

Sampson &
Associates, Inc.

MALACHI HOUSE, INC.
FINANCIAL STATEMENTS
FOR THE YEAR ENDED
JUNE 30, 2018

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Sampson & Associates, Inc.

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INDEPENDENT AUDITORS' REPORT

To the Board of Trustees of
Malachi House, Inc.
Cleveland, Ohio

We have audited the accompanying financial statements of Malachi House, Inc. (a nonprofit organization), which comprise the statement of assets, liabilities, and net assets—cash basis as of June 30, 2018, and the related statement of revenue, expenses and other changes in net assets—cash basis and statement of functional expenses-cash basis 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 the cash basis of accounting as described in Note A; this includes determining that the cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for 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.


Sampson & Associates, Inc.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the assets, liabilities, and net assets of Malachi House, Inc. as of June 30, 2018, and its revenue, expenses and changes in net assets for the year then ended in accordance with the cash basis of accounting as described in Note A.

Basis of Accounting

We draw attention to Note A of the financial statements, which describes the basis of accounting. The financial statements are prepared on the cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.


Rocky River, Ohio

December 6, 2018

MALACHI HOUSE, INC.
STATEMENT OF ASSETS, LIABILITIES AND
NET ASSETS - CASH BASIS
June 30, 2018

ASSETS

CURRENT ASSETS

Cash and cash equivalents	\$	664,122
Restricted cash		149,486
Investments		<u>12,497,044</u>
TOTAL CURRENT ASSETS	\$	<u>13,310,652</u>

LIABILITIES AND NET ASSETS

TOTAL LIABILITIES \$ -

NET ASSETS

Unrestricted		6,113,823
Temporarily restricted		149,486
Permanently restricted		<u>7,047,343</u>
TOTAL NET ASSETS		<u>13,310,652</u>

TOTAL LIABILITIES AND NET ASSETS \$ **13,310,652**

IN NET ASSETS - CASH BASIS
Year Ended June 30, 2018

	Net Assets Without Donor Restrictions	Temporarily Restricted	Net Assets With Donor Restrictions	Total
REVENUES, GAINS, LOSSES, AND RECLASSIFICATIONS				
Contributions	\$ 319,649			319,649
Bequests and endowments	59,700			59,700
Benefit, net of expenses	163,943			163,943
Grants	431,300	67,500		498,800
Investment income	332,567			332,567
Investment income - partnership	55,501			55,501
Other - workers compensation refund	21,077			21,077
Net realized and unrealized gains (losses) on endowments			864,325	864,325
TOTAL REVENUES, GAINS, AND LOSSES	<u>1,383,737</u>	<u>67,500</u>	<u>864,325</u>	<u>2,315,562</u>
Net assets released from restrictions	877,391	(13,066)	(864,325)	-
TOTAL REVENUES, GAINS, LOSSES, AND RECLASSIFICATIONS	<u>2,261,128</u>	<u>54,434</u>	<u>-</u>	<u>2,315,562</u>
EXPENSES				
Program services	1,291,364	-	-	1,291,364
Support services	129,474	-	-	129,474
	<u>1,420,838</u>	<u>-</u>	<u>-</u>	<u>1,420,838</u>
CHANGE IN NET ASSETS	840,290	54,434	-	894,724
NET ASSETS, beginning of year	5,273,533	95,052	7,047,343	12,415,928
NET ASSETS, end of year	<u>\$ 6,113,823</u>	<u>149,486</u>	<u>7,047,343</u>	<u>13,310,652</u>

MALACHI HOUSE, INC.
STATEMENT OF FUNCTIONAL EXPENSES - CASH BASIS
Year Ended June 30, 2018

Program services

Wages	\$ 742,892
Medical insurance	97,297
Household expenses	130,222
Payroll taxes	81,268
Investment fees	93,302
Employee benefits	57,062
Utilities	36,241
Office expenses	17,403
Repairs and maintenance	14,566
Staff expenses	12,223
Insurance	8,888
Total Program services	\$ <u>1,291,364</u>

Support services

Wages	\$ 27,281
Payroll taxes	1,841
Medical insurance	7,924
Employee benefits	3,098
Professional services	4,800
Fundraising	31,532
Promotional materials and fees	36,730
Recognition event	16,268
Total Support services	\$ <u>129,474</u>

TOTAL EXPENSES	\$ <u><u>1,420,838</u></u>
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NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES

NATURE OF ACTIVITIES

The Organization is not-for-profit and provides care for terminally ill people in the final stages of life. The Organization is privately funded through the generosity of individuals, foundations, and corporations, as well as an annual benefit and other fundraising events.

BASIS OF ACCOUNTING

The accompanying financial statements have been prepared on the modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. Modifications to the accrual basis of accounting include not capitalizing the cost of donated or purchased property, recording revenue when received and not when earned, and recording expenses when paid and not when incurred. Accordingly, the accompanying financial statements are not intended to present the financial position and statement of activities in conformity with US GAAP.

The Organization reports its financial position and activities in accordance with Financial Accounting Standards (SFAS) No. 117, Financial Statements for Not-for-Profit Organizations. Under SFAS No. 117 the organization reports its financial position and activities according to three classes of net assets; unrestricted net assets, temporarily restricted net assets and permanently restricted net assets.

CASH AND CASH EQUIVALENTS

The Organization considers all highly liquid investments with an initial maturity of three months or less to be cash equivalents. The carrying value for cash and cash equivalents approximates fair value.

INCOME TAX

The Organization is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. However, income from certain activities not directly related to the Organization's tax-exempt purpose is subject to taxation as unrelated business income. In addition, the Organization qualifies for the charitable contribution deduction under Section 170(b)(1)(A) and has been classified as an organization other than a private foundation under Section 509(a)(2).

The Organization is no longer subject to tax examinations, for years ended prior to June 30, 2015, by taxing authorities in jurisdictions where it filed tax returns. The Organization's policy is to record interest expense and penalties assessed by taxing authorities as income tax expense. For the period ended June 30, 2018 the Organization had no expenditures for interest expense or penalties assessed. The Organization has reviewed its tax positions and estimates that there will be no changes in uncertain tax positions within the next twelve months from the reporting date.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES (continued)

DONATED MARKETABLE SECURITIES

Donated marketable securities are recorded as contributions at their estimated fair values at the date of donation.

ADVERTISING

Advertising costs are expensed when the advertising is paid. Advertising, promotional and marketing expense amounted to \$36,730 for the year ended June 30, 2018 and is included in promotional materials.

CONTRIBUTIONS AND GRANTS

All contributions received are recorded as unrestricted, temporarily restricted or permanently restricted support depending on 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 revenues, expenses, and other changes in net assets – cash basis.

DONATED MATERIALS AND SERVICES

No amounts have been reflected in the financial statements for donated materials or services because they did not meet the criteria for recognition under FASB ASC 958-10, Accounting for Contributions Received and Contributions Made. The Organization generally pays for services requiring specific expertise. However, many individuals volunteer their time and perform a variety of tasks not requiring specific expertise that assist the Organization with specific assistance programs, campaign solicitations, and various committee assignments.

FAIR VALUE MEASUREMENTS

Fair value is defined as the exchange price that would be received to sell an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Fair value should be based on the assumptions market participants would use when pricing an asset or liability and a fair value hierarchy that prioritizes the information used to develop those assumptions. The fair value is a market based measurement, not an entity-specific measurement. The accounting methodology prioritizes inputs to valuation techniques used to measure fair value into three broad Levels: Level 1, Level 2, and Level 3.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The hierarchy of the three levels is based on observable inputs as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets and liabilities that the reporting entity has the ability to access at the measurement date.
- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Adjustments to Level 2 inputs will vary depending on factors specific to the asset or liability.
- Level 3 inputs are unobservable inputs for the asset or liability. Unobservable inputs should be used to measure fair value to the extent that observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at the measurement date period.

NOTE B - INVESTMENTS

The Board of Trustees has established investment policies to guide investment decisions. The policies provide for the finance committee to review the asset allocation strategy set forth by the Board and monitor the performance of investment managers selected by the Board. The finance committee reports to the Board of Trustees on a quarterly basis. The investment policies describe the type of investments that may be employed to achieve the return objectives. The Board of Trustees implements an investment strategy that is diversified among equities, fixed income and an alternative investment. The investment portfolio is diversified not only in terms of asset class, but also employs a number of investment managers that provide a diversity of style and skills.

By using this approach, the Organization is attempting to limit risk while taking advantage of opportunities presented within market cycles. Investment performance is monitored against the return objectives and benchmarks established by the Board. Actual rates of return may vary from the return objectives.

The Board of Trustees has an annual spending policy to provide for the ongoing operations of the Malachi House. The investments also may be used to provide capital for projects and innovative programs that are not part of the normal operating budget.

The asset allocation provides for investments in marketable securities with readily determinable fair value and all investments in debt securities are valued at their fair value in the statement of assets, liabilities, and net assets—cash basis. Unrealized gains and losses are included in the statement of revenues, expenses, and other changes in net assets—cash basis. Although the Organization has a diversified portfolio, a substantial portion of its realization is dependent upon the various markets in which the investments are traded and the investment manager's ability to properly manage the portfolio.

MALACHI HOUSE, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

NOTE B - INVESTMENTS (continued)

The level 1 assets are invested with a third party brokerage firm and consist of common stock, mutual funds, municipal securities and corporate bonds and notes. The fair value estimates are based on active quoted market information for identical assets and liabilities at the measurement date.

The level 2 assets are invested with a third party brokerage firm and consist of fixed income securities and a closed end mutual fund. The fair value estimates are based on observable market information rather than market quotes. Accordingly, the estimated fair value for these investments as provided by the investment firm are included in the security amounts disclosed in level 2 of the hierarchy.

The Level 3 investments consist of a partnership interest in Cleveland Capital, L.P. and hedge funds. The Board of Trustees uses a third party entity, Cleveland Capital Management, LLC to invest the partnership funds. The control over this partnership investment, asset management and valuation is exercised by Cleveland Capital Management LLC. The carrying value is reported using the partnership capital balance. The hedge funds are held through a brokerage account and the investment carrying value is determined by an independent valuation firm. The partnership investment and the hedge funds are classified within the financial statements as an alternative investment and hedge fund investments.

The following table summarizes the investment activity for the level 3 investment for the period ended June 30, 2018:

Balance at the beginning of year	\$ 1,799,845
Unrealized investment gains	<u>101,015</u>
Balance at the end of year	\$ <u>1,900,860</u>

Fair value measurement of investments at June 30, 2018 is as follows:

	June 30, 2018	<u>Fair Value Measurements at Reporting Date</u>		
		Using		
		Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Common stock	\$ 6,843,137	\$ 6,843,137	\$ -	\$ -
Mutual funds	1,681,780	1,681,780	-	-
Government securities	224,235	-	224,235	-
Asset backed securities	88,598	-	88,598	-
Municipal securities	534,797	534,797	-	-
Corporate bonds and notes	1,223,637	1,223,637	-	-
Hedge funds	742,975	-	-	742,975
Alternative investments	<u>1,157,885</u>	-	-	<u>1,157,885</u>
	<u>\$ 12,497,044</u>	<u>\$ 10,283,351</u>	<u>\$ 312,833</u>	<u>\$ 1,900,860</u>

MALACHI HOUSE, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

NOTE B – INVESTMENTS (continued)

Cost and unrealized gains/losses of investments at June 30, 2018, are summarized as follows:

	<u>Cost</u>	<u>Unrealized Gains</u>	<u>Unrealized Losses</u>	<u>Fair Value</u>
Common stock	\$ 4,944,595	\$ 2,089,722	\$ 191,180	\$ 6,843,137
Mutual funds	1,479,297	253,220	50,737	1,681,780
Government securities	231,047	-	6,812	224,235
Asset backed securities	92,546	56	4,004	88,598
Municipal securities	551,901	1,353	18,457	534,797
Corporate bonds and notes	1,291,053	-	67,416	1,223,637
Hedge funds	777,248	-	34,273	742,975
Alternate investments	<u>720,477</u>	<u>437,408</u>	<u>-</u>	<u>1,157,885</u>
	<u>\$ 10,088,164</u>	<u>\$ 2,781,759</u>	<u>\$ 372,879</u>	<u>\$ 12,497,044</u>

NOTE C – INVESTMENT EXPENSES

Expenses relating to investment revenues, including custodial fees and investment advisory fees, amounted to \$93,302 for the year ended June 30, 2018.

NOTE D – FUND RAISING EXPENSES

Fund raising expenses in the amount of \$157,261 were directly related to the annual benefit program and other events which provided operating funds for the Organization in the amount of \$321,204. These amounts are presented net of each other on the statement of revenues, expenses, and other changes in net assets – cash basis.

NOTE E – SIGNIFICANT CONCENTRATIONS OF CREDIT RISK

The Organization maintains deposits and investments in a financial institution and a brokerage house that at times exceed amounts covered by insurance provided by the U.S. Federal Deposit Insurance Corporation (FDIC) and the Securities Investor Protection Corporation (SIPC). The Organization believes that there is no significant risk with respect to these deposits or investments.

MALACHI HOUSE, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

NOTE F – PENSION PLAN

The Organization has a defined benefit pension plan through the Catholic Diocese of Cleveland which covers substantially all of the employees of the Organization. Contributions recorded by the Organization for the year ended June 30, 2018 were \$60,160. The pension is funded through monthly contributions made by the employer. The Organization's policy is to fund contributions monthly, which meets or exceeds ERISA minimum funding requirements.

NOTE G – NET ASSETS

Permanently restricted net assets represent donor-restricted donations. The restrictions are for the donated assets to remain in perpetuity, and the Organization does not have the right to invade the original principal. Temporarily restricted funds amount to \$149,486 at June 30, 2018. Temporarily restricted funds in the amount of \$117,041 consist of grants for the acquisition of furniture, building renovations and facility improvements. The balance of temporarily restricted funds consists of \$28,520 are for strategic planning and community outreach and \$3,925 for music therapy.

NOTE H – EVALUATION OF SUBSEQUENT EVENTS

The Organization has evaluated subsequent events through December 6, 2018, the date which the financial statements were available to be issued.