

MAGNIFICAT HOUSES, INC.

FINANCIAL REPORT

JUNE 30, 2016

CONTENTS

	Page
INDEPENDENT AUDITORS' REPORT	1
FINANCIAL STATEMENTS	
Statements of financial position	2
Statements of activities and changes in net assets	3
Statements of functional expenses	4
Statements of cash flows	5
Notes to financial statements	6 - 8

24 E. Greenway Plaza, Suite 515
Houston, Texas 77046-2406
Tel (713) 840-9300
Fax (713) 840-0012
www.CPAdvisers.com

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, 2016 and 2015, 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, 2016 and 2015, 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
November 3, 2016

MAGNIFICAT HOUSES, INC.
STATEMENTS OF FINANCIAL POSITION
June 30, 2016 and 2015

ASSETS	2016	2015
CURRENT ASSETS		
Cash and cash equivalents	\$ 206,646	\$ 162,395
Other receivables	17,668	22,046
Total current assets	<u>224,314</u>	<u>184,441</u>
PROPERTY AND EQUIPMENT		
Land and improvements	6,739,010	6,710,866
Automobiles	169,214	169,214
Furniture, fixtures and equipment	428,046	394,868
	<u>7,336,270</u>	<u>7,274,948</u>
Allowance for depreciation	<u>(2,942,578)</u>	<u>(2,739,325)</u>
	<u>4,393,692</u>	<u>4,535,623</u>
OTHER ASSETS		
Other	12,100	12,409
Total assets	<u>\$ 4,630,106</u>	<u>\$ 4,732,473</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Resident trust accounts	\$ 6,460	\$ 5,467
Other liabilities	3,940	191
Total current liabilities	10,400	5,658
NET ASSETS		
Unrestricted	4,555,798	4,713,892
Temporarily restricted	63,908	12,923
Total net assets	<u>4,619,706</u>	<u>4,726,815</u>
Total liabilities and net assets	<u>\$ 4,630,106</u>	<u>\$ 4,732,473</u>

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, 2016 and 2015

	2016		2015	
	Unrestricted	Temporarily Restricted	Unrestricted	Temporarily Restricted
SUPPORT AND REVENUE				
Program service fees	\$ 1,000,215	-	\$ 908,871	\$ 908,871
Foundations and grants	21,735	135,965	33,000	644,986
Contributions - individuals	226,541	17,271	153,197	600
- organizations	60,488	-	160,648	62,095
- food and goods	206,874	-	257,279	-
Residents' maintenance fees from entitlements, private funds and agencies	176,315	-	188,573	-
Fundraising	972	972	1,625	-
Thrift store sales	84,723	-	68,611	-
Interest and dividends	132	-	47	-
Other income	26,013	-	38,588	-
Total revenue	1,804,008	153,236	1,810,439	707,681
Net assets released from restrictions	102,251	(102,251)	708,962	(708,962)
Total support, revenue, and reclassifications	1,906,259	50,985	2,519,401	(1,281)
EXPENSES				
Program services	1,893,763	-	2,061,965	-
Management and general	117,442	-	110,152	-
Development expenses	53,148	-	67,689	-
Total expenses	2,064,353	-	2,239,806	-
Change in net assets	(158,094)	50,985	279,595	(1,281)
NET ASSETS, beginning	4,713,892	12,923	4,381,397	14,204
Funds (to) from Daybreak Foundation	-	-	52,900	-
NET ASSETS, ending	\$ 4,555,798	\$ 63,908	\$ 4,713,892	\$ 12,923
			\$ 4,726,815	\$ 4,726,815

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, 2016 and 2015

	-----2016-----		-----2015-----	
	Program Services	Management and General Expenses	Development Expenses	Total Expenses
Salaries	\$ 665,756	\$ 53,270	\$ 24,117	\$ 743,143
Payroll taxes	51,551	3,079	3,483	58,113
Total salaries and related expense	717,307	56,349	27,600	801,256
Payments directly to and for residents:				
Stipend payments to residents (spending money)	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)	1,320	-	-	1,320
Residents' travel expenses (bus tickets home, etc.)	-	-	-	-
Gifts and miscellaneous purchases for residents (weddings, drivers licenses, personal items)	4,557	-	-	4,557
Total payments directly to and for residents	125,765	7,700	-	133,465
Food	212,642	-	-	212,642
Automobile expense	25,852	-	-	25,852
Technical advice	103,745	20,033	17,500	141,278
Insurance	72,717	21,174	-	93,891
Supplies for houses	109,355	-	-	109,355
Repairs on houses	95,618	-	-	95,618
Utilities	162,816	-	-	162,816
Telephone	28,585	1,434	-	30,019
Office expense	36,197	10,663	8,048	54,908
Total expenses before depreciation	1,690,599	117,353	53,148	1,861,100
Depreciation	203,164	89	-	203,253
Total expenses	\$ 1,893,763	\$ 117,442	\$ 53,148	\$ 2,064,353
	\$ 685,044	\$ 54,455	\$ 37,367	\$ 776,866
	50,034	5,046	4,071	59,151
	755,078	59,501	41,438	836,017
	135,524	3,000	-	138,524
	-	-	-	-
	261	-	-	261
	1,061	-	-	1,061
	-	-	-	-
	14,426	-	-	14,426
	151,272	3,000	-	154,272
	101,318	-	-	101,318
	32,993	-	-	32,993
	132,315	33,241	16,133	181,689
	86,093	5,598	-	91,691
	290,552	-	-	290,552
	111,517	-	-	111,517
	164,755	-	-	164,755
	24,647	1,431	-	26,078
	40,486	7,292	10,118	57,896
	1,871,026	110,063	67,689	2,048,778
	190,939	89	-	191,028
	\$ 2,061,965	\$ 110,152	\$ 67,689	\$ 2,239,806

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, 2016 and 2015

	2016	2015
OPERATING ACTIVITIES:		
Change in net assets	\$ (107,109)	\$ 278,314
Adjustments to reconcile to net cash provided by operating activities:		
Depreciation	203,253	191,028
Changes in operating assets and liabilities:		
(Increase) decrease in receivables	4,378	(2,587)
(Increase) decrease in other assets	309	(1,420)
Increase (decrease) in other liabilities	4,742	(11,501)
	<u>105,573</u>	<u>453,834</u>
INVESTING ACTIVITIES:		
Purchase of property and equipment, net	<u>(61,322)</u>	<u>(631,913)</u>
	<u>(61,322)</u>	<u>(631,913)</u>
FINANCING ACTIVITIES:		
Restricted funds (to) from Daybreak Foundation	<u>-</u>	<u>52,900</u>
	<u>-</u>	<u>52,900</u>
Net increase (decrease) in cash and cash equivalents	44,251	(125,179)
CASH AND CASH EQUIVALENTS, beginning of year	<u>162,395</u>	<u>287,574</u>
CASH AND CASH EQUIVALENTS, end of year	<u><u>\$ 206,646</u></u>	<u><u>\$ 162,395</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 was established in 1985 as a supporting organization operated exclusively for the benefit of Magnificat Houses, Inc. The Organization filed a lawsuit against Daybreak Foundation in February of 2015 for failure to comply with the governing documents and a breach of fiduciary duty by certain Daybreak Foundation Board members. In May, 2016, the lawsuit was settled in favor of Magnificat Houses, Inc.

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.

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

MAGNIFICAT HOUSES, INC.
NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

Property and Equipment (Continued):

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 November 3, 2016, 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, 2016 and 2015 are as follows:

	Restricted For:				
	TOTAL	Buildings & Improvements	Loaves & Fishes Soup Kitchen	Program Service Expenses	Equipment Upgrades
Balance, July 1, 2014	\$ 14,204	\$ -	\$ -	\$ -	\$ 14,204
Restricted receipts	707,681	627,100	64,595	15,986	-
Restrictions satisfied	<u>(708,962)</u>	<u>(614,177)</u>	<u>(64,595)</u>	<u>(15,986)</u>	<u>(14,204)</u>
Balance, June 30, 2015	12,923	12,923	-	-	-
Restricted receipts	153,236	40,000	66,278	46,958	-
Restrictions satisfied	<u>(102,251)</u>	<u>(40,894)</u>	<u>(35,027)</u>	<u>(26,330)</u>	<u>-</u>
Balance, June 30, 2016	<u>\$ 63,908</u>	<u>\$ 12,029</u>	<u>\$ 31,251</u>	<u>\$ 20,628</u>	<u>\$ -</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, 2016 and 2015, Magnificat Houses, Inc. received \$1,000,215 and \$908,871, respectively. The management of Magnificat Houses, Inc. does not anticipate any circumstances which would prevent completing the contract.