FISCAL YEAR ENDED:
12 / 31 / 13

ANNUAL REPORT CHECKLIST

PROVIDER(S): CoreCare III

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CONTINUING CARE
CONTRACTS BRANCH

CCRC(S): Morningside of Fullerton

CONTACT PERSON: Gary Stork

TELEPHONE NO.: (714) 256-8001 **EMAIL:** StorkG@msretirement.com

• •

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

- ☐ Annual Report Checklist.
- ☐ Annual Provider Fee in the amount of: $ 18,356.00
  - ☐ 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* reserves and, when applicable, the required refund reserve.
- ☐ Evidence of the provider's fidelity bond, as required by H&SC section 1789.8.
- ☐ Provider's audited financial statements, with an accompanying certified public accountant's opinion thereon.
- ☐ Provider's audited reserve reports (prepared on Department forms), with an accompanying certified public accountant's opinion thereon.
- ☐ Provider's "Continuing Care Retirement Community Disclosure Statement" and Form 7-1 "Report on CCRC Monthly Service Fees" for ***each*** community.
- ☐ Provider's Refund Reserve Calculation(s) – Form 9-1 and/or Form 9-2, if applicable.

The Key Indicators Report is required to be submitted within 30 days of the due date of the submission of the annual report, but may be submitted at the same time as the annual report.

Morningside
A CONTINUING LIFE® RETIREMENT COMMUNITY

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Statement of Chief Executive Officer

California Department of Social Services Annual Report

CoreCare III dba Morningside of Fullerton

The undersigned does attest the 2013 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

4/07/14
Date

800 Morningside Drive • Fullerton, CA 92835 • (714) 256-8000 • Fax (714) 256-2469
www.morningsideoffullerton.com

FORM 1-1
RESIDENT POPULATION

Line	Continuing Care Residents	TOTAL
[1]	Number at beginning of fiscal year	435
[2]	Number at end of fiscal year	459
[3]	Total Lines 1 and 2	894
[4]	Multiply Line 3 by ".50" and enter result on Line 5.	x .50
[5]	Mean number of continuing care residents	447
	All Residents	
[6]	Number at beginning of fiscal year	435
[7]	Number at end of fiscal year	459
[8]	Total Lines 6 and 7	894
[9]	Multiply Line 8 by ".50" and enter result on Line 10.	x .50
[10]	Mean number of *all* residents	447
[11]	Divide the mean number of continuing care residents (Line 5) by the mean number of *all* residents (Line 10) and enter the result (round to two decimal places).	1.00

FORM 1-2
ANNUAL PROVIDER FEE

Line			TOTAL
[1]	Total Operating Expenses (including depreciation and debt service - interest only)		$20,161,293
[a]	Depreciation	$1,805,664	
[b]	Debt Service (Interest Only)	$0	
[2]	Subtotal (add Line 1a and 1b)		$1,805,664
[3]	Subtract Line 2 from Line 1 and enter result.		$18,355,629
[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)		$18,355,629
			x .001
[6]	**Total Amount Due** (multiply Line 5 by .001)		$18,356

PROVIDEI CoreCare III
COMMUN Morningside of Fullerton

Client#: 114921 CONTLIFE

ACORD™ **CERTIFICATE OF LIABILITY INSURANCE**

DATE (MM/DD/YYYY): 07/02/2013

THIS CERTIFICATE IS ISSUED AS A MATTER OF INFORMATION ONLY AND CONFERS NO RIGHTS UPON THE CERTIFICATE HOLDER. THIS CERTIFICATE DOES NOT AFFIRMATIVELY OR NEGATIVELY AMEND, EXTEND OR ALTER THE COVERAGE AFFORDED BY THE POLICIES BELOW. THIS CERTIFICATE OF INSURANCE DOES NOT CONSTITUTE A CONTRACT BETWEEN THE ISSUING INSURER(S), AUTHORIZED REPRESENTATIVE OR PRODUCER, AND THE CERTIFICATE HOLDER.

IMPORTANT: If the certificate holder is an ADDITIONAL INSURED, the policy(ies) must be endorsed. If SUBROGATION IS WAIVED, subject to the terms and conditions of the policy, certain policies may require an endorsement. A statement on this certificate does not confer rights to the certificate holder in lieu of such endorsement(s).

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PRODUCER
Propel Insurance
Tacoma Commercial Insurance
1201 Pacific Ave, Suite 1000
Tacoma, WA 98402

CONTACT NAME: Monica Parks
PHONE (A/C, No, Ext): 253.310.4060 FAX (A/C, No): 866.577.1326
E-MAIL ADDRESS:

INSURER(S) AFFORDING COVERAGE	NAIC #
INSURER A : Columbia Casualty	31127
INSURER B : Continental Insurance Company	31127
INSURER C :	
INSURER D :	
INSURER E :	
INSURER F :	

INSURED
Continuing Life, et al.
1940 Levante Street
Carlsbad, CA 92009

COVERAGES CERTIFICATE NUMBER: REVISION NUMBER:

THIS IS TO CERTIFY THAT THE POLICIES OF INSURANCE LISTED BELOW HAVE BEEN ISSUED TO THE INSURED NAMED ABOVE FOR THE POLICY PERIOD INDICATED. NOTWITHSTANDING ANY REQUIREMENT, TERM OR CONDITION OF ANY CONTRACT OR OTHER DOCUMENT WITH RESPECT TO WHICH THIS CERTIFICATE MAY BE ISSUED OR MAY PERTAIN, THE INSURANCE AFFORDED BY THE POLICIES DESCRIBED HEREIN IS SUBJECT TO ALL THE TERMS, EXCLUSIONS AND CONDITIONS OF SUCH POLICIES. LIMITS SHOWN MAY HAVE BEEN REDUCED BY PAID CLAIMS.

INSR LTR	TYPE OF INSURANCE	ADDL INSR	SUBR WVD	POLICY NUMBER	POLICY EFF (MM/DD/YYYY)	POLICY EXP (MM/DD/YYYY)	LIMITS	
A	GENERAL LIABILITY X COMMERCIAL GENERAL LIABILITY CLAIMS-MADE X OCCUR GEN'L AGGREGATE LIMIT APPLIES PER: X POLICY PRO-JECT LOC			5087056186	06/30/2013	06/30/2014	EACH OCCURRENCE	$1,000,000
							DAMAGE TO RENTED PREMISES (Ea occurrence)	$100,000
							MED EXP (Any one person)	$5,000
							PERSONAL & ADV INJURY	$1,000,000
							GENERAL AGGREGATE	$3,000,000
							PRODUCTS - COMP/OP AGG	$Included
								$
B	AUTOMOBILE LIABILITY X ANY AUTO ALL OWNED AUTOS SCHEDULED AUTOS X HIRED AUTOS X NON-OWNED AUTOS X Comp $500 X Coll $1,000			5087056155	06/30/2013	06/30/2014	COMBINED SINGLE LIMIT (Ea accident)	$1,000,000
							BODILY INJURY (Per person)	$
							BODILY INJURY (Per accident)	$
							PROPERTY DAMAGE (Per accident)	$
								$
A	X UMBRELLA LIAB X OCCUR EXCESS LIAB CLAIMS-MADE DED X RETENTION $10,000			5087056172	06/30/2013	06/30/2014	EACH OCCURRENCE	$10,000,000
							AGGREGATE	$10,000,000
								$
	WORKERS COMPENSATION AND EMPLOYERS' LIABILITY Y/N ANY PROPRIETOR/PARTNER/EXECUTIVE OFFICER/MEMBER EXCLUDED? (Mandatory in NH) If yes, describe under DESCRIPTION OF OPERATIONS below	N/A					WC STATU-TORY LIMITS OTH-ER	
							E.L. EACH ACCIDENT	$
							E.L. DISEASE - EA EMPLOYEE	$
							E.L. DISEASE - POLICY LIMIT	$
A	Professional Liability			5087056186	06/30/2013	06/30/2014	$1,000,000 Occurence $3,000,000 Aggregate	

DESCRIPTION OF OPERATIONS / LOCATIONS / VEHICLES (Attach ACORD 101, Additional Remarks Schedule, if more space is required)

Named Insured Continued:
Continuing Life, LLC
Continuing Life Communities Management, LLC
Continuing Life Communities, LLC dba La Costa Glen
Continuing Life Communities CHC, LLC dba Glenbrook
(See Attached Descriptions)

CERTIFICATE HOLDER

Evidence of Insurance

CANCELLATION

SHOULD ANY OF THE ABOVE DESCRIBED POLICIES BE CANCELLED BEFORE THE EXPIRATION DATE THEREOF, NOTICE WILL BE DELIVERED IN ACCORDANCE WITH THE POLICY PROVISIONS.

AUTHORIZED REPRESENTATIVE

Teresa Grady Man

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DESCRIPTIONS (Continued from Page 1)

Morningside Core Care Associates, LP
Moningside 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 of Fullerton
Core Care V, LP Park Vista at Morningside
CLC Thousand Oaks, LLC dba University Village Thousand Oaks
CLC Thousand Oaks HC, LLC dba Oakview at University Village
Stone Ridge Creek Pleasanton CCRC, LLC dba Stone Ridge Creek
Continuing Life Communities Pleasonton HC, LLC dba Creek View
GlenBrook At Home, LLC
ParkVista At Home, LLC
Oakview At Home, LLC

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CORECARE III

dba MORNINGSIDE OF FULLERTON

FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION

YEARS ENDED DECEMBER 31, 2013 AND 2012

WITH INDEPENDENT AUDITORS' REPORT

CORECARE III
dba MORNINGSIDE OF FULLERTON
TABLE OF CONTENTS
DECEMBER 31, 2013 AND 2012

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WHITE NELSON DIEHL EVANS LLP
Certified Public Accountants & Consultants

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CONTRACTS BRANCH

INDEPENDENT AUDITORS' REPORT

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, 2013 and 2012, 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.

2875 Michelle Drive, Suite 300, Irvine, CA 92606 • Tel: 714.978.1300 • Fax: 714.978.7893

Offices located in Orange and San Diego Counties

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, 2013 and 2012, 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 Diehl Evans LLP

Irvine, California
April 7, 2014

CORECARE III
dba MORNINGSIDE OF FULLERTON
BALANCE SHEETS
DECEMBER 31, 2013 AND 2012

ASSETS

	2013	2012
Current Assets:		
Cash and cash equivalents	$ 10,479,813	$ 8,385,842
Marketable securities	4,358,988	1,944,997
Accounts receivable	104,891	72,599
Inventories	30,848	33,314
Prepaid expenses	188,406	144,488
Interest receivable	4,178	13,500
Other receivables	54,058	53,095
Total Current Assets	15,221,182	10,647,835
Property And Equipment:		
Land	7,642,717	7,642,717
Land improvements	3,826,699	3,826,699
Buildings and improvements	56,523,816	55,818,147
Furniture, fixtures and equipment	3,488,656	3,494,031
Computer equipment and systems	897,685	874,395
Construction in progress	727,109	173,205
Total Property And Equipment, At Cost	73,106,682	71,829,194
Less: Accumulated Depreciation	(34,833,742)	(33,043,533)
Total Property and Equipment, at Net Book Value	38,272,940	38,785,661
Deferred Entrance Fees Receivable	16,517,763	15,112,959
Total Assets	$ 70,011,885	$ 64,546,455

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

CORECARE III
dba MORNINGSIDE OF FULLERTON
BALANCE SHEETS (CONTINUED)
DECEMBER 31, 2013 AND 2012

LIABILITIES AND PARTNERS' EQUITY (DEFICIT)

	2013	2012
Current Liabilities:		
Accounts payable	$ 439,506	$ 416,771
Accrued expenses	525,780	462,409
Deposits on unoccupied units	505,200	405,600
Current portion of note payable to Master Trust	3,328,309	3,027,129
Total Current Liabilities	4,798,795	4,311,909
Long-Term Liabilities:		
Note payable to Master Trust, net of current portion	131,172,170	119,685,510
Deferred revenue from unamortized deferred entrance fees, net	16,168,239	15,169,762
Total Long-Term Liabilities	147,340,409	134,855,272
Total Liabilities	152,139,204	139,167,181
Partners' Equity (Deficit):		
Partners' equity (deficit)	(82,838,290)	(74,747,625)
Accumulated other comprehensive income	710,971	126,899
Total Partners' Equity (Deficit)	(82,127,319)	(74,620,726)
Total Liabilities and Partners' Equity (Deficit)	$ 70,011,885	$ 64,546,455

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

CORECARE III
dba MORNINGSIDE OF FULLERTON
STATEMENTS OF OPERATIONS
YEARS ENDED DECEMBER 31, 2013 AND 2012

	2013	2012
Revenues:		
Resident services	$ 19,031,751	$ 17,762,450
Amortization of deferred entrance fees	3,390,905	3,106,589
Deferred entrance fees on terminated contracts	1,284,851	1,279,857
Non-resident services	190,570	161,394
Total Revenues	23,898,077	22,310,290
Operating Expenses:		
Resident care	5,749,051	5,347,850
Food and beverage services	2,868,019	2,640,113
Environmental services	881,822	865,480
Plant facility operating costs	4,209,165	3,519,192
General and administrative expenses	4,641,252	4,484,044
Depreciation and amortization	1,805,664	1,753,877
Loss on disposal of property and equipment	6,320	82,554
Total Operating Expenses	20,161,293	18,693,110
Income from Operations	3,736,784	3,617,180
Other Income (Expenses):		
Gain (loss) on sale of marketable securities	72,304	(42,266)
Interest and dividend income	98,747	65,549
Other income	1,500	20,387
Total Other Income (Expenses)	172,551	43,670
Net Income	$ 3,909,335	$ 3,660,850

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, 2013 AND 2012

	2013	2012
Net Income	$ 3,909,335	$ 3,660,850
Other Comprehensive Income:		
Net unrealized holding gains arising during the year	661,894	126,899
Reclassification related to net realized gains included in net income	(77,822)	-
Comprehensive Income	$ 4,493,407	$ 3,787,749

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, 2013 AND 2012

	General Partner	Limited Partner	Accumulated Other Comprehensive Income	Total
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	2,196,510	1,464,340	-	3,660,850
Balance at December 31, 2012	(50,218,720)	(24,528,905)	126,899	(74,620,726)
Distributions	(7,200,000)	(4,800,000)	-	(12,000,000)
Net unrealized holding gains arising during the year	-	-	661,894	661,894
Reclassification related to net realized gains included in net income	-	-	(77,822)	(77,822)
Net income	2,345,601	1,563,734	-	3,909,335
Balance at December 31, 2013	$ (55,073,119)	$ (27,765,171)	$ 710,971	$ (82,127,319)

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, 2013 AND 2012

	2013	2012
Cash Flows from Operating Activities:		
Cash received from residents	$ 23,336,770	$ 21,566,294
Interest and dividend income	98,747	65,549
Other income	1,500	20,387
Cash received from community services	40,077	38,196
Reimbursements for services to non-residents	190,570	161,394
Cash paid to suppliers and employees	(18,304,655)	(16,924,299)
Net Cash Provided by Operating Activities	5,363,009	4,927,521
Cash Flows from Investing Activities:		
Payments made on purchases of property and equipment	(1,299,663)	(1,222,976)
Proceeds from sale of property and equipment	400	-
Purchases of marketable securities	(4,161,578)	(2,336,182)
Proceeds from redemption of marketable securities	2,403,963	1,995,530
Net Cash Used in Investing Activities	(3,056,878)	(1,563,628)
Cash Flows from Financing Activities:		
Proceeds from note payable to Master Trust	29,466,884	20,815,119
Payments on note payable to Master Trust	(17,679,044)	(14,376,589)
Distributions to partners	(12,000,000)	(12,500,000)
Net Cash Used in Financing Activities	(212,160)	(6,061,470)
Net Increase (Decrease) in Cash and Cash Equivalents	2,093,971	(2,697,577)
Cash and Cash Equivalents, Beginning of Year	8,385,842	11,083,419
Cash and Cash Equivalents, End of Year	$ 10,479,813	$ 8,385,842

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, 2013 AND 2012

	2013	2012
Reconciliation of Net Income to Net Cash Provided by Operating Activities:		
Net Income	$ 3,909,335	$ 3,660,850
Non-cash Items Included in Net Income:		
Depreciation	1,805,664	1,753,877
Amortization of deferred entrance fees	(3,390,905)	(3,106,589)
Deferred entrance fees on terminated contracts	(1,284,851)	(1,279,857)
Loss on disposal of property and equipment	6,320	82,554
(Gain) Loss on sale of marketable securities	(72,304)	42,266
Changes in:		
Accounts receivable	(32,292)	(14,316)
Inventories	2,466	(1,807)
Prepaid expenses	(43,918)	(31,443)
Interest receivable	9,322	7,444
Other receivables	(963)	(29,380)
Deferred entrance fees receivable	4,269,429	3,772,692
Accounts payable	22,735	43,735
Accrued expenses	63,371	(78,105)
Deposits on unoccupied units	99,600	105,600
Net Cash Provided by Operating Activities	$ 5,363,009	$ 4,927,521
Supplemental Disclosure 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	$ 5,674,234	$ 5,098,951

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

CORECARE III
dba MORNINGSIDE OF FULLERTON
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012

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

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.

Principles of Accounting

The accompanying financial statements are presented using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("GAAP"). References to the "ASC" hereafter refer to the Accounting Standards Codification established by the Financial Accounting Standards Board ("FASB") as the source of authoritative GAAP.

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.

Marketable Securities

Marketable securities held by the Company at December 31, 2013 and 2012, are classified in accordance ASC 320-10, "*Investments - Debt and Equity Securities*", as available-for-sale and stated at their fair market value based on quoted market prices. Realized gains or losses from the sale of marketable securities are computed based on specific identification of historical cost. Unrealized gains or losses of marketable securities are reported as a separate component of partners' equity (deficit) and as a separate component of other comprehensive income.

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.

Note 1: Nature of Business and Summary of Significant Accounting Policies (Continued)

Accounts Receivable (Continued)

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, 2013 and 2012.

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.

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.

The estimated useful lives of the related assets are as follows:

Land improvements	15-20 years
Buildings and improvements	10-40 years
Furniture, fixtures and equipment	5-10 years
Computer equipment and systems	3-5 years

Depreciation expense for the years ended December 31, 2013 and 2012, totaled $1,805,664 and $1,753,877, respectively. At December 31, 2013 and 2012, fully depreciated property and equipment still in use totaled $4,928,321 and $4,605,219, respectively.

Long-Lived Assets

The Partnership accounts for impairment and disposition of long-lived assets in accordance with ASC 360-10, "*Property, Plant, and Equipment*". 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, 2013 and 2012.

Revenue Recognition

Revenue from resident and non-resident services is accounted for on the accrual basis of accounting as earned. See Note 7 for a description of the revenue recognition policy of deferred entrance fees.

Note 1: Nature of Business and Summary of Significant Accounting Policies (Continued)

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.

Income Taxes

The Partnership is not taxed on its income. Taxable income or loss is reportable by each of the partners.

Advertising and Promotional Costs

Advertising and promotional costs are charged to operations when incurred. For the years ended December 31, 2013 and 2012, advertising and promotional costs totaled $1,155,749 and $1,232,019, respectively, and are included in general and administrative expenses in the accompanying statements of operations.

Comprehensive Income

The Partnership accounts for other comprehensive income items in accordance with 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.

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.

Note 2: Concentrations, Risks and Uncertainties

The Partnership maintains cash balances with one financial institution. At December 31, 2013, accounts at the institution are insured by the Federal Deposit Insurance Corporation (FDIC) up to $250,000. At December 31, 2012, accounts at the institution were insured by the Federal Deposit Insurance Corporation (FDIC) up to $250,000 for interest bearing accounts and unlimited insurance for non-interest bearing accounts.

CORECARE III
dba MORNINGSIDE OF FULLERTON
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012

Note 2: Concentrations, Risks and Uncertainties (Continued)

At December 31, 2013 and 2012, the Partnership also maintains its money market funds and investments in equity securities at brokerage firms which are not FDIC insured. The firms are insured by Securities Investor Protection Corporation (SIPC) up to $500,000.

Note 3: Marketable Securities

At December 31, 2013 and 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.

At December 31, 2013, cost and fair market value of such investments are as follows:

	Cost	Fair Value	Gross Unrealized Holding Gain	Gross Unrealized Holding Loss
Equities	$ 3,648,017	$ 4,358,988	$ 718,035	$ 7,064
Total Marketable Securities	$ 3,648,017	$ 4,358,988	$ 718,035	$ 7,064

At December 31, 2013, 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, 2013, the aggregate market value of marketable securities exceeds their aggregate cost by $710,971. Other comprehensive income for the year ended December 31, 2013 includes net unrealized holding gains of $661,894, and a reclassification adjustment for net realized (gains) included in net income of $77,822.

Sales of marketable securities classified as available-for-sale during the year ended December 31, 2013, resulted in proceeds of $2,403,963, gross realized gains of $179,659 and gross realized losses of $107,355.

At December 31, 2012, cost and fair market value of such investments are as follows:

	Cost	Fair Value	Gross Unrealized Holding Gain	Gross Unrealized Holding Loss
Equities	$ 1,818,098	$ 1,944,997	$ 148,711	$ 21,812
Total Marketable Securities	$ 1,818,098	$ 1,944,997	$ 148,711	$ 21,812

Note 3: Marketable Securities (Continued)

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.

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.

Note 4: 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 5), and methods of cancellation and refunds or contingent repayments subject to resale of the units.

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 repayable under the following terms and conditions:

(1) <u>Cancellation During The Trial Residence Period</u> - 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) <u>Cancellation After 90 Days</u> - 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 Residence Agreement.

Note 4: Residence and Care Agreement (Continued)

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

Note 5: Note Payable to Master Trust and Trust Agreement

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, 2013 and 2012, the balance outstanding on the Master Trust note payable was $134,500,479 and $122,712,639, respectively.

A contribution amount, as specified in the Residence Agreement, is made to the Master Trust by the grantor (see Note 4). 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.

The loan which currently may not exceed $205,000,000 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 current and hereafter acquired equity in all of the improvements, fixtures, personal property, and intangible property associated and used in connection with the real property described in the deed of trust.

(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 income generated from and 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 $3,328,309 was paid in January 2014.

Note 5: Note Payable to Master Trust and Trust Agreement (Continued)

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

2014	$ 3,328,309
2015	3,279,304
2016	3,197,322
2017	3,117,389
2018	3,039,453
Thereafter	118,538,702
Total	$ 134,500,479

Note 6: Commitments and Contingencies

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.

Using a discount rate at December 31, 2013 and 2012, of 5.75 percent for both years, the anticipated revenues are estimated to exceed the cost of future services by $43,893,847 and $53,318,427 for the years ended December 31, 2013 and 2012, respectively. Therefore, no liability was accrued.

Reservations and Designations

At December 31, 2013 and 2012, the Partnership maintains cash reserves in the amount of $3,724,311 and $3,439,653, 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 and marketable securities on the accompanying balance sheets.

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 7: Deferred Revenue from Unamortized Deferred Entrance Fees

At December 31, 2013 and 2012, deferred revenue from unamortized deferred entrance fees consists of the following:

	2013	2012
Deferred entrance fees before repayment	$ 35,294,230	$ 33,635,949
Less: Accumulated amortization of deferred entrance fees	(19,125,991)	(18,466,187)
Deferred revenue from unamortized deferred entrance fees, net	$ 16,168,239	$ 15,169,762

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 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 2013 and 2012, the deferred entrance fees amortized into income were $3,390,905 and $3,106,589, respectively, based on total deferred entrance fees of $49,536,145 and $46,634,184, respectively.

Note 8: Related Party Transactions

At December 31, 2013, the Partnership had an informal service agreement with a related company concerning the provision of administrative and operational oversight services, including use of brand, transaction processing, benefit and insurance administration, among others. The service agreement, which was formalized subsequent to year end, calls for an initial service fee totaling $247,000, payable in equal monthly installments, plus additional fees for supplemental and out-of-pocket services, to commence on January 1, 2014 for an initial term of one year and is renewable annually thereafter unless cancelled. Total fees paid under this agreement for the year ended December 31, 2013 totaled $85,902, and these fees are included in general and administrative expenses in the accompanying statements of operations.

During both years ended December 31, 2013 and 2012, the Company paid $450,000 annually to the general partner for consulting services rendered and administrative expenses incurred to carry out its responsibilities. These expenses are included in the general and administrative expenses in the accompanying statements of operations.

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.

Note 8: Related Party Transactions (Continued)

The health care costs paid to CoreCare V during the years ended December 31, 2013 and 2012, were $4,892,126 and $4,580,580, respectively, and are included in resident care expenses in the accompanying statements of operations. At December 31, 2013 and 2012, the Partnership had net receivables from CoreCare V totaling $4,746 and $1,267, respectively, which are included in accounts receivable in the accompanying balance sheets.

The Partnership also shares certain expenses with related companies. At December 31, 2013, the Partnership had net receivables from these companies totaling $2,378, and are included in accounts receivable in the accompanying balance sheets. At December 31, 2012, amounts due to these companies totaled $43,835, and are included in accounts payable in the accompanying balance sheets.

Note 9: Employee Benefit Plan

The Partnership sponsors a qualified 401(k) plan (the "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 may annually elect to make discretionary matching or non-elective contributions to the Plan. For the years ended December 31, 2013 and 2012, employer contributions to the Plan totaled $43,024 and $35,990, respectively, with corresponding plan administrative expenses totaling $2,284 and $2,698, respectively. Both expenses have been included in general and administrative expenses in the accompanying statements of operations.

Note 10: Fair Value Measurements

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

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:

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.

Note 10: Fair Value Measurements (Continued)

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.

Assets measured at fair value on a recurring basis comprise of available-for-sale securities. The fair value of the assets at December 31, 2013 is determined as follows:

	Level 1	Level 2	Level 3
Equities:			
Large Value	$ 1,856,666	$ -	$ -
Large Growth	429,624	-	-
Large Core	1,906,423	-	-
Mid Growth	166,275	-	-
Total Assets at Fair Value	$ 4,358,988	$ -	$ -

Assets measured at fair value on a recurring basis comprise of available-for-sale securities. The fair value of the assets at December 31, 2012 was determined as follows:

	Level 1	Level 2	Level 3
Equities:			
Large Value	$ 951,396	$ -	$ -
Large Growth	91,394	-	-
Large Core	799,595	-	-
Mid Growth	54,312	-	-
Mid Core	48,300	-	-
Total Assets at Fair Value	$ 1,944,997	$ -	$ -

Note 11: Subsequent Events

Events occurring after December 31, 2013, have been evaluated for possible adjustment to the financial statements or disclosure as of April 7, 2014, 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.

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CONTRACTS BRANCH

SUPPLEMENTARY INFORMATION

WHITE NELSON DIEHL EVANS LLP
Certified Public Accountants & Consultants

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CONTRACTS BRANCH

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, 2013 and 2012, 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, 2013, 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
April 7, 2014

2875 Michelle Drive, Suite 300, Irvine, CA 92606 • Tel: 714.978.1300 • Fax: 714.978.7893

Offices located in Orange and San Diego Counties

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	$0	$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

STATE OF CALIFORNIA—HEALTH & HUMAN SERVICES AGENCY

GRAY DAVIS, *Governor*

DEPARTMENT OF SOCIAL SERVICES

744 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,

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 5-3
CALCULATION OF LONG-TERM DEBT RESERVE AMOUNT

Line		TOTAL
1	Total from Form 5-1 bottom of Column (e)	$0
2	Total from Form 5-2 bottom of Column (e)	$0
3	Facility leasehold or rental payment paid by provider during fiscal year (including related payments such as lease insurance)	
4	**TOTAL AMOUNT REQUIRED FOR LONG-TERM DEBT RESERVE:**	$0

PROVIDER: CoreCare III

FORM 5-4
CALCULATION OF NET OPERATING EXPENSES

Line			Amounts	TOTAL
1		Total operating expenses from financial statements		$20,161,293
2		Deductions:		
	a.	Interest paid on long-term debt (see instructions)		
	b.	Credit enhancement premiums paid for long-term debt (see instructions)		
	c.	Depreciation	$1,805,664	
	d.	Amortization		
	e.	Revenues received during the fiscal year for services to persons who did not have a continuing care contract	$230,647	
	f.	Extraordinary expenses approved by the Department		
3		Total Deductions		$2,036,311
4		Net Operating Expenses		$18,124,982
5		Divide Line 4 by 365 and enter the result.		$49,657
6		**Multiply Line 5 by 75 and enter the result.** This is the provider's operating expense reserve amount.		$3,724,311

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	$ 40,077
Reimbursements for services to non-residents	190,570
Revenues received during the fiscal year for services to residents who did not have a continuing care contract	$ 230,647

Categories included in the above revenues:

$ 40,077	Meals on Wheels
52,160	Guest Meals
87,676	Catering
19,512	Processing Fees
31,222	Guest Room
$ 230,647	

PROVIDER: CoreCare III
COMMUNITY: Morningside of Fullerton

FORM 5-5
ANNUAL RESERVE CERTIFICATION

Provider Name: CoreCare III
Fiscal Year Ended: 12/31/2013

We have reviewed our debt service reserve and operating expense reserve requirements as of, and for the period ended 31-Dec-13 and are in compliance with those requirements.

Our liquid reserve requirements, computed using the audited financial statements for the fiscal year 31-Dec-13 are as follows:

		Amount
[1]	Debt Service Reserve Amount	$0
[2]	Operating Expense Reserve Amount	$3,724,311
[3]	**Total Liquid Reserve Amount:**	$3,724,311

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

	Qualifying Asset Description		**Amount (market value at end of quarter)** Debt Service Reserve		Operating Reserve
[4]	Cash and Cash Equivalents				$10,479,813
[5]	Investment Securities				$4,358,988
[6]	Equity Securities				
[7]	Unused/Available Lines of Credit				
[8]	Unused/Available Letters of Credit				
[9]	Debt Service Reserve				(not applicable)
[10]	Other: (describe qualifying asset)				
	Total Amount of Qualifying Assets Listed for Reserve Obligation:	[11]	$0	[12]	$14,838,801
	Reserve Obligation Amount:	[13]	$0	[14]	$3,724,311
	Surplus/(Deficiency):	[15]	$0	[16]	$11,114,490

Signature:

See next page for signature
(Authorized Representative)

Date:

(Title)

FORM 5-5
ANNUAL RESERVE CERTIFICATION

Provider Name: CoreCare III
Fiscal Year Ended: 12/31/2013

We have reviewed our debt service reserve and operating expense reserve requirements as of, and for the period ended 31-Dec-13 and are in compliance with those requirements.

Our liquid reserve requirements, computed using the audited financial statements for the fiscal year 31-Dec-13 are as follows:

		Amount
[1]	Debt Service Reserve Amount	$0
[2]	Operating Expense Reserve Amount	$3,724,311
[3]	**Total Liquid Reserve Amount:**	$3,724,311

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

	Qualifying Asset Description	Amount (market value at end of quarter) Debt Service Reserve		Operating Reserve
[4]	Cash and Cash Equivalents			$10,479,813
[5]	Investment Securities			$4,358,988
[6]	Equity Securities			
[7]	Unused/Available Lines of Credit			
[8]	Unused/Available Letters of Credit			
[9]	Debt Service Reserve			(not applicable)
[10]	Other: (describe qualifying asset)			
[11]	**Total Amount of Qualifying Assets Listed for Reserve Obligation:**	$0	[12]	$14,838,801
[13]	**Reserve Obligation Amount:**	$0	[14]	$3,724,311
[15]	**Surplus/(Deficiency):**	$0	[16]	$11,114,490

Signature:
(Authorized Representative)

Date: 4-7-2014

(Title) President

FORM 5-5
Description of Reserves under SB 1212

Total Qualifying Assets as Filed:

Cash and Cash Equivalents	$	10,479,813
Investment Securities	$	4,358,988
Total Qualifying Assets as Filed:	$	14,838,801

Reservations and Designations:

Reserved for Operating Expenses	$	3,724,311
Total Reservations and Designations:	$	-
Remaining Liquid Reserves	$	11,114,490

Per Capita Cost of Operations

Operating Expenses (Form 5-4 line # 1)	$	20,161,293
Mean # of CCRC Residents (Form 1-1 line 10)		447.0
Per Capita Cost of Operations	$	45,104

PROVIDER: Core Care III
COMMUNITY: Morningside of Fullerton

FORM 7-1
REPORT ON CCRC MONTHLY SERVICE FEES

		RESIDENTIAL LIVING	ASSISTED LIVING	SKILLED NURSING
[1]	Monthly Service Fees at beginning of reporting period: (indicate range, if applicable)	**$2,529 – $5,341**	**N/A**	**N/A**
[2]	Indicate percentage of increase in fees imposed during reporting period: (indicate range, if applicable)	**1% - 2.8%**	**N/A**	**N/A**

☐ Check here if monthly service fees at this community were <u>not</u> 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, 2013
(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 monthly fee increase effective 1-1-2013 was 2.8%. The second person monthly fee increase effective 1-1-2013 was 1.0%. 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

BALANCE SHEET - DETAIL (TAX)

UNAUDITED

Report BS001C — 010 Morningside SP Assoc, IncCo854 — FISCAL 100 %
Number 002 — December 31, 2013 — C12 113(01..12)

	Current **Actual**	Prior **Actual**
ASSETS		
1000 Intercompany Cash	8,587.88	9,463.88
1 CASH	8,587.88	9,463.88
1300 Investmencs in Affiliates (E)	304,727.37-	255,458.90-
8 Other Corporate Investments	304,727.37-	255,458.90-
9 OTHER CORPORATE INVESTMENTS	304,727.37-	255,458.90-
TOTAL ASSETS	296,139.49-	245,995.02-
LIABILITIES & CAPITAL		
3020 Retained Earnings	327,495.02	245,995.02
3300 Year-To-Date Closing Account	0.00	27,962.10
---- Retained Earnings	31,355.53-	27,962.10-
21 PARTNERS' CAPITAL ACCOUNTS	296,139.49	245,995.02
TOTAL LIABILITIES & CAPITAL	296,139.49	245,995.02
TOTAL Morningside SP Assoc, IncCo854	0.00	0.00

Certified by:

Angelka Tolu, CPA
Controller

STATEMENT OF INCOME - DETAIL (TAX)

UNAUDITED

Report INCTAXC 010 Morningside SP Assoc, IncCo854 FISCAL 100 %
Number 002 Twelve Months Ending December 31, 2013 C12 113(01..12)

	Quarter to Date			Year to Date				Year to Date
	Actual		Variance	**Actual**		Variance	Annual	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	800.00	0.00	800.00
15 OTHER EXPENSES								
8520 License & Permi	0.00	0.00	0.00	51.00	0.00	51.00	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	76.00	0.00	76.00	0.00	75.00
15 OTHER EXPENSES	0.00	0.00	0.00	76.00	0.00	76.00	0.00	75.00
TOTAL RENTAL REAL ESTATE EXPENS	0.00	0.00	0.00	876.00	0.00	876.00	0.00	875.00
21 INCOME/(LOSS) FROM RENTAL	0.00	0.00	0.00	876.00	0.00	876.00	0.00	875.00
20a Inc/(Loss) From K-1's								
4530 Incm/Loss frm A	32,231.53-	0.00	32,231.53-	32,231.53-	0.00	32,231.53-	0.00	28,837.10-
20a INC/(LOSS) FROM K-1's	32,231.53-	0.00	32,231.53-	32,231.53-	0.00	32,231.53-	0.00	28,837.10-
20a Inc/(Loss) From K-1's	32,231.53-	0.00	32,231.53-	32,231.53-	0.00	32,231.53-	0.00	28,837.10-
TOTAL Morningside SP Assoc, Inc	32,231.53-	0.00	32,231.53-	31,355.53-	0.00	31,355.53-	0.00	27,962.10-

Certified by:

Angelka Tolu, CPA
Controller

Continuing Care Retirement Community
Disclosure Statement
General Information

Date Prepared: 4/21/14

RECEIVED
APR 24 2014
CONTINUING CARE CONTRACTS BRANCH

FACILITY NAME: Morningside of Fullerton
ADDRESS: 800 Morningside Drive, Fullerton, CA ZIP CODE: 92835 PHONE: 714 256-8000
PROVIDER NAME: CoreCare III FACILITY OPERATOR: CoreCare III
RELATED FACILITIES: ParkVista RELIGIOUS AFFILIATION: N/A
YEAR OPENED: 1991 # OF ACRES: 19 ☑ SINGLE STORY ☑ MULTI-STORY ☐ OTHER: ______ MILES TO SHOPPING CTR: 0.1 MILES TO HOSPITAL: 1.5

NUMBER OF UNITS:

RESIDENTIAL LIVING		HEALTH CARE	
APARTMENTS — STUDIO:	5	ASSISTED LIVING:	
APARTMENTS — 1 BDRM:	116	SKILLED NURSING:	
APARTMENTS — 2 BDRM:	138/11	SPECIAL CARE:	
COTTAGES/HOUSES:	57	DESCRIBE SPECIAL CARE:	
RLU OCCUPANCY (%) AT YEAR END:	97.86%		

TYPE OF OWNERSHIP: ☐ NOT-FOR-PROFIT ☑ FOR- PROFIT ACCREDITED?: ☐ YES ☑ NO BY: ______

FORM OF CONTRACT: (Check all that apply) ☑ CONTINUING CARE ☐ LIFE CARE ☑ ENTRANCE FEE ☐ FEE FOR SERVICE ☐ ASSIGNMENT OF ASSETS ☐ EQUITY ☐ MEMBERSHIP ☐ 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?** ☐ YES ☑ NO

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

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

RESIDENT REPRESENTATIVE ON THE BOARD (briefly describe their involvement): ______

FACILITY SERVICES AND AMENITIES

COMMON AREA AMENITIES	AVAILABLE	FEE FOR SERVICE	SERVICES AVAILABLE	INCLUDED IN FEE	FOR EXTRA CHARGE
BEAUTY/BARBER SHOP	☐	☑	HOUSEKEEPING (____ TIMES/MONTH)	☑	☐
BILLIARD ROOM	☑	☐	MEALS (____/DAY)	☑	☐
BOWLING GREEN	☑	☐	SPECIAL DIETS AVAILABLE	☐	☐
CARD ROOMS	☑	☐			
CHAPEL	☐	☐	24-HOUR EMERGENCY RESPONSE	☑	☐
COFFEE SHOP	☐	☐	ACTIVITIES PROGRAM	☑	☐
CRAFT ROOMS	☑	☐	ALL UTILITIES EXCEPT PHONE	☑	☐
EXERCISE ROOM	☑	☐	APARTMENT MAINTENANCE	☑	☐
GOLF COURSE ACCESS	☐	☑	CABLE TV	☐	☑
LIBRARY	☑	☐	LINENS FURNISHED	☐	☑
PUTTING GREEN	☑	☐	LINENS LAUNDERED	☑	☐
SHUFFLEBOARD	☐	☐	MEDICATION MANAGEMENT	☐	☑
SPA	☑	☐	NURSING/WELLNESS CLINIC	☑	☐
SWIMMING POOL-INDOOR	☐	☐	PERSONAL HOME CARE	☐	☑
SWIMMING POOL-OUTDOOR	☑	☐	TRANSPORTATION-PERSONAL	☐	☑
TENNIS COURT	☐	☐	TRANSPORTATION-PREARRANGED	☐	☑
WORKSHOP	☑	☐	OTHER ______	☐	☐
OTHER ______	☐	☐			

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

NOTE: PLEASE INDICATE IF THE FACILITY IS A LIFE CARE FACILITY.

PROVIDER NAME: CoreCare III

	2010	2011	2012	2013
INCOME FROM ONGOING OPERATIONS				
OPERATING INCOME (excluding amortization of entrance fee income)	16,915,614	17,100,130	17,944,231	19,223,821
LESS OPERATING EXPENSES (excluding depreciation, amortization, and interest)	14,857,127	15,288,651	16,357,922	17,835,091
NET INCOME FROM OPERATIONS	2,058,487	1,811,479	1,586,309	1,388,730
LESS INTEREST EXPENSE				
PLUS CONTRIBUTIONS				
PLUS NON-OPERATING INCOME (EXPENSES) (excluding extraordinary items)	-346,127	-609,061	-541,576	-357,841
NET INCOME (LOSS) BEFORE ENTRANCE FEES, DEPRECIATION AND AMORTIZATION	1,712,360	1,202,418	1,044,733	1,030,889
NET CASH FLOW FROM ENTRANCE FEES (Total Deposits Less Refunds)	1,990,976	6,986,860	9,349,630	14,859,995

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	$134,500,479	0.00	03/06/91	12/31/34	40 years

FINANCIAL RATIOS
(see next page for ratio formulas)

	2012 CCAC Medians 50th Percentile *(optional)*	2011	2012	2013
DEBT TO ASSET RATIO		0%	0%	0%
OPERATING RATIO		92.2%	93.8%	94.7%
DEBT SERVICE COVERAGE RATIO		0	0	0
DAYS CASH-ON-HAND RATIO		300.89	230.52	303.68

HISTORICAL MONTHLY SERVICE FEES
(AVERAGE FEE AND PERCENT CHANGE)

	2010	%	2011	%	2012	%	2013
STUDIO	$2,384	3.0	$2,456	2.9	$2,527	2.8	$2,598
ONE BEDROOM	$2,948	3.0	$3,036	2.9	$3,124	2.8	$3,211
TWO BEDROOM	$3,699	3.0	$3,810	2.9	$3,920	2.8	$4,030
COTTAGE/HOUSE	$4,522	3.0	$4,658	2.9	$4,793	2.8	$4,927
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 $134,500,479 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

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

DEBT SERVICE COVERAGE RATIO

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

DAYS CASH ON HAND RATIO

$$\frac{\text{Unrestricted Current Cash \& Investments} + \text{Unrestricted Non-Current Cash \& Investments}}{(\text{Operating Expenses} - \text{Depreciation} - \text{Amortization})/365}$$

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.

KEY INDICATORS REPORT

Date Prepared: 4/1/2014

CoreCare III dba Morningside of Fullerton

Chief Executive Officer Signature

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CONTINUING CARE
CONTRACTS BRANCH

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

						Projected	Forecast				
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Preferred Trend Indicator
OPERATIONAL STATISTICS											
1. Average Annual Occupancy by Site (%)	98.20%	92.90%	93.00%	93.30%	96.80%	98.17%	98.00%	98.00%	98.00%	98.00%	N/A
MARGIN (PROFITABILITY) INDICATORS											
2. Net Operating Margin (%)	17.05%	12.17%	10.59%	8.84%	7.22%	7.28%	7.73%	8.17%	8.62%	9.06%	↑
3. Net Operating Margin - Adjusted (%)	34.79%	21.42%	36.53%	40.07%	47.67%	35.81%	30.83%	30.58%	30.34%	30.11%	↓
LIQUIDITY INDICATORS											
4. Unrestricted Cash and Investments ($000)	$13,915	$11,510	$12,603	$10,331	$14,839	$11,000	$11,000	$11,000	$11,000	$11,000	↑
5. Days Cash on Hand (Unrestricted)	355.6	282.7	300.9	230.5	303.7	213.8	207.6	201.6	195.7	190	↑
CAPITAL STRUCTURE INDICATORS											
6. Deferred Revenue from Entrance Fees ($000)	$2,656	$2,667	$2,866	$3,106	$3,391	$3,561	$3,739	$3,926	$4,122	$4,328	N/A
7. Net Annual E/F proceeds ($000)	$4,684	$1,990	$6,986	$9,349	$14,860	$9,000	$7,000	$7,000	$7,000	$7,000	N/A
8. Unrestricted Net Assets ($000)	$65,040	$64,413	$66,036	$64,546	$70,012	$72,000	$72,000	$72,000	$72,000	$72,000	N/A
9. Annual Capital Asset Expenditure ($000)	$91	$3,429	$1,520	$1,223	$1,299	$1,969	$1,000	$800	$800	$800	N/A
10. Annual Debt Service Coverage Revenue Basis (x)	0.88%	0.59%	0.44%	0.36%	0.46%	0.44%	0.56%	0.62%	0.69%	0.75%	↑
11. Annual Debt Service Coverage (x)	2.54	1.32	2.97	3.63	5.25	3.13	2.94	3.06	3.17	3.23	↑
12. Annual Debt Service/Revenue (%)	13.70%	13.65%	13.10%	12.82%	12.58%	13.98%	11.81%	11.10%	10.54%	10.16%	↓
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 (%)	12.64%	10.53%	11.11%	8.63%	11.31%	8.80%	8.80%	8.80%	8.80%	8.80%	↑
15. Average Age of Facility (years)	17.95	18.61	18.85	18.84	19.29	19.28	20.28	21.28	22.28	23.28	↓