MORNINGSIDE MINISTRIES AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION

YEARS ENDED DECEMBER 31, 2023 AND 2022

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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 Consolidated Financial Statements

Opinion

We have audited the accompanying consolidated financial statements of Morningside Ministries and Subsidiaries (a Texas corporation) as of December 31, 2023 and 2022, 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Morningside Ministries and Subsidiaries, as of December 31, 2023 and 2022, 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). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated 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 Consolidated Financial Statements

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

In preparing the consolidated 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 consolidated financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated 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 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 consolidated financial statements.

In performing an audit in accordance with GAAS, we:

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

- Identify and assess the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Dallas, Texas
May 16, 2024

MORNINGSIDE MINISTRIES AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2023 AND 2022

	2023	2022
ASSETS		
Cash and Cash Equivalents	$ 1,473,526	$ 1,992,794
Resident Accounts Receivable		
Resident Accounts Receivable Gross	3,509,769	2,563,413
Allowance for Credit Losses	(1,263,473)	(652,427)
Resident Accounts Receivable, Net	2,246,296	1,910,986
Accounts Receivable, Other	6,849,339	563,066
Current Portion of Assets Limited as to Use	3,126,235	1,771,169
Pledges Receivable	2,611,652	638,800
Supplies	65,429	92,269
Prepaid Expenses and Other	389,742	494,407
Total Current Assets	16,762,219	7,463,491
INVESTMENTS	7,623,697	7,607,442
ASSETS LIMITED AS TO USE		
Cash and Cash Equivalents - Trustee Held	20,178,232	12,500,256
Coverage Support Fund	3,738,385	3,550,000
Debt Service Reserve Fund	6,213,371	6,726,129
Board, Purpose, and Time Restricted Investments and Trusts	16,343,079	18,780,700
Total Assets Limited as to Use	46,473,067	41,557,085
Less: Current Portion of Assets Limited as to Use	(3,126,235)	(1,771,169)
Total Assets Limited as to Use, Net of Current Portion	43,346,832	39,785,916
PROPERTY, PLANT, AND EQUIPMENT	185,710,317	176,980,527
Less: Accumulated Depreciation	(78,642,900)	(73,759,416)
Property, Plant, and Equipment, Net	107,067,417	103,221,111
OTHER ASSETS		
Deposits	19,526	19,526
Home Health License	251,750	251,750
Investment in Risk Retention Group	240,987	183,961
Other Assets	45,553	45,553
Total Other Assets	557,816	500,790
Total Assets	$ 175,357,981	$ 158,578,750

See accompanying Notes to Consolidated Financial Statements.

MORNINGSIDE MINISTRIES AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS (CONTINUED)
DECEMBER 31, 2023 AND 2022

LIABILITIES AND NET ASSETS	2023	2022
CURRENT LIABILITIES		
Current Maturities of Long-Term Debt	$ 1,375,000	$ 580,000
Accounts Payable	1,068,781	1,104,364
Accrued Wages and Related Costs	1,442,390	1,364,373
Accrued Insurance Cost	279,311	118,217
Accrued Interest Payable	1,971,945	2,056,121
Accrued Expenses	323,752	30,024
Total Current Liabilities	6,461,179	5,253,099
LONG-TERM LIABILITIES		
Entrance Fee Deposits	1,197,778	-
Refundable Entrance Fee Payable	20,126,622	22,974,933
Deferred Revenue	9,876,754	7,503,165
Long-Term Debt, Net	105,964,724	97,933,836
Total Long-Term Liabilities	137,165,878	128,411,934
Total Liabilities	143,627,057	133,665,033
NET ASSETS		
Without Donor Restrictions:		
Undesignated	12,776,193	5,494,217
Board-Designated	10,232,570	13,475,310
Total Without Donor Restrictions	23,008,763	18,969,527
With Donor Restrictions:		
Purpose Restrictions	2,114,731	1,558,639
Time Restrictions	5,607,430	3,385,551
Perpetual Funds	1,000,000	1,000,000
Total With Donor Restrictions	8,722,161	5,944,190
Total Net Assets	31,730,924	24,913,717
Total Liabilities and Net Assets	$ 175,357,981	$ 158,578,750

See accompanying Notes to Consolidated Financial Statements.

MORNINGSIDE MINISTRIES AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
YEARS ENDED DECEMBER 31, 2023 AND 2022

	2023	2022
WITHOUT DONOR RESTRICTIONS REVENUES		
Net Resident Service Revenue	$ 29,057,363	$ 29,302,434
Rental Income	850,000	850,000
Management Fee Revenue	5,814,653	4,673,318
Incentive Revenue	39,171	295,876
Amortization of Advance Entrance Fee Revenue	1,519,235	972,206
Other Operating Revenue	8,486,074	686,082
Net Assets Released from Restrictions - Operations	298,413	649,389
Total Operating Revenue	46,064,909	37,429,305
OPERATING EXPENSES		
Nursing Services	8,797,870	8,262,101
Food Services	5,646,266	5,830,084
Environmental Services	6,049,845	6,494,597
Ancillary Services	2,234,999	2,689,315
Life Enrichment	953,198	987,869
General and Administrative	12,497,730	9,601,225
Depreciation	5,039,546	4,683,765
Interest	5,284,593	4,985,817
Total Operating Expenses	46,504,047	43,534,773
NET LOSS FROM OPERATIONS	(439,138)	(6,105,468)
OTHER INCOME (EXPENSE)		
Unrestricted Investment Earnings, Net of Fees	3,621,976	(5,066,843)
Unrestricted Contributions	195,343	643,961
Loss on Extinguishment of Debt	-	(925,988)
Gain on Sale of Property and Equipment	104,029	5,878
Total Other Income (Expense)	3,921,348	(5,342,992)
EXCESS (DEFICIT) OF REVENUES OVER EXPENSES	$ 3,482,210	$ (11,448,460)

See accompanying Notes to Consolidated Financial Statements.

MORNINGSIDE MINISTRIES AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS
YEARS ENDED DECEMBER 31, 2023 AND 2022

	2023	2022
NET ASSETS WITHOUT DONOR RESTRICTIONS		
Excess (Deficit) of Revenues Over Expenses	$ 3,482,210	$ (11,448,460)
Change in Investment in Risk Retention Group	57,026	10,454
Net Assets Released from Restrictions - Capital	500,000	-
Increase (Decrease) in Net Assets Without Donor Restrictions	4,039,236	(11,438,006)
NET ASSETS WITH DONOR RESTRICTIONS - PURPOSE RESTRICTIONS		
Contributions	854,505	1,659,452
In-Kind Capital Contributions	500,000	-
Net Assets Released from Restrictions - Operations	(298,413)	(649,389)
Net Assets Released from Restrictions - Capital	(500,000)	-
Increase in Net Assets With Donor Restrictions - Purpose Restrictions	556,092	1,010,063
NET ASSETS WITH DONOR RESTRICTIONS - TIME RESTRICTIONS		
Contributions	1,972,852	-
Time Restricted Investment Earnings, Net	249,027	(258,370)
Increase (Decrease) in Net Assets With Donor Restrictions - Time Restrictions	2,221,879	(258,370)
INCREASE (DECREASE) IN NET ASSETS	6,817,207	(10,686,313)
Net Assets - Beginning of Year	24,913,717	35,600,030
NET ASSETS - END OF YEAR	$ 31,730,924	$ 24,913,717

See accompanying Notes to Consolidated Financial Statements.

MORNINGSIDE MINISTRIES AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2023

	Program Services								
	Nursing	Food	Environmental	Ancillary	Life Enrichment	Training Institute and Other	Total Program Services	Administrative and Fundraising	Total
Salaries	$ 6,638,375	$ 2,638,291	$ 2,189,695	$ 1,057,093	$ 549,280	$ 23,075	$ 13,095,809	$ 3,610,046	$ 16,705,855
Percentages	39.74%	15.79%	13.11%	6.33%	3.29%	0.14%	78.39%	21.61%	100.00%
Employee Insurance and Payroll Taxes	955,461	379,729	315,163	152,147	79,058	3,321	1,884,879	568,018	2,404,473
Retirement Benefits	100,183	39,816	33,046	15,953	8,289	348	197,636	63,018	309,078
Total Salaries, Insurance, Payroll Taxes, and Benefits	7,694,019	3,057,836	2,537,904	1,225,194	636,627	26,744	15,178,324	4,241,082	19,419,406
Bank Fees	-	-	-	-	-	-	-	7,638	7,638
Bad Debt Expense	-	-	-	-	-	-	-	433,762	433,762
Development	-	-	-	-	-	-	-	629,558	629,558
Drugs	-	-	-	-	-	-	-	-	-
Dues and Subscriptions	-	-	-	-	-	-	-	207,117	207,117
Food	-	2,228,874	-	-	-	-	2,228,874	-	2,228,874
Insurance	-	-	-	-	-	-	-	833,918	833,918
Licenses	-	-	42,608	-	-	-	42,608	20,801	63,409
Medical Expenses	-	-	-	605,230	-	-	605,230	-	605,230
mmCare. LLC	2,696	-	-	395,002	704	-	398,402	1,210,440	1,608,842
Other	-	-	-	-	-	-	-	469,678	469,678
Plant Operation and Maintenance	-	-	703,421	-	-	-	703,421	-	703,421
Postage	-	-	-	-	-	-	-	12,894	12,894
Professional Fees and Contract Services	740,101	-	307,839	1,313	63,524	-	1,112,777	2,785,366	3,898,143
Staff Development	-	-	-	-	-	-	-	161,418	161,418
Supplies	361,054	359,556	160,475	8,260	252,343	-	1,141,688	551,233	1,692,921
Telephone	-	-	-	-	-	-	-	884,832	884,832
Travel	-	-	-	-	-	-	-	21,249	21,249
Utilities	-	-	2,265,996	-	-	-	2,265,996	-	2,265,996
Vehicle and Transportation	-	-	31,602	-	-	-	31,602	-	31,602
Total Other Expenses	1,103,851	2,588,430	3,511,941	1,009,805	316,571	-	8,530,598	8,229,904	16,760,502
Subtotal	8,797,870	5,646,266	6,049,845	2,234,999	953,198	26,744	23,708,922	12,470,986	36,179,908
Depreciation	1,720,900	683,938	567,646	274,036	142,393	5,982	3,394,893	1,644,653	5,039,546
Interest	1,755,621	697,737	579,099	279,565	145,266	6,103	3,463,390	1,821,203	5,284,593
Total Expenses	$ 12,274,392	$ 7,027,941	$ 7,196,589	$ 2,788,599	$ 1,240,857	$ 38,829	$ 30,567,206	$ 15,936,841	$ 46,504,047

See accompanying Notes to Consolidated Financial Statements.

MORNINGSIDE MINISTRIES AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2022

	Program Services								
	Nursing	Food	Environmental	Ancillary	Life Enrichment	Training Institute and Other	Total Program Services	Administrative and Fundraising	Total
Salaries	$ 5,923,527	$ 2,803,292	$ 2,262,914	$ 1,018,788	$ 617,363	$ -	$ 12,625,884	$ 3,563,502	$ 16,189,386
Percentages	36.59%	17.32%	13.98%	6.29%	3.81%	0.00%	77.99%	22.01%	100.00%
Employee Insurance and Payroll Taxes	742,108	351,200	283,501	127,635	77,344	-	1,581,788	446,441	2,028,229
Retirement Benefits	104,426	49,419	39,893	17,960	10,884	-	222,583	62,821	285,404
Total Salaries, Insurance, Payroll Taxes, and Benefits	6,770,061	3,203,912	2,586,308	1,164,383	705,591	-	14,430,255	4,072,764	18,503,019
Bank Fees	-	-	-	-	-	-	-	3,200	3,200
Bad Debt Expense	-	-	-	-	-	-	-	150,000	150,000
Development	-	-	-	-	-	-	-	318,376	318,376
Drugs	-	-	-	270,709	-	-	270,709	-	270,709
Dues and Subscriptions	-	-	-	-	-	-	-	133,566	133,566
Food	-	2,185,138	-	-	-	-	2,185,138	-	2,185,138
Insurance	-	-	-	-	-	-	-	755,823	755,823
Licenses	1,972	-	40,197	-	-	-	42,169	3,544	45,713
Medical Expenses	-	-	-	196,311	-	-	196,311	-	196,311
mmCare. LLC	312,644	-	-	1,004,938	4,687	-	1,322,269	885,438	2,207,707
Other	-	-	-	-	-	-	-	435,128	435,128
Plant Operation and Maintenance	5,547	-	576,322	17,391	-	-	599,260	-	599,260
Postage	-	-	-	-	-	-	-	13,962	13,962
Professional Fees and Contract Services	796,247	43,997	253,317	4,488	28,804	-	1,126,853	2,125,812	3,252,665
Staff Development	-	-	-	-	-	-	-	204,868	204,868
Supplies	375,630	397,037	653,949	31,095	248,787	-	1,706,498	69,097	1,775,595
Telephone	-	-	-	-	-	-	-	396,741	396,741
Travel	-	-	-	-	-	-	-	32,906	32,906
Utilities	-	-	2,346,809	-	-	-	2,346,809	-	2,346,809
Vehicle and Transportation	-	-	37,695	-	-	-	37,695	-	37,695
Total Other Expenses	1,492,040	2,626,172	3,908,289	1,524,932	282,278	-	9,833,711	5,528,461	15,362,172
Subtotal	8,262,101	5,830,084	6,494,597	2,689,315	987,869	-	24,263,966	9,601,225	33,865,191
Depreciation	1,601,202	757,764	611,693	275,391	166,881	-	3,412,931	1,270,834	4,683,765
Interest	1,824,258	863,325	696,906	313,754	190,128	-	3,888,371	1,097,446	4,985,817
Total Expenses	$ 11,687,561	$ 7,451,173	$ 7,803,196	$ 3,278,461	$ 1,344,878	$ -	$ 31,565,269	$ 11,969,504	$ 43,534,773

See accompanying Notes to Consolidated Financial Statements.

MORNINGSIDE MINISTRIES AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2023 AND 2022

	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase (Decrease) in Net Assets	$ 6,817,207	$ (10,686,313)
Adjustments to Reconcile Increase (Decrease) in Net Assets to Net Cash Used by Operating Activities:		
Depreciation	5,039,546	4,683,765
Amortization of Debt Issuance Costs	17,267	43,001
Amortization of Advance Entrance Fees	(1,519,235)	(972,206)
Unrealized Losses on Investments and Assets Limited as to Use	(2,678,658)	6,170,645
Realized Gains on Investments and Assets Limited as to Use	(5,288)	(534,868)
Gain on Sale of Property and Equipment	(104,029)	(5,878)
Provision for Credit Loss	673,371	325,000
Investment Income (Net of Fees)	(1,187,057)	(568,934)
Receipt of Restricted Contributions	(854,505)	(1,659,452)
In-Kind Revenue	(500,000)	
(Increase) Decrease in Assets:		
Resident Accounts Receivable, Net	(1,008,681)	(392,307)
Accounts Receivable - Other	(8,259,126)	(1,121,668)
Supplies	26,840	(2,015)
Prepaid Expenses and Deposits	104,665	(120,326)
Increase (Decrease) in Liabilities:		
Accounts Payable	(35,582)	35,824
Accrued Wages and Related Costs	78,017	(12,353)
Accrued Insurance Cost	161,094	(215,582)
Accrued Expenses	209,552	(141,145)
Resident Deposits	1,197,768	-
Entrance Fee Turnover, Net	1,044,523	725,887
Net Cash Used by Operating Activities	(782,311)	(4,448,925)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase and Sale of Property, Plant, and Equipment	(8,281,823)	(11,492,744)
Net of Purchases and Sales of Investments and Assets Limited as to Use	5,429,685	806,657
Interest and Dividends on Investments and Assets Limited as to Use	1,187,057	568,934
Investment in Risk Retention Group	(57,026)	(10,438)
Net Cash Used by Investing Activities	(1,722,107)	(10,127,591)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payment of Debt Issuance Costs	(2,111,379)	(1,088,358)
Principal Payments on Long-Term Debt	(580,000)	(275,000)
Receipt of Restricted Contributions	854,505	1,659,452
Issuance of Long Term Debt	11,500,000	11,730,000
Net Cash Provided by Financing Activities	9,663,126	12,026,094
NET INCREASE (DECREASE) IN CASH, CASH EQUIVALENTS, RESTRICTED CASH, AND RESTRICTED CASH EQUIVALENTS	7,158,708	(2,550,422)
Cash, Cash Equivalents, Restricted Cash, and Restricted Cash Equivalents - Beginning of Year	14,493,050	17,043,472
CASH, CASH EQUIVALENTS, RESTRICTED CASH, AND RESTRICTED CASH EQUIVALENTS - END OF YEAR	$ 21,651,758	$ 14,493,050

See accompanying Notes to Consolidated Financial Statements.

MORNINGSIDE MINISTRIES AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)
YEARS ENDED DECEMBER 31, 2023 AND 2022

	2023	2022
RECONCILIATION OF CASH, CASH EQUIVALENTS, RESTRICTED CASH, AND RESTRICTED CASH EQUIVALENTS TO CONSOLIDATED BALANCE SHEET		
Cash and Cash Equivalents	$ 1,473,526	$ 1,992,794
Cash and Cash Equivalents - Trustee Held	20,178,232	12,500,256
Cash, Cash Equivalents, Restricted Cash, and Restricted Cash Equivalents - End of Year	$ 21,651,758	$ 14,493,050
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash Paid for Interest	$ 5,405,713	$ 5,938,277
SUPPLEMENTAL DISCLOSURES OF NONCASH INVESTING AND FINANCING ACTIVITIES		
Proceeds from Issuance of Series 2022 Bonds	$ -	$ 55,625,000
Proceeds from Issuance of Series 2020 Bonds	-	1,475,000
Deposits for Assets Limited as to Use	-	(9,761,090)
Payment of Financing Costs	-	(1,968,910)
Payment of 2013 Construction Loan	-	(45,370,000)
Total	$ -	$ -
Increase of Capital Assets - In-Kind Revenue	$ 500,000	$ -

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. 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. As of December 31, 2022, the Chandler Estate had 42 units occupied and the renovation of the new corporate offices at The Chandler House was completed in 2023.

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.

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.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

Performance Indicator

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

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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:

	2023	2022
Medicare	12 %	33 %
Medicaid	27	28
Other Payors	61	39
Total	100 %	100 %

Resident Accounts Receivable

The Corporation provides an allowance for unexpected credit losses 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. Management's assessment of the collectability of receivables is based on a review of individual accounts, historical experience, analysis of payor source and aging of receivables, and future economic conditions and market trends. When all collection efforts have been exhausted, the account is written off. At December 31, 2023 and 2022, the allowance for unexpected credit losses was approximately $1,263,000 and $652,000, respectively.

Supplies

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

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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, 2023 and 2022, management has determined that no impairment exists.

Investment in Communities of Faith Risk Retention Group

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

Property, Plant, and Equipment

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

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

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

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of Long-Lived Assets

On an ongoing basis, the Corporation reviews its long-lived assets, such as property, plant, and equipment, and purchased intangible assets subject to amortization, for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If circumstances require a long-lived asset be tested for possible impairment, the Corporation would first compare undiscounted cash flows expected to be generated by an asset to the carrying value of the asset. If the carrying value of the long-lived asset is not recoverable on an undiscounted cash flow basis, impairment is recognized to the extent that the carrying value exceeds its fair value. Fair value is determined through various valuation techniques including discounted cash flow models, quoted market values and third-party independent appraisals, as considered necessary. Management did not identify any impairment charges required to be recorded in the accompanying consolidated financial statements related to long-lived assets as of December 31, 2023 and 2022.

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 approximately $45,000 and $844,000 for the years ended December 31, 2023 and 2022, respectively.

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 as of December 31, 2021 was approximately $2,980,000. Due to a discount provided by the Series 2022 Bonds in the amount of approximately $1,076,000, the net bond premium totals $1,576,000 and $1,661,000 as of December 31, 2023 and 2022, respectively and is amortized on the effective interest method over the term of the related indebtedness. December 31, 2023 and 2022, accumulated amortization of bond premium was approximately $328,000 and $242,000, respectively. Interest expense related to the bond premium for the years ended December 31, 2023 and 2022 was approximately $86,000.

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, 2023, the Corporation incurred debt financing costs of approximately $2,111,000 in connection with the Series 2023 Bonds (see Note 10). At December 31, 2023 and 2022, debt issuance costs were approximately $5,524,000 and $3,410,000, respectively. At December 31, 2023 and 2022, accumulated amortization of debt issuance costs was approximately $258,000 and $152,000, respectively. Interest expense related to the debt issuance costs for the years ended December 31, 2023 and 2022 was approximately $103,000 and $129,000, respectively.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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, 2023 and 2022, 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.

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 $20,127,000 and $22,975,000 at December 31, 2023 and 2022, respectively.

Revenue Recognition

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

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

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue Recognition (Continued)

The opening and closing contract balances were as follows:

	Deferred Revenue	Accounts Receivable
Balance - December 31, 2021	$ 6,074,691	$ 1,899,009
Balance - December 31, 2022	7,503,165	1,910,986
Balance - December 31, 2023	9,876,754	2,246,296

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.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue Recognition (Continued)

Medicare

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

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

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

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.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue Recognition (Continued)

Adjustments arising from a chance in an implicit price concession impacting transaction price, were not significant in 2023 or 2022. 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, 2023 and 2022. Subsequent changes that are determined to be the result of an adverse change in the resident's ability to pay are recorded as credit loss expense.

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

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

For the years ended December 31, 2023 and 2022, the Corporation recognized revenue of approximately $29,057,000 and $29,302,000, 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, 2023 and 2022, the Organization earned approximately $5,815,000 and $4,673,000, respectively, in management fee revenue, which is transferred over time.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Supplemental Payment Program

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

Nonoperating Revenue

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

Income Taxes

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

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

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, 2023 and 2022.

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.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Donated Assets and Services

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

Functional Allocation of Expenses

The 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.

Accounting Standards Update (ASU) 2016-13

The Corporation has adopted ASU 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments,* as amended, which modifies the measurement of expected credit losses. The Organization adopted this new guidance utilizing the modified retrospective transition method. The adoption of this Standard did not have a material impact on the Organization's financial statements but did change how the allowance for credit losses is determined.

Reclassifications

Certain reclassifications of amounts previously reported have been made to the accompanying financial statements to maintain consistency between periods presented. The reclassifications had no impact on previously reported net assets.

Subsequent Events

In preparing these consolidated financial statements, the Organization has evaluated events and transactions for potential recognition and disclosure through May 16, 2024, the date the consolidated financial statements were available to be issued.

Employee Retention Tax Credit

The CARES Act allows a credit (Employee Retention Tax Credit or ERTC) against applicable employment taxes for eligible employers. During the year ended December 31, 2023, the Organization received ERTC funds of approximately $6,793,556 and recorded this amount as revenue and accounts receivable as management of the Organization believed it had complied with the conditions of ERTC.

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:

	2023	2022
Cash and Cash Equivalents	$ 1,473,526	$ 1,992,794
Resident Accounts Receivable, Net	2,246,296	1,910,986
Current Portion of Assets Limited As to Use	3,126,235	1,771,169
Investments	7,623,697	7,607,442
Total Assets Available for General Expenditure	$ 14,469,754	$ 13,282,391

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 2020, Series 2020 MSL, Series 2022 and Series 2023 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).

Funded Interest Account

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

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

Trustee Held Funds (Continued)

Cost of Issuance Fund

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

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.

Coverage Support Fund

The Coverage Support Fund is to be available for draw down by the Organization for the purpose of causing the Debt Service Coverage Ratio to be between 1.20x and 1.30x.

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

	2023	2022
Trustee Held Funds		
Principal Account	$ 1,436,441	$ 352,603
Interest Account	1,690,246	2,690,209
Operating Reserve Fund	2,000,000	2,018,372
Project Fund	14,228,377	6,748,635
Coverage Support Fund	3,738,385	3,550,000
Funded Interest Account	737,619	665,023
Cost of Issuance Fund	85,549	25,414
Total Trustee Held Funds	23,916,617	16,050,256
Debt Service Reserve Fund	6,213,371	6,726,129
Board, Purpose, and Time Restricted Investments		
Annuity Gifts Receivable	8,938	8,938
Beneficial Interest - Trusts	2,995,778	2,746,751
Cash and Cash Equivalents	2,356,956	1,430,848
Pooled Investment Funds	11,685,704	14,990,887
Due to (from) Investments	(704,297)	(396,724)
Total Board, Purpose, and Time Restricted Investments and Trusts	16,343,079	18,780,700
Total Assets Limited as to Use	46,473,067	41,557,085
Less: Current Portion of Assets Limited as to Use	(3,126,235)	(1,771,169)
Assets Limited as to Use, Net of Current Portion	$ 43,346,832	$ 39,785,916

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:

	2023	2022
Cash and Cash Equivalents	$ 193,317	$ 122,847
Pooled Investment Funds	5,311,802	5,168,658
Bonds	419,730	582,136
Common Stock	994,551	1,337,077
Due from Board, Purpose, and Time Restricted Funds	704,297	396,724
Total Investments	$ 7,623,697	$ 7,607,442

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

	2023	
	Fair Value	Cost
Cash and Cash Equivalents	$ 32,499,185	$ 31,579,754
Bonds	5,524,824	5,302,031
Common Stock	12,960,498	12,862,705
Mutual Funds	116,479	116,480
Beneficial Interest in Perpetual Trust	2,995,778	2,988,855
Total Investments and Assets Limited as to Use	$ 54,096,764	$ 52,849,825

	2022	
	Fair Value	Cost
Cash and Cash Equivalents	$ 22,776,385	$ 20,646,642
Bonds	7,385,830	9,895,661
Common Stock	16,132,589	21,533,216
Mutual Funds	122,972	124,053
Beneficial Interest in Perpetual Trust	2,746,751	2,759,335
Total Investments and Assets Limited as to Use	$ 49,164,527	$ 54,958,907

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.

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:

	2023	2022
Interest and Dividend Income	$ 1,271,317	651,354
Realized Gains on Sales of Securities	5,288	534,868
Unrealized Gains (Losses) on Marketable Securities	2,678,658	(6,429,015)
Investment Service Fees	(84,260)	(82,420)
Total Unrestricted Investment Earnings	$ 3,871,003	$ (5,325,213)

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%. A noncurrent asset for the beneficial interest in the trust has been recognized at fair value, based on quoted market prices, which totals $316,301 and $287,062 at December 31, 2023 and 2022, respectively. For the years ended December 31, 2023 and 2022, the Corporation received $1,486 and $5,878, 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 $180,864 and $180,864 at December 31, 2023 and 2022, respectively, is recorded in board, purpose, and time restricted investments. For the years ended December 31, 2023 and 2022, the Corporation received $-0- and $2,258, respectively, in earnings distributions from the trust.

The Corporation is a one-third income beneficiary of the William C. and Verna Upton Alder Charitable Foundation, an irrevocable perpetual trust. In accordance with the trust agreement, the trustee shall distribute one-third of the trust's net income to the Corporation. The Corporation's beneficial interest in the trust of $2,251,141 and $2,048,713 at December 31, 2023 and 2022, respectively, is recorded in board, purpose, and time restricted investments. For the years ended December 31, 2023 and 2022, the Corporation received $67,476 and $48,348, 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, 2023 and 2022 is $240,797 and $223,437, respectively, which is recorded in board, purpose, and time restricted investments. For the years ended December 31, 2023 and 2022, the Corporation received $9,804 and $9,538, 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, 2023 and 2022 is $6,675, which is recorded in board, purpose, and time restricted investments. For the years ended December 31, 2023 and 2022, 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 rental and management agreements. Under the terms of the rental agreement, the Hospital Partner agrees to rent 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, 2023 and 2022, total rental revenue was $850,000. The rental agreement 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 rental 35 days prior to the end of the lease term or terminate based on other conditions outlined in the rental 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, 2023 and 2022, total management fee revenue was approximately $5,814,000 and $4,673,000, 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, 2023 and 2022, the total incentive fee revenue was $39,171 and $295,876, respectively.

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.

NOTE 7 FAIR VALUE MEASUREMENTS (CONTINUED)

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

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

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

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

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

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

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

	2023			
	Total	Level 1	Level 2	Level 3
Assets				
Investments and Assets				
Limited as to Use:				
Bonds	$ 5,524,824	$ 5,524,824	$ -	$ -
Common Stock	12,960,498	12,960,498	-	-
Mutual Funds	116,479	116,479	-	-
Beneficial Interest in				
Perpetual Trusts	2,995,778	-	-	2,995,778
Total Assets	$ 21,597,579	$ 18,601,801	$ -	$ 2,995,778

NOTE 7 FAIR VALUE MEASUREMENTS (CONTINUED)

	2022			
	Total	Level 1	Level 2	Level 3
Assets				
Investments and Assets				
Limited as to Use:				
Bonds	$ 7,385,830	$ 7,385,830	$ -	$ -
Common Stock	16,132,589	16,132,589	-	-
Mutual Funds	122,972	122,972	-	-
Beneficial Interest in				
Perpetual Trusts	2,746,751	-	-	2,746,751
Total Assets	$ 26,388,142	$ 23,641,391	$ -	$ 2,746,751

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:

	2023	2022
Balance - Beginning of Year	$ 2,746,751	$ 3,398,135
Income (Loss) and Expenses, Net	364,912	(495,401)
Distributions	(115,885)	(155,983)
Balance - End of Year	$ 2,995,778	$ 2,746,751

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, 2023 and 2022. 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:

	2023	2022
Receivable in Less than One Year	$ 2,611,652	$ 638,800
Receivable in More than One Year	-	390,204

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:

	2023	2022
Land	$ 4,902,534	$ 4,926,317
Land Improvements	5,303,371	5,233,441
Buildings	152,452,448	130,155,271
Equipment and Furniture	9,014,566	8,806,218
Vehicles	184,420	505,454
Construction in Progress	13,852,978	27,353,826
Subtotal	185,710,317	176,980,527
Less: Accumulated Depreciation	(78,642,900)	(73,759,416)
Total	$ 107,067,417	$ 103,221,111

Total depreciation expense for the years ended December 31, 2023 and 2022 was approximately $5,040,000 and $4,684,000, respectively.

Construction in Progress

Construction in progress for the years ended December 31, 2023 and 2022 of approximately $13,853,000 and $27,354,000, 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.

NOTE 9 PROPERTY, PLANT, AND EQUIPMENT (CONTINUED)

Construction in Progress (Continued)

With the issuance of the MSL Series 2023 Bonds (see Note 10), the Corporation is in the process of expansion and repositioning of the Morningside at The Meadows campus. The projects are anticipated to cost approximately $106,000,000 and will include 128 new independent living units that will be completed in two phases at the Menger Springs Campus, along with repositioning the Meadows campus by adding 48 assisted living units, 18 memory care units, and 72 skilled nursing beds. They will also take 100 skilled nursing beds out of service through the repositioning. 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 June 2022, a portion of the facility opened for residents and was completed in 2023.

NOTE 10 LONG-TERM DEBT

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

	2023	2022
New Hope Cultural Revenue Bonds Series 2020- MM	$ 27,325,000	$ 27,675,000
New Hope Cultural Revenue Bonds Series 2020- MSL	16,580,000	16,810,000
New Hope Cultural Revenue Bonds Series 2022	55,625,000	55,625,000
New Hope Cultural Revenue Bonds Series 2023	11,500,000	-
Subtotal	111,030,000	100,110,000
Original Issue Premium	1,575,583	1,661,208
Unamortized Debt Issuance Costs	(5,265,859)	(3,257,372)
Total Long-Term Debt	107,339,724	98,513,836
Less: Current Maturities of Long-Term Debt	(1,375,000)	(580,000)
Long-Term Debt, Net	$ 105,964,724	$ 97,933,836

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. In 2022, the Organization refinanced the 2013 Series Bonds with New Hope Cultural Revenue Bonds Series 2022- 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.

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). In 2022, the sole member, Morningside Ministries, was issued the remaining $1,475,000. 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.

On November 1, 2023 MSL entered into the first amendment of the continuing covenants agreement which, among other things, amended the Debt Service Coverage Ratio Testing Date to December 31, 2024.

NOTE 10 LONG-TERM DEBT (CONTINUED)

New Hope Cultural Revenue Bonds Series 2022

On September 27, 2022, the New Hope Cultural Education Facilities Corporation (Issuer) issued First Mortgage Revenue Bonds Series 2022 in the amount of $55,625,000 on behalf of the Organization with the proceeds used to (1) refund all of the outstanding Series 2013 Bonds and (2) to pay a portion of the cost of issuance of the MM Series 2022 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, 2057.

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 2022 Bonds are secured by certain bank accounts, property, plant, and equipment.

New Hope Cultural Revenue Bonds Series 2023

On December 7, 2023, the New Hope Cultural Education Facilities Corporation (Issuer) issued First Mortgage Revenue Bonds Series 2023 in the amount of $126,100,000 on behalf of the Organization with the proceeds used to (1) finance or refinance a portion of the costs of acquisition, construction, improvement and equipping an expansion project (2) to fund a deposit to the debt service reserve fund and (3) fund capitalized interest on the 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, 2033.

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.

NOTE 10 LONG TERM DEBT (CONTINUED)

New Hope Cultural Revenue Bonds Series 2023 (Continued)

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

Year Ending December 31,	Amount
2024	$ 1,375,000
2025	1,425,000
2026	1,480,000
2027	1,545,000
2028	1,610,000
Thereafter	103,595,000
Total	$ 111,030,000

Restrictive Covenants

Under the terms of the MM Series 2020 Bonds, the MSL Series 2020 Bonds, the MM Series 2022 Bonds, and the MM Series 2023 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, 2023, management is not aware of any instances where the Corporation did not meet 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:

	2023	2022
Special Projects Fund	$ 1,993,269	$ 1,435,501
Loewenberg Scholarship Fund	114,462	113,386
mmLearn.org Fund	-	2,752
Meadows Employee Fund	7,000	7,000
Total Net Assets with Purpose Restrictions	$ 2,114,731	$ 1,558,639

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:

	2023	2022
Maida Davis Turtle Charitable Trust Fund	$ 316,301	$ 287,062
Lewis Charitable Trust Fund	180,864	180,864
Alder Charitable Trust Fund	2,251,142	2,048,713
Sears Beneolent Endowment Fund	240,796	223,437
Luella Pliefke Trust Fund	6,675	6,675
Other Time Restricted Gifts	2,611,652	638,800
Total Net Assets with Time Restrictions	$ 5,607,430	$ 3,385,551

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:

	2023	2022
Meadows Improvements	$ 1,000,000	$ 1,000,000

Undesignated Board Restricted Funds

There were distributions of $536,000 and $646,800 during the years ended December 31, 2023 and 2022, respectively.

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

	2023	2022
Covenant Fund	$ 10,232,570	$ 8,451,992
Other Board Restricted Funds	-	5,023,318
Total	$ 10,232,570	$ 13,475,310

NOTE 12 FINANCIAL ASSISTANCE AND CHARITY CARE

One of the purposes of the Corporation is to provide financial assistance to residents who may not otherwise be able to obtain services offered by the Corporation. Financial assistance is provided through the Covenant Assistance Program. Covenant financial assistance is based on “need” and is provided to residents who meet the need criteria established by management. The Corporation provided Covenant financial assistance during the years 2023 and 2022 in the amounts of approximately $522,000 and $602,000, 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 $2,888,000 and $2,334,000 in 2023 and 2022, respectively. The total cost estimate is based upon actual per patient day custodial care costs. The net cost of charity care was approximately $2,352,000 and $2,334,000 in 2023 and 2022, respectively. This is net of any restricted contributions and accumulated covenant fund income received and released to assist with such costs, which were approximately $536,000 in 2023 and $647,000 in 2022.

NOTE 13 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 14 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, 2023 and 2022 totaled $252,117 and $285,404, respectively.

Unasserted Claims

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

NOTE 14 COMMITMENTS AND CONTINGENCIES (CONTINUED)

Health Care

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

NOTE 15 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 2022 and 2023 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 $-0- and $420,569 for the years ended December 31, 2023 and 2022, respectively. The PRF’s are subject to certain restrictions on eligible expenses or uses, reporting requirements, and will be subject to audit. The Organization recognized $-0- and $420,569 as Other Operating Revenue in the consolidated statement of operations as of December 31, 2023 and 2022, respectively.

INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION

Stockholders and Members
Morningside Ministries and Subsidiaries
San Antonio, Texas

We have audited the consolidated financial statements of Morningside Ministries and Subsidiaries' as of and for the year ended December 31, 2023, and our report thereon dated May 16, 2024, which expressed an unmodified opinion on those consolidated financial statements appears on 37-41. Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating balance sheet, and the statements of operations, changes in net assets, and cash flows are presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP
Dallas, Texas
May 16, 2024

MORNINGSIDE MINISTRIES AND SUBSIDIARIES
CONSOLIDATING BALANCE SHEET
DECEMBER 31, 2023
(SEE INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION)

ASSETS	Morningside Ministries	mmCare, LLC	Morningside Senior Living	Eliminations	Total
CURRENT ASSETS					
Cash and Cash Equivalents	$ 1,379,679	$ 6,608	$ 87,239	$ -	$ 1,473,526
Resident Accounts Receivable					
Resident Accounts Receivable Gross	2,114,037	1,355,473	40,259	-	3,509,769
Allowance for Credit Losses	(508,000)	(755,473)	-		(1,263,473)
Resident Accounts Receivable, Net	1,606,037	600,000	40,259	-	2,246,296
Accounts Receivable, Other	6,849,339	-	-	-	6,849,339
Current Portion of Assets Limited as to Use	3,126,235	-	-	-	3,126,235
Pledges Receivable	2,611,652	-	-	-	2,611,652
Supplies	65,429	-	-	-	65,429
Prepaid Expenses and Other	378,191	10,950	601	-	389,742
Total Current Assets	16,016,562	617,558	128,099	-	16,762,219
INVESTMENTS	6,209,416	-	1,414,281	-	7,623,697
ASSETS LIMITED AS TO USE					
Cash and Cash Equivalents - Trustee Held	18,141,923	-	2,036,309	-	20,178,232
Coverage Support Fund	3,738,385	-	-	-	3,738,385
Debt Service Reserve Fund	5,114,283	-	1,099,088	-	6,213,371
Board, Purpose, and Time Restricted Investments and Trusts	16,343,079	-	-	-	16,343,079
Total Assets Limited as to Use	43,337,670	-	3,135,397	-	46,473,067
Less: Current Portion of Assets Limited as to Use	(3,126,235)	-	-	-	(3,126,235)
Total Assets Limited as to Use, Net of Current Portion	40,211,435	-	3,135,397	-	43,346,832
PROPERTY, PLANT, AND EQUIPMENT	162,142,223	3,074	23,565,020	-	185,710,317
Less: Accumulated Depreciation	(77,171,692)	(3,074)	(1,468,134)	-	(78,642,900)
Property, Plant, and Equipment, Net	84,970,531	-	22,096,886	-	107,067,417
OTHER ASSETS					
Due From (To) Affiliates	1,676,873	(1,275,224)	(401,649)	-	-
Investment in mmCare, LLC	1,047,153	-	-	(1,047,153)	-
Deposits	19,526	-	-	-	19,526
Home Health License	-	251,750	-	-	251,750
Investment in Risk Retention Group	240,987	-	-	-	240,987
Other Assets	45,553	-	-	-	45,553
Total Other Assets	3,030,092	(1,023,474)	(401,649)	(1,047,153)	557,816
Total Assets	$ 150,438,036	$ (405,916)	$ 26,373,014	$ (1,047,153)	$ 175,357,981

MORNINGSIDE MINISTRIES AND SUBSIDIARIES
CONSOLIDATING BALANCE SHEET (CONTINUED)
DECEMBER 31, 2023
(SEE INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION)

	Morningside Ministries	mmCare, LLC	Morningside Senior Living	Eliminations	Total
LIABILITIES AND NET ASSETS					
CURRENT LIABILITIES					
Current Maturities of Long-Term Debt	$ 1,130,000	$ -	$ 245,000	$ -	$ 1,375,000
Accounts Payable	993,457	11,420	63,904	-	1,068,781
Accrued Wages and Related Costs	1,389,131	53,259	-	-	1,442,390
Accrued Insurance Cost	279,311	-	-	-	279,311
Accrued Interest Payable	1,900,983	-	70,962	-	1,971,945
Accrued Expenses	323,752	-	-	-	323,752
Total Current Liabilities	6,016,634	64,679	379,866	-	6,461,179
LONG-TERM LIABILITIES					
Entrance Fee Deposits	1,197,778	-	-	-	1,197,778
Refundable Entrance Fee Payable	20,126,622	-	-	-	20,126,622
Deferred Revenue	9,876,754	-	-	-	9,876,754
Long-Term Debt	90,438,812	-	15,525,912	-	105,964,724
Total Long-Term Liabilities	121,639,966	-	15,525,912	-	137,165,878
Total Liabilities	127,656,600	64,679	15,905,778	-	143,627,057
NET ASSETS					
Without Donor Restrictions:					
Undesignated	3,826,705	(470,595)	10,467,236	(1,047,153)	12,776,193
Board-Designated	10,232,570	-	-	-	10,232,570
Total Without Donor Restrictions	14,059,275	(470,595)	10,467,236	(1,047,153)	23,008,763
With Donor Restrictions:					
Purpose Restrictions	2,114,731	-	-	-	2,114,731
Time Restrictions	5,607,430	-	-	-	5,607,430
Perpetual Funds	1,000,000	-	-	-	1,000,000
Total With Donor Restrictions	8,722,161	-	-	-	8,722,161
Total Net Assets	22,781,436	(470,595)	10,467,236	(1,047,153)	31,730,924
Total Liabilities and Net Assets	$ 150,438,036	$ (405,916)	$ 26,373,014	$ (1,047,153)	$ 175,357,981

MORNINGSIDE MINISTRIES AND SUBSIDIARIES
CONSOLIDATING STATEMENT OF OPERATIONS
YEAR ENDED DECEMBER 31, 2023
(SEE INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION)

	Morningside Ministries	mmCare, LLC	Morningside Senior Living	Eliminations	Total
WITHOUT DONOR RESTRICTIONS REVENUES					
Net Resident Service Revenue	$ 26,093,155	$ 1,237,901	$ 1,726,307	$ -	$ 29,057,363
Rental Income	850,000	-	-	-	850,000
Management Fee Revenue	5,814,653	-	-	-	5,814,653
Incentive Fee Revenue	39,171	-	-	-	39,171
Amortization of Advance Entrance Fee Revenue	1,519,235	-	-	-	1,519,235
Other Operating Revenue	7,559,499	147,931	778,644	-	8,486,074
Net Assets Released from Restrictions - Operations	298,413	-	-	-	298,413
Total Operating Revenue	42,174,126	1,385,832	2,504,951	-	46,064,909
OPERATING EXPENSES					
Nursing Services	8,794,563	2,696	611	-	8,797,870
Food Services	5,521,655	-	124,611	-	5,646,266
Environmental Services	5,806,975	-	242,870	-	6,049,845
Ancillary Services	1,830,424	395,002	9,573	-	2,234,999
Life Enrichment	882,628	704	69,866	-	953,198
General and Administrative	10,401,313	1,210,440	885,977	-	12,497,730
Depreciation	4,330,744	7,773	701,029	-	5,039,546
Interest	4,418,123	-	866,470	-	5,284,593
Total Operating Expenses	41,986,425	1,616,615	2,901,007	-	46,504,047
NET LOSS FROM OPERATIONS	187,701	(230,783)	(396,056)	-	(439,138)
OTHER INCOME (EXPENSE)					
Unrestricted Investment Earnings, Net of Fees	3,621,976	-	-	-	3,621,976
Unrestricted Contributions	183,668	-	11,675	-	195,343
Gain on Sale of Property and Equipment	32,082	71,947	-	-	104,029
Loss on Extinguishment of Debt	-	-	-	-	-
Total Other Income	3,837,726	71,947	11,675	-	3,921,348
DEFICIT OF REVENUES OVER EXPENSES	$ 4,025,427	$ (158,836)	$ (384,381)	$ -	$ 3,482,210
Change in Investment in mmCare, LLC	(158,836)	-	-	158,836	-
Change in Investment in Risk Retention Group	57,026	-	-	-	57,026
Net Assets Released from Restriction - Capital	500,000	-	-	-	500,000
INCREASE (DECREASE) IN NET ASSETS WITHOUT DONOR RESTRICTIONS	$ 4,423,617	$ (158,836)	$ (384,381)	$ 158,836	$ 4,039,236

MORNINGSIDE MINISTRIES AND SUBSIDIARIES
CONSOLIDATING STATEMENT OF CHANGES IN NET ASSETS
YEAR ENDED DECEMBER 31, 2023
(SEE INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION)

	Morningside Ministries	mmCare, LLC	Morningside Senior Living	Eliminations	Total
NET ASSETS WITHOUT DONOR RESTRICTIONS					
Deficit of Revenues Over Expenses	$ 4,025,427	$ (158,836)	$ (384,381)	$ -	$ 3,482,210
Distributions	-	-	-	-	-
Change in Investment in mmCare, LLC	(158,836)			158,836	-
Change in Investment in Risk Retention Group	57,026	-	-	-	57,026
Net Assets Released from Restriction - Capital	500,000				500,000
Increase (Decrease) in Net Assets Without Donor Restrictions	4,423,617	(158,836)	(384,381)	158,836	4,039,236
NET ASSETS WITH DONOR RESTRICTIONS - PURPOSE RESTRICTIONS					
Contributions	854,505	-	-	-	854,505
In-Kind Revenue	500,000				500,000
Purpose Restricted Investment Earnings, Net					-
Net Assets Released from Restrictions - Operations	(298,413)	-	-	-	(298,413)
Net Assets Released from Restriction - Capital	(500,000)				(500,000)
Increase in Net Assets With Donor Restrictions - Purpose Restrictions	556,092	-	-	-	556,092
NET ASSETS WITH DONOR RESTRICTIONS - TIME RESTRICTIONS					
Contributions	1,972,852	-	-	-	1,972,852
Time Restricted Investment Earnings, Net	249,027	-	-	-	249,027
Increase in Net Assets with Donor Restrictions - Time Restriction	2,221,879	-	-	-	2,221,879
INCREASE (DECREASE) IN NET ASSETS	7,201,588	(158,836)	(384,381)	158,836	6,817,207
Net Assets - Beginning of Year	15,579,848	(311,759)	10,851,617	(1,205,989)	24,913,717
NET ASSETS - END OF YEAR	$ 22,781,436	$ (470,595)	$ 10,467,236	$ (1,047,153)	$ 31,730,924

MORNINGSIDE MINISTRIES AND SUBSIDIARIES
CONSOLIDATING STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2023
(SEE INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION)

	Morningside Ministries	mmCare, LLC	Morningside Senior Living	Eliminations	Total
CASH FLOWS FROM OPERATING ACTIVITIES					
Increase (Decrease) in Net Assets	$ 7,201,588	$ (158,836)	$ (384,381)	$ (26,355)	$ 6,632,016
Adjustments to Reconcile Increase (Decrease) in Net Assets to Net Cash Provided (Used) by Operating Activities:					
Depreciation	4,330,744	7,773	701,029	-	5,039,546
Amortization of Debt Issuance Costs	(8,648)	-	25,915	-	17,267
Amortization of Advance Entrance Fees	(1,519,235)	-	-	-	(1,519,235)
Unrealized Losses on Investments and Assets Limited as to Use	(2,520,836)	-	(157,822)	-	(2,678,658)
Realized Gains on Investments and Assets Limited as to Use	(5,288)	-	-	-	(5,288)
Gain on Sale of Property and Equipment	(104,029)	-	-	-	(104,029)
Bad Debt Provision	442,898	230,473	-	-	673,371
Investment Income (Net of Fees)	(1,187,057)	-	-	-	(1,187,057)
Receipt of Restricted Contributions	(854,505)	-	-	-	(854,505)
In-Kind Revenue	(500,000)				(500,000)
(Increase) Decrease in Assets:					
Resident Accounts Receivable, Net	(753,085)	(220,459)	(35,137)	-	(1,008,681)
Accounts Receivable - Other	(8,259,126)	-	-	-	(8,259,126)
Supplies	26,840	-	-	-	26,840
Prepaid Expenses and Deposits	120,577	(15,313)	(599)	-	104,665
Increase (Decrease) in Liabilities:					
Accounts Payable	(114,923)	15,438	63,903	-	(35,582)
Accrued Wages and Related Costs	80,323	(2,306)	-	-	78,017
Accrued Insurance Cost	161,094	-	-	-	161,094
Accrued Expenses	481,720	-	(272,168)	-	209,552
Resident Deposits	1,197,768	-	-	-	1,197,768
Entrance Fee Turnover, Net	1,044,523	-	-	-	1,044,523
Net Cash Provided (Used) by Operating Activities	(738,657)	(143,230)	(59,260)	(26,355)	(967,502)
CASH FLOWS FROM INVESTING ACTIVITIES					
Purchase and Sale of Property, Plant, and Equipment	(7,317,339)	121,053	(1,085,537)	-	(8,281,823)
Net of Purchases and Sales of Investments and Assets Limited as to Use	4,766,931	-	662,754	-	5,429,685
Interest and Dividends on Investments and Assets Limited as to Use	1,187,057	-	-	-	1,187,057
Investment in mmCare	(26,355)	-	-	26,355	-
Investment in Risk Retention Group	(57,026)	-	-	-	(57,026)
Net Cash Provided (Used) by Investing Activities	(1,446,732)	121,053	(422,783)	26,355	(1,722,107)

MORNINGSIDE MINISTRIES AND SUBSIDIARIES
CONSOLIDATING STATEMENT OF CASH FLOWS (CONTINUED)
YEAR ENDED DECEMBER 31, 2023
(SEE INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION)

	Morningside Ministries	mmCare, LLC	Morningside Senior Living	Eliminations	Total
CASH FLOWS FROM FINANCING ACTIVITIES					
Payment of Debt Issuance Costs	$ (2,111,379)	$ -	$ -	$ -	$ (2,111,379)
Issuance of Long-Term Debt	11,500,000		-		11,500,000
Principal Payments on Long-Term Debt	(350,000)	-	(230,000)	-	(580,000)
Receipt of Restricted Contributions	854,505	-	-	-	854,505
Net Cash Provided (Used) by Financing Activities	9,893,126	-	(230,000)	-	9,663,126
NET INCREASE (DECREASE) IN CASH, CASH EQUIVALENTS, RESTRICTED CASH, AND RESTRICTED CASH EQUIVALENTS	7,707,737	(22,177)	(712,043)	-	6,973,517
Cash, Cash Equivalents, Restricted Cash, and Restricted Cash Equivalents - Beginning of Year	10,529,586	28,785	3,934,679	-	14,493,050
CASH, CASH EQUIVALENTS, RESTRICTED CASH, AND RESTRICTED CASH EQUIVALENTS - END OF YEAR	$ 18,237,323	$ 6,608	$ 3,222,636	$ -	$ 21,466,567
RECONCILIATION OF CASH, CASH EQUIVALENTS, RESTRICTED CASH, AND RESTRICTED CASH EQUIVALENTS TO CONSOLIDATED BALANCE SHEET					
Cash and Cash Equivalents	$ 1,379,679	$ 6,608	$ 87,239	$ -	$ 1,473,526
Cash and Cash Equivalents - Trustee Held	17,042,835	-	3,135,397	-	20,178,232
Cash, Cash Equivalents, Restricted Cash, and Restricted Cash Equivalents - End of Year	$ 18,422,514	$ 6,608	$ 3,222,636	$ -	$ 21,651,758
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION					
Cash Paid for Interest	$ 4,542,357	$ -	$ 863,356	$ -	$ 5,405,713

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