THE MAGDALEN HOUSE

FINANCIAL STATEMENTS
&
INDEPENDENT AUDITOR'S REPORT

DECEMBER 31, 2017

THE MAGDALEN HOUSE

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DECEMBER 31, 2017

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
The Magdalen House:

We have audited the accompanying financial statements of The Magdalen House (a nonprofit organization), which comprise the statement of financial position as of December 31, 2017, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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 financial statements referred to above present fairly, in all material respects, the financial position of The Magdalen House as of December 31, 2017, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

CMRosen, LLC

Dallas, Texas
June 6, 2018

STATEMENT OF FINANCIAL POSITION

(As of December 31, 2017)

ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$	96,614
Contributions receivable		10,258
Prepaid expenses		4,569
		111,441
NON-CURRENT ASSETS		
Investment in bingo unit		50,784
Contributions receivable restricted for facility acquisition		201,401
Cash restricted for facility acquisition		172,918
Fixed assets, net		689,537
		1,114,640
Total assets		**1,226,081**
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable and accrued expenses		14,246
		14,246
Total liabilities		**14,246**
NET ASSETS		
Unrestricted		837,516
Temporarily restricted		374,319
		1,211,835
Total liabilities and net assets		**1,226,081**

STATEMENT OF ACTIVITIES

(For the year ended December 31, 2017)

	Unrestricted	Temporarily Restricted	Total
REVENUES			
Contributions	$ 219,758	$ 995,470	$ 1,215,228
Special events, net of direct costs of $54,255	159,958	5,731	165,689
Donated materials and services	206,144	-	206,144
Investment earnings	47,246	-	47,246
Other revenue	1,358	-	1,358
	634,464	1,001,201	1,635,665
Net assets released from restrictions	661,809	(661,809)	-
	1,296,273	339,392	1,635,665
EXPENSES			
Program services			
Social detox	280,458	-	280,458
Group support	85,235	-	85,235
Outreach	46,039	-	46,039
Total program services	411,732	-	411,732
Supporting services			
Management and general	58,467	-	58,467
Capital campaign	43,735	-	43,735
Other fundraising	99,469	-	99,469
Total supporting services	201,671	-	201,671
Total expenses	613,403	-	613,403
CHANGES IN NET ASSETS	**682,870**	**339,392**	**1,022,262**
Net assets at beginning of year	154,646	34,927	189,573
Net assets at end of year	**837,516**	**374,319**	**1,211,835**

STATEMENT OF FUNCTIONAL EXPENSES

(For the year ended December 31, 2017)

	Social Detox	Group Support	Outreach	Management & General	Capital Campaign	Other Fund-Raising	Total
Employee compensation	$ 57,776	$ 50,671	$ 36,886	$ 30,838	$ 39,473	$ 70,018	$ 285,662
Conferences and meetings	114,561	4,984	4,984	-	-	71,681	196,210
Occupancy	21,119	4,632	303	265	360	624	27,303
Office	3,802	3,218	1,838	1,605	2,179	3,779	16,421
Depreciation	8,824	1,935	127	111	150	261	11,408
Information technology	2,601	2,202	1,257	1,098	1,491	2,586	11,235
Unrelated business income tax	-	-	-	8,866	-	-	8,866
Contract service fees	67,027	16,896	-	6,655	-	-	90,578
Insurance	575	575	575	3,451	-	575	5,751
Interest	-	-	-	776	-	-	776
Advertising and promotion	-	-	-	645	-	-	645
Travel	144	122	69	61	82	143	621
Other	4,029	-	-	4,096	-	4,057	12,182
	280,458	85,235	46,039	58,467	43,735	153,724	667,658
Less: Cost of direct benefits	-	-	-	-	-	(54,255)	(54,255)
	280,458	**85,235**	**46,039**	**58,467**	**43,735**	**99,469**	**613,403**

STATEMENT OF CASH FLOWS

(For the year ended December 31, 2017)

CASH FLOWS FROM OPERATING ACTIVITIES		
RECONCILIATION OF CHANGE IN NET ASSETS TO NET OPERATING CASH FLOWS		
Change in net assets	$	1,022,262
Depreciation		11,203
Contributions restricted for facility acquisition		(948,701)
Noncash income attributed to increase in ownership percentage of bingo unit		(4,546)
Realized/unrealized gains restricted for long-term investment in bingo unit		(42,621)
Changes in operating assets and liabilities, net		
Contributions receivable		(3,004)
Prepaid expenses		(1,692)
Accounts payable and accrued expenses		1,272
Net cash provided by (used in) operating activities		34,173
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of fixed assets		(619,164)
Purchase of assets restricted to investment in facility acquisition		(747,300)
Sale of assets restricted to investment in facility acquisition		609,309
Distributions received from bingo unit		21,800
Net cash provided by (used in) investing activities		(735,355)
CASH FLOWS FROM FINANCING ACTIVITIES		
Receipt of contributions restricted for facility acquisition		747,300
Net cash provided by (used in) financing activities		747,300
INCREASE (DECREASE) IN CASH & CASH EQUIVALENTS		**46,118**
Cash and cash equivalents, beginning of year		50,496
Cash and cash equivalents, end of year		**96,614**
SUPPLEMENTAL CASH FLOW DISCLOSURES		
Non-cash increase in ownership percentage of bingo unit trust	$	4,546
Cash paid for interest (net of amounts capitalized of $0)		(776)
Cash paid for unrelated business income taxes		(13,417)

NOTES TO FINANCIAL STATEMENTS

1. BACKGROUND AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Background

The Magdalen House (the "Organization") is a Texas nonprofit corporation formed in 1987. Its mission is to help women achieve sobriety and sustain recovery from alcoholism at no cost and based on 12-step spiritual principles. This is implemented by means of the Social Detox, Group Support, and Outreach programs which are funded primarily from contributions.

The Social Detox program is a residential 14-day, non-medical detox offered at no cost to women of all backgrounds who want to withdraw from alcohol in a safe environment. The Group Support program provides recovery meetings conducted by volunteers to both those in recovery and their families and friends. The Outreach program consists of efforts by the Organization to create a stronger community response by collaborating with over 80 local and national agencies to provide reciprocal services which complement each other.

Tax-Exempt Status

The Organization has been determined by the Internal Revenue Service to be a Section 501(c)(3) charitable organization exempt from federal income taxes. Contributions to the Organization are considered tax-deductible under Section 170 of the Internal Revenue Code. The Organization had net unrelated business income of approximately $47,000 derived from investment in a bingo unit during the year ended December 31, 2017, resulting in taxes totaling approximately $9,000.

Management has concluded that any tax positions which would not meet the more-likely-than-not criterion of Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 740-10, *Accounting for Income Taxes*, would be immaterial to the financial statements taken as a whole. Accordingly, the accompanying financial statements do not include any provision for uncertain tax positions, and no related interest or penalties have been recorded in the operating statement or accrued in the statement of financial position. Federal and state tax returns of the Organization are generally open to examination by the relevant taxing authorities for a period of three years from the date the returns are filed.

Estimates

The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America. This requires management to make estimates and judgments that affect the reported amount of assets, liabilities, and disclosures of contingencies at the date of the financial statements. Such estimates and judgments also affect the reported amounts of revenues and expenses recognized during the reporting period. Actual results could differ from those estimates.

Net Asset Classifications

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

NOTES TO FINANCIAL STATEMENTS

Unrestricted – Those that are not subject to donor-imposed stipulations. Board-designated items are considered part of this unrestricted classification.

Temporarily restricted – Those subject to donor-imposed stipulations that will be met either by actions of the Organization or the passage of time.

Permanently restricted – Those subject to donor-imposed stipulations that they be maintained permanently by the Organization or, in the case of perpetual trusts, by third parties. Generally, the donors of these assets permit the Organization to use all or part of the income earned on the related investments for program expenses.

Revenues are reported as increases in unrestricted net assets unless their use is limited by donor-imposed restrictions. 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. Expirations of temporary restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as net assets released from restrictions. Time restrictions are not implied on contributions of long-lived assets received without donor stipulations about how long the contributed assets must be used.

Cash and Cash Equivalents

Cash and cash equivalents include highly liquid investments with a maturity of three months or less at time of purchase, except for those held by investment managers as part of their long-term investment strategy.

Investments

Investments are reported at fair value in accordance with readily determinable market prices. Cash portions of investments are temporarily held until ideal investment options are selected and remain nevertheless reserved for long-term purposes.

Fixed Assets

Expenditures for fixed assets are capitalized if each recorded value exceeds $500 and if each has an estimated useful life of greater than one year. They are recorded at cost, if purchased, or fair value, if contributed. Depreciation is provided on a straight-line basis over the estimated useful lives of the assets or, in the case of leasehold improvements, over the life of the lease if shorter. The following are the estimated useful lives for various fixed asset categories:

Buildings and improvements	10-39 years
Furniture and equipment	3-5 years

Revenue Recognition

Contributions, which include unconditional promises to give (pledges), are recognized as revenue in the period earned. Any donated services are recognized as revenue in the period in which they are performed if they either enhance the Organization's non-financial assets or if they require specialized skills, were

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performed by individuals possessing those skills, and would typically need to be purchased if not provided by donation. Any such recognized revenue is offset by a corresponding expense or asset.

Functional Allocation of Expenses

The expenses related to providing various programs and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain expenses have been allocated among the program and supporting services benefited.

2. CASH AND CASH EQUIVALENTS

The Organization maintains cash in bank accounts which, at times, may exceed federally insured limits. As of December 31, 2017, it had no uninsured deposits.

3. CONTRIBUTIONS RECEIVABLE

Contributions receivable consisted of the following unconditional promises to give as of December 31, 2017:

Unrestricted	$	20,258
Restricted to future periods		200,000
Gross unconditional promises to give		220,258
Less: Unamortized discount		(8,599)
Subtotal		211,659
Less: Allowance for uncollectibles		-
		211,659
Amounts due in:		
Less than one year		85,258
One to five years		135,000
More than five years		-
		220,258

A discount rate of 3.54% was used for long-term promises to give, which is based on the 10-year average performance of the total bond market.

4. INVESTMENT IN BINGO UNIT AND FAIR VALUE MEASUREMENTS

The Organization's sole investment as of December 31, 2017, was an interest in a bingo unit in which the net earnings are split among several local nonprofits.

FASB ASC Topic 820, *Fair Value Measurements and Disclosures*, establishes the framework for measuring fair value by providing a hierarchy to prioritize the inputs of valuation techniques used. The hierarchy

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gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). Transfers between levels in the hierarchy are deemed to have occurred at the date of the event or change in circumstances that caused the transfer.

The fair value of assets measured on a recurring basis consisted of the following at December 31, 2017:

		Level Within the Fair Value Hierarchy		
	Fair Value	Level 1	Level 2	Level 3
Interest in bingo unit	$ 50,784	$ -	$ -	$ 50,784

Fair value was determined using the expected present value method, with cash flow inputs based upon the Organization's cumulative share of the bingo unit's earnings less distributions received to date and a discount rate of 3.45% based upon on the 10-year average performance of the total bond market. This is evaluated on a yearly basis such that the method used is consistent from year to year.

A reconciliation from the opening balance to the closing balance is as follows:

Beginning balance at December 31, 2016	$ 25,417
Gains (losses), included in investment income	42,621
Additional equity interest obtained by change in ownership percentage	4,546
Distributions received	(21,800)
Transfers into Level 3	-
Transfers from Level 3	-
Ending balance at December 31, 2017	50,784

5. FIXED ASSETS

Fixed assets consisted of the following at December 31, 2017:

Buildings and improvements	$ 616,262
Land	146,121
Furniture and equipment	73,815
Less: Accumulated depreciation	(146,661)
	689,537

Land, buildings, and improvements with a book value of about $55,000 was pledged as collateral on an unused line of credit. See note titled "Unused Line of Credit."

6. UNUSED LINE OF CREDIT

The Organization had a unused, revolving line of credit from a financial institution of up to $150,000, with interest at 2.000 percentage points over the Wall Street Journal Prime rate (resulting in a rate of 6.50% as of December 31, 2017) payable monthly until maturity in June 2018, at which time all

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outstanding interest and principal will be due. The line is secured by real property with a book value of about $55,000 as of December 31, 2017.

7. DONATED MATERIALS AND SERVICES

The Organization recognized the following donations received during the year ended December 31, 2017, in the accompanying financial statements:

Donation	Amount	Purpose
Food	$ 107,497	Social detox program
Overnight services	67,027	Social detox program
Supplies	13,142	Various programmatic and supporting services
Meeting facilitator services	15,574	Group support program
Legal services	1,440	Capital campaign
Yoga instruction	1,322	Group support program
Janitorial services	142	Various programmatic and supporting services
	206,144	

Additionally, the Organization benefited from about 7,000 hours' worth of services from various volunteers who transported and sorted donated food, planned the fundraising events, and provided other assistance throughout the year. The value of their services has not been recognized in the accompanying financial statements because such services do not meet the criteria for recognition.

8. NET ASSETS

Included in net assets were amounts temporarily restricted as follows as of December 31, 2017:

Time and purpose - Unconditional promise to give for facility acquisition	$ 191,401
Purpose - Facility acquisition	182,918
	374,319

9. RELATED PARTY TRANSACTIONS

The following related party transactions are included in the accompanying financial statements as of and for the year ended December 31, 2017:

NOTES TO FINANCIAL STATEMENTS

Relationship / Description		Transaction Value for the Year		Balance Due From / (To) as of Year-End
Substantial contributors				
Contributions and special event income (mainly regarding capital campaign)	$	966,401	$	191,401
Donated materials		95,128		-
Board members (including relevant family members and entities)				
Contributions and special event income		51,139		-

10. CONCENTRATIONS OF CREDIT RISK

As of December 31, 2017, approximately 90% of the Organizations receivables were due from one donor. The maximum amount of loss that the Organization would incur if the party to these receivables failed to pay would be approximately $190,000. The Organization does not require and does not have access to collateral or other security to support such financial instruments.

11. SUBSEQUENT EVENTS

Subsequent events have been evaluated through June 6, 2018. This is the date on which the financial statements were available to be issued.