

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

Financial Statements  
and Independent Auditors' Report  
for the years ended August 31, 2019 and 2018

# Montrose Counseling Center Permanent Endowment, Inc.

## Table of Contents

---

	Page
<b>Independent Auditors' Report</b>	1
<b>Financial Statements:</b>	
Statements of Financial Position as of August 31, 2019 and 2018	3
Statement of Activities for the year ended August 31, 2019	4
Statement of Activities for the year ended August 31, 2018	5
Statements of Cash Flows for the years ended August 31, 2019 and 2018	6
Notes to Financial Statements for the years ended August 31, 2019 and 2018	7

---

## 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, 2019 and 2018 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, 2019 and 2018 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.

### **Adoption of New Accounting Standard**

As discussed in Note 2 to the financial statements, Montrose Counseling Center Permanent Endowment, Inc. adopted the amendments of Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*, as of and for the year ended August 31, 2019. These amendments have been applied on a retrospective basis to the financial statements as of and for the year ended August 31, 2018, except that certain information has been omitted as permitted by the ASU. Our opinion is not modified with respect to this matter.

*Blazek & Vetterling*

December 21, 2019

## Montrose Counseling Center Permanent Endowment, Inc.

Statements of Financial Position as of August 31, 2019 and 2018

---

	<u>2019</u>	<u>2018</u>
ASSETS		
Cash	\$ 213,956	\$ 319,751
Prepaid expenses	12,546	9,307
Contributions receivable, net	3,065	4,367
Investments (Note 5)	147,250	212,706
Property, net (Note 6)	<u>4,663,172</u>	<u>4,721,032</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 5,039,989</u></b>	<b><u>\$ 5,267,163</u></b>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued expenses	\$ 17,766	\$ 44,067
Due to Montrose Center	1,561	59,808
Security deposit from Montrose Center	94,508	94,508
Note payable (Note 7)	<u>198,228</u>	<u>479,379</u>
Total liabilities	<u>312,063</u>	<u>677,762</u>
Net assets:		
Without donor restrictions	4,218,617	4,080,092
With donor restrictions (Note 8)	<u>509,309</u>	<u>509,309</u>
Total net assets	<u>4,727,926</u>	<u>4,589,401</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b><u>\$ 5,039,989</u></b>	<b><u>\$ 5,267,163</u></b>

*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 4</i> )	\$ 567,048		\$ 567,048
Contributions	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>          </u>	<u>12,398</u>
Total program expenses	<u>435,455</u>	<u>          </u>	<u>435,455</u>
CHANGES IN NET ASSETS	138,525	0	138,525
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.

Statement of Activities for the year ended August 31, 2018

---

	WITHOUT DONOR RESTRICTIONS	WITH DONOR RESTRICTIONS	TOTAL
REVENUE:			
Rent income ( <i>Note 4</i> )	\$ 567,048		\$ 567,048
Other income	543		543
Net investment return	<u>14,653</u>		<u>14,653</u>
Total revenue	<u>582,244</u>		<u>582,244</u>
EXPENSES:			
Program expenses – building costs:			
Depreciation	190,568		190,568
Building maintenance contracts and repairs	88,930		88,930
Insurance and other	65,727		65,727
Utilities	66,380		66,380
Interest expense	<u>18,896</u>		<u>18,896</u>
Total program expenses	<u>430,501</u>		<u>430,501</u>
CHANGES IN NET ASSETS	151,743		151,743
Net assets, beginning of year ( <i>Note 2</i> )	<u>3,928,349</u>	\$ <u>509,309</u>	<u>4,437,658</u>
Net assets, end of year	<u>\$ 4,080,092</u>	<u>\$ 509,309</u>	<u>\$ 4,589,401</u>

*See accompanying notes to financial statements.*

---

## Montrose Counseling Center Permanent Endowment, Inc.

### Statements of Cash Flows for the years ended August 31, 2019 and 2018

---

	<u>2019</u>	<u>2018</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Changes in net assets	\$ 138,525	\$ 151,743
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation	193,434	190,568
Net realized and unrealized loss (gain) on investments	11,288	(7,126)
Changes in operating assets and liabilities:		
Prepaid expenses	(3,239)	(482)
Contributions receivable		114,835
Accounts payable and accrued expenses	<u>(84,548)</u>	<u>85,213</u>
Net cash provided by operating activities	<u>255,460</u>	<u>534,751</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchases of property	(135,574)	(114,231)
Net change in money market mutual funds	69,682	(70,113)
Proceeds from the sale of investments	43,715	
Purchases of investments	<u>(59,229)</u>	<u>(1,170)</u>
Net cash used by investing activities	<u>(81,406)</u>	<u>(185,514)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Proceeds from contributions restricted for building debt repayment	1,302	3,953
Repayment of note payable	<u>(281,151)</u>	<u>(266,313)</u>
Net cash used by financing activities	<u>(279,849)</u>	<u>(262,360)</u>
NET CHANGE IN CASH	(105,795)	86,877
Cash, beginning of year	<u>319,751</u>	<u>232,874</u>
Cash, end of year	<u>\$ 213,956</u>	<u>\$ 319,751</u>
 <i>Supplemental disclosure of cash flow information:</i>		
Interest paid on note payable	\$12,398	\$18,896

*See accompanying notes to financial statements.*

---



## Montrose Counseling Center Permanent Endowment, Inc.

Notes to Financial Statements for the years ended August 31, 2019 and 2018

---

### 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. At August 31, 2019, all contributions receivable are due within one year.

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 as program services or supporting activities. 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. All expenses of the Endowment are program expenses.

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 pronouncement – In February 2016, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) 2016-02, *Leases (Topic 842)*. Under this ASU, a lessee should recognize in the statement of financial position a lease liability and a lease asset representing its right to use the underlying asset for the term of the lease for both finance and operating leases. An entity may make an accounting policy election not to recognize lease assets and lease liabilities for leases with a term of 12 months or less. Recognition, measurement, and presentation of expenses and cash flows arising from a lease by a lessee have not changed significantly. Qualitative and quantitative disclosures are required by lessees and lessors to enable users of financial statements to assess the amount, timing and uncertainty of cash flows arising from leases. The Endowment is required to adopt this ASU for fiscal year 2021. Management has not yet determined the impact adoption of this ASU will have on the financial statements.

## **NOTE 2 – ADOPTION OF ACCOUNTING STANDARDS UPDATE 2016-14**

The Endowment adopted the amendments of ASU 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*, as of and for the year ended August 31, 2019. These amendments have been applied on a retrospective basis to the financial statements for the year ended August 31, 2018, except that information regarding liquidity and availability of resources has been omitted as permitted by the ASU. Adoption of this ASU resulted in reclassification of previously reported activities and net assets to conform to the 2019 presentation but had no impact on total net assets or total changes in net assets for 2018.

## **NOTE 3 – 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, 2019 comprise the following:

Financial assets at August 31, 2019:

Cash	\$ 213,956
Contributions receivable, net	3,065
Investments	<u>147,250</u>

Total financial assets available for general expenditure \$ 364,271

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 the 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 4 – 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 5 – 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, 2019 are as follows:

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

Assets measured at fair value at August 31, 2018 are as follows:

	<u>LEVEL 1</u>	<u>LEVEL 2</u>	<u>LEVEL 3</u>	<u>TOTAL</u>
Equity mutual funds:				
Large growth	\$ 45,860			\$ 45,860
Large value	46,204			46,204
Global allocation	15,681			15,681
Foreign large blend	8,795			8,795
Bond mutual funds – intermediate-term	26,054			26,054
Money market mutual funds	<u>70,112</u>			<u>70,112</u>
Total assets measured at fair value	<u>\$ 212,706</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 212,706</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 6 – PROPERTY

Property consists of the following:

	<u>2019</u>	<u>2018</u>
Land	\$ 2,431,904	\$ 2,431,904
Building	3,450,972	3,450,972
Building improvements	964,641	829,067
Furniture and equipment	<u>39,683</u>	<u>39,683</u>
Total property, at cost	6,887,200	6,751,626
Accumulated depreciation	<u>(2,224,028)</u>	<u>(2,030,594)</u>
Property, net	<u>\$ 4,663,172</u>	<u>\$ 4,721,032</u>

## NOTE 7 – 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, 2019 was 3.47%. The remaining principal of \$198,228 is expected to be repaid in 2020.

## NOTE 8 – 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 9 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through December 21, 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.