Montrose Counseling Center
Permanent Endowment, Inc.

Financial Statements
and Independent Auditors’ Report
for the years ended August 31, 2014 and 2013

Montrose Counseling Center Permanent Endowment, Inc.

Table of Contents

Blazek & Vetterling
CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditors' Report

To the Board of Directors of
Montrose Counseling Center Permanent Endowment, Inc.:

We have audited the accompanying financial statements of Montrose Counseling Center Permanent Endowment, Inc., which comprise the statements of financial position as of August 31, 2014 and 2013 and the related statements of activities and of cash flows for the years 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.

Auditors' Responsibility – Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform our audits 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 auditors' 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 Montrose Counseling Center Permanent Endowment, Inc. as of August 31, 2014 and 2013 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.

Blazek & Vetterling

December 18, 2014

2900 Weslayan, Suite 200 Houston, Texas 77027-5132 (713) 439-5757 Fax (713) 439-5758

Montrose Counseling Center Permanent Endowment, Inc.

Statements of Financial Position as of August 31, 2014 and 2013

	2014	2013
ASSETS		
Cash	$ 307,168	$ 260,070
Prepaid expenses	54,323	3,408
Pledges receivable, net *(Note 3)*	29,337	40,724
Investments *(Note 4)*	106,836	89,853
Property, net *(Note 5)*	4,983,738	5,108,263
TOTAL ASSETS	$ 5,481,402	$ 5,502,318
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued expenses	$ 9,907	$ 11,382
Security deposit from Montrose Center	101,436	101,436
Note payable *(Note 6)*	1,477,955	1,692,357
Total liabilities	1,589,298	1,805,175
Net assets:		
Unrestricted	3,382,795	3,187,834
Permanently restricted *(Note 7)*	509,309	509,309
Total net assets	3,892,104	3,697,143
TOTAL LIABILITIES AND NET ASSETS	$ 5,481,402	$ 5,502,318

See accompanying notes to financial statements.

Montrose Counseling Center Permanent Endowment, Inc.

Statement of Activities for the year ended August 31, 2014

	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL
REVENUE:				
Rent income *(Note 2)*	$ 567,048			$ 567,048
Investment return, net *(Note 4)*	16,984			16,984
Total revenue	584,032			584,032
EXPENSES:				
Building costs:				
Depreciation	172,534			172,534
Utilities	74,755			74,755
Building maintenance contracts and repairs	61,514			61,514
Interest expense	33,357			33,357
Insurance and other	46,911			46,911
Total expenses	389,071			389,071
CHANGES IN NET ASSETS	194,961			194,961
Net assets, beginning of year	3,187,834		$ 509,309	3,697,143
Net assets, end of year	$ 3,382,795	$ 0	$ 509,309	$ 3,892,104

See accompanying notes to financial statements.

Montrose Counseling Center Permanent Endowment, Inc.

Statement of Activities for the year ended August 31, 2013

	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL
REVENUE:				
Rent income *(Note 2)*	$ 567,048			$ 567,048
Contributions *(Note 2)*		$ 34,224		34,224
Investment return, net *(Note 4)*	11,297			11,297
Loss on valuation of pledges receivable		(4,500)		(4,500)
Other income	514			514
Total revenue	578,859	29,724		608,583
Net assets released from restrictions for debt repayment	29,724	(29,724)		
Total	608,583	0		608,583
EXPENSES:				
Building costs:				
Depreciation	172,751			172,751
Utilities	102,628			102,628
Building maintenance contracts and repairs	69,366			69,366
Interest expense	39,016			39,016
Insurance and other	40,612			40,612
Total expenses	424,373			424,373
CHANGES IN NET ASSETS	184,210	0		184,210
Net assets, beginning of year	3,003,624	0	$ 509,309	3,512,933
Net assets, end of year	$ 3,187,834	$ 0	$ 509,309	$ 3,697,143

See accompanying notes to financial statements.

Montrose Counseling Center Permanent Endowment, Inc.

Statements of Cash Flows for the years ended August 31, 2014 and 2013

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in net assets	$ 194,961	$ 184,210
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation	172,534	172,751
Contributions for building debt repayment		(34,224)
Net realized and unrealized gain on investments	(16,095)	(8,686)
Changes in operating assets and liabilities:		
Prepaid expenses	(50,915)	(799)
Accounts payable and accrued expenses	(1,475)	(173)
Net cash provided by operating activities	299,010	313,079
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property	(48,009)	(75,733)
Purchases of investments	(888)	(2,613)
Net cash used by investing activities	(48,897)	(78,346)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from contributions restricted for building debt repayment	11,387	15,333
Repayment of note payable	(214,402)	(213,780)
Net cash used by financing activities	(203,015)	(198,447)
NET CHANGE IN CASH	47,098	36,286
Cash, beginning of year	260,070	223,784
Cash, end of year	$ 307,168	$ 260,070

Supplemental disclosure of cash flow information:

	2014	2013
Interest paid on note payable	$33,357	$39,016

See accompanying notes to financial statements.

NOTE 1 – ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Organization – Montrose Counseling Center Permanent Endowment, Inc. (the Endowment) is a nonprofit organization established in 1988 to provide support for the Montrose Center (the Center). The Endowment may make distributions to the Center at the discretion of the Endowment board of directors.

Federal income tax status – The Endowment is exempt from federal income tax under §501(c)(3) of the Internal Revenue Code and is classified as a Type III supporting organization under §509(a)(3). The Endowment files annual federal information returns that are subject to routine examination; however, there are no examinations for any tax periods currently in progress. The Endowment believes it is no longer subject to examinations of returns for tax years ended before August 31, 2011.

Pledges receivable that are due within one year are reported at net realizable value. Pledges receivable that are expected to be collected in future years are discounted, if material, to estimate the present value of the expected future cash flows.

Investments are reported at fair value.

Property is reported at cost if purchased or at fair value at the date of gift if donated. Depreciation is calculated on the straight-line basis over estimated useful lives of 5 years for furniture and equipment, 5 to 15 years for building improvements, and 30 years for the building.

Net asset classification – Contributions and the related net assets are classified based on the existence or absence of donor-imposed restrictions, as follows:

- *Unrestricted net assets* include those net assets whose use is not restricted by donor-imposed stipulations, even though their use may be limited in other respects, such as by contract or board designation.
- *Temporarily restricted net assets* include contributions restricted by the donor to use for specific purposes or time periods. When a purpose restriction is accomplished or a time restriction ends, temporarily restricted net assets are released to unrestricted net assets.
- *Permanently restricted net assets* include contributions that donors have restricted in perpetuity.

Rent income is recognized ratably over the term of the lease.

Contributions are recognized as revenue at fair value when an unconditional commitment is received from the donor. Contributions received with donor stipulations that limit their use are classified as restricted support.

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 and the amounts of reported revenue and expenses. Actual results could vary from the estimates that were used.

NOTE 2 – RELATED PARTY TRANSACTIONS

The Endowment's property is leased to the Center under a noncancelable operating lease with annual rental payments of approximately $567,000 through December 31, 2022. In accordance with the lease agreement, the Center pays the expenses for building personnel and supplies, insurance, accounting and other administrative building services. The Center contributed $34,224 to the Endowment for debt repayment related to the building in 2013.

NOTE 3 – PLEDGES RECEIVABLE

Pledges receivable are as follows:

	2014	2013
Pledges receivable	$ 30,113	$ 41,500
Discount to net present value at 1% to 2%	(776)	(776)
Pledges receivable, net	$ 29,337	$ 40,724

Pledges receivable at August 31, 2014 are expected to be collected as follows:

2015	$ 12,104
2016-2019	18,009
Total	$ 30,113

NOTE 4 – 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. The three levels of the fair value hierarchy are as follows:

- *Level 1* – Inputs are unadjusted quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the reporting date.
- *Level 2* – Inputs are other than quoted prices included in Level 1, which are either directly observable or can be derived from or corroborated by observable market data at the reporting date.
- *Level 3* – Inputs are not observable and are based on the reporting entity's assumptions about the inputs market participants would use in pricing the asset or liability.

Assets measured at fair value at August 31, 2014 are as follows:

	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Equity mutual funds:				
Large value	$ 31,017			$ 31,017
Large growth	30,050			30,050
Global allocation	13,026			13,026
Foreign large blend	7,410			7,410
Bond mutual funds – intermediate term	25,287			25,287
Money market mutual funds	46			46
Total assets measured at fair value	$ 106,836	$ 0	$ 0	$ 106,836

Assets measured at fair value at August 31, 2013 are as follows:

	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Equity mutual funds:				
Large value	$ 24,322			$ 24,322
Large growth	23,669			23,669
Global allocation	11,366			11,366
Foreign large blend	6,306			6,306
Bond mutual funds – intermediate term	24,093			24,093
Money market mutual funds	97			97
Total assets measured at fair value	$ 89,853	$ 0	$ 0	$ 89,853

Mutual funds are valued at the net asset value of shares held at year end. This valuation method may produce a fair value that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Endowment believes its valuation method is 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.

Investment return includes earnings on cash balances and consists of the following:

	2014	2013
Interest and dividends	$ 889	$ 2,611
Net realized and unrealized gain on investments	16,095	8,686
Investment return, net	$ 16,984	$ 11,297

NOTE 5 – PROPERTY

Property consists of the following:

	2014	2013
Land	$ 2,431,904	$ 2,431,904
Building	3,450,972	3,450,972
Building improvements	370,181	322,172
Furniture and equipment	22,548	22,548
Total property, at cost	6,275,605	6,227,596
Accumulated depreciation	(1,291,867)	(1,119,333)
Property, net	$ 4,983,738	$ 5,108,263

NOTE 6 – NOTE PAYABLE

The Endowment entered into a $3,550,195 tax-exempt loan agreement dated December 13, 2007 with Texas Gulf Coast Health Facilities Development Corporation (the Issuer) and JPMorgan Chase Bank to finance the purchase of an office building and improvements. The Angleton Danbury Hospital District of Brazoria County formed the Texas Gulf Coast Health Facilities Development Corporation on May 1, 2006, under the Health Facilities Act, Chapter 221 of the Texas Health and Safety Code to promote and develop new, expanded or improved health facilities to assist with the maintenance of the public health and welfare. Additionally, because the property is located in Harris County, both the Harris County Hospital District and the City of Houston passed resolutions consenting to a tax-exempt loan by the Issuer to finance the cost of health facilities for the Endowment.

Principal and interest payments are due monthly at an interest rate of 2% plus 67% of the 30-day LIBOR for 15 years. The interest rate at August 31, 2014 was 2.123%. Principal payments at August 31, 2014 are expected to be paid as follows:

2015	$ 226,348
2016	238,755
2017	252,161
2018	266,313
2019	281,151
Thereafter	213,227
Total	$ 1,477,955

NOTE 7 – PERMANENTLY RESTRICTED NET ASSETS

Permanently restricted net assets are invested in the land and building which was purchased with permanently restricted contributions. If the land and building are sold, proceeds equal to those permanently restricted contributions must be used to purchase other property or invested in perpetuity to benefit the Center.

NOTE 8 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through December 18, 2014, which is the date that the financial statements were available for issuance. As a result of this evaluation, 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.