DRAFT 06/15/23

Montrose Counseling Center
Permanent Endowment, Inc.

Financial Statements
and Independent Auditors' Report
for the years ended August 31, 2022 and 2021

Montrose Counseling Center Permanent Endowment, Inc.

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Independent Auditors' Report

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

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Montrose Counseling Center Permanent Endowment, Inc., which comprise the statements of financial position as of August 31, 2022 and 2021, and the related statements of activities, and of cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Montrose Counseling Center Permanent Endowment, Inc. as of August 31, 2022 and 2021, 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 Montrose Counseling Center Permanent Endowment, 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 Montrose Counseling Center Permanent Endowment, 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 Montrose Counseling Center Permanent Endowment, 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 Montrose Counseling Center Permanent Endowment, 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.

DATE OPEN PENDING MANAGEMENT REVIEW AND APPROVAL

Montrose Counseling Center Permanent Endowment, Inc.

Statements of Financial Position as of August 31, 2022 and 2021

	2022	2021
ASSETS		
Cash	$ 625,239	$ 519,366
Prepaid expenses	19,145	11,257
Investments *(Note 4)*	255,687	257,304
Property, net *(Note 5)*	4,267,586	4,396,221
TOTAL ASSETS	$ 5,167,657	$ 5,184,148
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued expenses	$ 18,961	$ 24,371
Due to Montrose Center	78,599	51,912
Security deposit from Montrose Center	94,508	94,508
Total liabilities	192,068	170,791
Net assets:		
Without donor restrictions	4,466,280	4,504,048
With donor restrictions *(Note 6)*	509,309	509,309
Total net assets	4,975,589	5,013,357
TOTAL LIABILITIES AND NET ASSETS	$ 5,167,657	$ 5,184,148

See accompanying notes to financial statements.

Montrose Counseling Center Permanent Endowment, Inc.

Statement of Activities for the year ended August 31, 2022

	WITHOUT DONOR RESTRICTIONS	WITH DONOR RESTRICTIONS	TOTAL
REVENUE:			
Rent income *(Note 3)*	$ 567,048		$ 567,048
Net investment return	(27,831)		(27,831)
Total revenue	539,217		539,217
EXPENSES:			
Program expenses – building costs:			
Depreciation	193,654		193,654
Insurance and other	176,096		176,096
Building maintenance contracts and repairs	136,031		136,031
Utilities	71,204		71,204
Total program expenses	576,985		576,985
CHANGES IN NET ASSETS	(37,768)		(37,768)
Net assets, beginning of year	4,504,048	$ 509,309	5,013,357
Net assets, end of year	$ 4,466,280	$ 509,309	$ 4,975,589

See accompanying notes to financial statements.

Montrose Counseling Center Permanent Endowment, Inc.

Statement of Activities for the year ended August 31, 2021

	WITHOUT DONOR RESTRICTIONS	WITH DONOR RESTRICTIONS	TOTAL
REVENUE:			
Rent income *(Note 3)*	$ 567,048		$ 567,048
Contributions	35		35
Net investment return	41,882		41,882
Total revenue	608,965		608,965
EXPENSES:			
Program expenses – building costs:			
Depreciation	192,309		192,309
Insurance and other	117,354		117,354
Building maintenance contracts and repairs	97,887		97,887
Utilities	65,742		65,742
Total program expenses	473,292		473,292
CHANGES IN NET ASSETS	135,673		135,673
Net assets, beginning of year	4,368,375	$ 509,309	4,877,684
Net assets, end of year	$ 4,504,048	$ 509,309	$ 5,013,357

See accompanying notes to financial statements.

Montrose Counseling Center Permanent Endowment, Inc.

Statements of Cash Flows for the years ended August 31, 2022 and 2021

	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in net assets	$ (37,768)	$ 135,673
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation	193,654	192,309
Net realized and unrealized (gain) loss on investments	39,555	(37,761)
Changes in operating assets and liabilities:		
Prepaid expenses	(7,888)	3,826
Accounts payable, accrued expenses and due to Montrose Center	21,277	13,502
Net cash provided by operating activities	208,830	307,549
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property	(65,019)	(84,626)
Net change in money market mutual funds	(26,471)	462
Proceeds from the sale of investments	26,804	79,350
Purchases of investments	(38,271)	(83,480)
Net cash used by investing activities	(102,957)	(88,294)
NET CHANGE IN CASH	105,873	219,255
Cash, beginning of year	519,366	300,111
Cash, end of year	$ 625,239	$ 519,366

See accompanying notes to financial statements.

Montrose Counseling Center Permanent Endowment, Inc.

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).

Cash concentration – Cash balances held at a financial institution exceed the federally insured limit per depositor.

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 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:

	2022	2021
Financial assets:		
Cash	$ 625,239	$ 519,366
Investments	255,687	257,304
Total financial assets	$ 880,926	$ 776,670

For purposes of analyzing resources available to meet general expenditures over a 12-month period, the Endowment considers all expenditures related to its building costs, 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.

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, 2030. In accordance with the original lease agreement, the Center pays the expenses for building personnel and supplies, accounting and other administrative building services. Effective January 1, 2021, the lease was amended to require the Endowment to pay annually to the Center 5% of the Executive Director and Operations Director's payroll costs and 50% of the IT and Property Maintenance Specialist's payroll costs. For the years ended August 31, 2022 and 2021, the Endowment paid the Center approximately $70,000 and $30,000, respectively, for these payroll costs.

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, 2022 are as follows:

	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Equity mutual funds:				
Large-cap value	$ 53,560			$ 53,560
Large-cap growth	47,069			47,069
Global allocation	18,794			18,794
Foreign large blend	14,572			14,572
Money market mutual funds	77,116			77,116
Bond mutual funds – intermediate-term	40,209			40,209
Equities	4,367			4,367
Total assets measured at fair value	$ 255,687	$ 0	$ 0	$ 255,687

Assets measured at fair value at August 31, 2021 are as follows:

	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Equity mutual funds:				
Large-cap value	$ 57,819			$ 57,819
Large-cap growth	61,436			61,436
Global allocation	20,888			20,888
Foreign large blend	19,994			19,994
Money market mutual funds	50,645			50,645
Bond mutual funds – intermediate-term	46,522			46,522
Total assets measured at fair value	$ 257,304	$ 0	$ 0	$ 257,304

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:

	2022	2021
Land	$ 2,431,904	$ 2,431,904
Building	3,450,972	3,450,972
Building improvements	1,102,086	1,076,748
Furniture and equipment	82,867	43,185
Total property, at cost	7,067,829	7,002,809
Accumulated depreciation	(2,800,243)	(2,606,588)
Property, net	$ 4,267,586	$ 4,396,221

NOTE 6 – NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are in perpetuity restrictions that are invested in the land and building, which were 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 7 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through DATE OPEN, 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.