

Financial Report

Magnolia Community Services, Inc.

June 30, 2020



Bourgeois Bennett
CERTIFIED PUBLIC ACCOUNTANTS | CONSULTANTS
A LIMITED LIABILITY COMPANY

Financial Report

Magnolia Community Services, Inc.

June 30, 2020

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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, 2020, 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, 2020, 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 30, 2020, 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 2019 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated December 2, 2019. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2019, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Bourgeois Bennett, L.L.C.

Certified Public Accountants.

New Orleans, Louisiana,
November 30, 2020.

STATEMENT OF FINANCIAL POSITION

Magnolia Community Services, Inc. Jefferson, Louisiana

June 30, 2020
(with comparative totals for 2019)

ASSETS

	<u>2020</u>	<u>2019</u>
Current		
Cash and cash equivalents	\$ 1,210,497	\$ 819,666
Restricted cash	594,576	294,884
Accounts receivable:		
Medicaid	713,384	658,587
Other	20,848	39,362
Pledges receivable	641,391	42,451
Interest in charitable remainder trust	112,989	112,989
Interest receivable	41,974	41,023
Inventory	141,045	116,417
Prepaid expenses and deposits	285,930	175,994
Investments	14,190,272	14,088,947
	<u>17,952,906</u>	<u>16,390,320</u>
Total current assets		
Property and Equipment		
Land	1,110,187	1,110,187
Buildings and improvements	13,037,337	12,755,727
Equipment and fixtures	1,932,695	1,984,894
Construction in process	956,933	78,444
	<u>17,037,152</u>	<u>15,929,252</u>
Less accumulated depreciation	<u>(8,543,672)</u>	<u>(8,070,571)</u>
	<u>8,493,480</u>	<u>7,858,681</u>
Net property and equipment		
Total assets	<u><u>\$26,446,386</u></u>	<u><u>\$24,249,001</u></u>

See notes to financial statements.

LIABILITIES

	<u>2020</u>	<u>2019</u>
Current		
Trade accounts payable and accrued expenses	\$ 869,930	\$ 631,170
Accrued payroll	382,330	267,142
Deposits held in custody	594,576	294,884
Lines of credit	2,500,000	2,150,000
Loan payable	1,541,745	-
	<u>5,888,581</u>	<u>3,343,196</u>
Total current liabilities		

NET ASSETS

Net Assets		
Net assets without donor restrictions:		
Net investment in property and equipment	8,493,480	7,858,681
Undesignated	11,416,047	13,000,237
	<u>19,909,527</u>	<u>20,858,918</u>
Total net assets without donor restrictions		
Net assets with donor restrictions	648,278	46,887
	<u>20,557,805</u>	<u>20,905,805</u>
Total net assets		
	<u>\$26,446,386</u>	<u>\$24,249,001</u>
Total liabilities and net assets		

STATEMENT OF ACTIVITIES**Magnolia Community Services, Inc.**
Jefferson, LouisianaFor the year ended June 30, 2020
(with comparative totals for 2019)

	2020			2019
	Net Assets Without Donor Restrictions	Net Assets With Donor Restrictions	Totals	Totals Only
Support and Revenue				
Support:				
Medicaid	\$10,811,851	\$ -	\$10,811,851	\$ 9,988,624
Contributions	639,687	601,391	1,241,078	296,733
Jefferson Parish Human Services Authority	20,214	-	20,214	29,372
Metropolitan Human Services District	22,257	-	22,257	43,080
Small Business Administration Grant	10,000	-	10,000	-
South Central Louisiana Human Services District	105	-	105	7,665
Other	620	-	620	5,143
Total support	<u>11,504,734</u>	<u>601,391</u>	<u>12,106,125</u>	<u>10,370,617</u>
Revenue:				
Tuition	48,878	-	48,878	61,555
Interest and dividend income, net of investment fees, net	309,396	-	309,396	262,811
Net realized and unrealized gain (loss) on investments	(110,934)	-	(110,934)	462,766
Gala revenue, net of expenses of \$58,500 and \$47,018	160,879	-	160,879	197,378
Sales - Café	154,360	-	154,360	219,663
Sales - Special Creations	37,374	-	37,374	41,310
Other	83,973	-	83,973	41,813
Total revenue	<u>683,926</u>	<u>-</u>	<u>683,926</u>	<u>1,287,296</u>
Net assets released from restrictions	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total support and revenue	<u>12,188,660</u>	<u>601,391</u>	<u>12,790,051</u>	<u>11,657,913</u>

**Exhibit B
(Continued)**

	2020		Totals	2019 Totals Only
	Net Assets Without Donor Restrictions	Net Assets With Donor Restrictions		
Expenses				
Program services:				
Residential programs	8,221,822	-	8,221,822	7,044,638
Vocational programs	1,661,498	-	1,661,498	1,951,273
Nursing	925,916	-	925,916	646,564
Total program services	<u>10,809,236</u>	<u>-</u>	<u>10,809,236</u>	<u>9,642,475</u>
General and administrative:				
Administration	2,132,096	-	2,132,096	2,334,596
Plant operation and maintenance	92,027	-	92,027	86,402
Total general and administrative	<u>2,224,123</u>	<u>-</u>	<u>2,224,123</u>	<u>2,420,998</u>
Fundraising	<u>104,692</u>	<u>-</u>	<u>104,692</u>	<u>149,280</u>
Total expenses	<u>13,138,051</u>	<u>-</u>	<u>13,138,051</u>	<u>12,212,753</u>
Increase (Decrease) In Net Assets	(949,391)	601,391	(348,000)	(554,840)
Net Assets				
Beginning of year	<u>20,858,918</u>	<u>46,887</u>	<u>20,905,805</u>	<u>21,460,645</u>
End of year	<u>\$19,909,527</u>	<u>\$648,278</u>	<u>\$20,557,805</u>	<u>\$20,905,805</u>

See notes to financial statements.

STATEMENT OF FUNCTIONAL EXPENSES**Magnolia Community Services, Inc.**
Jefferson, LouisianaFor the year ended June 30, 2020
(with comparative totals for 2019)

	2020			
	Residential Programs	Vocational Programs	Nursing	Program Totals
Program Services				
Salaries	\$4,450,719	\$1,142,192	\$679,797	\$ 6,272,708
Employee health and retirement benefits	350,404	92,667	52,560	495,631
Payroll taxes	332,719	85,758	55,344	473,821
Total salaries and related expenses	5,133,842	1,320,617	787,701	7,242,160
Automobile	35,580	8,493	8,994	53,067
Bed fee - Louisiana Department of Health and Hospitals	824,551	-	-	824,551
Client personal needs	52,452	-	-	52,452
Contract services	710,459	30,929	57,050	798,438
Data processing	7,020	4,266	-	11,286
Depreciation and amortization	224,120	119,581	6,987	350,688
Food	386,975	277	82	387,334
Insurance	253,036	86,944	29,025	369,005
Laundry, linen, and bedding	15,862	-	-	15,862
Miscellaneous	23,830	8,053	1,001	32,884
Office supplies	2,413	1,093	6,559	10,065
Postage and printing	427	584	-	1,011
Purchases - retail store	-	21,277	-	21,277
Rent	218,571	-	-	218,571
Repairs and maintenance:				
Buildings and grounds	20,840	10,567	741	32,148
Furniture	35,323	1,703	-	37,026
Supplies	62	-	-	62
Supplies and other	89,132	29,471	15,316	133,919
Taxes and licenses	13,132	890	-	14,022
Telephone	36,279	16,741	3,873	56,893
Travel	2,571	12	-	2,583
Utilities	135,345	-	8,587	143,932
Total program services expenses	<u>\$8,221,822</u>	<u>\$1,661,498</u>	<u>\$925,916</u>	<u>\$10,809,236</u>

	2020				2019 Totals Only	
	Administration	Plant Operations and Maintenance	Administration and Plant Operations Totals	Fundraising		Totals
Supporting Services						
Salaries	\$1,020,307	\$ 49,008	\$1,069,315	\$ 69,823	\$ 7,411,846	\$ 6,757,705
Employee health and retirement benefits	85,295	3,752	89,047	5,956	590,634	651,988
Payroll taxes	70,635	9,844	80,479	5,189	559,489	501,858
 Total salaries and related expenses	 1,176,237	 62,604	 1,238,841	 80,968	 8,561,969	 7,911,551
Advertising	11,690	-	11,690	850	12,540	27,129
Automobile	966	1,972	2,938	25	56,030	62,458
Bad debts	35,058	-	35,058	-	35,058	28,078
Bed fee - Louisiana Department of Health and Hospitals	-	-	-	-	824,551	832,714
Client personal needs	-	-	-	-	52,452	61,910
Contract services	54,601	4,027	58,628	-	857,066	260,038
Data processing	137,595	-	137,595	604	149,485	134,985
Depreciation and amortization	139,380	3,234	142,614	-	493,302	528,455
Food	69,227	-	69,227	281	456,842	506,873
Insurance	(24,167)	11,513	(12,654)	1,533	357,884	540,078
Interest	102,064	-	102,064	-	102,064	83,331
Laundry, linen, and bedding	80	-	80	-	15,942	16,973
Legal and accounting	45,854	-	45,854	-	45,854	61,859
Miscellaneous	166,736	-	166,736	16,204	215,824	155,617
Office supplies	5,900	-	5,900	643	16,608	9,691
Postage and printing	8,415	-	8,415	2,687	12,113	13,125
Purchases - retail store	-	-	-	-	21,277	18,892
Rent	-	-	-	-	218,571	215,897
Repairs and maintenance:						
Buildings and grounds	15,908	7,392	23,300	-	55,448	67,252
Furniture	39,403	388	39,791	-	76,817	77,255
Supplies	193	-	193	-	255	2,352
Supplies and other	14,617	-	14,617	-	148,536	166,539
Taxes and licenses	6,378	-	6,378	-	20,400	85,342
Telephone	36,310	897	37,207	897	94,997	86,404
Travel	748	-	748	-	3,331	5,812
Utilities	88,903	-	88,903	-	232,835	252,143
 Total supporting services expenses	 <u>\$2,132,096</u>	 <u>\$ 92,027</u>	 <u>\$2,224,123</u>	 <u>\$104,692</u>	 <u>\$13,138,051</u>	 <u>\$12,212,753</u>

See notes to financial statements.

STATEMENT OF CASH FLOWS**Magnolia Community Services, Inc.**
Jefferson, LouisianaFor the year ended June 30, 2020
(with comparative totals for 2019)

	<u>2020</u>	<u>2019</u>
Cash Flows From Operating Activities		
Medicaid, JPHSA, and tuition	\$10,867,022	\$10,264,723
Miscellaneous income	437,206	505,307
Contributions and support	641,763	232,565
Investment income	308,445	264,143
Cash payments for expenses	<u>(12,387,861)</u>	<u>(11,908,738)</u>
Net cash used in operating activities	<u>(133,425)</u>	<u>(642,000)</u>
Cash Flows From Investing Activities		
Proceeds from sales of investments	5,654,784	5,168,431
Purchases of investments	(5,856,668)	(5,374,154)
Purchases of property and equipment	<u>(1,165,605)</u>	<u>(601,345)</u>
Net cash used in investing activities	<u>(1,367,489)</u>	<u>(807,068)</u>
Cash Flows From Financing Activities		
Proceeds from loan payable	1,541,745	-
Net proceeds from lines of credit	<u>350,000</u>	<u>1,250,000</u>
Net cash provided by financing activities	<u>1,891,745</u>	<u>1,250,000</u>
Net Increase (Decrease) In Cash and Cash Equivalents	390,831	(199,068)
Cash and Cash Equivalents		
Beginning of year	<u>819,666</u>	<u>1,018,734</u>
End of year	<u>\$ 1,210,497</u>	<u>\$ 819,666</u>

**Exhibit D
(Continued)**

	2020	2019
Reconciliation of Increase In Net Assets To Cash Flows Provided By Operating Activities		
Decrease in net assets	\$ (348,000)	\$ (554,840)
Adjustments to reconcile decrease in net assets to cash used in operating activities:		
Bad debts	35,058	28,078
Depreciation and amortization	493,302	528,455
Net realized and unrealized (gain) loss on investments	110,934	(462,766)
Stock donation	(10,375)	-
Loss on disposal of property and equipment	37,504	-
Decrease (increase) in operating assets:		
Accounts receivable	(71,341)	112,710
Pledges receivable	(598,940)	(42,451)
Interest receivable	(951)	1,333
Inventory	(24,628)	(38,505)
Prepaid expenses and deposits	(109,936)	78,517
Increase in operating liabilities:		
Accounts payable and accrued expenses	353,948	(292,531)
Net cash used in operating activities	\$ (133,425)	\$ (642,000)
 Supplemental Disclosures of Cash Flow Information		
Cash paid during the year for interest	\$ 102,064	\$ 83,331

See notes to financial statements.

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

June 30, 2020 and 2019

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)

Net Assets Without Donor Restrictions - Support, revenue, and expenses for the general operation of Magnolia.

Net Assets With Donor Restrictions - Contributions specifically authorized by the grantor or donor to be used for a certain purpose or to benefit a specific accounting period, or contributions subject to donor-imposed restrictions and that are to be held in perpetuity by Magnolia. As of June 30, 2020 and 2019, Magnolia had no net assets subject to a restriction to be held in perpetuity.

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, 2020 and 2019, there was a reserve for bad debts totaling \$65,640 and 41,640, respectively.

g. Pledges Receivable

Contributions are recognized when the donor makes a promise to give to Magnolia that is, in substance, unconditional. Conditional promises to give are recognized when the conditions on which they depend are substantially met. There were no conditional promises to give as of June 30, 2020 and 2019.

Pledges receivable are recorded net of an allowance for uncollectible amounts estimated by management. There was no allowance for uncollectible pledges receivable as of June 30, 2020 and 2019.

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

h. Inventory

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

i. 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, 2020 and 2019, depreciation expense totaled \$493,302 and \$528,455, respectively.

j. Investments

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

k. Contributions

Contributions received are recorded as net assets without donor restrictions, or net assets with donor restrictions, depending on the existence and/or nature of any donor restrictions.

Support that is restricted by the donor is reported as an increase in net assets without donor restrictions 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 net assets with donor restrictions, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), 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.

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

l. Allocated Expenses

The financial statements report certain categories of expenses that are attributable to more than one program or supporting function. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. Most expenses are specifically identified and recorded in separate accounts by function throughout the year. The expenses that are allocated include utilities and certain repairs and maintenance that are allocated based on square footage.

m. 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).

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, 2017 and later remain subject to examination by the taxing authorities. As of June 30, 2020, management of Magnolia believes that it has no uncertain tax positions that qualify for either recognition or disclosure in the financial statements.

n. New Accounting Pronouncements

Contributions Received and Contributions Made

During the year, Magnolia adopted the provisions of Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) No. 2018-08, "*Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*" (Topic 958). This accounting standard is meant to help not-for-profit entities evaluate whether transactions should be accounted for as contributions or as exchange transactions and, if the transaction is identified as a contributions, whether it is conditional or unconditional. ASU No. 2018-08 clarifies how an organization determines whether a resource provider does receive commensurate value in return for a grant. If the resource provider does receive commensurate value from the grant recipient, the transaction is an exchange transaction and would follow the guidance under ASU No. 2014-09 (FASB ASC

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

n. New Accounting Pronouncements (Continued)

Contributions Received and Contributions Made (Continued)

Topic 606). If no commensurate value is received by the grant maker, the transfer is a contribution. ASU No. 2018-08 stresses that the value received by the general public as a result of the grant is not considered to be commensurate value received by the provider of the grant. Results for reporting the year ended June 30, 2020 are presented under FASB ASU No. 2018-08. There was no material impact to the financial statements as a result of the adoption of this standard.

Statement of Cash Flows

In November 2016, the FASB issued ASU No. 2016-18, "*Statement of Cash Flows*" (Topic 230). ASU No. 2016-18 requires that a statement of cash flows explain the change during the period in the total cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The amendments in ASU No. 2016-18 do not provide a definition of restricted cash or restricted cash equivalents. Results for reporting the year ended June 30, 2020 are presented under FASB ASU No. 2016-18. There was no material impact to the financial statements as a result of the adoption of this standard.

Revenue from Contracts with Customers

In May 2014, the FASB issued ASU No. 2014-09, "*Revenue from Contracts with Customers*" (Topic 606), which provides a single comprehensive model for entities to use in accounting for revenue from contracts with customers and supersedes most current revenue recognition models. Subsequent to the issuance of ASU No. 2014-09, FASB issued several additional ASUs which amended and clarified the guidance and deferred the effective date. The new revenue standard is now effective for annual reporting periods beginning after December 15, 2020, with certain early adoption provisions available. Magnolia is currently evaluating the full effect that the adoption of this standard will have on the financial statements.

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

n. Recent Accounting Pronouncements (Continued)

Leases

In February 2016, the FASB issued ASU No. 2016-02, "*Leases*" (Topic 842). ASU No. 2016-02 requires that a lease liability and related right-of-use-asset representing the lessee's right to use or control the asset be recorded on the statement of financial position upon the commencement of all leases except for short-term leases. Leases will be classified as either finance leases or operating leases, which are substantially similar to the classification criteria for distinguishing between capital leases and operating in existing lease accounting guidance. As a result, the effect of leases in the Statement of Activities and the Statement of Cash Flows will be substantially unchanged from the existing lease accounting guidance. The ASU No. 2016-02 is effective for fiscal years beginning after December 15, 2021. Early adoption is permitted. Magnolia is currently evaluating the full effect that the adoption of this standard will have on the financial statements.

o. 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 30, 2020, 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, 2020. 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 \$1,450,000 as of June 30, 2020.

Note 3 - NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions as of June 30, 2020 and 2019 are restricted by donors for the following purposes:

	2020	2019
Subject to expenditure for a specific purpose:		
Construction	\$641,391	\$40,000
Recreation	4,000	4,000
Supported independent living	2,787	2,787
Shrewsbury residence	100	100
Total restricted net assets	\$648,278	\$46,887

Note 4 - CUSTODIAL FUNDS

As of June 30, 2020 and 2019, personal funds of the clients totaling \$594,576 and \$294,884, respectively, are reported as deposits held in custody in the accompanying financial statements.

Note 5 - PLEDGES RECEIVABLE

Promises of donors to make contributions to Magnolia are included in the financial statements of unconditional promises to give after discounting projected future cash flows to the present value using a discount rate of approximately .16% and 2% as of June 30, 2020 and 2019, respectively. The discount rate is based on the U.S. daily treasury yield.

Pledges receivable as of June 30, 2020 and 2019 consist of the following:

	2020	2019
Unconditional promises to give	\$643,476	\$43,476
Less: Unamortized discount	(2,085)	(1,025)
Net unconditional promises to give	\$641,391	\$42,451
Amount due in:		
Less than one year	\$213,476	\$13,476
One to five years	430,000	30,000
Totals	\$643,476	\$43,476

Note 6 - INVESTMENTS

Investments as of June 30, 2020 and 2019 are composed of the following:

	2020		
	Cost	Fair Market Value	Excess of Market Over Cost (Cost Over Market)
Equity securities	\$ 5,627,153	\$ 6,724,860	\$1,097,707
Debt securities	6,108,058	6,376,072	268,014
Certificates of deposit	269,373	275,116	5,743
Mutual funds	360,911	328,006	(32,905)
Exchange traded funds	464,116	381,385	(82,731)
Limited partnerships	138,263	104,833	(33,430)
Totals	<u>\$12,967,874</u>	<u>\$14,190,272</u>	<u>\$1,222,398</u>
	2019		
	Cost	Fair Market Value	Excess of Market Over Cost (Cost Over Market)
Equity securities	\$ 5,378,956	\$ 6,933,601	\$1,554,645
Debt securities	5,661,493	5,705,730	44,237
Certificates of deposit	559,372	562,003	2,631
Mutual funds	661,462	677,761	16,299
Exchange traded funds	166,740	153,116	(13,624)
Limited partnerships	88,622	56,736	(31,886)
Totals	<u>\$12,516,645</u>	<u>\$14,088,947</u>	<u>\$1,572,302</u>

Note 6 - INVESTMENTS (Continued)

	2020		Excess of Market Over Cost
	Cost	Market	
Balance, June 30, 2020	<u>\$12,967,874</u>	<u>\$14,190,272</u>	\$1,222,398
Balance, June 30, 2019	<u>\$12,516,645</u>	<u>\$14,088,947</u>	1,572,302
Decrease in unrealized appreciation			(349,904)
Net realized gain			238,970
Interest and dividend income			379,995
Investment fees			<u>(70,599)</u>
Investment income, net			<u>\$ 198,462</u>
	2019		
	Cost	Market	Excess of Market Over Cost
Balance, June 30, 2019	<u>\$12,516,645</u>	<u>\$14,088,947</u>	\$1,572,302
Balance, June 30, 2018	<u>\$12,222,401</u>	<u>\$13,420,458</u>	1,198,057
Increase in unrealized appreciation			374,245
Net realized gain			88,521
Interest and dividend income			333,807
Investment fees			<u>(70,996)</u>
Investment income, net			<u>\$ 725,577</u>

Note 7 - 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 on the following page:

Note 7 - FAIR VALUE MEASUREMENTS (Continued)

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.

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 or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input 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, 2020 and 2019.

- *Equity Securities, Debt Securities, Certificates of Deposit, and Limited Partnerships:* Valued at the closing price reported on the active market on which the investments are traded.
- *Exchange Traded Funds:* Valued at net asset value (NAV). The funds held by Magnolia are deemed to be actively 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 NAV and to transact at that price. The mutual funds held by Magnolia are deemed to be actively traded.

Note 7 - FAIR VALUE MEASUREMENTS (Continued)

- *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.

Assets measured at fair value on a recurring basis as of June 30, 2020 and 2019 are comprised of and determined as follows:

Description	Total Assets Measured At Fair Value	2020		
		Quoted Prices In Active Markets (Level 1)	Based on Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
Equity securities	\$ 6,724,860	\$ 6,724,860	\$ -	\$ -
Debt securities:				
U.S. Treasury Notes	2,691,502	2,691,502	-	-
Other debt securities	3,684,570	3,684,570	-	-
Certificates of deposit	275,116	275,116	-	-
Mutual funds	328,006	328,006	-	-
Exchange traded funds	381,385	381,385	-	-
Limited partnerships	104,833	104,833	-	-
Total investments	14,190,272	14,190,272	-	-
Interest in charitable remainder trust	112,989	-	-	112,989
Totals	<u>\$14,303,261</u>	<u>\$14,190,272</u>	<u>\$ -</u>	<u>\$112,989</u>

Note 7 - FAIR VALUE MEASUREMENTS (Continued)

Description	Total Assets Measured At Fair Value	2019		
		Quoted Prices In Active Markets (Level 1)	Based on	
		Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)	
Equity securities	\$ 6,933,601	\$ 6,933,601	\$ -	\$ -
Debt securities:				
U.S. Treasury Notes	2,805,371	2,805,371	-	-
Other debt securities	2,900,359	2,900,359	-	-
Certificates of deposit	562,003	562,003	-	-
Mutual funds	677,761	677,761	-	-
Exchange traded funds	153,116	153,116	-	-
Limited partnerships	56,736	56,736	-	-
Total investments	14,088,947	14,088,947	-	-
Interest in charitable remainder trust	112,989	-	-	112,989
Totals	<u>\$14,201,936</u>	<u>\$14,088,947</u>	<u>\$ -</u>	<u>\$112,989</u>

As of June 30, 2020 and 2019, there were no assets measured at fair value on a non-recurring basis.

The following provides a summary of changes in fair value of Magnolia's Level 3 assets for the years ended June 30, 2020 and 2019:

	Charitable Remainder Trust
Balance as of June 30, 2018	\$ 112,989
Appreciation in fair market value	-
Balance as of June 30, 2019	112,989
Appreciation in fair market value	-
Balance as of June 30, 2020	<u>\$ 112,989</u>

Note 8 - LINES OF CREDIT

On February 28, 2019, Magnolia entered into a \$2,000,000 line of credit with Hancock Whitney Bank. On February 18, 2020, the line of credit was increased to \$2,500,000. The line of credit is due on February 18, 2021 with interest payable monthly at a rate equal to the Wall Street Journal Prime Rate (3.25% and 5.5% as of June 30, 2020 and 2019, respectively). The obligation is secured by funds on deposit with the lender and investments as well as other business assets. As of June 30, 2020 and 2019, the outstanding balance was \$2,500,000 and \$2,150,000, respectively.

On April 14, 2020, Magnolia entered into a \$2,500,000 line of credit with Hancock Whitney Bank. The line of credit is due on April 14, 2021 with interest payable monthly at a rate equal to The Wall Street Journal Prime Rate (3.25% as of June 30, 2020). The obligation is secured by funds on deposit with the lender and investments as well as other business assets. As of June 30, 2020, there was no outstanding balance.

On February 18, 2020, Magnolia entered into a \$50,000 line of credit with Hancock Whitney Bank. The line of credit is due on February 18, 2021 with interest payable monthly at a rate equal to The Wall Street Journal Prime Rate (3.25% as of June 30, 2020). The obligation is secured by funds on deposit with the lender and investments as well as other business assets. As of June 30, 2020, there was no outstanding balance.

On May 8, 2019, Magnolia entered into a \$500,000 line of credit with Hancock Whitney Bank. The line of credit expired on September 8, 2019 with interest payable monthly at a rate equal to The Wall Street Journal Prime Rate (5.5% as of June 30, 2019). The obligation was secured by funds on deposit with the lender and investments as well as other business assets. As of June 30, 2019, the outstanding balance was \$150,000.

Interest expense on the lines of credit totaled \$102,064 and \$83,331 for the years ended June 30, 2020 and 2019, respectively.

Note 9 - LOAN PAYABLE

On April 16, 2020, the School received a loan from a local bank under the Payroll Protection Program (PPP) of the U.S. Small Business Administration (SBA) in the amount of \$1,541,745. Interest on the loan is 1%. Management expects that this loan will be repaid by the SBA within 12 months and that all expenditures paid from the loan proceeds will be approved as eligible for loan forgiveness under the requirements of the PPP. Any amounts not forgiven would be amortized over a period of two years.

Note 10 - LEASE COMMITMENTS

Magnolia leases several of its residential facilities under separate operating leases. The lease terms commenced on May 1, 2020 and are for a term of one year. 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 1, 2018 and is for a term of five years. The monthly lease payment for this equipment is \$1,561 which includes maintenance service fees.

Rent expense incurred under these leases totaled \$237,297 (residential \$218,571 and equipment \$18,726) and \$234,623 (residential \$215,897 and equipment \$18,726) for the years ended June 30, 2020 and 2019, respectively.

Minimum future lease payments are as follows:

<u>Year Ending June 30,</u>	<u>Residential Facilities</u>	<u>Equipment</u>	<u>Totals</u>
2021	\$ 195,118	\$ 18,726	\$ 213,844
2022	-	18,726	18,726
2023	-	9,363	9,363
Totals	<u>\$ 195,118</u>	<u>\$ 46,815</u>	<u>\$ 241,933</u>

Note 11 - 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 \$67,515 and \$51,804 for the years ended June 30, 2020 and 2019, respectively.

Note 12 - 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 \$112,989 as of June 30, 2020 and 2019.

Note 13 - LIQUIDITY AND AVAILABILITY OF RESOURCES

As part of Magnolia's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. In addition, Magnolia invests cash in excess of daily requirements in investments. Magnolia also has committed lines of credit in the total amount of \$5,050,000 to help manage unanticipated liquidity needs.

Magnolia receives contributions with donor time and purpose restrictions. Medicaid revenues, contributions without donor restrictions, government funding, tuition revenue, investment income, gala revenue, Café sales, and other income are considered to be available to meet cash needs for general expenditures. General expenditures include the residential program, vocational program, nursing program, administrative, plant operations, and fundraising expenses. Annual operations are defined as activities occurring during, and included in the budget for, a fiscal year.

The following table represents financial assets available for general expenditures within one year as of June 30, 2020:

Financial assets:	
Cash and cash equivalents	\$ 1,210,497
Medicaid receivable	713,384
Other receivable	20,848
Pledges receivable	641,391
Interest receivable	41,974
Investments	<u>14,190,272</u>
Total financial assets, as of June 30, 2020	<u>16,818,366</u>
Less amounts not available to be used within one year, due to:	
Pledges receivable - noncurrent	(430,000)
Donor imposed restrictions:	
Restricted by donors with purpose restrictions	<u>(218,278)</u>
Total amounts not available to be used within one year	<u>(648,278)</u>
Financial assets available to meet general expenditures within one year	<u>\$16,170,088</u>

Note 14 - 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 15 - 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 16 - 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, 2020 and 2019.

Note 17 - CORONAVIRUS

The recent global outbreak of the Coronavirus (COVID-19) has raised concerns regarding operations and the financial markets have recently experienced significant volatility. While Magnolia has been materially impacted by the Coronavirus resulting in decreased investment income and increased operating expenses, the long term impact on Magnolia's operations and its investments is uncertain at this time.

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, 2020

Agency Head Name: Jennifer Hebert, Executive Director

Purpose:

Salary	\$ 118,451
Benefits - insurance	1,941
Benefits - retirement	3,007
Benefits - other	500
Car allowance	0
Vehicle provided by Magnolia	0
Per diem	0
Reimbursements	1,195
Travel	0
Registration fees	0
Conference travel	0
Continuing professional education fees	0
Housing	0
Unvouched expenses	0
Special meals	0
	<hr/>
	<u>\$ 125,094</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, 2020, 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 30, 2020.

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 30, 2020.

SCHEDULE OF FINDINGS AND REPOSES

Magnolia Community Services, Inc.
Jefferson, Louisiana

For the year ended June 30, 2020

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

Noncompliance material to financial statements noted? ___ Yes X No

b) Federal Awards

Magnolia Community Services, Inc. did not expend more than \$750,000 in Federal awards during the year ended June 30, 2020 and, therefore, is exempt from the audit requirements under the *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, 2020.

(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, 2020.

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, 2020 and, therefore, is exempt from the audit requirements under the *Uniform Guidance*.

REPORTS BY MANAGEMENT

SCHEDULE OF PRIOR YEAR FINDINGS AND RESPONSES

Magnolia Community Services, Inc. Jefferson, Louisiana

For the year ended June 30, 2020

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, 2019.

Compliance and Other Matters

No compliance findings material to the financial statements were noted during the audit for the year ended June 30, 2019.

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, 2019 and, therefore, is exempt from the audit requirements under the *Uniform Guidance*.

Section III - Management Letter

A management letter was not issued in connection with the audit for the year ended June 30, 2019.

MANAGEMENT'S CORRECTIVE ACTION PLAN

Magnolia Community Services, Inc.
Jefferson, Louisiana

For the year ended June 30, 2020

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, 2020.

Compliance and Other Matters

No compliance findings material to the financial statements were noted during the audit for the year ended June 30, 2020.

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, 2020 and, therefore, is exempt from the audit requirements under the *Uniform Guidance*.

Section III - Management Letter

A management letter was not issued in connection with the audit for the year ended June 30, 2020.