Montrose Counseling Center Permanent Endowment, Inc.

Financial Statements
and Independent Auditors' Report
for the years ended August 31, 2018 and 2017

Montrose Counseling Center Permanent Endowment, Inc.

Table of Contents

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, 2018 and 2017 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, 2018 and 2017 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

March 20, 2019

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Montrose Counseling Center Permanent Endowment, Inc.

Statements of Financial Position as of August 31, 2018 and 2017

	2018	2017
ASSETS		
Cash	$ 319,751	$ 232,874
Prepaid expenses	9,307	8,825
Accounts receivable		114,835
Pledges receivable, net	4,367	8,320
Investments *(Note 3)*	212,706	134,297
Property, net *(Note 4)*	4,721,032	4,797,369
TOTAL ASSETS	$ 5,267,163	$ 5,296,520
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued expenses	$ 44,067	$ 18,662
Due to Montrose Center	59,808	
Security deposit from Montrose Center	94,508	94,508
Note payable *(Note 5)*	479,379	745,692
Total liabilities	677,762	858,862
Net assets:		
Unrestricted	4,080,092	3,928,349
Permanently restricted *(Note 6)*	509,309	509,309
Total net assets	4,589,401	4,437,658
TOTAL LIABILITIES AND NET ASSETS	$ 5,267,163	$ 5,296,520

See accompanying notes to financial statements.

Montrose Counseling Center Permanent Endowment, Inc.

Statement of Activities for the year ended August 31, 2018

	UNRESTRICTED	PERMANENTLY RESTRICTED	TOTAL
REVENUE:			
Rent income *(Note 2)*	$ 567,048		$ 567,048
Other income	543		543
Investment return, net *(Note 3)*	14,653		14,653
Total revenue	582,244		582,244
EXPENSES:			
Building costs:			
Depreciation	190,568		190,568
Building maintenance contracts and repairs	88,930		88,930
Utilities	66,380		66,380
Interest expense	18,896		18,896
Insurance and other	65,727		65,727
Total expenses	430,501		430,501
CHANGES IN NET ASSETS	151,743		151,743
Net assets, beginning of year	3,928,349	$ 509,309	4,437,658
Net assets, end of year	$ 4,080,092	$ 509,309	$ 4,589,401

See accompanying notes to financial statements.

Montrose Counseling Center Permanent Endowment, Inc.

Statement of Activities for the year ended August 31, 2017

	UNRESTRICTED	PERMANENTLY RESTRICTED	TOTAL
REVENUE:			
Rent income *(Note 2)*	$ 567,048		$ 567,048
Other income	17,824		17,824
Investment return, net *(Note 3)*	14,177		14,177
Total revenue	599,049		599,049
EXPENSES:			
Building costs:			
Depreciation	187,362		187,362
Building maintenance contracts and repairs	76,964		76,964
Utilities	64,884		64,884
Interest expense	22,596		22,596
Insurance and other	62,156		62,156
Total expenses	413,962		413,962
CHANGES IN NET ASSETS	185,087		185,087
Net assets, beginning of year	3,743,262	$ 509,309	4,252,571
Net assets, end of year	$ 3,928,349	$ 509,309	$ 4,437,658

See accompanying notes to financial statements.

Montrose Counseling Center Permanent Endowment, Inc.

Statements of Cash Flows for the years ended August 31, 2018 and 2017

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in net assets	$ 151,743	$ 185,087
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation	190,568	187,362
Loss on disposal of property		3,430
Net realized and unrealized gain on investments	(7,126)	(9,535)
Changes in operating assets and liabilities:		
Prepaid expenses	(482)	(3,996)
Accounts receivable	114,835	53,909
Accounts payable and accrued expenses	85,213	(5,154)
Net cash provided by operating activities	534,751	411,103
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property	(114,231)	(172,242)
Net change in money market mutual funds	(70,113)	
Purchases of investments	(1,170)	(7,671)
Net cash used by investing activities	(185,514)	(179,913)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from contributions restricted for building debt repayment	3,953	3,243
Repayment of note payable	(266,313)	(252,161)
Net cash used by financing activities	(262,360)	(248,918)
NET CHANGE IN CASH	86,877	(17,728)
Cash, beginning of year	232,874	250,602
Cash, end of year	$ 319,751	$ 232,874

Supplemental disclosure of cash flow information:

	2018	2017
Interest paid on note payable	$18,896	$22,596

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 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).

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 expected future cash flows. At August 31, 2018, all pledges are due within one year.

Investments are reported at fair value. Investment return is reported in the statement of activities as an increase in unrestricted net assets unless its use is limited by donor-imposed restrictions.

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 – 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.
- *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.

Recent financial accounting pronouncements – In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers,* which replaces most existing revenue recognition guidance for exchange transactions not specifically covered by other guidance. This ASU does not apply to non-exchange transactions such as contributions. The core principle of the new guidance is that an entity should recognize revenue in an amount that reflects the consideration to which it expects to be entitled in exchange for transferred goods or services and establishes a 5-step process to determine when performance obligations are satisfied and revenue is recognized. The Endowment is required to adopt this ASU effective September 1, 2019. Management has not yet determined the impact adoption of this ASU will have on the financial statements.

In August 2016, the FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities.* The amendments in this ASU are aimed at providing more useful information to users of not-for-profit financial statements. Under this ASU, net assets will be presented in two classes: *net assets with donor restrictions* and *net assets without donor restrictions* and underwater endowments will be grouped with *net assets with donor restrictions.* New or enhanced disclosures will be required about the nature and composition of net assets, and the liquidity and availability of resources for general operating expenditures within one year of the balance sheet date. Expenses will be required to be presented by both nature and function and investment return will be presented net of external and direct internal investment expenses. Absent explicit donor stipulations, restrictions on long-lived assets will expire when assets are placed in service. The Endowment is required to adopt this ASU for fiscal year 2019. Adoption of this ASU will impact the presentation and disclosures of the financial statements.

NOTE 2 – 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, insurance, accounting and other administrative building services.

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. 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, 2018 are as follows:

	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Equity mutual funds:				
Large value	$ 46,204			$ 46,204
Large growth	45,860			45,860
Global allocation	15,681			15,681
Foreign large blend	8,795			8,795
Money market mutual funds	70,112			70,112
Bond mutual funds – intermediate-term	26,054			26,054
Total assets measured at fair value	$ 212,706	$ 0	$ 0	$ 212,706

Assets measured at fair value at August 31, 2017 are as follows:

	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Equity mutual funds:				
Large value	$ 39,116			$ 39,116
Large growth	37,136			37,136
Global allocation	15,048			15,048
Foreign large blend	8,449			8,449
Bond mutual funds – intermediate-term	26,690			26,690
Large-cap equities	4,448			4,448
Exchange-traded fund – large blend	3,410			3,410
Total assets measured at fair value	$ 134,297	$ 0	$ 0	$ 134,297

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

- *Mutual funds* are valued at the net asset value of shares held at year end.
- *Large-cap equities* and *exchange-traded fund* are valued at the closing price reported on the active market on which the individual securities are traded.

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 the Endowment 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.

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

	2018	2017
Interest and dividends	$ 7,527	$ 4,642
Net realized and unrealized gain on investments	7,126	9,535
Investment return, net	$ 14,653	$ 14,177

NOTE 4 – PROPERTY

Property consists of the following:

	2018	2017
Land	$ 2,431,904	$ 2,431,904
Building	3,450,972	3,450,972
Building improvements	829,067	714,836
Furniture and equipment	39,683	39,683
Total property, at cost	6,751,626	6,637,395
Accumulated depreciation	(2,030,594)	(1,840,026)
Property, net	$ 4,721,032	$ 4,797,369

NOTE 5 – 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, 2018 was 2.82%. Principal payments at August 31, 2018 are expected to be paid as follows:

2019	$ 296,723
2020	182,656
Total	$ 479,379

NOTE 6 – 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 7 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through March 20, 2019, 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.