MORNINGSIDE MINISTRIES AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION

YEARS ENDED DECEMBER 31, 2017 AND 2016

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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, 2017 and 2016, and the related consolidated statements of operations, changes in net assets, 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, 2017 and 2016, 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 consolidated schedules of unrestricted functional expenses, the consolidating balance sheet, and the statements of operations and changes in net assets on pages 34 – 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 20, 2018

MORNINGSIDE MINISTRIES AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2017 AND 2016

	2017	2016
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	$ 9,651,459	$ 9,401,194
Resident Accounts Receivable, Net	3,275,898	3,107,760
Accounts Receivable, Other	3,000	43,371
Current Portion of Assets Limited as to Use	2,041,187	2,033,988
Supplies	382,258	428,511
Prepaid Expenses	597,933	451,505
Total Current Assets	15,951,735	15,466,329
ASSETS LIMITED AS TO USE		
Cash and Cash Equivalents - Trustee Held	2,048,971	2,034,269
Reserve Fund	3,548,238	3,548,238
Board Designated Funds	23,959,454	20,578,870
Endowment and Temporarily Restricted Investments	19,285,296	17,691,638
Total Assets Limited as to Use	48,841,959	43,853,015
Less: Current Portion of Assets Limited as to Use	(2,041,187)	(2,033,988)
Total Assets Limited as to Use, Net of Current Portion	46,800,772	41,819,027
PROPERTY, PLANT, AND EQUIPMENT	154,612,721	154,611,683
Less: Accumulated Depreciation	(63,718,309)	(59,742,134)
Property, Plant, and Equipment, Net	90,894,412	94,869,549
OTHER ASSETS		
Deposits	70,000	70,000
Home Health License	250,000	-
Other Assets	20,800	304,428
Total Other Assets	340,800	374,428
Total Assets	$ 153,987,719	$ 152,529,333

See accompanying Notes to Consolidated Financial Statements.

MORNINGSIDE MINISTRIES AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS (CONTINUED)
DECEMBER 31, 2017 AND 2016

LIABILITIES AND NET ASSETS	2017	2016
CURRENT LIABILITIES		
Current Maturities of Long-Term Debt	$ 1,282,530	$ 1,110,888
Accounts Payable	1,139,645	1,089,771
Accrued Wages and Related Costs	1,254,054	1,365,275
Accrued Insurance Cost	111,748	111,000
Accrued Interest Payable	1,506,187	1,513,988
Accrued Expenses	108,960	87,197
Total Current Liabilities	5,403,124	5,278,119
LONG-TERM LIABILITIES		
Resident Deposits	99,594	114,872
Refundable Entrance Fee Payable	27,507,103	24,092,874
Deferred Revenue	3,818,459	3,747,153
Long-Term Debt, Net	73,521,323	74,509,808
Total Long-Term Liabilities	104,946,479	102,464,707
Total Liabilities	110,349,603	107,742,826
NET ASSETS		
Unrestricted:		
Controlling Interest	24,363,363	27,094,867
Noncontrolling Deficit	(10,544)	-
Total Unrestricted	24,352,819	27,094,867
Temporarily Restricted	7,307,650	5,810,000
Permanently Restricted	11,977,647	11,881,640
Total Net Assets	43,638,116	44,786,507
Total Liabilities and Net Assets	$ 153,987,719	$ 152,529,333

MORNINGSIDE MINISTRIES AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
YEARS ENDED DECEMBER 31, 2017 AND 2016

	2017	2016
OPERATING REVENUE		
Net Resident Service Revenue	$ 30,056,571	$ 45,095,968
Rental Income	1,012,500	-
Management Fee Revenue	15,039,877	-
Incentive Revenue	75,900	-
Amortization of Advance Entrance Fee Revenue	438,855	425,049
Other Operating Revenue	930,009	1,050,616
Net Assets Released from Restrictions - Operations	777,100	801,575
Total Operating Revenue	48,330,812	47,373,208
OPERATING EXPENSES		
Nursing Services	14,735,126	15,410,349
Food Services	6,113,281	6,267,294
Environmental Services	7,163,694	7,065,428
Ancillary Services	6,856,399	7,076,698
Life Enrichment	1,242,348	1,580,966
Training Institutes and Other	327,215	396,924
General and Administrative	9,411,091	8,392,265
Depreciation	5,261,901	5,146,843
Interest	3,777,775	3,710,160
Total Operating Expenses	54,888,831	55,046,928
LOSS FROM OPERATIONS	(6,558,019)	(7,673,720)
OTHER INCOME (EXPENSE)		
Unrestricted Investment Earnings	3,540,490	1,929,231
Unrestricted Contributions	180,878	191,093
Loss on Sale of Property and Equipment	(34,179)	(2,332)
Gain on Sale of Medicaid Bed Licenses	-	1,515,000
Total Other Income	3,687,189	3,632,992
DEFICIT OF REVENUES OVER EXPENSES	$ (2,870,830)	$ (4,040,728)

See accompanying Notes to Consolidated Financial Statements.

MORNINGSIDE MINISTRIES AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS
YEARS ENDED DECEMBER 31, 2017 AND 2016

	2017	2016
UNRESTRICTED NET ASSETS		
Deficit of Revenues Over Expenses	$ (2,870,830)	$ (4,040,728)
Member Contributions	33,704	-
Net Assets Released from Restrictions - Capital	95,078	377,226
Decrease in Unrestricted Net Assets	(2,742,048)	(3,663,502)
TEMPORARILY RESTRICTED NET ASSETS		
Contributions	370,970	341,210
Gain on Endowment Investments	1,998,858	1,133,221
Net Assets Released from Restrictions - Operations	(777,100)	(801,575)
Net Assets Released from Restrictions - Capital	(95,078)	(377,226)
Increase in Temporarily Restricted Net Assets	1,497,650	295,630
PERMANENTLY RESTRICTED NET ASSETS		
Contributions	96,007	55,108
Increase in Permanently Restricted Net Assets	96,007	55,108
DECREASE IN NET ASSETS	(1,148,391)	(3,312,764)
Net Assets - Beginning of Year	44,786,507	48,099,271
NET ASSETS - END OF YEAR	$ 43,638,116	$ 44,786,507

See accompanying Notes to Consolidated Financial Statements.

MORNINGSIDE MINISTRIES AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2017 AND 2016

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Decrease in Net Assets	$ (1,148,391)	$ (3,312,764)
Adjustments to Reconcile Decrease in Net Assets to Net Cash Provided (Used) by Operating Activities:		
Depreciation	5,261,901	5,146,843
Amortization of Debt Issuance Costs	179,836	179,711
Amortization of Advance Entrance Fees	(438,855)	(425,049)
Unrealized Gains on Assets Limited as to Use	(1,175,338)	(159,054)
Realized Gains on Sale of Securities on Assets Limited as to Use	(3,570,414)	(2,166,168)
Loss on Sale of Property and Equipment	34,179	2,332
Bad Debt Provision	616,419	536,534
Investment Income (Net of Fees)	(793,596)	(737,230)
Receipt of Restricted Contributions	(466,977)	(396,318)
(Increase) Decrease in Assets:		
Resident Accounts Receivable, Net	(784,557)	442,293
Accounts Receivable - Other	40,371	(12,277)
Supplies	46,253	(27,634)
Prepaid Expenses and Deposits	(146,428)	(32,603)
Escrow Deposits and Reserve Fund	-	1,419,355
Other Assets	33,628	-
Increase (Decrease) in Liabilities:		
Accounts Payable	49,874	193,012
Accrued Wages and Related Costs	(111,221)	232,762
Accrued Insurance Cost	748	(74,000)
Accrued Expenses	13,962	(188,317)
Resident Deposits	(8,286)	(17,063)
Entrance Fee Turnover, Net	890,298	901,080
Net Cash Provided (Used) by Operating Activities	(1,476,594)	1,505,445
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Property, Plant, and Equipment	(1,320,943)	(1,358,592)
Proceeds from Sale of Property, Plant, and Equipment	-	256
Sale of Assets Limited as to Use	21,590,893	25,096,876
Purchase of Assets Limited as to Use	(21,819,383)	(24,710,657)
Interest and Dividends on Assets Limited as to Use	793,596	737,230
Purchase of Home Health License	-	(283,628)
Net Cash Used by Investing Activities	(755,837)	(518,515)
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal Payments on Long-Term Debt	(991,179)	(12,505,000)
Proceeds from Long-Term Debt	-	291,922
Receipt of Restricted Contributions	466,977	396,318
Payment of Financing Costs	(5,500)	(5,000)
Receipt of Initial Entrance Fees	3,027,100	13,835,921
Net Cash Provided by Financing Activities	2,497,398	2,014,161
NET INCREASE IN CASH AND CASH EQUIVALENTS	264,967	3,001,091
Cash and Cash Equivalents - Beginning of Year	11,435,463	8,434,372
CASH AND CASH EQUIVALENTS - END OF YEAR	$ 11,700,430	$ 11,435,463

See accompanying Notes to Consolidated Financial Statements.

MORNINGSIDE MINISTRIES AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)
YEARS ENDED DECEMBER 31, 2017 AND 2016

	2017	2016
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO CONSOLIDATED BALANCE SHEET		
Cash and Cash Equivalents	$ 9,651,459	$ 9,401,194
Cash and Cash Equivalents - Trustee Held	2,048,971	2,034,269
Cash and Cash Equivalents - End of Year	$ 11,700,430	$ 11,435,463
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash Paid for Interest	$ 3,777,775	$ 3,545,599
Capitalized Interest	-	72,129
Total Cash Paid for Interest Expense	$ 3,777,775	$ 3,617,728
NONCASH INVESTING AND FINANCING ACTIVITIES		
Purchase of Property, Plant, and Equipment Acquired with Long-Term Debt	$ -	$ 7,032,182

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 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 142 independent living units, 68 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 (expanded by 68 units in 2016), 48 assisted living units (expanded by 32 units in 2016), 42 memory care units (expanded by 16 units in 2016) 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

Training Institutes include:

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

Morningside Ministries Pharmacy

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, which will be effective March 1, 2018 (See Note 15).

NOTE 1 ORGANIZATION AND NATURE OF ACTIVITIES (CONTINUED)

The Morningside Ministries Foundation, Inc. (the Foundation) was formed in 1999 to operate for the benefit of the Organization 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 Organization were transferred or conveyed to the Foundation. The board of directors of the Foundation consisted of a limited number of representatives from the Organization, one of which was the President of the Organization, and the remaining directors were selected from a board cross-section of the community. Effective January 1, 2017, the Foundation merged with Morningside Ministries.

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, 2017. 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.

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, the Foundation, 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.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Presentation

Contributions received are recorded as an increase in unrestricted, temporarily restricted or permanently restricted support, depending on the existence or nature of any donor restrictions. Accordingly, net assets of the Corporation and changes therein are classified and reported as follows:

Unrestricted – Include those net assets whose use is not restricted by donor-imposed stipulations, even though their use may be limited in other respects, such as by contract or board designation.

Temporarily Restricted – Include contributions restricted by the donor for specific purposes or time periods. When a purpose restriction is accomplished or a time restriction ends, temporarily restricted net assets are released to unrestricted net assets.

Permanently Restricted – Include contributions restricted by the donor to be invested in perpetuity. The investment return may be used to support the charity care of the Corporation.

Unconditional promises to give cash and other assets are accrued at estimated fair market value at the date each promise is received. The gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction is satisfied, net assets are released and reported as an increase in unrestricted net assets. Absent donor stipulations, investment earnings on permanently restricted net assets are classified as temporarily restricted until they are spent and released to unrestricted net assets.

Performance Indicator

The consolidated statements of operations include deficit of revenues over expenses, known as the performance indicator. Changes in unrestricted net assets which are excluded from the performance indicator, consistent with industry practice, include unrealized gains and losses on investments and assets limited as to use other than trading securities, net asset transfers between related parties, contributions and distributions where the corporation is transacting in the capacity of an owner, and 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:

	2017	2016
Medicare	17%	15%
Medicaid	26%	23%

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 $400,000 as of December 31, 2017 and 2016.

Supplies

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

Assets Limited as to Use

Assets limited as to use include funds held by bond trustees under indenture agreements, designated deposits for entrance fees, designated assets set aside by the board of directors, and assets held for endowments. The board of directors retains control of these designated assets and may, at its discretion, subsequently use these assets for other purposes. The 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 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.

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, 2017 and 2016, management has determined that no impairment exists.

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 – 40 Years
Equipment and Furniture	5 – 20 Years
Vehicles	5 – 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.

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, 2017 and 2016.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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, 2017 and 2016.

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, 2017 and 2016, debt issuance costs were $3,088,050. At December 31, 2017 and 2016, accumulated amortization of debt issuance costs was $688,581 and $513,746, respectively. Interest expense related to the debt issuance costs for the years ended December 31, 2017 and 2016 was $179,836 and $179,711, 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, including as of December 31, 2017, there is no deductible.

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 $27,507,000 and $24,093,000 for the years ended December 31, 2017 and 2016, respectively.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Third-Party Reimbursement Agreements

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 Organization is required to file annual Medicaid cost reports which are subject to audit by the Texas Health and Human Services Commission. Adjustments to the report may prospectively affect payment rates.

Medicare

The Corporation participates in the Medicare program, which is reimbursed based on a Prospective Payment system (PPS). This program is administered by the Center for Medicare and Medicaid Services (CMS). The PPS is a per diem price based system. Annual cost reports are submitted to the designated intermediary; however, they do not contain a cost settlement.

Nursing facilities licensed for participation in the Medicare and Medicaid programs are subject to annual surveys. 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, which would have a negative impact on the revenues of the nursing facility.

The approximate percentage of rental revenue provided from Medicaid and Medicare reimbursement programs was 13% and 12% for the year ended December 31, 2017, respectively, and 15% and 12% for the year ended December 31, 2016, respectively.

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

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 5).

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Nonoperating Revenue

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

Income Taxes

The Organization and the Foundation 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 the Foundation's income tax returns are subject to review and examination by federal authorities. The Organization and the Foundation are not aware of any activities that would jeopardize their tax-exempt status. The Organization and the Foundation 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.

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 the Foundation 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, 2017 and 2016.

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 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)

Functional Allocation of Costs

The cost of providing the program and other activities has been summarized on the consolidated statements of operations. Accordingly, costs are allocated to the programs, administration and fundraising based on actual use or estimated use, if actual use is not readily determinable.

Expenses related to these services consisted of the following for the years ended December 31:

	2017	2016
Program Activities	$ 43,827,217	$ 44,994,619
General and Administrative	10,794,039	9,769,523
Fundraising	267,575	282,786
Total	$ 54,888,831	$ 55,046,928

New Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) issued amended guidance to clarify the principles for recognizing revenue from contracts with customers. The guidance requires the Organization to recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the Organization expects to be entitled in exchange for those goods or services. The guidance also requires expanded disclosures relating to the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. Additionally, qualitative and quantitative disclosures are required regarding customer contracts, significant judgments and changes in judgments, and assets recognized from the costs to obtain or fulfill a contract. The standard will be effective for the Organization for annual periods beginning after December 31, 2018, with early adoption permitted. Management is evaluating the impact of the amended revenue recognition guidance on the Organization’s consolidated financial statements.

FASB issued ASU 2016-02 in February of 2016 pertaining to recording of leases. While the standard will not be effective for the Organization until the year ending December 31, 2019, the standard can be adopted as early as the year ending December 31, 2016. Early adoption has not been exercised. Implementation of the new standard can result in changes to the reporting and disclosure of leases. Management is in the process of evaluating the impact on the Organization.

FASB issued ASU 2016-14 in August of 2016 pertaining to net asset classification. While the standard will not be effective for the Organization until the year ending December 31, 2018, the standard can be adopted as early as the year ending December 31, 2016. Early adoption has not been exercised. Implementation of the new standard will result in a reduction of three classes of net assets (unrestricted, temporarily restricted, and permanently restricted) to two (net assets with donor restrictions and net assets without donor restrictions).

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Subsequent Events

In preparing these consolidated financial statements, the Corporation has evaluated events and transactions for potential recognition and disclosure through April 20, 2018, the date the consolidated financial statements were available to be issued (See Note 15).

NOTE 3 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.

NOTE 3 ASSETS LIMITED AS TO USE (CONTINUED)

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

	2017	2016
TRUSTEE HELD FUNDS		
Principal Account	$ 535,598	$ 520,017
Interest Account	1,513,373	1,514,252
Total Trustee Held Funds	2,048,971	2,034,269
RESERVE FUND	3,548,238	3,548,238
BOARD DESIGNATED FUNDS		
Cash and Cash Equivalents	1,601,933	1,804,569
Pooled Investment Funds	19,501,577	16,592,893
Due from Endowment and Temporarily Restricted	2,855,944	2,181,408
Total Board Designated Funds	23,959,454	20,578,870
ENDOWMENT AND TEMPORARILY RESTRICTED INVESTMENTS		
Accrued Interest Receivable	20,786	26,386
Annuity Gifts Receivable	8,829	8,829
Beneficial Interest - Trusts	8,050,670	7,208,511
Cash and Cash Equivalents	2,084,986	2,014,842
Land and Property, Plant, and Equipment, Net	2,974	2,974
Pledge Receivables	130,763	170,170
Pooled Investment Funds	11,842,232	10,441,334
Due to Board-Designated Funds	(2,855,944)	(2,181,408)
Total Endowment and Temporarily Restricted Investments	19,285,296	17,691,638
Total Assets Limited as to Use	48,841,959	43,853,015
Less: Current Portion of Assets Limited as to Use	(2,041,187)	(2,033,988)
Assets Limited as to Use, Net of Current Portion	$ 46,800,772	$ 41,819,027

NOTE 3 ASSETS LIMITED AS TO USE (CONTINUED)

Assets limited as to use are invested in the following at December 31:

	December 31, 2017	
	Fair Value	Cost
Cash and Cash Equivalents	$ 6,523,048	$ 6,523,048
Money Markets	2,924,432	2,924,432
Bonds	9,305,955	9,406,347
Common Stock	25,068,928	21,529,337
Mutual Funds	2,512,259	2,434,046
Beneficial Interest in Perpetual Trust	2,507,337	2,507,337
Total Assets Limited as to Use	$ 48,841,959	$ 45,324,547

	December 31, 2016	
	Fair Value	Cost
Cash and Cash Equivalents	$ 6,531,837	$ 6,531,837
Money Markets	3,078,440	3,078,440
Bonds	7,578,888	7,653,108
Common Stock	17,884,127	15,776,995
Mutual Funds	6,496,534	6,519,435
Beneficial Interest in Perpetual Trust	2,283,189	2,283,189
Total Assets Limited as to Use	$ 43,853,015	$ 41,843,004

The accumulated investment earnings of permanently 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. Absent donor restrictions, accumulated investment earnings on permanently restricted net assets are classified as temporarily restricted until they are spent and released to unrestricted net assets.

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:

	2017	2016
Interest and Dividend Income	$ 1,122,937	$ 1,032,667
Realized Gains on Sales of Securities	3,570,414	2,166,168
Unrealized Gains on Marketable Securities	1,175,338	159,054
Investment Service Fees	(329,341)	(295,437)
Total	$ 5,539,348	$ 3,062,452
Unrestricted Investment Earnings	$ 3,540,490	$ 1,929,231
Gain on Endowment Investments	1,998,858	1,133,221
Total	$ 5,539,348	$ 3,062,452

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, 40% 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 $518,016 and $480,518 at December 31, 2017 and 2016, respectively. For the years ended December 31, 2017 and 2016, the Corporation received $17,362 and $20,832, 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 Foundation's beneficial interest in the fund of $82,088 and $88,081 at December 31, 2017 and 2016, respectively, is recorded in endowment assets. For the years ended December 31, 2017 and 2016, the Corporation received $-0- and $6,403, respectively, in earnings distributions from the Trust.

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 $2,185,488 and $1,979,051 at December 31, 2017 and 2016, respectively, is recorded in endowment assets. For the years ended December 31, 2017 and 2016, the Corporation received $90,016 and $152,645, 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, 2017 and 2016 is $232,830 and $208,856, respectively, which is recorded in endowment assets. For the years ended December 31, 2017 and 2016, the Corporation received $7,083 and $7,078, 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 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 not longer operate a residential facility, the Trustee may distribute the income and a reasonable amount of the Trust corpus to another charitable organization (See Note 15). The Corporation's beneficial interest in the Trust of $5,025,317 and $4,444,804 at December 31, 2017 and 2016, respectively, is recorded in endowment and temporarily restricted investments section of assets limited as to use on the consolidated financial statements.

NOTE 4 BENEFICIAL INTEREST IN TRUSTS(CONTINUED)

Sole Beneficiary (Continued)

The Corporation has recognized $2,350,612 as the original corpus in temporarily restricted net assets (See Note 10) and accumulated earning of $2,674,705 and $2,094,192 as a component of unrestricted net assets as of December 31, 2017 and 2016, respectively. For the years ended December 31, 2017 and 2016, the Corporation received $67,502 and $52,718, respectively, in earnings distributions from the Trust for the benefit of the Chandler campus.

NOTE 5 SUPPLEMENTAL PAYMENT PROGRAM

On April 1, 2017, the Organization participated in the QIPP program (See Note 2) and sold its nursing home license 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 $112,500 per month. For the year ending December 31, 2017, total lease revenue was $1,012,500. The lease is set to expire on August 31, 2018; 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 year ending December 31, 2017, total management fee revenue was $15,039,877. 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 year ending December 31, 2017, the total incentive fee revenue was $75,900. The management agreement is set to expire on August 31, 2018; 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.

NOTE 6 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 6 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:

	2017			
	Total	Level 1	Level 2	Level 3
Assets:				
Assets Limited as to Use:				
Money Markets	$ 2,924,432	$ 2,924,432	$ -	$ -
Bonds	9,305,954	9,305,954	-	-
Common Stock	25,068,928	25,068,928	-	-
Mutual Funds	2,512,259	2,512,259	-	-
Beneficial Interest in Perpetual Trusts	2,507,337	-	-	2,507,337
Total Assets	$ 42,318,910	$ 39,811,573	$ -	$ 2,507,337

	2016			
	Total	Level 1	Level 2	Level 3
Assets:				
Assets Limited as to Use:				
Money Markets	$ 3,078,440	$ 3,078,440	$ -	$ -
Bonds	7,578,888	7,578,888	-	-
Common Stock	17,884,127	17,884,127	-	-
Mutual Funds	6,496,534	6,496,534	-	-
Beneficial Interest in Perpetual Trusts	2,283,189	-	-	2,283,189
Total Assets	$ 37,321,178	$ 35,037,989	$ -	$ 2,283,189

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:

	2017	2016
Balance, Beginning of Year	$ 2,283,189	$ 2,322,355
Contributions	16	-
Income and Expenses, Net	327,510	127,461
Distributions	(103,378)	(166,627)
Balance, End of Year	$ 2,507,337	$ 2,283,189

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 6 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, 2017 and 2016. 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 7 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:

	2017	2016
Receivable in Less than One Year	$ 130,763	$ 170,170
Receivable in One to Five Years	-	-
Total Pledge Receivable	$ 130,763	$ 170,170

Pledges receivable are included in Endowment and Temporarily Restricted Investments in the consolidated balance sheets. No allowance for uncollectible pledges or discount has been recorded as all pledges receivable are due in 2018.

NOTE 8 PROPERTY, PLANT, AND EQUIPMENT

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

	2017	2016
Land	$ 4,902,534	$ 4,902,534
Land Improvements	5,242,852	5,211,363
Buildings	133,338,063	132,708,849
Equipment and Furniture	10,114,363	10,922,401
Vehicles	812,084	802,925
Construction in Progress	202,825	63,611
Total	$ 154,612,721	$ 154,611,683

Total depreciation expense for the years ended December 31, 2017 and 2016 was $5,261,901 and $5,146,843, respectively.

Construction in Progress

In 2014, the Organization began a $42,000,000 expansion project at the Menger Springs campus related to the Overlook Independent Living and Cibolo Assisted Living facilities. This project was financed by the proceeds of the 2014 Construction Loan (See Note 8). The Overlook Independent Living expansion project was completed and the project was placed into service in February 2016. The Cibolo Assisted Living expansion project was completed and the project was placed into service in January 2016.

NOTE 8 PROPERTY, PLANT, AND EQUIPMENT (CONTINUED)

Construction in Progress (Continued)

Construction in progress as of December 31, 2017 of $202,825 is related to various renovations and ongoing special projects. These projects are being financed with internal funds.

Interest Capitalization

Interest costs incurred, net of interest income earned, on borrowed funds during the period of construction of capital assets are capitalized as a component of the cost of acquiring those assets, and depreciated over the estimated useful lives by the straight-line method of depreciation. Interest, net of interest income, capitalized as part of the construction in progress totaled $-0- and $72,129 for the years ended December 31, 2017 and 2016, respectively.

NOTE 9 LONG-TERM DEBT

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

	2017	2016
New Hope Cultural Revenue Bonds Series 2013	$ 47,675,000	$ 48,195,000
New Hope Cultural Revenue Construction Loan 2014	29,528,822	30,000,000
Subtotal	77,203,822	78,195,000
Unamortized Debt Issuance Costs	(2,399,969)	(2,574,304)
Total Long-Term Debt	74,803,853	75,620,696
Less: Current Maturities of Long-Term Debt	(1,282,530)	(1,110,888)
Long-Term Debt, Net	$ 73,521,323	$ 74,509,808

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

Year Ending December 31,	Amount
2018	$ 1,282,530
2019	1,314,794
2020	1,360,679
2021	1,405,485
2022	27,075,335
Thereafter	44,764,999
Total	$ 77,203,822

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.

NOTE 9 LONG-TERM DEBT (CONTINUED)

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

Maturity (January 1,)	Principal Amount	Interest Rate
2018	$ 535,000	3.00%
2019	550,000	3.25%
2024	3,200,000	5.00%
2034	9,960,000	6.25%
2044	18,525,000	6.50%
2048	14,905,000	6.50%
Total	$ 47,675,000	

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 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.

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, 2017, management was not aware of instances where the Organization was not in compliance with these covenants.

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% (2.25% and 1.63% at December 31, 2017 and 2016, respectively). The construction loan is secured by certain bank accounts, property, plant, and equipment. On August 31, 2016, the Organization made a $12,000,000 principal payment with initial entrance fees from The Overlook.

NOTE 10 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 consist of the following at December 31:

	2017	2016
Endowment Earnings	$ 3,781,096	$ 2,203,438
Direct Charity Fund	3,698	1,050
Manor Unit #5 Renovation Fund	29,632	98,865
Special Projects Fund	160,140	34,259
Chandler Trust Fund	2,350,612	2,350,612
Maida Davis Turtle Trust	469,175	469,175
mmLearn.org Fund	505,297	643,601
Meadows Employee Fund	8,000	9,000
Total Temporarily Restricted Net Assets	$ 7,307,650	$ 5,810,000

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:

	2017	2016
Covenant Fund	$ 7,587,647	$ 7,491,640
Kaulbach Fund	3,390,000	3,390,000
Meadows improvements	1,000,000	1,000,000
Total	$ 11,977,647	$ 11,881,640

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, 2017 and 2016 totaled $421,200 and $397,600, respectively.

NOTE 10 TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS (CONTINUED)

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 nonprofit 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:

- 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:

	2017	2016
Permanently Restricted Endowment Funds	$ 11,977,647	$ 11,881,640
Temporarily Restricted Endowment Funds	3,781,096	2,203,438
Total	$ 15,758,743	$ 14,085,078

NOTE 10 TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS (CONTINUED)

Interpretation of Relevant Law (Continued)

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

	2017	2016
Investment Return:		
Investment Income	$ 279,641	$ 344,682
Net Appreciation (Depreciation)	1,839,930	898,558
Amounts Appropriated for Expenditures	(421,200)	(397,600)
Investment Fees	(120,713)	(110,019)
Total	$ 1,577,658	$ 735,621

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

	2017	2016
Contributions to Perpetual Endowment	$ 96,007	$ 55,108

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

	2017	2016
The Portion of Perpetual Endowment Funds that is Required to be Retained Permanently, Either by Explicit Donor Stipulation or by SPMIFA	$ 11,977,647	$ 11,881,640
The Portion of Perpetual Endowment Funds to a Time Restricted Under SPMIFA without Purpose Restrictions	$ 3,781,096	$ 2,203,438

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.

NOTE 10 TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS (CONTINUED)

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 11 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 $2,000 per month for housekeeping, repairs, maintenance, and utilities. The Corporation also received security deposits from these tenants totaling $2,000.

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 2017 and 2016 in the amounts of $655,002 and $623,092, 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 $5,440,000 and $5,250,000 in 2017 and 2016, respectively. The total cost estimate is based upon actual per patient day custodial care costs. The net cost of charity care was approximately $4,988,977 and $4,827,000 in 2017 and 2017, respectively. This is net of any restricted contributions and accumulated covenant fund income received and released to assist with such costs, which were approximately $451,000 in 2017 and $423,000 in 2016.

NOTE 13 COMMITMENTS AND CONTINGENCIES

Retirement Plan

The Corporation has established a 401(k) pension plan, which covers substantially all eligible employees. For the calendar years 2017 and 2016, the Corporation matched 50% of employee voluntary contributions up to 4% of compensation. The Corporation's matching contributions for the years ended December 31, 2017 and 2016 totaled $129,831 and $251,815, 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 through August 31, 2018 and it expires on that date. 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 was paid off during 2017.

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.

NOTE 13 COMMITMENTS AND CONTINGENCIES (CONTINUED)

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 14 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 15 SUBSEQUENT EVENTS

Subsequent to year end, and in connection with the closing of The Chandler Estate (See Note 1), the Corporation will no longer be the sole beneficiary to the Chandler Memorial Home Trust (See Note 4). The Corporation is working with the trustee to unwind the Chandler Memorial Home Trust arrangement and the determine the amounts which would revert back to the Trustee. In addition, the Corporation is also working with the Hospital Partner (See Note 5) to modify the agreements related to The Chandler Estate no longer participating in the QIPP program during 2018.

MORNINGSIDE MINISTRIES AND SUBSIDIARIES
CONSOLIDATED SCHEDULE OF UNRESTRICTED FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2017
(SEE INDEPENDENT AUDITORS' REPORT)

	Program Services								
	Nursing	Food	Environmental	Ancillary	Life Enrichment	Training Institute and Other	Total Program Services	Administrative and Fundraising	Total
Salaries	$ 11,109,704	$ 3,085,108	$ 2,659,706	$ 1,411,332	$ 863,112	$ 143,036	$ 19,271,998	$ 4,299,219	$ 23,571,217
Percentages	47.13%	13.09%	11.28%	5.99%	3.66%	0.61%	81.76%	18.24%	100.00%
Employee Insurance and Payroll Taxes	1,485,500	412,516	355,634	188,712	115,408	19,126	2,576,895	574,857	3,151,752
Retirement Benefits	61,193	16,993	14,650	7,774	4,754	788	106,151	23,680	129,831
Total Salaries, Insurance, Payroll Taxes, and Benefits	12,656,396	3,514,616	3,029,990	1,607,818	983,274	162,949	21,955,044	4,897,756	26,852,800
Bank Fees	-	-	-	-	-	-	-	1,200	1,200
Bad Debt Expense	-	-	-	-	-	-	-	616,419	616,419
Development	-	-	-	-	-	-	-	586,875	586,875
Drugs	-	-	-	3,000,952	-	-	3,000,952	-	3,000,952
Dues and Subscriptions	-	-	-	-	-	65	65	63,625	63,690
Food	-	2,140,690	-	-	-	-	2,140,690	-	2,140,690
Insurance	-	-	-	-	-	18,712	18,712	434,372	453,084
Licenses	1,877	-	21,956	-	-	-	23,833	13,284	37,117
Medical Expenses	-	-	-	441,029	-	-	441,029	-	441,029
mmCare. LLC	146,661	-	16,500	314,998	125	-	478,284	546,322	1,024,606
Other	-	-	-	11,409	-	77	11,486	623,413	634,899
Plant Operation and Maintenance	26,574	-	624,652	72,982	-	-	724,208	-	724,208
Postage	-	-	-	38,897	-	-	38,897	23,758	62,655
Professional Fees and Contract Services	1,116,091	40,563	243,809	1,309,289	12,555	107,999	2,830,306	1,173,138	4,003,444
Security	-	-	32,527	-	-	-	32,527	-	32,527
Staff Development	-	-	-	-	-	26,665	26,665	165,474	192,139
Supplies	787,527	417,412	633,743	59,025	246,394	7,139	2,151,240	130,502	2,281,742
Strategic Planning	-	-	-	-	-	-	-	2,995	2,995
Telephone	-	-	-	-	-	1,243	1,243	79,684	80,927
Travel	-	-	-	-	-	2,366	2,366	52,274	54,640
Utilities	-	-	2,508,567	-	-	-	2,508,567	-	2,508,567
Vehicle and Transportation	-	-	51,950	-	-	-	51,950	-	51,950
Total Other Expenses	2,078,730	2,598,665	4,133,704	5,248,581	259,074	164,266	14,483,020	4,513,335	18,996,355
Sub-Total	14,735,126	6,113,281	7,163,694	6,856,399	1,242,348	327,215	36,438,064	9,411,091	45,849,155
Depreciation	2,479,329	688,497	593,561	314,964	192,619	31,921	4,300,891	961,010	5,261,901
Interest	1,780,287	494,377	426,208	226,160	138,310	22,921	3,088,263	689,512	3,777,775
Total Year Ended December 31, 2017	$ 18,994,742	$ 7,296,155	$ 8,183,463	$ 7,397,523	$ 1,573,278	$ 382,057	$ 43,827,217	$ 11,061,614	$ 54,888,831

MORNINGSIDE MINISTRIES AND SUBSIDIARIES
CONSOLIDATED SCHEDULE OF UNRESTRICTED FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2016
(SEE INDEPENDENT AUDITORS' REPORT)

	Program Services								
	Nursing	Food	Environmental	Ancillary	Life Enrichment	Training Institute and Other	Total Program Services	Administrative and Fundraising	Total
Salaries	$ 12,001,248	$ 3,121,100	$ 2,661,743	$ 592,177	$ 1,121,096	$ 166,331	$ 19,663,695	$ 4,535,609	$ 24,199,304
Percentages	49.59%	12.90%	11.00%	2.45%	4.63%	0.69%	81.26%	18.74%	100.00%
Employee Insurance and Payroll Taxes	1,700,964	442,361	377,255	83,931	158,895	23,574	2,786,980	642,842	3,429,822
Retirement Benefits	124,884	32,478	27,698	6,162	11,666	1,731	204,618	47,197	251,815
Total Salaries, Insurance, Payroll Taxes, and Benefits	13,827,095	3,595,938	3,066,696	682,270	1,291,657	191,636	22,655,293	5,225,648	27,880,941
Bank Fees	-	-	-	-	-	-	-	4,700	4,700
Bad Debt Expense	-	-	-	-	-	-	-	536,534	536,534
Development	-	-	-	-	-	-	-	626,144	626,144
Drugs	-	-	-	3,607,603	-	-	3,607,603	-	3,607,603
Dues and Subscriptions	-	-	-	-	-	9	9	41,700	41,709
Food	-	2,165,557	-	-	-	-	2,165,557	-	2,165,557
Insurance	-	-	-	-	-	23,667	23,667	342,571	366,238
Licenses	1,080	-	13,715	-	-	-	14,795	12,729	27,524
Medical Expenses	-	-	-	511,600	-	-	511,600	-	511,600
Other	-	-	-	12,604	-	610	13,214	436,352	449,566
Plant Operation and Maintenance	37,702	-	549,179	77,582	-	197	664,660	-	664,660
Postage	-	-	-	29,194	-	(20)	29,174	26,707	55,881
Professional Fees and Contract Services	720,345	-	272,788	2,105,510	-	145,388	3,244,031	615,767	3,859,798
Security	-	-	75,219	-	-	-	75,219	-	75,219
Staff Development	-	-	-	-	-	26,008	26,008	192,656	218,664
Supplies	824,127	505,799	660,221	50,335	289,309	5,687	2,335,478	167,452	2,502,930
Strategic Planning	-	-	-	-	-	-	-	48,192	48,192
Telephone	-	-	-	-	-	2,010	2,010	71,404	73,414
Travel	-	-	-	-	-	1,732	1,732	43,709	45,441
Utilities	-	-	2,376,050	-	-	-	2,376,050	-	2,376,050
Vehicle and Transportation	-	-	51,560	-	-	-	51,560	-	51,560
Total Other Expenses	1,583,254	2,671,356	3,998,732	6,394,428	289,309	205,288	15,142,367	3,166,617	18,308,984
Sub-Total	15,410,349	6,267,294	7,065,428	7,076,698	1,580,966	396,924	37,797,660	8,392,265	46,189,925
Depreciation	2,552,492	663,813	566,114	125,948	238,441	35,376	4,182,184	964,659	5,146,843
Interest	1,839,993	478,517	408,090	90,791	171,883	25,501	3,014,775	695,385	3,710,160
Total Year Ended December 31, 2016	$ 19,802,835	$ 7,409,624	$ 8,039,632	$ 7,293,436	$ 1,991,290	$ 457,802	$ 44,994,619	$ 10,052,309	$ 55,046,928

MORNINGSIDE MINISTRIES AND SUBSIDIARIES
CONSOLIDATING BALANCE SHEET
DECEMBER 31, 2017
(SEE INDEPENDENT AUDITORS' REPORT)

	Morningside Ministries	Morningside Ministries Foundation	Eliminations	Obligated Group Sub-Total	mmCare, LLC	Eliminations	Total
ASSETS							
CURRENT ASSETS							
Cash and Cash Equivalents	$ 9,620,346	$ -	$ -	$ 9,620,346	$ 31,113	$ -	$ 9,651,459
Resident Accounts Receivable, Net	3,158,888	-	-	3,158,888	117,010	-	3,275,898
Accounts Receivable, Other	3,000	-	-	3,000	-	-	3,000
Note Receivable - Related Party	50,579	-	-	50,579	-	(50,579)	-
Current Portion of Assets Limited as to Use	2,041,187	-	-	2,041,187	-	-	2,041,187
Supplies	382,258	-	-	382,258	-	-	382,258
Prepaid Expenses	597,933	-	-	597,933	-	-	597,933
Total Current Assets	15,854,191	-	-	15,854,191	148,123	(50,579)	15,951,735
ASSETS LIMITED AS TO USE							
Cash and Cash Equivalents - Trustee Held	2,048,971	-	-	2,048,971	-	-	2,048,971
Reserve Fund	3,548,238	-	-	3,548,238	-	-	3,548,238
Board Designated Funds	23,959,454	-	-	23,959,454	-	-	23,959,454
Endowment and Temporarily Restricted Investments	19,285,296	-	-	19,285,296	-	-	19,285,296
Total Assets Limited as to Use	48,841,959	-	-	48,841,959	-	-	48,841,959
Less: Current Portion of Assets Limited as to Use	(2,041,187)	-	-	(2,041,187)	-	-	(2,041,187)
Total Assets Limited as to Use, Net of Current Portion	46,800,772	-	-	46,800,772	-	-	46,800,772
PROPERTY, PLANT, AND EQUIPMENT	154,603,343	-	-	154,603,343	9,378	-	154,612,721
Less: Accumulated Depreciation	(63,716,746)	-	-	(63,716,746)	(1,563)	-	(63,718,309)
Property, Plant, and Equipment, Net	90,886,597	-	-	90,886,597	7,815	-	90,894,412
OTHER ASSETS							
Due from (to) Affiliates	68,786	-	-	68,786	(68,786)	-	-
Investment in mmCare, LLC	223,396	-	-	223,396	-	(223,396)	-
Deposits	70,000	-	-	70,000	-	-	70,000
Home Health License	-	-	-	-	250,000	-	250,000
Other Assets	20,800	-	-	20,800	-	-	20,800
Total Other Assets	382,982	-	-	382,982	181,214	(223,396)	340,800
Total Assets	$ 153,924,542	$ -	$ -	$ 153,924,542	$ 337,152	$ (273,975)	$ 153,987,719

MORNINGSIDE MINISTRIES AND SUBSIDIARIES
CONSOLIDATING BALANCE SHEET (CONTINUED)
DECEMBER 31, 2017
(SEE INDEPENDENT AUDITORS' REPORT)

LIABILITIES AND NET ASSETS	Morningside Ministries	Morningside Ministries Foundation	Eliminations	Obligated Group Sub-Total	mmCare, LLC	Eliminations	Total
CURRENT LIABILITIES							
Current Maturities of Long-Term Debt	$ 1,282,530	$ -	$ -	$ 1,282,530	$ -	$ -	$ 1,282,530
Accounts Payable	1,091,203	-	-	1,091,203	48,442	-	1,139,645
Note Payable - Related Party	-	-	-	-	50,579	(50,579)	-
Accrued Wages and Related Costs	1,228,775	-	-	1,228,775	25,279	-	1,254,054
Accrued Insurance Cost	111,748	-	-	111,748	-	-	111,748
Accrued Interest Payable	1,506,187	-	-	1,506,187	-	-	1,506,187
Accrued Expenses	108,960	-	-	108,960	-	-	108,960
Total Current Liabilities	5,329,403	-	-	5,329,403	124,300	(50,579)	5,403,124
LONG-TERM LIABILITIES							
Resident Deposits	99,594	-	-	99,594	-	-	99,594
Refundable Entrance Fee Payable	27,507,103	-	-	27,507,103	-	-	27,507,103
Deferred Revenue	3,818,459	-	-	3,818,459	-	-	3,818,459
Long-Term Debt	73,521,323	-	-	73,521,323	-	-	73,521,323
Total Long-Term Liabilities	104,946,479	-	-	104,946,479	-	-	104,946,479
Total Liabilities	110,275,882	-	-	110,275,882	124,300	(50,579)	110,349,603
NET ASSETS							
Unrestricted:							
Controlling Interest	24,363,363	-	-	24,363,363	223,396	(223,396)	24,363,363
Noncontrolling Deficit	-	-	-	-	(10,544)	-	(10,544)
Total Unrestricted	24,363,363	-	-	24,363,363	212,852	(223,396)	24,352,819
Temporarily Restricted	7,307,650	-	-	7,307,650	-	-	7,307,650
Permanently Restricted	11,977,647	-	-	11,977,647	-	-	11,977,647
Total Net Assets	43,648,660	-	-	43,648,660	212,852	(223,396)	43,638,116
Total Liabilities and Net Assets	$ 153,924,542	$ -	$ -	$ 153,924,542	$ 337,152	$ (273,975)	$ 153,987,719

MORNINGSIDE MINISTRIES AND SUBSIDIARIES
CONSOLIDATING STATEMENT OF OPERATIONS
YEAR ENDED DECEMBER 31, 2017
(SEE INDEPENDENT AUDITORS' REPORT)

	Morningside Ministries	Morningside Ministries Foundation	Eliminations	Obligated Group Sub-Total	mmCare, LLC	Eliminations	Total
OPERATING REVENUE							
Net Resident Service Revenue	$ 29,306,787	$ -	$ -	$ 29,306,787	$ 749,784	$ -	$ 30,056,571
Rental Income	1,012,500	-	-	1,012,500	-	-	1,012,500
Management Fee Revenue	15,039,877	-	-	15,039,877	-	-	15,039,877
Incentive Fee Revenue	75,900	-	-	75,900	-	-	75,900
Amortization of Advance Entrance Fee Revenue	438,855	-	-	438,855	-	-	438,855
Other Operating Revenue	830,009	-	-	830,009	100,000	-	930,009
Net Assets Released from Restrictions - Operations	777,100	-	-	777,100	-	-	777,100
Total Operating Revenue	47,481,028	-	-	47,481,028	849,784	-	48,330,812
OPERATING EXPENSES							
Nursing Services	14,588,465	-	-	14,588,465	146,661	-	14,735,126
Food Services	6,113,281	-	-	6,113,281	-	-	6,113,281
Environmental Services	7,147,194	-	-	7,147,194	16,500	-	7,163,694
Ancillary Services	6,541,401	-	-	6,541,401	314,998	-	6,856,399
Life Enrichment	1,242,223	-	-	1,242,223	125	-	1,242,348
Training Institutes and Other	327,215	-	-	327,215	-	-	327,215
General and Administrative	8,864,769	-	-	8,864,769	546,322	-	9,411,091
Depreciation	5,260,338	-	-	5,260,338	1,563	-	5,261,901
Interest	3,777,196	-	-	3,777,196	579	-	3,777,775
Total Operating Expenses	53,862,083	-	-	53,862,083	1,026,748	-	54,888,831
NET LOSS FROM OPERATIONS	(6,381,055)	-	-	(6,381,055)	(176,964)	-	(6,558,019)
OTHER INCOME (EXPENSE)							
Unrestricted Investment Earnings	3,540,490	-	-	3,540,490	-	-	3,540,490
Unrestricted Contributions	180,878	-	-	180,878	-	-	180,878
Loss on Sale of Property and Equipment	(34,179)	-	-	(34,179)	-	-	(34,179)
Total Other Income	3,687,189	-	-	3,687,189	-	-	3,687,189
DEFICIT OF REVENUES OVER EXPENSES	(2,693,866)	-	-	(2,693,866)	(176,964)	-	(2,870,830)
Equity Transfer	110,837,353	(110,837,353)	-	-	-	-	-
Change in Investment in Foundation	(110,837,353)	-	-	(110,837,353)	-	-	(110,837,353)
Change in Investment in mmCare, LLC	(132,716)	-	-	(132,716)	-	-	(132,716)
Net Assets Released from Restrictions - Capital	95,078	-	-	95,078	-	-	95,078
INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS	$ (2,731,504)	$ (110,837,353)	$ -	$ (113,568,857)	$ (176,964)	$ -	$ (113,745,821)

MORNINGSIDE MINISTRIES AND SUBSIDIARIES
CONSOLIDATING STATEMENT OF CHANGES IN NET ASSETS
YEAR ENDED DECEMBER 31, 2017
(SEE INDEPENDENT AUDITORS' REPORT)

	Morningside Ministries	Morningside Ministries Foundation	Eliminations	Obligated Group Sub-Total	mmCare, LLC	Eliminations	Total
UNRESTRICTED NET ASSETS							
Deficit of Revenues over Expenses	$ (2,693,866)	$ -	$ -	$ (2,693,866)	$ (176,964)	$ -	$ (2,870,830)
Net Asset Transfer	110,837,353	(110,837,353)	-	-	-	-	-
Change in Investment in Foundation	(110,837,353)	-	110,837,353	-	-	-	-
Change in Investment in mmCare, LLC	(132,716)	-	-	(132,716)	(33,628)	166,344	-
Member Contribution	-	-	-	-	139,816	(106,112)	33,704
Net Assets Released from Restrictions - Capital	95,078	-	-	95,078	-	-	95,078
Increase (Decrease) in Unrestricted Net Assets	(2,731,504)	(110,837,353)	110,837,353	(2,731,504)	(70,776)	60,232	(2,742,048)
TEMPORARILY RESTRICTED NET ASSETS							
Contributions	370,970	-	-	370,970	-	-	370,970
Net Asset Transfer	5,810,000	(5,810,000)	-	-	-	-	-
Change in Investment in Foundation	(5,810,000)	-	5,810,000	-	-	-	-
Gain on Endowment Investments	1,998,858	-	-	1,998,858	-	-	1,998,858
Net Assets Released from Restrictions - Operations	(777,100)	-	-	(777,100)	-	-	(777,100)
Net Assets Released from Restrictions - Capital	(95,078)	-	-	(95,078)	-	-	(95,078)
Increase in Temporarily Restricted Net Assets	1,497,650	(5,810,000)	5,810,000	1,497,650	-	-	1,497,650
PERMANENTLY RESTRICTED NET ASSETS							
Contributions	96,007	-	-	96,007	-	-	96,007
Net Asset Transfer	11,881,640	(11,881,640)	-	-	-	-	-
Change in Investment in Foundation	(11,881,640)	-	11,881,640	-	-	-	-
Increase in Permanently Restricted Net Assets	96,007	(11,881,640)	11,881,640	96,007	-	-	96,007
INCREASE (DECREASE) IN NET ASSETS	(1,137,847)	(128,528,993)	128,528,993	(1,137,847)	(70,776)	60,232	(1,148,391)
Net Assets - Beginning of Year	44,786,507	128,528,993	(128,528,993)	44,786,507	283,628	(283,628)	44,786,507
NET ASSETS - END OF YEAR	$ 43,648,660	$ -	$ -	$ 43,648,660	$ 212,852	$ (223,396)	$ 43,638,116