanding are enforceable against the Surviving Entity in accordance with their respective terms; and (iv) the Merger Transaction will not cause the Master Indenture or any Master Indenture Obligations to be subject to registration

under federal or state securities laws or the Trust Indenture Act of 1939, as amended (or, that any such registration, if required, has occurred); and

(e) The Surviving Entity shall be substituted for its predecessor in interest in all Master Indenture Obligations and agreements then in effect which affect or relate to any Master Indenture Obligation, and the Surviving Entity shall execute and deliver to the Master Trustee appropriate documents in order to effect the substitution.

From and after the effective date of such substitution (as set forth in the above-mentioned documents), the Surviving Entity shall be treated as an Obligated Group Member and shall thereafter have the right to participate in transactions thereunder relating to Master Indenture Obligations to the same extent as the other Obligated Group Members. All Master Indenture Obligations issued under the Master Indenture on behalf of a Surviving Entity shall have the same legal rank and benefit under the Master Indenture as Master Indenture Obligations issued on behalf of any other Obligated Group Member.

### **Membership in Obligated Group**

Additional Obligated Group Members may be added to the Obligated Group from time to time, provided that prior to such addition the Master Trustee receives:

(a) a copy of a resolution of the Governing Body of the proposed new Obligated Group Member which authorizes the execution and delivery of a Related Supplement and compliance with the terms of the Master Indenture and take any actions on its behalf that are specified in the Master Indenture; and

(b) a Related Supplement executed by the Obligated Group Representative, the new Obligated Group Member and the Master Trustee pursuant to which the proposed new Obligated Group Member:

(i) agrees to become an Obligated Group Member, and

(ii) agrees to be bound by the terms of the Master Indenture, the Related Supplements and the Master Indenture Obligations, and

(iii) pursuant to the Master Indenture, irrevocably appoints the Obligated Group Representative as its agent and attorney-in-fact and grants to the Obligated Group Representative the full power and authority to execute (a) Related Supplements authorizing the issuance of Master Indenture Obligations or Series of Master Indenture Obligations, (b) Master Indenture Obligations and (c) all Certificates, Statements, Requests, Consents or Orders, and

(c) an Opinion of Counsel to the effect that (i) the proposed new Obligated Group Member has taken all necessary action to become an Obligated Group Member, and upon execution of the Related Supplement, such proposed new Obligated Group Member will be bound by the terms of the Master Indenture, (ii) the addition of such Obligated Group Member would not adversely affect the validity of any Master Indenture Obligation then Outstanding and (iii) the addition of such Obligated Group Member will not cause the Master Indenture or any Master Indenture Obligations to be subject to registration under federal or state securities laws or the Trust Indenture Act of 1939, as amended (or, that any such registration, if required, has occurred); and

(d) an Officer's Certificate to the effect that immediately after the addition of the proposed new Obligated Group Member, the Transaction Test would be satisfied; and

(e) so long as any Related Bonds that are tax-exempt obligations are Outstanding, an Opinion of Bond Counsel to the effect that the addition of the proposed new Obligated Group Member will not, in and of itself, result in the inclusion of interest on any Related Bonds in gross income for purposes of federal income taxation.

### **Withdrawal from Obligated Group**

Any Obligated Group Member may withdraw from the Obligated Group and be released from further liability or obligation under the provisions of the Master Indenture, provided that prior to such withdrawal the Master Trustee receives:

(a) an Officer's Certificate to the effect that the Obligated Group Representative has approved the withdrawal of such Obligated Group Member;

(b) an Officer's Certificate to the effect that immediately after the withdrawal of such Obligated Group Member, the Transaction Test would be satisfied; and

(c) an Opinion of Counsel to the effect that (i) the withdrawal of such Obligated Group Member would not adversely affect the validity of any Master Indenture Obligation then Outstanding and (ii) the withdrawal of such Obligated Group Member will not cause the Master Indenture or any Master Indenture Obligations to be subject to registration under federal or state securities laws or the Trust Indenture Act of 1939, as amended (or, that any such registration, if required, has occurred).

Upon compliance with the conditions contained in the Master Indenture described in this section, the Master Trustee shall execute any documents reasonably requested by the withdrawing Obligated Group Member to evidence the termination of such Obligated Group Member's obligations thereunder, under all Related Supplements and under all Master Indenture Obligations.

### **Limitation on Disposition of Assets**

(a) Each Obligated Group Member covenants that it will not sell, lease or otherwise dispose of any part of its Property in any Fiscal Year (other than (A) in the ordinary course of business, or (B) as part of a disposition of all or substantially all of its assets as permitted by the provisions of the Master Indenture relating to merger, consolidating, sale or conveyance) to any Person who is not a Member of the Obligated Group, unless:

(i) prior to said disposition there shall have been delivered to the Master Trustee an Officer's Certificate to the effect that such Property is, or within the next succeeding 24 calendar months is reasonably expected to become, inadequate, obsolete, unsuitable, unprofitable, undesirable or unnecessary for the operation and functioning of the primary business of the Obligated Group Members; or

(ii) prior to said disposition there shall have been delivered to the Master Trustee an Officer's Certificate to the effect that the disposition is for Fair Market Value and such disposition will not impair the structural soundness of the remaining Property and does not materially adversely affect the operations of the Obligated Group; or

(iii) prior to said disposition there shall have been delivered to the Master Trustee an Officer's Certificate to the effect that such Property is being transferred to a Person who is not an Obligated Group Member if such Person shall become a Member pursuant to the Master Indenture coincidental to such transfer; or



(iv) prior to said disposition there shall have been delivered to the Master Trustee an Officer's Certificate to the effect that such Property is being transferred to a Governmental Issuer solely to accommodate a sale or lease transaction as described in the definition of "Related Bonds;" or

(v) prior to said disposition there shall have been delivered to the Master Trustee an Officer's Certificate to the effect that such Property was received by such Obligated Group Member as a gift, grant, bequest or donation and is restricted as to use for a particular purpose inconsistent with its use for the payment of principal of, redemption premium and interest on Indebtedness and such Person has as one of its corporate purposes the receipt of gifts, grants, bequests and donations and the application of such Property in accordance with such restrictions; or

(vi) prior to said disposition there shall have been delivered to the Master Trustee an Officer's Certificate to the effect that the Transaction Test is satisfied; or

(vii) dispositions of Property, Plant and Equipment that is being exchanged for credit against the purchase price of replacement Property, Plant and Equipment or the proceeds of which disposition are applied to the purchase price of such replacement Property, Plant and Equipment within 120 days of such disposition; provided such exchange must be for Fair Market Value of such Property, Plant and Equipment; or

(viii) dispositions of accounts receivable arising in the ordinary course of business, but only in connection with the compromise or collection thereof, so long as the accounts receivable to be so disposed are aged at least 120-days past due at the time of the applicable disposition; or

(ix) dispositions of Property, Plant and Equipment (x) acquired by any Obligated Group Member pursuant to an acquisition of assets or (y) of any new Obligated Group Member whose equity interests were acquired by an Obligated Group Member which assets were owned by such new Obligated Group Member at the time it was acquired, in each case under the preceding clauses (x) and (y) which disposition occurs within 12 months after the date of the applicable acquisition, so long as the assets to be so disposed are readily identifiable as assets acquired pursuant to or owned as of the time of the subject acquisition (for purposes of this clause (ix), a transaction in which an Obligated Group Member becomes the sole member of a nonprofit corporation or limited liability company shall be deemed to be an acquisition of the equity interests of such nonprofit corporation or limited liability company); or

(x) any other sale, lease or other disposition of assets within any 12-month period having a Book Value of no more than five percent (5%) of the Value of the Property of the Obligated Group, so long as there shall have been delivered to the Master Trustee at or prior to the consummation of such transaction an Officer's Certificate certifying same.

(b) Notwithstanding the foregoing, nothing shall prohibit any disposition of assets among Obligated Group Members nor shall prohibit the Obligated Group Members from making loans, including, without limitation, employee relocation loans, physician recruitment loans or other credit/funding extensions, provided that such loans or other credit/funding extensions are in writing and the Master Trustee receives an Officer's Certificate to the effect that (x) such loans are in furtherance of the exempt purposes of the Obligated Group Members, (y) the Obligated Group Members reasonably expect such loans to be repaid, and (z) such loans bear interest at a reasonable rate of interest and on commercially reasonable terms.

## Limitation on Indebtedness

Each Obligated Group Member covenants that it will not incur any Indebtedness except that the Obligated Group Members may incur the following Indebtedness:

(a) Long-Term Indebtedness, if prior to the date of incurrence of the Long-Term Indebtedness there is delivered to the Master Trustee an Officer's Certificate to the effect that:

(i) the Debt Service Coverage Ratio for the most recent Fiscal Year for which financial statements are available with respect to all Long-Term Indebtedness then Outstanding at the time of such certification and the additional Long-Term Indebtedness to be incurred, but excluding any Long-Term Indebtedness to be refunded with the proceeds of said additional Long-Term Indebtedness to be incurred, was not less than 1.20:1.0; or

(ii) (A) the Debt Service Coverage Ratio for the most recent Fiscal Year (excluding the additional Long-Term Indebtedness to be incurred) was not less than 1.20:1.0 and (B) the Debt Service Coverage Ratio for each of the two Fiscal Years beginning with the Fiscal Year commencing after the estimated completion of the facilities to be financed by the Indebtedness to be incurred with respect to all Long-Term Indebtedness projected to be outstanding (including the additional Long-Term Indebtedness to be incurred but excluding any Long-Term Indebtedness to be refunded with the proceeds of said additional Long-Term Indebtedness to be incurred), is projected to be not less than 1.20:1.0. Notwithstanding the foregoing, if the Master Trustee receives a report of an Independent Consultant to the effect that Government Restrictions or Industry Restrictions prevent the Credit Group Members from generating the required levels of Income Available for Debt Service sufficient to result in a Debt Service Coverage Ratio of not less than 1.20:1.0, the 1.20:1.0 ratio requirement described in this subsection (a)(ii) shall be reduced to a ratio of not less than 1.0:1.0; or

(iii) the forecasted Debt Service Coverage Ratio, taking into account all Outstanding Long-Term Indebtedness and the Long-Term Indebtedness proposed to be incurred, for the two complete Fiscal Years succeeding the date on which the proposed Long-Term Indebtedness is to be incurred, is not less than 1.20:1.0, as shown by forecasted statements of revenues and expenses for each such Fiscal Year, accompanied by a statement of the relevant assumptions upon which such forecasted statements are based.

(b) Completion Indebtedness without limitation provided that an Officer's Certificate is delivered to the Master Trustee stating that the Obligated Group Representative reasonably expected the aggregate principal amount of Long-Term or Interim Indebtedness originally issued to finance the construction or equipping of the project for which such Completion Indebtedness is being incurred, together with other funds reasonably anticipated to be available for such purposes, to be fully sufficient to provide a completed and fully equipped facility of the type and scope contemplated at the time said Long-Term Indebtedness or Interim Indebtedness was originally incurred, and in accordance with the general plans and specifications for such facility as originally prepared and approved in connection with the related financing, modified or amended only in conformance with the provisions of the documents pursuant to which the related financing was undertaken.

(c) Short-term Indebtedness provided that the provisions described in subsection (a) above are satisfied calculated as if such Short-term Indebtedness was Long-Term Indebtedness or an Officer's Certificate is delivered to the Master Trustee stating that:

(i) the total amount of such Short-term Indebtedness shall not exceed twenty percent (20%) of Total Operating Revenues; and

(ii) In every Fiscal Year, there shall be at least a consecutive thirty (30) day period when the balances of such Short-term Indebtedness (excluding Short-Term Indebtedness consisting of commercial paper which is intended to be refinanced with additional commercial paper) is reduced to an amount which shall not exceed five percent (5%) of Total Operating Revenues.

(d) Nonrecourse Indebtedness without limitation.

(e) Long-Term Indebtedness, if such Long-Term Indebtedness is issued or incurred to refund Long-Term Indebtedness and the Master Trustee receive an Officer's Certificate to the effect that the issuance of such Long-Term Indebtedness would not increase Maximum Annual Debt Service by more than ten percent (10%).

(f) Subordinated Indebtedness, without limitation.

(g) Any other Indebtedness, provided that an Officer's Certificate is delivered to the Master Trustee stating that the aggregate principal amount of such Indebtedness, together with the aggregate principal amount of Indebtedness incurred pursuant to the provisions described above in subsection (c) does not, as of the date of incurrence, exceed fifteen (15%) of Total Operating Revenues.

(h) Reimbursement or other repayment obligations under reimbursement agreements or similar agreements relating to credit facilities and/or liquidity facilities which provide credit support and/or liquidity for Indebtedness or Financial Products Agreements.

(i) Indebtedness which is incurred to construct, renovate or replace Property, Plant and Equipment of the Obligated Group if federal or state agencies, authorities, officials or similar governmental bodies with jurisdiction over any Obligated Group Members specifically mandates such construction, renovation or replacement as a condition to such Obligated Group Member being able to continue or carry on such of its activities as are subject to the jurisdiction of such federal or state agency, authority, official or similar governmental body.

(j) Indebtedness consisting of (i) Guarantees incurred in the ordinary course of business with respect to surety and appeal bonds, performance bonds, bid bonds, appeal bonds, completion guarantee and similar obligations and; (ii) Guarantees arising with respect to customary indemnification obligations to purchasers in connection with dispositions of Property.

(k) Indebtedness in respect of bid, performance or surety bonds, workers' compensation claims, self-insurance obligations and bankers acceptances issued for the account of an Obligated Group Member in the ordinary course of business, including Guarantees or obligations of an Obligated Group Member with respect to letters of credit supporting such bid, performance or surety bonds, workers' compensation claims, self-insurance obligations and bankers acceptances (in each case other than for an obligation for money borrowed).

(l) Indebtedness owed to any Person providing property, casualty, liability, or other insurance to the Obligated Group Members, so long as the amount of such Indebtedness is not in excess of the amount of the unpaid cost of, and shall be incurred only to defer the cost of, such insurance for the year in which such Indebtedness is incurred and such Indebtedness is outstanding only during such year.

(m) Indebtedness incurred in the ordinary course of business in respect of credit cards, credit card processing services, debit cards, stored value cards, commercial cards (including so-called "purchase cards," "procurement cards" or "p-cards"), or cash management services.

(n) unsecured Indebtedness (subject to customary rights of setoff) incurred in respect of netting services, overdraft protection, and other like services, in each case, incurred in the ordinary course of business.

(o) accrual of interest, accretion or amortization of original issue discount, or the payment of interest in kind, in each case, on Indebtedness that is otherwise permitted under the Master Indenture.

(p) assumed Indebtedness secured by a Lien of the type permitted under clause (k) of the definition of Permitted Liens, so long as the amount of such Indebtedness does not exceed the Fair Market Value of the Property subject to such Lien.

### **Filing of Financial Statements, Certificate of No Default, Other Information**

(a) Each Member covenants and agrees that it will keep adequate records and books of accounts in which complete and correct entries shall be made (said books shall be subject to the inspection of the Master Trustee during regular business hours after reasonable notice and under reasonable circumstances, provided the Master Trustee shall have no duty to so inspect).

(b) The Obligated Group Representative covenants and agrees that it will furnish to the Master Trustee and any Related Bond Issuer that shall request the same in writing:

(i) As soon as practicable, but in no event more than 150 days after the last day of each Fiscal Year beginning with the Fiscal Year ending March 31, 2018, consolidated or combined financial results including one or more Obligated Group Members and one or more other Persons required to be consolidated or combined with such Obligated Group Member(s) under GAAP;

(ii) If a single financial statement is delivered that includes Persons other than Obligated Group Members, the financial statement shall contain, as “other financial information,” a combining or consolidating schedule from which financial information solely relating to the Obligated Group Members.

(c) At the time of the delivery of the financial statements, an Officer’s Certificate (A) setting forth the calculations based upon the financial statements for such Fiscal Year of the Annual Debt Service Coverage Ratio for such Fiscal Year and (B) stating that no event which constitutes an Event of Default has occurred and is continuing as of the end of such Fiscal Year, or specifying the nature of such event and the actions taken and proposed to be taken by the Members to cure such Event of Default.

### **Insurance**

(a) Each Obligated Group Member, respectively, agrees that it will maintain insurance, which may include one or more self-insurance programs, covering such risks and in such amounts as, in its judgment, are adequate to protect it and its properties and operations and as are, with respect to health care activities and properties, customary for health care providers of similar size and character. Such insurance policies may include fire insurance, insurance coverage of boilers and other selected machinery items, general liability insurance and property damage coverage, comprehensive automobile liability insurance, worker's compensation coverage as required by the laws of the state in which such Obligated Group Member does business, use and occupancy insurance covering loss of operating revenues by reason of the total or partial interruption of health care services provided by any Obligated Group Member, professional liability insurance protecting each Obligated Group Member against claims arising

from any act or omission in the furnishing of health care services to any patient, and fidelity bonds on officers and employees of any Obligated Group Member who may have access to or custody of the revenues of the Obligated Group.

(b) The Obligated Group Representative shall employ an insurance Independent Consultant to review the insurance requirements of the Obligated Group Members from time to time (but not less frequently than once every 24 months). If the insurance Independent Consultant makes recommendations for the change in any of the insurance coverage maintained by any Obligated Group Member, such Obligated Group Member shall change such coverage in accordance with such recommendations, subject to a good faith determination of the Governing Body of such Obligated Group Member that such recommendations, in whole or in part, are in the best interests of such Obligated Group Member.

(c) In lieu of maintaining the insurance coverage stated above, the Obligated Group Members shall have the right to adopt alternative risk management programs which the Governing Body of each such Obligated Group Member determines to be reasonable and in the best interests of such Member, including, without limitation, to self-insure in whole or in part, individually or in connection with other institutions or organizations, to participate in programs of captive insurance companies and/or to create and operate such captive insurance companies, to participate with other health care institutions in mutual or other cooperative insurance or other risk management programs, to participate in state or federal laws now or thereafter in existence limiting medical malpractice liability, or to establish or participate in other alternative risk management programs; all as may be approved, in writing, as reasonable and appropriate risk management by the insurance Independent Consultant and reviewed each year thereafter.

#### **Insurance and Condemnation Proceeds.**

(a) Any Obligated Group Member may make agreements and covenants with the holder of secured Indebtedness outstanding on the date thereof or which is incurred in compliance with the provisions of the Master Indenture and which is secured by a Permitted Lien with respect to the application or use to be made of insurance proceeds or condemnation awards which may be received in connection with Property which is subject to such Permitted Lien.

(b) Except as required by any agreement described in section (a) above, amounts received by any Obligated Group Member as insurance proceeds with respect to any casualty loss or as condemnation awards may be used in such manner as it may determine, including, without limitation, applying such moneys to pay or prepay any Indebtedness in accordance with the terms thereof and of any Supplemental Master Indenture, subject to compliance with the provisions of the Master Indenture and of the Supplemental Master Indenture; provided, however, that if the amount of such proceeds or awards received with respect to any casualty loss or condemnation exceeds ten percent (10%) of the Book Value of the Property, Plant and Equipment, the Obligated Group agrees that such proceeds must be applied to the repair or replacement of the lost or damaged Property in connection with which the proceeds or awards are received or to the payment or prepayment of any Obligations in accordance with the terms of the Master Indenture or of any Supplemental Master Indenture unless the Corporation shall deliver to the Master Trustee:

(1)(A) An Officer's Certificate certifying the expected Debt Service Coverage Ratio for each of the two Fiscal Years following the date on which such proceeds or awards are expected to have been fully applied is not less than 1.50, as shown by pro forma financial statements for each such period, accompanied by a statement of the relevant assumptions including assumptions as to the use of such proceeds or awards, upon which such pro forma statements are based, along with

the Officer's Certificate, and (B) a written report of an Independent Consultant confirming such certification; or

(2) A written report of an Independent Consultant stating the Independent Consultant's recommendations, including recommendations as to the use of such proceeds or awards, to cause the Debt Service Coverage Ratio for each of the periods described in paragraph (1)(A) above to be not less than 1.20, or, if in the opinion of the Independent Consultant the attainment of such level is impracticable, to the highest practicable level.

Notwithstanding the foregoing, the 1.20 requirements contained in subsection (b)(2) shall be reduced to 1.00 if the Master Trustee receives an Officer's Certificate to the effect that Government Restrictions or Industry Restrictions prevent the Obligated Group from meeting the requirements of subsection (b)(2).

### **Events of Default**

Each of the following events shall be an Event of Default under the Master Indenture:

(a) Failure on the part of the Obligated Group Members to make due and punctual payment of the principal of, redemption premium, if any, interest on or any other Required Payment on any Master Indenture Obligation.

(b) The occurrence of an Event of Default as described in the provisions of the Master Indenture summarized in (f) under "Master Indenture – Debt Service Coverage".

(c) Any Obligated Group Member shall fail to observe or perform any other covenant or agreement under the Master Indenture (including covenants or agreements contained in any Related Supplement or Master Indenture Obligation) and shall not have cured such failure within sixty (60) days after the date on which written notice of such failure, requiring the failure to be remedied, shall have been given to the Obligated Group Representative by the Master Trustee or to the Obligated Group Representative and the Master Trustee by the Holders of twenty-five percent (25%) in aggregate principal amount of Outstanding Master Indenture Obligations (provided that if such failure can be remedied but not within such sixty (60) day period, such failure shall not become an Event of Default for so long as the Obligated Group Representative shall diligently proceed to remedy the failure).

(d) Any Obligated Group Member shall default in the payment of Indebtedness (other than Nonrecourse Indebtedness) in an aggregate outstanding principal amount equal to the greater of one percent (1%) of the aggregate principal amount of Total Operating Revenues of the Obligated Group, and any grace period for such payment shall have expired; provided, however, that such default shall not constitute an Event of Default within the meaning of this section if, within sixty (60) days or within the time allowed for service of a responsive pleading if any proceeding to enforce payment of the Indebtedness is commenced, (1) any Obligated Group Member in good faith commences proceedings to contest the existence or payment of such Indebtedness, and (2) sufficient moneys are deposited in escrow with a bank or trust company or a bond acceptable to the Master Trustee is posted for the payment of such Indebtedness.

(e) A court having jurisdiction shall enter a decree or order for relief in respect of any Obligated Group Member in an involuntary case under any applicable federal or state bankruptcy, insolvency or other similar law, or appointing a receiver, liquidator, assignee, custodian, trustee, sequestrator (or similar official) of any Obligated Group Member or for any substantial part of the

Property of any Obligated Group Member, or ordering the winding up or liquidation of its affairs, and such decree or order shall remain unstayed and in effect for a period of sixty (60) consecutive days.

(f) Any Obligated Group Member shall commence a voluntary case under any applicable federal or state bankruptcy, insolvency or other similar law, or shall consent to the entry of an order for relief in an involuntary case under any such law, or shall consent to the appointment of or taking possession by a receiver, liquidator, assignee, trustee, custodian, sequestrator (or similar official) of any Obligated Group Member or for any substantial part of its Property, or shall make any general assignment for the benefit of creditors, or shall fail generally to pay its debts as they become due or shall take any corporate action in furtherance of the foregoing.

(g) An event of default shall exist under any Related Bond Indenture.

The Obligated Group Representative agrees that, as soon as practicable, and in any event within ten (10) days after such event, the Obligated Group Representative shall notify the Master Trustee of any event which is an Event of Default under the Master Indenture which has occurred and is continuing, which notice shall state the nature of such event and the action which the Obligated Group Members propose to take with respect thereto.

#### **Acceleration; Annulment of Acceleration**

(a) Upon the occurrence and during the continuation of an Event of Default, the Master Trustee may, and upon the written request of the Holders of not less than a majority in aggregate principal amount of Outstanding Master Indenture Obligations shall, by notice to the Obligated Group Representative, declare all Outstanding Master Indenture Obligations immediately due and payable. Upon such declaration of acceleration, all Outstanding Master Indenture Obligations shall be immediately due and payable. If the terms of any Related Supplement give a Person the right to consent to acceleration of the Master Indenture Obligations issued pursuant to such Related Supplement, the Master Indenture Obligations issued pursuant to such Related Supplement may not be accelerated by the Master Trustee unless such consent is properly obtained pursuant to the terms of such Related Supplement. In the event of acceleration, an amount equal to the aggregate principal amount of all Outstanding Master Indenture Obligations, plus all interest accrued thereon and, to the extent permitted by applicable law, which accrues on such principal and interest to the date of payment, and all other amounts due thereunder, shall be due and payable on the Master Indenture Obligations.

(b) At any time after the Master Indenture Obligations have been declared to be due and payable, and before the entry of a final judgment or decree in any proceeding instituted with respect to the Event of Default that resulted in the declaration of acceleration, the Master Trustee may annul such declaration and its consequences if:

(i) the Obligated Group Members have paid (or caused to be paid or deposited with the Master Trustee moneys sufficient to pay) all payments then due on all Outstanding Master Indenture Obligations (other than payments then due only because of such declaration); and

(ii) the Obligated Group Members have paid (or caused to be paid or deposited with the Master Trustee moneys sufficient to pay) all fees and expenses of the Master Trustee then due; and

(iii) the Obligated Group Members have paid (or caused to be paid or deposited with the Master Trustee moneys sufficient to pay) all other amounts then payable by the Obligated Group under the Master Indenture; and

(iv) every Event of Default (other than a default in the payment of the principal or other payments of such Master Indenture Obligations then due only because of such declaration) has been remedied.

No such annulment shall extend to or affect any subsequent Event of Default or impair any right with respect to any subsequent Event of Default.

#### **Additional Remedies and Enforcement of Remedies**

(a) Upon the occurrence and continuance of any Event of Default, the Master Trustee may, and upon the written request of the Holders of not less than a majority in aggregate principal amount of the Outstanding Master Indenture Obligations (and upon indemnification of the Master Trustee to its satisfaction by the Obligated Group for any such request), shall, proceed to protect and enforce its rights and the rights of the Holders under the Master Indenture by such proceedings as may be deemed expedient, including but not limited to:

(i) Enforcement of the right of the Holders to collect amounts due or becoming due under the Master Indenture Obligations;

(ii) Civil action upon all or any part of the Master Indenture Obligations;

(iii) Civil action to require any Person holding moneys, documents or other property pledged to secure payment of amounts due or to become due on the Master Indenture Obligations to account as if it were the trustee of an express trust for the Holders of Master Indenture Obligations;

(iv) Civil action to enjoin any acts which may be unlawful or in violation of the rights of the Holders of Master Indenture Obligations;

(v) Civil action to obtain a writ of mandate against any Obligated Group Member, or against any officer or member of the Governing Body of any Obligated Group Member to compel performance of any act specifically required by the Master Indenture or any Master Indenture Obligation; and

(vi) Enforcement of any other right or remedy of the Holders conferred by law or by the Master Indenture.

(b) Regardless of the occurrence of an Event of Default, if requested in writing by the Holders of not less than a majority in aggregate principal amount of the Outstanding Master Indenture Obligations (and upon indemnification of the Master Trustee to its satisfaction for such request), the Master Trustee shall institute and maintain such proceedings as it may be advised shall be necessary or expedient (1) to prevent any impairment of the security under the Master Indenture by any acts which may be unlawful or in violation of the Master Indenture, or (2) to preserve or protect the interests of the Holders. However, the Master Trustee shall not comply with any such request or institute and maintain any such proceeding that is in conflict with any applicable law or the provisions of the Master Indenture or (in the sole judgment of the Master Trustee) is unduly prejudicial to the interests of the Holders not making such request. Nothing in the Master Indenture shall be deemed to authorize the Master Trustee to authorize or consent to or accept or adopt on behalf of any Holder any plan of reorganization, arrangement, adjustment, or composition affecting the Master Indenture Obligations or the rights of any Holder thereof, or to authorize the Master Trustee to vote in respect of the claim of any Holder in any such proceeding without the approval of the Holders so affected.



## **Application of Moneys After Default**

During the continuance of an Event of Default, all moneys received by the Master Trustee pursuant to any right given or action taken under the default provisions of the Master Indenture and any other funds then held or thereafter received by the Master Trustee (after payment of the costs of the proceedings resulting in the collection of such moneys and payment of all fees, expenses and other amounts owed to the Master Trustee) shall be applied as follows:

(a) Unless all Outstanding Master Indenture Obligations have become or have been declared due and payable (or if any such declaration is annulled in accordance with the terms of the Master Indenture relating to default):

First: To the payment of all Required Payments then due on the Master Indenture Obligations (including Financial Product Payments to the extent made pursuant to a Financial Product Agreement secured or evidenced by a Master Indenture Obligation and Parity Financial Product Extraordinary Payments), in the order of their due dates, and, if the amount available is not sufficient to pay in full all Required Payments due on the same date, then to the payment thereof ratably, according to the amount Required Payments due on such date, without any discrimination or preference;

Second: To the payment of all Financial Product Extraordinary Payments made pursuant to a Financial Product Agreement secured or evidenced by a Master Indenture Obligation (other than Parity Financial Product Extraordinary Payments), in the order of their due dates, and, if the amount available is not sufficient to pay in full all Financial Product Extraordinary Payments due on the same date, then to the payment thereof ratably, according to the amounts of Financial Product Extraordinary Payments due on such date, without any discrimination or preference.

(b) If all Outstanding Master Indenture Obligations have become or have been declared due and payable (and such declaration has not been annulled under the terms of the Master Indenture relating to default):

First: To the payment of all Required Payments then due on the Master Indenture Obligations (including (i) Financial Product Payments to the extent made pursuant to a Financial Product Agreement secured or evidenced by a Master Indenture Obligation and (ii) Parity Financial Product Extraordinary Payments), and, if the amount available is not sufficient to pay in full the whole amount then due and unpaid, then to the payment thereof ratably, without preference or priority, according to the amounts due respectively, without any discrimination or preference; and

Second: To the payment of all Financial Product Extraordinary Payments made pursuant to a Financial Product Agreement secured or evidenced by a Master Indenture Obligation (other than Parity Financial Product Extraordinary Payments), and, if the amount available is not sufficient to pay in full all such Financial Product Extraordinary Payments, then to the payment thereof ratably, without any discrimination or preference.

Such moneys shall be applied at such times as the Master Trustee shall determine, having due regard for the amount of moneys available and the likelihood of additional moneys becoming available in the future. Upon any date fixed by the Master Trustee for the application of such moneys to the payment of principal, interest on the amounts of principal to be paid on such date shall cease to accrue. The Master Trustee shall give such notices as it may deem appropriate of the deposit with it of such moneys or of the fixing of such dates. The Master Trustee shall not be required to make payment to the Holder of any unpaid Master Indenture Obligation until such Master Indenture Obligation (and all unmatured interest coupons, if any) is presented to the Master Trustee for appropriate endorsement of any partial payment or for cancellation if fully paid.

Whenever all Master Indenture Obligations have been paid under the terms of this section of the Master Indenture and all fees and expenses of the Master Trustee have been paid, any balance remaining shall be paid to the Person entitled to receive such balance. If no other Person is entitled thereto, then the balance shall be paid to the Members of the Obligated Group or such Person as a court of competent jurisdiction may direct.

### **Remedies Not Exclusive**

No remedy granted by the terms of the Master Indenture is intended to be exclusive of any other remedy. Each remedy shall be cumulative and shall be in addition to every other remedy given under the Master Indenture or existing at law or in equity.

### **Remedies Vested in the Master Trustee**

All rights of action (including the right to file proof of claims) under the Master Indenture or under any of the Master Indenture Obligations may be enforced by the Master Trustee without the possession of any of the Master Indenture Obligations or the production thereof in any proceeding relating thereto. Any proceeding instituted by the Master Trustee may be brought in its name as the Master Trustee without the necessity of joining any Holders as plaintiffs or defendants. Subject to the provisions of the Master Indenture, relating to application of moneys after default, any recovery or judgment shall be for the equal benefit of the Holders of the Outstanding Master Indenture Obligations.

### **Master Trustee to Represent Holders**

The Master Trustee is pursuant to the Master Indenture irrevocably appointed as trustee and attorney in fact for the Holders for the purpose of exercising on their behalf the rights and remedies available to the Holders under the provisions of the Master Indenture, the Master Indenture Obligations, any Related Supplement and applicable provisions of law, in each case subject to the provisions of the Master Indenture described in the paragraph below. The Holders, by taking and holding the Master Indenture Obligations, shall be conclusively deemed to have so appointed the Master Trustee.

### **Holders' Control of Proceedings**

If an Event of Default has occurred and is continuing, notwithstanding anything in the Master Indenture to the contrary, the Holders of at least a majority in aggregate principal amount of Outstanding Master Indenture Obligations shall have the right (upon the indemnification of the Master Trustee to its satisfaction) to direct the method and/or place of conducting any proceeding to be taken in connection with the enforcement of the terms of the Master Indenture. Such direction must be in writing, signed by such Holders and delivered to the Master Trustee. However, the Master Trustee shall not follow any such direction that is in conflict with any applicable law or the provisions of the Master Indenture or (in the sole judgment of the Master Trustee) is unduly prejudicial to the interests of the Holders not joining in

such direction. Nothing in this section shall impair the right of the Master Trustee to take any other action authorized by the Master Indenture which it may deem proper and which is not inconsistent with such direction by Holders.

### **Termination of Proceedings**

In case any proceeding instituted by the Master Trustee with respect to any Event of Default is discontinued or abandoned for any reason or is determined adversely to the Master Trustee or the Holders, then the Obligated Group Members, the Master Trustee and the Holders shall be restored to their former positions and rights under the Master Indenture. All rights, remedies and powers of the Master Trustee and the Holders shall continue as if no such proceeding had been taken.

### **Waiver of Event of Default**

(a) No delay or omission of the Master Trustee or of any Holder to exercise any right with respect to any Event of Default shall impair such right or shall be construed to be a waiver of or acquiescence to such Event of Default. Every right and remedy given by the default provisions of the Master Indenture to the Master Trustee and the Holders may be exercised from time to time and as often as may be deemed expedient by them.

(b) The Master Trustee may waive any Event of Default which in its opinion has been remedied before the entry of a final judgment or decree in any proceeding instituted by it under the provisions of the Master Indenture, or before the completion of the enforcement of any other remedy thereunder.

(c) Upon the written request of the Holders of at least a majority in aggregate principal amount of Outstanding Master Indenture Obligations, the Master Trustee shall waive any Event of Default under the Master Indenture and its consequences; provided, however, that, except under the circumstances set forth in subsection (b) of the provisions of the Master Indenture described above under the caption "Acceleration; Annulment of Acceleration," the failure to pay the principal of, premium, if any, or interest on any Master Indenture Obligation when due may not be waived without the written consent of the Holders of all Outstanding Master Indenture Obligations.

(d) In case of any waiver by the Master Trustee of an Event of Default, the Obligated Group Members, the Master Trustee and the Holders shall be restored to their former positions and rights. No waiver shall extend to, or impair any right with respect to, any other Event of Default.

### **Appointment of Receiver**

Upon the occurrence and continuance of any Event of Default, the Master Trustee shall be entitled (a) without declaring the Master Indenture Obligations to be due and payable, (b) after declaring the Master Indenture Obligations to be due and payable, or (c) upon the commencement of any proceeding to enforce any right of the Master Trustee or the Holders, to the appointment of a receiver or receivers of any or all of the Property of the Obligated Group Members (without the necessity of notice to any Obligated Group Member or any other Person), with such powers as the court making such appointment shall confer. Each Obligated Group Member consents, and will if requested by the Master Trustee, consent at the time of application by the Master Trustee for appointment of a receiver, to the appointment of such receiver and agrees that such receiver may be given the right, to the extent the right may lawfully be given, to take possession of, operate and deal with such Property and the revenues, profits and proceeds therefrom, with the same effect as the Obligated Group Member could, and to borrow money and issue evidences of indebtedness as such receiver.

## **Remedies Subject to Provisions of Law**

All rights, remedies and powers provided by the default provisions of the Master Indenture may be exercised only to the extent that the exercise thereof does not violate any applicable provision of law. All the default provisions of the Master Indenture are intended to be limited to the extent necessary so that they will not render any provision of the Master Indenture invalid or unenforceable under the provisions of any applicable law.

## **Notice of Default**

Within ten (10) days after a Responsible Officer of the Master Trustee has actual knowledge or has received written notice of the occurrence of an Event of Default, the Master Trustee shall mail notice of such Event of Default to all Holders, unless such Event of Default has been cured before the giving of such notice (the term “Event of Default” for the purposes of this section being limited to the events specified in subsections (a)-(g) of the provisions of the Master Indenture described above under the caption “Events of Default,” not including any periods of grace provided for in subsections (c), (d) and (e) of the provisions of the Master Indenture described above under the caption “Events of Default,” and regardless of the giving of written notice specified in subsection (c) of the provisions of the Master Indenture described above under the caption “Events of Default”). Except in the case of default in the payment of the principal of or premium, if any, or interest on any of the Master Indenture Obligations and the Events of Default specified in subsections (e) and (f) of the provisions of the Master Indenture described above under the caption “Events of Default,” the Master Trustee shall be protected in withholding such notice if and so long as the Master Trustee in good faith determines that the withholding of such notice is in the best interest of the Holders.

## **Supplements Not Requiring Consent of Holders**

The Obligated Group Representative (acting for itself and as agent for each Obligated Group Member) and the Master Trustee may, without the consent of or notice to any of the Holders, enter into one or more Related Supplements for any of the following purposes:

- (a) To correct any ambiguity or formal defect or omission in the Master Indenture;
- (b) To correct or supplement any provision which may be inconsistent with any other provision, or to make any other provision with respect to matters or questions arising under the Master Indenture and which does not materially and adversely affect the interests of the Holders;
- (c) To grant or confer ratably upon all of the Holders any additional rights, remedies, powers or authority, or to add to the covenants of and restrictions on the Obligated Group Members;
- (d) To qualify the Master Indenture under the Trust Indenture Act of 1939, as amended, or corresponding provisions of federal law from time to time in effect;
- (e) To create and provide for the issuance of a Master Indenture Obligation or Series of Master Indenture Obligations as permitted under the Master Indenture;
- (f) To obligate a successor to any Obligated Group Member as provided in the Master Indenture;
- (g) To add a new Obligated Group Member as provided in the Master Indenture; or

(h) To make any other change which does not materially and adversely affect the interests of the Holders.

### **Supplements Requiring Consent of Holders**

(a) Other than Related Supplements referred to above under the caption “Supplements Not Requiring Consent of Holders” and subject to the terms contained in the provisions of the Master Indenture relating to supplements and amendments, the Holders of not less than a majority in aggregate principal amount of the Outstanding Master Indenture Obligations shall have the right to consent to and approve the execution by the Obligated Group Representative (acting for itself and as agent for each Obligated Group Member) and the Master Trustee of such Related Supplements as shall be deemed necessary or desirable for the purpose of modifying, altering, amending, adding to or rescinding any of the terms contained in the Master Indenture; provided, however, that nothing in this section “Supplements Requiring Consent of Holders” shall permit or be construed as permitting a Related Supplement which would:

(i) Extend the stated maturity of or time for paying interest on any Master Indenture Obligation or reduce the principal amount of or the redemption premium or rate of interest or change the method of calculating interest payable on or reduce any other Required Payment on any Master Indenture Obligation without the consent of the Holder of such Master Indenture Obligation;

(ii) Modify, alter, amend, add to or rescind any of the terms or provisions contained in the provisions of the Master Indenture described above under the caption “Payment of Required Payments” or the default provisions of the Master Indenture so as to affect the right of the Holders of any Master Indenture Obligations in default to compel the Master Trustee to declare the principal of all Master Indenture Obligations to be due and payable, without the consent of the Holders of all Outstanding Master Indenture Obligations;

(iii) Reduce the aggregate principal amount of Outstanding Master Indenture Obligations the consent of the Holders of which is required to authorize such Related Supplement without the consent of the Holders of all Master Indenture Obligations then Outstanding; or

(iv) The creation of any lien or security interest (other than permitted pursuant to provisions of the Master Indenture described above under the caption “Against Encumbrances”) prior to or on parity with the lien and security interest of the Master Indenture or the deprivation of any Holders of the lien created by the Master Indenture, without the consent of the Holders of all the Master Indenture Obligations at the time Outstanding that would be affected by the action to be taken.

(b) The Master Trustee may execute a Related Supplement (in substantially the form delivered to it as described below) without liability or responsibility to any Holder (whether or not such Holder has consented to the execution of such Related Supplement) if the Master Trustee receives:

(i) a Request of the Obligated Group Representative to enter into such Related Supplement; and

(ii) a certified copy of the resolution of the Governing Body of the Obligated Group Representative approving the execution of such Related Supplement; and

(iii) the proposed Related Supplement; and

(iv) an instrument or instruments executed by the Holders of not less than the aggregate principal amount or number of Master Indenture Obligations specified in subsection (a) for the Related Supplement in question which instrument or instruments shall refer to the proposed Related Supplement and shall specifically consent to and approve the execution thereof in substantially the form of the copy thereof as on file with the Master Trustee.

(c) Any such consent shall be binding upon the Holder of the Master Indenture Obligation giving such consent and upon any subsequent Holder of such Master Indenture Obligation and of any Master Indenture Obligation issued in exchange therefor (whether or not such subsequent Holder thereof has notice thereof), unless such consent is revoked in writing by the Holder of such Master Indenture Obligation giving such consent or by a subsequent Holder thereof by filing with the Master Trustee, prior to the execution by the Master Trustee of such Related Supplement, such revocation and, if such Master Indenture Obligation or Master Indenture Obligations are transferable by delivery, proof that such Master Indenture Obligations are held by the signer of such revocation. At any time after the Holders of the required principal amount or number of Master Indenture Obligations shall have filed their consents to the Related Supplement, the Master Trustee shall file a written statement to that effect with the Obligated Group Representative. Such written statement shall be conclusive evidence that such consents have been so filed.

(d) If the Holders of the required principal amount or number of the Outstanding Master Indenture Obligations have consented to the execution of such Related Supplement, no Holder shall have any right to object to the execution thereof, to object to any of the terms and provisions contained therein or the operation thereof, to question the propriety of the execution thereof or to enjoin or restrain the Master Trustee or the Obligated Group Representative from executing such Related Supplement or from taking any action pursuant to the provisions thereof.

### **Satisfaction and Discharge of Master Indenture**

The Master Indenture shall cease to be of further effect (except for provisions of the Master Indenture relating to the compensation and reimbursement of the Master Trustee, which shall survive) if:

(a) all Master Indenture Obligations previously authenticated (other than any Master Indenture Obligations which have been mutilated, destroyed, lost or stolen and which have been replaced or paid as provided in any Related Supplement) and not cancelled are delivered to the Master Trustee for cancellation; or

(b) all Master Indenture Obligations not previously cancelled or delivered to the Master Trustee for cancellation are paid; or

(c) a deposit is made in trust with the Master Trustee (or with one or more banks, national banking associations or trust companies acceptable to the Master Trustee pursuant to one or more agreements between an Obligated Group Member and such national banking associations or trust companies in form acceptable to the Master Trustee) in cash or Government Obligations or both, sufficient to pay at maturity or upon redemption all Master Indenture Obligations not previously cancelled or delivered to the Master Trustee for cancellation, including principal and interest or other payments (including Financial Product Payments and Financial Product Extraordinary Payments) due or to become due to such date of maturity, redemption date or payment date, as the case may be;

and all other sums payable under the Master Indenture by the Obligated Group Members are also paid. The Master Trustee, on demand of the Obligated Group Representative and at the cost and expense of the Obligated Group Members, shall execute proper instruments acknowledging satisfaction of and

discharging the Master Indenture and authorizing the Obligated Group Representative to file such terminations and releases as may be necessary to evidence the termination of the Master Trustee's security interest in the Gross Revenues and the Gross Revenue Fund. Unless the deposit(s) pursuant to clause (c) above is made solely with cash, the Obligated Group Representative shall cause a report to be prepared by a firm nationally recognized for providing verification services regarding the sufficiency of funds for such discharge and satisfaction provided pursuant to clause (c) above, upon which report the Master Trustee may rely.

The Obligated Group Members shall pay and indemnify the Master Trustee against any tax, fee or other charge imposed on or assessed against the Government Obligations deposited pursuant to this section of the Master Indenture or the principal and interest received in respect thereof other than any such tax, fee or other charge which by law is for the account of the Holders of Outstanding Master Indenture Obligations.

### **Payment of Master Indenture Obligations After Discharge of Lien**

Notwithstanding the discharge of the lien of the Master Indenture as provided in the satisfaction and discharge provisions of the Master Indenture, the Master Trustee shall retain such rights, powers and duties as may be necessary and convenient for the payment of amounts due or to become due on the Master Indenture Obligations and for the registration, transfer, exchange and replacement of Master Indenture Obligations. Any moneys held by the Master Trustee for the payment of the principal of, premium, if any, or interest or other Required Payment on any Master Indenture Obligation remaining unclaimed for one year after the principal of all Master Indenture Obligations has become due and payable, whether at maturity, upon proceedings for redemption or by declaration as provided in the Master Indenture, shall then be paid to the Obligated Group Members. The Holders of any Master Indenture Obligations or coupons not previously presented for payment shall thereafter be entitled to look only to the Obligated Group Members for payment thereof as unsecured creditors and all liability of the Master Trustee with respect to such moneys shall thereupon cease.

### **Credit Enhancer Deemed Holder of Obligation**

Except to the extent a Related Supplement or an Obligation provides otherwise, any credit enhancer of Related Bonds shall be deemed the Holder of the related Obligation for purposes of the Master Indenture for so long as the credit enhancement is in effect and the credit enhancer is not in default thereunder. If the credit enhancement is applicable to a portion of Related Bonds, such Related Obligation shall be treated as if such Related Obligation were two Obligations, one in the principal amount of the Related Bonds for which the credit enhancement is applicable and another in the principal amount of the remainder of the Related Bonds.

## **SUPPLEMENT NO. 3**

Supplement No. 3 provides for the issuance of Master Indenture Obligation No. 3 pursuant to the Master Indenture, and provides the terms and form thereof. Certain of the provisions of Supplement No. 3 are summarized below. This summary does not purport to be complete or definitive and is qualified in its entirety by reference to the full terms of Supplement No. 3.

### **Payments on Master Indenture Obligation No. 3; Credits**

(a) Principal of and interest and any applicable redemption premium on Master Indenture Obligation No. 3 are payable in any coin or currency of the United States of America which, on the respective dates of payment of such principal and interest, is legal tender for the payment of public

and private debts. Except as provided in this subsection (b) with respect to credits, and the prepayment provisions of Supplement No. 3 as described below under the caption "Prepayment of Master Indenture Obligation No. 3" regarding prepayment, payments on the principal of and premium, if any, and interest on Master Indenture Obligation No. 3 shall be made at the times and in the amounts specified in Master Indenture Obligation No. 3 by the Obligated Group Representative depositing the same in immediately available funds with or to the account of the Bond Trustee at or prior to the opening of business on the day such payments shall become due or payable (or the next succeeding Business Day (as defined in the Bond Indenture) if such date is not a Business Day) and giving notice to the Master Trustee and the Bond Trustee of each payment of principal, interest or premium on Master Indenture Obligation No. 3 specifying the amount paid and identifying such payment as a payment on Master Indenture Obligation No. 3.

(b) The Obligated Group Members shall receive credit for payment on Master Indenture Obligation No. 3, in addition to any credits resulting from payment or prepayment from other sources, as follows:

(i) On installments of interest on Master Indenture Obligation No. 3 in an amount equal to moneys deposited in the Interest Account created under the Bond Indenture which amounts are available to pay interest on the Bonds and to the extent such amounts have not previously been credited against payments on Master Indenture Obligation No. 3;

(ii) On installments of principal on Master Indenture Obligation No. 3 in an amount equal to moneys deposited in the Principal Account created under the Bond Indenture which amounts are available to pay principal on to the Bonds and to the extent such amounts have not previously been credited on Master Indenture Obligation No. 3;

(iii) On installments of principal and interest, respectively, on Master Indenture Obligation No. 3 in an amount equal to the principal amount of Bonds for the payment at maturity or redemption of which sufficient amounts (as determined by the Bond Indenture) in cash or United States Government Obligations are on deposit as provided in the Bond Indenture to the extent such amounts have not previously been credited against such payments on Master Indenture Obligation No. 3, and the interest on such Bonds from and after the date fixed for payment at maturity or redemption thereof. Such credits shall be made against the installments of principal, premium, if any, and interest on Master Indenture Obligation No. 3 which would have been used, but for such call for redemption, to pay principal of and interest on such Bonds when due at maturity; and

(iv) On installments of principal and interest, respectively, on Master Indenture Obligation No. 3 in an amount equal to the principal amount of Bonds acquired by the Obligated Group or any Obligated Group Member and surrendered to the Bond Trustee for cancellation or purchased by the Bond Trustee and cancelled, and the interest on such Bonds from and after the date interest thereon has been paid prior to cancellation. Such credits shall be made against the installments of principal and interest on Master Indenture Obligation No. 3 which would have been used, but for such cancellation, to pay principal of and interest on such Bonds when due.

### **Prepayment of Master Indenture Obligation No. 3**

So long as all amounts which have become due under Master Indenture Obligation No. 3 have been paid, the Obligated Group Members shall have the right, at any time and from time to time, to pay in advance and in any order of due dates all or part of the amounts to become due and payable under Master Indenture Obligation No. 3 and the Authority agrees that the Bond Trustee shall accept such prepayments



when the same are tendered by the Obligated Group Members. Prepayments may be made by payments of cash, deposits of certain Investment Securities, or surrender of Bonds, as contemplated in Supplement No. 3 as described above in (b)(iii) and (iv) under the caption "Payments on Master Indenture Obligation No. 3; Credits." All such prepayments (and the additional payment of any amount necessary to pay the applicable premium, if any, payable upon the prepayment of Bonds) shall be deposited upon receipt in the Optional Redemption Account of the Redemption Fund and, at the request of and as determined by the Corporation credited against payments due under Master Indenture Obligation No. 3 or used for the prepayment or purchase of Outstanding Bonds in the manner and subject to the terms and conditions set forth in the Bond Indenture. The Corporation shall have the right to surrender Bonds acquired by it in any manner whatsoever to the Bond Trustee for cancellation, and such Bonds, upon such surrender and cancellation, shall be deemed to be paid and retired, and the principal amount thereof shall be applied as set forth in the Bond Indenture. Notwithstanding any such prepayment or surrender of Bonds, as long as any Bonds remain Outstanding or any additional payments required to be made under the Loan Agreement remain unpaid, the Obligated Group shall not be relieved of its obligations under Supplement No. 3. Prepayments made under Supplement No. 3 shall be credited against amounts to become due on as provided in Supplement No. 3. The Obligated Group may also prepay all of its indebtedness under by providing for the payment of the Bonds in accordance with the Bond Indenture.

### **Registration, Number, Negotiability and Transfer of Master Indenture Obligation No. 3**

(a) Except as provided in this subsection (b), so long as any Bond remains outstanding, Master Indenture Obligation No. 3 shall consist of a single Master Indenture Obligation without coupons, shall be registered as to principal and interest in the name of the Bond Trustee, and no transfer of Master Indenture Obligation No. 3 shall be registered under the Master Indenture or be recognized by the Obligated Group except for transfers to a successor Bond Trustee.

(b) Upon the principal of all Obligations Outstanding being declared immediately due and payable, Master Indenture Obligation No. 3 may be transferred and such transfer registered if and to the extent the Bond Trustee requests that the restrictions of subsection (a) above on transfers be terminated.

(c) Master Indenture Obligation No. 3 shall be registered on the register to be maintained by the Master Trustee for that purpose at the principal corporate trust office of the Master Trustee, and Master Indenture Obligation No. 3 shall be transferable, subject to the terms of this Supplement No. 3, only upon said register at said office by the registered owner or by such owner's duly authorized agent. Such transfer shall be without charge to the owner thereof. Upon any such transfer, the Obligated Group Representative shall execute and the Master Trustee shall authenticate and deliver in exchange for Master Indenture Obligation No. 3 a new registered Master Indenture Obligation or Master Indenture Obligations without coupons, registered in the name of the transferee.

(d) Prior to due presentment of Master Indenture Obligation No. 3 and registration of transfer, the Obligated Group Representative, the Master Trustee, any paying agent and any Master Indenture Obligation registrar may deem and treat the person in whose name Master Indenture Obligation No. 3 is registered as the absolute owner thereof for all purposes; and neither the Obligated Group Representative, any paying agent, the Master Trustee nor any Master Indenture Obligation registrar shall be affected by any notice to the contrary. All payments made to the person in whose name Master Indenture Obligation No. 3 is registered shall be valid, and, to the extent of the sum or sums so paid, effectual to satisfy and discharge the liability for moneys payable on this Master Indenture Obligation No. 3.

### **Right to Redeem Master Indenture Obligation No. 3**

Master Indenture Obligation No. 3 shall be subject to redemption, in whole or in part, prior to maturity at the times and in the amounts applicable to redemption of the Bonds as specified in the Bond Indenture and in the manner provided in Supplement No. 3 provided that in no event shall Master Indenture Obligation No. 3 be redeemed unless a corresponding amount of Bonds is also redeemed in accordance with the terms and subject to the limitations contained in the Bond Indenture.

### **Partial Redemption of Master Indenture Obligation No. 3**

Upon the selection and call for redemption, and the surrender of Master Indenture Obligation No. 3 for redemption in part only, the Obligated Group Representative shall cause to be executed and the Master Trustee shall authenticate and deliver to, upon the written order of, the Holder thereof, at the expense of the Obligated Group, a new Master Indenture Obligation No. 3 in principal amount equal to the unredeemed portion of Master Indenture Obligation No. 3, which new Master Indenture Obligation No. 3 shall be a fully registered Obligation without coupons.

The Obligated Group Representative may agree with the Holder of Master Indenture Obligation No. 3 that such Holder may, in lieu of surrendering Master Indenture Obligation No. 3 for a new fully registered Obligation without coupons, endorse on Master Indenture Obligation No. 3 a notice of such partial redemption, which notice shall set forth, over the signature of such Holder, the payment date, the principal amount redeemed and the principal amount remaining unpaid. Such partial redemption shall be valid upon payment of the amount thereof to the registered owner of Master Indenture Obligation No. 3 and the Obligated Group and the Master Trustee shall be fully released and discharged from all liability to the extent of such payment irrespective of whether such endorsement shall or shall not have been made upon the reverse of Master Indenture Obligation No. 3 by the Holder thereof and irrespective of any error or omission in such endorsement.

### **Effect of Call for Redemption of Master Indenture Obligation No. 3**

On the date designated for redemption by notice given as provided in Supplement No. 3, Master Indenture Obligation No. 3 or the part thereof called for redemption shall become and be due and payable at the redemption price provided for redemption of Master Indenture Obligation No. 3 or the part thereof called for redemption on such date. If on the date fixed for redemption moneys for payment of the redemption price and accrued interest are held by the Master Trustee, interest on Master Indenture Obligation No. 3 or the part thereof called for redemption shall cease to accrue and Master Indenture Obligation No. 3 or the part thereof called for redemption shall cease to be entitled to any benefit or security under the Master Indenture except the right to receive payment from the moneys held by the Master Trustee or the paying agents and the amount or Master Indenture Obligation No. 3 so called for redemption shall be deemed paid and no longer outstanding.

### **Action by the Bond Trustee**

Notwithstanding the limitations of the Master Indenture as described above under the caption "MASTER INDENTURE - Remedies vested in the Master Trustee," the Bond Trustee shall be entitled to institute a suit, action or proceeding in equity or at law upon or under or with respect to the Master Indenture seeking any remedy provided under the Master Indenture after giving the notice specified in Supplement No. 3 if the Master Trustee shall have neglected or refused to institute any such action, suit or proceeding after receipt from the Bond Trustee, of the written request (but not the offer of indemnity) otherwise required of holders of not less than twenty-five percent (25%) in aggregate principal amount of Master Indenture Obligations then Outstanding.

## **BOND INDENTURE**

### **General**

The Bond Indenture sets forth the terms of the Bonds, the application of the Bond proceeds, the nature and extent of the security for the Bonds, various rights of the Bondholders, rights, duties and immunities of the Bond Trustee and the rights and obligations of the Authority. Certain provisions of the Bond Indenture are summarized below. Other provisions are summarized in this Official Statement under the captions "THE BONDS" and "SECURITY AND SOURCE OF PAYMENT FOR THE BONDS." This summary does not purport to be complete or definitive and is qualified in its entirety by reference to the full terms of the Bond Indenture.

### **Pledge and Assignment; Revenue Fund**

Subject only to the provisions of the Bond Indenture permitting the application thereof for the purposes and on the terms and conditions set forth in the Bond Indenture, there are pledged to secure the payment of the principal (and Redemption Price) of and interest on the Bonds in accordance with their terms and the provisions of the Bond Indenture, all of the Revenues and any other amounts (including proceeds of the sale of Bonds) held in any fund or account established pursuant to the Bond Indenture (other than the Rebate Fund). Said pledge shall constitute a lien on and security interest in such assets and shall attach, be perfected and be valid and binding from and after delivery by the Bond Trustee of the Bonds, without any physical delivery thereof or further act.

The Authority transfers in trust, grants a security interest in and assigns to the Bond Trustee, for the benefit of the Holders from time to time of the Bonds, all of the Revenues and other assets pledged under the Bond Indenture and all of the right, title and interest of the Authority in the Loan Agreement (except for (i) the right to receive any Additional Payments or Administrative Fees and Expenses to the extent payable to the Authority, (ii) any rights of the Authority to receive indemnification, expenses and fees pursuant to the Loan Agreement, (iii) any rights of the Authority to receive notices, certificates, reports or opinions or make inspections, and (iv) the obligation of the Corporation to make deposits pursuant to the Tax Certificate) and Obligation No. 3. The Bond Trustee shall be entitled to and shall collect and receive all of the Revenues, and any Revenues collected or received by the Authority shall be deemed to be held, and to have been collected or received, by the Authority as the agent of the Bond Trustee and shall forthwith be paid by the Authority to the Bond Trustee. The Bond Trustee shall also be entitled to and subject to the provisions of the Bond Indenture, shall take all steps, actions and proceedings reasonably necessary in its judgment to enforce all of the rights of the Authority and all of the obligations of the Corporation under the Loan Agreement and all of the obligations of the Obligated Group Members under Obligation No. 3 other than for those rights retained by the Authority.

Notwithstanding anything to the contrary in the Bond Indenture, the Authority has no obligation to and instead the Bond Trustee may, without further direction from the Authority, take any and all steps, actions and proceedings, to enforce any or all rights of the Authority (other than those specifically retained by the Authority as described in the preceding paragraph or under the Bond Indenture or the Loan Agreement, including, without limitation, the rights to enforce the remedies upon the occurrence and continuation of an Event of Default and the obligations of the Corporation under the Loan Agreement and Obligation No. 3.

All Revenues shall be promptly deposited by the Bond Trustee upon receipt thereof in a special fund designated as the "Revenue Fund" which the Bond Trustee shall establish, maintain and hold in trust, except as otherwise provided in the Bond Indenture and except that all moneys received by the Bond Trustee and required by the Loan Agreement or Obligation No. 3 to be deposited in the Redemption

Fund shall be promptly deposited in the Redemption Fund, which the Bond Trustee shall establish, maintain and hold in trust. All Revenues deposited with the Bond Trustee shall be held, disbursed, allocated and applied by the Bond Trustee only as provided in the Bond Indenture.

If by the Business Day prior to any Interest Payment Date and Principal Payment Date, the Bond Trustee has not received Loan Repayments or other Revenues sufficient to make the transfers described under the following caption, the Bond Trustee shall immediately notify the Corporation (by notice to both its chief financial officer and chief executive officer) and the Obligated Group Representative of such insufficiency (stating in such notice that (i) the Bond Trustee has not received Loan Repayments or other Revenues sufficient to make the transfers described under the following caption; and (ii) the amount by which the obligation to make such transfer exceeds the amount available therefore).

### **Allocation of Revenues**

On or before the Business Day prior to any Interest Payment Date or Principal Payment Date, the Bond Trustee shall transfer from the Revenue Fund and deposit into the following respective accounts (each of which the Bond Trustee shall establish and maintain within the Revenue Fund) and then to the Rebate Fund, the following amounts, in the following order of priority, the requirements of each such account or fund (including the making up of any deficiencies in any such account resulting from lack of Revenues sufficient to make any earlier required deposit) at the time of deposit to be satisfied before any transfer is made to any account or fund subsequent in priority:

First: to the Interest Account, the aggregate amount of interest becoming due and payable on the next Interest Payment Date on all Bonds then Outstanding, until the balance in said account is equal to said aggregate amount of interest;

Second: for deposits immediately preceding each April 1 only, to the Principal Account, the sum of (1) the aggregate principal amount of Bonds maturing on the next succeeding Principal Payment Date plus (2) the aggregate amount of Mandatory Sinking Account Payments required to be paid into each Sinking Account for Outstanding Term Bonds on the next succeeding Principal Payment Date, until the balance in said Principal Account is equal to said aggregate amount of such principal and Mandatory Sinking Account Payments; and

Third: to the Rebate Fund, such amounts as are required to be deposited therein by the Bond Indenture (including the Tax Certificate).

Upon Request of the Corporation, any moneys remaining in the Revenue Fund after the foregoing transfers shall be transferred to the Corporation.

### **Interest Account**

All amounts in the Interest Account shall be used and withdrawn by the Bond Trustee solely for the purpose of paying interest on the Bonds as it shall become due and payable (including accrued interest on any Bonds purchased or redeemed prior to maturity pursuant to the Bond Indenture).

### **Principal Account**

All amounts in the Principal Account shall be used and withdrawn by the Bond Trustee solely for the purpose of paying the principal of the Bonds when due and payable, except that all amounts in a Sinking Account shall be used and withdrawn by the Bond Trustee to purchase or redeem or pay at maturity Term Bonds, as provided in the Bond Indenture. With respect to each Sinking Account, on each

Mandatory Sinking Account Payment date established for such Sinking Account, the Bond Trustee shall transfer the amount deposited in the Principal Account pursuant to the Bond Indenture for the purpose of making a Mandatory Sinking Account Payment from the Principal Account to the applicable Sinking Account. On each Mandatory Sinking Account Payment date, the Bond Trustee shall apply the Mandatory Sinking Account Payment required on that date to the redemption (or payment at maturity, as the case may be) of Bonds of the maturity for which such Sinking Account was established, upon the notice and in the manner provided in the Bond Indenture; provided that, at any time prior to giving such notice of such redemption, the Bond Trustee shall apply such moneys to the purchase of Bonds of such maturity at public or private sale, as and when and at such prices (including brokerage and other charges, but excluding accrued interest, which is payable from the Interest Account) as the Corporation may direct, in writing, except that the purchase price (excluding accrued interest) shall not exceed the par amount of such Bonds. If, during the twelve-month period immediately preceding said Mandatory Sinking Account Payment date, the Bond Trustee has purchased Bonds of the maturity for which such Sinking Account was established with moneys in the Sinking Account, or, during said period and prior to giving said notice of redemption, the Corporation has deposited Bonds of such maturity with the Bond Trustee, or Bonds of such maturity were at any time purchased or redeemed by the Bond Trustee from the Redemption Fund and allocable to said Mandatory Sinking Account Payment, such Bonds so purchased or deposited or redeemed shall be applied, to the extent of the full principal amount thereof, to reduce said Mandatory Sinking Account Payment. All Bonds purchased or deposited pursuant to the Bond Indenture described in this paragraph shall be delivered to the Bond Trustee and cancelled. Any amounts remaining in the Sinking Account when all of the Bonds of the maturity for which such Sinking Account was established are no longer Outstanding shall be withdrawn by the Bond Trustee and transferred to the Revenue Fund. All Bonds purchased from the Sinking Account or deposited by the Corporation with the Bond Trustee shall be allocated first to the next succeeding Mandatory Sinking Account Payment, then to the remaining Mandatory Sinking Account Payments as the Corporation directs.

### **Redemption Fund**

The Bond Trustee shall establish and maintain and hold in trust a separate fund designated as the "Redemption Fund," and within the Redemption Fund a separate Optional Redemption Account and a separate Special Redemption Account. All amounts deposited in the Optional Redemption Account and in the Special Redemption Account shall be accepted and used and withdrawn by the Bond Trustee solely for the purpose of redeeming Bonds, in the manner and upon the terms and conditions specified in the redemption provisions of the Bond Indenture, at the next succeeding date of redemption for which notice can be but has not yet been given and at the Redemption Prices then applicable to redemptions from the Optional Redemption Account and the Special Redemption Account, respectively; provided that, at any time prior to giving such notice of redemption, the Bond Trustee shall, upon written direction of the Corporation, apply such amounts to the purchase of Bonds at public or private sale, as and when and at such prices (including brokerage and other charges, but excluding accrued interest, which is payable from the Interest Account) as the Corporation may direct, except that the purchase price (exclusive of accrued interest) may not exceed the Redemption Price then applicable to such Bonds (or, if such Bonds are not then subject to redemption, the par value of such Bonds); and provided further that in lieu of redemption at such next succeeding date of redemption, or in combination therewith, amounts in such account may be transferred to the Revenue Fund and credited against Loan Repayments in order of their due date as set forth in a Request of the Corporation. All Bonds purchased or redeemed from the Redemption Fund shall be allocated to applicable Mandatory Sinking Account Payments designated in a Certificate of the Corporation which shall include a revised sinking account schedule (or if the Corporation fails to deliver such a Certificate to the Bond Trustee, in inverse order of their payment dates).

## **Rebate Fund**

All money at any time deposited in the Rebate Fund shall be held by the Bond Trustee in trust, to the extent required to satisfy the rebate requirement under the Tax Certificate for payment to the federal government of the United States of America. Neither the Authority, the Corporation nor the Holder of any Bonds shall have any rights in or claim to such money.

## **Investment of Moneys in Funds and Accounts**

All moneys in any of the funds and accounts established pursuant to the Bond Indenture shall be invested by the Bond Trustee, upon the written direction of the Corporation, solely in Investment Securities. Moneys in all funds and accounts established under the Bond Indenture shall be invested in Investment Securities maturing not later than the date on which it is estimated that such moneys will be required for the purposes specified in the Bond Indenture.

## **Amendment of Loan Agreement**

(A) Except as provided in paragraph (B) below, the Authority shall not amend, modify or terminate any of the terms of the Loan Agreement, or consent to any such amendment, modification or termination unless the written consent of the Holders of a majority in principal amount of the Bonds then Outstanding to such amendment, modification or termination is filed with the Bond Trustee, provided that no such amendment, modification or termination shall reduce the amount of Loan Repayments to be made to the Authority or the Bond Trustee by the Corporation pursuant to the Loan Agreement, or extend the time for making such payments, without the written consent of all of the Holders of the Bonds then Outstanding.

(B) Notwithstanding the above described provisions of the Bond Indenture, the terms of the Loan Agreement may also be modified or amended from time to time and at any time by the Authority without the necessity of obtaining the consent of or any Bondholders, only to the extent permitted by law and only for any one or more of the following purposes:

(1) to add to the covenants and agreements of the Authority or the Corporation contained in the Loan Agreement other covenants and agreements thereafter to be observed, to pledge or assign additional security for the Bonds (or any portion thereof), or to surrender any right or power therein reserved to or conferred upon the Authority or the Corporation, provided, that no such covenant, agreement, pledge, assignment or surrender shall materially adversely affect the interests of the Holders of the Bonds;

(2) to make such provisions for the purpose of curing any ambiguity, inconsistency or omission, or of curing or correcting any defective provision, contained in the Loan Agreement, or in regard to matters or questions arising under the Loan Agreement, as the Authority may deem necessary or desirable and not inconsistent with the Loan Agreement or the Bond Indenture, and which shall not materially adversely affect the interests of the Holders of the Bonds;

(3) to maintain the exclusion from gross income for federal income tax purposes of interest payable with respect to the Bonds; or

(4) to make any other changes which will not materially adversely affect the interests of the Holders of the Bonds.

## **Continuing Disclosure**

Pursuant to the Loan Agreement, the Corporation has covenanted to enter into, comply with and carry out all of the provisions of a disclosure agreement with respect to the Bonds that complies with the provisions of Rule 15c2-12 promulgated by the Securities and Exchange Commission (as amended from time to time, the “Rule”), in form and substance satisfactory to the Participating Underwriters (as defined in the Rule). The Corporation has undertaken all responsibility for compliance with continuing disclosure requirements, and the Authority does not have any liability to the Holders of the Bonds or any other Person with respect to the Rule. Notwithstanding any other provision of the Bond Indenture, failure of the Corporation to enter into and comply with such a disclosure agreement shall not be considered an Event of Default; however, the Bond Trustee may (and, at the request of any Participating Underwriter or the Holders of at least 25% aggregate principal amount of Outstanding Bonds, shall, with indemnification satisfactory to it), or any Bondholder or Beneficial Owner may, take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the Corporation to comply with its obligations under the Loan Agreement.

## **Events of Default**

The following events shall be Events of Default:

(A) default in the due and punctual payment of the principal or Redemption Price of any Bond when and as the same shall become due and payable, whether at maturity as therein expressed, by proceedings for redemption, by declaration or otherwise, or default in the redemption from the Sinking Account of any Term Bonds in the amounts and at the times provided therefor;

(B) default in the due and punctual payment of any installment of interest on any Bond when and as such interest installment shall become due and payable;

(C) default by the Authority in the observance of any of the other covenants, agreements or conditions on its part contained in the Bond Indenture or in the Bonds, if such default shall have continued for a period of sixty (60) days after written notice thereof, specifying such default and requiring the same to be remedied, shall have been given to the Authority and the Corporation by the Bond Trustee, or to the Authority, the Corporation and the Bond Trustee by the Holders of not less than twenty-five percent (25%) in aggregate principal amount of the Bonds at the time Outstanding; or

(D) a Loan Default Event.

Upon actual knowledge of the existence of any Event of Default, the Bond Trustee shall notify the Corporation, the Authority and the Master Trustee in writing as soon as practicable; provided, however, that the Bond Trustee need not provide notice of any Loan Default Event if the Corporation has expressly acknowledged the existence of such Loan Default Event in a writing delivered to the Bond Trustee, the Corporation, the Authority and the Master Trustee.

## **Acceleration of Maturities**

Whenever any Event of Default referred to in the Bond Indenture shall have happened and be continuing, the Bond Trustee may take the following remedial steps:

(A) In the case of an Event of Default described in paragraph (A) or (B) described under the caption “Events of Default” above, the Bond Trustee may, and upon the written direction of the Holders of not less than a majority in aggregate principal amount of the Bonds then Outstanding, will, notify the

Master Trustee of such Event of Default, make a demand for payment under Obligation No. 3 and request the Master Trustee in writing to give notice to the Obligated Group Members pursuant to the Master Indenture declaring the principal of all obligations issued under the Master Indenture then outstanding to be due and immediately payable. Upon such declaration by the Master Trustee, the Bond Trustee shall declare the principal of all the Bonds then Outstanding, and the interest accrued thereon, to be due and payable immediately, and upon any such declaration the same shall become and shall be immediately due and payable, anything in the Bond Indenture to the contrary notwithstanding. In addition, the Bond Trustee may take whatever action at law or in equity is necessary or desirable to collect the payments due under Obligation No. 3;

(B) In the case of an Event of Default described in paragraph (C) under the caption “Events of Default” above, the Bond Trustee may, and upon the written direction of the Holders of not less than a majority in aggregate principal amount of the Bonds then Outstanding and upon being indemnified as provided in the Bond Indenture, will, take whatever action at law or in equity is necessary or desirable to enforce the performance, observance or compliance by the Authority with any covenant, condition or agreement by the Authority under the Bond Indenture; and

(C) In the case of an Event of Default described in paragraph (D) under the caption “Events of Default” above, the Bond Trustee may, and upon the written direction of the Holders of not less than a majority in aggregate principal amount of the Bonds then Outstanding and upon being indemnified as provided in the Bond Indenture, will, take whatever action the Authority would be entitled to take, and shall take whatever action the Authority would be required to take, pursuant to the Loan Agreement in order to remedy the Loan Default Event.

Any such declaration, however, is subject to the condition that if, at any time after such declaration and before any judgment or decree for the payment of the moneys due shall have been obtained or entered, the Authority or the Corporation shall deposit with the Bond Trustee a sum sufficient to pay all the principal, Mandatory Sinking Account Payments or Redemption Price of and installments of interest on the Bonds, payment of which is overdue, with interest on such overdue principal at the rate borne by the respective Bonds, and the reasonable charges and expenses of the Authority and the Bond Trustee, and if the Bond Trustee has received notification from the Master Trustee that the declaration of acceleration of Obligation No. 3 has been annulled pursuant to the Master Indenture and any and all other defaults known to the Bond Trustee (other than in the payment of principal of and interest on the Bonds due and payable solely by reason of such declaration) shall have been made good or cured to the satisfaction of the Bond Trustee or provision deemed by the Bond Trustee to be adequate shall have been made therefor, then, and in every such case, the Holders of not less than a majority in aggregate principal amount of the Bonds Outstanding, by written notice to the Authority, the Corporation and the Bond Trustee, or the Bond Trustee may, on behalf of the Holders of all of the Bonds, by written notice to the Authority and the Corporation, rescind and annul such declaration and its consequences and waive such default; but no such rescission and annulment shall extend to or shall affect any subsequent default, or shall impair or exhaust any right or power consequent thereon.

Notice of such declaration having been given as aforesaid, anything to the contrary contained in the Bond Indenture or in the Bonds to the contrary notwithstanding, interest shall cease to accrue on such Bonds from and after the date set forth in such notice (which shall be not more than seven days from the date of such declaration).

Notwithstanding any other provision of the Bond Indenture or any right, power or remedy existing at law or in equity or by statute, the Bond Trustee shall not under any circumstance in which an Event of Default has occurred declare the entire unpaid aggregate principal amount of the Bonds Outstanding to be immediately due and payable except in the event that the Master Trustee shall have



declared the principal amount of Obligation No. 3 and all interest due thereon immediately due and payable in accordance with the Master Indenture.

### **Application of Revenues and Other Funds After Default**

If an Event of Default shall occur and be continuing, all Revenues and any other funds then held or thereafter received by the Bond Trustee under any of the provisions of the Bond Indenture (subject to the provisions of the Bond Indenture related to money held for particular Bonds and other than moneys required to be deposited in the Rebate Fund) shall be applied by the Bond Trustee as follows and in the following order:

(A) To the payment of any expenses necessary in the opinion of the Bond Trustee to protect the interests of the Holders of the Bonds and payment of any outstanding charges and expenses of the Bond Trustee under the Bond Indenture or under the Loan Agreement (including reasonable fees and disbursements of its counsel) incurred in and about the performance of its powers and duties under the Bond Indenture; and

(B) To the payment of the principal or Redemption Price of and interest then due on the Bonds (upon presentation of the Bonds to be paid, and stamping thereon of the payment if only partially paid, or surrender thereof if fully paid) subject to the provisions of the Bond Indenture, as follows:

(1) Unless the principal of all of the Bonds shall have become or have been declared due and payable,

First: To the payment to the Persons entitled thereto of all installments of interest then due in the order of the maturity of such installments, and, if the amount available shall not be sufficient to pay in full any installment or installments maturing on the same date, then to the payment thereof ratably, according to the amounts due thereon, to the Persons entitled thereto, without any discrimination or preference; and

Second: To the payment to the Persons entitled thereto of the unpaid principal (including Mandatory Sinking Account Payments) or redemption price of any Bonds that shall have become due, whether at maturity or by call for redemption, in the order of their due dates, with interest on the overdue principal at the rate borne by the respective Bonds, and, if the amount available shall not be sufficient to pay in full all the Bonds due on any date, together with such interest, then to the payment thereof ratably, according to the amounts of principal or Redemption Price due on such date to the Persons entitled thereto, without any discrimination or preference.

(2) If the principal of all of the Bonds shall have become or have been declared due and payable, to the payment of the principal and interest then due and unpaid upon the Bonds, with interest on the overdue principal at the rate borne by the Bonds, and, if the amount available shall not be sufficient to pay in full the whole amount so due and unpaid, then to the payment thereof ratably, without preference or priority of principal over interest, or of interest over principal, or of any installment of interest over any other installment of interest, or of any Bond over any other Bond, according to the amounts due respectively for principal and interest, to the Persons entitled thereto without any discrimination or preference.

(C) To the payment of reasonable fees, charges and expenses of the Authority pursuant to the Bond Indenture or the Loan Agreement.

## **Bond Trustee to Represent Bondholders**

The Bond Trustee is irrevocably appointed (and the successive respective Holders of the Bonds, by taking and holding the same, shall be conclusively deemed to have so appointed the Bond Trustee) as trustee and true and lawful attorney-in-fact of the Holders of the Bonds for the purpose of exercising and prosecuting on their behalf such rights and remedies as may be available to such Holders under the provisions of the Bonds, the Bond Indenture, the Loan Agreement, Obligation No. 3, the Act and applicable provisions of any other law. Upon the occurrence and continuance of an Event of Default or other occasion giving rise to a right in the Bond Trustee to represent the Bondholders, the Bond Trustee in its discretion may, and upon the written request of the Holders of not less than twenty-five percent (25%) in aggregate principal amount of the Bonds then Outstanding, and upon being indemnified to its satisfaction therefor, shall, proceed to protect or enforce its rights or the rights of such Holders by such appropriate action, suit, mandamus or other proceedings as it shall deem most effectual to protect and enforce any such right, at law or in equity, either for the specific performance of any covenant or agreement contained in the Bond Indenture, or in aid of the execution of any power granted in the Bond Indenture, or for the enforcement of any other appropriate legal or equitable right or remedy vested in the Bond Trustee, in such Holders under the Bond Indenture, the Loan Agreement, Obligation No. 3, the Act or any other law; and upon instituting such proceeding, the Bond Trustee shall be entitled, as a matter of right, to the appointment of a receiver of the Revenues and other assets pledged under the Bond Indenture, pending such proceedings. If more than one such request is received by the Bond Trustee from the Holders, the Bond Trustee shall follow the written request executed by the Holders of the greater percentage of the Bonds then Outstanding in excess of twenty-five percent (25%). All rights of action under the Bond Indenture or the Bonds or otherwise may be prosecuted and enforced by the Bond Trustee without the possession of any of the Bonds or the production thereof in any proceeding relating thereto, and any such suit, action or proceeding instituted by the Bond Trustee shall be brought in the name of the Bond Trustee for the benefit and protection of all the Holders of such Bonds, subject to the provisions of the Bond Indenture.

## **Bondholders' Direction of Proceedings**

Anything in the Bond Indenture to the contrary notwithstanding, the Holders of a majority in aggregate principal amount of the Bonds then Outstanding shall have the right, by an instrument or concurrent instruments in writing executed and delivered to the Bond Trustee, to direct the method of conducting all remedial proceedings taken by the Bond Trustee under the Bond Indenture, provided that such direction shall not be otherwise than in accordance with law and the provisions of the Bond Indenture, and that the Bond Trustee shall have the right to decline to follow any such direction that in the opinion of the Bond Trustee would be unjustly prejudicial to Bondholders not parties to such direction or could involve the Bond Trustee in personal liability.

## **Limitation on Bondholders' Right to Sue**

No Holder of any Bond shall have the right to institute any suit, action or proceeding at law or in equity, for the protection or enforcement of any right or remedy under the Bond Indenture, the Loan Agreement, Obligation No. 3 or any other applicable law with respect to such Bond, unless (1) such Holder shall have given to the Bond Trustee written notice of the occurrence of an Event of Default; (2) the Holders of not less than twenty-five percent (25%) in aggregate principal amount of the Bonds then Outstanding shall have made written request upon the Bond Trustee to exercise the powers granted in the Bond Indenture or to institute such suit, action or proceeding in its own name; provided, however, that if more than one such request is received by the Bond Trustee from the Holders, the Bond Trustee shall follow the written request executed by the Holders of the greater percentage of Bonds then Outstanding in excess of twenty-five percent (25%); (3) such Holder or said Holders shall have tendered to the Bond

Trustee reasonable indemnity against the costs, expenses and liabilities to be incurred in compliance with such request; and (4) the Bond Trustee shall have refused or omitted to comply with such request for a period of sixty (60) days after such written request shall have been received by, and said tender of indemnity shall have been made to, the Bond Trustee.

Such notification, request, tender of indemnity and refusal or omission are declared, in every case, to be conditions precedent to the exercise by any Holder of Bonds of any remedy under the Bond Indenture or under law; it being understood and intended that no one or more Holders of Bonds shall have any right in any manner whatever by his or their action to affect, disturb or prejudice the security of the Bond Indenture or the rights of any other Holders of Bonds, or to enforce any right under the Bond Indenture, the Loan Agreement, Obligation No. 3, the Act or other applicable law with respect to the Bonds, except in the manner provided in the Bond Indenture, and that all proceedings at law or in equity to enforce any such right shall be instituted, had and maintained in the manner provided in the Bond Indenture and for the benefit and protection of all Holders of the Outstanding Bonds, subject to the provisions of the Bond Indenture.

### **Amendments to Bond Indenture**

(A) The Bond Indenture and the rights and obligations of the Authority, of the Bond Trustee and of the Holders of the Bonds may be modified or amended from time to time and at any time by a Supplemental Bond Indenture, which the Authority and the Bond Trustee may enter into when the written consent of the Corporation and the Holders of a majority in aggregate principal amount of the Bonds then Outstanding, shall have been filed with the Bond Trustee. No such modification or amendment shall (1) extend the fixed maturity of any Bond, or reduce the amount of principal thereof, or extend the time of payment or reduce the amount of any Mandatory Sinking Account Payment, or reduce the rate of interest thereon, or extend the time of payment of interest thereon, or reduce any premium payable upon the redemption thereof, without the consent of the Holder of each Bond so affected, or (2) reduce the aforesaid percentage of Bonds the consent of the Holders of which is required to effect any such modification or amendment, or permit the creation of any lien on the Revenues and other assets pledged under the Bond Indenture prior to or on a parity with the lien created by the Bond Indenture, or deprive the Holders of the Bonds of the lien created by the Bond Indenture on such Revenues and other assets (except as expressly provided in the Bond Indenture), without the consent of the Holders of all Bonds then Outstanding. It shall not be necessary for the consent of the Bondholders to approve the particular form of any Supplemental Bond Indenture, but it shall be sufficient if such consent shall approve the substance thereof. Promptly after the execution by the Authority and the Bond Trustee of any Supplemental Bond Indenture pursuant to this subsection (A), the Bond Trustee shall deliver a notice, setting forth in general terms the substance of such Supplemental Bond Indenture to the Bondholders at the addresses shown on the registration books maintained by the Bond Trustee. Any failure to give such notice, or any defect therein, shall not, however, in any way impair or affect the validity of any such Supplemental Bond Indenture.

(B) The Bond Indenture and the rights and obligations of the Authority, of the Bond Trustee and of the Holders of the Bonds may also be modified or amended from time to time and at any time by a Supplemental Bond Indenture, which the Authority and the Bond Trustee may enter into without the consent of any Bondholders but only to the extent permitted by law and only for any one or more of the following purposes:

- (1) to add to the covenants and agreements of the Authority in the Bond Indenture contained other covenants and agreements thereafter to be observed, to pledge or assign additional security for the Bonds (or any portion thereof), or to surrender any right or power reserved in the Bond Indenture to or conferred upon the Authority, provided, that no such

covenant, agreement, pledge, assignment or surrender shall materially adversely affect the interests of the Holders of the Bonds;

(2) to make such provisions for the purpose of curing any ambiguity, inconsistency or omission, or of curing or correcting any defective provision, contained in the Bond Indenture, or in regard to matters or questions arising under the Bond Indenture, as the Authority, the Corporation or the Bond Trustee may deem necessary or desirable and not inconsistent with the Bond Indenture, and which shall not materially adversely affect the interests of the Holders of the Bonds;

(3) to modify, amend or supplement the Bond Indenture in such manner as to permit the qualification of the Bond Indenture under the Trust Indenture Act of 1939, as amended, or any similar federal statute thereafter in effect, and to add such other terms, conditions and provisions as may be permitted by said act or similar federal statute, and which shall not materially adversely affect the interests of the Holders of the Bonds;

(4) to provide any additional procedures, covenants or agreements to maintain the exclusion from gross income for federal income tax purposes of the interest on the Bonds, including the amendment of any Tax Certificate;

(5) to facilitate (i) the transfer of Bonds from one Securities Depository to another in the succession of Securities Depositories, or (ii) the withdrawal from a Securities Depository of Bonds held in a Book-Entry System and the issuance of replacement Bonds in fully registered form to Persons other than a Securities Depository;

(6) to make any changes required by a Rating Agency in order to obtain or maintain a rating for the Bonds; or

(7) to make any other changes which will not materially adversely affect the interests of the Holders of the Bonds.

### **Discharge of Bond Indenture**

The Bonds may be paid by the Authority or the Bond Trustee on behalf of the Authority in any of the following ways:

(i) by paying or causing to be paid the principal or Redemption Price of and interest on all Bonds Outstanding, as and when the same become due and payable;

(ii) by depositing with the Bond Trustee, in trust, at or before maturity, moneys or securities in the necessary amount to pay when due or redeem all Bonds then Outstanding; or

(iii) by delivering to the Bond Trustee, for cancellation by it, all Bonds then Outstanding.

If the Authority shall pay all Bonds Outstanding and shall also pay or cause to be paid all other sums payable under the Bond Indenture by the Authority and the Corporation shall have paid all Administrative Fees and Expenses payable to the Authority pursuant to the Loan Agreement, then and in that case at the election of the Authority (evidenced by a Certificate of the Authority filed with the Bond Trustee signifying the intention of the Authority to discharge all such indebtedness and the Bond Indenture), and notwithstanding that any Bonds shall not have been surrendered for payment, the Bond

Indenture and the pledge of Revenues and other assets made under the Bond Indenture and all covenants, agreements and other obligations of the Authority under the Bond Indenture (except as otherwise specifically provided in the Bond Indenture) shall cease, terminate and be completely discharged and satisfied. In such event, upon the request of the Authority, the Bond Trustee shall cause an accounting for such period or periods as may be requested by the Authority to be prepared and filed with the Authority and shall execute and deliver to the Authority all such instruments as may be necessary to evidence such discharge and satisfaction, and the Bond Trustee shall pay over, transfer, assign or deliver to the Corporation all moneys or securities or other property held by it pursuant to the Bond Indenture which are not required for the payment or redemption of Bonds not theretofore surrendered for such payment or redemption; provided that in all events moneys in the Rebate Fund shall be subject to the provisions described under the caption "Rebate Fund" above.

### **Discharge of Liability on Bonds**

Upon the deposit with the Bond Trustee, in trust, at or before maturity, of money or securities in the necessary amount to pay or redeem any Outstanding Bond (whether upon or prior to its maturity or the redemption date of such Bond), provided that, if such Bond is to be redeemed prior to maturity, notice of such redemption shall have been given as provided in the redemption provisions of the Bond Indenture or provision satisfactory to the Bond Trustee shall have been made for the giving of such notice, then all liability of the Authority in respect of such Bond shall cease, terminate become void and be completely discharged and satisfied, except only that thereafter the Holder thereof shall be entitled to payment of the principal of and interest on such Bond by the Authority, and the Authority shall remain liable for such payments, but only out of such money or securities deposited with the Bond Trustee as aforesaid for their payment.

### **Deposit of Money or Securities with Bond Trustee**

Whenever in the Bond Indenture it is provided or permitted that there be deposited with or held in trust by the Bond Trustee money or securities in the necessary amount to pay or redeem any Bonds, the money or securities so to be deposited or held may include money or securities held by the Bond Trustee in the funds and accounts established pursuant to the Bond Indenture (other than the Rebate Fund) and shall be:

- (i) lawful money of the United States of America in an amount equal to the principal amount of such Bonds and all unpaid interest thereon to maturity, except that, in the case of Bonds which are to be redeemed prior to maturity and in respect of which notice of such redemption shall have been given as provided in the redemption provisions of the Bond Indenture or provision satisfactory to the Bond Trustee shall have been made for the giving of such notice, the amount to be deposited or held shall be the principal amount or Redemption Price of such Bonds and all unpaid interest thereon to the redemption date; or
- (ii) United States Government Obligations (not callable by the issuer thereof prior to maturity), the principal of and interest on which when due (without any income from the reinvestment thereof) will provide money sufficient to pay the principal or Redemption Price of and all unpaid interest to maturity, or to the redemption date, as the case may be, on the Bonds to be paid or redeemed, as such principal or Redemption Price and interest become due; provided that, in the case of Bonds which are to be redeemed prior to the maturity thereof, notice of such redemption shall have been given as provided in the redemption provisions of the Bond Indenture or provision satisfactory to the Bond Trustee shall have been made for the giving of such notice;

provided, in each case, that the Bond Trustee shall have been irrevocably instructed (by the terms of the Bond Indenture or by Request of the Authority) to apply such money to the payment of such principal or Redemption Price and interest with respect to such Bonds, and provided further, that with respect to the deposit of United States Government Obligations pursuant to subparagraph (ii) above, the Bond Trustee shall have received a verification report from a firm of independent accountants to the effect that the amount deposited is sufficient to make the payments specified therein.

## **LOAN AGREEMENT**

The Loan Agreement is an agreement between the Authority and the Corporation, whereby the Authority agrees to lend the proceeds of the Bonds to the Corporation and the Corporation agrees to make payments to the Bond Trustee sufficient to pay debt service on the Bonds. Such payments will be made pursuant to Obligation No. 3. The following is a summary of certain provisions of the Loan Agreement. This summary does not purport to be complete or definitive and is qualified in its entirety by reference to the full terms of the Loan Agreement.

### **Credits for Payments**

The Corporation shall receive credit against its payments required to be made under the Loan Agreement, in addition to any credits resulting from payment or repayment from other sources, as follows:

- (a) on installments of interest in an amount equal to moneys deposited in the Interest Account, to the extent such amounts have not previously been credited against such payments;
- (b) on installments of principal in an amount equal to moneys deposited in the Principal Account, to the extent such amounts have not previously been credited against such payments;
- (c) on installments of principal and interest in an amount equal to the principal amount of Bonds for the payment at maturity or redemption of which sufficient amounts (as determined under the Bond Indenture) in cash or United States Government Obligations are on deposit as provided in the Bond Indenture to the extent such amounts have not previously been credited against such payments, and the interest on such Bonds from and after the date fixed for payment at maturity or redemption thereof. Such credits shall be made against the installments of principal, premium, if any, and interest which would have been used, but for such call for redemption, to pay principal of and interest on such Bonds when due at maturity; and
- (d) on installments of principal and interest in an amount equal to the principal amount of Bonds acquired by the Corporation and surrendered to the Bond Trustee for cancellation or purchased by the Bond Trustee and cancelled, and the interest on such Bonds from and after the date interest thereon has been paid prior to cancellation. Such credits shall be made against the installments of principal and interest which would have been used, but for such cancellation, to pay principal of and interest on such Bonds when due.

### **Additional Payments**

In addition to the Loan Repayments, the Corporation shall also pay to the Authority or the Bond Trustee, as the case may be, "Additional Payments," which include certain taxes or assessments, fees and expenses of the Authority and the Bond Trustee, as more fully described in the Loan Agreement.

## **Payments of Principal, Premium and Interest**

In consideration of the loan of such proceeds to the Corporation, the Corporation agrees that, on or before any Interest Payment Date or Principal Payment Date and as long as any of the Bonds remain Outstanding, it shall pay to the Bond Trustee for deposit in the Revenue Fund such amount as is required by the Bond Trustee to make the transfers and deposits required on or before any Interest Payment Date or Principal Payment Date by the Bond Indenture. Notwithstanding the foregoing, if on any Interest Payment Date or Principal Payment Date, the aggregate amount in the Revenue Fund is for any reason insufficient or unavailable to make the required payments of principal (or Redemption Price) of or interest on the Bonds then becoming due (whether by maturity, redemption or acceleration), the Corporation shall forthwith pay the amount of any deficiency to the Bond Trustee. Each payment by the Corporation to the Bond Trustee under the Loan Agreement (the "Loan Repayments") shall be in lawful money of the United States of America and paid to the Bond Trustee at the Corporate Trust Office, and held, invested, disbursed and applied as provided in the Bond Indenture.

## **Prepayment**

The Corporation shall have the right, so long as all amounts which have become due under the Loan Agreement have been paid, at any time or from time to time to prepay all or any part of its Loan Repayments and the Authority agrees that the Bond Trustee shall accept such prepayments when the same are tendered. Prepayments may be made by payments of cash, deposit of United States Government Obligations or surrender of Bonds. All such prepayments (and the additional payment of any amount necessary to pay the applicable premium, if any, payable upon the redemption of Bonds) shall be deposited upon receipt in the Optional Redemption Account of the Redemption Fund and, at the request of and as determined by the Corporation, credited against payments due under the Loan Agreement or used for the redemption or purchase of Outstanding Bonds in the manner and subject to the terms and conditions set forth in the Bond Indenture. The Corporation also shall have the right to surrender Bonds acquired by it in any manner whatsoever to the Bond Trustee for cancellation, and such Bonds, upon such surrender and cancellation, shall be deemed to be paid and retired, and in the case of Bonds shall be allocated as set forth in the Bond Indenture. Notwithstanding any such prepayment or surrender of Bonds, as long as any Bonds remain Outstanding or any Additional Payments required to be made under the Loan Agreement remain unpaid, the Corporation shall not be relieved of its obligations under the Loan Agreement.

## **Continuing Disclosure**

The Corporation covenants and agrees that it will enter into, comply with and carry out all of the provisions of a disclosure agreement with respect to the Bonds that complies with the provisions of Rule 15c2-12 promulgated by the Securities and Exchange Commission (as amended from time to time, the "Rule"), in form and substance satisfactory to the Participating Underwriter (as defined in the Continuing Disclosure Agreement). Notwithstanding any other provision of the Loan Agreement or the Bond Indenture, failure of the Corporation to enter into and comply with such a disclosure agreement shall not be considered a Loan Default Event or an Event of Default; however, the Bond Trustee may, and, at the request of any Participating Underwriter or the Holders of at least 25% in aggregate principal amount of Outstanding Bonds, shall, with the indemnification satisfactory to it, or any Bondholder or Beneficial Owner may, take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the Corporation to comply with its obligations described in this paragraph.

## Events of Default

Each of the following events shall constitute and be referred to in the Loan Agreement as a “Loan Default Event”:

(a) Failure by the Corporation to pay in full any Loan Repayment when such Loan Repayment is due and payable;

(b) Failure of the Corporation to pay any other payment required under the Loan Agreement or under the Bond Indenture when due and payable, provided that the Corporation shall have a period of thirty (30) days following receipt of written notice regarding a failure to make such a required payment during which the Corporation may make such payment before a Loan Default Event may occur;

(c) If any material representation or warranty made by the Corporation in the Loan Agreement or made by the Corporation in any document, instrument or certificate furnished to the Bond Trustee or the Authority in connection with the issuance of Obligation No. 3 or the Bonds shall at any time prove to have been incorrect in any respect as of the time made;

(d) If the Corporation shall fail to observe or perform any covenant, condition, agreement or provision in the Loan Agreement on its part to be observed or performed, other than as referred to in subsection (a) - (c) of this section, or shall breach any warranty by the Corporation in the Loan Agreement contained, for a period of sixty (60) days after written notice, specifying such failure or breach and requesting that it be remedied, has been given to the Corporation by the Authority or the Bond Trustee; except that, if such failure or breach can be remedied but not within such sixty-(60) day period and if the Corporation has taken all action reasonably possible to remedy such failure or breach within such sixty-(60) day period, such failure or breach shall not become a Loan Default Event for so long as the Corporation shall diligently proceed to remedy the same in accordance with and subject to any directions or limitations of time established by the Bond Trustee;

(e) If the Corporation files a petition in voluntary bankruptcy, for the composition of its affairs or for its corporate reorganization under any state or federal bankruptcy or insolvency law, or makes an assignment for the benefit of creditors, or admits in writing to its insolvency or inability to pay debts as they mature, or consents in writing to the appointment of a trustee or receiver for itself or for the whole or any substantial part of the Corporation’s facilities;

(f) If a court of competent jurisdiction shall enter an order, judgment or decree declaring the Corporation an insolvent, or adjudging it bankrupt, or appointing a trustee or receiver of the Corporation or of the whole or any substantial part of the Corporation’s facilities, or approving a petition filed against the Corporation seeking reorganization of the Corporation under any applicable law or statute of the United States of America or any state thereof, and such order, judgment or decree shall not be vacated or set aside or stayed within sixty (60) days from the date of the entry thereof;

(g) If, under the provisions of any other law for the relief or aid of debtors, any court of competent jurisdiction shall assume custody or control of the Corporation’s facilities, and such custody or control shall not be terminated within sixty (60) days from the date of assumption of such custody or control;

(h) Any Event of Default as defined in and under the Bond Indenture; or

(i) Any Event of Default as defined in and under the Master Indenture.



## **Remedies in General**

Upon the occurrence and during the continuance of any Loan Default Event, the Bond Trustee on behalf of the Authority, at the Bond Trustee's option but subject to the limitations in the Bond Indenture as to the enforcement of remedies, may take such action as it deems necessary or appropriate to collect amounts due under the Loan Agreement, to enforce performance and observance of any obligation or agreement of the Corporation under the Loan Agreement or to protect the interests securing the same. Notwithstanding any other provision of the Loan Agreement or any right, power or remedy existing at law or in equity or by statute, the Bond Trustee shall not under any circumstances declare the entire unpaid aggregate amount of the payment due under the Loan Agreement to be immediately due and payable except in accordance with the directions of the Master Trustee if the Master Trustee shall have declared the aggregate principal amount of Obligation No. 3 and all interest thereon immediately due and payable in accordance with the Master Indenture.

## **Amendments and Supplements**

The Loan Agreement may be amended, changed or modified only as provided in the Bond Indenture.

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## **APPENDIX D**

### **Form of Opinion of Bond Counsel**

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**APPENDIX D**  
**FORM OF OPINION OF BOND COUNSEL**

[CLOSING DATE]

California Statewide Communities Development Authority  
Sacramento, California

California Statewide Communities Development Authority  
Revenue Bonds (Front Porch Communities and Services), Series 2017A  
(Final Opinion)

Ladies and Gentlemen:

We have acted as bond counsel to the California Statewide Communities Development Authority (the “Authority”) in connection with the issuance of \$[PAR] aggregate principal amount of California Statewide Communities Development Authority Revenue Bonds (Front Porch Communities and Services), Series 2017A (the “Bonds”), issued pursuant to a bond indenture, dated as of September 1, 2017 (the “Bond Indenture”), between the Authority and The Bank of New York Mellon Trust Company, N.A., as bond trustee (the “Bond Trustee”). The Bond Indenture provides that the Bonds are issued for the stated purpose of making a loan of the proceeds thereof to Front Porch Communities and Services (the “Corporation”) pursuant to a loan agreement, dated as of September 1, 2017 (the “Loan Agreement”), between the Authority and the Corporation. Capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the Bond Indenture.

In such connection, we have reviewed the Bond Indenture; the Loan Agreement; the Tax Certificate; opinions of counsel to the Corporation; certificates of the Authority, the Bond Trustee, the Corporation and others; and such other documents, opinions and matters to the extent we deemed necessary to render the opinions set forth herein.

We have relied on the opinion of Arnold & Porter Kaye Scholer LLP, special counsel to the Corporation, regarding, among other matters, the current qualification of the Corporation as an organization described in Section 501(c)(3) of the Internal Revenue Code of 1986 (the “Code”). We note that the opinion is subject to a number of qualifications and limitations. We have also relied upon representations of the Corporation regarding the use of the facilities financed or refinanced with the proceeds of the Bonds in activities that are not considered unrelated trade or business activities of the Corporation within the meaning of Section 513 of the Code. We note that the opinion of counsel to the Corporation does not address Section 513 of the Code. Failure of the Corporation to be organized and operated in accordance with the Internal Revenue Service’s requirements for the maintenance of its status as an organization described in Section 501(c)(3) of the Code, or use of the bond-financed or

refinanced facilities in activities that are considered unrelated trade or business activities of the Corporation within the meaning of Section 513 of the Code, may result in interest on the Bonds being included in gross income for federal income tax purposes, possibly from the date of issuance of the Bonds.

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and court decisions and cover certain matters not directly addressed by such authorities. Such opinions may be affected by actions taken or omitted or events occurring after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions are taken or omitted or events do occur or any other matters come to our attention after the date hereof. Accordingly, this letter speaks only as of its date and is not intended to, and may not, be relied upon or otherwise used in connection with any such actions, events or matters. Our engagement with respect to the Bonds has concluded with their issuance, and we disclaim any obligation to update this letter. We have assumed the genuineness of all documents and signatures presented to us (whether as originals or as copies) and the due and legal execution and delivery thereof by, and validity against, any parties other than the Authority. We have assumed, without undertaking to verify, the accuracy of the factual matters represented, warranted or certified in the documents and of the legal conclusions contained in the opinions, referred to in the second and third paragraphs hereof. Furthermore, we have assumed compliance with all covenants and agreements contained in the Bond Indenture, the Loan Agreement and the Tax Certificate, including (without limitation) covenants and agreements compliance with which is necessary to assure that future actions, omissions or events will not cause interest on the Bonds to be included in gross income for federal income tax purposes. We call attention to the fact that the rights and obligations under the Bonds, the Bond Indenture, the Loan Agreement and the Tax Certificate and their enforceability may be subject to bankruptcy, insolvency, receivership, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases and to the limitations on legal remedies against joint powers agencies in the State of California. We express no opinion with respect to any indemnification, contribution, liquidated damages, penalty (including any remedy deemed to constitute a penalty), right of set-off, arbitration, judicial reference, choice of law, choice of forum, choice of venue, non-exclusivity of remedies, waiver or severability provisions contained in the foregoing documents, nor do we express any opinion with respect to the state or quality of title to or interest in any of the assets described in or as subject to the lien of the Bond Indenture or the accuracy or sufficiency of the description contained therein of, or the remedies available to enforce liens on, any such assets. Our services did not include financial or other non-legal advice. Finally, we undertake no responsibility for the accuracy, completeness or fairness of the Official Statement dated [\_\_\_\_\_] [\_\_\_\_], 2017 or other offering material relating to the Bonds and express no opinion with respect thereto.

Based on and subject to the foregoing, and in reliance thereon, as of the date hereof, we are of the following opinions:

1. The Bonds constitute the valid and binding limited obligations of the Authority.
2. The Bond Indenture has been duly executed and delivered by, and constitutes the valid and binding obligation of, the Authority. The Bond Indenture creates a valid pledge, to

secure the payment of the principal of and interest on the Bonds, of the Revenues and any other amounts held by the Bond Trustee in any fund or account established pursuant to the Bond Indenture, except the Rebate Fund, subject to the provisions of the Bond Indenture permitting the application thereof for the purposes and on the terms and conditions set forth in the Bond Indenture.

3. The Loan Agreement has been duly executed and delivered by, and constitutes a valid and binding agreement of, the Authority.

4. Interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Code and is exempt from State of California personal income taxes. Interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although we observe that it is included in adjusted current earnings when calculating corporate alternative minimum taxable income. We express no opinion regarding other tax consequences related to the ownership or disposition of, or the amount, accrual or receipt of interest on, the Bonds.

Faithfully yours,

ORRICK, HERRINGTON & SUTCLIFFE LLP

per

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## **APPENDIX E**

### **Proposed Form of Continuing Disclosure Agreement**

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**MASTER CONTINUING DISCLOSURE AGREEMENT**

**Dated as of**  
**September 1, 2017**

**Between**

**FRONT PORCH COMMUNITIES AND SERVICES**

**AND**

**THE BANK OF NEW YORK MELLON TRUST COMPANY, N.A.**

**\$(Principal Amount)**  
**Revenue Bonds**  
**(Front Porch Communities and Services)**  
**Series 2017A**

## MASTER CONTINUING DISCLOSURE AGREEMENT

This **MASTER CONTINUING DISCLOSURE AGREEMENT** dated as of **September 1, 2017** (this “*Agreement*”), is executed and delivered by **Front Porch Communities and Services** (the “*Corporation*”) and **The Bank of New York Mellon Trust Company, N.A.**, as dissemination agent (the “*Dissemination Agent*”).

### RECITALS

1. This Agreement is executed and delivered in connection with the issuance by the **California Statewide Communities Development Authority** (the “*Authority*”) of **\$(Principal Amount) Revenue Bonds (Front Porch Communities and Services), Series 2017A** (the “*Series 2017A Bonds*”), pursuant to a Bond Trust Indenture dated as of **September 1, 2017**, between the Authority and **The Bank of New York Mellon Trust Company, N.A.**, as Bond Trustee. The proceeds of the Bonds are being loaned by the Authority to the Corporation pursuant to a Loan Agreement dated as of **September 1, 2017**, between the Authority and the Corporation.

2. The Corporation and the Dissemination Agent are entering into this Agreement for the benefit of the Beneficial Owners of the Bonds and in order to assist each Participating Underwriter in complying with Rule 15c2-12 of the Securities and Exchange Commission (the “*Rule*”). The Corporation is the only “*obligated person*” (as defined by the Rule) with responsibility for continuing disclosure. The Authority has undertaken no responsibility with respect to any reports, notices or disclosures provided or required under this Agreement and has no liability to any person, including any Beneficial Owner of the Bonds, with respect to the Rule.

In consideration of the mutual covenants and agreements herein, the Corporation and the Dissemination Agent covenant and agree as follows:

#### ***Section 1. Definitions.***

In addition to the definitions set forth in the Bond Indenture, which apply to any capitalized term used in this Agreement unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

“*Annual Report*” means any Annual Report filed by the Corporation pursuant to, and as described in, **Section 2** of this Agreement.

“*Authority*” means the **California Statewide Communities Development Authority**, and its successors and assigns or any body, agency or instrumentality of the State of California succeeding to or charged with the powers, duties and functions of the Authority, or any other issuer of a series of Bonds.

“*Beneficial Owner*” means, with respect to a series of Bonds, any registered owner of any Bonds of such series and any person which (a) has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Bonds of such series (including persons holding Bonds through nominees, depositories or other intermediaries), or (b) is treated as the owner of any Bonds of such series for federal income tax purposes.

*“Bond Indenture”* means with respect to each series of Bonds, the bond trust indenture between the Authority and the Bond Trustee for the benefit of the bondholders establishing the rights, duties and remedies of the Authority and the Trustee and specifies the security for such series of Bonds.

*“Bonds”* means all bonds of all series identified on **Schedule 1** as such schedule may be supplemented and amended and, as context may require, the Bonds of any particular series identified on **Schedule 1**. The Corporation may make future series of Bonds subject to this Agreement by delivering the Adoption Agreement attached as **Exhibit D** to the Dissemination Agent.

*“Business Day”* means a day other than (a) a Saturday, Sunday or legal holiday, (b) a day on which banks located in any city in which the principal corporate trust office or designated payment office of the Trustee or the Dissemination Agent is located are required or authorized by law to remain closed, or (c) a day on which the Securities Depository or the New York Stock Exchange is closed.

*“Corporation”* means **Front Porch Communities and Services**, a **California** nonprofit corporation, and its successors and assigns.

*“Dissemination Agent”* means **The Bank of New York Mellon Trust Company, N.A.**, acting in its capacity as Dissemination Agent hereunder, or any successor Dissemination Agent designated in writing by the Corporation.

*“EMMA”* means the Electronic Municipal Market Access system for municipal securities disclosures established and maintained by the MSRB, which can be accessed at [www.emma.msrb.org](http://www.emma.msrb.org).

*“Fiscal Year”* means the **12-month** period beginning on **April 1** and ending on **March 31** or any other **12-month** period selected by Corporation as its Fiscal Year for financial reporting purposes.

*“Loan Agreement”* means with respect to each series of Bonds, the agreement between the Authority and the Corporation pursuant to which the Authority loans the proceeds of such Bonds to the Corporation.

*“Material Events”* means any of the events listed in **Section 3(a)** of this Agreement.

*“MSRB”* means the Municipal Securities Rulemaking Board, or any successor repository designated as such by the Securities and Exchange Commission in accordance with the Rule.

*“Obligated Group”* means the Obligated Group, as constituted from time to time under the Master Trust Indenture dated as of September 1, 2017, among the Corporation and The Bank of New York Mellon Trust Company, N.A., as master trustee. As of the date of this Agreement, the Corporation is the only member of the Obligated Group.

*“Participating Underwriter”* means each of the original underwriters of a series of Bonds required to comply with the Rule in connection with the offering of Bonds of that series.

*“Quarterly Report”* means a document or set of documents that (a) identifies the *“obligated persons”* (as defined by the Rule) as of the date of the Quarterly Report, (b) contains the unaudited financial statements of the Obligated Group, consisting of a statement of changes in net assets and statement of operations for such quarter, all prepared on substantially the same basis as the most recently prepared audited financial statements of the Corporation described in **Section 2(a)(1)** hereof, and (c) contains the quarterly operating data identified on **Exhibit A**.

“*Quarterly Report Date*” means the date that is the 45<sup>th</sup> day following the end of each fiscal quarter of the Corporation, commencing with the calendar quarter ending September 30, 2017.

“*Rule*” means Rule 15c2-12 adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended.

“*Trustee*” means, with respect to each series of Bonds, the corporate trustee under the applicable Bond Indenture.

***Section 2. Provision of Annual Reports.***

- (a) The Corporation shall, or shall cause the Dissemination Agent to, not later than **150** days after the end of the Corporation’s Fiscal Year, commencing with the year ending March 31, 2018, file with the MSRB, through EMMA, the following financial information and operating data (the “*Annual Report*”):
  - (1) The audited financial statements of the Obligated Group for the prior Fiscal Year prepared in accordance with accounting principles generally accepted in the United States, which shall include the financial results and information of any other entity required to be consolidated or combined with Members of the Obligated Group under accounting principles generally accepted in the United States. If audited financial statements are not available by the time the Annual Report is required to be filed pursuant to this Section, the Annual Report shall contain unaudited financial statements in a format similar to the audited financial statements contained in the final Official Statement relating to the Bonds, and the audited financial statements shall be filed in the same manner as the Annual Report promptly after they become available. If the audited financial statements contain the financial information of any entity that is not an Obligated Group Member, such financial statements shall contain, as “other information,” a combining or consolidating schedule providing financial information solely relating to the Obligated Group Members.
  - (2) Updates as of the end of the Fiscal Year of certain financial information and operating data contained in the final Official Statement for the Series 2017A Bonds, as described in **Exhibit A**, with such modifications to the formatting and general presentation thereof as deemed appropriate by the Corporation; provided, any substantive change to information provided shall be effected only in accordance with **Section 6** hereof.

Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues with respect to which the Corporation is an “obligated person” (as defined by the Rule), which have been filed with the MSRB or the Securities and Exchange Commission. If the document included by reference is a final official statement, it must be available from the MSRB on EMMA. The Corporation shall clearly identify each such other document so included by reference.

In each case, the Annual Report may be submitted as a single document or as separate documents comprising a package, and may cross-reference other information as provided in this Section; provided that the audited financial statements of the Corporation may be

submitted separately from the balance of the Annual Report and later than the date required above for the filing of the Annual Report if they are not available by that date. If the Corporation's Fiscal Year changes, it shall give notice of such change in the same manner as for a Material Event under **Section 3(d)**.

- (b) Not later than the date specified in subsection (a) for providing the Annual Report to the MSRB, the Corporation shall either (1) provide the Annual Report to the Dissemination Agent, with written instructions to file the Annual Report as specified in subsection (a), or (2) provide written notice to the Dissemination Agent that the Corporation has filed the Annual Report with the MSRB (or will do so prior to the deadline specified in subsection (a)).
- (c) If the Dissemination Agent has not received either an Annual Report with filing instructions or a written notice from the Corporation that it has filed an Annual Report with the MSRB by the date required in subsection (a), the Dissemination Agent shall file a notice with the MSRB in substantially the form attached as **Exhibit B**.
- (d) The Dissemination Agent shall, (1) notify the Corporation each year, not later than **30** days prior to the date for providing the Annual Report to the MSRB, of the date on which its Annual Report must be provided to the Dissemination Agent or the MSRB, and (2) unless the Corporation has filed the Annual Report with the MSRB, promptly following receipt of the Annual Report and instructions required in subsection (a) above, file the Annual Report with the MSRB and submit a report to the Corporation, the Authority and (if the Dissemination Agent is not the Trustee) the Trustee certifying that the Annual Report has been filed pursuant to this Agreement, stating the date it was filed.
- (e) The Corporation shall, or shall cause the Dissemination Agent to, file a Quarterly Report with the MSRB through EMMA not later than each Quarterly Report Date.
- (f) The Dissemination Agent shall, unless the Corporation has filed the Quarterly Report with the MSRB, promptly following receipt of the Quarterly Report and instructions to file the Quarterly Report, file the Quarterly Report with the MSRB and provide the Corporation and the Trustee written confirmation that the Quarterly Report was filed with the MSRB in accordance with **Section 2(e)** hereof.
- (g) If the Dissemination Agent has not received either the Quarterly Report with filing instructions or a written notice from the Corporation that it has filed the Quarterly Report with the MSRB by the date required in subsection (e), the Dissemination Agent shall file a notice with the MSRB in substantially the form attached as **Exhibit C**.
- (h) The Annual Report shall be filed with the MSRB in such manner and format as is prescribed by the MSRB.

**Section 3.      *Reporting of Material Events.***

- (a) No later than **10 Business Days** after the occurrence of any of the following events, the Corporation shall give, or cause to be given, to the MSRB, through EMMA, notice of the occurrence of any of the following events with respect to the Bonds (*“Material Events”*):
- (1) principal and interest payment delinquencies;
  - (2) non-payment related defaults, if material;
  - (3) unscheduled draws on debt service reserves reflecting financial difficulties;
  - (4) unscheduled draws on credit enhancements reflecting financial difficulties;
  - (5) substitution of credit or liquidity providers, or their failure to perform;
  - (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds;
  - (7) modifications to rights of bondholders, if material;
  - (8) bond calls, if material, and tender offers;
  - (9) defeasances;
  - (10) release, substitution or sale of property securing repayment of the Bonds, if material;
  - (11) rating changes;
  - (12) bankruptcy, insolvency, receivership or similar event of the Corporation or any other Member of the Obligated Group (which shall be deemed to occur as provided in the Rule);
  - (13) the consummation of a merger, consolidation, or acquisition involving the Corporation or any member of the Obligated Group or the sale of all or substantially all of the assets of the Corporation or any member of the Obligated Group, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and
  - (14) appointment of a successor or additional trustee or the change of name of the trustee, if material.
- (b) The Dissemination Agent shall, promptly after obtaining actual knowledge of the occurrence of any event that it believes may constitute a Material Event, contact the chief financial officer of the Corporation or his or her designee or such other person as the Corporation shall designate in writing to the Dissemination Agent from time to time, inform such person of the event, and request that the Corporation promptly notify the Dissemination Agent in writing whether or not to report the event pursuant to subsection (d). If in response to a request under this subsection (b), the Corporation determines that the event does not constitute a Material Event, the Corporation shall so notify the Dissemination Agent in writing and instruct the Dissemination Agent not to report the occurrence pursuant to subsection (d).
- (c) Whenever the Corporation obtains knowledge of the occurrence of a Material Event, because of a notice from the Dissemination Agent pursuant to subsection (b) or otherwise, the Corporation shall promptly notify and instruct the Dissemination Agent in writing to report the occurrence pursuant to subsection (d).



- (d) If the Dissemination Agent receives written instructions from the Corporation to report the occurrence of a Material Event, the Dissemination Agent shall promptly file a notice of such occurrence with the MSRB, with a copy to the Corporation.

***Section 4. Termination of Reporting Obligation.***

The Corporation's obligations under this Agreement for a particular series of Bonds shall terminate upon the legal defeasance, prior redemption or payment in full of that series of Bonds. If the Corporation's obligations under this Agreement are assumed in full by some other entity, such entity shall be responsible for compliance with this Agreement in the same manner as if it were the Corporation, and the Corporation shall have no further responsibility hereunder. If such assumption occurs prior to the final maturity of such Bonds, the Corporation shall give notice of such assumption in the same manner as for a Material Event under **Section 3(d)**.

***Section 5. Dissemination Agent.***

The Corporation may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Agreement, and may discharge any such Agent, with or without appointing a successor Dissemination Agent. The Dissemination Agent may resign as dissemination agent hereunder at any time upon **30** days prior written notice to the Corporation. The Dissemination Agent shall not be responsible in any manner for the content of any notice or report (including without limitation the Annual Report) prepared by the Corporation pursuant to this Agreement. The initial Dissemination Agent is The Bank of New York Mellon Trust Company, N.A.

***Section 6. Bonds Subject to this Agreement; Amendment; Waiver.***

(a) The Series 2017A Bonds are hereby made subject to this Agreement. The Corporation may make any future series of Bonds subject to this Agreement by delivering the Adoption Agreement attached as **Exhibit D** to the Dissemination Agent.

(b) All references to the "Bonds" in this Agreement shall apply separately to each series of Bonds that are or become subject to this Agreement, without further amendment hereto.

(c) Notwithstanding the provisions of **subsection (d)** of this Section or anything else contained in this Agreement to the contrary, in conjunction with the public offering of any series of Bonds, the Corporation and the Dissemination Agent may amend the categories of operating data to be updated on an annual or quarterly basis as set forth on **Exhibit A** to conform to the operating data included in the final official statement for such series of Bonds, in conformance with the requirements and interpretations of the Rule as of the date of such final official statement, without further amendment to this Agreement. Thereafter, the annual or quarterly operating data to be filed by the Corporation with the MSRB with respect to the Bonds (and all other series of Bonds then subject to this Agreement) shall be deemed to be amended to reflect the requirements of the revised **Exhibit A** for the new series of Bonds.

(d) Except as otherwise provided in **subsection (c)** of this Section, the Corporation and the Dissemination Agent may amend this Agreement and any provision of this Agreement may be waived, provided that Bond Counsel or other counsel experienced in federal securities law matters provides the Corporation and the Dissemination Agent with its written opinion that the undertaking of the Corporation contained herein, as so amended or after giving effect to such waiver, is in compliance with the Rule and all current amendments thereto and interpretations thereof that are applicable to this Agreement; provided,

however, that this Agreement, including **Schedule 1** hereto, may be amended for the purpose of (i) extending the coverage of this Agreement to any additional series of Bonds or (ii) removing reference to any series of Bonds for which the Corporation's reporting obligations have terminated in accordance with **Section 4** hereof, each without the provision of a written opinion as otherwise required by this paragraph.

(e) If a provision of this Agreement is amended or waived with respect to a series of Bonds pursuant to **subsection (d)** of this Section, the Corporation shall describe such amendment or waiver in the next Annual Report, and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or, in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by the Corporation. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements, (1) notice of such change shall be given in the same manner as for a Material Event under **Section 3(d)**, and (2) the Annual Report for the year in which the change is made should present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

#### ***Section 7. Additional Information.***

Nothing in this Agreement shall be deemed to prevent the Corporation from disseminating any other information, using the means of dissemination set forth in this Agreement or any other means of communication, or including any other information in any Annual Report or Quarterly Report or notice of occurrence of a Material Event, in addition to that which is required by this Agreement. If the Corporation chooses to include any information in any Annual Report or Quarterly Report or notice of occurrence of a Material Event, in addition to that which is specifically required by this Agreement, the Corporation shall have no obligation under this Agreement to update such information or include it in any future Annual Report, Quarterly Report, or notice of occurrence of a Material Event.

#### ***Section 8. Default.***

If there is a failure of the Corporation or the Dissemination Agent to comply with any provision of this Agreement with respect to a series of Bonds, the Trustee for such series of Bonds may (and, at the request of any Participating Underwriter or the Beneficial Owners of at least **25%** aggregate principal amount of outstanding Bonds of such series and upon being indemnified to its satisfaction therefore, shall) take such actions as may be necessary and appropriate, including seeking mandamus or specific performance by court order, to cause the Corporation or the Dissemination Agent, as the case may be, to comply with its obligations under this Agreement. A default under this Agreement shall not be deemed an event of default under the Bond Indenture or the Loan Agreement, and the sole remedy under this Agreement if there is any failure of the Corporation or the Dissemination Agent to comply with this Agreement shall be an action to compel performance.

#### ***Section 9. Duties and Liabilities of Dissemination Agent.***

The Dissemination Agent shall have only such duties as are specifically set forth in this Agreement, and the Corporation agrees to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which it may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorneys' fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. The obligations of the Corporation under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Bonds. The

Corporation shall pay the fees, charges and expenses of the Dissemination Agent in connection with its administration of this Agreement.

***Section 10. Notices.***

Any notices or communications to or among any of the parties to this Agreement may be given by registered or certified mail, return receipt requested, or by facsimile or by e-mail, receipt confirmed by telephone, or delivered in person or by overnight courier, and will be deemed given on the second day following the date on which the notice or communication is so mailed, as follows:

**To the Corporation:**                      **Front Porch Communities and Services**  
800 N. Brand Blvd.  
19<sup>th</sup> Floor  
Glendale, CA 91203  
San Diego, California 92123  
Attention: Chief Financial Officer

**To the Dissemination Agent:**   **The Bank of New York Mellon Trust Company, N.A.**  
400 South Hope Street, Suite 500  
Los Angeles, CA 90071  
Attention: Global Corporate Trust Services

Any person may, by written notice to the other persons listed above, designate a different address or an email address, telephone number or facsimile number to which subsequent notices or communications should be sent.

***Section 11. Beneficiaries.***

This Agreement shall inure solely to the benefit of the Authority, the Corporation, the Trustee, the Dissemination Agent, each Participating Underwriter, and Beneficial Owners from time to time with respect to a series of Bonds, and shall create no rights in any other person or entity.

***Section 12. Severability.***

If any provision in this Agreement, the Bond Indenture, the Loan Agreement or the Bonds shall be invalid, illegal or unenforceable, the validity, legality and enforceability of the remaining provisions of this Agreement shall not in any way be affected or impaired thereby.

***Section 13. Counterparts.***

This Agreement may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

***Section 14. Electronic Transactions.***

The arrangement described herein may be conducted and related documents may be stored by electronic means. Copies, telecopies, facsimiles, electronic files and other reproductions of original documents shall be deemed to be authentic and valid counterparts of such original documents for all purposes, including the filing of any claim, action or suit in the appropriate court of law.

***Section 15. Governing Law.***

This Agreement shall be governed by and construed in accordance with the laws of the State of California.

**IN WITNESS WHEREOF**, the Corporation and the Dissemination Agent have caused this Master Continuing Disclosure Agreement to be executed as of the day and year first above written.

**Front Porch Communities and Services**

By: \_\_\_\_\_  
Title: \_\_\_\_\_

**The Bank of New York Mellon Trust  
Company, N.A.,**  
as Dissemination Agent

By: \_\_\_\_\_  
Title: Authorized Officer

**SCHEDULE 1**

**THE BONDS**

**SERIES 2017A BONDS**

<b>Issuer</b>	California Statewide Communities Development Authority
<b>Issue Name</b>	Revenue Bonds (Front Porch Communities and Services) Series 2017A
<b>Obligated Persons</b>	Front Porch Communities and Services
<b>Date of Issuance</b>	September __, 2017

## **EXHIBIT A**

### **FINANCIAL INFORMATION AND OPERATING DATA TO BE INCLUDED IN ANNUAL AND QUARTERLY REPORTS**

#### **Annual Report Operating Data:**

The financial information and operating data contained in the following described sections and tables contained in Appendix A of the final Official Statement for the Series 2017A Bonds:

- COMMUNITIES – Unit Mix by Community
- OPERATIONS – Historical Occupancy
- OPERATIONS – Care Center Payor Mix and Occupancy
- FINANCIAL INFORMATION – Debt Service Coverage Ratios (actual historical debt service coverage only)
- FINANCIAL INFORMATION – Days Cash on Hand
- FINANCIAL INFORMATION – Cash to Debt Ratios
- FINANCIAL INFORMATION – Management’s Discussion – Consolidated Group

#### **Quarterly Report Operating Data:**

Updates for the most recent fiscal quarter (on a year-to-date basis, as applicable) of the following tables contained in the final Official Statement for the Series 2017A Bonds:

- COMMUNITIES – Unit Mix by Community
- OPERATIONS – Care Center Payor Mix and Occupancy
- OPERATIONS – Historical Occupancy
- FINANCIAL INFORMATION – Management’s Discussion – Consolidated Group

**EXHIBIT B**

**NOTICE OF FAILURE TO FILE ANNUAL REPORT**

**Name of Issuer:** California Statewide Communities Development Authority

**Name of Bond Issue(s):** Revenue Bonds (Front Porch Communities and Services) Series 2017A

**Name of Obligated Person:** Front Porch Communities and Services

**NOTICE IS HEREBY GIVEN** that Front Porch Communities and Services has not filed an Annual Report with respect to the above-named series of Bonds as required by the Master Continuing Disclosure Agreement dated as of September 1, 2017, between Front Porch Communities and Services and The Bank of New York Mellon Trust Company, N.A., as Dissemination Agent. [The Corporation has informed the Dissemination Agent that it anticipates that the Annual Report will be filed by \_\_\_\_\_.]

**Dated:** \_\_\_\_\_, \_\_\_\_', \_\_\_\_'.

**The Bank of New York Mellon Trust Company, N.A.,**  
as Dissemination Agent  
on behalf of **Front Porch Communities and Services**

cc: Front Porch Communities and Services

## EXHIBIT C

### NOTICE OF FAILURE TO FILE QUARTERLY REPORT

**Name of Issuer:** California Statewide Communities Development Authority

**Name of Bond Issue(s):** Revenue Bonds (Front Porch Communities and Services) Series 2017A

**Name of Obligated Person:** Front Porch Communities and Services

**NOTICE IS HEREBY GIVEN** that Front Porch Communities and Services has not filed a Quarterly Report with respect to the above-named series of Bonds as required by the Master Continuing Disclosure Agreement dated as of September 1, 2017, between Front Porch Communities and Services and The Bank of New York Mellon Trust Company, N.A., as Dissemination Agent. [The Corporation has informed the Dissemination Agent that it anticipates that the Quarterly Report will be filed by \_\_\_\_\_.]

**Dated:** \_\_\_\_\_, \_\_\_\_\_.

**The Bank of New York Mellon Trust Company, N.A.,**  
as Dissemination Agent  
on behalf of **Front Porch Communities and Services**

cc: Front Porch Communities and Services



## EXHIBIT D

### ADOPTION AGREEMENT

relating to

### MASTER CONTINUING DISCLOSURE AGREEMENT

This Adoption Agreement (the “*Adoption Agreement*”) dated as of \_\_\_\_\_, 20\_\_, relating to that certain Master Continuing Disclosure Agreement dated as of September 1, 2017, as supplemented and amended to date (the “*Disclosure Agreement*”), is executed and delivered by Front Porch Communities and Services (the “*Corporation*”). Capitalized terms not otherwise defined in this Adoption Agreement have the meanings given those terms in the Disclosure Agreement.

**WHEREAS**, the Disclosure Agreement was executed and delivered by the Corporation and The Bank of New York Mellon Trust Company, N.A., as dissemination agent (the “*Dissemination Agent*”) for the benefit of the Beneficial Owners of the outstanding Bonds (the “*Prior Bonds*”) with respect to which the Corporation is an obligated person within the meaning of Rule 15c2-12 adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended (the “*Rule*”) and governs the continuing disclosure obligations of the Corporation with respect to all future Bonds with respect to which the Corporation is an obligated person within the meaning of the Rule after the date of the Disclosure Agreement;

**WHEREAS**, the Authority has determined to issue its Revenue Bonds, Series 20\_\_ in the aggregate principal amount of \$\_\_\_\_\_ (the “*Series 20\_\_ Bonds*”) on a parity with the Prior Bonds, which Series 20\_\_ Bonds have been offered pursuant to an Official Statement dated \_\_\_\_\_, 20\_\_; and

**WHEREAS**, the Corporation and the Dissemination Agent have determined that, in order to assist the underwriter[s] of the Series 20\_\_ Bonds in complying with the Rule, they will reaffirm the applicability of the Disclosure Agreement to the Series 20\_\_ Bonds in all respects through this Adoption Agreement;

**NOW, THEREFORE**, the Corporation covenants and agrees for the benefit of the Beneficial Owners of the Series 20\_\_ Bonds as follows:

***Section 1. Affirmation.*** The applicability of the Disclosure Agreement to the Series 20\_\_ Bonds is hereby affirmed in all respects.

**THIS ADOPTION AGREEMENT** is entered into by the Corporation as of the day and year first above written.

**Front Porch Communities and Services**

By \_\_\_\_\_  
[Title]

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## APPENDIX F

### BOOK-ENTRY ONLY SYSTEM

The information under this caption concerning DTC and DTC's book-entry system is based solely on information provided by DTC. Accordingly, no representation is made by the Authority, the Bond Trustee, the Corporation or the Underwriter as to the completeness or accuracy of such information, or as to the absence of changes in such information subsequent to the date hereof.

#### **Bonds in Book-Entry Form**

Beneficial ownership in the Bonds will be available to Beneficial Owners (as described below) only by or through DTC Participants via a book-entry system (the **"Book-Entry System"**) maintained by DTC. If the Bonds are taken out of the Book-Entry System and delivered to owners in physical form, as contemplated hereinafter under "Discontinuance of DTC Services," the following discussion will not apply.

#### **DTC and Its Participants**

The Depository Trust Company (**"DTC"**), New York, NY, will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Bond certificate will be issued for each maturity of the Bonds, in a principal amount equal to the aggregate principal amount of such maturity, and will be deposited with DTC. As such, DTC will be the only registered owner of the Bonds as reflected in the books and records of the Bond Trustee.

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants (the "Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (**"DTCC"**). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (the "Indirect Participants"). DTC has a Standard & Poor's rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com).

Purchases of the Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond (the "Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners.

Beneficial Owners will not receive certificates representing their ownership interests in the Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of the Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of the Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Bond documents. For example, Beneficial Owners of the Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Bonds within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Authority as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds and principal and interest payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Bond Trustee or the Authority, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC nor its nominee, the Bond Trustee, the Members or the Authority, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds and principal and interest payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Authority or the Bond Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

### **Discontinuance of DTC Services**

DTC may discontinue providing its services as depository with respect to the Bonds at any time by giving reasonable notice to the Authority and the Bond Trustee. Under such circumstances, in the event that a successor depository is not obtained, Bond certificates are required to be printed and delivered.

The Authority may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, Bond certificates will be printed and delivered.

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