Montrose Counseling Center
Permanent Endowment, Inc.

Financial Statements
and Independent Auditors' Report
for the years ended August 31, 2016 and 2015

Montrose Counseling Center Permanent Endowment, Inc.

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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, 2016 and 2015 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, 2016 and 2015 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 15, 2016

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Montrose Counseling Center Permanent Endowment, Inc.

Statements of Financial Position as of August 31, 2016 and 2015

	2016	2015
ASSETS		
Cash	$ 250,602	$ 277,253
Prepaid expenses	4,829	4,322
Accounts receivable	168,744	154,260
Pledges receivable, net *(Note 3)*	11,563	15,733
Investments *(Note 4)*	117,091	104,982
Property, net *(Note 5)*	4,815,919	4,912,353
TOTAL ASSETS	$ 5,368,748	$ 5,468,903
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued expenses	$ 16,888	$ 52,984
Security deposit from Montrose Center	101,436	101,436
Note payable *(Note 6)*	997,853	1,251,608
Total liabilities	1,116,177	1,406,028
Net assets:		
Unrestricted	3,743,262	3,553,566
Permanently restricted *(Note 7)*	509,309	509,309
Total net assets	4,252,571	4,062,875
TOTAL LIABILITIES AND NET ASSETS	$ 5,368,748	$ 5,468,903

See accompanying notes to financial statements.

Montrose Counseling Center Permanent Endowment, Inc.

Statement of Activities for the year ended August 31, 2016

	UNRESTRICTED	PERMANENTLY RESTRICTED	TOTAL
REVENUE:			
Rent income *(Note 2)*	$ 567,048		$ 567,048
Other income	22,450		22,450
Investment return, net *(Note 4)*	7,594		7,594
Total revenue	597,092		597,092
EXPENSES:			
Building costs:			
Depreciation	186,297		186,297
Building maintenance contracts and repairs	80,083		80,083
Utilities	56,534		56,534
Interest expense	25,840		25,840
Insurance and other	58,642		58,642
Total expenses	407,396		407,396
CHANGES IN NET ASSETS	189,696		189,696
Net assets, beginning of year	3,553,566	$ 509,309	4,062,875
Net assets, end of year	$ 3,743,262	$ 509,309	$ 4,252,571

See accompanying notes to financial statements.

Montrose Counseling Center Permanent Endowment, Inc.

Statement of Activities for the year ended August 31, 2015

	UNRESTRICTED	PERMANENTLY RESTRICTED	TOTAL
REVENUE:			
Rent income *(Note 2)*	$ 567,048		$ 567,048
Investment return, net *(Note 4)*	(1,805)		(1,805)
Total revenue	565,243		565,243
EXPENSES:			
Building costs:			
Depreciation	176,308		176,308
Building maintenance contracts and repairs	69,611		69,611
Utilities	67,361		67,361
Interest expense	29,754		29,754
Insurance and other	51,438		51,438
Total expenses	394,472		394,472
CHANGES IN NET ASSETS	170,771		170,771
Net assets, beginning of year	3,382,795	$ 509,309	3,892,104
Net assets, end of year	$ 3,553,566	$ 509,309	$ 4,062,875

See accompanying notes to financial statements.

Montrose Counseling Center Permanent Endowment, Inc.

Statements of Cash Flows for the years ended August 31, 2016 and 2015

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in net assets	$ 189,696	$ 170,771
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation	186,297	176,308
Net realized and unrealized (gain) loss on investments	(6,406)	3,148
Changes in operating assets and liabilities:		
Prepaid expenses	(507)	50,001
Accounts receivable	(14,484)	(154,260)
Accounts payable and accrued expenses	(36,096)	43,077
Net cash provided by operating activities	318,500	289,045
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property	(89,863)	(104,923)
Purchases of investments	(5,703)	(1,294)
Net cash used by investing activities	(95,566)	(106,217)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from contributions restricted for building debt repayment	4,170	13,604
Repayment of note payable	(253,755)	(226,347)
Net cash used by financing activities	(249,585)	(212,743)
NET CHANGE IN CASH	(26,651)	(29,915)
Cash, beginning of year	277,253	307,168
Cash, end of year	$ 250,602	$ 277,253

Supplemental disclosure of cash flow information:

Interest paid on note payable	$25,840	$29,754

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.

Investments are reported at fair value.

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.

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.

NOTE 3 – PLEDGES RECEIVABLE

Pledges receivable are as follows:

	2016	2015
Pledges receivable	$ 12,339	$ 16,509
Discount to net present value at 1% to 2%	(776)	(776)
Pledges receivable, net	$ 11,563	$ 15,733

Pledges receivable at August 31, 2016 are expected to be collected as follows:

2017	$ 9,104
2018 through 2020	3,235
Total	$ 12,339

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, 2016 are as follows:

	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Equity mutual funds:				
Large value	$ 32,583			$ 32,583
Large growth	32,391			32,391
Global allocation	13,855			13,855
Foreign large blend	7,314			7,314
Bond mutual funds – intermediate term	26,169			26,169
Large-cap equities	4,779			4,779
Total assets measured at fair value	$ 117,091	$ 0	$ 0	$ 117,091

Assets measured at fair value at August 31, 2015 are as follows:

	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Equity mutual funds:				
Large value	$ 29,873			$ 29,873
Large growth	30,190			30,190
Global allocation	12,361			12,361
Foreign large blend	7,313			7,313
Bond mutual funds – intermediate term	25,245			25,245
Total assets measured at fair value	$ 104,982	$ 0	$ 0	$ 104,982

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* are valued at the closing price reported on the active market on which the equities 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:

	2016	2015
Interest and dividends	$ 1,188	$ 1,343
Net realized and unrealized gain (loss) on investments	6,406	(3,148)
Investment return, net	$ 7,594	$ (1,805)

NOTE 5 – PROPERTY

Property consists of the following:

	2016	2015
Land	$ 2,431,904	$ 2,431,904
Building	3,450,972	3,450,972
Building improvements	547,832	462,741
Furniture and equipment	39,683	34,911
Total property, at cost	6,470,391	6,380,528
Accumulated depreciation	(1,654,472)	(1,468,175)
Property, net	$ 4,815,919	$ 4,912,353

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, 2016 was 2.339%. Principal payments at August 31, 2016 are expected to be paid as follows:

2017	$ 252,161
2018	266,313
2019	281,151
2020	198,228
Total	$ 997,853

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 15, 2016, 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.