

CORECARE III
dba MORNINGSIDE OF FULLERTON

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

YEARS ENDED DECEMBER 31, 2019 AND 2018

WITH INDEPENDENT AUDITORS' REPORT

CORECARE III
dba MORNINGSIDE OF FULLERTON
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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 (a California limited partnership) (the "Partnership"), which comprise the balance sheets as of December 31, 2019 and 2018, 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 audits 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 auditors consider 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, 2019 and 2018, 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.

Adoption of New Accounting Pronouncements

As discussed in Note 1 to the financial statements, CoreCare III, dba Morningside of Fullerton, adopted new accounting guidance for revenue recognition under Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) 606, as well as new accounting guidance for marketable securities under FASB ASC 321. Our opinion is not modified with respect to this matter.

White Nelson Dick Evans LLP

Irvine, California

April 28, 2020

CORECARE III
dba MORNINGSIDE OF FULLERTON
BALANCE SHEETS
DECEMBER 31, 2019 AND 2018

ASSETS

	2019	2018
Current Assets:		
Cash and cash equivalents	\$ 2,117,379	\$ 3,198,463
Marketable securities	10,126,244	8,013,832
Accounts receivable	100,806	113,878
Inventories	23,268	38,451
Prepaid expenses and other current assets	372,028	257,367
Temporary loans Master Trust	-	1,647,048
Total Current Assets	12,739,725	13,269,039
Property and Equipment:		
Land	7,642,717	7,642,717
Land improvements	5,695,870	5,695,870
Buildings and improvements	64,946,429	61,539,054
Furniture, fixtures, and equipment	4,609,922	4,268,412
Computer equipment and systems	1,034,909	1,006,016
Construction in progress	2,647,949	3,623,943
Total Property and Equipment, at Cost	86,577,796	83,776,012
Less: Accumulated depreciation	(46,522,506)	(44,196,538)
Property and Equipment, at Net Book Value	40,055,290	39,579,474
Other Assets:		
Accounts receivable, long term	548,520	348,122
Costs of acquiring contracts, net	1,324,191	-
Deferred entrance fees receivable	22,050,923	21,518,620
Total Other Assets	23,923,634	21,866,742
Total Assets	\$ 76,718,649	\$ 74,715,255

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

CORECARE III
dba MORNINGSIDE OF FULLERTON
BALANCE SHEETS (CONTINUED)
DECEMBER 31, 2019 AND 2018

LIABILITIES AND PARTNERS' EQUITY (DEFICIT)

	<u>2019</u>	<u>2018</u>
Current Liabilities:		
Accounts payable	\$ 660,505	\$ 1,218,806
Accrued expenses	1,126,071	681,624
Deposits on future occupancy	2,445,600	1,971,974
Current portion of note payable to Master Trust	<u>3,881,190</u>	<u>3,830,171</u>
Total Current Liabilities	8,113,366	7,702,575
Long-Term Liabilities:		
Note payable to Master Trust, net of current portion	151,366,373	149,774,649
Deferred revenue from unamortized deferred entrance fees, net	<u>19,887,289</u>	<u>20,103,536</u>
Total Long-Term Liabilities	<u>171,253,662</u>	<u>169,878,185</u>
Total Liabilities	179,367,028	177,580,760
Partners' Equity (Deficit):		
Partners' deficit	(102,648,379)	(105,201,421)
Accumulated other comprehensive income	<u>-</u>	<u>2,335,916</u>
Total Partners' Equity (Deficit)	<u>(102,648,379)</u>	<u>(102,865,505)</u>
Total Liabilities and Partners' Equity (Deficit)	<u><u>\$ 76,718,649</u></u>	<u><u>\$ 74,715,255</u></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, 2019 AND 2018

	2019	2018
Revenues:		
Resident services	\$ 24,693,485	\$ 23,978,953
Amortization of deferred entrance fees	3,908,012	3,641,491
Deferred entrance fees on terminated contracts	1,371,598	1,507,796
Nonresident services	170,417	159,154
Total Revenues	30,143,512	29,287,394
Operating Expenses:		
Resident care	7,205,416	6,981,059
Food and beverage services	3,540,499	3,348,745
Environmental services	1,039,561	990,950
Plant facility operating costs	3,694,699	3,726,651
General and administrative expenses	5,085,665	6,090,206
Depreciation and amortization	2,502,480	2,169,983
Loss on disposal of property and equipment	-	2,516
Total Operating Expenses	23,068,320	23,310,110
Income from Operations	7,075,192	5,977,284
Other Income (Expense):		
Net realized gain (loss) on sale of marketable securities	76,506	(6,994)
Net unrealized gain on marketable securities	1,807,137	-
Interest and dividend income	385,007	292,675
Total Other Income (Expense)	2,268,650	285,681
Net Income	\$ 9,343,842	\$ 6,262,965

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, 2019 AND 2018

	<u>2019</u>	<u>2018</u>
Net Income	\$ 9,343,842	\$ 6,262,965
Other Comprehensive Loss:		
Net unrealized holding losses arising during the year	-	(913,847)
Amounts reclassified from accumulated other comprehensive income	<u>-</u>	<u>(167,508)</u>
Total Other Comprehensive Loss	<u>-</u>	<u>(1,081,355)</u>
Comprehensive Income	<u>\$ 9,343,842</u>	<u>\$ 5,181,610</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, 2019 AND 2018

	General Partner	Limited Partner	Accumulated Other Comprehensive Income	Total Partners' Equity (Deficit)
Balance, December 31, 2017	\$ (68,648,777)	\$ (36,815,609)	\$ 3,417,271	\$(102,047,115)
Distributions	(3,600,000)	(2,400,000)	-	(6,000,000)
Net unrealized holding losses arising during the year	-	-	(913,847)	(913,847)
Amounts reclassified from accumulated other comprehensive income	-	-	(167,508)	(167,508)
Net income	<u>3,757,779</u>	<u>2,505,186</u>	<u>-</u>	<u>6,262,965</u>
Balance, December 31, 2018	(68,490,998)	(36,710,423)	2,335,916	(102,865,505)
Reclassification of other comprehensive income (Note 2)	1,401,550	934,366	(2,335,916)	-
Capitalization of costs of acquiring contracts (Note 2)	823,970	549,314	-	1,373,284
Distributions	(6,300,000)	(4,200,000)	-	(10,500,000)
Net income	<u>5,606,305</u>	<u>3,737,537</u>	<u>-</u>	<u>9,343,842</u>
Balance, December 31, 2019	<u>\$ (66,959,173)</u>	<u>\$ (35,689,206)</u>	<u>\$ -</u>	<u>\$(102,648,379)</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, 2019 AND 2018

	<u>2019</u>	<u>2018</u>
Cash Flows from Operating Activities:		
Cash received from residents	\$ 31,157,893	\$ 28,856,973
Interest and dividend income	385,007	292,675
Reimbursements for services to nonresidents	170,417	159,154
Cash paid to suppliers and employees	<u>(20,903,822)</u>	<u>(20,152,382)</u>
Net Cash and Cash Equivalents Provided by Operating Activities	10,809,495	9,156,420
Cash Flows from Investing Activities:		
Payments made on purchases of property and equipment	(2,801,784)	(4,429,459)
Purchases of marketable securities	(2,980,341)	(1,402,744)
Proceeds from redemption of marketable securities	<u>2,748,803</u>	<u>540,216</u>
Net Cash and Cash Equivalents Used in Investing Activities	(3,033,322)	(5,291,987)
Cash Flows from Financing Activities:		
Proceeds from note payable to Master Trust	5,472,914	3,673,816
Payments on note payable to Master Trust	(3,830,171)	(3,757,441)
Distributions to partners	<u>(10,500,000)</u>	<u>(6,000,000)</u>
Net Cash and Cash Equivalents Used in Financing Activities	<u>(8,857,257)</u>	<u>(6,083,625)</u>
Net Decrease in Cash and Cash Equivalents	(1,081,084)	(2,219,192)
Cash and Cash Equivalents, Beginning of Year	<u>3,198,463</u>	<u>5,417,655</u>
Cash and Cash Equivalents, End of Year	<u><u>\$ 2,117,379</u></u>	<u><u>\$ 3,198,463</u></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, 2019 AND 2018

	2019	2018
Reconciliation of Net Income to Net Cash and Cash Equivalents		
Provided by Operating Activities:		
Net Income	\$ 9,343,842	\$ 6,262,965
Noncash Items Included in Net Income:		
Depreciation	2,325,968	2,169,983
Amortization of costs of acquiring contracts	176,512	-
Amortization of deferred entrance fees	(3,908,012)	(3,641,491)
Deferred entrance fees on terminated contracts	(1,371,598)	(1,507,796)
Loss on disposal of property and equipment	-	2,516
Net realized (gain) loss on sale of marketable securities	(76,506)	6,994
Net unrealized gain on marketable securities	(1,807,137)	-
Changes in:		
Accounts receivable	(187,326)	(95,668)
Inventories	15,183	(5,041)
Prepaid expenses and other current assets	(111,892)	(1,460)
Temporary loans Master Trust	1,647,048	(1,647,048)
Costs of acquiring contracts	(127,419)	-
Deferred entrance fees receivable	4,531,060	5,320,661
Accounts payable	(558,301)	960,532
Accrued expenses	444,447	40,299
Deposits on future occupancy	473,626	1,290,974
Net Cash and Cash Equivalents Provided by Operating Activities	\$ 10,809,495	\$ 9,156,420
Supplemental Disclosure of Noncash 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	\$ 5,063,363	\$ 5,340,452

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

CORECARE III
dba MORNINGSIDE OF FULLERTON
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

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 multiuse continuing care retirement community (“CCRC”) located in Fullerton, California. The Partnership operates under the continuing care concept whereby residents enter into agreements that require payment of a onetime entrance fee and a monthly charge. Generally, these payments will entitle residents to the use and privileges of the facility for life.

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 Partnership Agreement also provides for priority distributions, plus an allowance for interest.

Basis of Presentation

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 (“US 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 US 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

Following the Partnership’s adoption of FASB Accounting Standards Update (“ASU”) 2016-01 on January 1, 2019, as described in Recent Accounting Pronouncements - Adopted, the Partnership accounts for its investments in equity securities in accordance with FASB ASC 321-10, *Investments - Equity Securities*. Marketable securities held by the Partnership have readily determinable fair values and are reported at fair value, with realized and unrealized gains and losses included in earnings. Any dividends received are recorded in interest income.

Accounts Receivable

Accounts receivable consist of amounts due from residents for which the Partnership has an unconditional right to receive payment and are primarily composed of receivables for monthly service fees and other ancillary services, as well as amounts due from residents for obligations related to independent unit renovations and deferred entrance fees on canceled contracts.

CORECARE III
dba MORNINGSIDE OF FULLERTON
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

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

Accounts Receivable (Continued)

Receivables for monthly service fees are primarily due upon receipt of invoice, and they are reviewed weekly and are considered past due 14 days after the 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. Receivables for resident obligations are generally collected upon cancellation of contracts, which is estimated to occur long term.

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, 2019 and 2018.

Inventories

Inventories consist of food and supplies used in operations and are stated at the lower of cost or net realizable value 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 the estimated useful lives of the respective assets. 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, 2019 and 2018, totaled \$2,325,968 and \$2,169,983, respectively. At December 31, 2019 and 2018, fully depreciated property and equipment still in use totaled \$6,218,212 and \$6,046,276, respectively.

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, 2019 and 2018.

CORECARE III
dba MORNINGSIDE OF FULLERTON
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

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

Revenue Recognition from Contracts with Customers

The Partnership recognizes revenue for residency in accordance with the provisions of FASB ASC 606, *Revenue from Contracts with Customers (Topic 606)*. The Partnership enters into continuing care residency contracts with its customers. The form of the agreement is in conformity with the statutes of the State of California Department of Social Services Continuing Care Contracts Branch. Prior to actual occupancy by the resident, a contribution is required to be deposited with the Master Trust (as defined in Note 5) pursuant to a Residence and Care Agreement (the "Residence Agreement"). The provisions of the Residence 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, and methods of cancellation and refunds or contingent repayments subject to resale of the units. Generally, the Partnership is deemed to have Type A life care contracts that are all-inclusive continuing care contracts that include residential facilities, other amenities, and access to health-care services, primarily assisted living and nursing care. Type A contracts are deemed to have one performance obligation - to provide each resident the ability to live in the CCRC and access the appropriate level of care based on his or her needs. A Type A contract also allows a resident the ability to cancel the Residence Agreement at any time, and thus, because of this provision, the resident agreement for a Type A life care CCRC resident is generally deemed to be a monthly contract with the option to renew.

Contract Revenues

The following is a description of the services provided and the accounting policies related to the contracted services.

Entrance Fees - The contract provides a material right to occupy a living unit for life and to receive certain services for which residents are required to pay an entrance fee. Generally, the entrance fee is payable on or before occupancy by the resident. Residents may cancel their Residence Agreement at any time, and, upon cancellation, the contribution received will be repayable 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 Residence Agreement.

CORECARE III
dba MORNINGSIDE OF FULLERTON
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

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

Revenue Recognition from Contracts with Customers (Continued)

Further, 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. In addition, upon termination of the Residence Agreement after the probationary period of 90 days, the Partnership may be entitled to a Deferred Entrance Fee (a percentage of the resident's contribution amount), as defined in each resident's Residence Agreement.

Resident Fees - Resident living service fees, which are for basic support services, are paid on a monthly basis. Monthly fees are established at the inception of occupancy and may be increased by the Partnership with appropriate notice as specified in the individual agreements, generally based on increases in operating costs or inflationary increases. Revenue for resident fees is recognized as the Partnership satisfies the performance obligation, which is monthly.

Nonresident Services - Nonresident services are revenues recognized at a point in time primarily for nonresident guest meals and short-term guest accommodations.

Contract Assets and Contract Liabilities

The following are assets and liabilities resulting from contracts with customers:

Deferred Entrance Fees Receivable - Deferred entrance fees receivable represent that portion of the entrance fees that would be payable to the Partnership upon termination of the existing Residence Agreements, based on the specific terms of each resident contract, which are due from the Master Trust (see Note 5).

Deposits on Future Occupancy - Deposits on future occupancy represent deposits on future contracts from prospective residents that are fully refundable upon demand.

Deferred Revenue from Unamortized Entrance Fees - Deferred revenue from unamortized entrance fees represents the total amount of the entrance fees that has become nonrepayable to the residents, based on the specific terms of each resident contract, which is recorded as deferred revenue from entrance fees and is amortized to income over time using the straight-line method over the remaining life expectancy of the resident. 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.

Costs of Acquiring Contracts

Costs of Acquiring Contracts - Costs of acquiring contracts are the unamortized incremental costs of acquiring contracts, which primarily consist of commissions paid to salespeople. These assets are amortized on a straight-line basis over the duration of the contract.

CORECARE III
dba MORNINGSIDE OF FULLERTON
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

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

Comprehensive Income

Comprehensive income is a more inclusive financial reporting methodology that includes disclosure of certain financial information that historically has not been recognized in the calculation of net income. The Partnership has presented separate statements of comprehensive income. An analysis of changes in components of accumulated other comprehensive income is presented in the statements of changes in partners' equity (deficit).

Income Taxes

The Partnership is not taxed on its income. The taxable income or loss is recognized on the individual income tax returns of the partners.

Advertising and Promotional Costs

Advertising and promotional costs are charged to operations when incurred. For the years ended December 31, 2019 and 2018, advertising and promotional costs totaled \$899,775 and \$1,206,536, respectively, and are included in general and administrative expenses in the accompanying statements of operations.

Use of Estimates

The process of preparing financial statements in accordance with US GAAP 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.

Recent Accounting Pronouncements - Adopted

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*. ASU 2014-09 establishes new revenue recognition guidance, which replaces the former revenue recognition guidance. ASU 2014-09 is a comprehensive revenue recognition standard for virtually all industries, including those that previously followed industry-specific guidance, such as the real estate, construction, and software industries. The core principle of ASU 2014-09 is to recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. ASU 2014-09 is effective for the Partnership's fiscal year beginning January 1, 2019, and the Partnership adopted the new standard under the modified retrospective approach and by applying the aggregate portfolio approach. Using the modified retrospective method, the guidance is applied by recognizing the cumulative effect of the adoption's changes as an adjustment to beginning partners' equity (deficit), as further described in Note 2.

**CORECARE III
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NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

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

Recent Accounting Pronouncements - Adopted (Continued)

In January 2016, the FASB issued ASU 2016-01, *Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*, and subsequently issued the related ASU 2018-03. ASU 2016-01 amends certain aspects of accounting and disclosure requirements for financial instruments, including the requirement that equity investments with readily determinable fair values are to be measured at fair value with any changes in fair value recognized in an entity's statement of operations. The Partnership adopted this standard on January 1, 2019, using the modified retrospective method. The adoption of this standard resulted in fair value changes of the marketable securities being recognized in other income rather than in other comprehensive income, and a reclassification of partners' equity (deficit), as further described in Note 2.

Note 2: Adoption of New Accounting Standards

On January 1, 2019, the Partnership adopted FASB ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*, as well as FASB ASU 2016-01, *Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*. A summary of the impact resulting from the implementation of ASU 2014-09, as well as partners' equity (deficit) reclassifications driven by the adoption of ASU 2016-01 as of January 1, 2019, is stated below.

Partners' Equity (Deficit) - December 31, 2018

Accumulated other comprehensive income:	
Accumulated other comprehensive income, as reported	\$ 2,335,916
Adjusted for the effect of ASU 2016-01	<u>(2,335,916)</u>
Accumulated other comprehensive income, adjusted as of January 1, 2019	<u>\$ -</u>
Partners' equity (deficit):	
Partners' equity (deficit), as reported	\$(105,201,421)
Adjusted for the effect of ASU 2016-01	<u>2,335,916</u>
Partners' equity (deficit), subtotal	(102,865,505)
Partners' equity (deficit), impact of ASU 2014-09*	<u>1,373,284</u>
Partners' equity (deficit), adjusted as of January 1, 2019	<u>\$(101,492,221)</u>
Total Partners' Equity (Deficit) - As of January 1, 2019	<u>\$(101,492,221)</u>

CORECARE III
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NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

Note 2: Adoption of New Accounting Standards (Continued)

* As a result of the adoption of ASU 2014-09, the Partnership's costs of acquiring contracts asset was increased by the impact of capitalizing a total of \$1,373,284 in unamortized commission costs of January 1, 2019. During 2019, the Partnership also capitalized commission costs as costs of acquiring contracts totaling \$127,419 and recognized amortization expense of these assets totaling \$176,512. Under legacy GAAP, without these required changes in recognition of commission costs, the Partnership's commission expenses would have effectively been \$49,093 lower.

Note 3: Revenue from Contracts with Customers

The following table presents the Partnership's revenue disaggregated by service for the year ended December 31, 2019:

Revenue from Contracts with Customers:

Entrance fees, amortized and on terminated contracts (over time)	\$ 5,279,610
Monthly resident fees and ancillary charges (over time)	24,693,485
Nonresident services (point in time)	<u>170,417</u>
Total Revenue from Contracts with Customers	<u>\$ 30,143,512</u>

The beginning and end of year balances of the Partnership's various contract related balances were as follows:

	January 1, 2019	December 31, 2019
Accounts Receivable	<u>\$ 462,000</u>	<u>\$ 649,326</u>
Costs to Acquire Contracts	<u>\$ 1,373,284</u>	<u>\$ 1,324,191</u>
Deferred Entrance Fees Receivable	<u>\$ 21,518,620</u>	<u>\$ 22,050,923</u>
Deposits on Future Occupancy	<u>\$ 1,971,974</u>	<u>\$ 2,445,600</u>
Deferred Revenue from Unamortized Entrance Fees	<u>\$ 20,103,536</u>	<u>\$ 19,887,289</u>

Note 4: Concentrations, Risks, and Uncertainties

The Partnership maintains cash balances with one financial institution. At December 31, 2019 and 2018, accounts at this institution are insured by the Federal Deposit Insurance Corporation ("FDIC") for up to \$250,000. The Partnership's deposits in these financial institutions at times exceeded the amount insured by the FDIC. The risk is managed by maintaining deposits in high-quality financial institutions.

CORECARE III
dba MORNINGSIDE OF FULLERTON
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

Note 4: Concentrations, Risks, and Uncertainties (Continued)

At December 31, 2019 and 2018, the Partnership also maintains its money market funds and investments in equity securities at brokerage firms that are not FDIC insured. The firms are insured by the Securities Investor Protection Corporation for up to \$500,000.

Note 5: Note Payable to Master Trust and Trust Agreement

The Morningside of Fullerton Master Trust (the “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, 2019 and 2018, the balance outstanding on the Master Trust note payable was \$155,247,563 and \$153,604,820, respectively.

A contribution amount, as specified in the Residence Agreement, is made to the Master Trust by the grantor (see Note 1). 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 40 years with a 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 40 years. The next scheduled principal payment of \$3,881,190 was paid in January 2020.

**CORECARE III
dba MORNINGSIDE OF FULLERTON
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

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:

2020	\$ 3,881,190
2021	3,784,159
2022	3,689,555
2023	3,597,316
2024	3,507,384
Thereafter	<u>136,787,959</u>
Total	<u>\$ 155,247,563</u>

In addition to the annual principal payment, the Partnership provides the Master Trust temporary loans to fund grantor distributions when necessary. These temporary loans are refunded to the Partnership upon subsequent sale of a unit or when the Master Trust has excess liquidity.

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 of 2.30% at December 31, 2019, and a rate of 2.87% at December 31, 2018, the anticipated revenues are estimated to exceed the cost of future services by \$85,824,005 and \$82,925,792 for the years ended December 31, 2019 and 2018, respectively. Therefore, no liability was accrued.

Reservations and Designations

At December 31, 2019 and 2018, the Partnership maintains cash reserves in the amount of \$4,190,840 and \$4,311,245, respectively, for operating expense contingencies in accordance with the 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 in the accompanying balance sheets.

CORECARE III
dba MORNINGSIDE OF FULLERTON
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

Note 6: Commitments and Contingencies (Continued)

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.

The Partnership is a named party in an ongoing legal matter. The Partnership denies the allegations of the complaints, but in an effort to avoid the inherent risks and significant costs associated with continuing to defend the matter, the Partnership has recorded an estimated loss for its allocated portion of the potential costs to end the litigation, which is expected to be \$400,000. This amount is included in accrued expenses in the accompanying balance sheets, and the Partnership expects that the amount will be paid in 2020.

Note 7: Related-Party Transactions

Pursuant to the provisions of FASB ASU 2018-17, *Consolidation (Topic 810)*, the Partnership has elected to not apply variable interest entity guidance to legal entities under common control. The Partnership is not aware of any exposure to loss as a result of its involvement with these entities.

At December 31, 2019 and 2018, the Partnership has a formal service agreement with a related company concerning the provision of administrative and operational oversight services, including use of brand, transaction processing, and benefit and insurance administration, among others. The service agreement calls for annual service fees payable in equal monthly installments, and the agreement renews annually unless canceled. For the years ended December 31, 2019 and 2018, service fees paid under this agreement totaled \$308,088 and \$294,600, respectively. The service agreement also provides for additional fees for supplemental services and out-of-pocket expenses, as needed. For the years ended December 31, 2019 and 2018, the additional fees paid under this agreement totaled \$159,323 and \$102,996, respectively. Furthermore, the service agreement also provides for insurance premiums to be paid to a related company. Insurance premiums paid under this agreement for the years ended December 31, 2019 and 2018, totaled \$265,012 and \$308,246, respectively.

During the years ended December 31, 2019 and 2018, the Partnership paid \$450,000 annually to the partners for consulting services rendered and administrative expenses incurred to carry out its responsibilities. These expenses are included in 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.

CORECARE III
dba MORNINGSIDE OF FULLERTON
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

Note 7: Related-Party Transactions (Continued)

The Partnership has an agreement for purchased health-care costs with CoreCare V. The health-care costs paid to this entity during the years ended December 31, 2019 and 2018, were \$6,296,661 and \$6,088,383, respectively, and are included in resident care expenses in the accompanying statements of operations. In addition, the Partnership had payables for accrued health-care costs totaling \$208,426 and \$268,241 at December 31, 2019 and 2018, respectively, which are included in accounts payable in the accompanying balance sheets.

Note 8: Employee Benefit Plan

The Partnership sponsors a qualified 401(k) plan (the “Plan”) for all eligible employees. Employees may contribute up to 80% of their yearly compensation for up to the maximum amount prescribed by law. The Partnership makes a safe harbor matching contribution equal to 100% of the first 3% of the participant’s compensation and 50% of the next 2% of the participant’s compensation, which is deferred as an elective deferral. For the years ended December 31, 2019 and 2018, employer contributions to the Plan totaled \$83,729 and \$123,371, respectively, which have been included in general and administrative expenses in the accompanying statements of operations.

Note 9: Fair Value Measurements

FASB ASC 820-10 defines fair value, establishes a framework for measuring fair value, and requires enhanced disclosures about fair value measurements. 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:

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 measurement considered from the perspective of a market participant rather than an entity-specific measurement. 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.

CORECARE III
dba MORNINGSIDE OF FULLERTON
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

Note 9: Fair Value Measurements (Continued)

The following table provides fair value measurement for financial assets measured at fair value on a recurring basis as of December 31, 2019:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Equities:			
Large value	\$ 3,970,502	\$ -	\$ -
Large growth	521,216	-	-
Large core	4,816,016	-	-
Mid value	<u>818,510</u>	<u>-</u>	<u>-</u>
Total Assets at Fair Value	<u>\$ 10,126,244</u>	<u>\$ -</u>	<u>\$ -</u>

The following table provides fair value measurement for financial assets measured at fair value on a recurring basis as of December 31, 2018:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Equities:			
Large value	\$ 3,663,080	\$ -	\$ -
Large growth	884,760	-	-
Large core	3,199,952	-	-
Mid value	<u>266,040</u>	<u>-</u>	<u>-</u>
Total Assets at Fair Value	<u>\$ 8,013,832</u>	<u>\$ -</u>	<u>\$ -</u>

Note 10: Reclassifications

Certain reclassifications have been made to the 2018 financial statements to conform to the current-year presentation.

Note 11: Subsequent Events

Events occurring after December 31, 2019, have been evaluated for possible adjustment to the financial statements or disclosure as of April 28, 2020 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.

CORECARE III
dba MORNINGSIDE OF FULLERTON
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

Note 11: Subsequent Events (Continued)

In December 2019, an outbreak of a novel strain of coronavirus (COVID-19) originated in Wuhan, China, and has since spread to a number of other countries, including the United States. On March 11, 2020, the World Health Organization characterized COVID-19 as a pandemic. In addition, several states in the United States, including California, where the Partnership is located, have declared a state of emergency.

Potential impacts to business include disruptions or restrictions on employees' ability to work. In addition, some of the Partnership's suppliers are located in areas impacted by COVID-19, which could limit the ability to obtain sufficient materials and supplies for operations. COVID-19 could adversely affect the economies and financial markets of many countries, resulting in an economic downturn that could impact the Partnership's operating results. Any of the foregoing could be harmful to the Partnership's business, and the Partnership cannot anticipate all the ways in which a health epidemic such as COVID-19 could adversely impact it. Although management is continuing to monitor and assess the effects of the COVID-19 pandemic on the Partnership, the ultimate impact of the COVID-19 outbreak or a similar health epidemic is highly uncertain and subject to change.

SUPPLEMENTARY INFORMATION

**INDEPENDENT AUDITORS' REPORT ON
SUPPLEMENTARY INFORMATION**

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

We have audited the financial statements of CoreCare III, dba Morningside of Fullerton (the "Partnership"), as of and for the years ended December 31, 2019 and 2018, and our report thereon dated April 28, 2020, which expressed an unmodified opinion on those financial statements, appears on pages 1 and 2. Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The schedules of Form 5-1 through Form 5-5 and Form 7-1 are 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 are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from, and relates directly to, the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

This report is intended solely for the information and use of the members and management of the Partnership and for filing with the State of California Department of Social Services and is not intended to be, and should not be, used by anyone other than those specified parties. However, this report is a matter of public record and its distribution is not limited.

White Nelson Diehl Evans LLP

Irvine, California
April 28, 2020

**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.

PROVIDER: CoreCare III

COMMUNITY: Morningside of Fullerton

FORM 5-1
LONG-TERM DEBT INCURRED
IN A PRIOR FISCAL YEAR (Continued)
Supporting Calculation for Line 1(b)

Line 1(b) Debt Service Reserve is waived as per the attached letter.

PROVIDER: CoreCare III

COMMUNITY: Morningside of Fullerton

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)**

	(a)	(b)	(c)	(d)	(e)
Long-Term Debt Obligation	Date Incurred	Total Interest Paid During Fiscal Year	Amount of Most Recent Payment on the Debt	Number of Payments over next 12 months	Reserve Requirement (see instruction 5) (columns (c) x (d))
1		\$0	\$0	0	\$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)	\$0
4	TOTAL AMOUNT REQUIRED FOR LONG-TERM DEBT RESERVE:	\$0

PROVIDER: CoreCare III

FORM 5-4
CALCULATION OF NET OPERATING EXPENSES

Line	Amounts	TOTAL
		Year Ended 12/31/2019
1	Total operating expenses from financial statements	\$23,068,320
2	Deductions:	
a.	Interest paid on long-term debt (see instructions)	\$0
b.	Credit enhancement premiums paid for long-term debt (see instructions)	\$0
c.	Depreciation	\$2,325,968
d.	Amortization	\$176,512
e.	Revenues received during the fiscal year for services to persons who did not have a continuing care contract	\$170,417
f.	Extraordinary expenses approved by the Department	\$0
3	Total Deductions	\$2,672,897
4	Net Operating Expenses	\$20,395,423
5	Divide Line 4 by 365 and enter the result.	\$55,877.87
6	Multiply Line 5 by 75 and enter the result. This is the provider's operating expense reserve amount.	\$4,190,840

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:

Reimbursements for services to non-residents \$ 170,417

Revenues received during the fiscal year for services
to residents who did not have a continuing care contract \$ 170,417

Categories included in the above revenues:

\$	63,501	Employee Meals
	41,327	Guest Meals
	17,854	Catering
	240	Space Rental
	47,495	Guest Room
	<u>47,495</u>	

\$ 170,417

PROVIDER: CoreCare III
COMMUNITY: Morningside of Fullerton

**FORM 5-5
ANNUAL RESERVE CERTIFICATION**

Provider Name: CoreCare III
 Fiscal Year Ended: 12/31/2019

We have reviewed our debt service reserve and operating expense reserve requirements as of, and for the period ended 12/31/2019 and are in compliance with those requirements.

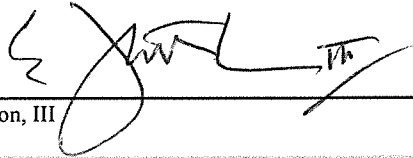
Our liquid reserve requirements, computed using the audited financial statements for the fiscal year 12/31/2019 are as follows:

	<u>Amount</u>
[1] Debt Service Reserve Amount	\$0
[2] Operating Expense Reserve Amount	\$4,190,840
[3] Total Liquid Reserve Amount:	\$4,190,840

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		\$2,117,379
[5] Investment Securities		\$10,126,244
[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]	\$12,243,623
Reserve Obligation Amount: [13]	\$0 [14]	\$4,190,840
Surplus/(Deficiency): [15]	\$0 [16]	\$8,052,783

NOTE: Please find attached the debt service requirement waiver.

Signature: 

 E. Justin Wilson, III

 Chief Executive Officer

Date: 4/28/2020

FORM 5-5
Description of Reserves under SB 1212

Total Qualifying Assets as Filed:

Cash and Cash Equivalents	\$ 2,117,379
Investment Securities	\$ 10,126,244
Total Qualifying Assets as Filed	\$ 12,243,623

Reservations and Designations:

Reserved for Debt Service	\$ -
Reserved for Operating Expenses	\$ 4,190,840
Total Reservations and Designations	\$ 4,190,840
Remaining Liquid Reserves	\$ 8,052,783

Per Capita Cost of Operations

	12 Months Ending 12/31/19
	<hr/>
Operating Expenses (Form 5-4 line #1)	\$ 23,068,320
Mean # of CCRC Residents (Form 1-1 line 10)	496.5
Per Capita Cost of Operations	\$ 46,461.87

NOTE: Operating expenses shown above are for the period of January 1, 2019 to December 31, 2019

PROVIDER:	CoreCare III
COMMUNITY:	Morningside of Fullerton

FORM 7-1
REPORT ON CCRC MONTHLY CARE FEES

	<u>RESIDENTIAL LIVING</u>	<u>ASSISTED LIVING</u>	<u>SKILLED NURSING</u>
[1] Monthly Care Fees at beginning of reporting period: (indicate range, if applicable)	\$3,154-\$6,659	_____	_____
[2] Indicate percentage of increase in fees imposed during reporting period: (indicate range, if applicable)	3.6%	_____	_____

Check here if monthly care 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, 2019
(If more than one (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. **Date of Notice:** November 27, 2018 **Method of Notice:** Placed inside each in-house mailbox and mailed through USPS
- At least 30 days prior to the increase in fees, the designated representative of the provider convened a meeting that all residents were invited to attend. **Date of Meeting:** November 27, 2018
- 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. **Date of Notice:** October 30, 2018
- 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. **Date of Posting:** October 30, 2018 **Location of Posting:** Community Mail Room

[5] On an attached page, provide a concise explanation for the increase in monthly care fees including the amount of the increase and compliance with the Health and Safety Code. See **PART 7 REPORT ON CCRC MONTHLY CARE FEE** in the **Annual Report Instruction** booklet for further instructions.

PROVIDER: CoreCare III CCRC, LLC
COMMUNITY: CoreCare III

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

The monthly fee increase for 2019 is reflected at 3.6%. The cost drivers for this increase are: minimum wage, raw food cost – 7.1%, Employee Health Insurance Increase – 8%; General Insurance Increase – 3% for GL/PL, property, auto, cyber, crime; Workers Comp; Ancillary Expenses – ranges of 3%; Purchased Health Care (driven by 4.0% increase in cost). These figures were arrived at by using economic indicators and estimating future cost increases, which information was derived from suppliers, government mandate, and industry periodicals. The budgeted NOI, which is basically flat with the prior year's budget, does not include capital expenditures, which are estimated at \$2.9 million. Economic indicators driving these capital projects include the updating of residences that turnover in order to keep current with market expectations. Other capital projects include: HVAC Boilers, Replace roof of Mountainside, Unit refurbishment of older units, Elevator refurbishment, Clubhouse Furniture, Swimming pool repair, Purchase of new fitness equipment. These projects, and future projects that economic indicators may require, will be paid from future cash flow. NOI surplus will also be used as a return to owners for the risk of operating the community.

**Form 7-1 Attachment
Monthly Care Fee Increase
Annual Reporting Fiscal Year 2019**

Line	Fiscal Years	2017	2018	2019
1	F/Y 2017 Operating Expenses (less depreciation and amortization)	\$ (20,586,071.00)		
2	F/Y 2018 Operating Expenses (less depreciation and amortization)		\$ (21,140,127.00)	
3	Projected F/Y 2019 Results of Operations (budgeted expenses)			\$ (20,565,840.00)
4	F/Y 2019 Anticipated MCF Revenue Based on Current and Projected Occupancy and Other WITHOUT MCFI			\$ 24,417,820.00
5	Projected F/Y 2019 (Net) Operating Results without MCFI (Line 3 plus Line 4)			\$ 3,851,980.00
6	Projected F/Y 2019 Anticipated Revenue Based on Current and Projected Occupancy and Other with MCFI			\$ 25,296,862.00
7	Grand Total - Projected FY 2019 Net Operating Activity After 3.6% MCFI (Line 3 plus Line6)			\$ 4,731,022.00
Monthly Care Fee Increase				3.60%

Adjustment Explained:

Non-cash expenses of depreciation and amortization have been removed for all fiscal years presented.

F/Y 2018 to F/Y 2019

- Minimum wage, raw food cost and ancillary expenses increased by 3%
- Employee health insurance increased by 8%
- General liability insurance increased by 11%
- All other insurance lines increased by approximately 5%
- Purchased health care increased by 3.2%