

Financial Report

Magnolia Community Services, Inc.

June 30, 2017



Bourgeois Bennett
CERTIFIED PUBLIC ACCOUNTANTS | CONSULTANTS
A LIMITED LIABILITY COMPANY

Financial Report

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June 30, 2017

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FINANCIAL SECTION

INDEPENDENT AUDITOR'S REPORT

To the Board of Governors,
Magnolia Community Services, Inc.,
Jefferson, Louisiana.

We have audited the accompanying financial statements of Magnolia Community Services, Inc. (a nonprofit organization), which comprise the statement of financial position as of June 30, 2017, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 Magnolia Community Services, Inc. as of June 30, 2017, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The Schedule of Compensation, Benefits, and Other Payments to Agency Head or Chief Executive Officer (Schedule 1) is presented for purposes of additional analysis, is required by Louisiana Revised Statute 24:513(a)(3), and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 28, 2017, on our consideration of Magnolia Community Services, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Magnolia Community Services, Inc.'s internal control over financial reporting and compliance.

Report on Summarized Comparative Information

We have previously audited the Magnolia Community Services, Inc.'s 2016 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated November 28, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2016, is consistent, in all material respects, with the audited financial statements from which it has been derived.

A handwritten signature in black ink that reads "Bougeois Bennett, L.L.C." The signature is written in a cursive style with a clear, legible font.

Certified Public Accountants.

New Orleans, Louisiana,
November 28, 2017.

STATEMENT OF FINANCIAL POSITION

Magnolia Community Services, Inc. Jefferson, Louisiana

June 30, 2017
(with comparative totals for 2016)

ASSETS

	<u>2017</u>	<u>2016</u>
Current		
Cash and cash equivalents	\$ 867,370	\$ 891,283
Restricted cash	209,460	186,690
Accounts receivable:		
Medicaid	945,605	1,318,675
Other	80,770	44,417
Interest in charitable remainder trust	107,613	107,613
Interest receivable	37,856	39,802
Inventory	45,387	23,836
Prepaid expenses and deposits	305,031	298,217
Investments	13,377,996	12,259,583
Certificates of deposit	<u>52,272</u>	<u>52,272</u>
Total current assets	<u>16,029,360</u>	<u>15,222,388</u>
Property and Equipment		
Land	452,953	452,953
Buildings and improvements	12,713,311	11,033,907
Equipment and fixtures	1,761,127	1,669,139
Construction in process	<u>109,718</u>	<u>379,907</u>
	15,037,109	13,535,906
Less accumulated depreciation	<u>(7,060,173)</u>	<u>(6,537,707)</u>
Net property and equipment	<u>7,976,936</u>	<u>6,998,199</u>
Total assets	<u>\$ 24,006,296</u>	<u>\$ 22,220,587</u>

See notes to financial statements.

LIABILITIES

	<u>2017</u>	<u>2016</u>
Current		
Trade accounts payable and accrued expenses	\$ 540,777	\$ 440,827
Accrued payroll and related taxes	246,177	259,758
Deposits held in custody	209,460	186,690
Line of credit	<u>1,900,000</u>	<u>350,000</u>
Total current liabilities	<u>2,896,414</u>	<u>1,237,275</u>

NET ASSETS

Net Assets		
Unrestricted:		
Net investment in property and equipment	7,976,936	6,998,199
Undesignated	<u>13,092,230</u>	<u>13,880,747</u>
Total unrestricted net assets	21,069,166	20,878,946
Temporarily restricted	<u>40,716</u>	<u>104,366</u>
Total net assets	<u>21,109,882</u>	<u>20,983,312</u>
Total liabilities and net assets	<u>\$ 24,006,296</u>	<u>\$ 22,220,587</u>

STATEMENT OF ACTIVITIES**Magnolia Community Services, Inc.**
Jefferson, LouisianaFor the year ended June 30, 2017
(with comparative totals for 2016)

	2017			2016 Totals Only
	Unrestricted	Temporarily Restricted	Totals	
Support and Revenue				
Support:				
Medicaid	\$ 10,251,389	\$ -	\$ 10,251,389	\$ 10,033,554
Contributions	197,878	2,612	200,490	170,473
Government grants	89,442	-	89,442	-
Jefferson Parish Human Services Authority	8,896	-	8,896	34,667
Metropolitan Human Services District	15,956	-	15,956	6,134
Other	6,233	-	6,233	11,514
Total support	<u>10,569,794</u>	<u>2,612</u>	<u>10,572,406</u>	<u>10,256,342</u>
Revenue:				
Tuition	35,853	-	35,853	64,828
Interest and dividend income	287,705	-	287,705	328,019
Net realized and unrealized gains (losses) on investments	736,416	-	736,416	(228,444)
Gala revenue, net of expenses of \$49,118 and \$33,754	150,704	-	150,704	163,945
Sales - Café	223,728	-	223,728	216,976
Sales - Special Creations	61,780	-	61,780	53,166
Other	9,395	-	9,395	8,929
Total revenue	<u>1,505,581</u>	<u>-</u>	<u>1,505,581</u>	<u>607,419</u>
Net assets released from restrictions	<u>66,262</u>	<u>(66,262)</u>	<u>-</u>	<u>-</u>
Total support and revenue	<u>12,141,637</u>	<u>(63,650)</u>	<u>12,077,987</u>	<u>10,863,761</u>

**Exhibit B
(Continued)**

	2017			2016 Totals Only
	Unrestricted	Temporarily Restricted	Totals	
Expenses				
Program services:				
Residential programs	6,257,341	-	6,257,341	5,784,108
Vocational programs	2,472,151	-	2,472,151	2,578,860
	<u>8,729,492</u>	<u>-</u>	<u>8,729,492</u>	<u>8,362,968</u>
Total program services				
Supporting services:				
Administrative and other	2,384,921	-	2,384,921	2,089,526
Nursing	723,346	-	723,346	661,685
Plant operation and maintenance	113,658	-	113,658	109,338
	<u>3,221,925</u>	<u>-</u>	<u>3,221,925</u>	<u>2,860,549</u>
Total supporting services				
Total expenses	<u>11,951,417</u>	<u>-</u>	<u>11,951,417</u>	<u>11,223,517</u>
Increase (Decrease) In Net Assets	190,220	(63,650)	126,570	(359,756)
Net Assets				
Beginning of year	<u>20,878,946</u>	<u>104,366</u>	<u>20,983,312</u>	<u>21,343,068</u>
End of year	<u>\$ 21,069,166</u>	<u>\$ 40,716</u>	<u>\$ 21,109,882</u>	<u>\$ 20,983,312</u>

See notes to financial statements.

STATEMENT OF FUNCTIONAL EXPENSES**Magnolia Community Services, Inc.**
Jefferson, LouisianaFor the year ended June 30, 2017
(with comparative totals for 2016)

	2017			2016 Totals Only
	Residential Programs	Vocational Programs	Totals	
Program Services				
Salaries	\$ 3,055,069	\$ 1,707,811	\$ 4,762,880	\$ 4,584,005
Employee health and retirement benefits	375,085	274,210	649,295	587,433
Payroll taxes	229,785	124,353	354,138	335,596
Total salaries and related expenses	3,659,939	2,106,374	5,766,313	5,507,034
Advertising	63	113	176	2,236
Automobile	43,986	3,978	47,964	38,897
Bed fee - Louisiana Department of Health and Hospitals	805,512	-	805,512	762,228
Client personal needs	52,859	-	52,859	55,378
Contract services	164,710	6,493	171,203	100,804
Data processing	19,355	13,749	33,104	22,422
Depreciation	245,715	121,354	367,069	276,664
Food	391,263	814	392,077	375,245
Insurance	222,725	90,964	313,689	311,253
Laundry, linen, and bedding	16,314	-	16,314	14,708
Miscellaneous	18,396	5,339	23,735	35,213
Office supplies	3,138	4,722	7,860	9,478
Postage and printing	73	2,060	2,133	4,166
Purchases - retail store	-	9,602	9,602	1,486
Rent	228,506	-	228,506	255,256
Repairs and maintenance:				
Buildings and grounds	85,661	27,179	112,840	157,970
Furniture	57,151	16,604	73,755	75,536
Supplies	1,696	256	1,952	2,328
Supplies and other	74,029	37,497	111,526	121,283
Taxes and licenses	13,925	891	14,816	12,916
Telephone	24,484	9,393	33,877	47,997
Travel	3,436	10,851	14,287	15,868
Utilities	124,405	3,918	128,323	156,602
Total program services expenses	\$ 6,257,341	\$ 2,472,151	\$ 8,729,492	\$ 8,362,968

**Exhibit C
(Continued)**

	2017				2016 Totals Only
	Administrative and Other	Nursing	Plant Operation and Maintenance	Totals	
Supporting Services					
Salaries	\$ 814,133	\$ 525,510	\$ 62,851	\$ 1,402,494	\$ 1,379,117
Employee health and retirement benefits	83,652	58,455	16,419	158,526	131,551
Payroll taxes	63,995	39,077	8,440	111,512	95,780
Total salaries and related expenses	961,780	623,042	87,710	1,672,532	1,606,448
Advertising	23,436	-	-	23,436	20,951
Automobile	-	4,847	2,828	7,675	10,047
Bad debts	173,783	-	-	173,783	32,431
Interest	40,927	-	-	40,927	-
Contract services	54,627	48,437	256	103,320	71,497
Data processing	231,582	-	-	231,582	214,653
Depreciation and amortization	169,673	386	-	170,059	160,693
Food	101,022	69	-	101,091	114,971
Insurance	75,237	22,200	9,450	106,887	106,595
Laundry, linen, and bedding	84	85	-	169	-
Investment fees	68,161	-	-	68,161	89,481
Legal and accounting	50,841	-	-	50,841	30,539
Miscellaneous	108,438	1,896	142	110,476	112,315
Office supplies	13,280	542	-	13,822	14,299
Postage and printing	9,981	-	-	9,981	5,876
Repairs and maintenance:					
Buildings and grounds	43,946	125	6,280	50,351	47,094
Furniture	45,397	310	1,054	46,761	77,858
Supplies	1,895	-	3,049	4,944	1,971
Supplies and other	53,986	17,072	-	71,058	53,668
Telephone	22,653	2,376	2,789	27,818	22,487
Travel	2,970	3	-	2,973	22,527
Utilities	131,222	1,956	100	133,278	44,148
Total supporting services expenses	\$ 2,384,921	\$ 723,346	\$ 113,658	\$ 3,221,925	\$ 2,860,549

See notes to financial statements.

STATEMENT OF CASH FLOWS**Magnolia Community Services, Inc.**
Jefferson, LouisianaFor the year ended June 30, 2017
(with comparative totals for 2016)

	<u>2017</u>	<u>2016</u>
Cash Flows From Operating Activities		
Medicaid, JPHSA, and tuition	\$ 10,511,381	\$ 9,767,196
Miscellaneous income	451,840	454,530
Contributions and support	213,220	170,473
Interest and dividend income	289,651	330,560
Cash payments for expenses	<u>(11,102,102)</u>	<u>(10,584,547)</u>
Net cash provided by operating activities	<u>363,990</u>	<u>138,212</u>
Cash Flows From Investing Activities		
Proceeds from sales of investments	4,272,196	9,181,348
Purchases of investments	(4,666,134)	(8,284,913)
Purchase of certificate of deposit	-	(323)
Purchases of property and equipment	<u>(1,477,246)</u>	<u>(2,055,139)</u>
Net cash used in investing activities	<u>(1,871,184)</u>	<u>(1,159,027)</u>
Cash Flows From Financing Activities		
Proceeds from borrowings on line of credit	2,315,000	350,000
Payments on line of credit	(765,000)	-
Payments on trade accounts payable used to finance property and equipment acquisitions	<u>(66,719)</u>	<u>(161,406)</u>
Net cash provided by financing activities	<u>1,483,281</u>	<u>188,594</u>
Net Decrease In Cash and Cash Equivalents	(23,913)	(832,221)
Cash and Cash Equivalents		
Beginning of year	<u>891,283</u>	<u>1,723,504</u>
End of year	<u>\$ 867,370</u>	<u>\$ 891,283</u>

**Exhibit D
(Continued)**

	2017	2016
Reconciliation of Increase (Decrease) In Net Assets To Cash Flows Provided By Operating Activities		
Increase (decrease) in net assets	\$ 126,570	\$ (359,756)
Adjustments to reconcile increase (decrease) in net assets to cash provided by operating activities:		
Bad debts	173,783	32,431
Depreciation and amortization	550,809	437,357
Donation of stock	(1,740)	-
Net realized and unrealized gain (loss) on investments	(736,416)	228,444
Decrease (increase) in operating assets:		
Accounts receivable	124,315	(404,418)
Interest receivable	1,946	2,541
Inventory	(21,551)	(6,719)
Prepaid expenses and deposits	(6,814)	38,120
Increase in operating liabilities:		
Accounts payable and accrued expenses	153,088	170,212
Net cash provided by operating activities	\$ 363,990	\$ 138,212
 Supplemental Disclosures of Cash Flow Information		
Cash paid during the year for interest	\$ 40,927	\$ -
 Supplemental Disclosure of Noncash Investing Activities		
Property and equipment purchases included in accounts payable	\$ -	\$ 66,719
Property and equipment acquired through grant receivable	\$ 38,619	\$ -

See notes to financial statements.

NOTES TO FINANCIAL STATEMENTS**Magnolia Community Services, Inc.**
Jefferson, Louisiana

June 30, 2017 and 2016

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ORGANIZATION**a. Organization**

Magnolia Community Services, Inc. ("Magnolia") is a non-profit corporation founded in 1935 for the purpose of providing housing, training, and education for adults with developmental disabilities.

As a community of dedicated employees, families, and medical professionals, Magnolia's mission is to provide the highest quality of service, leadership, and advocacy for individuals with developmental disabilities in the Greater New Orleans area.

b. Basis of Accounting

The financial statements of Magnolia have been prepared on the accrual basis of accounting.

c. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities, disclosures of contingent assets and liabilities at the date of the financial statements, and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

d. Financial Statement Presentation

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

**Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ORGANIZATION
(Continued)**

d. Financial Statement Presentation (Continued)

Unrestricted Net Assets - Support, revenue, and expenses for the general operation of Magnolia.

Temporarily Restricted Net Assets - Contributions specifically authorized by the grantor or donor to be used for a certain purpose or to benefit a specific accounting period.

Permanently Restricted Net Assets - Contributions subject to donor-imposed restrictions and that are to be held in perpetuity by Magnolia. As of June 30, 2017 and 2016, Magnolia had no permanently restricted net assets.

e. Cash and Cash Equivalents

Magnolia classifies as cash and cash equivalents all highly liquid debt instruments with an initial maturity of three months or less.

Restricted cash consists of amounts credited to Magnolia's bank accounts from deposits held in custody for the clients of Magnolia (see Note 4).

f. Allowance for Doubtful Accounts

Magnolia uses the reserve method to recognize uncollectible accounts. The reserve is based on certain Medicaid and tuition accounts receivable balances that are greater than 120 days old. Management monitors outstanding receivable balances and charges off to bad debt expense any balances that are determined to be noncollectible. As of June 30, 2017 and 2016, there was a reserve for bad debts totaling \$17,640 and \$27,521, respectively.

g. Inventory

Inventory is stated at the lower of cost, as determined by the first-in, first-out (FIFO) method, or market.

**Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ORGANIZATION
(Continued)**

h. Property and Equipment

Magnolia records purchases of property and equipment at cost at the date of acquisition or fair value at the date of donation in the case of gifts. Repairs and maintenance are charged to expense as incurred; major renewals and replacements and betterments are capitalized. Depreciation is provided using the straight-line method over the estimated useful lives of the respective assets which range from three to thirty-nine years. For the years ended June 30, 2017 and 2016, depreciation expense totaled \$537,128 and \$437,357, respectively.

i. Investments

Investments in marketable securities, mutual funds, and other investments are generally carried at fair market value.

j. Contributions

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

Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized. All other donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from restrictions.

k. Tax Matters

Magnolia is exempt from Federal income tax under Section 501(c)(3) of the Internal Revenue Code, and qualifies as an organization that is not a private foundation as defined in Section 509(a) of the Code. It is exempt from Louisiana income tax under the authority of R.S. 47:121(5).

**Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ORGANIZATION
(Continued)**

k. Tax Matters (Continued)

Accounting standards provide detailed guidance for financial statement recognition, measurement, and disclosures of uncertain tax positions recognized in an entity's financial statements. It requires an entity to recognize the financial statement impact of a tax position when it is more likely than not that the position will not be sustained upon examination. Tax years ended June 30, 2014 and later remain subject to examination by the taxing authorities. As of June 30, 2017, management of Magnolia believes that it has no uncertain tax positions that qualify for either recognition or disclosure in the financial statements.

l. Allocated Expenses

The costs of providing the various programs and other activities are summarized in the Statement of Functional Expenses. Certain expenses have been allocated among the programs and supporting services based on management's estimate of the costs involved.

m. Subsequent Events

Management evaluates events occurring subsequent to the date of the financial statements in determining the accounting for and disclosure of transactions and events that affect the financial statements. Subsequent events have been evaluated through November 28, 2017, which is the date the financial statements were available to be issued.

Note 2 - CONCENTRATION OF CREDIT RISK

Magnolia maintains cash accounts at several local financial institutions. The Federal Deposit Insurance Corporation insures accounts at each institution up to \$250,000 as of June 30, 2017. Magnolia also has cash equivalent accounts with a brokerage firm. The Securities Investor Protection Corporation insures these accounts up to \$250,000. Uninsured or non-guaranteed cash and cash equivalent balances were approximately \$315,000 as of June 30, 2017.

Note 3 - RESTRICTIONS ON ASSETS

Temporarily restricted net assets are restricted by donors for specific programs, purposes, or to assist specific departments of Magnolia. These restrictions are considered to expire when payments for restricted purposes are made. Temporarily restricted net assets totaled \$40,716 and \$104,366 as of June 30, 2017 and 2016, respectively.

Note 4 - CUSTODIAL FUNDS

As of June 30, 2017 and 2016, personal funds of the clients totaling \$209,460 and \$186,690 respectively, are reported as deposits held in custody in the accompanying financial statements.

Note 5 - INVESTMENTS

Investments as of June 30, 2017 and 2016 are composed of the following:

	2017		
	Cost	Fair Market Value	Excess of Market Over Cost (Cost Over Market)
Equity securities	\$ 5,260,666	\$ 6,515,507	\$ 1,254,841
Debt securities	4,784,957	4,732,562	(52,395)
Certificates of deposit	1,134,000	1,157,644	23,644
Mutual funds	859,075	838,334	(20,741)
Exchange traded funds	143,696	133,949	(9,747)
Totals	<u>\$ 12,182,394</u>	<u>\$ 13,377,996</u>	<u>\$ 1,195,602</u>
	2016		
	Cost	Fair Market Value	Excess of Market Over Cost (Cost Over Market)
Equity securities	\$ 4,807,413	\$ 5,474,619	\$ 667,206
Debt securities	4,661,418	4,736,941	75,523
Certificates of deposit	1,134,000	1,195,800	61,800
Mutual funds	848,433	709,761	(138,672)
Exchange traded funds	143,696	142,462	(1,234)
Totals	<u>\$ 11,594,960</u>	<u>\$ 12,259,583</u>	<u>\$ 664,623</u>

Note 5 - INVESTMENTS (Continued)

	2017		Excess of Market Over Cost
	Cost	Market	
Balance, June 30, 2017	<u>\$ 12,182,394</u>	<u>\$ 13,377,996</u>	\$ 1,195,602
Balance, June 30, 2016	<u>\$ 11,594,960</u>	<u>\$ 12,259,583</u>	<u>664,623</u>
Increase in unrealized appreciation			530,979
Net realized gain			205,437
Interest and dividend income			<u>287,705</u>
Investment income			<u>\$ 1,024,121</u>
	2016		
	Cost	Market	Excess of Market Over Cost
Balance, June 30, 2016	<u>\$ 11,594,960</u>	<u>\$ 12,259,583</u>	\$ 664,623
Balance, June 30, 2015	<u>\$ 11,967,041</u>	<u>\$ 13,384,462</u>	<u>1,417,421</u>
Decrease in unrealized appreciation			(752,798)
Net realized gain			524,354
Interest and dividend income			<u>328,019</u>
Investment income			<u>\$ 99,575</u>

Note 6 - FAIR VALUE MEASUREMENTS

The framework for measuring fair value provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The three levels of the fair value hierarchy under FASB ASC 820 are described below:

- Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that Magnolia has the ability to access.

Note 6 - FAIR VALUE MEASUREMENTS (Continued)

Level 2 Inputs to the valuation methodology include:

- quoted prices for similar assets or liabilities in active markets;
- quoted prices for identical or similar assets or liabilities in inactive markets;
- inputs other than quoted prices that are observable for the asset or liability; and/or
- inputs that are derived principally from or corroborated by observable market data by correlation of other means.

If the asset or liability has a specified (contractual) term, the Level 2 must be observable for substantially the full term of the asset or liability.

Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used as of June 30, 2017 and 2016.

- *Equity Securities, Debt Securities, Certificates of Deposit, and Exchange Traded Funds:* Valued at the closing price reported on the active market on which the investments are traded.
- *Mutual Funds:* Valued at the daily closing price as reported by the fund. Mutual funds held by Magnolia are open-ended mutual funds that are registered with the Securities and Exchange Commission. These funds are required to publish their daily net asset value (NAV) and to transact at that price. The mutual funds held by Magnolia are deemed to be actively traded.
- *Interest in Charitable Remainder Trust:* The charitable remainder trust is valued using an appraised value of the underlying assets, discounted to their net present value based upon actuarial assumptions.

Note 6 - FAIR VALUE MEASUREMENTS (Continued)

Assets measured at fair value on a recurring basis as of June 30, 2017 and 2016 are comprised of and determined as follows:

Description	Total Assets Measured At Fair Value	2017		
		Based on		
		Quoted Prices In Active Markets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
Equity securities	\$ 6,515,507	\$ 6,515,507	\$ -	\$ -
Debt securities:				
U.S. Treasury Note	2,401,421	2,401,421	-	-
Other debt securities	2,331,141	2,331,141	-	-
Certificates of deposit	1,157,644	1,157,644	-	-
Mutual funds	838,334	838,334	-	-
Exchange traded funds	133,949	133,949	-	-
Total investments	13,377,996	13,377,996	-	-
Interest in charitable remainder trust	107,613	-	-	107,613
Totals	\$ 13,485,609	\$ 13,377,996	\$ -	\$ 107,613
Description	Total Assets Measured At Fair Value	2016		
		Based on		
		Quoted Prices In Active Markets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
Equity securities	\$ 5,474,619	\$ 5,474,619	\$ -	\$ -
Debt securities:				
U.S. Treasury Note	3,093,779	3,093,779	-	-
Other debt securities	1,643,162	1,643,162	-	-
Certificates of deposit	1,195,800	1,195,800	-	-
Mutual funds	709,761	709,761	-	-
Exchange traded funds	142,462	142,462	-	-
Total investments	12,259,583	12,259,583	-	-
Interest in charitable remainder trust	107,613	-	-	107,613
Totals	\$ 12,367,196	\$ 12,259,583	\$ -	\$ 107,613

As of June 30, 2017 and 2016, there were no assets measured at fair value on a non-recurring basis.

Note 7 - LINE OF CREDIT

Magnolia has a \$2,000,000 line of credit with Whitney National Bank. The line of credit is due on April 4, 2018 with interest payable monthly at a rate equal to One Month Libor plus 2.5% (3.625% and 3.0% as of June 30, 2017 and 2016, respectively). The obligation is unsecured. As of June 30, 2017 and 2016, the outstanding balance was \$1,900,000 and \$350,000, respectively. Interest expense on the line credit totaled \$40,927 for the year ended June 30, 2017.

Note 8 - LEASE COMMITMENTS

Magnolia leases several of its residential facilities under separate operating leases. The lease terms commenced on May 1, 2010 and are for a term of ten years. The monthly lease payments range from \$1,275 to \$2,150. Magnolia also leases copier equipment from a third party under an operating lease. The lease term commenced on January 23, 2013 and is for a term of five years. The monthly lease payment for this equipment is \$1,338 which includes maintenance service fees.

Rent expense incurred under these leases totaled \$244,562 and \$270,912 for the years ended June 30, 2017 and 2016, respectively.

Minimum future lease payments are as follows:

<u>Year Ending June 30,</u>	<u>Residential Facilities</u>	<u>Equipment</u>	<u>Totals</u>
2018	\$ 236,256	\$ 9,366	\$ 245,622
2019	236,256	-	236,256
2020	39,376	-	39,376
	<u>\$ 511,888</u>	<u>\$ 9,366</u>	<u>\$ 521,254</u>

Note 9 - EMPLOYEE BENEFIT PLANS

Magnolia maintains a 401(k) Retirement Plan. Under the terms of this plan, employees who are age 21 or older and have at least six months of service with Magnolia may elect to contribute a percentage of their annual compensation not to exceed statutory limits. Magnolia may make discretionary matching contributions of 50% of the first 6% of each participant's compensation, subject to a maximum annual contribution of \$2,000 for any employee. Magnolia's contributions totaled \$38,973 and \$39,671 for the years ended June 30, 2017 and 2016, respectively.

Note 10 - CHARITABLE REMAINDER TRUST

Magnolia was named one of eight beneficiaries of a charitable remainder trust created by a local donor. The charitable trust receivable is valued at \$107,613 as of June 30, 2017 and 2016.

Note 11 - ECONOMIC DEPENDENCY

Magnolia's residential programs are licensed by the State of Louisiana Department of Health and Hospitals and are certified Title XIX facilities. Magnolia receives the majority of its support and revenue from Medicaid which is administered through the State of Louisiana Department of Health and Hospitals.

Note 12 - RISKS AND UNCERTAINTIES

Investment securities are exposed to various risks, such as interest rate, currency, credit, and market volatility. Due to the level of risk associated with certain investments, it is at least reasonably possible that changes in risk in the near term would materially affect the fair market value of investments held by Magnolia.

Note 13 - RISK MANAGEMENT

Magnolia is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; and employee health and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters. There were no settlement claims that exceeded this commercial coverage during the years ended June 30, 2017 and 2016.

SUPPLEMENTAL INFORMATION

**SCHEDULE OF COMPENSATION, BENEFITS, AND OTHER
PAYMENTS TO AGENCY HEAD OR CHIEF EXECUTIVE OFFICER**

Magnolia Community Services, Inc.
Jefferson, Louisiana

For the year ended June 30, 2017

Agency Head Name: Jennifer Hebert, Executive Director

Purpose:

Salary	\$ 103,512
Benefits - insurance	10,581
Benefits - retirement	1,807
Benefits - other	20,000
Car allowance	0
Vehicle provided by Magnolia	0
Per diem	0
Reimbursements	1,560
Travel	0
Registration fees	0
Conference travel	0
Continuing professional education fees	0
Housing	0
Unvouched expenses	0
Special meals	0
	<hr/>
	<u>\$ 137,460</u>

SPECIAL REPORTS OF CERTIFIED PUBLIC ACCOUNTANTS

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

To the Board of Governors,
Magnolia Community Services, Inc.,
Jefferson, Louisiana.

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Magnolia Community Services, Inc. ("Magnolia") (a nonprofit organization), which comprise the statement of financial position as of June 30, 2017, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated November 28, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Magnolia's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Magnolia's internal control. Accordingly, we do not express an opinion on the effectiveness of Magnolia's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Magnolia's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Certified Public Accountants.

New Orleans, Louisiana,
November 28, 2017.

SCHEDULE OF FINDINGS AND REPOSES

Magnolia Community Services, Inc.
Jefferson, Louisiana

For the year ended June 30, 2017

Section I - Summary of Auditor's Report

a) Financial Statements

Type of auditor's report issued: unqualified

Internal control over financial reporting:

- Material weakness(es) identified? Yes No
- Significant deficiency(ies) identified that are
not considered to be a material weakness? Yes None reported

Noncompliance material to financial statements noted? Yes No

b) Federal Awards

Magnolia Community Services, Inc. did not expend more than \$750,000 in Federal awards during the year ended June 30, 2017 and, therefore, is exempt from the audit requirements of Title 2 U.S. Code for Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirement for Federal Awards (Uniform Guidance)*.

Section II - Internal Control Over Financial Reporting and Compliance and Other Matters Material to the Basic Financial Statements

Internal Control Over Financial Reporting

No internal control findings material to the financial statements were noted during the audit for the year ended June 30, 2017.

(Continued)

**Section II - Internal Control Over Financial Reporting and Compliance and Other Matters
Material to the Basic Financial Statements (Continued)**

Compliance and Other Matters

No compliance findings material to the financial statements were noted during the audit for the year ended June 30, 2017.

Section III - Federal Award Findings and Questionable Costs

Magnolia Community Services, Inc. did not expend more than \$750,000 in Federal awards during the year ended June 30, 2017 and, therefore, is exempt from the audit requirements of Title 2 U.S. Code for Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirement for Federal Awards (Uniform Guidance)*.

REPORTS BY MANAGEMENT

SCHEDULE OF PRIOR YEAR FINDINGS AND RESPONSES

Magnolia Community Services, Inc. Jefferson, Louisiana

For the year ended June 30, 2017

Section I - Internal Control Over Financial Reporting and Compliance and Other Matters Material to the Basic Financial Statements

Internal Control Over Financial Reporting

2016-01 Late filing of Audit Report with the Louisiana Legislative Auditor within Six Months of the Fiscal Year End (R.S. 24:513 and 24:514)

Recommendation - We recommend that the year-end close and annual reconciliations be prepared timely by management to ensure that information requested by the auditors is available on a timely basis to ensure adequate time is available to complete the audit and have the audited financial statements filed with the Louisiana Legislative Auditor within six months of the fiscal year end.

Management's Corrective Action - Resolved - Magnolia Community Services, Inc. has instituted written accounting policies and procedures to ensure the audit is completed timely and the issuance of the audited financial statements to the Louisiana Legislative Auditor is performed timely and in compliance with L.R.S. 24:513 and 24:514.

Views of responsible officials of the auditee when there is disagreement with the finding, to the extent practical - None.

Compliance and Other Matters

Finding 2016-01 was also considered a compliance finding.

Section II - Internal Control and Compliance Material to Federal Awards

Magnolia Community Services, Inc. did not expend more than \$750,000 in Federal awards during the year ended June 30, 2016 and, therefore, is exempt from the audit requirements of Title 2 U.S. Code for Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirement for Federal Awards (Uniform Guidance)*.

Section III - Management Letter

A management letter was not issued in connection with the audit for the year ended June 30, 2016.

MANAGEMENT'S CORRECTIVE ACTION PLAN

Magnolia Community Services, Inc.
Jefferson, Louisiana

For the year ended June 30, 2017

Section I - Internal Control Over Financial Reporting and Compliance and Other Matters Material to the Basic Financial Statements

Internal Control Over Financial Reporting

No internal control findings material to the financial statements were noted during the audit for the year ended June 30, 2017.

Compliance and Other Matters

No compliance findings material to the financial statements were noted during the audit for the year ended June 30, 2017.

Section II - Internal Control and Compliance Material to Federal Awards

Magnolia Community Services, Inc. did not expend more than \$750,000 in Federal awards during the year ended June 30, 2017 and, therefore, is exempt from the audit requirements of Title 2 U.S. Code for Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirement for Federal Awards (Uniform Guidance)*.

Section III - Management Letter

A management letter was not issued in connection with the audit for the year ended June 30, 2017.