

THE MAGDALEN HOUSE  
FINANCIAL STATEMENTS  
&  
INDEPENDENT AUDITOR'S REPORT

DECEMBER 31, 2019

THE MAGDALEN HOUSE

TABLE OF CONTENTS

DECEMBER 31, 2019

|                                  |   |
|----------------------------------|---|
| 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, 2019, 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, 2019, 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. 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*, during the year ended December 31, 2019. Our opinion is not modified with respect to this matter.

***Report on Summarized Comparative Information***

We have previously audited The Magdalen House's 2018 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated May 10, 2019. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2018, is consistent, in all material respects, with the audited financial statements from which it has been derived.

*CM Rosen, LLC*

Dallas, Texas  
August 26, 2020

THE MAGDALEN HOUSE  
Financial Statements

## STATEMENT OF FINANCIAL POSITION

(As of December 31, 2019, with summarized totals as of December 31, 2018)

|   | 2019             | 2018             |
|---|------------------|------------------|
| <b>ASSETS</b>   |                  |                  |
| <u>CURRENT ASSETS</u>   |                  |                  |
| Cash and cash equivalents   | \$ 323,548       | \$ 242,149       |
| Contributions receivable, net                                     | 150,000          | 7,577            |
| Promotional items on hand   | 5,639            | 2,827            |
| Prepaid expenses  | 17,893           | 2,771            |
|   | 497,080          | 255,324          |
| <u>NON-CURRENT ASSETS</u>   |                  |                  |
| Cash restricted for new facility construction                     | 1,088,778        | 632,776          |
| Contributions receivable restricted for new facility construction | 691,202          | 224,817          |
| Investment in bingo unit  | 61,135           | 64,605           |
| Debt issuance costs   | 19,100           | -                |
| Fixed assets, net   | 1,055,361        | 735,138          |
|   | 2,915,576        | 1,657,336        |
| <b>Total assets</b>   | <b>3,412,656</b> | <b>1,912,660</b> |
| <br><b>LIABILITIES AND NET ASSETS</b>                             |                  |                  |
| <u>CURRENT LIABILITIES</u>  |                  |                  |
| Accounts payable and accrued expenses                             | 1,621            | 32,290           |
|   | 1,621            | 32,290           |
| <b>Total liabilities</b>  | <b>1,621</b>     | <b>32,290</b>    |
| <u>NET ASSETS</u>   |                  |                  |
| Without donor restrictions  | 547,434          | 394,742          |
| With donor restrictions   | 2,863,601        | 1,485,628        |
|   | 3,411,035        | 1,880,370        |
| <b>Total liabilities and net assets</b>                           | <b>3,412,656</b> | <b>1,912,660</b> |

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, 2019, with summarized totals for the year ended December 31, 2018)

|                                       | 2019                          |                            |                  | 2018             |
|---------------------------------------|-------------------------------|----------------------------|------------------|------------------|
|                                       | Without Donor<br>Restrictions | With Donor<br>Restrictions | Total            | Total            |
| <b>REVENUES</b>                       |                               |                            |                  |                  |
| Contributions                         | \$ 327,201                    | \$ 1,223,266               | \$ 1,550,467     | \$ 912,337       |
| Special events, net                   | 289,057                       | 399,258                    | 688,315          | 241,940          |
| Donated materials and services        | 266,890                       | -                          | 266,890          | 392,623          |
| Investment earnings                   | 50,903                        | -                          | 50,903           | 64,842           |
| Interest on savings accounts          | 10,062                        | -                          | 10,062           | 1,920            |
| Other revenue                         | 7,223                         | -                          | 7,223            | 756              |
|                                       | 951,336                       | 1,622,524                  | 2,573,860        | 1,614,418        |
| Net assets released from restrictions | 244,551                       | (244,551)                  | -                | -                |
|                                       | 1,195,887                     | 1,377,973                  | 2,573,860        | 1,614,418        |
| <b>EXPENSES</b>                       |                               |                            |                  |                  |
| Program services                      |                               |                            |                  |                  |
| Social detox                          | 464,470                       | -                          | 464,470          | 497,166          |
| Peer recovery                         | 214,119                       | -                          | 214,119          | 140,471          |
| Community outreach                    | 37,970                        | -                          | 37,970           | 43,962           |
| Total program services                | 716,559                       | -                          | 716,559          | 681,599          |
| Supporting services                   |                               |                            |                  |                  |
| Management and general                | 93,394                        | -                          | 93,394           | 94,396           |
| Capital campaign                      | 166,144                       | -                          | 166,144          | 76,139           |
| Other fundraising                     | 67,098                        | -                          | 67,098           | 93,749           |
| Total supporting services             | 326,636                       | -                          | 326,636          | 264,284          |
| Total expenses                        | 1,043,195                     | -                          | 1,043,195        | 945,883          |
| <b>CHANGES IN NET ASSETS</b>          | <b>152,692</b>                | <b>1,377,973</b>           | <b>1,530,665</b> | <b>668,535</b>   |
| Net assets at beginning of year       | 394,742                       | 1,485,628                  | 1,880,370        | 1,211,835        |
| <b>Net assets at end of year</b>      | <b>547,434</b>                | <b>2,863,601</b>           | <b>3,411,035</b> | <b>1,880,370</b> |

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, 2019, with summarized totals for the year ended December 31, 2018)

|                                      | 2019            |                  |                            |                              |                     |                           |            | 2018       |
|--------------------------------------|-----------------|------------------|----------------------------|------------------------------|---------------------|---------------------------|------------|------------|
|                                      | Social<br>Detox | Peer<br>Recovery | Comm-<br>unity<br>Outreach | Manage-<br>ment &<br>General | Capital<br>Campaign | Other<br>Fund-<br>Raising | Total      | Total      |
| Employee compensation                | \$ 158,335      | \$ 168,626       | \$ 23,456                  | \$ 23,867                    | \$ 118,666          | \$ 61,086                 | \$ 554,036 | \$ 396,685 |
| Conferences & meetings               | 143,299         | 5,420            | 5,420                      | -                            | 12,567              | -                         | 166,706    | 147,950    |
| Contract service fees                | 74,900          | 13,405           | -                          | 34,858                       | 600                 | -                         | 123,763    | 261,338    |
| Occupancy                            | 62,854          | 10,939           | 201                        | 374                          | 1,234               | 588                       | 76,190     | 36,651     |
| Office                               | 3,143           | 1,251            | 1,783                      | 5,845                        | 17,374              | 3,539                     | 32,935     | 27,166     |
| Information technology               | 5,254           | 9,977            | 6,655                      | 1,738                        | 4,891               | 1,174                     | 29,689     | 19,900     |
| Depreciation                         | 15,720          | 3,595            | 66                         | 123                          | 405                 | 193                       | 20,102     | 13,612     |
| UBIT                                 | -               | -                | -                          | 16,257                       | -                   | -                         | 16,257     | 9,453      |
| Insurance                            | 322             | 322              | 322                        | 1,611                        | 322                 | 322                       | 3,221      | 5,242      |
| Travel                               | 643             | 584              | 67                         | 125                          | 412                 | 196                       | 2,027      | 190        |
| Advertising & promotion              | -               | -                | -                          | -                            | 1,445               | -                         | 1,445      | 4,569      |
| Interest                             | -               | -                | -                          | 368                          | -                   | -                         | 368        | -          |
| Other                                | -               | -                | -                          | 8,228                        | 8,228               | -                         | 16,456     | 23,127     |
|                                      | 464,470         | 214,119          | 37,970                     | 93,394                       | 166,144             | 67,098                    | 1,043,195  | 945,883    |
| Other costs not reported previously: |                 |                  |                            |                              |                     |                           |            |            |
| Cost of direct benefits              | -               | -                | -                          | -                            | -                   | 135,175                   | 135,175    | 77,893     |

THE MAGDALEN HOUSE  
Financial Statements

## STATEMENT OF CASH FLOWS

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(For the year ended December 31, 2019)

### CASH FLOWS FROM OPERATING ACTIVITIES

#### RECONCILIATION OF CHANGE IN NET ASSETS

#### TO NET OPERATING CASH FLOWS

|   |                 |
|---|-----------------|
| Change in net assets  | \$ 1,530,665    |
| Depreciation  | 20,102          |
| Contributions restricted for new facility construction                    | (975,645)       |
| Noncash fixed asset additions via accounts payable or contribution        | 1,086           |
| Realized/unrealized gains reserved for long-term investment in bingo unit | (50,903)        |
| Changes in operating assets and liabilities, net                          |                 |
| Contributions receivable  | (608,808)       |
| Promotional items on hand   | (2,812)         |
| Prepaid expenses  | (15,122)        |
| Accounts payable and accrued expenses                                     | <u>(30,669)</u> |
| Net cash provided by (used in) operating activities                       | (132,106)       |

### CASH FLOWS FROM INVESTING ACTIVITIES

|   |               |
|---|---------------|
| Purchase of fixed assets                            | (341,411)     |
| Distributions received from bingo unit              | <u>54,373</u> |
| Net cash provided by (used in) investing activities | (287,038)     |

### CASH FLOWS FROM FINANCING ACTIVITIES

|   |                 |
|---|-----------------|
| Receipt of contributions restricted for facility construction | 975,645         |
| Payment of debt issuance costs                                | <u>(19,100)</u> |
| Net cash provided by (used in) financing activities           | 956,545         |

### **INCREASE (DECREASE) IN CASH & CASH EQUIVALENTS** **537,401**

|   |                         |
|---|-------------------------|
| Cash, cash equivalents, and restricted cash, beginning of year  | 874,925                 |
| <b>Cash, cash equivalents, and restricted cash, end of year</b> | <b><u>1,412,326</u></b> |

### SUPPLEMENTAL CASH FLOW DISCLOSURES

|  |           |
|--|-----------|
| Non-cash additions to fixed assets by means of donation    | \$ 19,400 |
| Cash paid for unrelated business income taxes              | (9,453)   |
| Cash paid for interest (net of amounts capitalized of \$0) | (368)     |



## NOTES TO FINANCIAL STATEMENTS

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### 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 and a major fundraising event.

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 \$51,000 derived from investment in a bingo unit during the year ended December 31, 2019, 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

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*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.

### *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 for Contributions*

Contributions are recognized as revenue in the period in which they are unconditionally made or promised, or in the case of conditional contributions, when the associated conditions have been met. 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 recognized revenue for donated services is offset by a corresponding expense or asset.

Unconditional promises to give which are due within one year are reported at net realizable value, which approximates fair value. Promises with payments due after one year are initially reported at fair value computed using expected cash flows reflecting the credit worthiness of the donor and a discount rate adjusted to include a risk premium. No allowance for uncollectible accounts has been recorded because the full amounts are estimated to be collectable based upon historical experience.

THE MAGDALEN HOUSE  
Financial Statements

## NOTES TO FINANCIAL STATEMENTS

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### *Revenue Recognition for Contracts with Customers*

The Organization assesses obligations promised in contracts and identifies performance obligations for each promise to transfer goods or services. To identify the performance obligations, the Organization considers all promises in contracts, whether explicitly stated or implied, based on customary business practices. Revenue is recognized when a performance obligation is satisfied by transferring control of promised goods or services to customers, which can occur over time or at a point in time. Associated contract revenue disaggregated based on the timing of the transfer of goods or services was as follows for the year ended December 31, 2019:

|  | Upon<br>Delivery | Upon<br>Shipment | As Service<br>is Rendered | Upon<br>Completion<br>of the<br>Service | Total      |
|--|------------------|------------------|---------------------------|---|------------|
| Fundraising event income<br>(exchange portion) | \$ 56,335        | \$ -             | \$ -                      | \$ 207,123                              | \$ 263,458 |

Receivables represent rights to consideration that are unconditional in accordance with contract terms, regardless of when revenue has been earned or performance obligations have been met. Any revenue earned which is not yet receivable is reported as a contract asset. Any receivables recorded or payments collected before revenue is earned are represented by a contract liability in the form of obligations to perform or to refund the customer. There were no beginning and ending balances of such items as of December 31, 2019.

Any sales taxes collected on behalf of third parties are excluded from revenue and recorded as a liability until paid. No significant shipping fees are incurred. There are no significant performance obligations for warranties, returns, or refunds to customers. The Organization has elected to apply the practical expedient provided in FASB ASC 606-10-32-18 and therefore does not adjust the promised amount of consideration for the effects of significant financing components if it is expected, at contract inception, that the period between when the Organization transfers a promised good or service to a customer and when the customer pays for that good or service will be one year or less. The Organization has also elected to apply the optional exemption provided in FASB ASC 606-10-50-14(a), and, therefore, is not required to disclose the aggregate amount of the transaction price allocated to performance obligations that are unsatisfied or partially unsatisfied at the end of the reporting period. The following describes additional revenue recognition details for each type of contract:

*Fundraising event income (exchange portion)* – Such income represents the portion of ticket prices for the Organization’s annual fundraising gala for which attendees receive direct benefits, such as food and entertainment, as well as auction and raffle ticket sales. Performance obligations are generally met throughout the entire event. Payments consist of fixed fees and are due in advance. Revenue is recognized upon completion of the event. There were no unsatisfied performance obligations as of December 31, 2019.

### *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

## NOTES TO FINANCIAL STATEMENTS

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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, 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 Standard Updates*

In 2019, the Organization adopted the Financial Accounting Standards Board's Accounting Standard Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, and its related subsequent ASUs. They modify rules for recognition of revenue related to exchange transactions. ASU 2014-09 was originally issued in 2014 and is effective for annual periods beginning after December 15, 2018, as amended. Adopting this update resulted in re-evaluating revenue recognition and accounts receivable, contract assets, and contract liabilities, and adding new disclosures. There were no significant differences found, and therefore, no adjustments were entered.

In 2019, the Organization adopted the Financial Accounting Standards Board's Accounting Standard Update (ASU) No. 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*. The ASU requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents and requires a reconciliation of cash, cash equivalents, and restricted cash reported within the statement of financial position to the total of the same such amounts shown on the statement of cash flows. It was issued in November 2016 and is effective for annual periods beginning after December 15, 2018. Early adoption is permitted, and it was applied on a retrospective basis. Adoption resulted in no significant financial effects other than reclassification of certain items on the statement of cash flows and an additional disclosure of the reconciliation.

In 2019, the Organization adopted the Financial Accounting Standards Board's Accounting Standard Update (ASU) No. 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The ASU primarily modifies the criteria for determining whether transactions are contributions or exchanges and for determining whether contributions contain relevant conditions. It was issued in June 2018 and is effective for annual periods beginning after December 15, 2018, for contributions received, and December 15, 2019, for contributions made. Early adoption is permitted, and it was applied on a modified prospective basis to agreements that were either not completed or entered into afterward. Adoption resulted in no significant financial effects.

## 2. PRIOR-YEAR INFORMATION

Prior-year information, as of and for the year ended December 31, 2018, 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, 2018, from which the summarized information was derived.

THE MAGDALEN HOUSE  
Financial Statements

## NOTES TO FINANCIAL STATEMENTS

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### 3. LIQUIDITY AND AVAILABILITY OF RESOURCES

The following reflects the Organization's financial assets which are available within one year at December 31, 2019, 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.

|  |                    |
|--|--------------------|
| Financial assets available within one year:  |                    |
| Cash and cash equivalents  | \$ 323,548         |
| Contributions receivable, net (current)  | 150,000            |
| Cash restricted for new facility construction  | 1,088,778          |
| Contributions receivable restricted for new facility construction (short-term)                   | <u>621,092</u>     |
|  | 2,183,418          |
| Less amounts unavailable for general expenditures within one year:                               |                    |
| Restricted or reserved for new facility construction   | <u>(1,709,870)</u> |
| <br>Total financial assets available to meet cash needs for general expenditures within one year | <br>473,548        |

General and capital expenditures, along with other liabilities and obligations, are anticipated to be funded primarily through cash and 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 \$1,500,000 worth of an available line of credit (as further discussed in Note 8).

### 4. CASH, CASH EQUIVALENTS, AND RESTRICTED CASH

The following table provides a reconciliation of cash, cash equivalents, and restricted cash reported within the statement of financial position as of December 31, 2019, that sum to the total of the same such amounts shown in the statement of cash flows:

|   |                  |
|---|------------------|
| Cash and cash equivalents                     | \$ 323,548       |
| Cash restricted for new facility construction | <u>1,088,778</u> |
|   | 1,412,326        |

Amounts included in restricted cash represent those required to be set aside for the construction of the Organization's new facility in accordance with donor-imposed restrictions on donations. See Note 9.

THE MAGDALEN HOUSE  
Financial Statements

## NOTES TO FINANCIAL STATEMENTS

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### 5. CONTRIBUTIONS RECEIVABLE

Contributions receivable consisted of the following unconditional promises to give as of December 31, 2019:

|   |    |          |
|---|----|----------|
| Unconditional promises expected to be collected in: |    |          |
| Less than one year                                  | \$ | 771,092  |
| One to five years                                   |    | 73,333   |
| More than five years                                |    | <u>-</u> |
|   |    | 844,425  |
| Less:   |    |          |
| Unamortized discount                                |    | (3,223)  |
| Allowance for uncollectible contributions           |    | <u>-</u> |
|   |    | 841,202  |

Discount rates of 3.54% to 3.74% 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 on the accompanying statement of financial position entirely represent amounts whose associated payments are restricted for the new facility acquisition and construction.

### 6. INVESTMENT IN BINGO UNIT

The Organization has a passive interest in a bingo unit whose net earnings are split among several local nonprofits. It is measured at net asset value per share as a practical expedient to fair value. There are no unfunded commitments related to it, and the Organization's interest may be redeemed at any time upon transfer to the other nonprofits.

### 7. FIXED ASSETS

Fixed assets consisted of the following at December 31, 2019:

|                                |    |                  |
|--------------------------------|----|------------------|
| Buildings and improvements     | \$ | 983,157          |
| Land                           |    | 146,121          |
| Furniture and equipment        |    | 95,520           |
| Less: Accumulated depreciation |    | <u>(169,437)</u> |
|                                |    | 1,055,361        |

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

THE MAGDALEN HOUSE  
Financial Statements

## NOTES TO FINANCIAL STATEMENTS

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### 8. UNUSED LINE OF CREDIT

The Organization had an unused, revolving line of credit from a financial institution of up to \$1,500,000 for construction and improvements of its new facility. Payments of interest at 4.000% are due monthly beginning September 2019 for one year. Beginning September 2020, 48 monthly payments of \$9,959.51 are due consisting of principal and interest at 5.000%. Beginning September 2024, 59 monthly payments of \$9,427.58 are due consisting of principal and interest based on the 5-year Treasury Constant Maturity (1.690% as of December 31, 2019) plus a margin of 2.750 percentage points. A final balloon payment of all outstanding principal and interest of approximately \$999,990 is due in August 2029. The line is secured by real property with a book value of about \$970,000 as of December 31, 2019. Covenants prohibit the Organization from obtaining any additional loans and require it to work with a specific general contractor.

### 9. NET ASSETS

Net assets with donor restrictions at December 31, 2019, included amounts restricted as follows:

|   |                  |
|---|------------------|
| Subject to expenditure for a specified purpose:                           |                  |
| New facility acquisition and construction                                 | \$ 2,333,601     |
| Subject to expenditure for a specified purpose and the passage of time:   |                  |
| New facility and for periods after December 31, 2019                      | 380,000          |
| Social detox / peer recovery programs for periods after December 31, 2019 | <u>150,000</u>   |
|   | 530,000          |
|   | <u>2,863,601</u> |

To comply with the large quantity of restrictions meant for new facility acquisition, the Organization sets aside cash and receivables for long-term use but also ensures that other short-term assets and an available line of credit are available as needed.

### 10. SPECIAL EVENTS

During the year ended December 31, 2019, 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                     | \$ 823,490       |
| Cost of direct benefits to donors | <u>(135,175)</u> |
|                                   | 688,315          |

THE MAGDALEN HOUSE  
Financial Statements

## NOTES TO FINANCIAL STATEMENTS

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### 11. DONATED MATERIALS AND SERVICES

The Organization recognized the following donations received during the year ended December 31, 2019, in the accompanying financial statements:

| Donation                                  | Amount          | Purpose                           |
|---|-----------------|-----------------------------------|
| Food                                      | \$ 129,385      | Social detox program              |
| Overnight and facilitator services        | 87,306          | Social detox program              |
| Artwork and house furnishings             | 22,077          | New facility                      |
| Supplies                                  | 17,950          | Programmatic and support services |
| Supplies                                  | 17,024          | Fundraising events                |
| Legal services regarding property taxes   | 6,813           | Programmatic and support services |
| Marketing services                        | 600             | Fundraising                       |
| Handyman services                         | 500             | Programmatic and support services |
| Janitorial services                       | 350             | Programmatic and support services |
|   | <u>282,005</u>  |                                   |
| Less: Amounts within special event income | <u>(15,115)</u> |                                   |
|   | 266,890         |                                   |

Additionally, the Organization benefited from about 5,500 hours' worth of services from various volunteers who transported and sorted donated food, planned the fundraising event, 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.

### 12. RELATED PARTY TRANSACTIONS

Receivables as of December 31, 2019, included \$120,000 from board members and top management, including relevant family members and associated entities, and contributions and event revenue for the year then ended included \$257,282 from such related parties.

### 13. CONCENTRATIONS

The Organization maintains cash in bank accounts which, at times, may exceed federally insured limits. As of December 31, 2019, it had uninsured deposits totaling \$68,384 among amounts available for general purposes. An additional \$1,088,778 worth of cash reserved for facility acquisition and construction exceeded insured limits. Cash is placed in established financial institutions to minimize any associated risk.

As of December 31, 2019, approximately 30% of the Organization's receivables was 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 \$250,000. Additionally, approximately 27% of reported revenue was derived from one fundraising event.



## NOTES TO FINANCIAL STATEMENTS

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The Organization does not require and does not have a policy of requiring collateral or other security to support financial instruments subject to credit risk, or of a policy of entering into master netting arrangements to mitigate the credit risk of financial instruments.

### 14. SUBSEQUENT EVENTS

Subsequent events have been evaluated through August 26, 2020. This is the date on which the financial statements were available to be issued.

The outbreak of COVID-19 across the world has had a significant impact on businesses. In March 2020, stay-at-home orders and guidance resulting from its spread in the United States of America began disrupting normal operations, causing substantial increases in job losses nationwide. The Organization has experienced a reduction in donations and was awarded relief under the Payroll Protection Program of the Coronavirus Aid, Relief, and Economic Security (CARES) Act. Additionally, a significant disruption in its peer recovery program resulted from the need to adhere to social distancing rules (intakes to social detox are still being accepted), so the Organization has pivoted to offer this program entirely remotely. Though these disruptions are currently expected to be temporary, there is considerable uncertainty around the duration. Therefore, while the Organization expects this matter to affect its performance and financial results, its ultimate impact cannot be reasonably estimated at this time.