MORNINGSIDE MINISTRIES
AND SUBSIDIARY

CONSOLIDATED FINANCIAL STATEMENTS
AND
SUPPLEMENTAL INFORMATION

DECEMBER 31, 2014 AND 2013

Mueller Prost
CPAs + Business Advisors

Member of PKF North America
An association of legally independent firms

Main tel +1 314 862 2070 | Main fax +1 314 862 1549 | www.muellerprost.com
St. Louis, MO | 7733 Forsyth Blvd. | Suite 1200 | St. Louis | MO | 63105
St. Charles, MO | 2460 Executive Drive | St. Charles | MO | 63303
Irvine, CA | 2010 Main Street | Suite 340 | Irvine | CA | 92614

TABLE OF CONTENTS

To the Board of Directors
Morningside Ministries and Subsidiary
San Antonio, Texas

INDEPENDENT AUDITORS' REPORT

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of *Morningside Ministries and Subsidiary*, (a nonprofit organization) (the "Corporation"), which comprise the consolidated statements of financial position as of December 31, 2014, and the related consolidated statements of unrestricted revenue, expenses and other changes in unrestricted net assets, changes in net assets, and cash flows for the year 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.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the 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.

Main tel +1 314 862 2070 | Main fax +1 314 862 1549 | www.muellerprost.com
St. Louis, MO | 7733 Forsyth Blvd. | Suite 1200 | St. Louis | MO | 63105
St. Charles, MO | 2460 Executive Drive | St. Charles | MO | 63303
Irvine, CA | 2010 Main Street | Suite 340 | Irvine | CA | 92614

Opinion

In our opinion, the 2014 consolidated financial statements referred to above present fairly, in all material respects, the financial position of *Morningside Ministries and Subsidiary* as of December 31, 2014, and the results of its operations, changes in net assets, and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Predecessor Auditor

The consolidated financial statements of *Morningside Ministries and Subsidiary* as of December 31, 2013, were audited by other auditors whose report dated April 18, 2014, expressed an unmodified opinion on those statements.

Other Matter

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The consolidated schedules of unrestricted functional expenses on pages 27 and 28 are presented for purposes of additional analysis and is 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 audit 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.

Mueller Prost LC

April 29, 2015
St. Louis, Missouri

Certified Public Accountants

MORNINGSIDE MINISTRIES AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2014 AND 2013

ASSETS		**2014**		**2013**
Current Assets				
Cash and cash equivalents	$	10,090,164	$	8,188,889
Resident accounts receivable, net of estimated uncollectible accounts of $275,000 and $140,000		4,593,602		3,609,760
Accounts receivable, other		45,584		35,755
Supplies		359,285		338,726
Prepaid expenses and deposits		501,920		329,148
Total Current Assets		15,590,555		12,502,278
Assets Whose Use is Limited				
Cash and cash equivalents - trustee held		2,021,577		1,005,816
Escrow deposits and reserve fund		4,979,572		4,755,029
Board designated funds		19,287,099		17,989,165
Endowment and temporarily restricted investments		17,385,952		16,803,724
Total Assets Whose Use is Limited		43,674,200		40,553,734
Property, Plant and Equipment - at Cost		107,706,635		105,617,158
Less: Accumulated Depreciation		(51,662,983)		(47,861,972)
Net Property, Plant and Equipment		56,043,652		57,755,186
Other Assets				
Construction in progress		14,105,462		3,501,168
Financing cost, net		2,923,726		2,184,367
Deposits		50,000		50,000
Other		20,800		20,800
Total Other Assets		17,099,988		5,756,335
Total Assets	**$**	**132,408,395**	**$**	**116,567,533**

LIABILITIES AND NET ASSETS				
Current Liabilities				
Current maturities of long-term debt	$	495,000	$	140,000
Accounts payable, trade		2,530,429		1,532,532
Accrued wages and related costs		1,146,222		1,629,176
Accrued insurance cost		275,000		245,180
Accrued expenses		1,708,555		1,043,735
Total Current Liabilities		6,155,206		4,590,623
Long-Term Liabilities				
Deferred entrance fees and resident deposits		13,622,574		12,666,277
Bonds payable, less current maturities		60,822,913		49,195,000
Total Long-Term Liabilities		74,445,487		61,861,277
Total Liabilities		80,600,693		66,451,900
Net Assets				
Unrestricted		34,421,752		33,311,908
Temporarily restricted		5,869,090		4,872,039
Permanently restricted		11,516,860		11,931,686
Total Net Assets		51,807,702		50,115,633
Total Liabilities and Net Assets	**$**	**132,408,395**	**$**	**116,567,533**

MORNINGSIDE MINISTRIES AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF UNRESTRICTED REVENUE, EXPENSES, AND OTHER CHANGES IN UNRESTRICTED NET ASSETS

DECEMBER 31, 2014 AND 2013

	2014	%	2013	%
Changes in Unrestricted Net Assets				
Net resident service revenue	$ 45,874,634	97.11	$ 42,303,620	96.58
Other operating revenue	1,363,260	2.89	1,498,419	3.42
Total Operating Revenue	47,237,894	100.00	43,802,039	100.00
Operating Expenses				
Program Services				
Nursing services	13,777,840	29.17	12,272,554	28.02
Food services	5,289,033	11.20	4,919,311	11.23
Environmental services	5,954,499	12.61	5,711,815	13.04
Ancillary services	7,429,306	15.73	6,354,933	14.51
Life enrichment	1,329,852	2.82	1,357,055	3.10
Training institutes and other	282,281	0.60	310,880	0.71
Total Program Services	34,062,811	72.11	30,926,548	70.61
Administrative Expenses	7,558,783	16.00	7,657,852	17.48
Depreciation	3,816,590	8.08	3,724,216	8.50
Interest	3,053,025	6.46	1,928,554	4.40
Total Operating Expenses	48,491,209	102.65	44,237,170	100.99
Net Loss from Operations	(1,253,315)	(2.65)	(435,131)	(0.99)
Investment Income				
Unrestricted Investment Earnings	848,477	1.80	2,842,724	6.49
Unrealized Gains, Swaps	-	-	326,962	0.75
Unrestricted Contributions	149,967	0.32	144,990	0.33
Total Investment Income	998,444	2.11	3,314,676	7.57
Net Assets Released from Restrictions				
Satisfaction of Acquisition	775,331	1.64	951,531	2.17
Increase in Unrestricted Net Assets	**$ 520,460**	**1.10**	**$ 3,831,076**	**8.75**

The notes to consolidated financial statements are an integral part of these statements.

MORNINGSIDE MINISTRIES AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS
DECEMBER 31, 2014 AND 2013

	2014	2013
Unrestricted Net Assets		
Net loss from operations	$ (1,253,315)	$ (435,131)
Contributions	149,967	144,990
Investment earnings	848,477	2,842,724
Unrealized gain, swaps	-	326,962
Temporarily restricted net assets released from restrictions	775,331	951,531
Increase in Unrestricted Net Assets	520,460	3,831,076
Temporarily Restricted Net Assets		
Contributions	801,992	227,551
Gain on endowment investments	489,076	2,203,631
Net assets released from restrictions	(775,331)	(951,531)
Increase in Temporarily Restricted Net Assets	515,737	1,479,651
Permanently Restricted Net Assets		
Contributions and gifts	143,184	97,449
Increase in Permanently Restricted Net Assets	143,184	97,449
Increase in Net Assets	1,179,381	5,408,176
Net Assets at Beginning of Year, as originally stated	50,628,321	44,707,457
Add: Prior Period Adjustment	-	512,688
Net Assets at Beginning of Year, as restated	50,628,321	45,220,145
Net Assets at End of Year	**$ 51,807,702**	**$ 50,628,321**

The notes to consolidated financial statements are an integral part of these statements.

MORNINGSIDE MINISTRIES AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS

DECEMBER 31, 2014 AND 2013

	2014	2013
Cash Flows from Operating Activities		
Increase in net assets	$ 1,179,381	$ 5,408,176
Adjustments to reconcile change in net assets		
to net cash provided by operating activities		
Depreciation and amortization	3,967,261	4,633,931
Unrealized (gains) losses	1,508,365	(3,669,210)
Realized gains on sale of securities	(2,307,071)	(1,236,145)
Gain on sale and disposition of assets	(1,335)	(6,849)
Bad debt provision	239,980	(14,000)
Bond original issuance discount	-	895,000
Chandler bistro project expensed	16,014	-
Changes in assets - (increase) decrease		
Resident accounts receivable, net	(1,223,822)	(356,862)
Accounts receivable, other	(9,829)	(99,508)
Supplies	(20,559)	5,836
Prepaid expenses and deposits	(172,772)	(23,121)
Escrow deposits and reserve fund	(224,543)	(4,755,029)
Changes in liabilities - increase (decrease)		
Accounts payable	997,897	313,892
Accrued wages and related costs	(482,954)	(34,315)
Accrued insurance cost	29,820	(66,820)
Accrued expenses	664,820	795,757
Deferred entrance fees and resident deposits	(14,745)	1,203,146
Entrance fee turnover, net	971,042	2,285,282
Total Adjustments	3,937,569	(129,015)
Net Cash Provided by Operating Activities	5,116,950	5,279,161
Cash Flows from Investing Activities		
Purchase of property, plant and equipment	(12,725,364)	(4,550,592)
Proceeds from sale of property, plant and equipment	1,335	7,968
Sale of assets whose use is limited	13,555,028	16,370,685
Purchase of assets whose use is limited	(14,662,643)	(15,480,158)
Interest and dividends on assets whose use is limited	538,847	467,962
Net Cash Used by Investing Activities	(13,292,797)	(3,184,135)
Cash Flows from Financing Activities		
Principal payments on long-term debt	(140,000)	(1,310,000)
Proceeds from long-term debt	12,122,913	-
Payment of financing costs	(890,030)	(2,207,520)
Net Cash Used by Financing Activities	11,092,883	(3,517,520)
Net Increase in Cash and Cash Equivalents	2,917,036	(1,422,494)
Cash and Cash Equivalents at Beginning of Year	9,194,705	10,617,199
Cash and Cash Equivalents at End of Year	**$ 12,111,741**	**$ 9,194,705**

The notes to consolidated financial statements are an integral part of these statements.

MORNINGSIDE MINISTRIES AND SUBSIDIARY

STATEMENTS OF CONSOLIDATED CASH FLOWS (CONTINUED)

DECEMBER 31, 2014 AND 2013

	2014	2013
Supplemental Disclosures of Cash Flow Information		
Cash paid for interest	$ 3,713,721	$ 1,255,274
Capitalized interest	95,440	-
Total Interest	**$ 3,809,161**	**$ 1,255,274**
Supplemental Schedule of Non-cash Investing and Financing Activities		
Gift Annuities and Pledge Receivables	$ -	$ 167,625
Bonds Payable Refinanced	$ -	$ 48,440,000
Bond Original Issuance Discount	$ -	$ 895,000
Prior Period Adjustment	$ -	$ 512,688

The notes to consolidated financial statements are an integral part of these statements.

NOTE 1 ORGANIZATION AND NATURE OF ACTIVITIES

Morningside Ministries and Subsidiary (the "Corporation"), is a not-for-profit organization that has provided long-term health care services for over 50 years in San Antonio, Texas and the surrounding area. The Corporation is exempt from federal income taxes under Section 501(c) (3) of the Internal Revenue Code. The Corporation's facilities provide retirement living, assisted-living, intermediate nursing care, skilled nursing care and rehabilitation.

Established in 1961 by the Southwest 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 Corporation was founded with the specific mission of caring for older adults. The Corporation currently has three distinct retirement communities in San Antonio and Boerne, Texas, including Morningside Ministries at the Meadows, Morningside Ministries at The Chandler Estate, and Morningside Ministries at Menger Springs as follows:

Morningside Ministries at The Meadows offers:
- The Meadows Cottages
- The Meadows Atrium Apartments
- Kaulbach Assisted Living
- Morningside Manor Health Care

Morningside Ministries at The Chandler Estate offers:
- Chandler Retirement Apartments
- Chandler Center
- Chandler Assisted Living
- Chandler Health Care

Morningside Ministries at Menger Springs offers:
- Menger House Retirement Apartments
- Cibolo House Assisted Living and Memory Care
- Kendall House Wellness and Rehabilitation
- The Cottages Under the Oaks

Training Institutes include:
- Elizabeth McGowen Training Institute at Morningside Ministries ("mmLearn.org")

Morningside Ministries Pharmacy

The accompanying consolidated financial statements have been prepared in accordance with generally accepted accounting principles. The consolidated financial statements include the net assets and activities of Morningside Ministries and the Morningside Ministries Foundation, Inc. (the "Foundation"). The Foundation was formed in 1999 to operate for the benefit of the Corporation and to support its programs and services. The Foundation began operations on March 31, 2001, when land, land improvements, buildings, temporarily restricted investments and endowment investments of the Corporation were transferred or conveyed to the Foundation. The Board of Directors of the Foundation shall consist of a limited number of representatives from the Corporation, one of which will be the President of the Corporation, and the remaining directors will be selected from a broad cross-section of the community. Any inter-organization balances and transactions have been eliminated in consolidation.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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.

Basis of Presentation

In accordance with FASB ASC Topic 958, *Not-for-Profit Entities*, the Corporation reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. Unrestricted net assets include unrestricted resources which represent the portion of funds that are available for the operating objectives of the Corporation. Temporarily restricted net assets represent resources restricted by donors for specific purposes for which restrictions have not yet been met. Permanently restricted net assets represent donated resources with stipulations that they be used for a specific purpose, be preserved or be invested to provide a permanent source of income to fund annual charitable assistance.

Cash and Cash Equivalents

For purposes of the 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. Cash and cash equivalents exclude escrow deposits and short-term investments held in assets whose use is limited by Board designation, endowments or other arrangements under trust agreements. Included in the statement of cash flows are the purchases of property, plant and equipment in the amount of $12,122,913 acquired with proceeds from long-term debt.

Resident Accounts Receivable

Resident accounts receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through adjustments to the allowance for uncollectible accounts based upon an assessment of the current status of individual receivables. The allowance for uncollectible accounts was $275,000 and $140,000 at December 31, 2014 and 2013, respectively.

Temporary Investments

Temporary investments consist of certificates of deposit, treasury bills, and federal agency debt obligations with original maturities greater than three months, but not exceeding one year.

Contributed investments are recorded at cost at the date of donation, which approximates fair value. Marketable securities are carried at the fair value of quoted market prices.

Property, Plant and Equipment

Property, plant, and equipment are recorded at cost if purchased, or if donated, at fair value at the date of donation. Depreciation is calculated by the straight-line method over the estimated useful lives of the depreciable assets.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Asset Retirement Obligations

FASB ASC Topic 275, *Risks and Uncertainties*, requires under certain conditions that an entity recognize a liability for the fair value of a conditional asset retirement obligation if the liability can be reasonably estimated. 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.

Financing Costs

Financing costs are amortized over the term of the related debt obligation.

Impairment of Long-Lived Assets

In accordance with FASB ASC Topic 360, *Property, Plant and Equipment*, long-lived assets, such as property and equipment, and purchased intangible assets subject to amortization, are reviewed 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. No impairment charges have been recorded in the accompanying financial statements related to long-lived assets.

Net Resident Service Revenue

Net resident service revenue are reported at the estimated net realizable amounts from residents, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

Net resident service revenues also include the amortization of deferred non-refundable entrance fees totaling $206,156 and $128,328 at December 31, 2014 and 2013, respectively.

Deferred Entrance Fees

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 are amortized to income using the straight-line method over the estimated remaining life expectancy of the resident. 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. The Overlook at Menger Springs entrance fees totaling $1,431,078 and $1,206,791 at December 31, 2014 and 2013, respectively, are held in escrow and are recorded in trustee held cash and cash equivalents as their use is restricted.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Non-Operating Revenue

Unrestricted gifts, bequests, and investments earnings are included as non-operating revenue.

Accrued Insurance Costs

The Corporation has purchased insurance to cover all workers' compensation claims above the policy deductible amount.

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 and $50,000 deductible for each claim.

Income Taxes

The Corporation is exempt from income taxes under Section 501 of the Internal Revenue Code and applicable state law. Therefore, there are no provisions for income taxes reflected in these financial statements. However, the Corporation is subject to federal income tax on any unrelated business taxable income.

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 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. There were no unrecognized tax benefits identified or recorded as liabilities for the years ended December 31, 2014 and 2013.

The Corporation's information returns, for the years ending 2014, 2013, 2012 and 2011 are subject to examination by the IRS, generally for 3 years after they were filed.

Supplies

Inventories of supplies are stated at the lower of cost or market.

Operating Income

The Corporation's operating income includes all unrestricted revenue and expenses except for contributions and investment income.

Donated Assets and Services

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

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investment Income, Gains, and Losses

Investments are stated at current market value. Investment income, gains, and losses, including net realized and unrealized appreciation (depreciation) in market value of investments restricted by donors, are reported as increases in unrestricted net assets if the restrictions are met in the reporting period in which the income and gains are recognized.

Use of Estimates

The preparation of 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 financial statements and the reported amounts of revenues and other support and expenses during the reporting period. Actual results could differ from those estimates.

Functional Allocation of Costs

The cost of providing the program and other activities has been summarized on a functional basis in the schedule of consolidated unrestricted functional expenses. Accordingly, costs are allocated to the programs and administration based on actual use or estimated use, if actual use is not readily determinable.

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.

Reclassifications

Certain reclassifications have been made to the 2013 financial statement presentation to correspond to the current year’s format. Total net assets or changes in total net assets are unchanged due to these reclassifications.

NOTE 3 FAIR VALUE MEASUREMENTS

The Corporation's investments are stated at fair value. Quoted market prices are used to value investments. Shares of mutual funds are valued at the net asset value of shares held by the Company at year-end. Purchases and sales of securities are recorded on a trade-date basis. Dividends are recorded on the ex-dividend date.

NOTE 3 FAIR VALUE MEASUREMENTS (CONTINUED)

FASB Accounting Standards Codification 820-10, "Fair Value Measurements and Disclosures" defines fair value, establishes a framework for measuring fair value and establishes a fair value hierarchy based on the inputs used to measure fair value and enhances disclosure requirements for fair value measurements. The standard maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the observable inputs be used when available. Observable inputs are inputs that market participants would use in pricing the asset or liability based on market data obtained from independent sources. Unobservable inputs reflect Corporation's assumptions that market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. This hierarchy consists of three broad levels:

Level I – Quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company has the ability to access at the measurement date.

Level II – Inputs other than quoted prices included within Level I that are observable for the asset or liability, either directly or indirectly. Level II inputs include: quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are not active; inputs other than quoted prices that are observable for the asset or liability; and inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level III – Unobservable inputs for the asset or liability for which there is little, if any, market activity for the asset or liability at the measurement date. Unobservable inputs reflect Company's own assumptions about what market participants would use to price the asset or liability. These inputs may include internally developed pricing models, discounted cash flow methodologies, as well as instruments for which the fair value determination requires significant management judgment.

The following table summarizes the valuation of the Corporation's investments held as of December 31, 2014:

		Fair Value Measurements Using:		
	Fair Value	In Active Markets for Identical Assets (Level I)	In Active Markets for Similar Assets (Level II)	Significant Unobservable Inputs (Level III)
Investments				
Common Stock				
Consumer	$ 1,608,647	$ 1,608,647	$ -	$ -
Energy	770,698	770,698	-	-
Financials	4,105,538	4,105,538	-	-
Foreign	2,034,382	2,034,382		
Healthcare	1,425,496	1,425,496	-	-
Industrials	147,693	147,693	-	-
Materials	526,185	526,185	-	-
Services	2,886,620	2,886,620	-	-
Technologies	2,281,625	2,281,625	-	-
Telecommunications	150,886	150,886	-	-
Utilities	338,329	338,329	-	-
Total Common Stock	16,276,099	16,276,099	-	-

NOTE 3 FAIR VALUE MEASUREMENTS (CONTINUED)

		Fair Value Measurements Using:		
	Fair Value	In Active Markets for Identical Assets (Level I)	In Active Markets for Similar Assets (Level II)	Significant Unobservable Inputs (Level III)
Mutual Funds				
Bond funds	$ 1,617,398	$ 1,617,398	$ -	$ -
Equity funds	3,064,922	3,064,922	-	-
Other funds	80,108	80,108	-	-
Total Mutual Funds	4,762,428	4,762,428	-	-
Bonds				
Emerging markets	211,155	211,155	-	-
Government bonds	2,878,334	2,878,334	-	-
Taxable municipal bonds	1,084,094	1,084,094	-	-
U.S. corporate bonds	3,359,166	3,359,166	-	-
Total Bonds	7,532,749	7,352,749	-	-
Cash Equivalents				
Money market funds	2,760,070	2,760,070	-	-
Total Cash Equivalents	2,760,070	2,760,070	-	-
Beneficial Interest in Perpetual Trusts	2,212,176	-	-	2,212,176
Total Investments	**$ 33,543,522**	**$ 31,331,346**	**$ -**	**$ 2,212,176**

NOTE 3 FAIR VALUE MEASUREMENTS (CONTINUED)

The following table summarizes the valuation of the Corporation's investments held as of December 31, 2013:

		Fair Value Measurements Using:		
	Fair Value	In Active Markets for Identical Assets (Level I)	In Active Markets for Similar Assets (Level II)	Significant Unobservable Inputs (Level III)
Investments				
Common Stock				
Consumer	$ 2,976,282	$ 2,976,282	$ -	$ -
Energy	1,721,848	1,721,848	-	-
Financials	4,315,342	4,315,342	-	-
Foreign	3,334,224	3,334,224	-	-
Healthcare	1,043,301	1,043,301	-	-
Industrials	1,267,248	1,267,249	-	-
Materials	343,542	343,542	-	-
Technologies	1,712,940	1,712,940	-	-
Telecommunications	158,224	158,224	-	-
Utilities	218,836	218,836	-	-
Total Common Stock	17,091,787	17,091,787	-	-
Mutual Funds				
Bond funds	1,827,555	1,827,555	-	-
Equity funds	3,247,052	3,247,052	-	-
Other funds	38,143	38,143	-	-
Total Mutual Funds	5,112,750	5,112,750	-	-
Bonds				
Emerging markets	454,345	454,345	-	-
Government bonds	2,300,422	2,300,422	-	-
Taxable municipal bonds	1,015,634	1,015,634	-	-
U.S. corporate bonds	3,022,223	3,022,223	-	-
Total Bonds	6,792,624	6,792,624	-	-
Cash Equivalents				
Certificates of deposit	200,068	200,068	-	-
Money market funds	3,329,478	3,329,478	-	-
Total Cash Equivalents	3,529,546	3,529,546	-	-
Beneficial Interest in Perpetual Trusts	2,109,275	-	-	2,109,275
Total Investments	**$ 34,635,982**	**$ 32,526,707**	**$ -**	**$ 2,109,275**

NOTE 3 FAIR VALUE MEASUREMENTS (CONTINUED)

Fair value for the contributions receivable from beneficial interests in perpetual trusts are measured using the Organization's interest in the fair value of the assets held in the trusts as reported by the trustees as of December 31, 2014 and 2013. 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 4 BENEFICIAL INTEREST IN TRUSTS

Split Interest

The Corporation is a two-fifths income beneficiary of the Maida Davis Turtle Charitable Trust, 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, forty percent of the remaining principal is to be distributed to the Foundation. A noncurrent asset for the beneficial interest in the trust has been recognized at fair value, based on quoted market prices, which totals $504,074 at December 31, 2014 (see Note 17 for prior period adjustment).

The Corporation is a two percent income beneficiary of the Leon O. and Mary Jane K. Lewis Charitable fund. The Foundation's beneficial interest in the fund at December 31, 2014 is $104,478, which is recorded in endowment assets.

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 $2,099,992 and $2,109,275 at December 31, 2014 and 2013, respectively, is recorded in endowment assets. For the years ended December 31, 2014 and 2013, the Corporation received $105,793 and $39,333, respectively, in earnings distributions from the Trust.

Sole Beneficiary

The Corporation is 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 to the Corporation if such distribution is determined to be reasonable and necessary by the Trustee. The Corporation's beneficial interest in the Trust of $4,346,471 and $4,217,847 at December 31, 2014 and 2013, respectively, is recorded in temporarily restricted assets. For the years ended December 31, 2014 and 2013, the Corporation received $72,675 and $79,108, respectively, in earnings distributions from the Trust for the benefit of the Chandler campus.

NOTE 5 ASSETS WHOSE USE IS LIMITED

Assets held and designated by the Board of Directors for specific purposes are invested as follows at December 31:

	2014	2013
Cash and Cash Equivalents	$ 1,925,348	$ 857,551
Pooled Investment Funds	14,670,820	13,537,095
	16,596,168	14,394,646
Due From Endowment and Temporarily Restricted	2,571,688	2,865,687
	$ 19,167,856	**$ 17,260,333**

Endowment and temporarily restricted investments consist of the following at December 31:

	2014	2013
Accrued Interest Receivable	$ 29,144	$ 36,679
Annuity Gifts Receivable	53,787	52,836
Beneficial Interest, Trusts	7,062,724	6,343,266
Cash and Cash Equivalents	1,975,073	2,102,444
Land and Property, Plant and Equipment, net	2,974	2,974
Pledge Receivables	314,802	64,418
Pooled Investment Funds	10,638,379	11,795,626
	20,076,883	20,398,243
Due to Board-Designated Funds	(2,571,688)	(2,865,687)
	$ 17,505,195	**$ 17,532,556**

The accumulated investment earnings of endowment and temporarily restricted investments, along with amounts of which the donor restriction has been fulfilled, are available for unrestricted use and are reflected above as due to Board-designated funds.

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

	2014	2013
Interest and Dividend Income	$ 820,545	$ 686,571
Realized Gains (Losses) on Sales of Securities	2,307,071	1,236,145
Unrealized Gains (Losses) on Marketable Securities	(1,508,365)	3,342,248
Investment Service Fees	(281,698)	(218,609)
	$ 1,337,553	**$ 5,046,355**

NOTE 6 PLEDGE RECEIVABLES

Pledge receivables outstanding (included in Endowment and Temporarily Restricted Investments) are as follows at December 31:

	2014	2013
Receivable in Less than One Year	$ 254,802	$ 44,418
Receivable in One to Five Years	60,000	20,000
Total Pledge Receivables	**$ 314,802**	**$ 64,418**

NOTE 7 PROPERTY, PLANT AND EQUIPMENT

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

	2014	2013
Land	$ 3,008,030	$ 3,008,030
Land Improvements	4,184,664	4,041,632
Buildings	90,730,572	89,253,544
Equipment	2,060,716	1,926,178
Furniture and Furnishings	7,025,485	6,614,894
Vehicles	697,168	707,119
	$ 107,706,635	**$ 105,617,158**

Total depreciation expense for the years ending December 31, 2014 and 2013 was $3,816,590 and $3,724,216, respectively.

NOTE 8 LONG-TERM DEBT

Long-term debt consists of the following at December 31:

	2014	2013
New Hope Cultural Revenue Bonds Series 2013	$ 49,195,000	$ 49,335,000
New Hope Cultural Revenue Bonds Series 2014	12,122,913	-
	61,317,913	49,335,000
Less: current maturities	(495,000)	(140,000)
	$ 60,822,913	**$ 49,195,000**

Aggregate maturities required on long-term debt are as follows as December 31:

2015	$ 495,000
2016	505,000
2017	826,177
2018	948,101
2019	968,731
Thereafter	57,574,904
	$ 61,317,913

New Hope Cultural Revenue Bonds Series 2014

On March 1, 2014, the Corporation was issued bonds by the New Hope Cultural Education Facilities Finance Corporation. 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. 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 one month LIBOR plus 1.90% (1.35% at December 31, 2014). The series 2014 bonds are secured by certain bank accounts, property, plant and equipment.

NOTE 8 LONG-TERM DEBT (CONTINUED)

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 Corporation 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. The 2013 bonds are fixed rate bonds with the maturities and pricing as follows:

Maturity (January 1,)		Principal Amount	Interest Rate
2015	$	495,000	2.00%
2016		505,000	3.00%
2017		520,000	3.00%
2018		535,000	3.25%
2023		3,045,000	5.00%
2033		9,375,000	6.25%
2043		17,395,000	6.50%
2048		17,325,000	6.50%
	$	**49,195,000**	

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 Corporation 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 $3,548,237 which is equal to the maximum annual debt service on the bonds. The balances in the Principal Account, Interest Account, and the Debt Service Reserve Fund at December 31, 2014 were $495,014, $1,526,563 and $3,548,494, respectively, and at December 31, 2013 were $140,000, $865,817 and $3,548,237, respectively. Additionally, the Series 2013 bonds are secured by certain bank accounts, property, plant and equipment.

Total interest cost on all indebtedness and charged to operations was $3,053,025 and $1,928,554, for the years ended December 31, 2014 and 2013, respectively.

NOTE 9 TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS

Temporarily Restricted Net Assets

Temporarily restricted net assets include gifts and contributions, which are restricted by the donors for specific purposes. Once the specific purposes are achieved, the temporarily restricted net assets are transferred to unrestricted net assets. Temporarily restricted net assets totaled $5,869,090 and $4,872,039 at December 31, 2014 and 2013, respectively.

NOTE 9 TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS (CONTINUED)

Permanently Restricted Net Assets

Permanently restricted net assets consist of contributions and gifts given for Covenant assistance and to provide for upkeep of the Meadows facility. The amounts are maintained in perpetuity. Interest and dividends on permanently restricted investments are used for Covenant assistance.

Permanently restricted net assets consisted of the following at December 31:

	2014	2013
Covenant Fund	$ 7,126,860	$ 7,541,686
Kaulbach Fund	3,390,000	3,390,000
Meadows Improvements	1,000,000	1,000,000
	$ 11,516,860	**$ 11,931,686**

The Corporation has endowment funds to which donors have permanently restricted their contributions. According to the investment guidelines set forth by the Board of Directors of the Foundation, 3% of the underlying investment balances are available to be transferred to unrestricted funds on an annual basis. Transfers during the years ended December 31, 2014 and 2013 totaled $464,000 and $300,000, respectively. As noted in the prior period adjustments disclosed in Note 17, the Corporation discovered it had been named a two-fifths income beneficiary of the Maida Davis Turtle Charitable Trust, which caused a reduction of permanently restricted net assets in the amount of $558,010.

Interpretation of Relevant Law

In July 2006, the Uniform Law Commission approved the Uniform Prudent Management of Institutional Funds Act of 2006 ("UPMIFA") as a modernized version of the Uniform Management of Institutional Funds Act of 1972, the model act governing the investment and management of donor-restricted endowment funds by not-for-profit organizations. Among its changes, UPMIFA prescribes guidelines for expenditure of a donor-restricted endowment funds, including Subsection 4(a) which states, "unless stated otherwise in the gift instrument, the assets in an endowment fund are donor-restricted assets until appropriated for expenditure by the institution". The effective date of this new law began for fiscal years ending after December 15, 2008. As a result, certain amounts previously recorded in unrestricted net assets were reclassified to comply with the law.

Management has interpreted the State Prudent Management of Institutional Funds Act ("SPMIFA") has required the preservation of fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Corporation reclassifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Corporation in a manner consistent with the standard of prudence prescribed by SPMIFA. In accordance with SPMIFA, the Corporation considers the following in making a determination to appropriate or accumulate donor-restricted endowment funds:

NOTE 9 TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS (CONTINUED)

- The duration and preservation of the fund
- The purposes of the organization and the donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of the Corporation
- The investment policies of the Corporation

The donor-restricted endowment net assets composition by type is comprised of the following at December 31:

	2014	2013
Permanently Restricted Endowment Funds	$ 11,516,860	$ 11,931,686
Temporarily Restricted Endowment Funds	2,049,793	2,012,578
	$ 13,566,653	**$ 13,944,264**

The Corporation had the following changes in endowment net assets during the years ended December 31:

	2014	2013
Investment Return		
Investment Income	$ 327,472	$ 280,237
Net Appreciation (Depreciation)	287,670	1,913,693
Contributions to Perpetual Endowment	143,184	97,449
Amounts Appropriated for Expenditures	(464,000)	(546,800)
Investment Fees	(126,066)	(87,749)
	$ 168,260	**$ 1,656,830**

Description of amounts classified as permanently restricted net assets and temporarily restricted net assets (endowment only) is as follows at December 31:

	2014	2013
The Portion of Perpetual Endowment Funds That is Required to be Retained Permanently, Either by Explicit Donor Stipulation or by SPMIFA	$ 11,516,860	$ 11,931,686
Total Endowment Funds Classified as Permanently Restricted Net Assets	**$ 11,516,860**	**$ 11,931,686**
The Portion of Perpetual Endowment Funds to a Time Restricted Under SPMIFA Without Purpose Restrictions	$ 2,049,793	$ 2,012,578
Total Endowment Funds Classified as Temporarily Restricted Net Assets	**$ 2,049,793**	**$ 2,012,578**

NOTE 9 TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS (CONTINUED)

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted funds may fall below the level that the donor or SPMIFA requires the Corporation to retain as a fund of perpetual duration. In accordance with accounting principles generally accepted in the United States of America, deficiencies of this nature are reported in unrestricted net assets until restored with future restricted investment gains.

Return Objectives and Risk Parameters

The Corporation has adopted investment and spending policies for the endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Corporation must hold in perpetuity or for a donor-specific period(s), as well as Board designated funds. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results of various market indexes while assuming a moderate level of investment risk. The Corporation expects its endowment funds, over time, to provide an average rate of return comparable to the benchmarks outlined in the investment policy. Actual returns in any given year may vary from these benchmarks.

Spending Policy and How the Investment Objective Relate to Spending Policy

The Corporation has a policy of appropriating for distribution each year up to 3% of its year-end endowment fund fair value within the Corporation's control. In establishing this policy, the Corporation considers its long-term expected return on its endowments. Accordingly, over the long term, the Corporation expects the current spending policy to allow its endowment to grow comparable to the benchmarks outlined in the investment policy. This is consistent with the Corporation's objective to maintain the purchasing power of the endowment assets in perpetuity or for a specified term, as well as to provide additional real growth through new gifts and investment return.

NOTE 10 LEASE AND SERVICE AGREEMENTS

On November 1, 2008, the Corporation entered into a lease agreement in which it will be leasing approximately 13,000 square feet of space in one of its facilities to another entity to operate an inpatient hospice unit. This lease had an initial term of three years and may be renewed for up to two additional three-year terms. Effective October 31, 2011, this lease was amended to extend the lease term through November 1, 2014. The lease initially required the tenant to pay rentals in the amount of $30,000 per month. Effective January 1, 2010 rent increased 3% annually. Additionally, the Corporation receives approximately $31 per patient per day to provide housekeeping, laundry, and meal services. The per diem rate shall be increased annually, on a "like percentage" increase to the annual increase in Medical/Medicare Payment Rates provided by the Department of Health and Human Services, or if such rates are not increased, then the rate shall be increased by the Consumer Price Index. The Corporation also received a security deposit of $30,000. This lease was terminated by the tenant effective November 1, 2014.

NOTE 10 LEASE AND SERVICE AGREEMENTS (CONTINUED)

In September 2011, the Corporation entered into two separate Lease and Service Agreements covering approximately 11,160 square feet of space in one of its facilities. The tenants provide services that compliment 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. During the terms of the agreements, the tenants pay no monetary rent to the Corporation, but pay the Corporation a total of $2,000 per month for housekeeping, repairs, maintenance, and utilities. The Corporation also received security deposits from these tenants totaling $2,000.

NOTE 11 NET RESIDENT SERVICE REVENUE

A detail of the components of net resident service revenue is as follows for the years ended December 31:

	2014	2013
Gross Resident Service Revenue	$ 49,342,953	$ 46,348,088
Less: Contractual Adjustments & Allowances	(3,468,319)	(4,044,468)
Net Resident Service Revenue	**$ 45,874,634**	**$ 42,303,620**

The Corporation has agreements with Medicare and Medicaid programs to provide for payments to the Corporation at amounts different from its established rates. A summary of the payment arrangements is as follows:

- Medicaid: Resident services rendered to Medicaid program beneficiaries are reimbursed using a per diem basis. Per diem rates are determined based upon the classification assigned to each beneficiary. The approval of each beneficiary and the assigned classification are subject to review by the program officials. Cost reports are filed annually and subject to audit by the Health and Human Services Commission Office of Inspector General. Medicaid revenues accounted for approximately 14% of total operating revenues during both of the years ended December 31, 2014 and 2013.

- Medicare: Resident services rendered to Medicare program beneficiaries are reimbursed using a per diem basis. Per diem rates are determined based upon the classification assigned to each beneficiary. The approval of each beneficiary and the assigned classification are subject to review by the program officials. Cost reports are filed annually and subject to audit by the Medicare fiscal intermediary. Medicare revenues accounted for approximately 17% and 16% of total operating revenues during the years ended December 31, 2014 and 2013, respectively.

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. The Corporation believes that it is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing. While no such regulatory inquiries have been made, compliance with such laws and regulations can be subject to future government review and interpretation as well as significant regulatory action including fines, penalties, and exclusion from the Medicare and Medicaid programs.

Substantially all other net service revenue is generated from private payors (principally residents or the responsible party for the residents).

NOTE 12 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 2014 and 2013 in the amounts of $474,116 and $454,246, respectively. In connection with the Covenant financial assistance, interest and dividend income from investments of Covenant endowment net assets may be used to offset the cost of such assistance. 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 $3,677,000 and $3,841,000 in 2014 and 2013, respectively. The total cost estimate is based upon actual per patient day custodial care costs. The net cost of charity care was approximately $3,192,000 and $3,276,000 in 2014 and 2013, respectively. This is net of any restricted contributions and accumulated covenant fund income received and released to assist with such costs, which were $484,535 in 2014 and $564,900 in 2013.

NOTE 13 NET INCOME (LOSS) FROM OPERATIONS

The net income (loss) from operations reported in these financial statements differs from the amounts reported in the Corporation’s internal consolidated financial statements. A reconciliation from the Corporation’s internal consolidated financial statements to these financial statements is as follows for the years ended December 31:

	2014	2013
Net Income (Loss) per Internal Financial Statements	$ (1,012,984)	$ (166,355)
Less: Training Institute and Other Program Expenses	(282,281)	(310,880)
Add: Direct Training Institute and Other Program Revenues	41,950	42,104
Net Income (Loss) from Operations	**$ (1,253,315)**	**$ (435,131)**

The net Training Institute revenue and program expenses noted above in the amounts of $240,338 and $268,776 for the years ended December 31, 2014 and 2013, respectively, were incurred only after contributions restricted for the net expenses were received. The above referenced reconciling items had no effect on total net assets or changes in total net assets for the years ended December 31, 2014 and 2013.

NOTE 14 COMMITMENTS AND CONTINGENCIES

Commitments

The Corporation entered into various contracts related to the marketing and expansion of the Menger Springs campus, primarily for The Overlook at Menger Springs independent living apartments and assisted living apartments, which had their groundbreaking on April 1, 2014. The total estimated commitment relating to this expansion is $30,000,000. As of December 31, 2014, draws on bonds related to construction in progress totaled $12,122,913 and the remaining estimated commitment totaled $17,877,087.

NOTE 14 COMMITMENTS AND CONTINGENCIES (CONTINUED)

Retirement Plan

The Corporation has established a 401(k) pension plan, which covers substantially all eligible employees. For the calendar years 2014 and 2013, the Corporation matched 50% of employee voluntary contributions up to 4% of compensation. The Corporation's matching contributions for the years ended December 31, 2014 and 2013 totaled $143,750 and $122,325, respectively.

Letters of Credit

Texas Capital Bank has one letter of credit outstanding in connection with the Corporation's workers' compensation insurance program. This letter of credit, in the amount of $400,000, has been extended and covers claims occurring during the policy years ended August 31, 2004 through 2014 and expires on August 31, 2015. Texas Capital Bank has also issued a letter of credit that is outstanding and related to the Corporation's professional and general liability insurance program. This letter of credit, in the amount of $100,000 has been extended and covers claims through May 31, 2015 and it expires on that date.

NOTE 15 CONCENTRATIONS OF CREDIT RISK

Financial instruments, which potentially subject the Corporation to a concentration of credit risk, consist principally of cash, cash equivalents, temporary investments, accounts receivable, and long-term investments. Resident receivables consist primarily of amounts due from residents (or their responsible party), the Medicare program, or the Medicaid program. No individual resident account receivable is significant to the total receivables.

The amounts due under the Medicare and Medicaid programs as a percentage of total resident accounts receivable at December 31 were as follows:

	2014	2013
Medicare	28%	23%
Medicaid	22%	17%

The Corporation maintains its cash balances at various financial institutions or banks and the balances at each financial institution or bank may exceed Federal Deposit Insurance Corporation insured limited.

NOTE 16 FUNDS HELD FOR OTHERS

The Corporation administers cash accounts on behalf of employees and residents 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 17 PRIOR PERIOD ADJUSTMENTS

During the year ended December 31, 2014, the Foundation discovered it had been named a two-fifths income beneficiary of the Maida Davis Turtle Charitable Trust, a finite-life trust. Prior to the Organization recognizing its beneficial interest, income distributions from the trust were treated as permanently restricted contributions to the Covenant Fund. In 2014, the Organization reclassified all prior income distributions from permanently restricted net assets to unrestricted net assets, since income generated from this trust should have been treated as unrestricted income from origination. Additionally, an asset for the beneficial interest in the trust has been recognized at fair value as of December 31, 2013, based on quoted market prices, which totaled $504,811. This amount includes the temporarily restricted cost basis of the underlying investments of $469,175 and the unrestricted unrealized gain of $35,636.

Additionally, the Foundation also discovered during the year ended December 31, 2014 that it had a 25% interest in a perpetual trust prior to December 31, 2013. The fair market value of this trust at December 31, 2013 was $7,877 and is included in endowment assets.

These prior period adjustments affected the net asset classifications by $693,862, $376,836 and ($558,010) for the unrestricted net assets, temporarily restricted net assets and permanently restricted net assets, respectively. Prior period adjustments reflected in the consolidated financial statements at December 31, 2014 total $512,688.

NOTE 18 SUBSEQUENT EVENTS

Management has evaluated subsequent events through the date of the independent auditors' report, the date which the financial statements were available to be issued, finding no events or transactions that might materially impact the financial statements or that would otherwise need to be disclosed.

MORNINGSIDE MINISTRIES AND SUBSIDIARY

CONSOLIDATED SCHEDULE OF UNRESTRICTED FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2014

	Program Services								
	Nursing	Food	Environmental	Ancillary	Life Enrichment	Training Institute & Other	Total Program Services	Administrative	Total
Salaries	$ 10,702,941	$ 2,466,039	$ 2,099,224	$ 492,647	$ 937,739	$ 164,996	$ 16,863,586	$ 3,954,180	$ 20,817,766
Percentages	51.41%	11.85%	10.08%	2.37%	4.50%	0.79%	81.01%	18.99%	100.00%
Employee Insurance and Payroll Taxes	1,624,734	374,501	318,563	74,900	142,216	24,967	2,559,881	600,465	3,160,346
Retirement Benefits	74,675	17,213	14,642	3,443	6,536	1,148	117,657	27,598	145,255
Total Salaries and Related Expenses	12,402,350	2,857,753	2,432,429	570,990	1,086,491	191,111	19,541,124	4,582,243	24,123,367
Amortization	-	-	-	-	-	-	-	150,671	150,671
Bank Fees	-	-	-	-	-	-	-	4,700	4,700
Bad Debt Expense	-	-	-	-	-	-	-	239,980	239,980
Development	-	-	-	-	-	8,638	8,638	599,715	608,353
Drugs	-	-	-	3,717,329	-	-	3,717,329	-	3,717,329
Dues and Subscriptions	-	-	-	-	-	110	110	49,243	49,353
Food	-	2,035,842	-	-	-	-	2,035,842	-	2,035,842
Insurance	-	-	-	-	-	-	-	519,700	519,700
Licenses	2,920	-	12,746	-	-	4,145	19,811	20,604	40,415
Medical Expenses	-	-	-	519,079	-	-	519,079	-	519,079
Other	-	-	-	8,648	-	452	9,100	283,252	292,352
Plant Operation and Maintenance	84,133	-	494,473	80,855	-	-	659,461	-	659,461
Postage	-	-	-	28,437	-	21	28,458	23,149	51,607
Professional Fees and Contract Services	251,592	-	203,561	2,463,694	-	68,494	2,987,341	421,550	3,408,891
Security	-	-	68,086	-	-	-	68,086	-	68,086
Staff Development	-	-	-	-	-	5,495	5,495	194,121	199,616
Supplies	1,036,845	395,438	587,826	40,274	243,361	2,188	2,305,932	271,666	2,577,598
Strategic Planning	-	-	-	-	-	-	-	52,308	52,308
Telephone	-	-	-	-	-	1,214	1,214	97,407	98,621
Travel	-	-	-	-	-	413	413	48,474	48,887
Utilities	-	-	2,088,678	-	-	-	2,088,678	-	2,088,678
Vehicle and Transportation	-	-	66,700	-	-	-	66,700	-	66,700
	1,375,490	2,431,280	3,522,070	6,858,316	243,361	91,170	14,521,687	2,976,540	17,498,227
Total Year Ended December 31, 2014	$ 13,777,840	$ 5,289,033	$ 5,954,499	$ 7,429,306	$ 1,329,852	$ 282,281	$ 34,062,811	$ 7,558,783	$ 41,621,594

MORNINGSIDE MINISTRIES AND SUBSIDIARY

CONSOLIDATED SCHEDULE OF UNRESTRICTED FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2013

	Program Services								
	Nursing	Food	Environmental	Ancillary	Life Enrichment	Training Institute & Other	Total Program Services	Administrative	Total
Salaries	$ 9,775,318	$ 2,373,461	$ 2,056,971	$ 491,536	$ 967,952	$ 187,743	$ 15,852,981	$ 3,704,296	$ 19,557,277
Percentages	49.98%	12.14%	10.52%	2.51%	4.95%	0.96%	81.06%	18.94%	100.00%
Employee Insurance and Payroll Taxes	1,302,547	316,260	274,088	65,496	128,978	25,016	2,112,385	493,592	2,605,977
Retirement Benefits	61,143	14,845	12,866	3,074	6,054	1,175	99,157	23,169	122,326
Total Salaries and Related Expenses	11,139,008	2,704,566	2,343,925	560,106	1,102,984	213,934	18,064,523	4,221,057	22,285,580
Amortization	-	-	-	-	-	-	-	1,038,043	1,038,043
Bad Debt Expense	-	-	-	-	-	-	-	59,722	59,722
Development	-	-	-	-	-	15,217	15,217	520,275	535,492
Drugs	-	-	-	2,916,635	-	-	2,916,635	-	2,916,635
Dues and Subscriptions	-	-	-	-	-	350	350	44,614	44,964
Food	-	1,861,302	-	-	-	-	1,861,302	-	1,861,302
Insurance	-	-	-	-	-	1,451	1,451	494,672	496,123
Licenses	1,549	-	9,341	-	-	860	11,750	20,517	32,267
Medical Expenses	-	-	-	355,897	-	-	355,897	-	355,897
Other	-	-	-	8,220	-	-	8,220	249,336	257,556
Plant Operation and Maintenance	33,551	-	479,489	56,697	-	-	569,737	-	569,737
Postage	-	-	-	25,181	-	12	25,193	31,087	56,280
Professional Fees and Contract Services	152,638	-	200,827	2,393,513	-	65,129	2,812,107	389,810	3,201,917
Security	-	-	64,757	-	-	-	64,757	-	64,757
Staff Development	-	-	-	-	-	4,066	4,066	176,405	180,471
Supplies	945,808	353,443	602,168	38,684	254,071	4,839	2,199,013	215,898	2,414,911
Strategic Planning	-	-	-	-	-	-	-	34,646	34,646
Telephone	-	-	-	-	-	1,844	1,844	97,922	99,766
Travel	-	-	-	-	-	140	140	63,848	63,988
Utilities	-	-	1,950,760	-	-	-	1,950,760	-	1,950,760
Vehicle and Transportation	-	-	60,548	-	-	3,038	63,586	-	63,586
	1,133,546	2,214,745	3,367,890	5,794,827	254,071	96,946	12,862,025	3,436,795	16,298,820
Total Year Ended December 31, 2013	**$ 12,272,554**	**$ 4,919,311**	**$ 5,711,815**	**$ 6,354,933**	**$ 1,357,055**	**$ 310,880**	**$ 30,926,548**	**$ 7,657,852**	**$ 38,584,400**