MARBRIDGE FOUNDATION, INC.

Consolidated Financial Statements
as of and for the Years Ended
June 30, 2018 and 2017 and
Independent Auditors' Report

MAXWELL LOCKE & RITTER

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INDEPENDENT AUDITORS' REPORT

To the Board of Trustees of
Marbridge Foundation, Inc.:

We have audited the accompanying consolidated financial statements of Marbridge Foundation, Inc. (a nonprofit organization) and its subsidiary, Marbridge Minerals, LLC, (a Texas limited liability company) (collectively, the "Foundation"), which comprise the consolidated statements of financial position as of June 30, 2018 and 2017, and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the 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 the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

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

Affiliated Company
ML&R WEALTH MANAGEMENT LLC
"A Registered Investment Advisor"
This firm is not a CPA firm

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Foundation as of June 30, 2018 and 2017, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Maxwell Locke & Ritter LLP

Austin, Texas
November 19, 2018

MARBRIDGE FOUNDATION, INC.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2018 AND 2017

	2018	2017
CURRENT ASSETS:		
Cash and cash equivalents	$ 2,129,299	$ 4,517,987
Accounts receivable, net	488,880	378,251
Contributions receivable, net	541,571	307,123
Prepaid expenses	84,711	31,544
Total current assets	3,244,461	5,234,905
LONG-TERM INVESTMENTS:		
Investments	4,994,585	2,777,631
Marbridge Foundation Assistance Trust (“MFAT”)	2,388,823	2,274,750
Other investments	303,258	363,411
Total long-term investments	7,686,666	5,415,792
PROPERTY, PLANT, AND EQUIPMENT, NET	14,692,213	11,519,209
CONTRIBUTIONS RECEIVABLE, NET	431,901	335,282
CASH RESTRICTED FOR RESIDENTS’ FUNDS	433,581	375,675
CASH RESTRICTED TO INVESTMENT IN BUILDING CONSTRUCTION	323,745	1,295,374
OTHER LONG-TERM ASSETS	42,000	42,000
TOTAL ASSETS	$ 26,854,567	$ 24,218,237

	2018	2017
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable	$ 994,243	$ 300,207
Accrued expenses	349,760	430,072
Deferred revenue	116,558	165,433
Current portion of long-term debt	89,231	88,322
Total current liabilities	1,549,792	984,034
DEFERRED LIFETIME CARE INCOME	43,567	44,725
RESIDENTS’ FUNDS	433,581	375,675
LONG-TERM DEBT	213,905	249,745
Total liabilities	2,240,845	1,654,179
NET ASSETS:		
Unrestricted	20,243,651	18,100,778
Temporarily restricted	2,377,904	2,471,113
Permanently restricted	1,992,167	1,992,167
Total net assets	24,613,722	22,564,058
TOTAL LIABILITIES AND NET ASSETS	$ 26,854,567	$ 24,218,237

See notes to consolidated financial statements.

MARBRIDGE FOUNDATION, INC.

CONSOLIDATED STATEMENTS OF ACTIVITIES
YEARS ENDED JUNE 30, 2018 AND 2017

	2018	2017
CHANGES IN UNRESTRICTED NET ASSETS:		
REVENUES AND SUPPORT:		
Tuitions and fees	$ 6,851,876	$ 6,690,801
Net patient service revenue	5,786,795	5,830,710
Contributions	1,085,375	775,788
Unrealized gains on investments	158,327	255,951
Realized gains on investments	132,334	180,037
Gain on asset disposition	-	3,017,960
Miscellaneous income	144,640	158,768
Total unrestricted revenues and support	14,159,347	16,910,015
NET ASSETS RELEASED FROM RESTRICTIONS	3,162,547	815,807
Total unrestricted revenues, support, and net assets released from restrictions	17,321,894	17,725,822
EXPENSES:		
Program services	12,252,994	12,002,940
Management and general	2,463,853	2,562,130
Fundraising	462,174	399,777
Total expenses	15,179,021	14,964,847
CHANGE IN UNRESTRICTED NET ASSETS	2,142,873	2,760,975
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS:		
REVENUES AND SUPPORT:		
Contributions	2,915,265	2,291,237
Unrealized gains on investments in MFAT	120,604	115,400
Dividends and interest income on MFAT	40,000	80,000
Realized (losses) gains on investments in MFAT	(6,531)	36,101
Total temporarily restricted revenues and support	3,069,338	2,522,738
NET ASSETS RELEASED FROM RESTRICTIONS:		
Capital campaign renovation expenditures	2,591,180	137,262
Programs and activities	219,661	207,838
Expiration of inherent time restrictions	161,420	219,338
Non-MFAT scholarships (financial assistance) awarded	98,596	82,347
Other building improvements	51,690	60,362
MFAT endowment scholarships awarded	40,000	108,660
Total net assets released from restrictions	3,162,547	815,807
CHANGE IN TEMPORARILY RESTRICTED NET ASSETS	(93,209)	1,706,931
TOTAL CHANGE IN NET ASSETS	2,049,664	4,467,906
NET ASSETS, beginning of year	22,564,058	18,096,152
NET ASSETS, end of year	$ 24,613,722	$ 22,564,058

See notes to consolidated financial statements.

MARBRIDGE FOUNDATION, INC.

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2018

	Program Services	Management and General	Fundraising	Totals
EMPLOYEE EXPENSES:				
Salaries and wages	$ 6,420,071	$ 1,583,269	$ 211,364	$ 8,214,704
Health and medical insurance	691,524	111,289	18,978	821,791
Payroll taxes	470,800	113,853	15,998	600,651
Retirement benefits	105,187	39,154	6,653	150,994
HSA employer contributions	39,250	7,000	875	47,125
Occupational injury insurance	35,852	6,661	69	42,582
Total employee related expenses	7,762,684	1,861,226	253,937	9,877,847
OTHER EXPENSES:				
Depreciation	767,067	56,828	-	823,895
Groceries	772,872	16,250	-	789,122
Medical services, drugs, and supplies	696,685	-	-	696,685
Contract labor	236,042	63,978	35,970	335,990
Utilities	287,004	6,506	-	293,510
Repairs and maintenance	177,312	109,831	303	287,446
Insurance	216,580	21,084	1,255	238,919
Athletic and other resident activities	184,170	-	-	184,170
Advertising and promotion	35,434	74,119	54,494	164,047
Supplies	156,749	6,472	34	163,255
Consultants	139,674	-	-	139,674
Computer expenses	89,930	16,752	32,719	139,401
Scholarships - other	97,726	-	-	97,726
City sewage - waste water	94,029	-	-	94,029
Telephone	71,853	17,663	3,295	92,811
Transportation	66,941	15,627	2,080	84,648
Staff expenses	38,939	34,810	3,116	76,865
Bad debts	18,467	-	54,171	72,638
Livestock and pet expenses	52,427	-	-	52,427
Office supplies	25,480	18,816	333	44,629
Legal and professional	-	44,396	-	44,396
Payroll processing	33,681	6,097	429	40,207
Scholarships - MFAT	40,000	-	-	40,000
Sanitation	33,439	-	-	33,439
Rent expense	16,119	17,183	-	33,302
Staff training	26,644	2,040	91	28,775
Residents' direct costs	16,345	8,550	1,493	26,388
Dues and subscriptions	17,339	7,973	600	25,912
Travel	461	12,377	6,948	19,786
Extermination	16,603	2,406	-	19,009
Interest expense	249	18,572	-	18,821
Laundry	15,235	-	-	15,235
Landscaping	3,643	9,425	-	13,068
Postage	157	11,202	118	11,477
Bank charges	-	476	10,679	11,155
Fees and licenses	6,177	1,208	97	7,482
Software maintenance and upgrades	-	938	-	938
Miscellaneous and other	38,837	1,048	12	39,897
Total other expenses	4,490,310	602,627	208,237	5,301,174
TOTAL EXPENSES	$ 12,252,994	$ 2,463,853	$ 462,174	$ 15,179,021

See notes to consolidated financial statements.

MARBRIDGE FOUNDATION, INC.

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2017

	Program Services	Management and General	Fundraising	Totals
EMPLOYEE EXPENSES:				
Salaries and wages	$ 6,222,526	$ 1,541,800	$ 198,671	$ 7,962,997
Health and medical insurance	693,473	112,951	18,893	825,317
Payroll taxes	453,366	109,421	14,426	577,213
Retirement benefits	82,179	32,264	5,629	120,072
HSA employer contributions	45,164	7,811	1,200	54,175
Occupational injury insurance	64,366	9,432	46	73,844
Total employee related expenses	7,561,074	1,813,679	238,865	9,613,618
OTHER EXPENSES:				
Depreciation	845,172	59,405	-	904,577
Groceries	830,806	14,302	-	845,108
Medical services, drugs, and supplies	770,765	-	-	770,765
Contract labor	85,675	80,205	11,944	177,824
Utilities	268,274	7,280	-	275,554
Repairs and maintenance	133,141	102,230	-	235,371
Insurance	218,359	39,181	100	257,640
Athletic and other resident activities	160,768	-	-	160,768
Advertising and promotion	34,799	53,988	66,510	155,297
Supplies	167,130	3,417	-	170,547
Consultants	160,502	1,000	-	161,502
Computer expenses	88,113	24,107	26,079	138,299
Scholarships - other	69,822	-	-	69,822
City sewage - waste water	91,097	-	-	91,097
Telephone	79,905	21,867	3,654	105,426
Transportation	55,939	14,391	172	70,502
Staff expenses	36,215	31,441	5,731	73,387
Bad debts	1,341	-	-	1,341
Livestock and pet expenses	56,782	-	-	56,782
Office supplies	24,094	18,275	594	42,963
Legal and professional	-	168,190	-	168,190
Payroll processing	30,783	5,345	383	36,511
Scholarships - MFAT	80,000	-	-	80,000
Sanitation	27,822	-	-	27,822
Rent expense	3,320	15,053	-	18,373
Staff training	34,648	3,198	20,682	58,528
Residents’ direct costs	12,136	8,429	1,154	21,719
Dues and subscriptions	10,597	6,839	-	17,436
Travel	-	11,598	18,877	30,475
Extermination	18,773	2,611	-	21,384
Interest expense	1,234	19,992	-	21,226
Laundry	9,628	-	-	9,628
Landscaping	1,681	11,258	-	12,939
Postage	14	15,291	173	15,478
Bank charges	-	-	4,859	4,859
Fees and licenses	10,627	2,461	-	13,088
Software maintenance and upgrades	-	4,463	-	4,463
Miscellaneous and other	21,904	2,634	-	24,538
Total other expenses	4,441,866	748,451	160,912	5,351,229
TOTAL EXPENSES	$ 12,002,940	$ 2,562,130	$ 399,777	$ 14,964,847

See notes to consolidated financial statements.

MARBRIDGE FOUNDATION, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2018 AND 2017

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	$ 2,049,664	$ 4,467,906
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Provision for bad debt	72,638	40,942
Net realized and unrealized gains on investments	(404,734)	(587,489)
Donated investments	(116,266)	-
Loss (gain) on asset disposition	8,449	(3,017,960)
Depreciation	823,895	904,577
Amortization of deferred lifetime care income	(1,158)	(1,048)
Contributions restricted for investment in property and equipment	(2,153,829)	-
Change in assets and liabilities that provided (used) cash:		
Accounts receivable	(183,267)	(85,880)
Contributions receivable	(331,067)	(192,898)
Prepaid expenses	(53,167)	(7,697)
Accounts payable	(147,273)	19,671
Accrued expenses	(80,312)	184,340
Deferred revenue	(48,875)	(1,734)
Residents' funds	57,906	(24,444)
Net cash (used in) provided by operating activities	(507,396)	1,698,286
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sales of investments	2,252,406	931,342
Purchases of investments	(4,002,280)	(879,382)
Proceeds from sale of property, plant, and equipment	35,200	3,077,121
Purchases of property, plant, and equipment	(3,199,239)	(237,824)
Net cash (used in) provided by investing activities	(4,913,913)	2,891,257
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from borrowings of long-term debt	78,995	-
Payments on long-term debt	(113,926)	(93,484)
Contributions restricted for investment in property and equipment	2,153,829	-
Net cash provided by (used in) financing activities	2,118,898	(93,484)
NET CHANGE IN CASH AND CASH EQUIVALENTS	(3,302,411)	4,496,059
CASH AND CASH EQUIVALENTS, beginning of the year	6,189,036	1,692,977
CASH AND CASH EQUIVALENTS, end of the year	$ 2,886,625	$ 6,189,036
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION-		
Cash paid during the year for interest	$ 18,821	$ 21,226
NON CASH INVESTING INFORMATION-		
Property, plant, and equipment additions recorded in accounts payable	$ 841,309	$ -

See notes to consolidated financial statements.

1. ORGANIZATION

Marbridge Foundation, Inc. ("Marbridge") is a residential community that offers a unique full spectrum of transitional and lifetime care and training to adults with special needs from age 18 to the end of life. Through compassion and faith, Marbridge provides residents opportunities to learn, experience, and achieve a new life, with a mission of helping these adults with intellectual disabilities reach their highest potential. Marbridge offers residents (and their families) the security of knowing they can have a college-like post-secondary living experience or a life-long residence. Marbridge's care philosophy focuses on abilities, never disabilities, and assists and encourages residents to grow and achieve the highest independence possible. The Ranch provides assisted living and the Village provides more independent and semi-independent living. Additionally, Marbridge provides skilled nursing care at its Villa facility and at The Bridges, a skilled nursing and rehabilitation center, both of which provide nursing care to the general public, in addition to Marbridge residents.

Marbridge Minerals, LLC (the "LLC"), a wholly-owned subsidiary of Marbridge, is a Texas limited liability company formed on March 21, 2016 to hold certain producing and non-producing mineral interests that were contributed to Marbridge.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation and Consolidation - The accompanying consolidated financial statements are presented in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") as defined by the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC"). The consolidated financial statements include the accounts of Marbridge and the LLC (collectively, the "Foundation"), and all significant intercompany balances and transactions have been eliminated in consolidation.

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

> <u>Unrestricted</u> **-** Net assets not subject to donor-imposed stipulations. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law.
>
> <u>Temporarily Restricted</u> **-** Net assets subject to donor imposed stipulations, which limit their use to a specific purpose and/or the passage of time.
>
> <u>Permanently Restricted</u> **-** Net assets subject to donor-imposed stipulations, which require them to be maintained permanently by the Foundation.

Use of Estimates - The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Reclassifications - Certain amounts in the prior year have been reclassified to conform to the presentation adopted in the current year. Total net assets and change in net assets are unchanged due to these reclassifications.

Fair Value Measurements - Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value accounting requires characterization of the inputs used to measure fair value into a three-level fair value hierarchy as follows:

Level 1 **-** Inputs based on quoted prices in active markets for identical assets or liabilities. An active market is a market in which transactions occur with sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2 **-** Observable inputs that reflect the assumptions market participants would use in pricing the asset or liability developed based on market data obtained from sources independent from the entity.

Level 3 **-** Unobservable inputs that reflect the entity's own assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available.

There are three general valuation techniques that may be used to measure fair value: 1) market approach **-** uses prices generated by market transactions involving identical or comparable assets or liabilities, 2) cost approach **-** uses the amount that currently would be required to replace the service capacity of an asset (replacement cost), and 3) income approach **-** uses valuation techniques to convert future amounts to present amounts based on current market expectations.

Cash and Cash Equivalents - The Foundation considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

Cash Restricted for Residents' Funds - As a service to its residents, the Foundation will manage cash balances on behalf of its residents in order to assist them in the management of their personal affairs. The Foundation recognizes no revenues or expenses with respect to these funds, the total amounts and earnings of which are owned entirely by the individual residents. These assets of the residents are reported as restricted cash with an offsetting residents' funds liability in the accompanying consolidated statements of financial position.

Accounts Receivable - Accounts receivable are recorded at the amount the Foundation expects to collect on outstanding balances. The Foundation makes regular reviews of accounts for activity, delinquencies, and potential write-offs. Provisions for uncollectible accounts are made on the basis of prior write-offs and historical collection experience. Although the Foundation has not historically experienced significant uncollectible amounts, an allowance for uncollectible accounts receivable has been established (Note 4).

Contributions Receivable - Contributions receivable are recorded at the amount the Foundation expects to receive from donors. Promises to give are recorded at fair value if expected to be collected in one year and at net present value if expected to be collected in more than one year. Although the Foundation has not historically experienced significant uncollectible amounts, an allowance for uncollectible contributions receivable has been established (Note 5). The Foundation has not recorded a net present value discount for long-term contributions receivable as management considers the amount to be insignificant.

Long-Term Investments - Investments, including those held in the Marbridge Foundation Assistance Trust ("MFAT"), are carried at their fair values in the consolidated statements of financial position. Any changes in fair value are reported in the consolidated statements of activities as unrealized gains or losses. Realized gains and losses are recorded as the difference between historical cost and the proceeds received from the sale of the investment.

The Foundation's other investments include both a private equity investment held by Marbridge, as well as mineral interests held by the LLC. The amount of unfunded commitments related to the private equity investments as of both June 30, 2018 and 2017 totaled approximately $21,000.

Property, Plant, and Equipment - Property, plant, and equipment additions are recorded at cost if purchased or estimated fair value if donated. The Foundation capitalizes all additions over $2,500 and expenses maintenance and repairs that do not improve or extend the useful lives of the respective assets. Depreciation is calculated on a straight-line basis over the estimated useful lives of the respective assets as follows:

Buildings and improvements	7 - 39 years
Equipment	5 - 15 years
Furniture and fixtures	5 years
Vehicles	4 years

Impairment of Long-Lived Assets - Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the amount recorded may not be recoverable. An impairment loss is recognized by the amount in which the carrying amount of the asset exceeds fair value, if the carrying amount of the asset is not recoverable.

Tuition and Fees Revenue - Tuition charges to residents at the Ranch and Village are collected in advance at the end of the month along with fees for current month activity. Payments received a month in advance are deferred until the following month, at which time revenue is recognized.

Net Patient Service Revenue - Patient service revenue includes room charges and ancillary services to residents at the Villa. The Foundation has agreements with third-party payors that provide for payments at amounts different from its established rates. Payment arrangements include reimbursed costs, discounted charges, and per diem payments. The difference between payments based on contractual arrangements and the Foundation's standard billing rates is recorded as a contractual adjustment to patient service charges. Net patient service revenue is recorded in the consolidated statements of activities at the net realizable amounts from patients, third-party payors, and others for services rendered. Third-party settlements are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

The components of net patient service revenues for the years ended June 30, 2018 and 2017 were as follows:

	2018	2017
Patient service charges:		
Medicaid	$ 6,191,939	$ 6,253,650
Self-pay and commercial insurance	1,141,848	1,094,708
Medicare A	1,127,815	1,088,809
Medicare B (outpatient)	930,619	726,573
Total patient service charges	9,392,221	9,163,740
Adjustments to patient service charges	(3,605,426)	(3,333,030)
Net patient service revenues	$ 5,786,795	$ 5,830,710

Contractual Arrangements - A significant portion of the services of the Foundation are provided to patients under contractual arrangements with the following payors:

	2018		2017	
	Gross Revenue	Revenue Net of Discount	Gross Revenue	Revenue Net of Discount
Medicaid	65.9%	61.4%	68.2%	60.7%
Self-pay and commercial insurance	12.2%	19.8%	12.1%	18.3%
Medicare A	12.0%	12.9%	11.8%	14.9%
Medicare B (outpatient)	9.9%	5.9%	7.9%	6.1%
Total payors	100%	100%	100%	100%

Medicaid

The Foundation participates in the Texas Medicaid program 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 Foundation is required to file an annual Medicaid cost report which is subject to audit by the Texas Health and Human Services Commission. Adjustments to the report may prospectively affect payment rates.

Medicare

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

Nursing facilities licensed for participation in the Medicare and Medicaid programs are subject to annual 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. For example, CMS could impose a payment ban, which would have a negative impact on the revenues of the Foundation.

Occupancy Percentages
During the years ended June 30, 2018 and 2017, the percentage of skilled nursing and nursing care residents covered under Medicaid, Medicare, or private pay and others were as follows:

	2018	2017
Total skilled nursing center occupancy:		
Medicaid	80.5%	80.9%
Private pay and other	14.7%	13.5%
Medicare	4.8%	5.6%

Performance Indicator
During the years ended June 30, 2018 and 2017, the Villa incurred an operating deficit of approximately $334,000 and $185,000, respectively. This is referred to as the performance indicator for not-for-profit, business-oriented health care entities. Amounts which are excluded from the performance indicator, consistent with industry practice, include contributions, 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).

Lifetime Care Income - Revenue from lifetime care agreements, included with miscellaneous income in the consolidated statements of activities, is recognized based upon amortization of the consideration proceeds over the life expectancy of the resident as of the date of the agreement. In the event that a resident under a lifetime care agreement subsequently qualifies for Medicaid assistance, the entire unamortized remainder (if any) of that resident’s deferred lifetime care liability is recognized as revenue.

Contribution Revenue - All contributions are recorded at their fair value and are considered to be available for operations of the Foundation unless specifically restricted by the donor. Unconditional promises to give cash and other assets are reported as temporarily restricted net assets, if they are received with donor stipulations that limit the use of donated assets. When donor restrictions expire, that is, when a stipulated time restriction ends or purpose restriction is accomplished, the related temporarily restricted net assets are reclassified to unrestricted net assets. This is reported in the consolidated statements of activities as net assets released from restrictions. Contributions restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire within the same fiscal year in which the contributions are received. Conditional promises to give are recognized only when the conditions on which they depend are substantially met and the promises become unconditional.

In-Kind Contributions - Non-cash items and other in-kind contributions are recorded at their fair value on the date they are received. Donated services are recognized as contributions during the period services are rendered if the services (a) create or enhance non-financial assets, and (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Foundation. In-kind contributions totaled $68,526 and $13,453, respectively, during the years ended June 30, 2018 and 2017, and were included with contributions revenue in the consolidated statements of activities.

Functional Expense Allocation - The accompanying consolidated financial statements present expenses by function and natural classification. Program services include all costs directly allocable to residents' life skills training, care, instruction and activities, medical expenses, and other direct expenses of the residents. Costs of activities that involve a substantial fundraising objective are reported as fundraising expenses. Management and general expenses include those costs that are not directly identifiable with any other specific function, but provide for the overall support and direction of the Foundation. Certain costs have been allocated among the program and supporting services using a variety of cost allocation techniques, such as time and effort.

Advertising Costs - Advertising costs are charged to expense as incurred and totaled $164,047 and $155,297 during the years ended June 30, 2018 and 2017, respectively.

Income Taxes - Marbridge is a non-profit organization that is tax-exempt under Section 501(c)(3) of the Internal Revenue Code, except as it relates to any unrelated business income. Marbridge did not incur any significant tax liabilities due to unrelated business income during the years ended June 30, 2018 or 2017. Income taxes are accounted for under the liability method whereby deferred tax assets and liabilities are determined based on differences between financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse. Valuation allowances are established when considered necessary to reduce the net deferred tax assets to amounts which are more likely than not to be realized. Marbridge files a Form 990 tax return in the U.S. federal jurisdiction, and is subject to routine examinations of its tax returns; however, there are no examinations currently in process. The LLC is a disregarded entity for federal income tax purposes, but files income tax returns in the state of Texas.

Change in Accounting Principle for Recently Adopted Accounting Pronouncement - In May 2015, the FASB issued Accounting Standards Update ("ASU") No. 2015-07, *Disclosures for Investments in Certain Entities that Calculate Net Asset Value Per Share (or its Equivalent).* The standard removed the requirement to categorize within the fair value hierarchy investments for which fair values are estimated using the net asset value practical expedient provided by ASC 820, *Fair Value Measurement*. The standard was effective for the year ended June 30, 2018, and was applied retrospectively. During fiscal 2018, management implemented the new standard, the effect of which is reflected in the reconciliation of investments at fair value (Note 6). There was no impact on net assets as of June 30, 2018 or 2017 or on the changes in net assets for the years then ended.

Recently Issued Accounting Pronouncements - In May 2014 and August 2015, the FASB issued ASU No. 2014-09 and ASU No. 2015-14, *Revenue from Contracts with Customers*, which supersede the revenue recognition requirements in ASC 605, *Revenue Recognition*, and most industry-specific guidance included in the ASC. The standard requires entities to recognize revenue in a way that depicts the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled to in exchange for those goods or services. The standard is effective retrospectively for fiscal years beginning after December 15, 2018 and early adoption is permitted. The Foundation is currently evaluating the impact the standard will have on its consolidated financial statements.

In August 2016, the FASB issued ASU No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, which requires presentation on the face of the statements of financial position amounts for two classes of net assets at the end of the period, net assets with donor restrictions and net assets without donor restrictions, rather than the currently required three classes. The standard also requires the presentation on the face of the statements of activities the amount of the change in each of these two classes of net assets. The standard will no longer require the presentation or disclosure of the indirect method of reporting cash flows if an entity elects to use the direct method. Entities will be required to provide enhanced disclosures about liquidity in the footnotes to the financial statements. The standard is effective for fiscal years beginning after December 15, 2017 and early adoption is permitted. The Foundation is currently evaluating the impact the standard will have on its consolidated financial statements.

3. CONCENTRATIONS

Financial instruments which potentially subject the Foundation to concentrations of credit risk consist principally of cash and cash equivalents, investments, and receivables. The Foundation places its cash and cash equivalents with a limited number of high quality financial institutions and may exceed the amount of insurance provided on such deposits. Investment securities are exposed to various risks, such as interest rate, market, and credit risks. Due to the level of risk associated with certain investments, it is at least reasonably possible that changes in the near-term could materially affect the amounts reported in the consolidated statements of financial position. The Foundation does not maintain collateral for its receivables. As of June 30, 2018, one donor accounted for 52% of total contributions receivable.

The mix of accounts receivable from patients and third-party payors as of June 30, 2018 and 2017, respectively, was as follows:

	2018	2017
Medicaid	48.1%	41.8%
Private pay and other	30.3%	41.8%
Medicare A	14.8%	5.3%
Medicare B (Outpatient therapies)	6.8%	11.1%
Total	100%	100%

4. ACCOUNTS RECEIVABLE

Accounts receivable consisted of the following as of June 30:

	2018	2017
Accounts receivable from third-party payors	$ 417,809	$ 348,507
Accounts receivable from residents	138,256	97,627
	556,065	446,134
Less: allowance for uncollectible accounts	(67,185)	(67,883)
Accounts receivable, net	$ 488,880	$ 378,251

5. CONTRIBUTIONS RECEIVABLE

Contributions receivable consisted of the following as of June 30:

	2018	2017
Without donor restrictions	$ 317,854	$ 450,234
Donor-restricted for building construction	740,267	266,500
	1,058,121	716,734
Less: allowance for uncollectible accounts	(84,649)	(74,329)
Contributions receivable, net	973,472	642,405
Amounts due in:		
Less than one year	541,571	307,123
One to five years	512,550	401,611
More than five years	4,000	8,000
Total	$ 1,058,121	$ 716,734

6. LONG-TERM INVESTMENTS

The following is a description of the valuation methodologies used for assets measured at fair value, all of which have been valued using a market approach:

Common stocks, exchange traded funds, money market and mutual funds, corporate bonds, and U.S. government and municipal securities **-** Valued at the closing price reported by an active market on which the individual securities are traded.

Mineral rights **-** Carried at fair value based on estimated future cash flows over the next five years.

Private equities **-** Valued at the most recent net asset value ("NAV") per unit per the capital account information available from the general partner.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Foundation believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The investment in private equity, classified as an "other investment" in the accompanying consolidated statements of financial position, is measured at fair value using the NAV practical expedient and has therefore been excluded from the fair value hierarchy leveling table. This investment is illiquid, meaning the Foundation may not fully redeem its investment with the investee at NAV as of June 30, 2018 or at a future date.

The following tables set forth, by level within the fair value hierarchy, the Foundation's assets at fair value as of June 30, 2018:

General Investment Account:

	Level 1	Level 2	Level 3	Total
Common stock	$ 2,364,333	$ -	$ -	$ 2,364,333
Certificates of deposit	2,021,016	-	-	2,021,016
Exchange traded funds	364,302	-	-	364,302
Money market funds	135,064	-	-	135,064
Municipal bonds	75,608	-	-	75,608
Mutual funds	34,262	-	-	34,262
Total general investments	$ 4,994,585	$ -	$ -	$ 4,994,585

Marbridge Foundation Assistance Trust (MFAT):

	Level 1	Level 2	Level 3	Total
Common stock	$ 1,546,224	$ -	$ -	$ 1,546,224
Corporate bonds	399,155	-	-	399,155
Treasury bonds and notes	196,519	-	-	196,519
Municipal bonds	132,686	-	-	132,686
Money market funds	91,424	-	-	91,424
Preferred stock	22,815	-	-	22,815
Total MFAT investments	$ 2,388,823	$ -	$ -	$ 2,388,823

	Level 1	Level 2	Level 3	Total
Other Investments -				
Mineral rights	$ -	$ -	$ 192,083	$ 192,083
Investments measured at NAV (private equity)				111,175
Total other investments				$ 303,258

The following tables set forth, by level within the fair value hierarchy, the Foundation's assets at fair value as of June 30, 2017:

General Investment Account:

	Level 1	Level 2	Level 3	Total
Common stock	$ 2,302,912	$ -	$ -	$ 2,302,912
Exchange traded funds	275,830	-	-	275,830
Money market funds	90,071	-	-	90,071
Municipal bonds	77,496	-	-	77,496
Mutual funds	31,322	-	-	31,322
Total general investments	$ 2,777,631	$ -	$ -	$ 2,777,631

Marbridge Foundation Assistance Trust (MFAT):

	Level 1	Level 2	Level 3	Total
Common stock	$ 1,480,868	$ -	$ -	$ 1,480,868
Corporate bonds	392,784	-	-	392,784
Treasury bonds and notes	173,663	-	-	173,663
Municipal bonds	157,594	-	-	157,594
Money market funds	46,143	-	-	46,143
Preferred stock	23,698	-	-	23,698
Total MFAT investments	$ 2,274,750	$ -	$ -	$ 2,274,750

Other Investments -				
Mineral rights	$ -	$ -	$ 192,083	$ 192,083
Investments measured at NAV (private equity)				171,328
Total other investments				$ 363,411

The table below sets forth a summary of the changes in fair value of the Foundation's Level 3 investments for the year ended June 30, 2017.

Beginning balance	$ 160,893
Unrealized gain	31,190
Transfers in/out of Level 3 investments	-
Ending balance	$ 192,083

7. PROPERTY, PLANT, AND EQUIPMENT

Property, plant, and equipment consisted of the following as of June 30:

	2018	2017
Buildings and improvements	$ 16,871,457	$ 16,847,002
Equipment	1,796,589	1,783,109
Vehicles	706,872	792,013
Furniture and fixtures	470,537	467,761
	19,845,455	19,889,885
Accumulated depreciation	(11,099,447)	(10,515,348)
Construction-in-progress	4,186,075	400,049
Land and land improvements	1,760,130	1,744,623
Total property, plant, and equipment, net	$ 14,692,213	$ 11,519,209

8. LONG-TERM DEBT

Long-term debt consisted of the following as of June 30:

	2018	2017
Real estate note payable; requires monthly payments of $7,141, including principal and interest at 5.5%, maturing May 2021, secured by land	$ 233,948	$ 304,445
Vehicle notes; interest rates range from 4.97% - 6.24%, payments of principal and interest due monthly through maturity in November 2022	69,188	33,622
	303,136	338,067
Less: current maturities	(89,231)	(88,322)
Long-term debt, net of current portion	$ 213,905	$ 249,745

Required principal payments on debt obligations as of June 30, 2018 were as follows:

2019	$ 89,231
2020	94,300
2021	97,027
2022	17,307
2023	5,271
	$ 303,136

9. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consisted of the following as of June 30:

	2018	2017
Use restriction - capital campaign	$ 709,265	$ 814,922
Unappropriated earnings from permanently restricted donor endowment	396,656	282,583
Financial assistance to residents	388,217	370,154
Building improvements	323,074	126,458
Inherent time restrictions	306,754	456,734
Programs	101,041	191,555
Goldman Sachs investment	82,514	148,247
Activities and other	70,383	80,460
Total	$ 2,377,904	$ 2,471,113

10. ENDOWMENT

The Texas Uniform Prudent Management of Institutional Funds Act ("TUPMIFA") requires and the Foundation's Board of Trustees (the "Board") have adopted an endowment policy which requires the preservation of the fair value of the original gift as of the gift date of the perpetual donor-restricted endowment fund absent explicit donor stipulations to the contrary. Permanently restricted net assets are classified at the original value of gifts donated to the permanent endowment, which is named MFAT, plus the original value of subsequent gifts to the MFAT endowment. The remaining portion of the donor restricted MFAT is classified as temporarily restricted net assets until those funds are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by TUPMIFA and the Board's spending policy.

The MFAT was established to allow the granting of financial assistance to qualified and needy individual residents. Determinations of the recipients and amounts of the MFAT's assistance awards are made on the basis of reviews of individual circumstances and decisions for financial need made by the Executive Committee of the Board. The MFAT's assets are managed by a third-party trustee.

According to the investment policy, the primary objective is to maintain a balanced approach of investments, utilizing both equity and fixed income securities. The performance of the MFAT is compared to a benchmark composed of 55% S&P 500 Stock Index and 45% Barclays Intermediate Government / Credit Bond Index. The Foundation has adopted a spending policy for the amount of the total return on endowment funds which can be expended annually as follows: The Foundation can receive quarterly distributions of up to $20,000 solely from income earned of the trust and net realized capital gains/losses for a calendar year. The money manager for the MFAT is expected to equal or exceed the benchmark performance over a complete market cycle, which is typically a three to five year period.

The portfolio's holdings in common stocks should be diversified on an industry and issue basis, with no one security exceeding 10% of the portfolio's aggregate market value. Additionally, the policy states that the fixed income category of investments should stress quality, taxable fixed income instruments. A Moody's rating of "BBB", or better, or a comparable rating is considered acceptable. With the exception of U.S. Government and / or Federal Agency securities, no security issuer commitment should exceed 10% of the total portfolio on a market value basis.

The MFAT has the following asset allocation ranges:

	Min	Max	Target
Equity securities	25%	75%	55%
Fixed income securities*	25%	75%	45%

*Includes cash and cash equivalents

Changes in the MFAT endowment net assets were as follows for the year ended June 30, 2018:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ -	$ 282,583	$ 1,992,167	$ 2,274,750
Unrealized gains	-	120,604	-	120,604
Realized losses	-	(6,531)	-	(6,531)
Dividends and interest	-	40,000	-	40,000
Appropriations for expenditure	-	(40,000)	-	(40,000)
Endowment net assets, end of year	$ -	$ 396,656	$ 1,992,167	$ 2,388,823

Changes in the MFAT endowment net assets were as follows for the year ended June 30, 2017:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 131,083	$ -	$ 1,992,167	$ 2,123,250
Unrealized gains	-	115,400	-	115,400
Realized gains	-	36,101	-	36,101
Dividends and interest	-	80,000	-	80,000
Investment fees	-	(28,660)	-	(28,660)
Appropriations for expenditure	-	(80,000)	-	(80,000)
Reclassifications	(131,083)	131,083	-	-
Other	-	28,659	-	28,659
Endowment net assets, end of year	$ -	$ 282,583	$ 1,992,167	$ 2,274,750

A description of amounts classified as permanently restricted net assets and temporarily restricted net assets (MFAT endowment only) was as follows as of June 30:

	2018	2017
Permanently Restricted Net Assets-		
The portion of perpetual endowment funds that is required to be retained permanently either by explicit donor stipulation or by TUPMIFA	$ 1,992,167	$ 1,992,167
Temporarily Restricted Net Assets-		
The portion of perpetual endowment funds subject to a restriction under TUPMIFA- Without purpose restrictions	$ 396,656	$ 282,583

11. EMPLOYEE RETIREMENT PLAN

The Marbridge Foundation 401(k) Plan (the "Plan") is a defined contribution retirement plan available to substantially all full-time employees who have completed at least two months of service. Eligible employees may contribute a percentage of their compensation within limits established by the Internal Revenue Code. The Foundation may make employer matching contributions in an amount equal to 100% of the first 4% of employees' contributed compensation. The Foundation made contributions to the Plan totaling $150,994 and $120,072 during the years ended June 30, 2018 and 2017, respectively.

12. RELATED PARTY TRANSACTIONS

Contributions from Board members totaled $61,784 and $37,893 during the years ended June 30, 2018 and 2017, respectively.

13. COMMITMENTS AND CONTINGENCIES

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.

The Foundation is involved in various legal proceedings which arise from time to time in the normal course of business. While the results of such matters generally cannot be predicted with certainty, management does not expect any such matters to have a material adverse effect on the Foundation's consolidated financial position or results of its operations as of and for the years ended June 30, 2018 and 2017.

14. CONDITIONAL PROMISE TO GIVE

During the fiscal year ended June 30, 2018, a donor pledged $550,000 to the Foundation to be used for construction of new residence halls. The grant is to be funded over the course of four years, contingent upon the construction being completed and residents occupying the new residence on or prior to December 31, 2018. Since this pledge represents a conditional promise to give, it will be recorded as contribution revenue in the period that the pledge conditions are met. As of June 30, 2018, none of this conditional pledge had been collected.

15. SUBSEQUENT EVENTS

The Foundation has evaluated subsequent events through November 19, 2018 (the date the consolidated financial statements were available to be issued), and no events have occurred from the consolidated statement of financial position date through that date that would impact the consolidated financial statements.