

Financial Report

Magnolia Community Services, Inc.

June 30, 2018



Bourgeois Bennett
CERTIFIED PUBLIC ACCOUNTANTS | CONSULTANTS
A LIMITED LIABILITY COMPANY

Financial Report

Magnolia Community Services, Inc.

June 30, 2018

TABLE OF CONTENTS

Magnolia Community Services, Inc.

Jefferson, Louisiana

June 30, 2018 and 2017

	<u>Page Number</u>
Financial Section	
Independent Auditor's Report	1 - 3
Exhibits	
A - Statement of Financial Position	4 - 5
B - Statement of Activities	6 - 7
C - Statement of Functional Expenses	8 - 9
D - Statement of Cash Flows	10 - 11
E - Notes to Financial Statements	12 - 22
Supplemental Information	
1 - Schedule of Compensation, Benefits, and Other Payments to Agency Head or Chief Executive Officer	23
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 <u>Government Auditing Standards</u>	24 - 25
Schedule of Findings and Responses	26 - 27
Reports by Management	
Schedule of Prior Year Findings and Responses	28
Management's Corrective Action Plan	29

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, 2018, 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, 2018, 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 December 10, 2018, 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 2017 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, 2017, 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,
December 10, 2018.

STATEMENT OF FINANCIAL POSITION

Magnolia Community Services, Inc.

Jefferson, Louisiana

June 30, 2018

(with comparative totals for 2017)

ASSETS

	<u>2018</u>	<u>2017</u>
Current		
Cash and cash equivalents	\$ 1,018,734	\$ 867,370
Restricted cash	234,817	209,460
Accounts receivable:		
Medicaid	821,092	945,605
Other	17,645	80,770
Interest in charitable remainder trust	112,989	107,613
Interest receivable	42,356	37,856
Inventory	77,912	45,387
Prepaid expenses and deposits	254,511	305,031
Investments	<u>13,420,458</u>	<u>13,430,268</u>
Total current assets	<u>16,000,514</u>	<u>16,029,360</u>
Property and Equipment		
Land	672,929	672,929
Buildings and improvements	12,691,519	12,493,335
Equipment and fixtures	1,963,415	1,761,127
Construction in process	<u>-</u>	<u>109,718</u>
	15,327,863	15,037,109
Less accumulated depreciation	<u>(7,542,072)</u>	<u>(7,060,173)</u>
Net property and equipment	<u>7,785,791</u>	<u>7,976,936</u>
Total assets	<u>\$ 23,786,305</u>	<u>\$ 24,006,296</u>

See notes to financial statements.

LIABILITIES

	<u>2018</u>	<u>2017</u>
Current		
Trade accounts payable and accrued expenses	\$ 913,834	\$ 540,777
Accrued payroll and related taxes	277,009	246,177
Deposits held in custody	234,817	209,460
Line of credit	<u>900,000</u>	<u>1,900,000</u>
Total current liabilities	<u>2,325,660</u>	<u>2,896,414</u>

NET ASSETS

Net Assets		
Unrestricted:		
Net investment in property and equipment	7,785,791	7,976,936
Undesignated	<u>13,667,967</u>	<u>13,092,230</u>
Total unrestricted net assets	21,453,758	21,069,166
Temporarily restricted	<u>6,887</u>	<u>40,716</u>
Total net assets	<u>21,460,645</u>	<u>21,109,882</u>
Total liabilities and net assets	<u>\$ 23,786,305</u>	<u>\$ 24,006,296</u>

STATEMENT OF ACTIVITIES**Magnolia Community Services, Inc.**
Jefferson, LouisianaFor the year ended June 30, 2018
(with comparative totals for 2017)

	2018			2017 Totals Only
	Unrestricted	Temporarily Restricted	Totals	
Support and Revenue				
Support:				
Medicaid	\$ 10,205,249	\$ -	\$ 10,205,249	\$ 10,251,389
Contributions	439,900	4,276	444,176	200,490
Government grants	-	-	-	89,442
Jefferson Parish Human Services Authority	18,153	-	18,153	8,896
Metropolitan Human Services District	27,352	-	27,352	15,956
Other	9,677	-	9,677	6,233
Total support	<u>10,700,331</u>	<u>4,276</u>	<u>10,704,607</u>	<u>10,572,406</u>
Revenue:				
Tuition	48,670	-	48,670	35,853
Interest and dividend income	311,271	-	311,271	287,705
Net realized and unrealized gains on investments	704,940	-	704,940	736,416
Gala revenue, net of expenses of \$47,566 and \$49,118	147,189	-	147,189	150,704
Sales - Café	216,321	-	216,321	223,728
Sales - Special Creations	45,346	-	45,346	61,780
Other	213,489	-	213,489	9,395
Total revenue	<u>1,687,226</u>	<u>-</u>	<u>1,687,226</u>	<u>1,505,581</u>
Net assets released from restrictions	<u>38,105</u>	<u>(38,105)</u>	<u>-</u>	<u>-</u>
Total support and revenue	<u>12,425,662</u>	<u>(33,829)</u>	<u>12,391,833</u>	<u>12,077,987</u>

**Exhibit B
(Continued)**

	2018			2017 Totals Only
	Unrestricted	Temporarily Restricted	Totals	
Expenses				
Program services:				
Residential programs	6,574,606	-	6,574,606	6,257,341
Vocational programs	2,049,682	-	2,049,682	2,472,151
Total program services	<u>8,624,288</u>	<u>-</u>	<u>8,624,288</u>	<u>8,729,492</u>
Supporting services:				
Administrative and other	2,529,452	-	2,529,452	2,384,921
Nursing	828,559	-	828,559	723,346
Plant operation and maintenance	58,771	-	58,771	113,658
Total supporting services	<u>3,416,782</u>	<u>-</u>	<u>3,416,782</u>	<u>3,221,925</u>
Total expenses	<u>12,041,070</u>	<u>-</u>	<u>12,041,070</u>	<u>11,951,417</u>
Increase (Decrease) In Net Assets	384,592	(33,829)	350,763	126,570
Net Assets				
Beginning of year	<u>21,069,166</u>	<u>40,716</u>	<u>21,109,882</u>	<u>20,983,312</u>
End of year	<u>\$ 21,453,758</u>	<u>\$ 6,887</u>	<u>\$ 21,460,645</u>	<u>\$ 21,109,882</u>

See notes to financial statements.

STATEMENT OF FUNCTIONAL EXPENSES**Magnolia Community Services, Inc.**
Jefferson, LouisianaFor the year ended June 30, 2018
(with comparative totals for 2017)

	2018			2017 Totals Only
	Residential Programs	Vocational Programs	Totals	
Program Services				
Salaries	\$ 3,319,374	\$ 1,357,668	\$ 4,677,042	\$ 4,762,880
Employee health and retirement benefits	327,436	214,250	541,686	649,295
Payroll taxes	252,868	111,663	364,531	354,138
 Total salaries and related expenses	 3,899,678	 1,683,581	 5,583,259	 5,766,313
Advertising	50	50	100	176
Automobile	36,537	4,384	40,921	47,964
Bed fee - Louisiana Department of Health and Hospitals	831,696	-	831,696	805,512
Client personal needs	66,463	-	66,463	52,859
Contract services	209,848	11,407	221,255	171,203
Data processing	19,504	6,706	26,210	33,104
Depreciation	238,698	123,510	362,208	367,069
Food	409,569	781	410,350	392,077
Insurance	246,240	92,749	338,989	313,689
Laundry, linen, and bedding	16,032	-	16,032	16,314
Miscellaneous	(2,540)	6,086	3,546	23,735
Office supplies	4,742	3,752	8,494	7,860
Postage and printing	103	2,206	2,309	2,133
Purchases - retail store	-	21,006	21,006	9,602
Rent	230,406	-	230,406	228,506
Repairs and maintenance:				
Buildings and grounds	37,028	12,768	49,796	112,840
Furniture	31,915	11,005	42,920	73,755
Supplies	455	350	805	1,952
Supplies and other	92,522	47,200	139,722	111,526
Taxes and licenses	13,449	1,190	14,639	14,816
Telephone	38,088	16,655	54,743	33,877
Travel	5,793	4,296	10,089	14,287
Utilities	148,330	-	148,330	128,323
 Total program services expenses	 \$ 6,574,606	 \$ 2,049,682	 \$ 8,624,288	 \$ 8,729,492

**Exhibit C
(Continued)**

	2018				2017 Totals Only
	Administrative and Other	Nursing	Plant Operation and Maintenance	Totals	
Supporting Services					
Salaries	\$ 1,092,727	\$ 601,055	\$ 24,412	\$ 1,718,194	\$ 1,402,494
Employee health and retirement benefits	84,905	61,173	1,515	147,593	158,526
Payroll taxes	87,999	45,779	6,923	140,701	111,512
Total salaries and related expenses	1,265,631	708,007	32,850	2,006,488	1,672,532
Advertising	25,461	-	-	25,461	23,436
Automobile	-	7,048	2,836	9,884	7,675
Bad debts	84,340	-	-	84,340	173,783
Interest	70,762	-	-	70,762	40,927
Contract services	96,337	48,475	1,605	146,417	103,320
Data processing	199,278	-	-	199,278	231,582
Depreciation and amortization	157,854	6,987	526	165,367	170,059
Food	119,911	-	-	119,911	101,091
Insurance	84,615	22,845	10,905	118,365	106,887
Laundry, linen, and bedding	197	-	-	197	169
Investment fees	71,922	-	-	71,922	68,161
Legal and accounting	57,142	-	-	57,142	50,841
Miscellaneous	66,616	3,560	-	70,176	110,476
Office supplies	5,118	4,977	34	10,129	13,822
Postage and printing	9,985	75	-	10,060	9,981
Repairs and maintenance:					
Buildings and grounds	25,327	12	7,503	32,842	50,351
Furniture	40,647	-	-	40,647	46,761
Supplies	-	-	1,111	1,111	4,944
Supplies and other	20,068	15,456	-	35,524	71,058
Telephone	27,022	3,731	1,401	32,154	27,818
Travel	558	-	-	558	2,973
Utilities	100,661	7,386	-	108,047	133,278
Total supporting services expenses	\$ 2,529,452	\$ 828,559	\$ 58,771	\$ 3,416,782	\$ 3,221,925

See notes to financial statements.

STATEMENT OF CASH FLOWS**Magnolia Community Services, Inc.**
Jefferson, LouisianaFor the year ended June 30, 2018
(with comparative totals for 2017)

	<u>2018</u>	<u>2017</u>
Cash Flows From Operating Activities		
Medicaid, JPHSA, and tuition	\$ 10,339,597	\$ 10,511,381
Miscellaneous income	632,022	451,840
Contributions and support	501,925	213,220
Interest and dividend income	321,033	289,651
Cash payments for expenses	<u>(11,007,270)</u>	<u>(11,102,102)</u>
Net cash provided by (used in) operating activities	<u>787,307</u>	<u>363,990</u>
Cash Flows From Investing Activities		
Proceeds from sales of investments	6,420,314	4,272,196
Purchases of investments	(5,719,827)	(4,666,134)
Purchases of property and equipment	<u>(336,430)</u>	<u>(1,477,246)</u>
Net cash provided by (used in) investing activities	<u>364,057</u>	<u>(1,871,184)</u>
Cash Flows From Financing Activities		
Proceeds from borrowings on line of credit	150,000	2,315,000
Payments on line of credit	(1,150,000)	(765,000)
Payments on trade accounts payable used to finance property and equipment acquisitions	<u>-</u>	<u>(66,719)</u>
Net cash provided by (used in) financing activities	<u>(1,000,000)</u>	<u>1,483,281</u>
Net Increase (Decrease) In Cash and Cash Equivalents	151,364	(23,913)
Cash and Cash Equivalents		
Beginning of year	<u>867,370</u>	<u>891,283</u>
End of year	<u>\$ 1,018,734</u>	<u>\$ 867,370</u>

**Exhibit D
(Continued)**

	2018	2017
Reconciliation of Increase In Net Assets		
To Cash Flows Provided By Operating Activities		
Increase in net assets	\$ 350,763	\$ 126,570
Adjustments to reconcile increase in net assets to cash provided by operating activities:		
Bad debts	84,340	173,783
Depreciation and amortization	541,838	550,809
Donation of stock	-	(1,740)
Net realized and unrealized gain on investments	(704,940)	(736,416)
Decrease (increase) in operating assets:		
Accounts receivable	103,298	124,315
Interest in charitable remainder trust	(5,376)	-
Interest receivable	(4,500)	1,946
Inventory	(32,525)	(21,551)
Prepaid expenses and deposits	50,520	(6,814)
Increase in operating liabilities:		
Accounts payable and accrued expenses	403,889	153,088
Net cash provided by operating activities	\$ 787,307	\$ 363,990
 Supplemental Disclosures of Cash Flow Information		
Cash paid during the year for interest	\$ 70,762	\$ 40,927
 Supplemental Disclosure of Noncash Investing Activities		
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, 2018 and 2017

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, 2018 and 2017, 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, 2018 and 2017, there was a reserve for bad debts totaling \$17,640.

g. Inventory

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

**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, 2018 and 2017, depreciation expense totaled \$527,575 and \$537,128, 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. 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.

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

l. 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, 2015 and later remain subject to examination by the taxing authorities. As of June 30, 2018, management of Magnolia believes that it has no uncertain tax positions that qualify for either recognition or disclosure in the financial statements.

m. New Accounting Pronouncements

Magnolia adopted the provision of ASU 2015-11, *Inventory* (Topic 330): *Simplifying the Measurement of Inventory*. This pronouncement now requires entities to measure inventory at the lower of cost or net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less reasonably predictable costs of completion, disposal and transportation.

n. 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 December 10, 2018, which is the date the financial statements were available to be issued.

o. Reclassifications

Certain amounts in the 2017 financial statements have been reclassified to conform to the 2018 financial statement presentation.

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, 2018. 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 \$495,000 as of June 30, 2018.

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 \$6,887 and \$40,716 as of June 30, 2018 and 2017, respectively.

Note 4 - CUSTODIAL FUNDS

As of June 30, 2018 and 2017, personal funds of the clients totaling \$234,817 and \$209,460 respectively, are reported as deposits held in custody in the accompanying financial statements.

Note 5 - INVESTMENTS

Investments as of June 30, 2018 and 2017 are composed of the following:

	2018		
	Cost	Fair Market Value	Excess of Market Over Cost (Cost Over Market)
Equity securities	\$ 5,224,115	\$ 6,696,235	\$ 1,472,120
Debt securities	4,748,959	4,605,709	(143,250)
Certificates of deposit	1,137,372	1,119,414	(17,958)
Mutual funds	887,621	800,483	(87,138)
Exchange traded funds	143,696	125,252	(18,444)
Limited partnerships	80,638	73,365	(7,273)
	<u>\$ 12,222,401</u>	<u>\$ 13,420,458</u>	<u>\$ 1,198,057</u>
Totals			

**Exhibit E
(Continued)**

Note 5 - INVESTMENTS (Continued)

	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	1,186,272	1,209,916	23,644
Mutual funds	859,075	838,334	(20,741)
Exchange traded funds	143,696	133,949	(9,747)
Totals	<u>\$ 12,234,666</u>	<u>\$ 13,430,268</u>	<u>\$ 1,195,602</u>
	2018		
	Cost	Market	Excess of Market Over Cost
Balance, June 30, 2018	<u>\$ 12,222,401</u>	<u>\$ 13,420,458</u>	\$ 1,198,057
Balance, June 30, 2017	<u>\$ 12,234,666</u>	<u>\$ 13,430,268</u>	1,195,602
Increase in unrealized appreciation			2,455
Net realized gain			702,485
Interest and dividend income			311,271
Investment income			<u>\$ 1,016,211</u>
	2017		
	Cost	Market	Excess of Market Over Cost
Balance, June 30, 2017	<u>\$ 12,234,666</u>	<u>\$ 13,430,268</u>	\$ 1,195,602
Balance, June 30, 2016	<u>\$ 11,594,960</u>	<u>\$ 12,259,583</u>	664,623
Increase in unrealized appreciation			530,979
Net realized gain			205,437
Interest and dividend income			287,705
Investment income			<u>\$ 1,024,121</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.

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 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, 2018 and 2017.

- *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.

Note 6 - FAIR VALUE MEASUREMENTS (Continued)

- *Exchange Traded Funds:* Valued at 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 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.

Assets measured at fair value on a recurring basis as of June 30, 2018 and 2017 are comprised of and determined as follows:

Description	Total Assets Measured At Fair Value	2018		
		Quoted Prices In Active Markets (Level 1)	Based on Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
Equity securities	\$ 6,696,235	\$ 6,696,235	\$ -	\$ -
Debt securities:				
U.S. Treasury Note	2,218,561	2,218,561	-	-
Other debt securities	2,387,148	2,387,148	-	-
Certificates of deposit	1,119,414	1,119,414	-	-
Mutual funds	800,483	800,483	-	-
Exchange traded funds	125,252	125,252	-	-
Limited Partnerships	73,365	73,365	-	-
Total investments	13,420,458	13,420,458	-	-
Interest in charitable remainder trust	112,989	-	-	112,989
Totals	<u>\$ 13,533,447</u>	<u>\$ 13,420,458</u>	<u>\$ -</u>	<u>\$ 112,989</u>

Note 6 - FAIR VALUE MEASUREMENTS (Continued)

Description	Total Assets Measured At Fair Value	2017		
		Quoted Prices In Active Markets (Level 1)	Based on 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	1,209,916	1,209,916	-	-
Mutual funds	838,334	838,334	-	-
Exchange traded funds	133,949	133,949	-	-
Total investments	13,430,268	13,430,268	-	-
Interest in charitable remainder trust	107,613	-	-	107,613
Totals	<u>\$ 13,537,881</u>	<u>\$ 13,430,268</u>	<u>\$ -</u>	<u>\$ 107,613</u>

As of June 30, 2018 and 2017, 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, 2018 and 2017:

	<u>Charitable Remainder Trust</u>
Balance as of June 30, 2016	<u>\$107,613</u>
Balance as of June 30, 2017	<u>\$107,613</u>
Appreciation in fair market value	<u>\$5,376</u>
Balance as of June 30, 2018	<u>\$112,989</u>

Note 7 - LINE OF CREDIT

Magnolia has a \$2,000,000 line of credit with Hancock Whitney Bank. The line of credit is due on March 26, 2019 with interest payable monthly at a rate equal to the Wall Street Journal Prime Rate (5% as of June 30, 2018). Prior to March 26, 2018, the line had an interest rate payable monthly at 2.5% plus one-month ICE LIBOR (3.625% as of June 30, 2017). The obligation is unsecured. As of June 30, 2018 and 2017, the outstanding balance was \$900,000 and \$1,900,000, respectively. Interest expense on the line credit totaled \$70,762 and \$40,927 for the years ended June 30, 2018 and 2017, respectively.

During the year ended June 30, 2018, Magnolia entered into a \$50,000 line of credit with Hancock Whitney Bank. The line of credit is due on March 26, 2019 with interest payable monthly at a rate equal to The Wall Street Journal Prime Rate (5% of June 30, 2018). The obligation is unsecured. As of June 30, 2018, there was no outstanding balance. There was no interest expense on the line credit for the year ended June 30, 2018.

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 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. The prior lease term for copier equipment commenced on January 23, 2013 and was for a term of five years. The monthly lease payment for this equipment was \$1,338 and included maintenance service fees.

Rent expense incurred under these leases totaled \$249,135 (residential \$230,406 and equipment \$18,729) and \$244,562 (residential \$228,506 and equipment \$16,056) for the years ended June 30, 2018 and 2017, respectively.

Minimum future lease payments are as follows:

<u>Year Ending June 30,</u>	<u>Residential Facilities</u>	<u>Equipment</u>	<u>Totals</u>
2019	\$ 212,856	\$ 18,726	\$ 231,582
2020	35,476	18,726	54,202
2021	-	18,726	18,726
2022	-	18,726	18,726
2023	-	9,363	9,363
	<u>\$ 248,332</u>	<u>\$ 84,267</u>	<u>\$ 332,599</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 \$43,147 and \$38,973 for the years ended June 30, 2018 and 2017, 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 \$112,989 and \$107,613 as of June 30, 2018 and 2017, respectively.

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, 2018 and 2017.

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, 2018

Agency Head Name: Jennifer Hebert, Executive Director

Purpose:

Salary	\$ 114,541
Benefits - insurance	6,990
Benefits - retirement	584
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>\$ 143,675</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, 2018, 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 December 10, 2018.

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.

A handwritten signature in black ink that reads "Bougeois Bennett, L.L.C." in a cursive script.

Certified Public Accountants.

New Orleans, Louisiana,
December 10, 2018.

SCHEDULE OF FINDINGS AND REPOSES

Magnolia Community Services, Inc.
Jefferson, Louisiana

For the year ended June 30, 2018

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 Yes None reported
not considered to be a material weakness?

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, 2018 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, 2018.

**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, 2018.

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, 2018 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, 2018

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.

MANAGEMENT'S CORRECTIVE ACTION PLAN

Magnolia Community Services, Inc.
Jefferson, Louisiana

For the year ended June 30, 2018

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, 2018.

Compliance and Other Matters

No compliance findings material to the financial statements were noted during the audit for the year ended June 30, 2018.

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, 2018 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, 2018.