

ANNUAL REPORT CHECKLIST

for
FISCAL YEAR ENDED:
2012

PROVIDER: CoreCare III

FACILITY(IES): Morningside of Fullerton

CONTACT PERSON: Gary Stork

TELEPHONE NO.: (714) 256-8001

✓ ✓ ✓ ✓ ✓ ✓ ✓ ✓ ✓ ✓ ✓ ✓ ✓

Your complete annual report must consist of **3 copies** of all of the following:

- ✓ This cover sheet.
- ✓ Annual Provider Fee in the amount of: \$ 16,939.00
 - ✓ If applicable, late fee in the amount of: \$ _____
- ✓ Certification by the provider's chief *executive* officer that:
 - ✓ The reports are correct to the best of his/her knowledge.
 - ✓ Each continuing care contract form in use or offered to new residents has been approved by the Department.
 - ✓ The provider is maintaining the required liquid reserve and refund reserve, if applicable.
- ✓ Evidence of the provider's fidelity bond.
- ✓ The provider's audited financial statements, with an accompanying certified public accountant's opinion thereon.
- ✓ The provider's audited reserve reports (prepared on Department forms), with an accompanying certified public accountant's opinion thereon.
- ✓ The provider's "Continuing Care Retirement Community Disclosure Statement" for **each** community.

FORM 1-1
RESIDENT POPULATION

| <u>Line</u> | Continuing Care Residents | <u>TOTAL</u> |
|----------------------|---|--------------|
| [1] | Number at beginning of fiscal year | 421 |
| [2] | Number at end of fiscal year | 435 |
| [3] | Total Lines 1 and 2 | 856 |
| [4] | Multiply Line 3 by ".50" and enter result on Line 5. | x .50 |
| [5] | Mean number of continuing care residents | 428 |
| All Residents | | |
| [6] | Number at beginning of fiscal year | 421 |
| [7] | Number at end of fiscal year | 435 |
| [8] | Total Lines 6 and 7 | 856 |
| [9] | Multiply Line 8 by ".50" and enter result on Line 10. | x .50 |
| [10] | Mean number of <i>all</i> residents | 428 |
| [11] | Divide the mean number of continuing care residents (Line 5) by the mean number of <i>all</i> residents (Line 10) and enter the result (round to two decimal places). | 1.00 |

FORM 1-2
ANNUAL PROVIDER FEE

| <u>Line</u> | | <u>TOTAL</u> |
|-------------|--|--------------------|
| [1] | Total Operating Expenses (including depreciation and debt service - interest only) | \$18,693,110 |
| [a] | Depreciation | \$1,753,877 |
| [b] | Debt Service (Interest Only) | \$0 |
| [2] | Subtotal (add Line 1a and 1b) | \$1,753,877 |
| [3] | Subtract Line 2 from Line 1 and enter result. | \$16,939,233 |
| [4] | Percentage allocated to continuing care residents (Form 1-1, Line 11) | 100% |
| [5] | Total Operating Expense for Continuing Care Residents (multiply Line 3 by Line 4) | \$16,939,233 |
| [6] | Total Amount Due (multiply Line 5 by .001) | x .001 \$16,939 |



Statement of Chief Executive Officer
California Department of Social Services Annual Report
CoreCare III dba Morningside of Fullerton

The undersigned does attest the 2012 Annual Report is correct; the contract in use for new residents has been approved by the Department, and liquid reserves are maintained pursuant to requirements of the California Health and Safety Code.

E. Justin Wilson, III
President

4/15/13

Date

DESCRIPTIONS (Continued from Page 1)

Morningside Core Care Associates, LP
Morningside SP Associates, Inc. a California Corporation
Core Care Inc., a CA Corporation dba Core Care I
Core Care II, LP
Core Care III, LP DBA: Morningside at Fullerton
Core Care V, LP DBA: Park Vista at Morningside
CLC Thousand Oaks, LLC dba University Village Thousand Oaks
CLC Thousand Oaks HC, LLC dba: Oakview at University Village
Continuing Life Communities Pleasanton LLC
Continuing Life Communities Pleasanton, HC, LLC

RE: I

CORECARE III

dba MORNINGSIDE OF FULLERTON

FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION

YEARS ENDED DECEMBER 31, 2012 AND 2011

WITH INDEPENDENT AUDITORS' REPORT

CORECARE III
dba MORNINGSIDE OF FULLERTON
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DECEMBER 31, 2012 AND 2011

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WHITE NELSON DIEHL EVANS LLP
Certified Public Accountants & Consultants

INDEPENDENT AUDITORS' REPORT

RECEIVED
APR 19 2013
CONTINUING CARE
CONTRACTS DIVISION

To the Partners of
CoreCare III
dba Morningside of Fullerton
Fullerton, California

We have audited the accompanying financial statements of CoreCare III, dba Morningside of Fullerton ("the Partnership") (a California limited partnership) which comprise the balance sheets as of December 31, 2012 and 2011, and the related statements of operations, comprehensive income, changes in partners' equity (deficit), and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Partnership's preparation and fair presentation of the 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 Partnership'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 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 financial statements referred to above present fairly, in all material respects, the financial position of CoreCare III, dba Morningside of Fullerton as of December 31, 2012 and 2011, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

White Nelson Dick Evans LLP

Irvine, California

March 15, 2013

CORECARE III
dba MORNINGSIDE OF FULLERTON
BALANCE SHEETS
DECEMBER 31, 2012 AND 2011

ASSETS

| | <u>2012</u> | <u>2011</u> |
|---|----------------------|----------------------|
| Current Assets: | | |
| Cash And Cash Equivalents | \$ 8,385,842 | \$ 11,083,419 |
| Marketable Securities | 1,944,997 | 1,519,712 |
| Accounts Receivable | 72,599 | 58,283 |
| Inventories | 33,314 | 31,507 |
| Prepaid Expenses | 144,488 | 113,045 |
| Interest Receivable | 13,500 | 20,944 |
| Other Receivables | 53,095 | 23,715 |
| | <hr/> | <hr/> |
| Total Current Assets | 10,647,835 | 12,850,625 |
| Property And Equipment: | | |
| Land | 7,642,717 | 7,642,717 |
| Land Improvements | 3,826,699 | 3,786,932 |
| Buildings And Improvements | 55,818,147 | 54,639,074 |
| Furniture, Fixtures And Equipment | 3,494,031 | 3,750,271 |
| Computer Equipment And Systems | 874,395 | 880,985 |
| Construction In Progress | 173,205 | 880,151 |
| | <hr/> | <hr/> |
| Total Property And Equipment, At Cost | 71,829,194 | 71,580,130 |
| Less: Accumulated Depreciation | <u>(33,043,533)</u> | <u>(32,181,014)</u> |
| | | |
| Total Property And Equipment, At Net Book Value | 38,785,661 | 39,399,116 |
| Deferred Entrance Fees Receivable | <u>15,112,959</u> | <u>13,786,697</u> |
| | | |
| Total Assets | <u>\$ 64,546,455</u> | <u>\$ 66,036,438</u> |

The accompanying notes are an integral part of these financial statements.

CORECARE III
dba MORNINGSIDE OF FULLERTON
BALANCE SHEETS (CONTINUED)
DECEMBER 31, 2012 AND 2011

LIABILITIES AND PARTNERS' EQUITY (DEFICIT)

| | <u>2012</u> | <u>2011</u> |
|---|----------------------|----------------------|
| Current Liabilities: | | |
| Accounts Payable | \$ 416,771 | \$ 373,036 |
| Accrued Expenses | 462,409 | 540,514 |
| Deposits On Unoccupied Units | 405,600 | 300,000 |
| Current Portion Of Note Payable To Master Trust | <u>3,027,129</u> | <u>2,866,489</u> |
| Total Current Liabilities | 4,311,909 | 4,080,039 |
| Note Payable To Master Trust, Net Of Current Portion | 119,685,510 | 113,407,620 |
| Deferred Revenue From Unamortized Deferred Entrance Fees, Net | <u>15,169,762</u> | <u>14,457,254</u> |
| Total Liabilities | 139,167,181 | 131,944,913 |
| Partners' Equity (Deficit): | | |
| Partners' Equity (Deficit) | (74,747,625) | (65,908,475) |
| Accumulated Other Comprehensive Income | <u>126,899</u> | <u>-</u> |
| Total Partners' Equity (Deficit) | <u>(74,620,726)</u> | <u>(65,908,475)</u> |
| Total Liabilities And Partners' Equity (Deficit) | <u>\$ 64,546,455</u> | <u>\$ 66,036,438</u> |

The accompanying notes are an integral part of these financial statements.

CORECARE III
dba MORNINGSIDE OF FULLERTON
STATEMENTS OF OPERATIONS
YEARS ENDED DECEMBER 31, 2012 AND 2011

| | <u>2012</u> | <u>2011</u> |
|--|-------------------------|-------------------------|
| Revenues: | | |
| Resident Services | \$ 17,762,450 | \$ 16,911,890 |
| Amortization Of Deferred Entrance Fees | 3,106,589 | 2,866,015 |
| Deferred Entrance Fees On Terminated Contracts | 1,279,857 | 1,073,548 |
| Non-Resident Services | <u>161,394</u> | <u>165,373</u> |
| Total Revenues | <u>22,310,290</u> | <u>21,016,826</u> |
| Operating Expenses: | | |
| Resident Care | 5,347,850 | 4,782,291 |
| Food And Beverage Services | 2,640,113 | 2,627,914 |
| Environmental Services | 865,480 | 832,716 |
| Plant Facility Operating Costs | 3,519,192 | 3,344,702 |
| General And Administrative Expenses | 4,484,044 | 4,176,602 |
| Depreciation | 1,753,877 | 1,706,818 |
| Loss On Disposal Of Property And Equipment | <u>82,554</u> | <u>124,446</u> |
| Total Operating Expenses | <u>18,693,110</u> | <u>17,595,489</u> |
| Income From Operations | 3,617,180 | 3,421,337 |
| Other Income (Expense): | | |
| Loss On Sale Of Marketable Securities | (42,266) | - |
| Interest And Dividend Income | 65,549 | 63 |
| Other Income | <u>20,387</u> | <u>22,867</u> |
| Total Other Income (Expense) | <u>43,670</u> | <u>22,930</u> |
| Net Income | <u>\$ 3,660,850</u> | <u>\$ 3,444,267</u> |

The accompanying notes are an integral part of these financial statements.

CORECARE III
dba MORNINGSIDE OF FULLERTON
STATEMENTS OF COMPREHENSIVE INCOME
YEARS ENDED DECEMBER 31, 2012 AND 2011

| | <u>2012</u> | <u>2011</u> |
|--|---------------------|---------------------|
| Net Income | \$ 3,660,850 | \$ 3,444,267 |
| Other Comprehensive Income: | | |
| Net Unrealized Holding Gains Arising During The Year | <u>126,899</u> | <u>-</u> |
| Comprehensive Income | <u>\$ 3,787,749</u> | <u>\$ 3,444,267</u> |

The accompanying notes are an integral part of these financial statements.

CORECARE III
dba MORNINGSIDE OF FULLERTON
STATEMENTS OF CHANGES IN PARTNERS' EQUITY (DEFICIT)
YEARS ENDED DECEMBER 31, 2012 AND 2011

| | <u>General Partner</u> | <u>Limited Partner</u> | <u>Accumulated Other Comprehensive Income</u> | <u>Total</u> |
|--|----------------------------|----------------------------|---|------------------------|
| Balance At December 31, 2010 | \$ (43,081,790) | \$ (19,770,952) | \$ - | \$ (62,852,742) |
| Distributions | (3,900,000) | (2,600,000) | - | (6,500,000) |
| Net Income | <u>2,066,560</u> | <u>1,377,707</u> | <u>-</u> | <u>3,444,267</u> |
| Balance At December 31, 2011 | (44,915,230) | (20,993,245) | - | (65,908,475) |
| Distributions | (7,500,000) | (5,000,000) | - | (12,500,000) |
| Net Unrealized Holding Gains Arising During The Year | - | - | 126,899 | 126,899 |
| Net Income | <u>2,196,510</u> | <u>1,464,340</u> | <u>-</u> | <u>3,660,850</u> |
| Balance At December 31, 2012 | <u>\$ (50,218,720)</u> | <u>\$ (24,528,905)</u> | <u>\$ 126,899</u> | <u>\$ (74,620,726)</u> |

The accompanying notes are an integral part of these financial statements.

CORECARE III
dba MORNINGSIDE OF FULLERTON
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2012 AND 2011

| | <u>2012</u> | <u>2011</u> |
|--|---------------------|----------------------|
| Operating Activities: | | |
| Cash Received From Residents | \$ 21,566,294 | \$ 20,769,896 |
| Interest Income | 65,549 | 13,069 |
| Other Income | 20,387 | 22,867 |
| Cash Received From Community Services | 38,196 | 36,220 |
| Reimbursements For Services To Non-Residents | 161,394 | 165,373 |
| Cash Paid To Suppliers And Employees | <u>(16,924,299)</u> | <u>(16,080,811)</u> |
| Net Cash Provided By Operating Activities | 4,927,521 | 4,926,615 |
| Cash Flows From Investing Activities: | | |
| Payments Made On Purchases Of Property And Equipment | (1,222,976) | (1,520,448) |
| Purchases Of Marketable Securities | (2,336,182) | (4,245,936) |
| Proceeds From Redemption Of Marketable Securities | <u>1,995,530</u> | <u>4,165,000</u> |
| Net Cash Used In Investing Activities | (1,563,628) | (1,601,384) |
| Cash Flows From Financing Activities: | | |
| Proceeds From Note Payable To Master Trust | 20,815,119 | 17,375,611 |
| Payments On Note Payable To Master Trust | (14,376,589) | (13,189,602) |
| Distributions To Partners | <u>(12,500,000)</u> | <u>(6,500,000)</u> |
| Net Cash Used In Financing Activities | <u>(6,061,470)</u> | <u>(2,313,991)</u> |
| Net Increase (Decrease) In Cash And Cash Equivalents | (2,697,577) | 1,011,240 |
| Cash And Cash Equivalents, Beginning Of Year | <u>11,083,419</u> | <u>10,072,179</u> |
| Cash And Cash Equivalents, End Of Year | <u>\$ 8,385,842</u> | <u>\$ 11,083,419</u> |

The accompanying notes are an integral part of these financial statements.

CORECARE III
dba MORNINGSIDE OF FULLERTON
STATEMENTS OF CASH FLOWS (CONTINUED)
YEARS ENDED DECEMBER 31, 2012 AND 2011

| | <u>2012</u> | <u>2011</u> |
|---|---------------------|---------------------|
| Reconciliation Of Net Income To Net Cash Provided By Operating Activities: | | |
| Net Income | \$ 3,660,850 | \$ 3,444,267 |
| Non-Cash Items Included In Net Income: | | |
| Depreciation | 1,753,877 | 1,706,818 |
| Amortization Of Deferred Entrance Fees | (3,106,589) | (2,866,015) |
| Deferred Entrance Fees On Terminated Contracts | (1,279,857) | (1,073,548) |
| Loss On Disposal Of Property And Equipment | 82,554 | 124,446 |
| Loss On Sale Of Marketable Securities | 42,266 | - |
| Changes In: | | |
| Accounts Receivable | (14,316) | 27,108 |
| Inventories | (1,807) | 4,972 |
| Prepaid Expenses | (31,443) | (12,517) |
| Interest Receivable | 7,444 | 13,006 |
| Other Receivables | (29,380) | 106,171 |
| Deferred Entrance Fees Receivable | 3,772,692 | 3,815,948 |
| Accounts Payable | 43,735 | (303,466) |
| Accrued Expenses | (78,105) | (5,575) |
| Deposits On Unoccupied Units | 105,600 | (55,000) |
| Net Cash Provided By Operating Activities | <u>\$ 4,927,521</u> | <u>\$ 4,926,615</u> |
| Supplemental Schedule Of Non-Cash Investing And Financing Activities: | | |
| Deferred Entrance Fees Receivable And Deferred Revenue From Unamortized Deferred Entrance Fees Recorded To Reflect Additional Amounts Due From Resident Contributions | <u>\$ 5,098,951</u> | <u>\$ 4,796,364</u> |

The accompanying notes are an integral part of these financial statements.

CORECARE III
dba MORNINGSIDE OF FULLERTON
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011

NOTE A: Nature Of Business And Summary Of Significant Accounting Policies

- (1) Nature Of Business - CoreCare III, dba Morningside of Fullerton (“the Partnership”) owns and operates a multi-use continuing care retirement community.

Profits and losses for financial statement purposes, distributable cash from operations and profits and losses for tax purposes are allocated and distributed to the partners in accordance with the Partnership Agreement. The Agreement also provides for priority distributions, plus an allowance for interest.

- (2) Principles Of Accounting - The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (“U.S. GAAP”).

- (3) Cash And Cash Equivalents - For purposes of the statements of cash flows, cash and cash equivalents include the operating cash account of the Partnership, money market accounts, time deposits, certificates of deposit, and all highly-liquid debt instruments with maturities of three months or less.

- (4) Marketable Securities - Marketable securities held by the Partnership at December 31, 2012 and 2011, are classified in accordance with Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) 320-10, “*Investments - Debt and Equity Securities*”, as either available-for-sale or held-to-maturity. The Partnership determines the appropriate classification of its investments in debt and equity securities at the time of purchase and reevaluates such determinations at each balance sheet date. Debt securities are classified as held-to-maturity when the Partnership has the positive intent and ability to hold the securities to maturity. Held-to-maturity securities are recorded as either short-term or long-term on the balance sheets based on contractual maturity date and are stated at amortized cost. Marketable securities that are purchased with the intent of selling before reaching maturity or prior to a lengthy time period are classified as available-for-sale securities and are reported at fair value based on quoted market prices, with unrealized gains and losses recorded as a component of comprehensive income. The Partnership’s investments at December 31, 2011 were solely in held-to-maturity securities.

Realized gains or losses from the sale of held-to-maturity marketable securities are computed based on amortized cost. Realized gains or losses from the sale of available-for-sale marketable securities are computed based on specific identification of historical cost.

CORECARE III
dba MORNINGSIDE OF FULLERTON
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011

**NOTE A: Nature Of Business And Summary Of Significant Accounting Policies -
(Continued)**

- (5) Accounts Receivable - Accounts receivable consist of amounts due from residents for monthly service fees and other ancillary services. These services and fees are primarily due upon receipt of invoice. Receivables are reviewed weekly and are considered past due 14 days after issuance of monthly statements. Accounts for which no payments have been received for 30 days are considered delinquent and customary collection efforts are initiated. Uncollectible accounts are written-off at the advice of a collection attorney and with the approval of ownership.

The Partnership provides an allowance for doubtful accounts, as needed based on historical losses, for accounts deemed uncollectible. No allowance was necessary at December 31, 2012 and 2011.

- (6) Inventories - Inventories consist of food and supplies used in the operations and are stated at the lower of cost or market on a first-in, first-out basis.
- (7) Property And Equipment - Property and equipment are stated at cost. Major improvements and betterments are capitalized. Maintenance and repairs are expensed as incurred. Property and equipment are depreciated over estimated useful lives of 3 to 40 years. Depreciation for property and equipment is computed on the straight-line method for book purposes.

Depreciation expense for the years ended December 31, 2012 and 2011, totaled \$1,753,877 and \$1,706,818, respectively. At December 31, 2012 and 2011, fully depreciated property and equipment still in use totaled \$4,605,219 and \$5,240,012, respectively.

- (8) Long-Lived Assets - The Partnership accounts for impairment and disposition of long-lived assets in accordance with FASB ASC 360-10, "*Property, Plant, and Equipment*". FASB ASC 360-10 requires impairment losses to be recognized for long-lived assets used in operations when indicators of impairment are present and the undiscounted future cash flows are not sufficient to recover the assets' carrying amount. There was no impairment of value of such assets for the years ended December 31, 2012 and 2011.

- (9) Revenue Recognition - Revenue from resident and non-resident services is accounted for on the accrual basis of accounting as earned. See Note G for a description of the revenue recognition policy of deferred entrance fees.

CORECARE III
dba MORNINGSIDE OF FULLERTON
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011

NOTE A: Nature Of Business And Summary Of Significant Accounting Policies - (Continued)

- (10) Revenue And Expenses - In accordance with the Residence and Care Agreement, future monthly fees due from residents for maintenance and operating expenses may be adjusted with appropriate notice as specified in the individual agreements.
- (11) Income Taxes - The Partnership is not taxed on its income. Taxable income or loss is reportable by each of the partners.
- (12) Advertising And Promotional Costs - Advertising and promotional costs are charged to operations when incurred. For the years ended December 31, 2012 and 2011, advertising and promotional costs totaled \$1,232,019 and \$1,088,304, respectively, and are included in general and administrative expenses in the accompanying statements of operations.
- (13) Use Of Estimates - The process of preparing financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.
- (14) Comprehensive Income - The Partnership accounts for other comprehensive income items in accordance with FASB ASC 220, "Reporting Comprehensive Income". Comprehensive income is a more inclusive financial reporting methodology that consists of net income and other gains or losses affecting equity that are excluded from net income.

NOTE B: Concentrations, Risks, And Uncertainties - The Partnership maintains cash balances with one financial institution. At December 31, 2012 and 2011, accounts at this institution are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 for interest bearing accounts and unlimited insurance for non-interest bearing accounts.

The Partnership also maintains its money market funds and investments in debt and equity securities at brokerage firms which are not FDIC insured. The firms are insured by Securities Investor Protection Corporation (SIPC) up to \$500,000.

CORECARE III
dba MORNINGSIDE OF FULLERTON
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011

NOTE C: Marketable Securities - At December 31, 2012, the Partnership's investments consist primarily of publicly traded equity securities categorized as available-for-sale securities and are stated at fair market value. Cost and fair market value of such investments are as follows:

| | <u>Cost</u> | <u>Fair Value</u> | <u>Gross Unrealized Holding Gain</u> | <u>Gross Unrealized Holding Loss</u> |
|-----------------------------|---------------------|---------------------|--------------------------------------|--------------------------------------|
| Equities | \$ 1,662,219 | \$ 1,787,650 | \$ 146,357 | \$ 20,926 |
| Other | <u>155,879</u> | <u>157,347</u> | <u>2,354</u> | <u>886</u> |
| Total Marketable Securities | <u>\$ 1,818,098</u> | <u>\$ 1,944,997</u> | <u>\$ 148,711</u> | <u>\$ 21,812</u> |

At December 31, 2012, the allowance for unrealized gains and losses has been recorded as a separate component of partners' equity (deficit) under accumulated other comprehensive income. At December 31, 2012, the aggregate market value of marketable securities exceeds their aggregate cost by \$126,899. Other comprehensive income for the year ended December 31, 2012, includes net unrealized holding gains of \$126,899 and there is no reclassification adjustment for realized (gains) losses included in net income.

At December 31, 2011, the Partnership's investments consist entirely of debt securities, which have interest rates of 2.0 percent, are held to maturity and valued at amortized cost, which approximates fair value.

Sales of marketable securities classified as available-for-sale during the year ended December 31, 2012, resulted in proceeds of \$1,995,530, gross realized gains of \$10,118 and gross realized losses of \$52,384. Sales of marketable securities classified as held-to-maturity during the year ended December 31, 2011, resulted in proceeds of \$4,165,000 and there were no gross realized gains or losses.

NOTE D: Residence And Care Agreement - Each new resident enters into a contract with the Partnership called the Residence and Care Agreement. The form of the agreement is in conformity with the statutes of the State of California Department of Social Services Continuing Care Contracts Branch. The provisions of the agreement include, but are not limited to, such items as the unit to be occupied, initial monthly fee, amount of contribution to the Master Trust (see Note E), and methods of cancellation and refunds or contingent repayments subject to resale of the units.

CORECARE III
dba MORNINGSIDE OF FULLERTON
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011

NOTE D: Residence And Care Agreement - (Continued)

Prior to actual occupancy by the resident, a contribution is required to be deposited with the Master Trust pursuant to the Residence and Care Agreement (the "Residence Agreement").

Under the Residence Agreement, the contribution received will be refundable under the following terms and conditions:

- (1) Cancellation During The Trial Residence Period - Under California law, there is a probationary period of 90 days after the date of the signed agreement during which either the Partnership or the resident may cancel the agreement with or without cause. Death of the resident during the period will cancel the agreement. In the event of cancellation, the resident shall be entitled to a refund in accordance with California law which states that the Partnership may deduct from the contribution amount a reasonable fee to cover costs and any charges incurred but not paid.

- (2) Cancellation After 90 Days - A resident may cancel his or her agreement at any time after the trial residence period for any reason by giving the Partnership 90 days written notice. Death of the resident will cancel the agreement. However, if an agreement applies to more than one resident, it will remain in effect after the death of one of the residents and be adjusted as described in the agreement. The Partnership may cancel the agreement at any time after the trial residence period for good cause, upon 90 days written notice to the resident. Examples of good cause are defined in the agreement.

Upon termination of the agreement, the resident or his or her estate will be entitled to a repayment of the contribution less a predetermined percentage per year of occupancy and any charges incurred but not paid, as determined by the terms and conditions of the individual agreements.

NOTE E: Note Payable To Master Trust And Trust Arrangement - The Morningside of Fullerton Master Trust was established to provide protection to the residents of the community by providing them with a vehicle through which they obtain a secured interest in the real property of the Partnership. New residents join in and become grantors under the trust agreement. At December 31, 2012 and 2011, the balance outstanding on the Master Trust note payable was \$122,712,639 and \$116,274,109, respectively.

A contribution amount, as specified in the Residence Agreement, is made to the Trust by the grantor (see Note D). The trustee of the Master Trust is directed to invest virtually all of the funds in the form of an interest-free loan to the Partnership.

CORECARE III
dba MORNINGSIDE OF FULLERTON
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011

NOTE E: Note Payable To Master Trust And Trust Arrangement - (Continued)

The loan which currently may not exceed \$125,000,000 is secured by the following:

- (1) A first priority deed of trust on the Partnership's real property and improvements thereon.
- (2) Security agreement creating a first security interest in the Partnership's equity in all of the improvements, fixtures and personal property associated and used in connection with Morningside of Fullerton.
- (3) First priority assignment of contracts including, but not limited to, any residence and care agreement and any management agreement entered into in conjunction with the operation of Morningside of Fullerton.

The security also includes any after-acquired collateral as well as any insurance proceeds recovered from the loss of any property serving as collateral for this loan.

Repayments of principal will be made in annual amounts for a period of forty years with final payment due December 31, 2050. Each annual payment or series of payments made during the year shall be equal to or greater than the amount of principal advanced on December 15 next preceding the payment due date divided by forty years. The next scheduled principal payment of \$3,027,129 was paid in January 2013.

Principal payments of the current outstanding Master Trust loan are estimated to mature as follows:

| | |
|---------------------|-----------------------|
| 2013 | \$ 3,027,129 |
| 2014 | 2,992,138 |
| 2015 | 2,917,334 |
| 2016 | 2,844,401 |
| 2017 And Thereafter | <u>110,931,637</u> |
| Total | <u>\$ 122,712,639</u> |

NOTE F: Commitments And Contingencies

- (1) Obligation To Provide Future Services - The Partnership annually calculates the present value of the net cost of future services and use of facilities to be provided to current residents and compares that amount with the present value of monthly service fees and the unamortized deferred revenue from deferred entrance fees. If the present value of the net cost of future services and use of facilities exceeds the monthly service fees and deferred revenue from deferred entrance fees, a liability is recorded.

CORECARE III
dba MORNINGSIDE OF FULLERTON
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011

NOTE F: Commitments And Contingencies - (Continued)

(1) Obligation To Provide Future Services - (Continued)

Using a discount rate at December 31, 2012 and 2011, of 5.75 percent for both years, the anticipated revenues are estimated to exceed the cost of future services by \$53,318,427 and \$49,905,114 for the years ended December 31, 2012 and 2011, respectively. Therefore, no liability was accrued.

(2) Reservations And Designations - At December 31, 2012 and 2011, the Partnership maintains cash reserves in the amount of \$3,439,653 and \$3,223,372, respectively, for operating expense contingencies in accordance with requirements of the California Health and Safety Code under the State of California Department of Social Services. These reserves are included in cash and cash equivalents on the accompanying balance sheets.

(3) Litigation - The Partnership experiences routine litigation in the normal course of its business. Management does not believe that any pending or threatened litigation will have a material adverse effect on its financial statements.

NOTE G: Deferred Revenue From Unamortized Deferred Entrance Fees - At December 31, 2012 and 2011, deferred revenue from unamortized deferred entrance fees consists of the following:

| | 2012 | 2011 |
|--|---------------|---------------|
| Deferred Entrance Fees Before Repayment | \$ 33,635,949 | \$ 32,055,960 |
| Less: Accumulated Amortization Of Deferred Entrance Fees | (18,466,187) | (17,598,706) |
| Deferred Revenue From Unamortized Deferred Entrance Fees, Net | \$ 15,169,762 | \$ 14,457,254 |

The deferred entrance fees are amortized to income using the straight-line method over future periods based on the estimated life of the resident in accordance with FASB ASC 954-430, "Health Care Entities - Deferred Revenue". The period of amortization is adjusted annually based on the actuarially determined estimated remaining life expectancy of each individual or joint and last survivor life expectancy of each pair of residents occupying the same unit. During 2012 and 2011, the deferred entrance fees amortized into income were \$3,106,589 and \$2,866,015, respectively, based on total deferred entrance fees of \$46,634,184 and \$43,482,296, respectively.

NOTE H: Related Party Transactions - The Partnership is required to pay the general partner \$450,000 for consulting services rendered and administrative expenses incurred, annually, to carry out its responsibilities. These expenses are included in the general and administrative expenses in the accompanying statements of operations.

CORECARE III
dba MORNINGSIDE OF FULLERTON
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011

NOTE H: Related Party Transactions - (Continued)

The Partnership has entered into a ground lease agreement with CoreCare V, an affiliated entity, which continues through December 2090. The premises covered by this agreement are the land on which CoreCare V is located. Any failure by CoreCare V to perform under the ground lease agreement or the agreement for purchased health care would permit the Partnership to take ownership of CoreCare V's buildings and equipment and cancel the ground lease.

The health care costs paid to CoreCare V during the years ended December 31, 2012 and 2011, were \$4,580,580 and \$4,029,976, respectively, and are included in resident care expenses in the accompanying statements of operations. At December 31, 2012 the Partnership had a net receivable from CoreCare V totaling \$1,267 and is included in accounts receivable in the accompanying balance sheets.

In addition, the Partnership had a net payable for accrued health care costs and shared operational expenses totaling \$1,423 at December 31, 2011 to CoreCare V, which is included in accounts payable in the accompanying balance sheets.

The Partnership also shares certain expenses with commonly-owned companies. At December 31, 2012 and 2011, amounts due to these companies totaled \$43,835 and \$2,145, respectively, and are included in accounts payable in the accompanying balance sheets.

NOTE I: Employee Benefit Plan - The Partnership sponsors a qualified 401(k) plan for all eligible employees. Employees may contribute up to 100 percent of their yearly compensation, up to the maximum prescribed by law. The Partnership, at its sole discretion, may annually elect to make matching or non-elective contributions to the Plan. For the years ended December 31, 2012 and 2011, employer contributions to the Plan totaled \$35,990 and \$38,072, respectively, with corresponding plan administrative expenses totaling \$2,698 and \$1,747, respectively. Both expenses have been included in general and administrative expenses in the accompanying statements of operations.

NOTE J: Fair Value Measurements - The Partnership accounts for marketable securities in accordance with ASC 820, "*Fair Value Measurements and Disclosures*". FASB ASC 820-10 defines fair value, establishes a framework for measuring fair value and requires enhanced disclosures about fair value measurement.

FASB ASC 820 establishes a three-level valuation hierarchy for disclosure of fair value measurements. The valuation hierarchy is based upon the transparency of inputs in the valuation of an asset as of the measurement date. The three levels are defined as follows:

CORECARE III
dba MORNINGSIDE OF FULLERTON
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011

NOTE J: Fair Value Measurements - (Continued)

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

Level 2: Valuations based on quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly.

Level 3: Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

Fair value is a market-based measure considered from the perspective of a market participant rather than an entity-specific measure. Therefore, even when market assumptions are not readily available, the Partnership's own assumptions are set to reflect those that market participants would use in pricing the asset or liability at the measurement date.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

The fair value of the assets at December 31, 2012 was determined as follows:

| | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> |
|----------------------------|---------------------|----------------|----------------|
| Equities: | | | |
| Large Value | \$ 951,396 | \$ - | \$ - |
| Large Growth | 91,394 | - | - |
| Large Core | 744,860 | - | - |
| Real Estate Stocks: | | | |
| Large Core | 54,735 | - | - |
| Mid Core | 48,300 | - | - |
| Mid Growth | <u>54,312</u> | <u>-</u> | <u>-</u> |
| Total Assets at Fair Value | <u>\$ 1,944,997</u> | <u>\$ -</u> | <u>\$ -</u> |

NOTE K: Subsequent Events - Events occurring after December 31, 2012, have been evaluated for possible adjustment to the financial statements or disclosure as of March 15, 2013, which is the date the financial statements were available to be issued. There were no adjustments to the financial statements or additional disclosures as a result of this evaluation.

SUPPLEMENTARY INFORMATION

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WHITE NELSON DIEHL EVANS LLP
Certified Public Accountants & Consultants

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CONTRACTS SEARCH

**INDEPENDENT AUDITORS' REPORT ON
SUPPLEMENTARY INFORMATION**

To the Partners of
CoreCare III
dba Morningside of Fullerton
Fullerton, California

Our report on our audits of the basic financial statements of CoreCare III, dba Morningside of Fullerton (the "Partnership") for the years ended December 31, 2012 and 2011, appears on pages 1 and 2. The audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The information included in the accompanying schedules of Form 5-1 through Form 5-5 and Form 7-1 has been prepared for filing with the State of California, Department of Social Services, in accordance with Section 1792 of the California Health and Safety Code, and is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, presents fairly in all material respects the continuing care reserve requirements of the Partnership at December 31, 2012, in conformity with the report preparation provisions of the California Health and Safety Code Section 1792.

This report is intended solely for the information and use of the partners and management of the Partnership and for filing with the California Department of Social Services and should not be used for any other purposes. However, this report is a matter of public record and its distribution is not limited.

White Nelson Diehl Evans LLP

Irvine, California
March 15, 2013

**FORM 5-1
LONG-TERM DEBT INCURRED
IN A PRIOR FISCAL YEAR
(Including Balloon Debt)**

| Long-Term Debt Obligation | (a) Date Incurred | (b) Principal Paid During Fiscal Year | (c) Interest Paid During Fiscal Year | (d) Credit Enhancement Premiums Paid in Fiscal Year | (e) Total Paid (columns (b) + (c) + (d)) |
|---------------------------|----------------------|--|---|--|---|
| 1 | | | | | \$0 |
| 2 | | | | | \$0 |
| 3 | | | | | \$0 |
| 4 | | | | | \$0 |
| 5 | | | | | \$0 |
| 6 | | | | | \$0 |
| 7 | | | | | \$0 |
| 8 | | | | | \$0 |
| TOTAL: | | | | | \$0 |

(Transfer this amount to Form 5-3, Line 1)

NOTE: For column (b), do not include voluntary payments made to pay down principal.

*Pursuant to the attached waiver, the note payable to Master Trust has not been included in the annual calculation of the debt service reserve.

PROVIDER: CoreCare III

DEPARTMENT OF SOCIAL SERVICES

44 P Street, MS 10-90, Sacramento, California 95814



July 30, 2003

Mr. E. Justin Wilson III
Executive Vice President
CoreCare III
800 Morningside Drive
Fullerton, California 92835

Re: Waiver Request under H&S Code Section 1792.3(c)

Dear Mr. Wilson:

The Department of Social Services has reviewed your request that it waive the long term debt reserve requirement as it applies to the debt held by the Morningside of Fullerton Master Trust (the "Trust"). Your request on behalf of CoreCare III is made on the basis of the provisions in Health & Safety Code section 1792.3(c).

Based on our review of your request and the information in our files, the Department has granted your request. As a result, CoreCare III need not include the debt owed to the Trust in the annual calculation of its debt service reserve. This waiver remains effective until the Department, in its discretion, determines that it is terminated. Please include a copy of this letter with CoreCare III's future annual reserve reports.

If you have any questions, please contact me at (916) 657-2592.

Respectfully,

A handwritten signature in black ink that reads "Ben Partington".

Ben Partington, Chief
Continuing Care Contracts Branch
Department of Social Services

C: Robert W. Thompson, Legal Counsel

**FORM 5-2
LONG-TERM DEBT INCURRED
DURING FISCAL YEAR
(Including Balloon Debt)**

| Long-Term Debt Obligation | (a) Date Incurred | (b) Total Interest Paid During Fiscal Year | (c) Amount of Most Recent Payment on the Debt | (d) Number of Payments over next 12 months | (e) Reserve Requirement (see instruction 5) (columns (c) x (d)) |
|---------------------------|----------------------|---|--|---|--|
| 1 | | | | | \$0 |
| 2 | | | | | \$0 |
| 3 | | | | | \$0 |
| 4 | | | | | \$0 |
| 5 | | | | | \$0 |
| 6 | | | | | \$0 |
| 7 | | | | | \$0 |
| 8 | | | | | \$0 |
| TOTAL: | | \$0 | \$0 | 0 | \$0 |

(Transfer this amount to Form 5-3, Line 2)

NOTE: For column (b), do not include voluntary payments made to pay down principal.

PROVIDER: CoreCare III

**FORM 5-4
CALCULATION OF NET OPERATING EXPENSES**

| Line | Amounts | TOTAL |
|------|---|--------------|
| 1 | Total operating expenses from financial statements | \$18,693,110 |
| 2 | Deductions: | |
| | a. Interest paid on long-term debt (see instructions) | |
| | b. Credit enhancement premiums paid for long-term debt (see instructions) | |
| | c. Depreciation | \$1,753,877 |
| | d. Amortization | |
| | e. Revenues received during the fiscal year for services to persons who did not have a continuing care contract | \$199,590 |
| | f. Extraordinary expenses approved by the Department | |
| 3 | Total Deductions | \$1,953,467 |
| 4 | Net Operating Expenses | \$16,739,643 |
| 5 | Divide Line 4 by 365 and enter the result. | \$45,862 |
| 6 | Multiply Line 5 by 75 and enter the result. This is the provider's operating expense reserve amount. | \$3,439,653 |

PROVIDER: CoreCare III
COMMUNITY: Morningside of Fullerton

FORM 5-4
CALCULATION OF NET OPERATING EXPENSES
Supporting Explanation for Line 2e

Line 2e is made up of the following lines from the audited statement of cash flows:

| | |
|--|----------------|
| Cash received from community services | \$ 38,196 |
| Reimbursements for services to non-residents | <u>161,394</u> |

| | |
|--|-------------------|
| Revenues received during the fiscal year for services to residents who did not have a continuing care contract | <u>\$ 199,590</u> |
|--|-------------------|

Categories included in the above revenues:

| | | | |
|----|--------|-----------------|-----------------------|
| \$ | 38,196 | Meals on Wheels | |
| | 65,246 | Guest Meals | |
| | 65,497 | Catering | |
| | 30,651 | Guest Room | |
| | | | |
| \$ | | | <u><u>199,590</u></u> |

| | |
|-------------------|--------------------------|
| PROVIDER: | CoreCare III |
| COMMUNITY: | Morningside of Fullerton |

**FORM 5-5
ANNUAL RESERVE CERTIFICATION**

Provider Name: CoreCare III
 Fiscal Year Ended: 12/31/2012

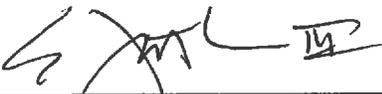
We have reviewed our debt service reserve and operating expense reserve requirements as of, and for the period ended 31-Dec-12 and are in compliance with those requirements.

Our liquid reserve requirements, computed using the audited financial statements for the fiscal year 31-Dec-12 are as follows:

| | <u>Amount</u> |
|---|---------------------------|
| [1] Debt Service Reserve Amount | <u>\$0</u> |
| [2] Operating Expense Reserve Amount | <u>\$3,439,653</u> |
| [3] Total Liquid Reserve Amount: | <u>\$3,439,653</u> |

Qualifying assets sufficient to fulfill the above requirements are held as follows:

| <u>Qualifying Asset Description</u> | <u>Amount</u> <u>(market value at end of quarter)</u> | |
|--|--|----------------------------|
| | <u>Debt Service Reserve</u> | <u>Operating Reserve</u> |
| [4] Cash and Cash Equivalents | | <u>\$8,385,842</u> |
| [5] Investment Securities | | <u>\$1,944,997</u> |
| [6] Equity Securities | | |
| [7] Unused/Available Lines of Credit | | |
| [8] Unused/Available Letters of Credit | | |
| [9] Debt Service Reserve | | (not applicable) |
| [10] Other: | | |
| <u>(describe qualifying asset)</u> | | |
| Total Amount of Qualifying Assets Listed for Reserve Obligation: [11] | <u>\$0 [12]</u> | <u>\$10,330,839</u> |
| Reserve Obligation Amount: [13] | <u>\$0 [14]</u> | <u>\$3,439,653</u> |
| Surplus/(Deficiency): [15] | <u>\$0 [16]</u> | <u>\$6,891,186</u> |

Signature: 
 (Authorized Representative) President
 (Title)

Date: 4/15/13

FORM 5-5
Description of Reserves under SB 1212

Total Qualifying Assets as Filed:

| | |
|-----------------------------------|---------------|
| Cash and Cash Equivalents | \$ 8,385,842 |
| Investment Securities | \$ 1,944,997 |
| Total Qualifying Assets as Filed: | \$ 10,330,839 |

Reservations and Designations:

| | |
|--------------------------------------|--------------|
| Reserved for Operating Expenses | \$ 3,439,653 |
| Total Reservations and Designations: | \$ - |
| Remaining Liquid Reserves | \$ 6,891,186 |

Per Capita Cost of Operations

| | |
|--|---------------|
| Operating Expenses (Form 5-4 line # 1) | \$ 18,693,110 |
| Mean # of CCRC Residents (Form 1-1 line 10) | 428.0 |
| Per Capita Cost of Operations | \$ 43,675 |

PROVIDER: Core Care III
COMMUNITY: Morningside of Fullerton

FORM 7-1
REPORT ON CCRC MONTHLY SERVICE FEES

| | <u>RESIDENTIAL LIVING</u> | <u>ASSISTED LIVING</u> | <u>SKILLED NURSING</u> |
|---|-------------------------------|----------------------------|----------------------------|
| [1] Monthly Service Fees at beginning of reporting period: (indicate range, if applicable) | <u>\$2,460 – \$4,939</u> | <u>N/A</u> | <u>N/A</u> |
| [2] Indicate percentage of increase in fees imposed during reporting period: (indicate range, if applicable) | <u>2.9%</u> | <u>N/A</u> | <u>N/A</u> |

Check here if monthly service fees at this community were not increased during the reporting period. (If you checked this box, please skip down to the bottom of this form and specify the names of the provider and community.)

[3] Indicate the date the fee increase was implemented: January 1, 2012
(If more than 1 increase was implemented, indicate the dates for each increase.)

[4] Check each of the appropriate boxes:

- Each fee increase is based on the provider's projected costs, prior year per capita costs, and economic indicators.
- All affected residents were given written notice of this fee increase at least 30 days prior to its implementation.
- At least 30 days prior to the increase in monthly service fees, the designated representative of the provider convened a meeting that all residents were invited to attend.
- At the meeting with residents, the provider discussed and explained the reasons for the increase, the basis for determining the amount of the increase, and the data used for calculating the increase.
- The provider provided residents with at least 14 days advance notice of each meeting held to discuss the fee increases.
- The governing body of the provider, or the designated representative of the provider posted the notice of, and the agenda for, the meeting in a conspicuous place in the community at least 14 days prior to the meeting.

[5] On an attached page, provide a concise explanation for the increase in monthly service fees including the amount of the increase.

PROVIDER: CoreCare III
COMMUNITY: Morningside of Fullerton

FORM 7-1
REPORT ON CCRC MONTHLY SERVICE FEES
Supporting Explanation for Line 5

The regular first person and second person monthly fee increase are reflected at 2.9%. Morningside (CoreCare III) purchases health care, when needed, from Park Vista (CoreCare V). As the permanently assigned residents continue to pay their usual independent living monthly service fee to Morningside, the percentage of increase and revenues are combined in the residential living column.

The service fee increases were based on projected increases in the operating expenses, which include the expected increase in use of purchased health care by the residents. The percentage of monthly service increases is determined through the annual budget process.

PROVIDER: CoreCare III
COMMUNITY: Morningside of Fullerton

Report BS001C
 Number 002

010 Morningside SP Assoc, IncCo854
 December 31, 2012

FISCAL 109 \$
 CL2 112(01..12)

UNAUDITED

| ASSETS | | Current | Prior |
|--------------|-------------------------------|------------|------------|
| | | **Actual** | **Actual** |
| 1000 | Intercompany Cash | 9,463.88 | 10,338.88 |
| 1 | CASH | 9,463.88 | 10,338.88 |
| 1300 | Investments in Affiliates (E) | 255,458.90 | 206,146.00 |
| 8 | Other Corporate Investments | 255,458.90 | 206,146.00 |
| 8 | OTHER CORPORATE INVESTMENTS | 255,458.90 | 206,146.00 |
| TOTAL ASSETS | | 245,995.02 | 195,807.12 |

| LIABILITIES & CAPITAL | | Current | Prior |
|-----------------------------|------------------------------|------------|------------|
| | | **Actual** | **Actual** |
| 3020 | Retained Earnings | 273,987.12 | 195,807.12 |
| 3300 | Year-To-Date Closing Account | 0.00 | 25,351.19 |
| ---- | Retained Earnings | 27,962.10 | 25,351.19 |
| 21 | PARTNERS' CAPITAL ACCOUNTS | 245,995.02 | 195,807.12 |
| TOTAL LIABILITIES & CAPITAL | | 245,995.02 | 195,807.12 |

TOTAL Morningside SP Assoc, IncCo854

0.00

0.00

Certified by:


 Angelka Tolu, CPA
 Controller

STATEMENT OF INCOME - DETAIL (TAX)

UNAUDITED
010 Morningside SP Assoc, IncC0854
Twelve Months Ending December 31, 2012

Report INCTAXC
Number 002

FISCAL 100 ?
C12 112(01..12)

| | **Actual** | Quarter to Date | Variance | **Actual** | Year to Date | Variance | Annual | Year to Date |
|---------------------------------|------------|-----------------|------------|------------|--------------|------------|--------|--------------|
| | | | | | | | | Last Year |
| RENTAL REAL ESTATE EXPENSES | | | | | | | | |
| 8710 State Income Ta | 0.00 | 0.00 | 0.00 | 800.00 | 0.00 | 800.00 | 0.00 | 800.00 |
| 11 TAXES | 0.00 | 0.00 | 0.00 | 800.00 | 0.00 | 300.00 | 0.00 | 800.00 |
| 15 OTHER EXPENSES | | | | | | | | |
| 8520 License & Permi | 0.00 | 0.00 | 0.00 | 50.00 | 0.00 | 50.00 | 0.00 | 50.00 |
| 8540 Other Filing Fe | 0.00 | 0.00 | 0.00 | 25.00 | 0.00 | 25.00 | 0.00 | 25.00 |
| Fees & Permits | 0.00 | 0.00 | 0.00 | 75.00 | 0.00 | 75.00 | 0.00 | 75.00 |
| 15 OTHER EXPENSES | 0.00 | 0.00 | 0.00 | 75.00 | 0.00 | 75.00 | 0.00 | 75.00 |
| TOTAL RENTAL REAL ESTATE EXPENS | 0.00 | 0.00 | 0.00 | 875.00 | 0.00 | 875.00 | 0.00 | 875.00 |
| 21 INCOME/(LOSS) FROM RENTAL | 0.00 | 0.00 | 0.00 | 875.00 | 0.00 | 875.00 | 0.00 | 875.00 |
| 20a Inc/(Loss) From K-1's | | | | | | | | |
| 4530 Incm/Loss frm A | 28,837.10- | 0.00 | 28,837.10- | 28,837.10- | 0.00 | 28,837.10- | 0.00 | 26,226.19- |
| 20a INC/(LOSS) FROM K-1's | 28,837.10- | 0.00 | 28,837.10- | 28,837.10- | 0.00 | 28,837.10- | 0.00 | 26,226.19- |
| 20a Inc/(Loss) From K-1's | 28,837.10- | 0.00 | 28,837.10- | 28,837.10- | 0.00 | 28,837.10- | 0.00 | 26,226.19- |
| TOTAL Morningside SP Assoc, Inc | 28,837.10- | 0.00 | 28,837.10- | 27,962.10- | 0.00 | 27,962.10- | 0.00 | 25,351.19- |

Certified by:


Angelka Iolu, CPA
Controller

KEY INDICATORS REPORT

Date Prepared: 4/9/2013
CoreCare III dba Morningside of Fullerton

Please attach an explanatory memo that summarizes significant trends or variances in the key operational indicators.

[Signature]
 Chief Executive Officer Signature

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 FULLERTON BRANCH

| | 2008 | 2009 | 2010 | 2011 | 2012 | Forecast | | | Preferred Trend Indicator | | |
|---|----------|----------|----------|----------|----------|----------|----------|----------|---------------------------|----------|------|
| | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | | 2016 | 2017 |
| OPERATIONAL STATISTICS | | | | | | | | | | | |
| 1. Average Annual Occupancy by Site (%) | 99.59% | 98.20% | 92.90% | 93.00% | 93.30% | 96.26% | 97.00% | 97.00% | 97.00% | 97.00% | N/A |
| MARGIN (PROFITABILITY) INDICATORS | | | | | | | | | | | |
| 2. Net Operating Margin (%) | 18.82% | 17.05% | 12.17% | 10.59% | 8.84% | 9.33% | 9.42% | 9.85% | 10.29% | 10.72% | ↑ |
| 3. Net Operating Margin - Adjusted (%) | 48.29% | 34.79% | 21.42% | 36.53% | 40.07% | 37.98% | 32.83% | 32.56% | 32.31% | 32.07% | ↓ |
| LIQUIDITY INDICATORS | | | | | | | | | | | |
| 4. Unrestricted Cash and Investments (\$000) | \$13,808 | \$13,915 | \$11,510 | \$12,603 | \$10,331 | \$11,000 | \$11,000 | \$11,000 | \$11,000 | \$11,000 | ↑ |
| 5. Days Cash on Hand (Unrestricted) | 370.8 | 355.6 | 282.7 | 300.9 | 230.5 | 227.3 | 220.7 | 214.3 | 208 | 201.9 | ↑ |
| CAPITAL STRUCTURE INDICATORS | | | | | | | | | | | |
| 6. Deferred Revenue from Entrance Fees (\$000) | \$2,668 | \$2,656 | \$2,667 | \$2,866 | \$3,106 | \$3,261 | \$3,424 | \$3,596 | \$3,775 | \$3,964 | N/A |
| 7. Net Annual E/F proceeds (\$000) | \$9,540 | \$4,684 | \$1,990 | \$6,986 | \$9,349 | \$9,000 | \$7,000 | \$7,000 | \$7,000 | \$7,000 | N/A |
| 8. Unrestricted Net Assets (\$000) | \$65,946 | \$65,040 | \$64,413 | \$66,036 | \$64,546 | \$67,000 | \$67,000 | \$67,000 | \$67,000 | \$67,000 | N/A |
| 9. Annual Capital Asset Expenditure (\$000) | \$89 | \$91 | \$3,429 | \$1,520 | \$1,223 | \$1,000 | \$200 | \$200 | \$200 | \$200 | N/A |
| 10. Annual Debt Service Coverage Revenue Basis (x) | 1.21% | 0.88% | 0.59% | 0.44% | 0.36% | 0.60% | 0.63% | 0.70% | 0.78% | 0.85% | ↑ |
| 11. Annual Debt Service Coverage (x) | 4.67 | 2.54 | 1.32 | 2.97 | 3.63 | 3.55 | 2.95 | 3.08 | 3.22 | 3.33 | ↑ |
| 12. Annual Debt Service/Revenue (%) | 14.30% | 13.70% | 13.65% | 13.10% | 12.82% | 13.31% | 12.73% | 11.96% | 11.25% | 10.67% | ↓ |
| 13. Average Annual Effective Interest Rate (%) | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | ↓ |
| 14. Unrestricted Cash & Investments/ Long-Term Debt (%) | 12.75% | 12.64% | 10.53% | 11.11% | 8.63% | 9.02% | 8.80% | 8.80% | 8.80% | 8.80% | ↑ |
| 15. Average Age of Facility (years) | 17.12 | 17.95 | 18.61 | 18.85 | 18.84 | 20.47 | 21.47 | 22.47 | 23.47 | 24.47 | ↓ |

**Continuing Care Retirement Community
Disclosure Statement
General Information**

Date Prepared: 04/26/2013

RECEIVED
APR 29 2013
CONTINUING CARE

FACILITY NAME: Morningside of Fullerton
 ADDRESS: 800 Morningside Drive, Fullerton ZIP CODE: 92835 PHONE: 714 256-8000
 PROVIDER NAME: CoreCare III FACILITY OPERATOR: CoreCare III
 RELATED FACILITIES: ParkVista at Morningside RELIGIOUS AFFILIATION: N/A
 YEAR OPENED: 1991 NO. OF ACRES: 19 MULTI-STORY: SINGLE STORY: BOTH: X
 MILES TO SHOPPING CTR: 0.1 MILES TO HOSPITAL: 1.5

| NUMBER OF UNITS: | INDEPENDENT LIVING | HEALTH CARE |
|----------------------------|--------------------|--|
| APARTMENTS - STUDIO | <u>5</u> | ASSISTED LIVING <u> </u> |
| APARTMENTS - 1 BDRM | <u>116</u> | SKILLED NURSING <u> </u> |
| APARTMENTS - 2 BDRM/3 BDRM | <u>138/11</u> | SPECIAL CARE <u> </u> |
| COTTAGES/HOUSES | <u>57</u> | DESCRIBE SPECIAL CARE: <u> </u> |
| % OCCUPANCY AT YEAR END | <u>96.02%</u> | |

TYPE OF OWNERSHIP: NOT FOR PROFIT FOR PROFIT ACCREDITED: Y N BY:

FORM OF CONTRACT: LIFE CARE CONTINUING CARE FEE FOR SERVICE
 ASSIGN ASSETS EQUITY ENTRY FEE RENTAL

REFUND PROVISIONS (Check all that apply): 90% 75% 50% PRORATED TO 0% OTHER: 60%, 25%

RANGE OF ENTRANCE FEES: \$ 181,000 TO \$1,050,000 LONG-TERM CARE INSURANCE REQUIRED? Y N

HEALTH CARE BENEFITS INCLUDED IN CONTRACT: Assisted Living and Skilled Nursing Facilities

ENTRY REQUIREMENTS: MIN. AGE: 62 PRIOR PROFESSION: N/A OTHER: N/A

FACILITY SERVICES AND AMENITIES

COMMON AREA AMENITIES

| | AVAILABLE | FEE FOR SERVICE | SERVICES AVAILABLE | INCLUDED IN FEE | FOR EXTRA CHARGE |
|-----------------------------------|-------------------------------------|-------------------------------------|-----------------------------------|-------------------------------------|-------------------------------------|
| BEAUTY/BARBER SHOP | <input type="checkbox"/> | <input checked="" type="checkbox"/> | HOUSEKEEPING TIMES/MONTH | <u>2</u> | <u> </u> |
| BILLIARD ROOM | <input checked="" type="checkbox"/> | <input type="checkbox"/> | NUMBER OF MEALS/DAY | <u>1</u> | <u>2</u> |
| BOWLING GREEN | <input checked="" type="checkbox"/> | <input type="checkbox"/> | SPECIAL DIETS AVAILABLE | <u> </u> | <u> </u> |
| CARD ROOMS | <input checked="" type="checkbox"/> | <input type="checkbox"/> | | | |
| CHAPEL | <input type="checkbox"/> | <input type="checkbox"/> | 24-HOUR EMERGENCY RESPONSE | <input checked="" type="checkbox"/> | <input type="checkbox"/> |
| COFFEE SHOP | <input type="checkbox"/> | <input type="checkbox"/> | ACTIVITIES PROGRAM | <input checked="" type="checkbox"/> | <input type="checkbox"/> |
| CRAFT ROOMS | <input checked="" type="checkbox"/> | <input type="checkbox"/> | ALL UTILITIES EXCEPT PHONE | <input checked="" type="checkbox"/> | <input type="checkbox"/> |
| EXERCISE ROOM | <input checked="" type="checkbox"/> | <input type="checkbox"/> | APARTMENT MAINTENANCE | <input checked="" type="checkbox"/> | <input type="checkbox"/> |
| GOLF COURSE ACCESS | <input type="checkbox"/> | <input checked="" type="checkbox"/> | CABLE TV | <input type="checkbox"/> | <input checked="" type="checkbox"/> |
| LIBRARY | <input checked="" type="checkbox"/> | <input type="checkbox"/> | LINENS FURNISHED | <input type="checkbox"/> | <input checked="" type="checkbox"/> |
| PUTTING GREEN | <input checked="" type="checkbox"/> | <input type="checkbox"/> | LINENS LAUNDERED | <input checked="" type="checkbox"/> | <input type="checkbox"/> |
| SHUFFLEBOARD | <input type="checkbox"/> | <input type="checkbox"/> | MEDICATION MANAGEMENT | <input type="checkbox"/> | <input checked="" type="checkbox"/> |
| SPA | <input checked="" type="checkbox"/> | <input type="checkbox"/> | NURSING/WELLNESS CLINIC | <input checked="" type="checkbox"/> | <input type="checkbox"/> |
| SWIMMING POOL-INDOOR | <input type="checkbox"/> | <input type="checkbox"/> | PERSONAL NURSING/HOME CARE | <input type="checkbox"/> | <input checked="" type="checkbox"/> |
| SWIMMING POOL-OUTDOOR | <input checked="" type="checkbox"/> | <input type="checkbox"/> | TRANSPORTATION-PERSONAL | <input type="checkbox"/> | <input checked="" type="checkbox"/> |
| TENNIS COURT | <input type="checkbox"/> | <input type="checkbox"/> | TRANSPORTATION-PREARRANGED | <input type="checkbox"/> | <input checked="" type="checkbox"/> |
| WORKSHOP | <input checked="" type="checkbox"/> | <input type="checkbox"/> | OTHER <u> </u> | <input type="checkbox"/> | <input type="checkbox"/> |
| OTHER <u> </u> | <input type="checkbox"/> | <input type="checkbox"/> | | <input type="checkbox"/> | <input type="checkbox"/> |

All providers are required by Health and Safety Code section 1789.1 to provide this report to prospective residents before executing a deposit agreement or continuing care contract, or receiving any payment. Many communities are part of multi-facility operations which may influence financial reporting. Consumers are encouraged to ask questions of the continuing care retirement community that they are considering and to seek advice from professional advisors.

PROVIDER NAME: CoreCare III

CCRCs

LOCATION (City, State)

PHONE (with area code)

None

MULTI-LEVEL RETIREMENT COMMUNITIES

None

FREE-STANDING SKILLED NURSING

None

SUBSIDIZED SENIOR HOUSING

None

*** PLEASE INDICATE IF THE FACILITY IS LIFE CARE.**

PROVIDER NAME: CoreCare III

| | 2009 | 2010 | 2011 | 2012 |
|--|---------------------|--------------------|---------------------|---------------------|
| INCOME FROM ONGOING OPERATIONS | | | | |
| OPERATING INCOME (excluding amortization of entrance fee income) | \$17,299,040 | \$16,915,614 | \$17,100,130 | \$17,944,231 |
| LESS OPERATING EXPENSES (excluding depreciation, amortization, & interest) | \$14,281,551 | \$14,857,127 | \$15,288,651 | \$16,357,922 |
| NET INCOME FROM OPERATIONS | <u>\$3,017,489</u> | <u>\$2,058,487</u> | <u>\$ 1,811,479</u> | <u>\$ 1,586,309</u> |
| LESS INTEREST EXPENSE | | | | |
| PLUS CONTRIBUTIONS | | | | |
| PLUS NON-OPERATING INCOME (EXPENSES) (excluding extraordinary items) | \$-439,283 | \$-346,127 | \$-609,061 | \$-541,576 |
| NET INCOME (LOSS) BEFORE ENTRANCE FEES, DEPRECIATION AND AMORTIZATION | <u>\$ 2,578,206</u> | <u>\$1,712,360</u> | <u>\$1,202,418</u> | <u>\$1,044,733</u> |
| NET CASH FLOW FROM ENTRANCE FEES (Total Deposits Less Refunds) | <u>\$4,684,533</u> | <u>\$1,990,976</u> | <u>\$6,986,860</u> | <u>\$9,349,630</u> |

DESCRIPTION OF SECURED DEBT AS OF MOST RECENT FISCAL YEAR END

| LENDER | OUTSTANDING BALANCE | INTEREST RATE | DATE OF ORIGINATION | DATE OF MATURITY | AMORTIZATION PERIOD |
|---------------------------------|------------------------|------------------|------------------------|---------------------|------------------------|
| Note Payable to Master Trust | \$122,712,639 | 0.00 | 03/06/91 | 12/31/34 | 40 years |
| | | | | | |
| | | | | | |
| | | | | | |

FINANCIAL RATIOS (see next page for ratio formulas)

| | 2005 CCAC Medians 50 th Percentile (optional) | 2010 | 2011 | 2012 |
|--|--|--------|--------|--------|
| DEBT TO ASSET RATIO *see comments | | 0% | 0% | 0% |
| OPERATING RATIO | | 90.2% | 92.2% | 93.8% |
| DEBT SERVICE COVERAGE RATIO | | 0 | 0 | 0 |
| DAYS CASH-ON-HAND RATIO | | 282.79 | 300.89 | 230.52 |

HISTORICAL MONTHLY SERVICE FEES

AVERAGE FEE AND PERCENT CHANGE

| | 2009 | % | 2010 | % | 2011 | % | 2012 |
|-----------------|---------|-----|---------|-----|---------|-----|---------|
| STUDIO | \$2,310 | 3.2 | \$2,384 | 3.0 | \$2,456 | 2.9 | \$2,527 |
| ONE BEDROOM | \$2,857 | 3.2 | \$2,948 | 3.0 | \$3,036 | 2.9 | \$3,124 |
| TWO BEDROOM | \$3,584 | 3.2 | \$3,699 | 3.0 | \$3,810 | 2.9 | \$3,920 |
| COTTAGE/HOUSE | \$4,382 | 3.2 | \$4,522 | 3.0 | \$4,658 | 2.9 | \$4,793 |
| ASSISTED LIVING | | | | | | | |
| SKILLED NURSING | | | | | | | |
| SPECIAL CARE | | | | | | | |

COMMENTS FROM PROVIDER:

Morningside of Fullerton Master Trust has a first priority deed of trust against Morningside of Fullerton, which provides the residents collateral protection. The \$122,712,639 recorded on the books as a Note Payable to the Master Trust is repayable to the residents or their estates upon termination of their contracts and resale of their units, per the contracts.

PROVIDER NAME: CoreCare III

FINANCIAL RATIO FORMULAS

LONG-TERM DEBT TO TOTAL ASSETS RATIO

$$\frac{\text{Long-Term Debt, less Current Portion}}{\text{Total Assets}}$$

OPERATING RATIO

$$\frac{\begin{array}{l} \text{Total Operating Expenses} \\ - \text{ Depreciation Expense} \\ - \text{ Amortization Expense} \end{array}}{\begin{array}{l} \text{Total Operating Revenues} \\ - \text{ Amortization of Deferred Revenue} \end{array}}$$

DEBT SERVICE COVERAGE RATIO

$$\frac{\begin{array}{l} \text{Total Excess of Revenues over Expenses} \\ + \text{ Interest, Depreciation,} \\ \text{and Amortization Expenses} \\ - \text{ Amortization of Deferred Revenue} \\ + \text{ Net Proceeds from Entrance Fees} \end{array}}{\text{Annual Debt Service}}$$

DAYS CASH ON HAND RATIO

$$\frac{\begin{array}{l} \text{Unrestricted Current Cash} \\ \text{And Investments} \\ + \text{ Unrestricted Non-Current Cash} \\ \text{and Investments} \end{array}}{(\text{Operating Expenses} - \text{Depreciation} - \text{Amortization})/365}$$

Note: These formulas are also used by the Continuing Care Accreditation Commission. For each formula, that organization also publishes annual median figures for certain continuing care retirement communities.