MORNINGSIDE MINISTRIES AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION

YEARS ENDED DECEMBER 31, 2019 AND 2018

MORNINGSIDE MINISTRIES AND SUBSIDIARIES
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INDEPENDENT AUDITORS' REPORT

Board of Directors
Morningside Ministries and Subsidiaries
San Antonio, Texas

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Morningside Ministries and Subsidiaries, (a Texas corporation), which comprise the consolidated balance sheets as of December 31, 2019 and 2018, and the related consolidated statements of operations, changes in net assets, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

Board of Directors
Morningside Ministries and Subsidiaries

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Morningside Ministries and Subsidiaries as of December 31, 2019 and 2018, and the results of their operations, changes in their net assets, and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating balance sheet, and the statements of operations and changes in net assets on pages 36 – 39 are presented for purposes of additional analysis of the consolidated financial statements and are not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Dallas, Texas
April 29, 2020

MORNINGSIDE MINISTRIES AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2019 AND 2018

	2019	2018
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	$ 5,017,195	$ 8,074,417
Resident Accounts Receivable	2,094,029	1,737,218
Accounts Receivable, Other	3,044	8,505
Current Portion of Assets Limited as to Use	2,141,159	2,095,208
Pledges Receivable	142,262	82,703
Supplies	261,806	362,312
Prepaid Expenses and Other	600,322	486,909
Total Current Assets	10,259,817	12,847,272
INVESTMENTS	22,918,582	20,430,725
ASSETS LIMITED AS TO USE		
Cash and Cash Equivalents - Trustee Held	2,141,159	2,095,209
Debt Service Reserve Fund	3,548,238	3,548,238
Board, Purpose, and Time Restricted Investments and Trusts	18,515,147	15,909,031
Total Assets Limited as to Use	24,204,544	21,552,478
Less: Current Portion of Assets Limited as to Use	(2,141,159)	(2,095,208)
Total Assets Limited as to Use, Net of Current Portion	22,063,385	19,457,270
PROPERTY, PLANT, AND EQUIPMENT	146,757,411	154,600,367
Less: Accumulated Depreciation	(60,371,156)	(66,725,000)
Property, Plant, and Equipment, Net	86,386,255	87,875,367
OTHER ASSETS		
Deposits	70,000	70,000
Home Health License	251,750	251,750
Investment in Risk Retention Group	70,752	-
Other Assets	45,553	20,800
Total Other Assets	438,055	342,550
Total Assets	$ 142,066,094	$ 140,953,184

See accompanying Notes to Consolidated Financial Statements.

MORNINGSIDE MINISTRIES AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS (CONTINUED)
DECEMBER 31, 2019 AND 2018

	2019	2018
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Current Maturities of Long-Term Debt	$ 1,158,720	$ 949,855
Accounts Payable	1,039,357	1,050,818
Accrued Wages and Related Costs	1,051,769	1,006,504
Accrued Insurance Cost	321,324	127,131
Accrued Interest Payable	1,567,357	1,581,329
Accrued Expenses	45,158	56,468
Total Current Liabilities	5,183,685	4,772,105
LONG-TERM LIABILITIES		
Resident Deposits	9,000	66,935
Refundable Entrance Fee Payable	28,862,415	29,592,005
Deferred Revenue	3,944,001	4,057,412
Long-Term Debt, Net	71,892,371	72,955,777
Total Long-Term Liabilities	104,707,787	106,672,129
Total Liabilities	109,891,472	111,444,234
NET ASSETS		
Without Donor Restrictions:		
Undesignated	10,536,882	13,434,266
Board Designated	16,799,667	-
Noncontrolling Interest	304,363	81,174
Total Without Donor Restrictions	27,640,912	13,515,440
With Donor Restrictions:		
Purpose Restrictions	564,783	565,201
Time Restrictions	2,968,927	3,132,887
Perpetual Funds	1,000,000	12,295,422
Total With Donor Restrictions	4,533,710	15,993,510
Total Net Assets	32,174,622	29,508,950
Total Liabilities and Net Assets	$ 142,066,094	$ 140,953,184

See accompanying Notes to Consolidated Financial Statements.

MORNINGSIDE MINISTRIES AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
YEARS ENDED DECEMBER 31, 2019 AND 2018

	2019	2018
WITHOUT DONOR RESTRICTIONS REVENUES		
Net Resident Service Revenue	$ 22,806,324	$ 24,389,159
Rental Income	850,000	933,333
Management Fee Revenue	14,863,774	13,593,660
Incentive Revenue	231,903	39,432
Amortization of Advance Entrance Fee Revenue	497,681	487,839
Other Operating Revenue	748,463	555,078
Net Assets Released from Restrictions - Operations	314,214	753,437
Total Operating Revenue	40,312,359	40,751,938
OPERATING EXPENSES		
Nursing Services	10,194,536	11,705,613
Food Services	5,737,752	5,596,591
Environmental Services	5,694,322	6,524,511
Ancillary Services	5,006,402	5,328,256
Life Enrichment	1,110,685	1,147,222
Training Institutes and Other	-	298,386
General and Administrative	9,081,731	8,326,534
Depreciation	5,186,870	5,284,477
Interest	4,122,472	4,082,377
Total Operating Expenses	46,134,770	48,293,967
NET LOSS FROM OPERATIONS	(5,822,411)	(7,542,029)
OTHER INCOME (EXPENSE)		
Unrestricted Investment Earnings (Losses), Net of Fees	8,217,695	(744,188)
Unrestricted Contributions	212,308	111,316
Gain on Sale of Property and Equipment	20,240	38,197
Total Other Income (Expense)	8,450,243	(594,675)
EXCESS (DEFICIT) OF REVENUES OVER EXPENSES	$ 2,627,832	$ (8,136,704)

See accompanying Notes to Consolidated Financial Statements.

MORNINGSIDE MINISTRIES AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS
YEARS ENDED DECEMBER 31, 2019 AND 2018

	2019	2018
NET ASSETS WITHOUT DONOR RESTRICTIONS		
Excess (Deficit) of Revenues Over Expenses	$ 2,627,832	$ (8,136,704)
Equity Transfer	(62,500)	-
Forfeiture of Chandler Trusts - Fair Market Value	-	(2,729,874)
Change in Investment in Risk Retention Group	11,709	-
Net Asset Reclassification	11,459,382	-
Net Assets Released from Restrictions - Capital	89,049	29,199
Increase (Decrease) in Net Assets Without Donor Restrictions	14,125,472	(10,837,379)
NET ASSETS WITH DONOR RESTRICTIONS - PURPOSE RESTRICTIONS		
Contributions	402,845	169,469
Forfeiture of Chandler Trusts - Corpus	-	(2,350,612)
Net Assets Released from Restrictions - Operations	(314,214)	(281,836)
Net Assets Released from Restrictions - Capital	(89,049)	(29,199)
Decrease in Net Assets With Donor Restrictions - Purpose Restrictions	(418)	(2,492,178)
NET ASSETS WITH DONOR RESTRICTIONS - TIME RESTRICTIONS		
Purpose and Time Restricted Investment Earnings (Losses)	-	(469,842)
Forfeiture of Chandler Trusts - Corpus	-	(175,941)
Net Asset Reclassification	(163,960)	-
Net Assets Released from Restrictions - Operations	-	(471,601)
Decrease in Net Assets With Donor Restrictions - Time Restrictions	(163,960)	(1,117,384)
NET ASSETS WITH DONOR RESTRICTIONS - PERPETUAL FUNDS		
Net Asset Reclassification	(11,295,422)	-
Contributions	-	317,775
Increase (Decrease) in Net Assets With Donor Restrictions - Perpetual Funds	(11,295,422)	317,775
INCREASE (DECREASE) IN NET ASSETS	2,665,672	(14,129,166)
Net Assets - Beginning of Year	29,508,950	43,638,116
NET ASSETS - END OF YEAR	$ 32,174,622	$ 29,508,950

MORNINGSIDE MINISTRIES AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2019

	Program Services								
	Nursing	Food	Environmental	Ancillary	Life Enrichment	Training Institute and Other	Total Program Services	Administrative and Fundraising	Total
Salaries	$ 7,409,385	$ 2,883,822	$ 1,999,243	$ 1,078,314	$ 627,218	$ -	$ 13,997,982	$ 3,706,079	$ 17,704,061
Percentages	41.85%	16.29%	11.29%	6.09%	3.54%	0.00%	79.07%	20.93%	100.00%
Employee Insurance and Payroll Taxes	1,131,092	440,235	305,198	164,612	95,749	-	2,136,886	565,758	2,702,644
Retirement Benefits	114,162	44,433	30,804	16,614	9,664	-	215,677	57,102	272,779
Total Salaries, Insurance, Payroll Taxes, and Benefits	8,654,639	3,368,490	2,335,245	1,259,540	732,631	-	16,350,545	4,328,939	20,679,484
Bank Fees	-	-	-	-	-	-	-	5,450	5,450
Bad Debt Expense	-	-	-	-	-	-	-	123,543	123,543
Development	-	-	-	-	-	-	-	292,303	292,303
Drugs	-	-	-	1,826,138	-	-	1,826,138	-	1,826,138
Dues and Subscriptions	-	-	-	-	-	-	-	47,602	47,602
Food	-	1,953,008	-	-	-	-	1,953,008	-	1,953,008
Insurance	-	-	-	-	-	-	-	454,651	454,651
Licenses	1,038	-	30,723	-	-	-	31,761	5,269	37,030
Medical Expenses	-	-	-	323,643	-	-	323,643	-	323,643
mmCare. LLC	725,275	-	18,000	1,068,355	71,175	-	1,882,805	982,581	2,865,386
Other	-	-	-	9,266	-	-	9,266	543,545	552,811
Plant Operation and Maintenance	11,286	-	384,973	26,096	-	-	422,355	-	422,355
Postage	-	-	-	11,600	-	-	11,600	25,647	37,247
Professional Fees and Contract Services	336,474	43,749	209,628	448,182	71,360	-	1,109,393	1,811,817	2,921,210
Security	-	-	8,610	-	-	-	8,610	-	8,610
Staff Development	-	-	-	-	-	-	-	208,463	208,463
Supplies	465,824	372,505	588,416	33,582	235,519	-	1,695,846	92,869	1,788,715
Telephone	-	-	-	-	-	-	-	79,298	79,298
Travel	-	-	-	-	-	-	-	79,754	79,754
Utilities	-	-	2,087,284	-	-	-	2,087,284	-	2,087,284
Vehicle and Transportation	-	-	31,443	-	-	-	31,443	-	31,443
Total Other Expenses	1,539,897	2,369,262	3,359,077	3,746,862	378,054	-	11,393,152	4,752,792	16,145,944
Sub-Total	10,194,536	5,737,752	5,694,322	5,006,402	1,110,685	-	27,743,697	9,081,731	36,825,428
Depreciation	2,161,668	841,347	583,274	314,595	182,989	-	4,083,874	1,102,996	5,186,870
Interest	1,725,309	671,511	465,533	251,090	146,051	-	3,259,494	862,978	4,122,472
Total Expenses	$ 14,081,514	$ 7,250,611	$ 6,743,128	$ 5,572,088	$ 1,439,725	$ -	$ 35,087,066	$ 11,047,704	$ 46,134,770

MORNINGSIDE MINISTRIES AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES (CONTINUED)
YEAR ENDED DECEMBER 31, 2018

	Program Services								
	Nursing	Food	Environmental	Ancillary	Life Enrichment	Training Institute and Other	Total Program Services	Administrative and Fundraising	Total
Salaries	$ 8,700,209	$ 2,879,065	$ 2,369,716	$ 1,672,761	$ 772,568	$ 158,608	$ 16,552,927	$ 3,501,841	$ 20,054,768
Percentages	43.38%	14.36%	11.82%	8.34%	3.85%	0.79%	82.54%	17.46%	100.00%
Employee Insurance and Payroll Taxes	1,202,558	397,949	327,546	231,212	106,786	21,923	2,287,974	484,031	2,772,005
Retirement Benefits	46,218	15,294	12,589	8,886	4,104	843	87,934	18,603	106,537
Total Salaries, Insurance, Payroll Taxes, and Benefits	9,948,985	3,292,309	2,709,851	1,912,859	883,458	181,374	18,928,836	4,004,474	22,933,310
Bank Fees	-	-	-	-	-	-	-	8,950	8,950
Bad Debt Expense	-	-	-	-	-	-	-	390,000	390,000
Development	-	-	-	-	-	-	-	302,452	302,452
Drugs	-	-	-	2,055,830	-	-	2,055,830	-	2,055,830
Dues and Subscriptions	-	-	-	-	-	-	-	67,932	67,932
Food	-	1,894,205	-	-	-	-	1,894,205	-	1,894,205
Insurance	-	-	-	-	-	23,204	23,204	434,039	457,243
Licenses	1,058	-	21,627	-	-	-	22,685	7,565	30,250
Medical Expenses	-	-	-	310,713	-	-	310,713	-	310,713
mmCare. LLC	349,376	-	16,500	608,654	37,107	-	1,011,637	647,779	1,659,416
Other	-	-	-	11,298	-	-	11,298	438,394	449,692
Plant Operation and Maintenance	36,906	-	636,799	35,681	-	-	709,386	-	709,386
Postage	-	-	-	12,058	-	-	12,058	51,382	63,440
Professional Fees and Contract Services	837,083	18,961	267,166	325,545	-	68,144	1,516,899	1,610,578	3,127,477
Security	-	-	8,574	-	-	-	8,574	-	8,574
Staff Development	-	-	-	-	-	18,211	18,211	141,527	159,738
Supplies	532,205	391,116	590,528	55,618	226,657	3,156	1,799,280	82,058	1,881,338
Telephone	-	-	-	-	-	613	613	83,777	84,390
Travel	-	-	-	-	-	3,684	3,684	55,627	59,311
Utilities	-	-	2,238,736	-	-	-	2,238,736	-	2,238,736
Vehicle and Transportation	-	-	34,730	-	-	-	34,730	-	34,730
Total Other Expenses	1,756,628	2,304,282	3,814,660	3,415,397	263,764	117,012	11,671,743	4,322,060	15,993,803
Sub-Total	11,705,613	5,596,591	6,524,511	5,328,256	1,147,222	298,386	30,600,579	8,326,534	38,927,113
Depreciation	2,291,852	758,418	624,242	440,647	203,514	41,781	4,360,455	924,022	5,284,477
Interest	1,771,027	586,067	482,383	340,510	157,265	32,286	3,369,537	712,840	4,082,377
Total Expenses	$ 15,768,493	$ 6,941,075	$ 7,631,136	$ 6,109,413	$ 1,508,001	$ 372,453	$ 38,330,570	$ 9,963,397	$ 48,293,967

See accompanying Notes to Consolidated Financial Statements.

MORNINGSIDE MINISTRIES AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2019 AND 2018

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase (Decrease) in Net Assets	$ 2,665,672	$ (14,129,166)
Adjustments to Reconcile Increase (Decrease) in Net Assets to Net Cash Used by Operating Activities:		
Depreciation	5,186,870	5,284,477
Amortization of Debt Issuance Costs	180,836	180,336
Amortization of Advance Entrance Fees	(497,681)	(487,839)
Unrealized (Gains) Losses on Investments and Assets Limited as to Use	(3,957,226)	6,268,451
Realized Gains on Investments and Assets Limited as to Use	(3,178,754)	(3,965,816)
Gain on Sale of Property and Equipment	(20,240)	(38,197)
Bad Debt Provision	123,543	390,000
Investment Income (Net of Fees)	(1,081,715)	(1,088,605)
Receipt of Restricted Contributions	(402,845)	(487,244)
(Increase) Decrease in Assets:		
Resident Accounts Receivable, Net	(480,354)	1,148,680
Accounts Receivable - Other	(54,098)	(6,705)
Supplies	100,506	19,946
Prepaid Expenses and Deposits	(113,413)	150,671
Other Assets	(24,753)	(1,750)
Increase (Decrease) in Liabilities:		
Accounts Payable	(11,461)	(125,500)
Accrued Wages and Related Costs	45,265	(247,550)
Accrued Insurance Cost	194,193	15,383
Accrued Expenses	(25,282)	22,650
Resident Deposits	(57,935)	(32,659)
Entrance Fee Turnover, Net	(345,320)	2,811,694
Net Cash Used by Operating Activities	(1,754,192)	(4,318,743)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Property, Plant, and Equipment	(3,677,518)	(2,227,235)
Sale of Investments and Assets Limited as to Use	2,192,504	4,668,379
Purchase of Investments and Assets Limited as to Use	(150,497)	(150,497)
Interest and Dividends on Investments and Assets Limited as to Use	1,081,715	1,088,605
Investment in Risk Retention Group	(70,752)	-
Net Cash Provided (Used) by Investing Activities	(624,548)	3,379,252
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal Payments on Long-Term Debt	(997,289)	(1,072,557)
Receipt of Restricted Contributions	402,845	487,244
Payment of Debt Issuance Costs	(38,088)	(6,000)
Net Cash Used by Financing Activities	(632,532)	(591,313)
NET DECREASE IN CASH, CASH EQUIVALENTS, RESTRICTED CASH, AND RESTRICTED CASH EQUIVALENTS	(3,011,272)	(1,530,804)
Cash, Cash Equivalents, Restricted Cash, and Restricted Cash Equivalents - Beginning of Year	10,169,626	11,700,430
CASH, CASH EQUIVALENTS, RESTRICTED CASH, AND RESTRICTED CASH EQUIVALENTS - END OF YEAR	$ 7,158,354	$ 10,169,626

See accompanying Notes to Consolidated Financial Statements.

MORNINGSIDE MINISTRIES AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)
YEARS ENDED DECEMBER 31, 2019 AND 2018

	2019	2018
RECONCILIATION OF CASH, CASH EQUIVALENTS, RESTRICTED CASH, AND RESTRICTED CASH EQUIVALENTS TO CONSOLIDATED BALANCE SHEET		
Cash and Cash Equivalents	$ 5,017,195	$ 8,074,417
Cash and Cash Equivalents - Trustee Held	2,141,159	2,095,209
Cash, Cash Equivalents, Restricted Cash, and Restricted Cash Equivalents - End of Year	$ 7,158,354	$ 10,169,626
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash Paid for Interest	$ 3,955,608	$ 3,880,660

See accompanying Notes to Consolidated Financial Statements.

NOTE 1 ORGANIZATION AND NATURE OF ACTIVITIES

Organization

Morningside Ministries (the Organization), is a nonprofit organization that has provided long-term health care services for over 50 years in San Antonio, Texas and the surrounding area. The Organization is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code (IRC). The Organization's facilities provide retirement living, assisted-living, intermediate nursing care, skilled nursing care and rehabilitation.

Established in 1961 by the Rio Texas Conference of the United Methodist Church and five years later joined by Episcopal Diocese of West Texas and First Presbyterian Church of San Antonio, the Organization was founded with the specific mission of caring for older adults. The Organization currently has two distinct retirement communities in San Antonio and Boerne, Texas, including Morningside Ministries at the Meadows, and Morningside Ministries at Menger Springs as follows.

Morningside Ministries at The Meadows offers 142 independent living units, 64 assisted living units and 170 skilled nursing facility and rehabilitation units at the following:

- The Meadows Cottages
- The Meadows Atrium Apartments
- Kaulbach Assisted Living
- Morningside Manor Health Care

Morningside Ministries at Menger Springs offers 200 independent living units, 48 assisted living units, 42 memory care units and 40 skilled nursing facility, wellness and rehabilitation units:

- Menger House Retirement Apartments
- Cibolo House Assisted Living and Memory Care
- Kendall House Wellness and Rehabilitation
- The Cottages Under the Oaks
- The Overlook

The Organization previously operated Morningside Ministries at The Chandler Estate, a retirement community in San Antonio. Morningside Ministries at The Chandler Estate offered 38 independent living units, 24 assisted living units and 113 skilled nursing facility and rehabilitation units. On November 21, 2017, the board of directors of the Organization voted to close The Chandler Estate, effective March 1, 2018.

Training Institutes include:

- Elizabeth McGowen Training Institute at Morningside Ministries (mmLearn.org)

The Organization previously operated the Morningside Ministries Pharmacy. During 2018, the Organization began outsourcing pharmacy operations from an unrelated third-party. As of December 31, 2019, the pharmacy operations were closed.

NOTE 1 ORGANIZATION AND NATURE OF ACTIVITIES (CONTINUED)

Organization (Continued)

mmCare, LLC (mmCare) is a Texas Limited Liability Company formed in December 2016 to provide home health services to the community. The Organization is the 75% member as of December 31, 2019. An unrelated party is the 25% member and their activity is recorded as a noncontrolling interest on the consolidated balance sheet. The income or loss of mmCare is shared based the member's respective ownership interests.

Morningside Senior Living (MSL) is a Texas Limited Liability Company formed in November 2019 to further the mission of Morningside Ministries. MSL currently holds the assets of the previously operated Chandler Estate campus. The Organization is sole member of MSL.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The accompanying consolidated financial statements have been prepared in accordance with generally accepted accounting principles. The consolidated financial statements include the net assets and operations of the Organization, MSL, and mmCare, collectively known as the Corporation. Any inter-organization balances and transactions have been eliminated upon consolidation.

Basis of Accounting

The consolidated financial statements of the Corporation have been prepared on the accrual basis of accounting in accordance with accounting standards generally accepted in the United States of America.

Use of Estimates

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

Basis of Presentation

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions – Include net assets available for use in general operations and not subject to donor (or certain grantor) restrictions. At times, the governing board can designate, from net assets without donor restrictions, net assets for a board-designated funds.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Presentation

Net Assets With Donor Restrictions – Include net assets subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource has been fulfilled, or both.

Unconditional promises to give cash and other assets are accrued at estimated fair market value at the date each promise is received. Management reports contributions restricted by donors as increases in net assets without donor restrictions if the restrictions expire in the reporting period in which the revenue is recognized. All other donor-restricted contributions are reported as increases in net assets with donor restrictions, depending on the nature of the restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported as an increase in net assets without donor restrictions. Income earned on net assets with donor restrictions, including capital appreciation, is recognized in the period earned.

Performance Indicator

The consolidated statements of operations include excess (deficit) of revenues over expenses, known as the performance indicator. Amounts which are excluded from the performance indicator, consistent with industry practice, include unrealized gains and losses on investments other than trading securities, permanent transfers of assets to and from affiliates for other than goods and services, and contributions of long-lived assets (including assets acquired using contributions which by donor restriction were to be used for the purposes of acquiring such assets).

Cash and Cash Equivalents

For purposes of the consolidated statement of cash flows, the Corporation considers all treasury bills and certificates of deposit with an original maturity of three months or less to be cash and cash equivalents including trustee held.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Concentration of Credit Risk

The Corporation holds financial instruments, including cash and a variety of investment funds. Financial instruments are exposed to various risks such as interest rate, credit, and overall market volatility. Due to the level of risk associated with certain investments, it is reasonably possible that changes in the values of the instruments will occur in the near term and that such changes could materially affect account balances and the combined statements of operations. The Corporation believes it places its cash and cash equivalents, restricted cash, and temporary cash investments with high quality credit institutions. At times such investments may be in excess of the Federal Deposit Insurance Corporation insured limit.

The Corporation grants credit without collateral to its residents or their families, most of whom are local residents and who are insured under third-party payor agreements. The amounts due under the Medicare and Medicaid programs as a percentage of total resident accounts receivable were as follows at December 31:

	2019	2018
Medicare	26%	27%
Medicaid	16%	22%

Resident Accounts Receivable

The Corporation provides an allowance for uncollectible accounts based on the allowance method using management's judgment. Residents participate in a financial verification process before moving into the Corporation, however, residents are not required to provide collateral for services rendered. As a result, 100% collection is not always guaranteed. Payment for services is required within 30 days of receipt of invoice or claim submitted. Accounts past due more than 180 days are individually analyzed for collectability. In addition, an allowance is estimated for other accounts based on the historical experience of the Corporation. When all collection efforts have been exhausted, the account is written off. At December 31, 2019 and 2018, the allowance was approximately $33,000 and $100,000, respectively.

Supplies

Inventories of supplies are stated at the lower of cost or net realizable value.

Investments and Assets Limited as to Use

Investments and assets limited as to use include funds held by bond trustees under indenture agreements, designated deposits for entrance fees, pooled investment funds, and assets held for board, purpose, and time restrictions. The investments and assets limited as to use are primarily invested in money market funds, bonds, common stock and mutual funds, which are carried at fair value on the consolidated balance sheets. Amounts required to meet current liabilities of the Corporation are included in current assets.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investment Income, Gains, and Losses

Investments are recorded at fair value. Investment return includes interest, dividends, and realized and unrealized gains and losses, less external and direct internal investment expenses. Investment return is reported in the statements of changes in net assets as an increase in net assets without donor restrictions, unless the use of the income is limited by donor-imposed restrictions. Investment return, whose use is restricted by the donor, is reported as an increase in net assets with donor restrictions.

Home Health License

The Organization assigned a value to the home health license acquired during the year ended December 31, 2016. The Organization performs an annual impairment test of the home health license. As of December 31, 2019 and 2018, management has determined that no impairment exists.

Investment in Communities of Faith Risk Retention Group

The Organization is a subscriber in the “Communities of Faith Risk Retention Group” (the CFRRG), a voluntary reciprocal association captive insurer organized and existing under the laws of South Carolina, for the purposes of the reciprocal exchange of private contracts of insurance, reinsurance, or indemnity amount its subscribers. The CFRRG subscribers include a select group of Texas nonprofit retirement communities and continue care retirement communities with similar low rates of liability claims. Entrance into the captive required a capital contribution.

Property, Plant, and Equipment

Property, plant and equipment are recorded at cost for purchased assets or fair market value at date of receipt for donated assets. Acquisitions or property, plant and equipment in excess of $1,500 and all expenditures for maintenance, repairs, renewals, and betterments that materially extend the useful life of the asset are capitalized. Depreciation is computed using the straight-line method over the estimated useful lives of the assets as follows:

Land Improvements	20 Years
Buildings	20 to 40 Years
Equipment and Furniture	5 to 20 Years
Vehicles	5 to 7 Years

Construction in progress costs are deferred until the projects are completed and placed into service at which time these costs are depreciated over the useful life of the asset. If any of the projects are cancelled, the costs incurred will be expensed in the year determined.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of Long-Lived Assets

On an ongoing basis, the Corporation reviews its long-lived assets, such as property, plant and equipment, and purchased intangible assets subject to amortization, for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If circumstances require a long-lived asset be tested for possible impairment, the Corporation would first compare undiscounted cash flows expected to be generated by an asset to the carrying value of the asset. If the carrying value of the long-lived asset is not recoverable on an undiscounted cash flow basis, impairment is recognized to the extent that the carrying value exceeds its fair value. Fair value is determined through various valuation techniques including discounted cash flow models, quoted market values and third-party independent appraisals, as considered necessary. Management did not identify any impairment charges required to be recorded in the accompanying consolidated financial statements related to long-lived assets as of December 31, 2019 and 2018.

Asset Retirement Obligations

Asset retirement obligations represent obligations to dispose of assets that are legally required to be removed at a future date. Such an obligation would involve the removal of asbestos, if any, in the Corporation’s operating facilities. Based upon the Corporation’s past experience, the costs and the potential liability for such removals are not deemed material and are addressed on a case-by-case basis as operating facilities are renovated. Accordingly, an asset retirement obligation has not been recognized as of December 31, 2019 and 2018.

Debt Issuance Costs

Costs incurred in connection with the issuance of long-term debt are reported as a reduction to long-term debt and amortized over the term of the debt using the straight-line method, which approximates the effective interest method. At December 31, 2019 and 2018, debt issuance costs were $3,133,636 and $3,089,050, respectively. At December 31, 2019 and 2018, accumulated amortization of debt issuance costs was $1,044,253 and $863,417, respectively. Interest expense related to the debt issuance costs for the years ended December 31, 2019 and 2018 was $180,836 and $180,336, respectively.

Accrued Insurance Costs

The Corporation has purchased insurance through September 1, 2016 to cover all workers’ compensation claims above the policy deductible amount. After September 1, 2016, the Corporation entered into a nonsubscriber policy.

The Corporation has purchased insurance to cover professional and general liability insurance claims. The policy limit is $1,000,000 for each claim, with a $3,000,000 aggregate liability limit. Prior to June 1, 2015, the deductible was $50,000 per claim. After this date, up to 2019 there was no deductible. However, as of December 31, 2019, Morningside carries a yearly deductible of $100,000.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Deferred Entrance Fees

Contract arrangements for The Cottages Under the Oaks and The Overlook at Menger Springs require certain payments upon occupancy. Entrance fees paid by a resident upon entering into a residence and care agreement, net of the portion thereof that is refundable to the resident, are recorded as deferred revenue and amortized to income using the straight-line method over the estimated remaining life expectancy of the resident, or the contract term, if shorter. The period of amortization for nonrefundable entrance fees is based on the actuarially determined, estimated remaining life expectancy of the resident. Unamortized deferred revenue from entrance fees is recorded as revenue upon a resident's death or contract termination.

The refundable portion of the entrance fee is recorded as a liability as it is generally contingent upon the reoccupancy of the dwelling by a subsequent resident but the refund is not limited to the proceeds of reoccupancy. The amounts received for entrance fees are generally recorded and included in cash and cash equivalents. Contractual refund obligations under the residency agreements was approximately $28,862,000 and $29,592,000 for the years ended December 31, 2019 and 2018, respectively.

Revenue Recognition

Resident service revenue is reported at the amount that reflects the consideration to which the Corporation expects to be entitled in exchange for providing resident care. These amounts are due from residents, third-party payors (including health insurers and government programs), and others and includes variable consideration for retroactive revenue adjustments due to settlement of audits, reviews, and investigations. Generally, the Corporation bills the residents and third-party payors several days after the services are performed. Revenue is recognized as performance obligations are satisfied.

Performance obligations are determined based on the nature of the services provided by the Corporation. Revenue for performance obligations satisfied over time is recognized based on actual charges incurred in relation to total expected (or actual) charges. The Corporation believes that this method provides a faithful depiction of the transfer of services over the term of the performance obligation based on the inputs needed to satisfy the obligation. Generally, performance obligations satisfied over time relate to residents in the facility receiving skilled nursing services or housing residents receiving services in the facility. The Corporation considers daily services provided to residents of the skilled nursing facility, and monthly rental for housing services as a separate performance obligation and measures this on a monthly basis, or upon move-out within the month, whichever is shorter. Nonrefundable entrance fees are considered to contain a material right associated with access to future services, which is the related performance obligation. Revenue from nonrefundable entrance fees is recognized ratably in future periods covering a resident's life expectancy using a time-based measurement similar to the output method. Revenue for performance obligations satisfied at a point in time is generally recognized when goods are provided to the residents and customers in a retail setting (for example, gift shop and cafeteria meals) and the Corporation does not believe it is required to provide additional goods or services related to that sale.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue Recognition (Continued)

The Corporation determines the transaction price based on standard charges for goods and services provided, reduced by contractual adjustments provided to third-party payors, discounts provided to uninsured patients in accordance with the Corporation's policy and/or implicit price concessions provided to residents. The Corporation determines its estimates of contractual adjustments based on contractual agreements, its policies, and historical experience. The Corporation determines its estimate of implicit price concessions based on its historical collection experience.

Agreements with third-party payors typically provide for payments at amounts less than established charges. A summary of the payment arrangements with major third-party payors follows:

Medicaid

The Corporation participates in the Medicaid program that is administered by the Texas Health and Human Services Commission. Skilled nursing centers that participate in the Medicaid program in the state of Texas are reimbursed based upon prospective rates. The Corporation is required to file an annual Medicaid cost report which is subject to audit by the Texas Health and Human Services Commission. Adjustments to the report may prospectively affect payment rates.

Medicare

The licensed nursing facilities participate in the Medicare program. This federal program is administered by the Centers for Medicare and Medicaid Services (CMS). The nursing facilities are paid under the Medicare Prospective Payment System (PPS) for residents who are Medicare Part A eligible and meet the coverage guidelines for skilled nursing facility services. The PPS is a per diem price-based system. Annual cost reports are required to be submitted to the designated Medicare Administrative Contractor; however, they do not contain a cost settlement.

Nursing facilities licensed for participation in the Medicare and Medical Assistance programs are subject to annual licensure renewal. If it is determined that a nursing facility is not in substantial compliance with the requirements of participation, CMS may impose sanctions and penalties during the period of noncompliance. Such a payment ban would have a negative impact on the revenues of the licensed nursing facility.

Effective October 1, 2019, the Medicare Reimbursement System underwent a significant change in methodology and implemented a patient driven payment model (PDPM). Under PDPM, therapy minutes are removed as the primary basis for payment and instead uses the underlying complexity and clinical needs of a patient as a basis for reimbursement. In addition, PDPM introduces variable adjustment factors that change reimbursement rates during the resident's length of stay. Therapy services to residents not in a covered Part A stay remain the same.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue Recognition (Continued)

Other

Payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations provide for payment using prospectively determined daily rates.

Settlements with third-party payors for retroactive adjustments due to audits, reviews, or investigations are considered variable consideration and are included in the determination of the estimated transaction price for providing patient care. These settlements are estimated based on the terms of the payment agreement with the payor, correspondence from the payor and the Corporation's historical settlement activity, including an assessment to ensure that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the retroactive adjustment is subsequently resolved. Estimated settlement are adjusted in future periods as adjustments become known (that is, new information becomes available), or as years are settled or are no longer subject to such audits, reviews, and investigations. Adjustments arising from a chance in an implicit price concession impacting transaction price, were not significant in 2019 or 2018.

Generally residents who are covered by third-party payors are responsible for related deductibles and coinsurance, which vary in amount. The Corporation estimates the transaction price for residents with deductibles and coinsurance based on historical experience and current market conditions. The initial estimate of the transaction price is determined by reducing the standard charge by any contractual adjustments, discounts, and implicit price concessions. Subsequent charges to the estimate of the transaction price are generally recorded as adjustments to resident services revenue in the period of the change. Additionally revenue recognized due to changes in its estimates of implicit price concessions, discounts, and contractual adjustments were not considered material for the years ended December 31, 2019. Subsequent changes that are determined to be the result of an adverse change in the resident's ability to pay are recorded as bad debt expense.

The Corporation has determined that the nature, amount, timing, and uncertainty of revenue and cash flows are affected by the following factors:

- Payors (for example, Medicare, Medicaid, managed care or other insurance, resident) have different reimbursement/payment methodologies
- Length of the resident's service/episode of care
- Geography of the service location
- Method of reimbursement (fee for service or capitation)
- The Corporation's line of business that provided the service (skilled nursing, assisted living, independent living, home health, etc.)

For the years ended December 31, 2019 and 2018, the Corporation recognized revenue of approximately $23,304,000 and $24,877,00, respectively, from goods and services that transfer to the customer over time.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue Recognition (Continued)

Management Fee Revenue

The Company has contracted with affiliated entities to provide management and other related services to their skilled nursing facilities. Management fees and related revenues are reported at the amounts that reflects the consideration to which the Company expects to be entitled in exchange for providing services. These revenue amounts are recognized as the performance obligations are satisfied over time.

Performance obligations are determined based on the nature of the services being provided. Revenue for performance obligations satisfied over time relate primarily to management and other services provided on a monthly basis. Revenue is earned on a monthly basis based on collected revenues. These represent the period over which the Company satisfies the performance obligations. The Company believes this provides an accurate depiction of the transfer of services over the term of the performance obligation based on the inputs needed to satisfy the obligation.

For the years ended December 31, 2019 and 2018, the Company earned $14,863,774 and $13,593,660, respectively, in management fee revenue, which is transferred over time.

Supplemental Payment Program

Texas Health and Human Services Commission (THHSC) implemented a Quality Incentive Payment Program (QIPP) that became effective April 1, 2017 for nonstate government-owned nursing facilities. Participation in these programs is voluntary. This program allows states to claim federal matching funds under Medicaid up to what Medicare would pay for a similar service. As of April 1, 2017, the Organization participated in this program (See Note 6).

Nonoperating Revenue

Unrestricted gifts, bequests, and investments earnings are included as nonoperating revenue.

Income Taxes

The Organization and MSL are nonprofit organizations classified as public charities and have been granted exempt status under Section 501(c)(3) of the IRC and applicable state codes.

The Organization and MSL's income tax returns are subject to review and examination by federal authorities. The Organization and MSL are not aware of any activities that would jeopardize their tax-exempt status. The Organization and MSL is not aware of any activities that are subject to tax on unrelated business income or excise or other tax except for those that are already reported annually.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income Taxes (Continued)

mmCare is a limited liability company and is not subject to income tax. Therefore, taxable income or loss is reported to the individual members for inclusion in their respective tax returns and no provision for federal and state income taxes has been recorded in the accompanying consolidated financial statements.

The accounting standard on accounting for uncertainty in income taxes addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the consolidated financial statements. Under that guidance, the Corporation may recognize the tax benefit from an uncertain tax position only if it is more likely than not, that the tax position will be sustained on examination by taxing authorities based on the technical merits of the position. Examples of tax positions include the tax-exempt status of the Organization and MSL and various positions related to the potential sources of unrelated business taxable income (UBIT). The tax benefits recognized in the consolidated financial statements from such a position are measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. Management believes there are no unrecognized tax benefits identified or recorded as liabilities for the years ended December 31, 2019 and 2018.

Commitments and Contingencies

Liabilities for loss contingencies arising from claims, assessments, litigation, fines, penalties, and other sources are recorded when it is probable that a liability has been incurred and the amount can be reasonably estimated.

Donated Assets and Services

Donated marketable securities and other noncash donations are recorded at their estimated fair values at the date of donation. Generally no amounts are reflected in the consolidated financial statements for donated services. The Organization generally pays for services requiring specific expertise. However, many individuals volunteer their time and perform various tasks to assist the residents of the Organization’s facilities. The Organization receives more than 20,000 volunteer hours per year.

Functional Allocation of Expenses

The statement of functional expenses presents the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited utilizing units of service and department allocations.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Subsequent Events

Subsequent to year-end, the World Health Organization declared the spread of Coronavirus Disease (COVID-19) a worldwide pandemic. The COVID-19 pandemic is having significant effects on global markets, supply chains, businesses, and communities. Specific to the Company, COVID-19 may impact various parts of its 2020 operations and financial results, including increased costs related to cleaning and uncertainty regarding effects on residents and service providers. Management believes the Company is taking appropriate actions to mitigate the negative impact. However, the full impact of COVID-19 is unknown and cannot be reasonably estimated as these events occurred subsequent to year-end and are still developing.

In preparing these consolidated financial statements, the Corporation has evaluated events and transactions for potential recognition and disclosure through April 29, 2020, the date the consolidated financial statements were available to be issued.

NOTE 3 LIQUIDITY AND AVAILABILITY OF CASH

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the balance sheet date, comprise the following:

	2019	2018
Cash and Cash Equivalents	$ 5,017,195	$ 8,074,417
Resident Accounts Receivable, Net	2,094,029	1,737,218
Current Portion of Assets Limited As to Use	2,141,159	2,095,208
Investments	22,918,582	20,430,725
Total Assets Available for General Expenditure	$ 32,170,965	$ 32,337,568

The Corporation has other assets limited as to use held by bond trustee and held for assets with donor restrictions. These assets limited as to use, which are more fully described in Note 4, are not available for general expenditure within the next year and are not reflected in the amounts above.

As part of the Corporation's liquidity management plan, they invest cash in excess of daily requirements in short-term investments and money market accounts.

NOTE 4 INVESTMENTS AND ASSETS LIMITED AS TO USE

Trustee Held Funds

The Corporation is required to hold funds in various accounts based upon terms in the indenture of trust of the Series 2013 bond issuances. These funds consist of the following:

Principal Account

Bond principal account has been established to service the required principal payments to bondholders.

Interest Account

Bond interest account has been established to service the required interest payments to bondholders.

Reserve Fund

The reserve fund has been established to provide a reserve for payment of principal and interest on the bonds in the event the Corporation's principal and interest payments are insufficient to meet debt service requirements.

The assets limited as to use are included as follows on the consolidated balance sheets at December 31:

	2019	2018
TRUSTEE HELD FUNDS		
Principal Account	$ 583,530	$ 553,119
Interest Account	1,557,629	1,542,090
Total Trustee Held Funds	2,141,159	2,095,209
DEBT SERVICE RESERVE FUND	3,548,238	3,548,238
BOARD, PURPOSE, AND TIME RESTRICTED INVESTMENTS		
Annuity Gifts Receivable	8,938	8,938
Beneficial Interest - Trusts	2,968,927	2,644,352
Cash and Cash Equivalents	141,308	426,802
Pooled Investment Funds	15,499,602	12,842,119
Due to Investments	(103,628)	(13,180)
Total Board, Purpose, and Time Restricted Investments	18,515,147	15,909,031
Total Assets Limited as to Use	24,204,544	21,552,478
Less: Current Portion of Assets Limited as to Use	(2,141,159)	(2,095,208)
Assets Limited as to Use, Net of Current Portion	$ 22,063,385	$ 19,457,270

NOTE 4 INVESTMENTS AND ASSETS LIMITED AS TO USE (CONTINUED)

Investments

The investments are undesignated and are included as follows on the consolidated balance sheets at December 31:

	2019	2018
INVESTMENTS		
Cash and Cash Equivalents	$ 2,161	$ 833
Pooled Investment Funds	14,812,793	20,416,712
Bonds	5,600,000	-
Common Stock	2,400,000	-
Due from Board, Purpose, and Time Restricted Funds	103,628	13,180
Total Investments	$ 22,918,582	$ 20,430,725

Investment and assets limited as to use are invested in the following at December 31:

The accumulated investment earnings of the purpose and time restricted investments, along with amounts of which the donor restriction has been fulfilled, are available for undesignated use and are reflected above as due to board-designated funds. Absent donor restrictions, accumulated investment earnings on the purpose and time restricted funds are classified as time restricted until they are spent and released to undesignated net assets.

	December 31, 2019	
	Fair Value	Cost
Cash and Cash Equivalents	$ 5,488,167	$ 5,689,881
Money Markets	23,084	21,278
Bonds	11,550,358	11,580,160
Common Stock	26,980,749	26,995,152
Mutual Funds	111,841	104,014
Beneficial Interest in Perpetual Trust	2,968,927	2,968,927
Total Investments and Assets Limited as to Use	$ 47,123,126	$ 47,359,412

	December 31, 2018	
	Fair Value	Cost
Cash and Cash Equivalents	$ 5,753,670	$ 5,753,670
Money Markets	23,455	22,873
Bonds	10,970,010	11,056,756
Common Stock	22,491,389	25,376,228
Mutual Funds	100,327	100,327
Beneficial Interest in Perpetual Trust	2,644,352	2,644,352
Total Investments and Assets Limited as to Use	$ 41,983,203	$ 44,954,206

NOTE 4 INVESTMENTS AND ASSETS LIMITED AS TO USE (CONTINUED)

Investments (Continued)

Investment income, gains, and losses for assets limited as to use, cash equivalents, and other investments are composed of the following for the years ended December 31:

	2019	2018
Interest and Dividend Income	$ 1,144,932	$ 1,180,398
Realized Gains on Sales of Securities	3,178,754	3,965,816
Unrealized Gains (Losses) on Marketable Securities	3,957,226	(6,268,451)
Investment Service Fees	(63,217)	(91,793)
Total	$ 8,217,695	$ (1,214,030)
Unrestricted Investment Earnings	$ 8,217,695	$ (744,188)
Gain (Loss) on Purpose and Time Restricted Investments	-	(469,842)
Total	$ 8,217,695	$ (1,214,030)

NOTE 5 BENEFICIAL INTEREST IN TRUSTS

Split Interest

The Corporation was a two-fifths income beneficiary of the Maida Davis Turtle Charitable Trust (20% to Morningside Manor and 20% to Chandler Home and Apartments), which was established upon the death of the settlor. Four income beneficiaries are to be distributed a proportionate share of the net income of the trust annually. The trust will terminate the sooner of 50 years after the death of the settlor, or 21 years after the death of the last to die of the beneficiaries named in article III of the trust, at which time, 40% the remaining principal is to be distributed to the Corporation. Effective March 1, 2018, The Chandler Estate closed, which reduced the Corporation's income beneficiary percentage from 40% to 25%. Due to the closure of The Chandler Estate, the corpus portion of the Maida Davis Turtle Charitable Trust related to The Chandler Estate of $175,941 was forfeited in 2018, and is reported in the consolidated statement of changes in net assets as a decrease in net assets with donor restrictions – time restrictions. The fair market value portion of the The Chandler Estate's beneficial interest of $18,591 was written off during 2018 and is reported in the consolidated statement of changes in net assets as a decrease in net assets without donor restrictions. A noncurrent asset for the beneficial interest in the trust has been recognized at fair value, based on quoted market prices, which totals $328,395 and $297,118 at December 31, 2019 and 2018, respectively. For the years ended December 31, 2019 and 2018, the Corporation received $13,603 and $12,828, respectively, in earnings distributions from the trust.

The Corporation is a 2% income beneficiary of the Leon O. and Mary Jane K. Lewis Charitable fund. The Corporation's beneficial interest in the fund of $149,843 and $155,297 at December 31, 2019 and 2018, respectively, is recorded in board, purpose, and time restricted investments. For the years ended December 31, 2019 and 2018, the Corporation received $5,454 and $4,477, respectively, in earnings distributions from the trust.

NOTE 5 BENEFICIAL INTERESTS IN TRUSTS (CONTINUED)

Split Interest (Continued)

The Corporation is a one-third income beneficiary of the William C. and Verna Upton Alder Charitable Foundation, an irrevocable perpetual trust. In accordance with the trust agreement, the trustee shall distribute one-third of the trust's net income to the Corporation. The Corporation's beneficial interest in the trust of $2,244,722 and $1,975,948 at December 31, 2019 and 2018, respectively, is recorded in board, purpose, and time restricted investments. For the years ended December 31, 2019 and 2018, the Corporation received $97,632 and $91,920, respectively, in earnings distributions from the trust.

The Corporation is a one-fifth income beneficiary of the Sears Benevolent Endowment Fund. The Corporation's beneficial interest in the fund at December 31, 2019 and 2018 is $239,291 and $209,314, respectively, which is recorded in board, purpose, and time restricted investments. For the years ended December 31, 2019 and 2018, the Corporation received $17,464 and $8,267, respectively, in earnings distributions from the trust.

The Corporation is a one-fourth income beneficiary of the Luella Pliefke Trust Fund. The Corporation's beneficial interest in the fund at December 31, 2019 and 2018 is $6,676 and $6,675, respectively, which is recorded in board, purpose, and time restricted investments. For the years ended December 31, 2019 and 2018, the Corporation received no distributions in earnings distributions from the trust.

Sole Beneficiary

The Corporation was the sole income beneficiary of the Chandler Memorial Home Trust, an irrevocable trust. In accordance with the Trust agreement, the Trustee shall distribute all Trust net income, exclusive of realized gains and losses, to the Corporation for the benefit of the Chandler campus. The Trustee may also distribute a portion of the Trust corpus and realized gains to the Corporation if such distribution is determined to be reasonable and necessary by the Trustee. In the event the Corporation would no longer operate a residential facility, the Trustee may distribute the income and a reasonable amount of the Trust corpus to another charitable organization. Effective March 1, 2018, The Chandler Estate closed and is no longer the sole beneficiary to the Chandler Memorial Home Trust.

The Corporation had previously recognized $2,350,612 as the original corpus in net assets with purpose restrictions. Due to the closure of The Chandler Estate, the beneficial interest in the Chandler Memorial Home Trust was forfeited during 2018, and is reported in the consolidated statement of changes in net assets as a decrease in net assets with donor restrictions – purpose restrictions (See Note 11). The fair market value of the beneficial interest in the Chandler Memorial Home Trust of $2,711,283 was written off during 2018 and is reported in the consolidated statement of changes in net assets as a decrease in net assets without donor restrictions.

NOTE 6 SUPPLEMENTAL PAYMENT PROGRAM

On April 1, 2017, the Organization participated in the QIPP program (See Note 2) and sold its nursing home license for Morningside Manor Health Care and The Chandler Estate to a nonstate government hospital district (the Hospital Partner) for a nominal amount. In conjunction with the sale, the Organization executed separate lease and management agreements. Under the terms of the lease agreement, the Hospital Partner agrees to lease the Organization's nursing facility space in the amount of $70,833 per month for Morningisde Manor Health Care and $41,667 per month for The Chandler Estate. For the years ended December 31, 2019 and 2018, total lease revenue was $850,000 and $933,333, respectively. The lease is set to expire on August 31, 2019; however, the term of the lease shall be extended for successive one year terms unless the Organization or Hospital Partner provide written notice not to renew the lease 35 days prior to the end of the lease term or terminate based on other conditions outlined in the lease agreement. In the event of a termination, the nursing home license will revert back to the Organization to operate the facility.

Under the terms of the management agreement, the Organization will manage the nursing facility and receive a management fee equal to the total net revenue received in connection with the operation of the nursing home each month. For the years ended December 31, 2019 and 2018, total management fee revenue was $14,863,774 and $13,593,660, respectively. In addition, under the terms of the management agreement, the Organization will receive an incentive payment equal to 50% of the total incentive payment received under the QIPP program. For the years ended December 31, 2019 and 2018, the total incentive fee revenue was $231,093 and $39,432, respectively. The management agreement was set to expire on August 31, 2019; however the management agreement shall automatically renew for one year unless the Organization or Hospital Partner provide written notice 35 days prior to the end of the management agreement or terminate based on other conditions outlined in the management agreement. In the event of termination, the Hospital Partner will transfer the operations of the facility back to the Organization. Finally, in the event that either the management agreement or lease agreement is terminated by the Organization or the Hospital Partner, such termination will result in the simultaneous termination of the other agreement. Effective March 1, 2018, The Chandler Estate closed, which resulted in the automatic termination of both the lease and management agreement with the Hospital.

NOTE 7 FAIR VALUE MEASUREMENTS

The Corporation categorizes its assets and liabilities measured at fair value into a three level hierarchy based on the priority of the inputs to the valuation technique used to determine fair value. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets and liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used in the determination of the fair value measurement fall within different levels of the hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement. Assets and liabilities valued at the fair value are categorized based on the inputs to the valuation techniques as follows:

Level 1 – Inputs that utilize (unadjusted) quoted prices in active markets for identical assets or liabilities that the Corporation has the ability to access.

Level 2 – Inputs that include quoted prices for similar assets and liabilities in active markets and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument. Fair values for these instruments are estimated using pricing models, quoted prices of securities with similar characteristics, or discounted cash flows.

Level 3 – Inputs that are unobservable inputs for the asset or liability, which are typically based on an entity's own assumptions, as there is little, if any, related market activity.

Additionally, from time to time, the Corporation may be required to record at fair value other assets on a nonrecurring basis in accordance with generally accepted accounting principles. These adjustments to fair value usually result from the application of the lower-of-cost-or-market accounting or write down of individual assets. Nonfinancial assets measured at fair value on a nonrecurring basis would include nonfinancial assets and nonfinancial liabilities measured at fair value in the second step of a goodwill impairment test, other real estate owned, and other intangible assets measured at fair value for impairment assessment.

The Corporation also adopted the policy of valuing certain financial instruments at fair value. This accounting policy allows entities the irrevocable option to elect fair value for the initial and subsequent measurement for certain financial assets and liabilities on an instrument-by-instrument basis. The Corporation has not elected to measure any existing financial instruments at fair value, however, may elect to measure newly acquired financial instruments at fair value in the future.

NOTE 7 FAIR VALUE MEASUREMENTS (CONTINUED)

The following tables present the fair value hierarchy for the Corporation measured at fair value on a recurring basis as of December 31:

	2019			
	Total	Level 1	Level 2	Level 3
Assets:				
Investments and Assets				
Limited as to Use:				
Money Markets	$ 23,084	$ 23,084	$ -	$ -
Bonds	11,550,358	11,550,358	-	-
Common Stock	26,980,749	26,980,749	-	-
Mutual Funds	111,841	111,841	-	-
Beneficial Interest in				
Perpetual Trusts	2,968,927	-	-	2,968,927
Total Assets	$ 41,634,959	$ 38,666,032	$ -	$ 2,968,927

	2018			
	Total	Level 1	Level 2	Level 3
Assets:				
Investments and Assets				
Limited as to Use:				
Money Markets	$ 23,455	$ 23,455	$ -	$ -
Bonds	10,970,010	10,970,010	-	-
Common Stock	22,491,389	22,491,389	-	-
Mutual Funds	100,327	100,327	-	-
Beneficial Interest in				
Perpetual Trusts	2,644,352	-	-	2,644,352
Total Assets	$ 36,229,533	$ 33,585,181	$ -	$ 2,644,352

The following table presents changes in assets measured at fair value using Level 3 inputs on a recurring basis for the years ended December 31:

	2019	2018
Balance, Beginning of Year	$ 2,644,352	$ 2,804,455
Contributions	-	22
Income and Expenses, Net	445,124	(55,462)
Distributions	(120,549)	(104,663)
Balance, End of Year	$ 2,968,927	$ 2,644,352

Investments and assets limited as to use are recorded at fair value on a recurring basis. Fair value measurement is based upon quoted prices, if available. If quoted prices are not available, fair values are measured using independent pricing models or other model-based valuation techniques such as the present value of future cash flows, adjusted for the security's credit rating, prepayment assumptions, and other factors such as credit loss assumptions. Securities valued using Level 1 inputs include those traded on an active exchange, such as the New York Stock Exchange, as well as U.S. Treasury and other U.S. government and agency mortgage-backed securities that are traded by dealers or brokers in active over-the-counter markets.

NOTE 7 FAIR VALUE MEASUREMENTS (CONTINUED)

Fair value for the contributions receivable from beneficial interests in perpetual trusts are measured using the Corporation's interest in the fair value of the assets held in the trusts as reported by the trustees as of December 31, 2019 and 2018. The Corporation considers the measurement of its beneficial interests in the trusts to be Level 3 measurements within the fair value hierarchy because even though the measurement is based on the unadjusted fair values of the trusts' assets reported by the trustee, the Corporation will never receive those assets or have the ability to direct the trustees to redeem them.

NOTE 8 PLEDGE RECEIVABLES

Included in pledges receivable are amounts that comprise the following unconditional promises to give and conditional promises to give for which conditions have been substantially met at December 31:

	2019	2018
Receivable in Less than One Year	$ 142,262	$ 82,703

No allowance for uncollectible pledges or discount has been recorded as all pledges receivable are due in 2020.

NOTE 9 PROPERTY, PLANT, AND EQUIPMENT

Property, plant, and equipment consist of the following at December 31:

	2019	2018
Land	$ 4,926,317	$ 4,902,534
Land Improvements	5,068,419	5,296,872
Buildings	125,209,822	133,919,434
Equipment and Furniture	8,432,649	9,457,611
Vehicles	613,996	417,519
Construction in Progress	2,506,208	606,397
Total	$ 146,757,411	$ 154,600,367

Total depreciation expense for the years ended December 31, 2019 and 2018 was $5,186,870 and $5,284,477, respectively.

Construction in Progress

Construction in progress for the years ended December 31, 2019 and 2018 of $2,506,208 and $606,397, respectively, is related to various renovations and ongoing special projects. These projects are being financed with internal funds and expected to be completed in 2020.

NOTE 10 LONG-TERM DEBT

The Corporation's long-term debt is summarized below at December 31:

	2019	2018
New Hope Cultural Revenue Bonds Series 2013	$ 46,590,000	$ 47,140,000
New Hope Cultural Revenue Construction Loan 2014	28,550,474	28,991,265
Subtotal	75,140,474	76,131,265
Unamortized Debt Issuance Costs	(2,089,383)	(2,225,633)
Total Long-Term Debt	73,051,091	73,905,632
Less: Current Maturities of Long-Term Debt	(1,158,720)	(949,855)
Long-Term Debt, Net	$ 71,892,371	$ 72,955,777

New Hope Cultural Revenue Bonds Series 2013

On September 19, 2013, the New Hope Cultural Education Facilities Corporation (Issuer) issued First Mortgage Revenue Bonds (Morningside Ministries Project) Series 2013 in the amount of $49,335,000 on behalf of the Organization with the proceeds used to (1) refund all of the outstanding Kendall County Health Facilities Development Corporation Variable Rate Demand Health Care Revenue Bonds (Morningside Ministries Project) Series 2008 and (2) to pay a portion of the cost of issuance of the Series 2013 bonds. Repayment shall based on a 30-year amortization schedule, with a final payment of all outstanding principal and interest due at maturity on January 1, 2048.

The Issuer created and ordered established with U.S. Bank National Association (Bond Trustee) a trust fund (Bond Fund). There are two separate accounts within the Bond Fund designated as the Principal Account and the Interest Account, respectively. The Organization will deposit monthly 1/6 of the semi-annual interest payment into the Interest Account, and monthly 1/12 of the annual principal payment into the Principal Account. Additionally, the Issuer established with the Bond Trustee, a Debt Service Reserve Fund to be used to provide a reserve for the payment of principal and interest on the bonds. This Debt Service Reserve Fund was funded at issuance in the amount of $3,548,238, which is equal to the maximum annual debt service on the bonds. Additionally, the Series 2013 bonds are secured by certain bank accounts, property, plant, and equipment.

New Hope Cultural Revenue Construction Loan 2014

On March 1, 2014, the Organization was issued a construction loan by BBVA Compass Bank. Advances are made pursuant to the Construction Loan Agreement, and can reach a maximum principal amount of $42,000,000. Repayment of this note shall be in 36 consecutive monthly interest only payments commencing on May 1, 2014. At the end of the interest only period, the loan shall not exceed $30,000,000. After this period, repayment shall be in 59 consecutive monthly principal and interest payments based on a 25-year amortization schedule, with a final payment of all outstanding principal and interest due at maturity on May 1, 2022. Interest on this note is charged at a variable rate based on 65% times the sum of one month LIBOR plus 1.90% (3.49% and 2.25% at December 31, 2019 and 2018, respectively). The construction loan is secured by certain bank accounts, property, plant, and equipment. Subsequent to year end, the Organization refinanced the Construction Loan Agreement with Series 2020 bonds (see Note 16).

NOTE 10 LONG-TERM DEBT (CONTINUED)

Scheduled principal payments on long-term debt for the next five years and thereafter are as follows:

Year Ending December 31,	Amount	As Refinanced (See Note 16)
2020	$ 1,158,720	$ 825,474
2021	1,202,659	880,000
2022	28,015,095	995,000
2023	670,000	1,020,000
2024	705,000	1,065,000
Thereafter	43,389,000	70,355,000
Total	$ 75,140,474	$ 75,140,474

Restrictive Covenants

Under the terms of the Series 2013 Bonds, the Organization is required to meet certain restrictive covenants related to the reporting and other financial and nonfinancial covenants. As of December 31, 2019, management was not aware of instances where the Organization was not in compliance with these covenants.

NOTE 11 NET ASSETS

Net Assets with Purpose Restrictions

Net assets with purpose restrictions include gifts and contributions, which are restricted by the donors for specific purposes. Once the specific purposes are achieved, the net assets with purpose restrictions are transferred to undesignated net assets. Net assets with purpose restrictions consist of the following at December 31:

	2019	2018
Direct Charity Fund	$ 154,506	$ 61,654
Manor Unit #5 Renovation Fund	-	26,375
Special Projects Fund	139,975	102,182
Loewenberg Scholarship Fund	103,999	107,874
mmLearn.org Fund	159,303	259,116
Meadows Employee Fund	7,000	8,000
Total Net Assets with Purpose Restrictions	$ 564,783	$ 565,201

NOTE 11 NET ASSETS (CONTINUED)

Net Assets with Time Restrictions

Net assets with time restrictions include perpetual endowment fund earnings and charitable trusts, which are restricted by the donors such as those that will be met by the passage of time. Once the passage of time has been met, the net assets with time restrictions are transferred to undesignated net assets. Net assets with time restrictions consist of the following at December 31:

	2019	2018
Maida Davis Turtle Charitable Trust Fund	$ 328,395	$ 293,234
Lewis Charitable Trust Fund	149,843	-
Alder Charitable Trust Fund	2,244,722	-
Sears Beneolent Endowment Fund	239,291	-
Luella Pliefke Trust Fund	6,676	-
Net Appreciation of Funds with Time Restrictions	-	2,839,653
Total Net Assets with Time Restrictions	$ 2,968,927	$ 3,132,887

As of December 31, 2019, the Corporation transferred $2,675,693 from net assets without restrictions to time restricted net assets.

Perpetual Funds

Perpetual funds consist of contributions and gifts given for Covenant assistance and to provide for upkeep of the Meadows facility. The amounts would be maintained in perpetuity. Interest and dividends on the perpetual funds are used for Covenant assistance.

Perpetual funds consisted of the following at December 31:

	2019	2018
Covenant Fund	$ -	$ 7,905,422
Kaulbach Fund	-	3,390,000
Meadows Improvements	1,000,000	1,000,000
Total	$ 1,000,000	$ 12,295,422

Undesignated Board Restricted Funds

During 2019, the Corporation determined the amounts previously classified as perpetual funds, are not required to be maintained in perpetuity by the donor, but have been designated previously to be maintained in perpetuity by the board of directors. However, these funds through action of the board of directors can be spent to further the ministry of the Corporation. Therefore, the board of directors controls the purpose and use of these funds. As of December 31, 2019, the Corporation transferred $11,295,422 from perpetual fund net assets and $2,839,653 from time restricted net assets, respectively to board designated fund net assets.

NOTE 11 NET ASSETS (CONTINUED)

Undesignated Board Restricted Funds (Continued)

Board designated funds consisted of the following at December 31:

	2019	2018
Covenant Fund	$ 16,799,667	$ -

NOTE 12 LEASE AND SERVICE AGREEMENTS

In September 2011, the Corporation entered into two separate Lease and Service Agreements covering approximately 9,436 square feet of space in one of its facilities. The tenants provide services that complement the services provided by the Corporation. The agreements have a term of five years but either party can terminate the agreement with ninety (90) days prior written notice. In September 2016, both Lease and Service Agreements were renewed for another five years. During the terms of the agreements, the tenants pay no monetary rent to the Corporation, but pay the Corporation a total of $2,750 per month for housekeeping, repairs, maintenance, and utilities. The Corporation also received security deposits from these tenants totaling $2,000.

NOTE 13 FINANCIAL ASSISTANCE AND CHARITY CARE

One of the purposes of the Corporation is to provide financial assistance to residents who may not otherwise be able to obtain services offered by the Corporation. Financial assistance is provided through the Covenant Assistance Program. Covenant financial assistance is based on “need” and is provided to residents who meet the need criteria established by management. The Corporation provided Covenant financial assistance during the years 2019 and 2018 in the amounts of approximately $515,000 and $507,000, respectively. In addition to the Covenant Assistance Program, donors are able to donate to a direct charity care fund to assist indigent residents.

The cost of charity care provided was approximately $4,461,000 and $6,309,000 in 2019 and 2018, respectively. The total cost estimate is based upon actual per patient day custodial care costs. The net cost of charity care was approximately $3,873,000 and $5,830,000 in 2019 and 2018, respectively. This is net of any restricted contributions and accumulated covenant fund income received and released to assist with such costs, which were approximately $588,000 in 2019 and $479,000 in 2018.

NOTE 14 COMMITMENTS AND CONTINGENCIES

Retirement Plan

The Corporation has established a 401(k) pension plan, which covers substantially all eligible employees. For the calendar year 2018, the Corporation matched up to 2% of compensation based on employee voluntary contributions. Beginning January 1, 2019, the Corporation change its match program to match up to 3.5% of compensation based on employee voluntary contributions. The Corporation's matching contributions for the years ended December 31, 2019 and 2018 totaled $272,779 and $106,537, respectively.

Unasserted Claims

The Corporation is subject to various legal proceedings and claims which arise in the ordinary course of operations. In the opinion of management, the amount of any liability, if any, with respect to these actions would not materially affect the financial position or results of operations of the Corporation.

Health Care

The health care industry is subject to numerous laws and regulations by federal, state, and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government health care program participation requirements, reimbursement for resident services, and Medicare and Medicaid fraud and abuse. Recently, government activity has increased with respect to investigations by health care providers. Violations of these laws and regulations could result in expulsion from government health care programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed. Management is not aware of any violations of these laws and regulations.

NOTE 15 FUNDS HELD FOR OTHERS

The Corporation administers cash accounts on behalf of residents, known as resident trust funds, and these accounts are not reflected in the consolidated financial statements. The accounts maintained on behalf of residents are subject to audit by governmental regulators.

NOTE 16 SUBSEQUENT EVENTS

Subsequent to year end, the Organization refinanced the construction loan by BBVA Compass Bank (see Note 10). The refinancing paid the construction loan in full and changed the future maturities on long-term debt.

MORNINGSIDE MINISTRIES AND SUBSIDIARIES
CONSOLIDATING BALANCE SHEET (CONTINUED)
DECEMBER 31, 2019
(SEE INDEPENDENT AUDITORS' REPORT)

ASSETS	Morningside Ministries	mmCare, LLC	Morningside Senior Living	Eliminations	Total
CURRENT ASSETS					
Cash and Cash Equivalents	$ 4,615,988	$ 401,207	$ -	$ -	$ 5,017,195
Resident Accounts Receivable	1,576,905	517,124	-	-	2,094,029
Accounts Receivable, Other	3,044	-	-	-	3,044
Current Portion of Assets Limited as to Use	2,141,159	-	-	-	2,141,159
Pledges Receivable	142,262	-	-	-	142,262
Supplies	261,806	-	-	-	261,806
Prepaid Expenses and Other	600,322	-	-	-	600,322
Total Current Assets	9,341,486	918,331	-	-	10,259,817
INVESTMENTS	14,918,582	-	8,000,000	-	22,918,582
ASSETS LIMITED AS TO USE					
Cash and Cash Equivalents - Trustee Held	2,141,159	-	-	-	2,141,159
Debt Service Reserve Fund	3,548,238	-	-	-	3,548,238
Board, Purpose, and Time Restricted Investments and Trusts	18,515,147	-	-	-	18,515,147
Total Assets Limited as to Use	24,204,544	-	-	-	24,204,544
Less: Current Portion of Assets Limited as to Use	(2,141,159)	-	-	-	(2,141,159)
Total Assets Limited as to Use, Net of Current Portion	22,063,385	-	-	-	22,063,385
PROPERTY, PLANT, AND EQUIPMENT	142,464,887	3,074	4,289,450	-	146,757,411
Less: Accumulated Depreciation	(60,347,862)	(2,562)	(20,732)	-	(60,371,156)
Property, Plant, and Equipment, Net	82,117,025	512	4,268,718	-	86,386,255
OTHER ASSETS					
Due from (to) Affiliates	105,141	(4,138)	(101,003)	-	-
Investment in mmCare, LLC	847,894	-	-	(847,894)	-
Deposits	70,000	-	-	-	70,000
Home Health License	-	251,750	-	-	251,750
Investment in Risk Retention Group	70,752	-	-	-	70,752
Other Assets	45,553	-	-	-	45,553
Total Other Assets	1,139,340	247,612	(101,003)	(847,894)	438,055
Total Assets	$ 129,579,818	$ 1,166,455	$ 12,167,715	$ (847,894)	$ 142,066,094

MORNINGSIDE MINISTRIES AND SUBSIDIARIES
CONSOLIDATING BALANCE SHEET (CONTINUED)
DECEMBER 31, 2019
(SEE INDEPENDENT AUDITORS' REPORT)

LIABILITIES AND NET ASSETS	Morningside Ministries	mmCare, LLC	Morningside Senior Living	Eliminations	Total
CURRENT LIABILITIES					
Current Maturities of Long-Term Debt	$ 1,158,720	$ -	$ -	$ -	$ 1,158,720
Accounts Payable	978,346	61,011	-	-	1,039,357
Accrued Wages and Related Costs	991,840	59,929	-	-	1,051,769
Accrued Insurance Cost	321,324	-	-	-	321,324
Accrued Interest Payable	1,567,357	-	-	-	1,567,357
Accrued Expenses	45,158	-	-	-	45,158
Total Current Liabilities	5,062,745	120,940	-	-	5,183,685
LONG-TERM LIABILITIES					
Refundable Deposits	9,000	-	-	-	9,000
Refundable Entrance Fee Payable	28,862,415	-	-	-	28,862,415
Deferred Revenue	3,944,001	-	-	-	3,944,001
Long-Term Debt	71,892,371	-	-	-	71,892,371
Total Long-Term Liabilities	104,707,787	-	-	-	104,707,787
Total Liabilities	109,770,532	120,940	-	-	109,891,472
NET ASSETS					
Without Donor Restrictions:					
Undesignated	(1,524,091)	741,152	12,167,715	(847,894)	10,536,882
Undesignated- Board Restricted	16,799,667	-	-	-	16,799,667
Noncontrolling Interest	-	304,363	-	-	304,363
Total Without Donor Restrictions	15,275,576	1,045,515	12,167,715	(847,894)	27,640,912
With Donor Restrictions:					
Purpose Restrictions	564,783	-	-	-	564,783
Time Restrictions	2,968,927	-	-	-	2,968,927
Perpetual Funds	1,000,000	-	-	-	1,000,000
Total With Donor Restrictions	4,533,710	-	-	-	4,533,710
Total Net Assets	19,809,286	1,045,515	12,167,715	(847,894)	32,174,622
Total Liabilities and Net Assets	$ 129,579,818	$ 1,166,455	$ 12,167,715	$ (847,894)	$ 142,066,094

MORNINGSIDE MINISTRIES AND SUBSIDIARIES
CONSOLIDATING STATEMENT OF OPERATIONS
YEAR ENDED DECEMBER 31, 2019
(SEE INDEPENDENT AUDITORS' REPORT)

	Morningside Ministries	mmCare, LLC	Morningside Senior Living	Eliminations	Total
WITHOUT DONOR RESTRICTIONS REVENUES					
Net Resident Service Revenue	$ 19,223,501	$ 3,582,823	$ -	$ -	$ 22,806,324
Rental Income	850,000	-	-	-	850,000
Management Fee Revenue	14,863,774	-	-	-	14,863,774
Incentive Fee Revenue	231,903	-	-	-	231,903
Amortization of Advance Entrance Fee Revenue	497,681	-	-	-	497,681
Other Operating Revenue	748,463	-	-	-	748,463
Net Assets Released from Restrictions - Operations	314,214	-	-	-	314,214
Total Operating Revenue	36,729,536	3,582,823	-	-	40,312,359
OPERATING EXPENSES					
Nursing Services	9,469,261	725,275	-	-	10,194,536
Food Services	5,737,752	-	-	-	5,737,752
Environmental Services	5,674,489	18,000	1,833	-	5,694,322
Ancillary Services	3,938,047	1,068,355	-	-	5,006,402
Life Enrichment	1,039,510	71,175	-	-	1,110,685
Training Institutes and Other	-	-	-	-	-
General and Administrative	8,098,504	982,581	646	-	9,081,731
Depreciation	5,165,113	1,025	20,732	-	5,186,870
Interest	4,121,850	622	-	-	4,122,472
Total Operating Expenses	43,244,526	2,867,033	23,211	-	46,134,770
NET INCOME (LOSS) FROM OPERATIONS	(6,514,990)	715,790	(23,211)	-	(5,822,411)
OTHER INCOME (EXPENSE)					
Unrestricted Investment Earnings	8,217,695	-	-	-	8,217,695
Unrestricted Contributions	212,308	-	-	-	212,308
Gain on Sale of Property and Equipment	20,240	-	-	-	20,240
Total Other Income	8,450,243	-	-	-	8,450,243
EXCESS (DEFICIT) OF REVENUES OVER EXPENSES	1,935,253	715,790	(23,211)	-	2,627,832
Equity Transfer	-	(250,000)	-	187,500	(62,500)
Change in Investment in mmCare, LLC	536,843	-	-	(536,843)	-
Change in Investment in Risk Retention Group	11,709	-	-	-	11,709
Net Asset Transfer	(12,190,926)	-	12,190,926	-	-
Net Asset Reclassification	11,459,382	-	-	-	11,459,382
Net Assets Released from Restrictions - Capital	89,049	-	-	-	89,049
INCREASE (DECREASE) IN NET ASSETS WITHOUT DONOR RESTRICTIONS	$ 1,841,310	$ 465,790	$ 12,167,715	$ (349,343)	$ 14,125,472

MORNINGSIDE MINISTRIES AND SUBSIDIARIES
CONSOLIDATING STATEMENT OF CHANGES IN NET ASSETS
YEAR ENDED DECEMBER 31, 2019
(SEE INDEPENDENT AUDITORS' REPORT)

	Morningside Ministries	mmCare, LLC	Morningside Senior Living	Eliminations	Total
NET ASSETS WITHOUT DONOR RESTRICTIONS					
Deficit of Revenues over Expenses	$ 1,935,253	$ 715,790	$ (23,211)	$ -	$ 2,627,832
Equity Transfer	-	(250,000)	-	187,500	(62,500)
Change in Investment in mmCare, LLC	536,843	-	-	(536,843)	-
Change in Investment in Risk Retention Group	11,709	-	-	-	11,709
Net Assets Transfer	(12,190,926)	-	12,190,926	-	-
Net Asset Reclassification	11,459,382	-	-	-	11,459,382
Net Assets Released from Restrictions - Capital	89,049	-	-	-	89,049
Increase (Decrease) in Net Assets Without Donor Restrictions	1,841,310	465,790	12,167,715	(349,343)	14,125,472
NET ASSETS WITH DONOR RESTRICTIONS - PURPOSE RESTRICTIONS					
Contributions	402,845	-	-	-	402,845
Net Assets Released from Restrictions - Operations	(314,214)	-	-	-	(314,214)
Net Assets Released from Restrictions - Capital	(89,049)	-	-	-	(89,049)
Decrease in Net Assets With Donor Restrictions - Purpose Restrictions	(418)	-	-	-	(418)
NET ASSETS WITH DONOR RESTRICTIONS - TIME RESTRICTIONS					
Net Asset Reclassification	(163,960)	-	-	-	(163,960)
NET ASSETS WITH DONOR RESTRICTIONS - PERPETUAL FUNDS					
Net Assets Reclassification	(11,295,422)	-	-	-	(11,295,422)
INCREASE (DECREASE) IN NET ASSETS	(9,618,490)	465,790	12,167,715	(349,343)	2,665,672
Net Assets - Beginning of Year	29,427,776	579,725	-	(498,551)	29,508,950
NET ASSETS - END OF YEAR	$ 19,809,286	$ 1,045,515	$ 12,167,715	$ (847,894)	$ 32,174,622