

MAGNIFICAT HOUSES, INC.

FINANCIAL REPORT

JUNE 30, 2017

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Magnificat Houses, Inc.
Houston, Texas

We have audited the accompanying financial statements of Magnificat Houses, Inc. (a nonprofit organization) which comprise the statements of financial position as of June 30, 2017 and 2016, and the related statements of activities, functional expenses, and cash flows for the years 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 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 financial statements are free from 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 Magnificat Houses, Inc. as of June 30, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Cornelius, Stegent & Price, LLP

Houston, Texas
May 15, 2018

MAGNIFICAT HOUSES, INC.
STATEMENTS OF FINANCIAL POSITION
June 30, 2017 and 2016

ASSETS	2017	2016
CURRENT ASSETS		
Cash and cash equivalents	\$ 557,105	\$ 206,646
Other receivables	9,351	17,668
Total current assets	566,456	224,314
PROPERTY AND EQUIPMENT		
Land and improvements	6,721,410	6,739,010
Automobiles	188,214	169,214
Furniture, fixtures and equipment	470,976	428,046
	7,380,600	7,336,270
Allowance for depreciation	(3,113,003)	(2,942,578)
	4,267,597	4,393,692
OTHER ASSETS		
Other	23,713	12,100
Total assets	\$ 4,857,766	\$ 4,630,106
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Resident trust accounts	\$ 9,355	\$ 6,460
Other liabilities	84,954	3,940
Total current liabilities	94,309	10,400
NET ASSETS		
Unrestricted	4,623,056	4,555,798
Temporarily restricted	140,401	63,908
Total net assets	4,763,457	4,619,706
Total liabilities and net assets	\$ 4,857,766	\$ 4,630,106

The Notes to Financial Statements are an integral part of these statements.

MAGNIFICAT HOUSES, INC.
STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
For the Years Ended June 30, 2017 and 2016

	-----2017-----			-----2016-----		
	Temporarily			Temporarily		
	<u>Unrestricted</u>	<u>Restricted</u>	<u>Total</u>	<u>Unrestricted</u>	<u>Restricted</u>	<u>Total</u>
SUPPORT AND REVENUE						
Program service fees	\$ 1,033,137	\$ -	\$ 1,033,137	\$ 1,000,215	\$ -	\$ 1,000,215
Foundations and grants	62,589	256,550	319,139	21,735	135,965	157,700
Contributions - individuals	188,634	24,000	212,634	226,541	17,271	243,812
- organizations	44,658	-	44,658	60,488	-	60,488
- food and goods	285,405	-	285,405	206,874	-	206,874
Residents' maintenance fees from entitlements, private funds and agencies	249,098	-	249,098	176,315	-	176,315
Fundraising	-	-	-	972	-	972
Thrift store sales	145,189	-	145,189	84,723	-	84,723
Interest and dividends	47	-	47	132	-	132
Other income	80,615	-	80,615	26,013	-	26,013
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Total revenue	2,089,372	280,550	2,369,922	1,804,008	153,236	1,957,244
Net assets released from restrictions	204,057	(204,057)	-	102,251	(102,251)	-
	<hr/>			<hr/>		
Total support, revenue, and reclassifications	2,293,429	76,493	2,369,922	1,906,259	50,985	1,957,244
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EXPENSES						
Program services	2,037,046	-	2,037,046	1,893,763	-	1,893,763
Management and general	134,388	-	134,388	117,442	-	117,442
Development expenses	97,651	-	97,651	53,148	-	53,148
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Total expenses	2,269,085	-	2,269,085	2,064,353	-	2,064,353
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Change in net assets	24,344	76,493	100,837	(158,094)	50,985	(107,109)
NET ASSETS, beginning	4,555,798	63,908	4,619,706	4,713,892	12,923	4,726,815
Funds (to) from Daybreak Foundation	42,914	-	42,914	-	-	-
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NET ASSETS, ending	\$ 4,623,056	\$ 140,401	\$ 4,763,457	\$ 4,555,798	\$ 63,908	\$ 4,619,706
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The Notes to Financial Statements are an integral part of these statements.

MAGNIFICAT HOUSES, INC.
STATEMENTS OF FUNCTIONAL EXPENSES
For the Years Ended June 30, 2017 and 2016

	-----2017-----				-----2016-----			
	<u>Program Services</u>	<u>Management and General</u>	<u>Development Expenses</u>	<u>Total Expenses</u>	<u>Program Services</u>	<u>Management and General</u>	<u>Development Expenses</u>	<u>Total Expenses</u>
Salaries	\$ 628,610	\$ 61,151	\$ 40,667	\$ 730,428	\$ 665,756	\$ 53,270	\$ 24,117	\$ 743,143
Payroll taxes	48,913	3,213	4,598	56,724	51,551	3,079	3,483	58,113
Total salaries and related expense	<u>677,523</u>	<u>64,364</u>	<u>45,265</u>	<u>787,152</u>	<u>717,307</u>	<u>56,349</u>	<u>27,600</u>	<u>801,256</u>
Payments directly to and for residents:								
Stipend payments to residents (spending money)	143,378		-	143,378	119,588	7,700	-	127,288
Clothing purchased for residents	-	-	-	-	-	-	-	-
Outside entertainment for residents (restaurants, circus, movies)	-	-	-	-	300	-	-	300
Special medical expenses for residents (eyeglasses, special prescriptions, San Jose Clinic)	1,085	-	-	1,085	1,320	-	-	1,320
Residents' travel expenses (bus tickets home, etc.)	-	-	-	-	-	-	-	-
Gifts and miscellaneous purchases for residents (weddings, drivers licenses, personal items)	3,482	-	-	3,482	4,557	-	-	4,557
Total payments directly to and for residents	<u>147,945</u>	<u>-</u>	<u>-</u>	<u>147,945</u>	<u>125,765</u>	<u>7,700</u>	<u>-</u>	<u>133,465</u>
Food	306,595	-	-	306,595	212,642	-	-	212,642
Automobile expense	37,504	-	-	37,504	25,852	-	-	25,852
Technical advice	94,501	26,600	42,800	163,901	103,745	20,033	17,500	141,278
Insurance	85,634	29,410	-	115,044	72,717	21,174	-	93,891
Supplies for houses	149,323	-	-	149,323	109,355	-	-	109,355
Repairs on houses	115,769	-	-	115,769	95,618	-	-	95,618
Utilities	162,233	-	-	162,233	162,816	-	-	162,816
Telephone	31,696	1,847	-	33,543	28,585	1,434	-	30,019
Office expense	35,392	11,873	9,586	56,851	36,197	10,663	8,048	54,908
Total expenses before depreciation	<u>1,844,115</u>	<u>134,094</u>	<u>97,651</u>	<u>2,075,860</u>	<u>1,690,599</u>	<u>117,353</u>	<u>53,148</u>	<u>1,861,100</u>
Depreciation	<u>192,931</u>	<u>294</u>	<u>-</u>	<u>193,225</u>	<u>203,164</u>	<u>89</u>	<u>-</u>	<u>203,253</u>
Total expenses	<u>\$2,037,046</u>	<u>\$ 134,388</u>	<u>\$ 97,651</u>	<u>\$2,269,085</u>	<u>\$ 1,893,763</u>	<u>\$ 117,442</u>	<u>\$ 53,148</u>	<u>\$ 2,064,353</u>

The Notes to Financial Statements are an integral part of these statements.

MAGNIFICAT HOUSES, INC.
STATEMENTS OF CASH FLOWS
For the Years Ended June 30, 2017 and 2016

	2017	2016
OPERATING ACTIVITIES:		
Change in net assets	\$ 100,837	\$ (107,109)
Adjustments to reconcile to net cash provided by operating activities:		
Depreciation	193,225	203,253
Changes in operating assets and liabilities:		
(Increase) decrease in receivables	8,317	4,378
(Increase) decrease in other assets	(11,613)	309
Increase (decrease) in other liabilities	83,909	4,742
	<u>374,675</u>	<u>105,573</u>
Net cash provided by operating activities		
INVESTING ACTIVITIES:		
Purchase of property and equipment, net	<u>(67,130)</u>	<u>(61,322)</u>
Net cash used in investing activities	<u>(67,130)</u>	<u>(61,322)</u>
FINANCING ACTIVITIES:		
Restricted funds (to) from Daybreak Foundation	<u>42,914</u>	<u>-</u>
Net cash provided by (used in) financing activities	<u>42,914</u>	<u>-</u>
Net increase (decrease) in cash and cash equivalents	350,459	44,251
CASH AND CASH EQUIVALENTS, beginning of year	<u>206,646</u>	<u>162,395</u>
CASH AND CASH EQUIVALENTS, end of year	<u><u>\$ 557,105</u></u>	<u><u>\$ 206,646</u></u>

The Notes to Financial Statements are an integral part of these statements.

MAGNIFICAT HOUSES, INC.
NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies

Organization:

Magnificat Houses, Inc. ("the Organization"), a nonprofit organization, provides various services for the poor and disadvantaged. Revenues are received from donations and fees from residents. Daybreak Foundation ("Daybreak") was established under IRC Section 501 (c)(3) in 1985 as a supporting organization operated exclusively for the benefit of Magnificat Houses, Inc. Under the terms of the endowment, Magnificat Houses, Inc. may draw down the Daybreak investment earnings each year. Additional requests, subject to a majority approval by the Daybreak Board of Directors, may be made for special projects such as asset acquisitions and operational program expansions. During the year ended June 30, 2017, the Organization drew down \$42,914 for general operating expenses. At December 31, 2016, Daybreak's investments totaled \$2,075,372.

Promises to Give:

Contributions are recognized when the donor makes a promise to give to the Organization that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

The Organization uses the allowance method to determine uncollectible unconditional promises receivable. The allowance is based on prior years' experience and management's analysis of specific promises made.

Contributed Services:

No amounts have been reflected in the financial statements for donated services. The Organization generally pays for services requiring specific expertise. However, many individuals volunteer their time and perform a variety of tasks that assist the Organization, but these services do not meet the criteria for recognition as contributed services.

Estimates:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

MAGNIFICAT HOUSES, INC.
NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

Property and Equipment:

The Organization capitalizes property and equipment at cost if purchased and at fair value at date of donation if received by contribution. Such donations are reported as unrestricted contributions unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted support. Absent donor stipulations regarding how long those donated assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Organization reclassifies temporarily restricted net assets to unrestricted net assets at that time. Property and equipment are depreciated using the straight-line method over estimated useful lives ranging from five to forty years.

Contributions:

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence or nature of any donor restrictions.

Income Taxes:

The Organization is a not-for-profit organization exempt from income taxes under Internal Revenue Code 501 (c)(3) and classified by the Internal Revenue Service as other than a private foundation.

Investments:

Investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the statement of financial position. Unrealized gains and losses are included in the change in net assets. Investment income and gains restricted by a donor are reported as increases in unrestricted net assets if the restrictions are met (either by passage of time or by use) in the reporting periods in which the income and gains are recognized.

Cash and Cash Equivalents:

For purposes of the statements of cash flows, the Organization considers all highly liquid investments available for current use with an initial maturity of three months or less to be cash equivalents.

Subsequent Events:

Subsequent events have been evaluated through May 15, 2018, which is the date the financial statements were available to be issued.

MAGNIFICAT HOUSES, INC.
NOTES TO FINANCIAL STATEMENTS

Note 2. Temporarily Restricted Net Assets

Temporarily restricted net assets represents cash received by Magnificat Houses, Inc. that has been designated for specific activities.

The activities and amounts temporarily restricted as of June 30, 2017 and 2016 are as follows:

	Restricted For:			
	TOTAL	Buildings & Improvements	Loaves & Fishes Soup Kitchen	Program Service Expenses
Balance, July 1, 2015	\$ 12,923	\$ 12,923	\$ -	\$ -
Restricted receipts	153,236	40,000	66,278	46,958
Restrictions satisfied	(102,251)	(40,894)	(35,027)	(26,330)
Balance, June 30, 2016	63,908	12,029	31,251	20,628
Restricted receipts	280,550	101,500	20,000	159,050
Restrictions satisfied	(204,057)	(83,723)	(34,171)	(86,163)
Balance, June 30, 2017	<u>\$ 140,401</u>	<u>\$ 29,806</u>	<u>\$ 17,080</u>	<u>\$ 93,515</u>

Note 3. MHMRA Contract

On February 12, 2014 Magnificat Houses, Inc. started providing services as a Contractor under a contract with The Harris Center for Mental Health and IDD (“Agency”). The contract was effective October 1, 2013, and has been extended to September 30, 2017. Under the terms of the agreement the Contractor provides psychosocial services at St. Joseph Club House, which is an accredited Clubhouse and adheres to the standards of the International Center for Clubhouse Development (ICCD). For providing these services, the Agency pays the Contractor an amount based on the completion of certain milestones specified in the contract. During the years ended June 30, 2017 and 2016, Magnificat Houses, Inc. received \$1,033,137 and \$1,000,215, respectively. The management of Magnificat Houses, Inc. does not anticipate any circumstances which would prevent completing the contract.