MORNINGSIDE MINISTRIES AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION

YEARS ENDED DECEMBER 31, 2021 AND 2020

MORNINGSIDE MINISTRIES AND SUBSIDIARIES
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INDEPENDENT AUDITORS' REPORT

Board of Directors
Morningside Ministries and Subsidiaries
San Antonio, Texas

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying consolidated financial statements of Morningside Ministries and Subsidiaries (a Texas corporation) as of December 31, 2021 and 2020, which comprise the consolidated balance sheets, and the related consolidated statements of operations, changes in net assets, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Morningside Ministries and Subsidiaries, as of December 31, 2021 and 2020, and the result of its operations, changes in net assets, and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Morningside Ministries and Subsidiaries and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Morningside Ministries and Subsidiaries ability to continue as a going concern for one year after the date the financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore, is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.

- Obtain an understanding of internal control relevant to the audit 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 Morningside Ministries and Subsidiaries' internal control. Accordingly, no such opinion is expressed.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Morningside Ministries and Subsidiaries' ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 29, 2022, on our consideration of Morningside Ministries and Subsidiaries' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Morningside Ministries and Subsidiaries' internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Morningside Ministries and Subsidiaries' internal control over financial reporting and compliance.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Dallas, Texas
April 29, 2022

MORNINGSIDE MINISTRIES AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2021 AND 2020

	2021	2020
ASSETS		
Cash and Cash Equivalents	$ 5,656,547	$ 6,284,287
Resident Accounts Receivable	1,899,009	2,008,336
Accounts Receivable, Other	1,150	5,619
Current Portion of Assets Limited as to Use	3,131,196	3,102,563
Pledges Receivable	23,718	3,091,636
Supplies	90,254	92,050
Prepaid Expenses and Other	374,081	587,837
Total Current Assets	11,175,955	15,172,328
INVESTMENTS	10,391,446	15,221,864
ASSETS LIMITED AS TO USE		
Cash and Cash Equivalents - Trustee Held	11,386,925	21,688,407
Debt Service Reserve Fund	5,366,791	5,366,757
Board, Purpose, and Time Restricted Investments and Trusts	27,348,468	20,657,338
Total Assets Limited as to Use	44,102,184	47,712,502
Less: Current Portion of Assets Limited as to Use	(3,131,196)	(3,102,563)
Total Assets Limited as to Use, Net of Current Portion	40,970,988	44,609,939
PROPERTY, PLANT, AND EQUIPMENT	166,055,981	152,318,407
Less: Accumulated Depreciation	(69,649,728)	(64,972,233)
Property, Plant, and Equipment, Net	96,406,253	87,346,174
OTHER ASSETS		
Deposits	19,526	70,000
Home Health License	251,750	251,750
Investment in Risk Retention Group	173,523	110,191
Other Assets	45,553	45,553
Total Other Assets	490,352	477,494
Total Assets	$ 159,434,994	$ 162,827,799

See accompanying Notes to Consolidated Financial Statements.

MORNINGSIDE MINISTRIES AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS (CONTINUED)
DECEMBER 31, 2021 AND 2020

	2021	2020
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Current Maturities of Long-Term Debt	$ 995,000	$ 880,000
Accounts Payable	1,068,539	825,177
Accrued Wages and Related Costs	1,376,726	1,292,725
Accrued Insurance Cost	333,799	272,403
Accrued Interest Payable	2,207,800	2,223,247
Accrued Expenses	19,490	22,715
Total Current Liabilities	6,001,354	5,516,267
LONG-TERM LIABILITIES		
Refundable Entrance Fee Payable	24,649,726	26,443,450
Deferred Revenue	6,074,691	5,031,929
Long-Term Debt, Net	87,109,193	88,127,188
Total Long-Term Liabilities	117,833,610	119,602,567
Total Liabilities	123,834,964	125,118,834
NET ASSETS		
Without Donor Restrictions:		
Undesignated	8,227,844	13,959,991
Board-Designated	22,179,689	16,103,438
Total Without Donor Restrictions	30,407,533	30,063,429
With Donor Restrictions:		
Purpose Restrictions	548,576	471,908
Time Restrictions	3,643,921	6,173,628
Perpetual Funds	1,000,000	1,000,000
Total With Donor Restrictions	5,192,497	7,645,536
Total Net Assets	35,600,030	37,708,965
Total Liabilities and Net Assets	$ 159,434,994	$ 162,827,799

See accompanying Notes to Consolidated Financial Statements.

MORNINGSIDE MINISTRIES AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
YEARS ENDED DECEMBER 31, 2021 AND 2020

	2021	2020
WITHOUT DONOR RESTRICTIONS REVENUES		
Net Resident Service Revenue	$ 26,392,178	$ 26,395,986
Rental Income	850,000	850,000
Management Fee Revenue	4,952,448	5,468,532
Incentive Revenue	534,241	284,262
Amortization of Advance Entrance Fee Revenue	784,513	710,412
Other Operating Revenue	1,660,980	5,977,892
Net Assets Released from Restrictions - Operations	3,122,633	371,222
Total Operating Revenue	38,296,993	40,058,306
OPERATING EXPENSES		
Nursing Services	8,487,778	8,772,946
Food Services	5,373,404	5,321,500
Environmental Services	6,229,047	5,839,640
Ancillary Services	2,583,167	2,726,626
Life Enrichment	970,245	924,868
General and Administrative	9,777,048	9,427,801
Depreciation	4,687,515	4,720,300
Interest	4,313,413	4,244,123
Total Operating Expenses	42,421,616	41,977,804
NET LOSS FROM OPERATIONS	(4,124,623)	(1,919,498)
OTHER INCOME (EXPENSE)		
Unrestricted Investment Earnings, Net of Fees	3,517,105	4,742,948
Unrestricted Contributions	882,631	1,171,024
Loss on Extinguishment of Debt	-	(230,476)
Gain (Loss) on Sale of Property and Equipment	1,396	(37,713)
Total Other Income (Expense)	4,401,132	5,645,783
EXCESS OF REVENUES OVER EXPENSES	$ 276,509	$ 3,726,285

See accompanying Notes to Consolidated Financial Statements.

MORNINGSIDE MINISTRIES AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS
YEARS ENDED DECEMBER 31, 2021 AND 2020

	2021	2020
NET ASSETS WITHOUT DONOR RESTRICTIONS		
Excess of Revenues Over Expenses	$ 276,509	$ 3,726,285
Distributions	-	(1,385,649)
Change in Investment in Risk Retention Group	67,595	39,439
Net Assets Released from Restrictions - Time	-	42,442
Increase in Net Assets Without Donor Restrictions	344,104	2,422,517
NET ASSETS WITH DONOR RESTRICTIONS - PURPOSE RESTRICTIONS		
Contributions	199,301	320,789
Net Assets Released from Restrictions - Operations	(122,633)	(371,222)
Net Assets Released from Restrictions - Time	-	(42,442)
Increase (Decrease) in Net Assets With Donor Restrictions - Purpose Restrictions	76,668	(92,875)
NET ASSETS WITH DONOR RESTRICTIONS - TIME RESTRICTIONS		
Contributions	-	3,000,000
Purpose and Time Restricted Investment Earnings, Net	470,293	204,701
Net Assets Released from Restrictions - Time	(3,000,000)	-
Increase (Decrease) in Net Assets With Donor Restrictions - Time Restrictions	(2,529,707)	3,204,701
INCREASE (DECREASE) IN NET ASSETS	(2,108,935)	5,534,343
Net Assets - Beginning of Year	37,708,965	32,174,622
NET ASSETS - END OF YEAR	$ 35,600,030	$ 37,708,965

See accompanying Notes to Consolidated Financial Statements.

MORNINGSIDE MINISTRIES AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2021

	Program Services							
	Nursing	Food	Environmental	Ancillary	Life Enrichment	Total Program Services	Administrative and Fundraising	Total
Salaries	$ 6,207,732	$ 2,621,643	$ 2,189,971	$ 828,966	$ 645,421	$ 12,493,733	$ 3,598,663	$ 16,092,396
Percentages	38.58%	16.29%	13.61%	5.15%	4.01%	77.64%	22.36%	100.00%
Employee Insurance and Payroll Taxes	832,505	351,582	293,692	111,171	86,556	1,675,506	482,608	2,158,114
Retirement Benefits	107,284	45,308	37,848	14,326	11,154	215,921	62,193	278,114
Total Salaries, Insurance, Payroll Taxes, and Benefits	7,147,521	3,018,534	2,521,511	954,463	743,131	14,385,159	4,143,465	18,528,624
Bank Fees	-	-	-	-	-	-	5,100	5,100
Bad Debt Expense	-	-	-	-	-	-	35,000	35,000
Development	-	-	-	-	-	-	451,600	451,600
Drugs	-	-	-	311,686	-	311,686	-	311,686
Dues and Subscriptions	-	-	-	-	-	-	108,661	108,661
Food	-	1,962,509	-	-	-	1,962,509	-	1,962,509
Insurance	-	-	-	-	-	-	698,734	698,734
Licenses	1,237	-	28,913	-	-	30,150	5,848	35,998
Medical Expenses	-	-	-	290,455	-	290,455	-	290,455
mmCare. LLC	582,767	-	-	947,246	1,901	1,531,914	1,170,733	2,702,647
Other	-	-	-	-	-	-	423,611	423,611
Plant Operation and Maintenance	3,440	-	662,824	34,322	-	700,586	-	700,586
Postage	-	-	-	-	-	-	10,940	10,940
Professional Fees and Contract Services	352,755	34,690	295,836	29,399	-	712,680	1,878,542	2,591,222
Staff Development	-	-	-	-	-	-	187,322	187,322
Supplies	400,058	357,671	568,583	15,596	225,213	1,567,121	486,377	2,053,498
Telephone	-	-	-	-	-	-	121,428	121,428
Travel	-	-	-	-	-	-	49,687	49,687
Utilities	-	-	2,123,598	-	-	2,123,598	-	2,123,598
Vehicle and Transportation	-	-	27,782	-	-	27,782	-	27,782
Total Other Expenses	1,340,257	2,354,870	3,707,536	1,628,704	227,114	9,258,481	5,633,583	14,892,064
Subtotal	8,487,778	5,373,404	6,229,047	2,583,167	970,245	23,643,640	9,777,048	33,420,688
Depreciation	1,688,083	712,909	595,524	225,423	175,511	3,397,449	1,290,066	4,687,515
Interest	1,663,923	702,706	587,001	222,196	172,999	3,348,826	964,587	4,313,413
Total Expenses	$ 11,839,784	$ 6,789,019	$ 7,411,571	$ 3,030,786	$ 1,318,755	$ 30,389,915	$ 12,031,701	$ 42,421,616

See accompanying Notes to Consolidated Financial Statements.

MORNINGSIDE MINISTRIES AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2020

	Program Services							
	Nursing	Food	Environmental	Ancillary	Life Enrichment	Total Program Services	Administrative and Fundraising	Total
Salaries	$ 6,473,471	$ 2,804,595	$ 2,135,579	$ 835,706	$ 604,668	$ 12,854,019	$ 3,841,297	$ 16,695,316
Percentages	38.77%	16.80%	12.79%	5.01%	3.62%	76.99%	23.01%	100.00%
Employee Insurance and Payroll Taxes	940,683	407,546	310,329	121,439	87,866	1,867,863	558,193	2,426,056
Retirement Benefits	99,360	43,047	32,779	12,827	9,281	197,294	58,960	256,254
Total Salaries, Insurance, Payroll Taxes, and Benefits	7,513,515	3,255,188	2,478,686	969,973	701,815	14,919,177	4,458,449	19,377,626
Bank Fees	-	-	-	-	-	-	5,450	5,450
Bad Debt Expense	-	-	-	-	-	-	120,581	120,581
Development	-	-	-	-	-	-	297,347	297,347
Drugs	-	-	-	547,966	-	547,966	-	547,966
Dues and Subscriptions	-	-	-	-	-	-	61,441	61,441
Food	-	1,747,973	-	-	-	1,747,973	-	1,747,973
Insurance	-	-	-	-	-	-	641,045	641,045
Licenses	1,269	-	22,699	-	-	23,968	11,093	35,061
Medical Expenses	-	-	-	290,595	-	290,595	-	290,595
mmCare. LLC	678,189	-	1,500	823,978	5,387	1,509,054	919,423	2,428,477
Other	-	-	-	1,025	-	1,025	627,738	628,763
Plant Operation and Maintenance	108	-	455,422	40,990	-	496,520	-	496,520
Postage	-	-	-	-	-	-	13,855	13,855
Professional Fees and Contract Services	141,620	28,990	196,137	38,040	4,640	409,427	1,868,189	2,277,616
Security	-	-	938	-	-	938	-	938
Staff Development	-	-	-	-	-	-	174,607	174,607
Supplies	438,245	289,349	679,737	14,059	213,026	1,634,416	113,037	1,747,453
Telephone	-	-	-	-	-	-	92,902	92,902
Travel	-	-	-	-	-	-	22,644	22,644
Utilities	-	-	1,988,405	-	-	1,988,405	-	1,988,405
Vehicle and Transportation	-	-	16,116	-	-	16,116	-	16,116
Total Other Expenses	1,259,431	2,066,312	3,360,954	1,756,653	223,053	8,666,403	4,969,352	13,635,755
Subtotal	8,772,946	5,321,500	5,839,640	2,726,626	924,868	23,585,580	9,427,801	33,013,381
Depreciation	1,724,586	747,167	568,936	222,639	161,089	3,424,418	1,295,882	4,720,300
Interest	1,645,624	712,957	542,886	212,445	153,713	3,267,625	976,498	4,244,123
Total Expenses	$ 12,143,156	$ 6,781,625	$ 6,951,463	$ 3,161,710	$ 1,239,670	$ 30,277,623	$ 11,700,181	$ 41,977,804

See accompanying Notes to Consolidated Financial Statements.

MORNINGSIDE MINISTRIES AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2021 AND 2020

	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase (Decrease) in Net Assets	$ (2,108,935)	$ 5,534,343
Adjustments to Reconcile Increase (Decrease) in Net Assets to Net Cash Provided (Used) by Operating Activities:		
Depreciation	4,687,515	4,720,300
Amortization of Debt Issuance Costs	41,705	41,141
Amortization of Advance Entrance Fees	(784,513)	(710,412)
Unrealized (Gains) Losses on Investments and Assets Limited as to Use	2,024,451	(3,789,209)
Realized Gains on Investments and Assets Limited as to Use	(4,830,075)	(333,542)
(Gain) Loss on Sale of Property and Equipment	(1,396)	37,713
Bad Debt Provision	210,000	295,581
Investment Income (Net of Fees)	(711,481)	(620,197)
Receipt of Restricted Contributions	(199,301)	(320,789)
(Increase) Decrease in Assets:		
Resident Accounts Receivable, Net	(100,673)	(209,888)
Accounts Receivable - Other	3,072,387	(2,951,949)
Supplies	1,796	169,756
Prepaid Expenses and Deposits	264,230	(12,268)
Other Assets	-	24,753
Increase (Decrease) in Liabilities:		
Accounts Payable	243,362	(214,180)
Accrued Wages and Related Costs	84,001	240,956
Accrued Insurance Cost	61,396	(48,921)
Accrued Expenses	(18,672)	1,176,301
Resident Deposits	(15,675)	(9,000)
Entrance Fee Turnover, Net	49,226	(620,625)
Net Cash Provided by Operating Activities	1,969,348	2,399,864
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase and Sale of Property, Plant, and Equipment	(13,646,172)	(5,717,932)
Net of Purchases and Sales of Investments and Assets Limited as to Use	944,878	23,810,861
Interest and Dividends on Investments and Assets Limited as to Use	711,481	620,197
Investment in Risk Retention Group	(63,332)	(39,439)
Net Cash Provided (Used) by Investing Activities	(12,053,145)	18,673,687
CASH FLOWS FROM FINANCING ACTIVITIES		
Payment of Debt Issuance Costs	(64,700)	-
Principal Payments on Long-Term Debt	(880,000)	(580,000)
Receipt of Restricted Contributions	199,301	320,789
Net Cash Used by Financing Activities	(745,399)	(259,211)
NET INCREASE (DECREASE) IN CASH, CASH EQUIVALENTS, RESTRICTED CASH, AND RESTRICTED CASH EQUIVALENTS	(10,829,196)	20,814,340
Cash, Cash Equivalents, Restricted Cash, and Restricted Cash Equivalents - Beginning of Year	27,972,694	7,158,354
CASH, CASH EQUIVALENTS, RESTRICTED CASH, AND RESTRICTED CASH EQUIVALENTS - END OF YEAR	$ 17,143,498	$ 27,972,694

See accompanying Notes to Consolidated Financial Statements.

MORNINGSIDE MINISTRIES AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)
YEARS ENDED DECEMBER 31, 2021 AND 2020

	2021	2020
RECONCILIATION OF CASH, CASH EQUIVALENTS, RESTRICTED CASH, AND RESTRICTED CASH EQUIVALENTS TO CONSOLIDATED BALANCE SHEET		
Cash and Cash Equivalents	$ 5,656,547	$ 6,284,287
Cash and Cash Equivalents - Trustee Held	11,486,951	21,688,407
Cash, Cash Equivalents, Restricted Cash, and Restricted Cash Equivalents - End of Year	$ 17,143,498	$ 27,972,694
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash Paid for Interest	$ 5,086,172	$ 3,547,092
SUPPLEMENTAL DISCLOSURES OF NONCASH INVESTING AND FINANCING ACTIVITIES		
Proceeds from Issuance of Series 2020 Bonds	$ -	$ 43,640,000
Series 2020 Net Original Issue Premium	-	2,908,394
Deposits for Assets Limited as to Use	-	(16,195,014)
Payment of Financing Costs	-	(1,838,766)
Payment of 2014 Construction Interest	-	(542,854)
Payment of 2014 Construction Loan	-	(27,971,760)
	$ -	$ -

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 60 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 1959 by the Rio Texas Conference of the United Methodist Church and five years later joined by Episcopal Diocese of West Texas and First Presbyterian Church of San Antonio, the Organization was founded with the specific mission of caring for older adults. The Organization currently has two distinct retirement communities in San Antonio and Boerne, Texas, including Morningside at the Meadows, and Morningside at Menger Springs. Morningside at the Meadows offers 144 independent living units, 44 assisted living units and 100 skilled nursing facility and rehabilitation units. Morningside at Menger Springs offers 201 independent living units, 48 assisted living units, 42 memory care units and 40 skilled nursing facility, wellness and rehabilitation units.

The Organization previously operated Morningside at The Chandler Estate, a retirement community in San Antonio. Morningside at The Chandler Estate offered 39 independent living units, 24 assisted living units and 113 skilled nursing facility and rehabilitation units. On November 21, 2017, the board of directors of the Organization voted to close The Chandler Estate, effective March 1, 2018. During 2020, the board of directors voted to reopen and reposition The Chandler Estate. In November 2021, a portion of Morningside Senior Living opened.

mmCare, LLC (mmCare) is a Texas Limited Liability Company formed in December 2016 to provide home health services to the San Antonio community. The Organization is the sole sponsoring member after purchasing the portion owned by an unrelated party during 2020.

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

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

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

Basis of Accounting

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

Use of Estimates

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

Basis of Presentation

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

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

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

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

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Performance Indicator

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

Cash and Cash Equivalents

For purposes of the consolidated statements 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.

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 consolidated 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:

	2021	2020
Medicare	30%	40%
Medicaid	25%	18%
Other Payors	45%	42%
Total	100%	100%

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Resident Accounts Receivable

The Corporation provides an allowance for uncollectible accounts based on the allowance method using management's judgment. Residents participate in a financial verification process before moving into the Corporation, however, residents are not required to provide collateral for services rendered. As a result, 100% collection is not always guaranteed. Payment for services is required within 30 days of receipt of invoice or claim submitted. Accounts past due more than 180 days are individually analyzed for collectability. In addition, an allowance is estimated for other accounts based on the historical experience of the Corporation. When all collection efforts have been exhausted, the account is written off. At December 31, 2021 and 2020, the allowance was approximately $210,000 and $234,000, respectively.

Supplies

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

Investments and Assets Limited as to Use

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

Investment Income, Gains, and Losses

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

Home Health License

The Corporation assigned a value to the home health license acquired during the year ended December 31, 2016. The Corporation performs an annual impairment test of the home health license. As of December 31, 2021 and 2020, management has determined that no impairment exists.

Investment in Communities of Faith Risk Retention Group

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

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property, Plant, and Equipment

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

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

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

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, 2021 and 2020.

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, 2021 and 2020.

Interest Capitalization

Interest costs incurred 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 capitalized as part of construction in progress was $799,017 and $67,112 for the years ended December 31, 2021 and 2020.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Bond Premium

Original issue premiums related to the Series 2020 Bonds are recorded as an increase of long-term debt (see Note 10). The original bond premium amount is $2,979,748 and is amortized on the effective interest method over the term of the related indebtedness. December 31, 2021 and 2020, accumulated amortization of bond premium was $156,979 and $71,354, respectively. Interest expense related to the bond premium for the years ended December 31, 2021 and 2020 was $85,625 and $71,354, respectively.

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. During the year ended December 31, 2020, the Corporation incurred debt financing costs of $1,838,766 in connection with the Series 2020 Bonds (see Note 10). In addition, the Corporation wrote off net deferred financing costs of $230,476 in connection with paying off the 2014 Construction Loan (see Note 10). At December 31, 2021 and 2020, debt issuance costs were $4,114,487 and $4,049,787, respectively. At December 31, 2021 and 2020, accumulated amortization of debt issuance costs was $625,911 and $498,581, respectively. Interest expense related to the debt issuance costs for the years ended December 31, 2021 and 2020 was $127,330 and $112,495, respectively.

Accrued Insurance Costs

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

The Corporation has purchased insurance to cover professional and general liability insurance claims. The policy limit is $1,000,000 for each claim, with a $3,000,000 aggregate liability limit. Prior to June 1, 2015, the deductible was $50,000 per claim. After this date, up to 2019, there was no deductible. However, as of December 31, 2021 and 2020, the Corporation carries an annual deductible of $100,000.

Deferred Entrance Fees

Contract arrangements for 108 independent living units 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.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Deferred Entrance Fees (Continued)

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 $24,650,000 and $26,443,000 at December 31, 2021 and 2020, respectively.

Refundable Advance

The Paycheck Protection Program (PPP) was established under the CARES Act and administered by the U.S. Small Business Administration (SBA), which allowed the Corporation to receive funds of $2,694,000 for certain payroll, rent, utilities, and interest on existing debt. The funds were eligible for either partial or full forgiveness based on a set criteria which includes: utilization of PPP funds within an eight-week or 24-week time period, 60% of funds must be utilized on payroll costs, and the Corporation must maintain a certain amount of employees during the eight-week period. The Organization adopted Financial Accounting Standards Board Accounting Standards Topic 958-605, *Not-for-profit, Refundable Advances,* for the year ended December 31, 2020. There were no additional funds received during the year ended December 31, 2021. As such, the Corporation has recorded the funds in Other Operating Revenue for the year ended December 31, 2020. Management received formal forgiveness for the PPP Loan in July 2021 and the SBA can review forgiveness for six years.

Revenue Recognition

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

Performance obligations are determined based on the nature of the services provided by the Corporation. Revenue for performance obligations satisfied over time is recognized based on actual charges incurred in relation to total expected (or actual) charges. The Corporation believes that this method provides a faithful depiction of the transfer of services over the term of the performance obligation based on the inputs needed to satisfy the obligation.

The opening and closing contract balances were as follows:

	Deferred Revenue	Accounts Receivable
Balance as of January 1, 2020	$ 3,944,001	$ 2,094,029
Balance as of December 31, 2020	5,031,929	2,008,336
Balance as of December 31, 2021	6,074,691	1,899,009

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue Recognition (Continued)

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

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

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

Medicaid

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

Medicare

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

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue Recognition (Continued)

Medicaid (Continued)

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

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

Other

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

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

Adjustments arising from a chance in an implicit price concession impacting transaction price, were not significant in 2021 or 2020. Generally, residents who are covered by third-party payors are responsible for related deductibles and coinsurance, which vary in amount. The Corporation estimates the transaction price for residents with deductibles and coinsurance based on historical experience and current market conditions. The initial estimate of the transaction price is determined by reducing the standard charge by any contractual adjustments, discounts, and implicit price concessions. Subsequent charges to the estimate of the transaction price are generally recorded as adjustments to resident services revenue in the period of the change. Additionally, revenue recognized due to changes in its estimates of implicit price concessions, discounts, and contractual adjustments were not considered material for the years ended December 31, 2021 and 2020. Subsequent changes that are determined to be the result of an adverse change in the resident’s ability to pay are recorded as bad debt expense.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue Recognition (Continued)

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

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

For the years ended December 31, 2021 and 2020, the Corporation recognized revenue of approximately $26,392,000 and $26,396,000, respectively, from goods and services that transfer to the customer over time.

Management Fee Revenue

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

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

For the years ended December 31, 2021 and 2020, the Organization earned approximately $4,952,000 and $5,469,000, respectively, in management fee revenue, which is transferred over time.

Supplemental Payment Program

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

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

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

The accounting standard on accounting for uncertainty in income taxes addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the consolidated financial statements. Under that guidance, the Corporation may recognize the tax benefit from an uncertain tax position only if it is more likely than not, that the tax position will be sustained on examination by taxing authorities based on the technical merits of the position. Examples of tax positions include the tax-exempt status of the Organization and MSL and various positions related to the potential sources of unrelated business taxable income (UBIT). The tax benefits recognized in the consolidated financial statements from such a position are measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. Management believes there are no unrecognized tax benefits identified or recorded as liabilities for the years ended December 31, 2021 and 2020.

Commitments and Contingencies

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

Donated Assets and Services

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

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Functional Allocation of Expenses

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

Recently Issued Accounting Guidance

In February 2016, the FASB issued amended guidance for the treatment of leases. The guidance requires lessees to recognize a right-of-use asset and a corresponding lease liability for all operating and financing leases with lease terms greater than one year. The accounting for lessors will remain relatively unchanged. The guidance changes the accounting for sale and leaseback transactions to conform to the new revenue recognition standards. The guidance also requires both qualitative and quantitative disclosures regarding the nature of the entity's leasing activities. The amendments in the guidance are effective for fiscal years beginning after December 15, 2021. Early adoption is permitted. Management is evaluating the impact of the amended lease guidance on the Corporation's financial statements.

Subsequent Events

In preparing these consolidated financial statements, the Corporation has evaluated events and transactions for potential recognition and disclosure through April 29, 2022, the date the consolidated financial statements were available to be issued.

NOTE 3 LIQUIDITY AND AVAILABILITY OF CASH

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

	2021	2020
Cash and Cash Equivalents	$ 5,656,547	$ 6,284,287
Resident Accounts Receivable, Net	1,899,009	2,008,336
Current Portion of Assets Limited As to Use	3,131,196	3,102,563
Investments	10,391,446	15,221,864
Total Assets Available for General Expenditure	$ 21,078,198	$ 26,617,050

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

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

NOTE 4 INVESTMENTS AND ASSETS LIMITED AS TO USE

Trustee Held Funds

The Corporation is required to hold funds in various accounts based upon terms in the indenture of trust of the Series 2013, Series 2020, and Series 2020 MSL 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.

Operating Reserve Fund

Bond operating reserve fund has been established to fund unexpected costs.

Project Fund

Bond project fund has been established to fund construction in progress (see Note 9).

Cost of Issuance Fund

Cost of Issuance fund was established for the costs associated with the bond issuance.

Funded Interest Account

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

Debt Service 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 4 INVESTMENTS AND ASSETS LIMITED AS TO USE (CONTINUED)

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

	2021	2020
Trustee Held Funds		
Principal Account	$ 995,007	939,047
Interest Account	2,136,190	2,163,516
Operating Fund	2,000,433	2,200,007
Project Fund	6,239,973	15,571,662
Funded Interest	1,146	800,003
Cost of Issuance	14,176	14,172
Total Trustee Held Funds	11,386,925	21,688,407
Debt Service Reserve Fund	5,366,791	5,366,757
Board, Purpose, and Time Restricted Investments		
Annuity Gifts Receivable	8,938	8,938
Beneficial Interest - Trusts	3,398,135	3,173,628
Cash and Cash Equivalents	876,731	383,953
Pooled Investment Funds	18,624,266	17,177,965
Due to Investments	4,440,398	(87,146)
Total Board, Purpose, and Time Restricted Investments and Trusts	27,348,468	20,657,338
Total Assets Limited as to Use	44,102,184	47,712,502
Less: Current Portion of Assets Limited as to Use	(3,131,196)	(3,102,563)
Assets Limited as to Use, Net of Current Portion	$ 40,970,988	$ 44,609,939

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

Investments

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

	2021	2020
Cash and Cash Equivalents	$ 3,007,256	$ 4,058
Pooled Investment Funds	9,525,582	13,088,712
Bonds	664,219	597,246
Common Stock	1,634,787	1,444,702
Due from Board, Purpose, and Time Restricted Funds	(4,440,398)	87,146
Total Investments	$ 10,391,446	$ 15,221,864

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

	December 31, 2021	
	Fair Value	Cost
Cash and Cash Equivalents	$ 20,646,642	$ 20,646,642
Bonds	8,927,120	9,977,744
Common Stock	21,390,853	21,192,126
Mutual Funds	130,880	124,053
Beneficial Interest in Perpetual Trust	3,398,135	3,398,135
Total Investments and Assets Limited as to Use	$ 54,493,630	$ 55,338,700

	December 31, 2020	
	Fair Value	Cost
Cash and Cash Equivalents	$ 27,455,383	$ 27,455,383
Bonds	9,568,572	9,317,312
Common Stock	22,616,450	19,515,637
Mutual Funds	120,333	104,014
Beneficial Interest in Perpetual Trust	3,173,628	3,278,003
Total Investments and Assets Limited as to Use	$ 62,934,366	$ 59,670,349

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

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

Investments (Continued)

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

	2021	2020
Interest and Dividend Income	$ 746,605	653,509
Realized Gains on Sales of Securities	4,830,075	333,542
Unrealized Gains (Losses) on Marketable Securities	(2,024,451)	3,789,209
Investment Service Fees	(35,124)	(33,312)
Total Unrestricted Investment Earnings	$ 3,517,105	$ 4,742,948

NOTE 5 BENEFICIAL INTEREST IN TRUSTS

Split Interest

The Corporation was a two-fifths income beneficiary of the Maida Davis Turtle Charitable Trust (20% to Morningside Manor and 20% to Chandler Home and Apartments), which was established upon the death of the settlor. Four income beneficiaries are to be distributed a proportionate share of the net income of the trust annually. The trust will terminate the sooner of 50 years after the death of the settlor, or 21 years after the death of the last to die of the beneficiaries named in Article III of the trust, at which time, 40% the remaining principal is to be distributed to the Corporation. Effective March 1, 2018, The Chandler Estate closed, which reduced the Corporation's income beneficiary percentage from 40% to 25%. Due to the closure of The Chandler Estate, the corpus portion of the Maida Davis Turtle Charitable Trust related to The Chandler Estate of $175,941 was forfeited in 2018, and is reported in the consolidated statement of changes in net assets as a decrease in net assets with donor restrictions – time restrictions. The fair market value portion of The Chandler Estate's beneficial interest of $18,591 was written off during 2018 and is reported in the consolidated statement of changes in net assets as a decrease in net assets without donor restrictions. A noncurrent asset for the beneficial interest in the trust has been recognized at fair value, based on quoted market prices, which totals $353,380 and $337,096 at December 31, 2021 and 2020, respectively. For the years ended December 31, 2021 and 2020, the Corporation received $11,500 and $15,275, respectively, in earnings distributions from the trust.

The Corporation is a 2% income beneficiary of the Leon O. and Mary Jane K. Lewis Charitable fund. The Corporation's beneficial interest in the fund of $188,533 and $188,533 at December 31, 2021 and 2020, respectively, is recorded in board, purpose, and time restricted investments. For the years ended December 31, 2021 and 2020, the Corporation received $6,453 and $6,016, respectively, in earnings distributions from the trust.

NOTE 5 BENEFICIAL INTEREST IN TRUSTS (CONTINUED)

Split Interest (Continued)

The Corporation is a one-third income beneficiary of the William C. and Verna Upton Alder Charitable Foundation, an irrevocable perpetual trust. In accordance with the trust agreement, the trustee shall distribute one-third of the trust's net income to the Corporation. The Corporation's beneficial interest in the trust of $2,571,148 and $2,372,210 at December 31, 2021 and 2020, respectively, is recorded in board, purpose, and time restricted investments. For the years ended December 31, 2021 and 2020, the Corporation received $122,400 and $103,824, 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, 2021 and 2020 is $278,399 and $269,114, respectively, which is recorded in board, purpose, and time restricted investments. For the years ended December 31, 2021 and 2020, the Corporation received $8,969 and $15,165, respectively, in earnings distributions from the trust.

The Corporation is a one-fourth income beneficiary of the Luella Pliefke Trust Fund. The Corporation's beneficial interest in the fund at December 31, 2021 and 2020 is $6,675, which is recorded in board, purpose, and time restricted investments. For the years ended December 31, 2021 and 2020, the Corporation received no distributions in earnings distributions from the trust.

NOTE 6 SUPPLEMENTAL PAYMENT PROGRAM

On April 1, 2017, the Organization participated in the QIPP program (see Note 2) and sold its nursing home license for Morningside Manor Health Care and The Chandler Estate to a nonstate government hospital district (the Hospital Partner) for a nominal amount. In conjunction with the sale, the Organization executed separate lease and management agreements. Under the terms of the lease agreement, the Hospital Partner agrees to lease the Organization's nursing facility space in the amount of $70,833 per month for Morningside Manor Health Care. For the years ended December 31, 2021 and 2020, total lease revenue was $850,000. The lease was set to expire on August 31, 2020; however, the term of the lease is extended for successive one-year terms unless the Organization or Hospital Partner provide written notice not to renew the lease 35 days prior to the end of the lease term or terminate based on other conditions outlined in the lease agreement. In the event of a termination, the nursing home license will revert back to the Organization to operate the facility.

Under the terms of the management agreement, the Organization will manage the nursing facility and receive a management fee equal to the total net revenue received in connection with the operation of the nursing home each month. For the years ended December 31, 2021 and 2020, total management fee revenue was approximately $4,952,000 and $5,469,000, respectively. In addition, under the terms of the management agreement, the Organization will receive an incentive payment equal to 50% of the total incentive payment received under the QIPP program. For the years ended December 31, 2021 and 2020, the total incentive fee revenue was $534,241 and $284,262, respectively.

NOTE 6 SUPPLEMENTAL PAYMENT PROGRAM (CONTINUED)

The management agreement was set to expire on August 31, 2020; 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 7 FAIR VALUE MEASUREMENTS

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

Assets and liabilities valued at the fair value are categorized based on the inputs to the valuation techniques as follows:

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

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

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

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

NOTE 7 FAIR VALUE MEASUREMENTS (CONTINUED)

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.

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

	2021			
	Total	Level 1	Level 2	Level 3
Assets:				
Investments and Assets				
Limited as to Use:				
Bonds	$ 8,927,120	$ 8,927,120	$ -	$ -
Common Stock	21,390,853	21,390,853	-	-
Mutual Funds	130,880	130,880	-	-
Beneficial Interest in				
Perpetual Trusts	3,398,135	-	-	3,398,135
Total Assets	$ 33,846,988	$ 30,448,853	$ -	$ 3,398,135

	2020			
	Total	Level 1	Level 2	Level 3
Assets:				
Investments and Assets				
Limited as to Use:				
Money Markets	$ -	$ -	$ -	$ -
Bonds	9,568,572	9,568,572	-	-
Common Stock	22,616,450	22,616,450	-	-
Mutual Funds	120,333	120,333	-	-
Beneficial Interest in				
Perpetual Trusts	3,173,628	-	-	3,173,628
Total Assets	$ 35,478,983	$ 32,305,355	$ -	$ 3,173,628

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:

	2021	2020
Balance - Beginning of Year	$ 3,173,628	$ 2,968,927
Income and Expenses, Net	367,377	376,159
Distributions	(142,870)	(171,458)
Balance - End of Year	$ 3,398,135	$ 3,173,628

NOTE 7 FAIR VALUE MEASUREMENTS (CONTINUED)

Investments and assets limited as to use are recorded at fair value on a recurring basis. Fair value measurement is based upon quoted prices, if available. 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.

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, 2021 and 2020. The Corporation considers the measurement of its beneficial interests in the trusts to be Level 3 measurements within the fair value hierarchy because even though the measurement is based on the unadjusted fair values of the trusts' assets reported by the trustee, the Corporation will never receive those assets or have the ability to direct the trustees to redeem them.

NOTE 8 PLEDGE RECEIVABLES

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

	2021	2020
Receivable in Less than One Year	$ 23,718	$ 3,091,636

No allowance for uncollectible pledges or discount has been recorded as all pledges receivable are due in less than one year.

NOTE 9 PROPERTY, PLANT, AND EQUIPMENT

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

	2021	2020
Land	$ 4,926,317	$ 4,926,317
Land Improvements	5,117,511	5,071,408
Buildings	127,440,301	126,543,235
Equipment and Furniture	8,776,652	8,467,397
Vehicles	994,999	1,042,373
Construction in Progress	18,800,201	6,267,677
Subtotal	166,055,981	152,318,407
Less: Accumulated Depreciation	(69,649,728)	(64,972,233)
Total	$ 96,406,253	$ 87,346,174

Total depreciation expense for the years ended December 31, 2021 and 2020 was approximately $4,688,000 and $4,720,000, respectively.

NOTE 9 PROPERTY, PLANT, AND EQUIPMENT (CONTINUED)

Construction in Progress

Construction in progress for the years ended December 31, 2021 and 2020 of $18,800,201 and $6,267,677, respectively, is related to various renovations, ongoing special projects, renovation of The Chandler Estate, and preliminary costs related to the expansion and repositioning of the Morningside at The Meadows campus. The renovation projects and ongoing special projects are being financed with internal funds.

With the issuance of the MSL Series 2020 Bonds (see Note 10), the Corporation is renovating and repositioning The Chandler Estate. The project includes upgrading the heating and cooling system, common areas, flooring, and windows. In addition, more extensive renovations will be made to the existing units to change the size and configuration. In November 2021, a portion The Chandler Estate opened for residents, while the remainder of facility opened subsequent to year-end (see Note 17).

NOTE 10 LONG-TERM DEBT

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

	2021	2020
New Hope Cultural Revenue Bonds Series 2013	$ 45,405,000	$ 46,010,000
New Hope Cultural Revenue Bonds Series 2020- MM	28,030,000	28,305,000
New Hope Cultural Revenue Bonds Series 2020- MSL	15,335,000	15,335,000
Subtotal	88,770,000	89,650,000
Original Issue Premium	2,822,769	2,908,394
Unamortized Debt Issuance Costs	(3,488,576)	(3,551,206)
Total Long-Term Debt	88,104,193	89,007,188
Less: Current Maturities of Long-Term Debt	(995,000)	(880,000)
Long-Term Debt, Net	$ 87,109,193	$ 88,127,188

New Hope Cultural Revenue Bonds Series 2013

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

The Issuer created and ordered established with U.S. Bank National Association (Bond Trustee) a trust fund (Bond Fund). There are two separate accounts within the Bond Fund designated as the Principal Account and the Interest Account, respectively. The Organization will deposit monthly 1/6 of the semi-annual interest payment into the Interest Account, and monthly 1/12 of the annual principal payment into the Principal Account.

NOTE 10 LONG-TERM DEBT (CONTINUED)

New Hope Cultural Revenue Bonds Series 2013 (Continued)

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, which is equal to the maximum annual debt service on the bonds. Additionally, the Series 2013 bonds are secured by certain bank accounts, property, plant, and equipment.

New Hope Cultural Revenue Construction Loan 2014

On March 1, 2014, the Organization was issued a construction loan by BBVA Compass Bank. Advances are made pursuant to the construction loan Agreement (2014 Construction Loan), 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 London Interbank Offered Rate (LIBOR) plus 1.90%. The construction loan is secured by certain bank accounts, property, plant, and equipment. In March 2020, the Organization refinanced the 2014 Construction Loan with New Hope Cultural Revenue Bonds Series 2020- MM.

New Hope Cultural Revenue Bonds Series 2020- MM

On March 4, 2020, the New Hope Cultural Education Facilities Corporation (Issuer) issued First Mortgage Revenue Bonds Series 2020A in the amount of $27,865,000 and Series 2020B in the amount of $440,000 (collectively MM Series 2020 Bonds) on behalf of the Organization with the proceeds used to (1) refund all of the outstanding 2014 Construction Loan and (2) to pay a portion of the cost of issuance of the MM Series 2020 Bonds. Repayment shall be based on a 30-year amortization schedule, with a final payment of all outstanding principal and interest due at maturity on January 1, 2055.

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. Additionally, the MM Series 2020 Bonds are secured by certain bank accounts, property, plant, and equipment.

NOTE 10 LONG-TERM DEBT (CONTINUED)

New Hope Cultural Revenue Bonds Series 2020- MSL

On November 25, 2020, MSL, through New Hope Cultural Education Facilities Finance Corporation (Issuer), issued First Mortgage Revenue Bonds (Morningside Senior Living Project) Series 2020 in the amount of $16,810,000, with the initial issuance of $15,335,000 (MSL Series 2020 Bonds); with the proceeds used to renovate and reposition The Chandler Estate (see Note 9). The sole member, Morningside Ministries, was issued the remaining $1,475,000 subsequent to year-end (see Note 17). Repayment shall be based on a 30-year amortization schedule with a final payment of all outstanding principal and interest due at maturity on December 1, 2050. Additionally, the Series 2020 bonds are secured by certain bank accounts, property, plant, and equipment.

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

Year Ending December 31,	Amount
2022	$ 995,000
2023	1,250,000
2024	1,310,000
2025	1,365,000
2026	1,440,000
Thereafter	82,410,000
Total	$ 88,770,000

Restrictive Covenants

Under the terms of the Series 2013 Bonds, the MM Series 2020 Bonds, and the MSL Series 2020 Bonds, the Corporation is required to meet certain restrictive covenants related to the "obligated entities'' reporting and other financial and nonfinancial covenants. As of December 31, 2021, management was not aware of instances where the Corporation was not in compliance with these covenants.

NOTE 11 NET ASSETS

Net Assets with Purpose Restrictions

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

	2021	2020
Direct Charity Fund	$ 160,160	$ 30,394
Special Projects Fund	214,928	225,441
Loewenberg Scholarship Fund	112,431	105,268
mmLearn.org Fund	54,057	103,805
Meadows Employee Fund	7,000	7,000
Total Net Assets with Purpose Restrictions	$ 548,576	$ 471,908

NOTE 11 NET ASSETS (CONTINUED)

Net Assets with Time Restrictions

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

	2021	2020
Maida Davis Turtle Charitable Trust Fund	$ 328,395	$ 337,096
Lewis Charitable Trust Fund	188,533	188,533
Alder Charitable Trust Fund	2,818,201	2,372,210
Sears Beneolent Endowment Fund	278,399	269,114
Luella Pliefke Trust Fund	6,675	6,675
Other Time Restricted Gifts	23,718	3,000,000
Total Net Assets with Time Restrictions	$ 3,643,921	$ 6,173,628

Perpetual Funds

Perpetual funds consist of contributions and gifts to provide for upkeep of the Meadows facility. The amounts would be maintained in perpetuity.

Perpetual funds consisted of the following at December 31:

	2021	2020
Meadows Improvements	$ 1,000,000	$ 1,000,000

Undesignated Board Restricted Funds

There were distributions of $591,600 and $445,000 during the years ended December 31, 2021 and 2020, respectively.

Board-designated funds consisted of the following at December 31:

	2021	2020
Covenant Fund	$ 17,502,010	$ 16,103,438
Other Board Resticted Funds	4,677,679	-
Total	$ 22,179,689	$ 16,103,438

NOTE 12 LEASE AND SERVICE AGREEMENTS

On September 2019, the Corporation entered into a lease and services agreement covering approximately 8,000 square feet of office space. The agreement has a term of five years but either party can terminate the agreement with one hundred twenty (120) days prior written notice. During the terms of the agreements, the tenant agrees to pay $3,000 per month for rent.

NOTE 13 FINANCIAL ASSISTANCE AND CHARITY CARE

One of the purposes of the Corporation is to provide financial assistance to residents who may not otherwise be able to obtain services offered by the Corporation. Financial assistance is provided through the Covenant Assistance Program. Covenant financial assistance is based on “need” and is provided to residents who meet the need criteria established by management. The Corporation provided Covenant financial assistance during the years 2021 and 2020 in the amounts of approximately $548,000 and $515,000, respectively. In addition to the Covenant Assistance Program, donors are able to donate to a direct charity care fund to assist indigent residents.

The cost of charity care provided was approximately $2,079,000 and $2,572,000 in 2021 and 2020, respectively. The total cost estimate is based upon actual per patient day custodial care costs. The net cost of charity care was approximately $1,487,000 and $1,852,000 in 2021 and 2020, respectively. This is net of any restricted contributions and accumulated covenant fund income received and released to assist with such costs, which were approximately $592,000 in 2021 and $721,000 in 2020.

NOTE 14 FUNDS HELD WITH OTHERS

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

NOTE 15 COMMITMENTS AND CONTINGENCIES

Retirement Plan

The Corporation has established a 401(k) pension plan, which covers substantially all eligible employees. The Corporation’s match program will match up to 3.5% of compensation based on employee voluntary contributions. The Corporation’s matching contributions for the years ended December 31, 2021 and 2020 totaled $278,114 and $256,254, respectively.

NOTE 15 COMMITMENTS AND CONTINGENCIES (CONTINUED)

Unasserted Claims

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

Health Care

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

NOTE 16 COVID-19

On March 11, 2020, the World Health Organization declared the spread of Coronavirus Disease (COVID-19) a worldwide pandemic. The COVID-19 pandemic has had a significant impact on global markets, supply chains, businesses, and communities. Specific to the Corporation, COVID-19 has impacted various parts of its 2020 and 2021 operations and financial results including but not limited to additional costs for emergency preparedness, disease control and containment, potential shortages of health care personnel, or loss of revenue due to reductions in certain revenue streams. As a result of the COVID-19 pandemic, management believes it has taken appropriate actions to mitigate the negative impact to the Corporation. As a result of the COVID-19 pandemic, the U.S. Congress passed the Coronavirus Aid, Relief, and Economic Security Act (CARES Act). As a result of the CARES Act, various programs have been established to help organizations mitigate the negative impact to their operations and business.

Provider Relief Funds

Due to the Coronavirus pandemic, the U.S. Department of Health and Human Services (HHS) made available emergency relief grant funds to health care providers through the CARES Act Provider Relief Fund (PRF). Total grant funds approved and received by Organization was $1,691,131. The PRF's are subject to certain restrictions on eligible expenses or uses, reporting requirements, and will be subject to audit. The Organization recognized $1,691,131 as Other Operating Revenue in the consolidated statement of operations as of December 31, 2020. The Organization recognized $202,913 as Other Operating Revenue in the consolidated statement of operations as of December 31, 202.

NOTE 17 SUBSEQUENT EVENTS

Subsequent to year-end, the Corporation issued Series 2022 bonds in the amount of $55,625,000. The proceeds will be available to the Corporation on or before October 1, 2022. The proceeds will be used to refund the Series 2013 bond, pay for the cost of issuance, fund a debt service reserve fund, and finance certain capital improvements of the Corporation.

Subsequent to year-end, The Chandler Estate became fully operational.

Subsequent to year-end, the issuer of Series 2020 – MSL bonds issued the remaining $1,475,000.

INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION

Stockholders and Members
Morningside Ministries and Subsidiaries
San Antonio, Texas

We have audited the financial statements of Morningside Ministries and Subsidiaries' as of and for the year ended December 31, 2021, and our report thereon dated April 29, 2022, which expressed an unmodified opinion on those financial statements appears on 40-45. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The consolidating balance sheet, and the statements of operations, changes in net assets are presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP
Dallas, Texas
April 29, 2022

MORNINGSIDE MINISTRIES AND SUBSIDIARIES
CONSOLIDATING BALANCE SHEET
DECEMBER 31, 2021

ASSETS	Morningside Ministries	mmCare, LLC	Morningside Senior Living	Eliminations	Total
CURRENT ASSETS					
Cash and Cash Equivalents	$ 4,617,063	$ 21,286	$ 1,018,198	$ -	$ 5,656,547
Resident Accounts Receivable, Net	1,036,844	851,223	10,942	-	1,899,009
Accounts Receivable, Other	1,150	-	-	-	1,150
Current Portion of Assets Limited as to Use	3,131,196	-	-	-	3,131,196
Pledges Receivable	23,718	-	-	-	23,718
Supplies	90,254	-	-	-	90,254
Prepaid Expenses and Other	374,081	-	-	-	374,081
Total Current Assets	9,274,306	872,509	1,029,140	-	11,175,955
INVESTMENTS	8,092,440	-	2,299,006	-	10,391,446
ASSETS LIMITED AS TO USE					
Cash and Cash Equivalents - Trustee Held	3,131,197	-	8,255,728	-	11,386,925
Debt Service Reserve Fund	5,266,765	-	100,026	-	5,366,791
Board, Purpose, and Time Restricted Investments and Trusts	27,348,468	-	-	-	27,348,468
Total Assets Limited as to Use	35,746,430	-	8,355,754	-	44,102,184
Less: Current Portion of Assets Limited as to Use	(3,131,196)	-	-	-	(3,131,196)
Total Assets Limited as to Use, Net of Current Portion	32,615,234	-	8,355,754	-	40,970,988
PROPERTY, PLANT, AND EQUIPMENT	149,840,584	302,604	15,912,793	-	166,055,981
Less: Accumulated Depreciation	(69,052,451)	(78,962)	(518,315)	-	(69,649,728)
Property, Plant, and Equipment, Net	80,788,133	223,642	15,394,478	-	96,406,253
OTHER ASSETS					
Due From (To) Affiliates	1,379,310	(1,311,417)	(67,893)	-	-
Investment in mmCare, LLC	1,329,922	-	-	(1,329,922)	-
Deposits	19,526	-	-	-	19,526
Home Health License	-	251,750	-	-	251,750
Investment in Risk Retention Group	173,523	-	-	-	173,523
Other Assets	45,553	-	-	-	45,553
Total Other Assets	2,947,834	(1,059,667)	(67,893)	(1,329,922)	490,352
Total Assets	$ 133,717,947	$ 36,484	$ 27,010,485	$ (1,329,922)	$ 159,434,994

MORNINGSIDE MINISTRIES AND SUBSIDIARIES
CONSOLIDATING BALANCE SHEET (CONTINUED)
YEAR ENDED DECEMBER 31, 2021

LIABILITIES AND NET ASSETS	Morningside Ministries	mmCare, LLC	Morningside Senior Living	Eliminations	Total
CURRENT LIABILITIES					
Current Maturities of Long-Term Debt	$ 995,000	$ -	$ -	$ -	$ 995,000
Accounts Payable	1,065,215	3,324	-	-	1,068,539
Accrued Wages and Related Costs	1,321,161	55,565	-	-	1,376,726
Accrued Insurance Cost	333,799	-	-	-	333,799
Accrued Interest Payable	2,135,854	-	71,946	-	2,207,800
Accrued Expenses	19,490	-	-	-	19,490
Total Current Liabilities	5,870,519	58,889	71,946	-	6,001,354
LONG-TERM LIABILITIES					
Refundable Entrance Fee Payable	24,649,726	-	-	-	24,649,726
Deferred Revenue	6,074,691	-	-	-	6,074,691
Long-Term Debt	72,601,686	-	14,507,507	-	87,109,193
Total Long-Term Liabilities	103,326,103	-	14,507,507	-	117,833,610
Total Liabilities	109,196,622	58,889	14,579,453	-	123,834,964
NET ASSETS					
Without Donor Restrictions:					
Undesignated	(2,850,861)	(22,405)	12,431,032	(1,329,922)	8,227,844
Board- Designated	22,179,689	-	-	-	22,179,689
Total Without Donor Restrictions	19,328,828	(22,405)	12,431,032	(1,329,922)	30,407,533
With Donor Restrictions:					
Purpose Restrictions	548,576	-	-	-	548,576
Time Restrictions	3,643,921	-	-	-	3,643,921
Perpetual Funds	1,000,000	-	-	-	1,000,000
Total With Donor Restrictions	5,192,497	-	-	-	5,192,497
Total Net Assets	24,521,325	(22,405)	12,431,032	(1,329,922)	35,600,030
Total Liabilities and Net Assets	$ 133,717,947	$ 36,484	$ 27,010,485	$ (1,329,922)	$ 159,434,994

MORNINGSIDE MINISTRIES AND SUBSIDIARIES
CONSOLIDATING STATEMENT OF OPERATIONS
YEAR ENDED DECEMBER 31, 2021

	Morningside Ministries	mmCare, LLC	Morningside Senior Living	Eliminations	Total
WITHOUT DONOR RESTRICTIONS REVENUES					
Net Resident Service Revenue	$ 24,552,043	$ 1,820,909	$ 19,226	$ -	$ 26,392,178
Rental Income	850,000	-	-	-	850,000
Management Fee Revenue	4,952,448	-	-	-	4,952,448
Incentive Fee Revenue	534,241	-	-	-	534,241
Amortization of Advance Entrance Fee Revenue	784,513	-	-	-	784,513
Other Operating Revenue	1,376,317	31	284,632	-	1,660,980
Net Assets Released from Restrictions - Operations	3,122,633	-	-	-	3,122,633
Total Operating Revenue	36,172,195	1,820,940	303,858	-	38,296,993
OPERATING EXPENSES					
Nursing Services	7,905,011	582,767	-	-	8,487,778
Food Services	5,373,404	-	-	-	5,373,404
Environmental Services	6,137,908	-	91,139	-	6,229,047
Ancillary Services	1,635,921	947,246	-	-	2,583,167
Life Enrichment	968,344	1,901	-	-	970,245
General and Administrative	8,540,557	1,170,733	65,758	-	9,777,048
Depreciation	4,376,042	62,682	248,791	-	4,687,515
Interest	4,284,835	-	28,578	-	4,313,413
Total Operating Expenses	39,222,021	2,765,329	434,266	-	42,421,616
NET LOSS FROM OPERATIONS	(3,049,826)	(944,389)	(130,408)	-	(4,124,623)
OTHER INCOME					
Unrestricted Investment Earnings, Net of Fees	3,517,105	-	-	-	3,517,105
Unrestricted Contributions	882,631	-	-	-	882,631
Gain on Sale of Property and Equipment	1,396	-	-	-	1,396
Total Other Income	4,401,132	-	-	-	4,401,132
EXCESS (DEFICIT) OF REVENUES OVER EXPENSES	1,351,306	(944,389)	(130,408)	-	276,509
Change in Investment in mmCare, LLC	(769,390)	-	-	769,390	-
Change in Investment in Risk Retention Group	67,595	-	-	-	67,595
INCREASE (DECREASE) IN NET ASSETS WITHOUT DONOR RESTRICTIONS	$ 649,511	$ (944,389)	$ (130,408)	$ 769,390	$ 344,104

MORNINGSIDE MINISTRIES AND SUBSIDIARIES
CONSOLIDATING STATEMENT OF CHANGES IN NET ASSETS
YEAR ENDED DECEMBER 31, 2021

	Morningside Ministries	mmCare, LLC	Morningside Senior Living	Eliminations	Total
NET ASSETS WITHOUT DONOR RESTRICTIONS					
Excess of Revenues Over Expenses	$ 1,351,306	$ (944,389)	$ (130,408)	$ -	$ 276,509
Change in Investment in mmCare, LLC	(769,390)	-	-	769,390	-
Change in Investment in Risk Retention Group	67,595	-	-	-	67,595
Increase (Decrease) in Net Assets Without Donor Restrictions	649,511	(944,389)	(130,408)	769,390	344,104
NET ASSETS WITH DONOR RESTRICTIONS - PURPOSE RESTRICTIONS					
Contributions	199,301	-	-	-	199,301
Net Assets Released from Restrictions - Operations	(122,633)	-	-	-	(122,633)
Increase in Net Assets With Donor Restrictions - Purpose Restrictions	76,668	-	-	-	76,668
NET ASSETS WITH DONOR RESTRICTIONS - TIME RESTRICTIONS					
Time Restricted Investment Earnings	470,293	-	-	-	470,293
Net Assets Released from Restrictions - Time	(3,000,000)	-	-	-	(3,000,000)
Decrease in Net Assets With Donor Restrictions - Purpose Restrictions	(2,529,707)	-	-	-	(2,529,707)
INCREASE (DECREASE) IN NET ASSETS	(1,803,528)	(944,389)	(130,408)	769,390	(2,108,935)
Net Assets - Beginning of Year	26,324,853	921,984	12,561,440	(2,099,312)	37,708,965
NET ASSETS - END OF YEAR	$ 24,521,325	$ (22,405)	$ 12,431,032	$ (1,329,922)	$ 35,600,030

MORNINGSIDE MINISTRIES AND SUBSIDIARIES
CONSOLIDATING STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2021

	Morningside Ministries	mmCare, LLC	Morningside Senior Living	Eliminations	Total
CASH FLOWS FROM OPERATING ACTIVITIES					
Increase in Net Assets	$ (1,803,528)	$ (944,389)	$ (130,408)	$ 769,390	$ (2,108,935)
Adjustments to Reconcile Increase (Decrease) in Net Assets to Net Cash Provided by Operating Activities:					
Depreciation	4,376,042	62,682	248,791	-	4,687,515
Amortization of Debt Issuance Costs	13,127	-	28,578	-	41,705
Amortization of Advance Entrance Fees	(784,513)	-	-	-	(784,513)
Unrealized Gains on Investments and Assets Limited as to Use	2,024,451	-	-	-	2,024,451
Realized Gains on Investments and Assets Limited as to Use	(4,830,075)	-	-	-	(4,830,075)
(Gain) Loss on Sale of Property and Equipment	(1,396)	-	-	-	(1,396)
Bad Debt Provision	35,000	175,000	-	-	210,000
Investment Income (Net of Fees)	(711,481)	-	-	-	(711,481)
Receipt of Restricted Contributions	(199,301)	-	-	-	(199,301)
(Increase) Decrease in Assets:					
Resident Accounts Receivable, Net	(291,106)	201,375	(10,942)	-	(100,673)
Accounts Receivable - Other	3,072,387	-	-	-	3,072,387
Supplies	1,796	-	-	-	1,796
Prepaid Expenses and Deposits	264,230	-	-	-	264,230
Other Assets	(434,986)	434,986	-	-	-
Increase (Decrease) in Liabilities:					
Accounts Payable	243,876	(514)	-	-	243,362
Accrued Wages and Related Costs	84,001	-	-	-	84,001
Accrued Insurance Cost	61,396	-	-	-	61,396
Accrued Expenses	19,440	-	(38,112)	-	(18,672)
Resident Deposits	(15,675)	-	-	-	(15,675)
Entrance Fee Turnover, Net	49,226	-	-	-	49,226
Net Cash Provided (Used) by Operating Activities	1,172,911	(70,860)	97,907	769,390	1,969,348
CASH FLOWS FROM INVESTING ACTIVITIES					
Purchase and Sale of Property, Plant, and Equipment	(3,383,905)	57,173	(10,319,440)	-	(13,646,172)
Net of Purchases and Sales of Investments and Assets Limited as to Use	1,201,935	-	(257,057)	-	944,878
Interest and Dividends on Investments and Assets Limited as to Use	711,481	-	-	-	711,481
Investment in mmCare	769,390	-	-	(769,390)	-
Investment in Risk Retention Group	(63,332)	-	-	-	(63,332)
Net Cash Provided (Used) by Investing Activities	(764,431)	57,173	(10,576,497)	(769,390)	(12,053,145)
CASH FLOWS FROM FINANCING ACTIVITIES					
Payment of Debt Issuance Costs	(64,700)	-	-	-	(64,700)
Principal Payments on Long-Term Debt	(880,000)	-	-	-	(880,000)
Receipt of Restricted Contributions	199,301	-	-	-	199,301
Net Cash Provided (Used) by Financing Activities	(745,399)	-	-	-	(745,399)
NET INCREASE (DECREASE) IN CASH, CASH EQUIVALENTS, RESTRICTED CASH, AND RESTRICTED CASH EQUIVALENTS	(336,919)	(13,687)	(10,478,590)	-	(10,829,196)
Cash, Cash Equivalents, Restricted Cash, and Restricted Cash Equivalents - Beginning of Year	8,085,179	34,973	19,852,542	-	27,972,694
CASH, CASH EQUIVALENTS, RESTRICTED CASH, AND RESTRICTED CASH EQUIVALENTS - END OF YEAR	$ 7,748,260	$ 21,286	$ 9,373,952	$ -	$ 17,143,498

MORNINGSIDE MINISTRIES AND SUBSIDIARIES
CONSOLIDATING STATEMENT OF CASH FLOWS (CONTINUED)
YEAR ENDED DECEMBER 31, 2021

	Morningside Ministries	mmCare, LLC	Morningside Senior Living	Eliminations	Total
RECONCILIATION OF CASH, CASH EQUIVALENTS, RESTRICTED CASH, AND RESTRICTED CASH EQUIVALENTS TO CONSOLIDATED BALANCE SHEET					
Cash and Cash Equivalents	$ 4,617,063	$ 21,286	$ 1,018,198	$ -	$ 5,656,547
Cash and Cash Equivalents - Trustee Held	3,131,197	-	8,355,754	$ -	11,486,951
Cash, Cash Equivalents, Restricted Cash, and Restricted Cash Equivalents - End of Year	$ 7,748,260	$ 21,286	$ 9,373,952	$ -	$ 17,143,498
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION					
Cash Paid for Interest	$ 4,287,155	$ -	$ 799,017	$ -	$ 5,086,172
SUPPLEMENTAL DISCLOSURES OF NONCASH INVESTING AND FINANCING ACTIVITES					
Proceeds from Issuance of Series 2020 Bonds	$ -	$ -	$ -	$ -	$ -
Series 2020 Net Original Issue Premium	-	-	-	-	-
Deposits for Assets Limited as to Use	-	-	-	-	-
Payment of Financing Costs	-	-	-	-	-
Payment of 2014 Construction Interest	-	-	-	-	-
Payment of 2014 Construction Loan	-	-	-	-	-
	$ -	$ -	$ -	$ -	$ -

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Board of Directors
Morningside Ministries and Subsidiaries
San Antonio, Texas

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Morningside Ministries and Subsidiaries which comprise the balance sheet as of December 31, 2021, and the related statements of operations and changes in net assets, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated April 29, 2022.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Morningside Ministries and Subsidiaries' internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Morningside Ministries and Subsidiaries' internal control. Accordingly, we do not express an opinion on the effectiveness of Morningside Ministries and Subsidiaries' internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Morningside Ministries and Subsidiaries' financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government* Auditing *Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Dallas, Texas
April 29, 2022