

**Montrose Counseling Center
Permanent Endowment, Inc.**

Financial Statements
and Independent Auditors' Report
for the years ended August 31, 2020 and 2019

Montrose Counseling Center Permanent Endowment, Inc.

Table of Contents

	Page
Independent Auditors' Report	1
Financial Statements:	
Statements of Financial Position as of August 31, 2020 and 2019	2
Statement of Activities for the year ended August 31, 2020	3
Statement of Activities for the year ended August 31, 2019	4
Statements of Cash Flows for the years ended August 31, 2020 and 2019	5
Notes to Financial Statements for the years ended August 31, 2020 and 2019	6

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, 2020 and 2019 and the related statements of activities and of cash flows for the years then ended, and the related notes to the financial statements.

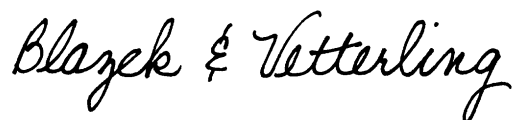
Management's Responsibility for the Financial Statements – Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance 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, 2020 and 2019 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.



March 11, 2021

Montrose Counseling Center Permanent Endowment, Inc.

Statements of Financial Position as of August 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
ASSETS		
Cash	\$ 300,111	\$ 213,956
Prepaid expenses	15,083	12,546
Contributions receivable, net		3,065
Investments (Note 4)	215,876	147,250
Property, net (Note 5)	<u>4,503,903</u>	<u>4,663,172</u>
TOTAL ASSETS	<u>\$ 5,034,973</u>	<u>\$ 5,039,989</u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued expenses	\$ 13,934	\$ 17,766
Due to Montrose Center	48,847	1,561
Security deposit from Montrose Center	94,508	94,508
Note payable (Note 6)		<u>198,228</u>
Total liabilities	<u>157,289</u>	<u>312,063</u>
Net assets:		
Without donor restrictions	4,368,375	4,218,617
With donor restrictions (Note 7)	<u>509,309</u>	<u>509,309</u>
Total net assets	<u>4,877,684</u>	<u>4,727,926</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 5,034,973</u>	<u>\$ 5,039,989</u>

See accompanying notes to financial statements.

Montrose Counseling Center Permanent Endowment, Inc.

Statement of Activities for the year ended August 31, 2020

	WITHOUT DONOR RESTRICTIONS	WITH DONOR RESTRICTIONS	TOTAL
REVENUE:			
Rent income (<i>Note 3</i>)	\$ 567,048		\$ 567,048
Contributions	1,797		1,797
Net investment return	<u>18,274</u>		<u>18,274</u>
Total revenue	<u>587,119</u>		<u>587,119</u>
EXPENSES:			
Program expenses – building costs:			
Depreciation	190,251		190,251
Building maintenance contracts and repairs	102,107		102,107
Insurance and other	78,580		78,580
Utilities	64,241		64,241
Interest expense	<u>2,182</u>		<u>2,182</u>
Total program expenses	<u>437,361</u>		<u>437,361</u>
CHANGES IN NET ASSETS	149,758		149,758
Net assets, beginning of year	<u>4,218,617</u>	\$ <u>509,309</u>	<u>4,727,926</u>
Net assets, end of year	<u>\$ 4,368,375</u>	<u>\$ 509,309</u>	<u>\$ 4,877,684</u>

See accompanying notes to financial statements.

Montrose Counseling Center Permanent Endowment, Inc.

Statement of Activities for the year ended August 31, 2019

	WITHOUT DONOR RESTRICTIONS	WITH DONOR RESTRICTIONS	TOTAL
REVENUE:			
Rent income (<i>Note 3</i>)	\$ 567,048		\$ 567,048
Other income	188	\$ 10,000	10,188
Net investment return	<u>(3,256)</u>	<u></u>	<u>(3,256)</u>
Total revenue	563,980	10,000	573,980
Net assets released from restrictions:			
Building repairs	<u>10,000</u>	<u>(10,000)</u>	<u></u>
Total	<u>573,980</u>	<u>0</u>	<u>573,980</u>
EXPENSES:			
Program expenses – building costs:			
Depreciation	193,434		193,434
Building maintenance contracts and repairs	97,836		97,836
Insurance and other	71,103		71,103
Utilities	60,684		60,684
Interest expense	<u>12,398</u>		<u>12,398</u>
Total program expenses	<u>435,455</u>		<u>435,455</u>
CHANGES IN NET ASSETS			
Net assets, beginning of year	<u>4,080,092</u>	<u>509,309</u>	<u>4,589,401</u>
Net assets, end of year	<u>\$ 4,218,617</u>	<u>\$ 509,309</u>	<u>\$ 4,727,926</u>

See accompanying notes to financial statements.

Montrose Counseling Center Permanent Endowment, Inc.

Statements of Cash Flows for the years ended August 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in net assets	\$ 149,758	\$ 138,525
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation	190,251	193,434
Net realized and unrealized (gain) loss on investments	(9,619)	11,288
Changes in operating assets and liabilities:		
Prepaid expenses	(2,537)	(3,239)
Accounts payable, accrued expenses and due to Montrose Center	<u>43,454</u>	<u>(84,548)</u>
Net cash provided by operating activities	<u>371,307</u>	<u>255,460</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property	(30,983)	(135,574)
Net change in money market mutual funds	(50,677)	69,682
Proceeds from the sale of investments	50,605	43,715
Purchases of investments	<u>(58,934)</u>	<u>(59,229)</u>
Net cash used by investing activities	<u>(89,989)</u>	<u>(81,406)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from contributions restricted for building debt repayment	3,065	1,302
Repayment of note payable	<u>(198,228)</u>	<u>(281,151)</u>
Net cash used by financing activities	<u>(195,163)</u>	<u>(279,849)</u>
NET CHANGE IN CASH	86,155	(105,795)
Cash, beginning of year	<u>213,956</u>	<u>319,751</u>
Cash, end of year	<u>\$ 300,111</u>	<u>\$ 213,956</u>
<i>Supplemental disclosure of cash flow information:</i>		
Interest paid on note payable	\$2,182	\$12,398

See accompanying notes to financial statements.

Montrose Counseling Center Permanent Endowment, Inc.

Notes to Financial Statements for the years ended August 31, 2020 and 2019

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 Montrose Center (the Center). The Endowment may make distributions to the Center at the discretion of the Endowment’s 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).

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

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 and 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 – 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 that resources be maintained in perpetuity. Net assets are released from restrictions when the stipulated time has elapsed, or purpose has been fulfilled, or both.

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.

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. Management and general activities are not directly identifiable with specific program or fundraising activities.

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 – 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 August 31 comprise the following:

	<u>2020</u>	<u>2019</u>
Financial assets:		
Cash	\$ 300,111	\$ 213,956
Contributions receivable, net		3,065
Investments	<u>215,876</u>	<u>147,250</u>
Total financial assets	<u>\$ 515,987</u>	<u>\$ 364,271</u>

For purposes of analyzing resources available to meet general expenditures over a 12-month period, the Endowment 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.

As part of liquidity management practices, the Endowment invests excess cash in long-term investments. However, all funds are still liquid and available for use, if needed.

In March 2020, the Director of the World Health Organization declared a pandemic related to the global outbreak of the new coronavirus COVID-19 and a national emergency was declared in the United States. The extent of the impact of COVID-19 on the Endowment's operational and financial performance will depend on developments such as the duration and spread of the outbreak, impact on customers, donors, employees, and vendors, all of which are uncertain and cannot be predicted. Therefore, while the Endowment expects this to negatively impact its operating results and financial position, the financial impact cannot be reasonably estimated at this time.

NOTE 3 – RELATED PARTY TRANSACTIONS

The Endowment's property is leased to the Center under a noncancelable operating lease with annual rental payments of \$567,048 through December 31, 2028. In accordance with the lease agreement, the Center pays the expenses for building personnel and supplies, accounting and other administrative building services.

NOTE 4 – FAIR VALUE MEASUREMENTS AND INVESTMENTS

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, 2020 are as follows:

	<u>LEVEL 1</u>	<u>LEVEL 2</u>	<u>LEVEL 3</u>	<u>TOTAL</u>
Equity mutual funds:				
Large-cap growth	\$ 47,476			\$ 47,476
Large-cap value	38,304			38,304
Global allocation	17,302			17,302
Foreign large blend	16,008			16,008
Money market mutual funds	51,107			51,107
Bond mutual funds – intermediate-term	<u>45,679</u>			<u>45,679</u>
Total assets measured at fair value	<u>\$ 215,876</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 215,876</u>

Assets measured at fair value at August 31, 2019 are as follows:

	<u>LEVEL 1</u>	<u>LEVEL 2</u>	<u>LEVEL 3</u>	<u>TOTAL</u>
Equity mutual funds:				
Large-cap growth	\$ 38,355			\$ 38,355
Large-cap value	36,766			36,766
Global allocation	16,237			16,237
Foreign large blend	13,295			13,295
Money market mutual funds	430			430
Bond mutual funds – intermediate-term	<u>42,167</u>			<u>42,167</u>
Total assets measured at fair value	<u>\$ 147,250</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 147,250</u>

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.

NOTE 5 – PROPERTY

Property consists of the following:

	<u>2020</u>	<u>2019</u>
Land	\$ 2,431,904	\$ 2,431,904
Building	3,450,972	3,450,972
Building improvements	992,122	964,641
Furniture and equipment	<u>43,185</u>	<u>39,683</u>
Total property, at cost	6,918,183	6,887,200
Accumulated depreciation	<u>(2,414,280)</u>	<u>(2,224,028)</u>
Property, net	<u>\$ 4,503,903</u>	<u>\$ 4,663,172</u>

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. Principal and interest payments are due monthly at an interest rate of 2% plus 67% of the 30-day LIBOR for 15 years. The remaining principal of the note was repaid in 2020. 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.

NOTE 7 – NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are restricted in perpetuity and are invested in the land and building, which was purchased with restricted contributions. If the land and building are sold, proceeds equal to those 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 March 11, 2021, which is the date that the financial statements were available for issuance. As a result of this evaluation, no events other than the ongoing pandemic, were identified that are required to be disclosed or would have a material impact on reported net assets or changes in net assets.