

THE MAGDALEN HOUSE
FINANCIAL STATEMENTS
&
INDEPENDENT AUDITOR'S REPORT

DECEMBER 31, 2018

THE MAGDALEN HOUSE

TABLE OF CONTENTS

DECEMBER 31, 2018

INDEPENDENT AUDITOR'S REPORT	3
STATEMENT OF FINANCIAL POSITION	5
STATEMENT OF ACTIVITIES	6
STATEMENT OF FUNCTIONAL EXPENSES	7
STATEMENT OF CASH FLOWS	8
NOTES TO FINANCIAL STATEMENTS	9



A Certified Public Accounting Firm

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, 2018, 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, 2018, 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.

Emphasis of Matter

As discussed in Note 1 to the financial statements, The Magdalen House adopted the amendments in Accounting Standard Update (ASU) No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial*

Statements of Not-for-Profit Entities, during the year ended December 31, 2018. Our opinion is not modified with respect to this matter.

Report on Summarized Comparative Information

We have previously audited The Magdalen House's 2017 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated June 6, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2017, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Handwritten signature in cursive script that reads "CM Rosen, LLC".

Dallas, Texas
May 10, 2019

THE MAGDALEN HOUSE
Financial Statements

STATEMENT OF FINANCIAL POSITION

(As of December 31, 2018, with summarized totals as of December 31, 2017)

	2018	2017
ASSETS		
<u>CURRENT ASSETS</u>		
Cash and cash equivalents	\$ 242,149	\$ 96,614
Contributions receivable, net	7,577	10,258
Promotional items on hand	2,827	-
Prepaid expenses	2,771	4,569
	255,324	111,441
<u>NON-CURRENT ASSETS</u>		
Cash reserved for new facility construction	632,776	172,918
Contributions receivable, net	224,817	201,401
Investment in bingo unit	64,605	50,784
Fixed assets, net	735,138	689,537
	1,657,336	1,114,640
Total assets	1,912,660	1,226,081
 LIABILITIES AND NET ASSETS		
<u>CURRENT LIABILITIES</u>		
Accounts payable and accrued expenses	32,290	14,246
	32,290	14,246
Total liabilities	32,290	14,246
<u>NET ASSETS</u>		
Without donor restrictions	394,742	837,516
With donor restrictions	1,485,628	374,319
	1,880,370	1,211,835
Total liabilities and net assets	1,912,660	1,226,081

The accompanying notes are an integral part of these financial statements.

THE MAGDALEN HOUSE
Financial Statements

STATEMENT OF ACTIVITIES

(For the year ended December 31, 2018, with summarized totals for the year ended December 31, 2017)

	2018			2017
	Without Donor Restrictions	With Donor Restrictions	Total	Total
REVENUES				
Contributions	\$ 390,337	\$ 522,000	\$ 912,337	\$ 1,215,228
Donated materials and services	392,623	-	392,623	206,144
Special events, net	241,940	-	241,940	165,689
Investment earnings	64,842	-	64,842	47,167
Interest on savings accounts	1,920	-	1,920	79
Other revenue	756	-	756	1,358
	1,092,418	522,000	1,614,418	1,635,665
Net assets released from restrictions	20,000	(20,000)	-	-
	1,112,418	502,000	1,614,418	1,635,665
EXPENSES				
Program services				
Social detox	497,166	-	497,166	280,458
Peer recovery	140,471	-	140,471	85,235
Community outreach	43,962	-	43,962	46,039
Total program services	681,599	-	681,599	411,732
Supporting services				
Management and general	94,396	-	94,396	58,467
Capital campaign	76,139	-	76,139	43,735
Other fundraising	93,749	-	93,749	99,469
Total supporting services	264,284	-	264,284	201,671
Total expenses	945,883	-	945,883	613,403
CHANGES IN NET ASSETS	166,535	502,000	668,535	1,022,262
Net assets at beginning of year	837,516	374,319	1,211,835	189,573
As restated	228,207	983,628	1,211,835	
Net assets at end of year	394,742	1,485,628	1,880,370	1,211,835

The accompanying notes are an integral part of these financial statements.

THE MAGDALEN HOUSE
Financial Statements

STATEMENT OF FUNCTIONAL EXPENSES

(For the year ended December 31, 2018, with summarized totals for the year ended December 31, 2017)

	2018						2017	
	Social Detox	Peer Recovery	Comm- unity Outreach	Manage- ment & General	Capital Campaign	Other Fund- Raising	Total	Total
Employee compensation	\$ 148,714	\$ 24,481	\$ 36,125	\$ 56,333	\$ 69,291	\$ 61,741	\$ 396,685	\$ 285,662
Contract service fees	149,032	99,768	-	12,538	-	-	261,338	90,578
Conferences & meetings	128,899	4,714	4,714	-	-	9,623	147,950	141,955
Cost of direct benefits	-	-	-	-	-	77,893	77,893	54,255
Occupancy	29,991	5,023	250	402	522	463	36,651	27,303
Office	11,938	1,388	2,115	3,397	4,415	3,913	27,166	16,421
Information technology	8,454	2,451	114	2,335	1,137	5,409	19,900	11,235
Depreciation	10,810	2,113	105	169	220	195	13,612	11,408
UBIT	-	-	-	9,453	-	-	9,453	8,866
Insurance	525	523	524	2,623	523	524	5,242	5,751
Advertising & promotion	-	-	-	-	-	4,569	4,569	645
Travel	84	10	15	23	31	27	190	621
Interest	-	-	-	-	-	-	-	776
Other	8,719	-	-	7,123	-	7,285	23,127	12,182
	<u>497,166</u>	<u>140,471</u>	<u>43,962</u>	<u>94,396</u>	<u>76,139</u>	<u>171,642</u>	<u>1,023,776</u>	<u>667,658</u>
Less: Direct benefits	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(77,893)</u>	<u>(77,893)</u>	<u>(54,255)</u>
	<u>497,166</u>	<u>140,471</u>	<u>43,962</u>	<u>94,396</u>	<u>76,139</u>	<u>93,749</u>	<u>945,883</u>	<u>613,403</u>

The accompanying notes are an integral part of these financial statements.

THE MAGDALEN HOUSE
Financial Statements

STATEMENT OF CASH FLOWS

(For the year ended December 31, 2018, with summarized totals for the year ended December 31, 2017)

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
<u>RECONCILIATION OF CHANGE IN NET ASSETS</u>		
<u>TO NET OPERATING CASH FLOWS</u>		
Change in net assets	\$ 668,535	\$ 1,022,262
Depreciation	13,611	11,203
Contributions restricted for new facility construction	(478,584)	(948,701)
Noncash income due to increase in ownership percentage of bingo unit	-	(4,546)
Noncash fixed asset addition by means of accounts payable or contribution	(40,486)	-
Realized/unrealized gains restricted for long-term investment in bingo unit	(64,842)	(42,621)
Changes in operating assets and liabilities, net		
Contributions receivable	2,681	(3,004)
Promotional items on hand	(2,827)	-
Prepaid expenses	1,798	(1,692)
Accounts payable and accrued expenses	18,044	1,272
Net cash provided by (used in) operating activities	117,930	34,173
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of fixed assets	(18,726)	(619,164)
Purchase of assets restricted to investment in facility construction	(474,624)	(747,300)
Sale of assets restricted to investment in facility construction	14,766	609,309
Distributions received from bingo unit	51,021	21,800
Net cash provided by (used in) investing activities	(427,563)	(735,355)
CASH FLOWS FROM FINANCING ACTIVITIES		
Receipt of contributions restricted for facility construction	455,168	747,300
Net cash provided by (used in) financing activities	455,168	747,300
INCREASE (DECREASE) IN CASH & CASH EQUIVALENTS	145,535	46,118
Cash and cash equivalents, beginning of year	96,614	50,496
Cash and cash equivalents, end of year	242,149	96,614
SUPPLEMENTAL CASH FLOW DISCLOSURES		
Non-cash additions to fixed assets by means of credit or donation	\$ 40,486	\$ -
Non-cash increase in ownership percentage of bingo unit trust	-	4,546
Cash paid for unrelated business income taxes	(9,453)	(13,417)
Cash paid for interest (net of amounts capitalized of \$0)	-	(776)

The accompanying notes are an integral part of these financial statements.

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, Peer Recovery, and Community 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 Peer Recovery program provides recovery meetings conducted by volunteers to both those in recovery and their families and friends. A significant aspect of both of these programs involves reaching out to women who may need these services so that they do not go unserved. The Community 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 \$65,000 derived from investment in a bingo unit during the year ended December 31, 2018, resulting in taxes totaling approximately \$10,000.

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 on which 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, and changes in net assets by means of revenues, expenses, gains, and losses, are classified into the following categories:

NOTES TO FINANCIAL STATEMENTS

Without donor restrictions – Those available for use in general operations and not subject to donor stipulations.

With donor restrictions – Those subject to donor-imposed stipulations. Some restrictions are temporary in nature, such as those which will be met by the passage of time or by other events specified by the donor. Other restrictions are perpetual in nature, whereby the donor stipulates that resources be maintained in perpetuity.

Revenues are reported as increases in net assets without donor restrictions unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in net assets without donor restrictions. Restrictions are released when the stipulated time has elapsed, the purposes for which the resources were restricted have been fulfilled, or both. Upon release, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions. In the absence of explicit donor stipulations, gifts of both long-lived assets and other assets restricted for the acquisition of long-lived assets are released from restriction when the long-lived assets are placed in service.

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, 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 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.

NOTES TO FINANCIAL STATEMENTS

Functional Allocation of Expenses

The costs of program and supporting activities have been summarized on a functional basis in the statement of activities. The statement of functional expenses presents the natural classification detail of expenses by function. Many costs are identified with a specific program or supporting function when incurred and are reported accordingly. Certain costs are attributed to more than one program or supporting function and, therefore, require allocation among the functions benefited on a reasonable and consistent basis. Such conference, contract service, employee compensation, insurance, office, travel, and other expenses are allocated based on estimates of time and effort, and depreciation and occupancy expenses are allocated based on estimates of usage.

Accounting Standards Updates

In 2018, the Organization adopted the Financial Accounting Standards Board's Accounting Standard Update (ASU) No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The ASU modifies the net asset classification requirements and information presented about a not-for-profit's liquidity, financial performance, and cash flows. It was issued in August 2016 and is effective for annual periods beginning after December 15, 2017. Adopting this update resulted in reclassifying amounts previously reported as unrestricted net assets to net assets without donor restrictions, combining amounts previously reported as temporarily and permanently restricted net assets into net assets with donor restrictions, and adding new disclosures. It also resulted in reclassifying \$609,309, which represents the amount of restrictions previously released but meant for acquiring long-lived assets which were not yet placed in service, from net assets without donor restrictions to net assets with donor restrictions.

2. PRIOR-YEAR INFORMATION

Prior-year information, as of and for the year ended December 31, 2017, is summarized and presented for comparative purposes only. It does not include sufficient detail to constitute a complete presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended December 31, 2017, from which the summarized information was derived.

3. LIQUIDITY AND AVAILABILITY OF RESOURCES

The following reflects the Organization's financial assets which are available within one year at December 31, 2018, reduced by amounts not available for general use because of contractual or donor-imposed restrictions. Certain restrictions are not subtracted, such as those which stipulate the use of resources for specific general expenditures to be incurred within one year and those which are expected to be satisfied by the use of non-current or non-financial assets.

THE MAGDALEN HOUSE
Financial Statements

NOTES TO FINANCIAL STATEMENTS

Financial assets available within one year:	
Cash and cash equivalents	\$ 242,149
Contributions receivable, net (current)	<u>7,577</u>
	249,726
Less amounts unavailable for general expenditures within one year:	
No reductions	<u>-</u>
 Total financial assets available to meet cash needs for general expenditures within one year	 249,726

General and capital expenditures, along with other liabilities and obligations, are anticipated to be funded primarily through cash or materials received by donation and from fundraising events. The Organization manages its liquidity by developing and adopting annual operating budgets that provide sufficient funds for general expenditures in meeting its liabilities and other obligations as they come due. Actual performance is reported and monitored monthly in comparison to the budgets. Adjustments are made to plan as needed to ensure adequate liquidity. In the event of an unanticipated liquidity need, the Organization could draw upon its \$150,000 worth of an available line of credit (as further discussed in Note 8).

4. CASH AND CASH EQUIVALENTS

The Organization maintains cash in bank accounts which, at times, may exceed federally insured limits. As of December 31, 2018, it had no uninsured deposits among amounts available for general purposes. However, approximately \$600,000 worth of cash reserved for facility acquisition and construction exceeded insured limits.

5. CONTRIBUTIONS RECEIVABLE

Contributions receivable consisted of the following unconditional promises to give as of December 31, 2018:

Unconditional promises expected to be collected in:	
Less than one year	\$ 142,577
One to five years	100,000
More than five years	<u>-</u>
	242,577
Less:	
Unamortized discount	(10,183)
Allowance for uncollectible contributions	<u>-</u>
	232,394

NOTES TO FINANCIAL STATEMENTS

Discount rates of 3.54% to 3.62% were used for long-term promises to give, which are based on the 10-year average performance of the total bond market at the date of promise.

Contributions receivable reported as noncurrent entirely represent amounts whose associated payments are restricted for the new facility acquisition and construction.

6. INVESTMENT IN BINGO UNIT AND FAIR VALUE MEASUREMENTS

The Organization's sole investment as of December 31, 2018, 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 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, 2018:

	Fair Value	Level Within the Fair Value Hierarchy		
		Level 1	Level 2	Level 3
Interest in bingo unit	\$ 64,605	\$ -	\$ -	\$ 64,605

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 3.62% 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, 2017	\$ 50,784
Gains (losses), included in investment income	64,842
Additional equity interest obtained by change in ownership percentage	-
Distributions received	(51,021)
Transfers into Level 3	-
Transfers from Level 3	-
Ending balance at December 31, 2018	64,605

THE MAGDALEN HOUSE
Financial Statements

NOTES TO FINANCIAL STATEMENTS

7. FIXED ASSETS

Fixed assets consisted of the following at December 31, 2018:

Buildings and improvements	\$	671,514
Land		146,121
Furniture and equipment		66,838
Less: Accumulated depreciation		<u>(149,335)</u>
		735,138

Land, buildings, and improvements with a book value of about \$45,000 was pledged as collateral on an unused line of credit. See Note 8.

8. UNUSED LINE OF CREDIT

The Organization had an 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 7.50% as of December 31, 2018) payable monthly until maturity in June 2019, as amended, at which time all outstanding interest and principal will be due. The line is secured by real property with a book value of about \$45,000 as of December 31, 2018.

9. NET ASSETS

Net assets with donor restrictions at December 31, 2018, included amounts restricted as follows:

Subject to expenditure for a specified purpose:	
New facility acquisition and construction	\$ 1,310,617
Subject to expenditure for a specified purpose and the passage of time:	
New facility and for periods after December 31, 2018	175,011
	<u><u>1,485,628</u></u>

THE MAGDALEN HOUSE
Financial Statements

NOTES TO FINANCIAL STATEMENTS

10. DONATED MATERIALS AND SERVICES

The Organization recognized the following donations received during the year ended December 31, 2018, in the accompanying financial statements:

Donation	Amount	Purpose
Promotional video	\$ 150,000	Social detox and peer recovery programs
Food	120,854	Social detox program
Overnight and facilitator services	89,212	Social detox program
Fencing	20,000	New facility
Supplies	12,057	Various programmatic and supporting services
Janitorial services	500	Various programmatic and supporting services
	<u>392,623</u>	

Additionally, the Organization benefited from about 5,500 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.

11. SPECIAL EVENTS

During the year ended December 31, 2018, the gross activity of the Organization's special events, which consisted of a fundraising dinner with a high-profile speaker, was as follows:

Gross revenue	\$ 319,833
Cost of direct benefits to donors	<u>(77,893)</u>
	241,940

12. RELATED PARTY TRANSACTIONS

The following related party transactions are included in the accompanying financial statements as of and for the year ended December 31, 2018:

Relationship / Description	Transaction Value for the Year	Balance Due From / (To) as of Year- End
<i>Substantial contributors</i>		
Contributions and special event income	\$ -	\$ 128,095
Donated materials	105,608	-
<i>Board members and top management (including relevant family members and associated entities)</i>		
Contributions and special event income	70,851	46,916

NOTES TO FINANCIAL STATEMENTS

13. CONCENTRATIONS OF CREDIT RISK

As of December 31, 2018, approximately 90% of the Organizations receivables were due from three donors. The maximum amount of loss that the Organization would incur if the party to these receivables failed to pay would be approximately \$205,000. The Organization does not require and does not have access to collateral or other security to support such financial instruments.

14. SUBSEQUENT EVENTS

Subsequent events have been evaluated through May 10, 2019. This is the date on which the financial statements were available to be issued.