

**Magnificat Houses, Inc.**

Consolidated Financial Statements  
and Independent Auditors' Report  
for the years ended June 30, 2024 and 2023

# Magnificat Houses, Inc.

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## **Independent Auditors' Report**

To the Board of Directors of  
Magnificat Houses, Inc.:

### **Report on the Audit of the Financial Statements**

#### ***Opinion***

We have audited the financial statements of Magnificat Houses, Inc., which comprise the consolidated statements of financial position as of June 30, 2024 and 2023, and the related consolidated statements of activities, of functional expenses, and of cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of Magnificat Houses, Inc. as of June 30, 2024 and 2023, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

#### ***Basis for Opinion***

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are required to be independent of Magnificat Houses, Inc. and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### ***Responsibilities of Management for the Financial Statements***

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Magnificat Houses, Inc.'s ability to continue as a going concern for one year after the date that the financial statements are available to be issued.

#### ***Auditors' Responsibilities for the Audit of the Financial Statements***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and

therefore, is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Magnificat Houses, Inc.'s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Magnificat Houses, Inc.'s ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

*Blazek & Vetterling*

February 26, 2025

## Magnificat Houses, Inc.

Consolidated Statements of Financial Position as of June 30, 2024 and 2023

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	<u>2024</u>	<u>2023</u>
ASSETS		
Cash	\$ 229,653	\$ 362,333
Contributions receivable	95,033	74,077
Prepaid expenses and other assets	80,317	52,422
Investments (Note 3)	2,515,079	3,056,971
Property available for sale (Note 4)	20,996	
Property, net (Note 4)	<u>3,806,824</u>	<u>3,765,587</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 6,747,902</u></b>	<b><u>\$ 7,311,390</u></b>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued expenses	\$ 78,317	\$ 64,128
Resident trust accounts	1,829	1,395
Deferred land lease (Note 7)	<u>4,126,950</u>	<u>4,433,392</u>
Total liabilities	<u>4,207,096</u>	<u>4,498,915</u>
Net assets:		
Without donor restrictions	2,463,738	2,802,475
With donor restrictions for resident services	<u>77,068</u>	<u>10,000</u>
Total net assets	<u>2,540,806</u>	<u>2,812,475</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b><u>\$ 6,747,902</u></b>	<b><u>\$ 7,311,390</u></b>

*See accompanying notes to consolidated financial statements.*

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## Magnificat Houses, Inc.

### Consolidated Statement of Activities for the year ended June 30, 2024

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	WITHOUT DONOR RESTRICTIONS	WITH DONOR RESTRICTIONS	TOTAL
REVENUE:			
Contributions ( <i>Notes 5 and 6</i> ):			
Cash and other financial assets	\$ 840,851	\$ 700,137	\$ 1,540,988
Nonfinancial assets	1,138,873		1,138,873
Resident rent	275,406		275,406
Thrift store revenue	121,560		121,560
Thrift store cost of goods sold	(127,297)		(127,297)
Land lease revenue ( <i>Note 7</i> )	306,442		306,442
Net investment return	250,108		250,108
	<hr/>	<hr/>	<hr/>
Total revenue	2,805,943	700,137	3,506,080
Net assets released from restrictions:			
Program expenditures	633,069	(633,069)	
	<hr/>	<hr/>	<hr/>
Total	3,439,012	67,068	3,506,080
EXPENSES:			
Program services	3,052,790		3,052,790
Management and general	387,322		387,322
Fundraising	337,637		337,637
	<hr/>	<hr/>	<hr/>
Total expenses	3,777,749		3,777,749
CHANGES IN NET ASSETS	(338,737)	67,068	(271,669)
Net assets, beginning of year	2,802,475	10,000	2,812,475
	<hr/>	<hr/>	<hr/>
Net assets, end of year	\$ 2,463,738	\$ 77,068	\$ 2,540,806

*See accompanying notes to consolidated financial statements.*

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## Magnificat Houses, Inc.

### Consolidated Statement of Activities for the year ended June 30, 2023

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	WITHOUT DONOR RESTRICTIONS	WITH DONOR RESTRICTIONS	TOTAL
REVENUE:			
Contributions ( <i>Notes 5 and 6</i> ):			
Cash and other financial assets	\$ 462,209	\$ 840,029	\$ 1,302,238
Nonfinancial assets	863,637		863,637
Resident rent	208,729		208,729
Thrift store revenue	126,020		126,020
Thrift store cost of goods sold	(126,020)		(126,020)
Fundraising events:			
Revenue	118,818		118,818
Direct donor benefit costs	(17,993)		(17,993)
Land lease revenue ( <i>Note 7</i> )	204,295		204,295
Developer fees ( <i>Note 7</i> )	181,950		181,950
Net investment return	167,571		167,571
Other income	89,753		89,753
Total revenue	2,278,969	840,029	3,118,998
Net assets released from restrictions:			
Program expenditures	873,875	(873,875)	
Total	3,152,844	(33,846)	3,118,998
EXPENSES:			
Program services	4,141,365		4,141,365
Management and general	255,491		255,491
Fundraising	306,240		306,240
Total expenses	4,703,096		4,703,096
CHANGES IN NET ASSETS	(1,550,252)	(33,846)	(1,584,098)
Net assets, beginning of year	4,352,727	43,846	4,396,573
Net assets, end of year	\$ 2,802,475	\$ 10,000	\$ 2,812,475

*See accompanying notes to consolidated financial statements.*

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## Magnificat Houses, Inc.

### Consolidated Statements of Functional Expenses for the years ended June 30, 2024 and 2023

<u>EXPENSES</u>	<u>PROGRAM SERVICES</u>	<u>MANAGEMENT AND GENERAL</u>	<u>FUNDRAISING</u>	<u>2024 TOTAL</u>
Salaries and related expense	\$ 825,707	\$ 229,568	\$ 155,272	\$ 1,210,547
Food	1,018,957			1,018,957
Professional services and contract labor	167,774	97,202	140,613	405,589
Occupancy	277,550	14,621	6,853	299,024
Supplies	134,946	33,028	27,590	195,564
Depreciation	181,524	2,574	2,574	186,672
Insurance	172,390	5,344	1,679	179,413
Repairs and maintenance	167,925	822		168,747
Travel and transportation	32,748	3,868	3,056	39,672
Security	38,078			38,078
Direct assistance	30,500			30,500
Other	4,691	295		4,986
Total expenses	<u>\$ 3,052,790</u>	<u>\$ 387,322</u>	<u>\$ 337,637</u>	3,777,749
Thrift store cost of goods sold				<u>127,297</u>
Total				<u>\$ 3,905,046</u>

<u>EXPENSES</u>	<u>PROGRAM SERVICES</u>	<u>MANAGEMENT AND GENERAL</u>	<u>FUNDRAISING</u>	<u>2023 TOTAL</u>
Salaries and related expense	\$ 697,405	\$ 178,313	\$ 192,950	\$ 1,068,668
Food	751,030			751,030
Professional services and contract labor	48,331	36,131	70,500	154,962
Occupancy	248,888	4,320	1,184	254,392
Supplies	118,071	31,471	38,089	187,631
Depreciation	143,482	378	378	144,238
Insurance	157,687	4,878		162,565
Repairs and maintenance	167,541			167,541
Travel and transportation	26,184		3,139	29,323
Security	36,672			36,672
Direct assistance	25,495			25,495
RoseMary's Place social service reserve	1,700,000			1,700,000
Other	20,579			20,579
Total expenses	<u>\$ 4,141,365</u>	<u>\$ 255,491</u>	<u>\$ 306,240</u>	4,703,096
Thrift store cost of goods sold				126,020
Direct donor benefit costs				<u>17,993</u>
Total				<u>\$ 4,847,109</u>

*See accompanying notes to consolidated financial statements.*

## Magnificat Houses, Inc.

### Consolidated Statements of Cash Flows for the years ended June 30, 2024 and 2023

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	<u>2024</u>	<u>2023</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Changes in net assets	\$ (271,669)	\$ (1,584,098)
Adjustments to reconcile changes in net assets to net cash provided (used) by operating activities:		
Depreciation	186,672	144,238
Amortization of deferred land lease revenue	(306,442)	(204,295)
Net realized and unrealized gain on investments	(191,318)	(93,302)
Changes in operating assets and liabilities:		
Contributions receivable	(20,956)	185,545
Prepaid expenses and other assets	(27,895)	26,926
Accounts payable and accrued expenses	14,189	20,350
Resident trust accounts	434	(10,814)
Deferred land lease	<u>                    </u>	<u>4,637,687</u>
Net cash provided (used) by operating activities	<u>(616,985)</u>	<u>3,122,237</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchase of investments	(1,625,952)	(4,939,389)
Proceeds from sale of investments	2,359,162	2,392,866
Purchase of property	<u>(248,905)</u>	<u>(416,003)</u>
Net cash provided (used) by investing activities	<u>484,305</u>	<u>(2,962,526)</u>
<b>NET CHANGE IN CASH</b>	<b>(132,680)</b>	<b>159,711</b>
Cash, beginning of year	<u>362,333</u>	<u>202,622</u>
Cash, end of year	<u>\$ 229,653</u>	<u>\$ 362,333</u>

*See accompanying notes to consolidated financial statements.*

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## Magnificat Houses, Inc.

Notes to Consolidated Financial Statements for the years ended June 30, 2024 and 2023

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### NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization – Magnificat Houses, Inc., a nonprofit organization, provides services for the poor, disadvantaged and those with a mental health diagnosis. Magnificat Houses, Inc. operates 16 group homes, a clubhouse for mentally challenged adults, and *Loaves and Fishes* soup kitchen which feeds Houston’s street community. Magnificat Houses, Inc.’s clubhouse is approved by the Substance Abuse and Mental Health Services Administration and certified by the International Center for Clubhouse Development.

Magnificat Houses, Inc. is the sole member of MHI Developer, LLC and MHI Landholdings, LLC (the LLCs). The LLCs are Texas limited liability companies formed in connection with development of RoseMary’s Place, as described in Note 7.

Basis of presentation – These financial statements include assets, liabilities, net assets, and activities of Magnificat Houses, Inc. and the LLCs, (collectively Magnificat Houses). Intercompany balances and transactions have been eliminated.

Federal income tax status – Magnificat Houses, Inc. is exempt from federal income tax under §501(c)(3) of the Internal Revenue Code and is classified as a public charity under §509(a)(1) and §170(b)(1)(A)(vi). The LLCs are disregarded entities for federal income tax purposes.

Investments are reported at fair value. Net investment return consists of interest and dividends, realized and unrealized gains and losses, net of external and direct internal investment expenses.

Property is reported at cost, if purchased, or at fair value at the date of gift, if donated. Magnificat Houses capitalizes property that has a cost or fair value of \$5,000 or greater and an estimated useful life of more than one year. Magnificat Houses recognizes depreciation using the straight-line method over the estimated useful lives of the assets ranging from 5 to 39 years.

Resident trust accounts – Magnificat Houses holds accounts to help residents manage their finances and pay for expenses. Each resident's account is tracked separately. Magnificat Houses does not have discretion over the use of these funds and the receipts and disbursements are not reported as revenue and expenses of Magnificat Houses. Such accounts are reflected in cash offset by a corresponding liability in the statement of financial position.

Net asset classification – Net assets, revenue, gains, and losses are classified based on the existence or absence of donor-imposed restrictions, as follows:

- *Net assets without donor restrictions* are not subject to donor-imposed restrictions even though their use may be limited in other respects such as by contract or board designation.
- *Net assets with donor restrictions* are subject to donor-imposed restrictions. Restrictions may be temporary in nature, such as those that will be met by the passage of time or use for a purpose specified by the donor, or may be perpetual in nature, where the donor stipulates those resources be maintained in perpetuity. Net assets are released from restrictions when the stipulated time has elapsed, or purpose has been fulfilled, or both.

Contributions of financial and nonfinancial assets are recognized as revenue at fair value when an unconditional commitment is received from a donor except that contributions of services are recognized only when services received (a) create or enhance nonfinancial assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. Contributions received with donor stipulations that limit their use are classified as *with donor restrictions*.

Contributions receivable expected to be collected within one year are reported at net realizable value. Amounts expected to be collected in future years are discounted to estimate the present value of future cash flows, if material. An allowance is provided when it is believed balances may not be collected in full. All contributions receivable at June 30, 2024 are expected to be collected within one year.

Conditional contributions are subject to one or more barriers that must be overcome before Magnificat Houses is entitled to receive or retain funding and are recognized as revenue at fair value when the conditions have been substantially met. Any funding received before conditions are met is reported as a refundable advance.

Resident rent is due at the beginning of each month. Revenue is recognized at the amount collected net of price concessions. There are no receivables, or other assets or liabilities associated with resident rent.

Thrift store revenue is recognized net of sales tax at the point in time when goods are sold at the amount collected from the customer at the time of sale. There are no receivables or deferred revenue associated with thrift store revenue.

Fundraising events revenue is the total amount paid by sponsors and attendees of an event and includes elements of both contributions and exchange transactions and is recognized when events occur. Direct donor benefit costs represent the cost of goods and services provided to attendees of fundraising events.

Functional allocation of expenses – Expenses are reported by their functional classification. Program services are the direct conduct or supervision of activities that fulfill the purposes for which the organization exists. Fundraising activities include the solicitation of contributions of money, securities, materials, facilities, other assets, and time. Management and general activities are not directly identifiable with specific program or fundraising activities. Expenses that are attributable to more than one activity are allocated among the activities benefitted. Salaries and related costs are allocated on the basis of estimated time and effort expended. Depreciation and occupancy costs are allocated based on usage.

Estimates – Management must make estimates and assumptions to prepare financial statements in accordance with generally accepted accounting principles. These estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, the amounts reported as revenue and expenses, and the allocation of expenses among various functions. Actual results could vary from the estimates that were used.

## NOTE 2 – LIQUIDITY AND AVAILABILITY OF RESOURCES

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use within one year of June 30 comprise the following:

	<u>2024</u>	<u>2023</u>
Financial assets:		
Cash	\$ 229,653	\$ 362,333
Contributions receivable	95,033	74,077
Investments	<u>2,515,079</u>	<u>3,056,971</u>
Total financial assets	2,839,765	3,493,381
Less financial assets not available for general expenditure:		
Resident trust accounts	(1,829)	(1,395)
Donor-restricted for future periods and future projects	(27,068)	
Investments held in connection with RoseMary's Place	<u>                    </u>	<u>(2,801,474)</u>
Total financial assets available for general expenditure	<u>\$ 2,810,868</u>	<u>\$ 690,512</u>

For purposes of analyzing resources available to meet general expenditures over a 12-month period, Magnificat Houses considers all expenditures related to its ongoing program activities, as well as the conduct of services undertaken to support those activities, to be general expenditures.

## NOTE 3 – INVESTMENTS AND FAIR VALUE MEASUREMENTS

Generally accepted accounting principles require that certain assets and liabilities be reported at fair value and establish a hierarchy that prioritizes inputs used to measure fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurement inputs at June 30, 2024 and 2023 are unadjusted quoted prices in active markets for identical assets that Magnificat Houses has the ability to access at the reporting date, and therefore fall within Level 1 of the fair value hierarchy.

Assets measured at fair value using Level 1 inputs are as follows:

	<u>2024</u>	<u>2023</u>
Investments:		
Exchange-traded funds	\$ 1,281,807	\$ 1,159,232
Mutual funds:		
Money market funds	449,356	943,332
Equity funds	377,091	357,856
Bond funds	337,635	412,330
U. S. Treasury notes	<u>69,190</u>	<u>184,221</u>
Total assets measured at fair value	<u>\$ 2,515,079</u>	<u>\$ 3,056,971</u>

Valuation methods used for assets measured at fair value are as follows:

- *Exchange-traded funds* are valued at the closing price reported on the active market on which the individual securities are traded.
- *Mutual funds* are valued at the reported net asset value of shares held.

- *U. S. Treasury notes* are valued at the closing price reported on the active market on which the individual securities are traded, or prices obtained from independent quotation bureaus that use computerized valuation formulas to calculate fair values.

These valuation methods may produce a fair value that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while Magnificat Houses believes its valuation methods are appropriate, the use of different methods or assumptions could result in a different fair value measurement at the reporting date.

Investments are exposed to various risks such as interest rate, market, and credit risks. Because of these risks, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the statement of financial position and statement of activities.

#### NOTE 4 – PROPERTY

Property consists of the following:

	<u>2024</u>	<u>2023</u>
Land	\$ 1,263,245	\$ 1,263,245
Buildings, and improvements	4,826,969	4,960,895
Furniture, fixtures, and equipment	78,156	73,173
Vehicles	<u>212,612</u>	<u>153,959</u>
Total property, at cost	6,380,982	6,451,272
Accumulated depreciation	<u>(2,574,158)</u>	<u>(2,685,685)</u>
Property, net	<u>\$ 3,806,824</u>	<u>\$ 3,765,587</u>

In September 2024, MHI sold the property used for the *Loaves and Fishes* soup kitchen to the State of Texas for \$1.8 million net of selling costs. MHI may continue to occupy the property for up to three years as they search for a new location. At June 30, 2024, the property available for sale consists of the following:

Land, buildings, and improvements	\$ 288,425
Furniture, fixtures, and equipment	<u>30,769</u>
Total property available for sale, at cost	319,194
Accumulated depreciation	<u>(298,198)</u>
Property available for sale, net	<u>\$ 20,996</u>

In December 2024, MHI sold other property with a net book value of \$6,200 for approximately \$520,750.

#### NOTE 5 – CONTRIBUTIONS

##### *Government grants*

Contributions of cash and other financial assets include federal and state government grants of \$355,362 in 2024 and \$454,138 in 2023. At June 30, 2024, Magnificat Houses has received grant commitments from government agencies of approximately \$58,000 that are conditioned on incurring allowable costs. Magnificat Houses expects to incur allowable costs and recognize contribution revenue during fiscal year 2025.

Government grants require fulfillment of certain conditions as set forth in the grant contracts and are subject to review and audit by the awarding agencies. Such reviews and audits could result in the discovery of unallowable activities and unallowable costs. Consequently, any of the funding sources may, at their discretion, request reimbursement for expenses or return of funds as a result of non-compliance by Magnificat Houses with the terms of the contracts. Management believes such disallowances, if any, would not be material to Magnificat Houses' financial position or changes in net assets.

*Contributed nonfinancial assets*

Contributed nonfinancial assets recognized include the following:

	<u>2024</u>	<u>2023</u>
Food commodities	\$ 991,576	\$ 736,403
Inventory for sale in thrift store	127,297	127,234
Other in-kind contributions	<u>20,000</u>	<u>          </u>
Total contributed nonfinancial assets recognized	<u>\$ 1,138,873</u>	<u>\$ 863,637</u>

Food commodities are received from area food banks and from the general public. Food commodities are used in programs to provide meals to residents and to Houston's street community at the *Loaves and Fishes* soup kitchen. Food commodities are valued based on the average price per pound of a typical basket of commodities estimated by the most recent Feeding America Product Valuation Survey. Clothing, furniture, and other household goods are received from the general public and are sold in the thrift store. These items are valued based on the estimated net realizable value.

*Unrecognized contributed services*

Magnificat Houses relies on the generosity of volunteers who provide services at no cost. While these contributed services do not meet the criteria for recognition in the financial statements, they are nonetheless valuable to the programs and administration of Magnificat Houses. During fiscal year ended June 30, management estimates volunteers provided the following hours of support:

	<u>2024</u>	<u>2023</u>
<i>Loaves and Fishes</i> soup kitchen	14,282	13,613
Thrift store	6,691	2,604
Club House	2,514	2,023
Administration	780	780
Housing	532	
Maintenance	485	3,456
Other	<u>          </u>	<u>140</u>
Total volunteer hours of service	<u>25,284</u>	<u>22,616</u>

**NOTE 6 – DAYBREAK FOUNDATION**

Daybreak Foundation (Daybreak) is a separate, independent §501(c)(3) nonprofit organization established in 1985 as a supporting organization operated exclusively for the benefit of Magnificat Houses. Under the terms of the agreement, Magnificat Houses may draw down the Daybreak investment earnings each year. Requests for drawdowns from Daybreak investment earnings must be made in writing by

Magnificat Houses' management, are subject to a majority approval by the Daybreak Board of Directors and may be made only to conduct the purposes of Magnificat Houses or to pay expenses for an unforeseen emergency at Magnificat Houses. Magnificat Houses recognized unrestricted contributions from Daybreak of \$158,000 during 2024 and \$103,956 during 2023.

#### **NOTE 7 – ROSEMARY'S PLACE**

In October 2022, Magnificat Houses and NHP Foundation (NHPF), a national not-for-profit provider of affordable housing, both acting through various for-profit and not-for-profit subsidiaries, finalized a ground lease of land from Magnificat Houses, Inc. on which a 149-unit apartment development for those experiencing homelessness in Houston is being constructed. The new apartments at 3300 Caroline will be known as RoseMary's Place and are being developed and will be operated by Magnificat Permanent Affordable, LLC, a subsidiary of NHPF in which Magnificat Houses holds a .01% ownership interest. The project is expected to be completed by March 2025.

The project is being funded by grants from the City of Houston Housing and Community Development Department, and Harris County Community Services Department, and from the sale of tax credits. The land is pledged as collateral for various loans and funding agreements period; Magnificat Houses' ownership could be forfeited in the event of a material breach or noncompliance with those agreements. Otherwise, upon termination, the land and project revert to Magnificat Houses.

Magnificat Houses has the option to exercise a right of first refusal to purchase the project in 15 years and believes it is reasonably certain to do so. In determining the term and payments for the land lease, Magnificat Houses considered the lease term to be 15 years and total lease payments to be \$4.6 million, which are being amortized on a straight-line basis. During 2024 and 2023, Magnificat Houses recognized \$306,442 and \$204,295 of land lease revenue, respectively. Should Magnificat Houses not exercise the right of first refusal, the maximum term of the land lease would be 99 years and an additional lease payment of \$2.4 million would be due from the lessee in 2062.

During 2023, Magnificat Houses contributed \$1.7 million to Magnificat Permanent Affordable, LLC to provide a reserve for social services. As a partner in the project, Magnificat Houses is entitled to receive a portion of developer fees and project cash flow, if any. During 2023, Magnificat Houses recognized developer fees of \$181,950. Magnificat Houses has an agreement for long-term lease of office space on the first floor of the project. For at least the first year of operation, Magnificat Houses will provide supportive services to the apartment residents.

#### **NOTE 8 – SUBSEQUENT EVENTS**

Management has evaluated subsequent events through February 26, 2025, which is the date that the financial statements were available for issuance. Other than the sales of properties discussed in Note 4, no events were identified that are required to be disclosed or would have a material impact on reported net assets or changes in net assets.