Montrose Counseling Center
Permanent Endowment, Inc.

Financial Statements
and Independent Auditors' Report
for the years ended August 31, 2015 and 2014

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, 2015 and 2014 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, 2015 and 2014 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 17, 2015

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Montrose Counseling Center Permanent Endowment, Inc.

Statements of Financial Position as of August 31, 2015 and 2014

	2015	2014
ASSETS		
Cash	$ 277,253	$ 307,168
Prepaid expenses	4,322	54,323
Accounts receivable	154,260	
Pledges receivable, net *(Note 3)*	15,733	29,337
Investments *(Note 4)*	104,982	106,836
Property, net *(Note 5)*	4,912,353	4,983,738
TOTAL ASSETS	$ 5,468,903	$ 5,481,402
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued expenses	$ 52,984	$ 9,907
Security deposit from Montrose Center	101,436	101,436
Note payable *(Note 6)*	1,251,608	1,477,955
Total liabilities	1,406,028	1,589,298
Net assets:		
Unrestricted	3,553,566	3,382,795
Permanently restricted *(Note 7)*	509,309	509,309
Total net assets	4,062,875	3,892,104
TOTAL LIABILITIES AND NET ASSETS	$ 5,468,903	$ 5,481,402

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.

Statement of Activities for the year ended August 31, 2014

	UNRESTRICTED	PERMANENTLY RESTRICTED	TOTAL
REVENUE:			
Rent income *(Note 2)*	$ 567,048		$ 567,048
Investment return, net *(Note 4)*	16,984		16,984
Total revenue	584,032		584,032
EXPENSES:			
Building costs:			
Depreciation	172,534		172,534
Building maintenance contracts and repairs	61,514		61,514
Utilities	74,755		74,755
Interest expense	33,357		33,357
Insurance and other	46,911		46,911
Total expenses	389,071		389,071
CHANGES IN NET ASSETS	194,961		194,961
Net assets, beginning of year	3,187,834	$ 509,309	3,697,143
Net assets, end of year	$ 3,382,795	$ 509,309	$ 3,892,104

See accompanying notes to financial statements.

Montrose Counseling Center Permanent Endowment, Inc.

Statements of Cash Flows for the years ended August 31, 2015 and 2014

	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in net assets	$ 170,771	$ 194,961
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation	176,308	172,534
Net realized and unrealized (gain) loss on investments	3,148	(16,095)
Changes in operating assets and liabilities:		
Prepaid expenses	50,001	(50,915)
Accounts receivable	(154,260)	
Accounts payable and accrued expenses	43,077	(1,475)
Net cash provided by operating activities	289,045	299,010
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property	(104,923)	(48,009)
Purchases of investments	(1,294)	(888)
Net cash used by investing activities	(106,217)	(48,897)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from contributions restricted for building debt repayment	13,604	11,387
Repayment of note payable	(226,347)	(214,402)
Net cash used by financing activities	(212,743)	(203,015)
NET CHANGE IN CASH	(29,915)	47,098
Cash, beginning of year	307,168	260,070
Cash, end of year	$ 277,253	$ 307,168

Supplemental disclosure of cash flow information:

Interest paid on note payable	$29,754	$33,357

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). The Endowment files annual federal information returns that are subject to routine examination; however, there are no examinations for any tax periods currently in progress. The Endowment believes it is no longer subject to examinations of returns for tax years ended before August 31, 2012.

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 the expected future cash flows.

Investments are reported at fair value.

Property is reported at cost if purchased or 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:

	2015	2014
Pledges receivable	$ 16,509	$ 30,113
Discount to net present value at 1% to 2%	(776)	(776)
Pledges receivable, net	$ 15,733	$ 29,337

Pledges receivable at August 31, 2015 are expected to be collected as follows:

2016	$ 7,104
2017-2019	9,405
Total	$ 16,509

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, 2015 are as follows:

	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Equity mutual funds:				
Large growth	$ 30,190			$ 30,190
Large value	29,873			29,873
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

Assets measured at fair value at August 31, 2014 are as follows:

	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Equity mutual funds:				
Large growth	$ 30,050			$ 30,050
Large value	31,017			31,017
Global allocation	13,026			13,026
Foreign large blend	7,410			7,410
Bond mutual funds – intermediate term	25,287			25,287
Money market mutual funds	46			46
Total assets measured at fair value	$ 106,836	$ 0	$ 0	$ 106,836

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.

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

	2015	2014
Interest and dividends	$ 1,343	$ 889
Net realized and unrealized gain (loss) on investments	(3,148)	16,095
Investment return, net	$ (1,805)	$ 16,984

NOTE 5 – PROPERTY

Property consists of the following:

	2015	2014
Land	$ 2,431,904	$ 2,431,904
Building	3,450,972	3,450,972
Building improvements	462,741	370,181
Furniture and equipment	34,911	22,548
Total property, at cost	6,380,528	6,275,605
Accumulated depreciation	(1,468,175)	(1,291,867)
Property, net	$ 4,912,353	$ 4,983,738

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, 2015 was 2.132%. Principal payments at August 31, 2015 are expected to be paid as follows:

2016	$ 238,755
2017	252,161
2018	266,313
2019	281,151
2020	213,228
Total	$ 1,251,608

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 17, 2015, 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.