The Council on Recovery and Affiliates

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

The Council on Recovery and Affiliates

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Blazek & Vetterling
CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditors' Report

To the Board of Trustees of
The Council on Recovery:

We have audited the accompanying financial statements of The Council on Recovery and its affiliates, which comprise the consolidated statements of financial position as of August 31, 2015 and 2014 and the related consolidated statements of activities, of functional expenses, 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 did not audit the financial statements of Austin Recovery, Inc., a 100% controlled affiliate acquired effective January 1, 2013, which statements reflect total assets constituting approximately 38% of consolidated total assets and 45% of consolidated total revenue as of and for the year ended August 31, 2015 and 47% of consolidated total assets and 54% of consolidated total revenue as of and for the year ended August 31, 2014. Those statements were audited by other auditors, whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for Austin Recovery, Inc. is based solely on the reports of the other auditors. 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, based on our audits and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of The Council on Recovery and its affiliates as of August 31, 2015 and 2014 and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Blazek & Vetterling

April 26, 2016

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The Council on Recovery and Affiliates

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

	2015	2014
ASSETS		
Cash and cash equivalents *(Note 2)*	$ 3,123,439	$ 8,208,442
Accounts receivable:		
Clients, net	1,141,857	1,147,895
The Harris Center for Mental Health and IDD	204,242	378,180
Texas Department of State Health Services	118,346	130,182
Other	52,341	225,056
Prepaid expenses and other assets	252,557	377,163
Pledges receivable, net *(Note 3)*:		
United Way	167,729	232,296
Other	830,391	668,744
Property and equipment, net *(Note 4)*	15,530,870	14,725,330
Money market mutual funds to support speaker series	113,600	113,600
TOTAL ASSETS	$ 21,535,372	$ 26,206,888
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable	$ 604,793	$ 574,649
Accrued salaries and related expenses	319,058	413,975
Deferred revenue:		
Special events	331,000	117,000
Services and fees	67,483	62,780
Treatment facility self-pay deposits	326,964	192,696
Notes payable *(Note 5)*	191,399	236,240
Total liabilities	1,840,697	1,597,340
Net assets:		
Unrestricted	18,005,940	23,288,570
Temporarily restricted *(Note 6)*	1,575,135	1,207,378
Permanently restricted to support speaker series	113,600	113,600
Total net assets	19,694,675	24,609,548
TOTAL LIABILITIES AND NET ASSETS	$ 21,535,372	$ 26,206,888

See accompanying notes to consolidated financial statements.

The Council on Recovery and Affiliates

Consolidated Statement of Activities for the year ended August 31, 2015

	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL
REVENUE:				
Government grants and fees *(Note 7)*	$ 7,438,377			$ 7,438,377
Program service fees, net *(Note 8)*	3,327,243			3,327,243
Contributions:				
United Way		$ 503,190		503,190
Other	440,521	2,030,835		2,471,356
Special events	1,305,072			1,305,072
Cost of direct donor benefits	(142,268)			(142,268)
Contracted services	249,136			249,136
Other income	105,899			105,899
Total revenue	12,723,980	2,534,025		15,258,005
Net assets released from restrictions:				
Expenditures for program purposes	2,166,268	(2,166,268)		
Total	14,890,248	367,757		15,258,005
EXPENSES:				
Program services:				
Austin Recovery programs	9,861,115			9,861,115
Recovery services	5,048,494			5,048,494
Prevention and education	2,170,350			2,170,350
Total program services	17,079,959			17,079,959
Supporting services:				
Management and general	2,356,391			2,356,391
Fundraising	736,528			736,528
Total supporting services	3,092,919			3,092,919
Total expenses	20,172,878			20,172,878
CHANGES IN NET ASSETS	(5,282,630)	367,757		(4,914,873)
Net assets, beginning of year	23,288,570	1,207,378	$ 113,600	24,609,548
Net assets, end of year	$ 18,005,940	$ 1,575,135	$ 113,600	$ 19,694,675

See accompanying notes to consolidated financial statements.

The Council on Recovery and Affiliates

Consolidated Statement of Activities for the year ended August 31, 2014

	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL
REVENUE:				
Government grants and fees *(Note 7)*	$ 7,149,268			$ 7,149,268
Program service fees, net *(Note 8)*	5,951,866			5,951,866
Contributions:				
United Way		$ 576,889		576,889
Other	725,933	1,402,031		2,127,964
Special events	1,543,230			1,543,230
Cost of direct donor benefits	(151,585)			(151,585)
Contracted services	191,363			191,363
Other income	118,375			118,375
Total revenue	15,528,450	1,978,920		17,507,370
Net assets released from restrictions:				
Expenditures for program purposes	1,330,192	(1,330,192)		
Expenditures for capital purposes	1,157,185	(1,157,185)		
Total	18,015,827	(508,457)		17,507,370
EXPENSES:				
Program services:				
Austin Recovery programs	9,713,907			9,713,907
Recovery services	4,221,920			4,221,920
Prevention and education	2,002,070			2,002,070
Total program services	15,937,897			15,937,897
Supporting services:				
Management and general	3,538,653			3,538,653
Fundraising	889,685			889,685
Total supporting services	4,428,338			4,428,338
Total expenses	20,366,235			20,366,235
CHANGES IN NET ASSETS	(2,350,408)	(508,457)		(2,858,865)
Net assets, beginning of year	25,638,978	1,715,835	$ 113,600	27,468,413
Net assets, end of year	$ 23,288,570	$ 1,207,378	$ 113,600	$ 24,609,548

See accompanying notes to consolidated financial statements.

The Council on Recovery and Affiliates

Consolidated Statement of Functional Expenses for the year ended August 31, 2015

	PROGRAM SERVICES			SUPPORTING SERVICES		
	AUSTIN RECOVERY PROGRAMS	RECOVERY SERVICES	PREVENTION AND EDUCATION	MANAGEMENT AND GENERAL	FUNDRAISING	TOTAL
Salaries	$ 4,824,410	$ 3,377,368	$ 1,221,185	$ 1,486,233	$ 354,164	$11,263,360
Benefits and payroll taxes	1,175,489	837,127	320,626	230,463	51,479	2,615,184
Total salaries and related expenses	5,999,899	4,214,495	1,541,811	1,716,696	405,643	13,878,544
Occupancy	1,051,934	172,804	139,924	42,620	14,540	1,421,822
Professional fees	514,308	118,074	63,656	317,112	163,947	1,177,097
Client food service	945,890					945,890
Depreciation	332,794	106,302	109,404	27,634	9,247	585,381
Supplies	97,411	70,374	69,104	56,223	84,629	377,741
Travel and training	76,622	105,683	65,540	40,932	7,938	296,715
Client personal expenses	285,430			27		285,457
Software licensing and maintenance	111,732	59,452	29,925	30,269	10,932	242,310
Communications	132,790	48,781	26,816	20,731	4,617	233,735
Rental and maintenance	123,310	14,668	14,815	9,129	1,721	163,643
Insurance	42,924	30,183	11,483	18,924	1,301	104,815
Participant activities and incentives		36,482	62,504			98,986
Promotions and advertising	500	2,392	30,560	47,421	4,493	85,366
Bad debt expense	33,152	46,529				79,681
Vehicle expenses	64,787	159	201	7,719	69	72,935
Bank and credit card fees	30,664	14,321	1,728	2,142	15,323	64,178
Postage and shipping	2,706	1,070	378	2,036	11,657	17,847
Dues	7,032	2,761	1,421	3,542	344	15,100
Interest	290			7,680		7,970
Other	6,940	3,964	1,080	5,554	127	17,665
Total expenses	$ 9,861,115	$ 5,048,494	$ 2,170,350	$ 2,356,391	$ 736,528	20,172,878
Cost of direct donor benefits						142,268
Total						$20,315,146

See accompanying notes to consolidated financial statements.

The Council on Recovery and Affiliates

Consolidated Statement of Functional Expenses for the year ended August 31, 2014

	PROGRAM SERVICES			SUPPORTING SERVICES		
	AUSTIN RECOVERY PROGRAMS	RECOVERY SERVICES	PREVENTION AND EDUCATION	MANAGEMENT AND GENERAL	FUNDRAISING	TOTAL
Salaries	$ 4,736,923	$ 2,725,316	$ 1,112,856	$ 2,403,650	$ 402,617	$11,381,362
Benefits and payroll taxes	1,004,395	610,416	246,724	445,604	103,063	2,410,202
Total salaries and related expenses	5,741,318	3,335,732	1,359,580	2,849,254	505,680	13,791,564
Occupancy	921,220	183,077	113,774	124,452	17,171	1,359,694
Professional fees	481,566	101,573	41,224	122,250	154,047	900,660
Client food service	1,054,935					1,054,935
Depreciation	229,451	223,891	196,972	81,438	12,562	744,314
Supplies	72,390	79,792	65,679	47,029	67,254	332,144
Travel and training	63,083	75,749	48,641	28,303	8,028	223,804
Client personal expenses	347,732					347,732
Software licensing and maintenance	107,241	62,028	31,673	64,375	21,374	286,691
Communications	125,817	42,326	20,040	38,039	9,577	235,799
Rental and maintenance	221,056	11,203	8,818	61,002	10,119	312,198
Insurance	107,338	23,302	9,789	36,011	2,513	178,953
Participant activities and incentives		30,614	72,568			103,182
Promotions and advertising	33,039	3,182	30,167	49,116	45,049	160,553
Bad debt expense	34,535	29,354				63,889
Vehicle expenses	70,069			1,954	228	72,251
Bank and credit card fees	58,585	13,504	1,051	859	14,618	88,617
Postage and shipping	3,952	879	533	1,629	10,027	17,020
Dues		3,086	1,369	8,603	201	13,259
Interest	12,911			11,647	463	25,021
Other	27,669	2,628	192	12,692	10,774	53,955
Total expenses	$ 9,713,907	$ 4,221,920	$ 2,002,070	$ 3,538,653	$ 889,685	20,366,235
Cost of direct donor benefits						151,585
Total						$20,517,820

See accompanying notes to consolidated financial statements.

The Council on Recovery and Affiliates

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

	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in net assets	$ (4,914,873)	$ (2,858,865)
Adjustments to reconcile changes in net assets to net cash used by operating activities:		
Contributions restricted for capital improvements		(2,700)
Depreciation	585,381	744,314
Realized loss on disposal of property and equipment		54,606
Changes in operating assets and liabilities:		
Accounts receivable	364,527	(530,048)
Prepaid expenses and other assets	124,606	(107,140)
Pledges receivable	(97,080)	3,855
Accounts payable and accrued salaries and related expenses	(64,773)	(371,974)
Deferred revenue	218,703	(99,492)
Treatment facility self-pay deposits	134,268	43,311
Net cash used by operating activities	(3,649,241)	(3,124,133)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(1,390,921)	(1,848,777)
Proceeds from sale of property		10,987,624
Note receivable principal received		394,844
Net change in money market mutual funds restricted for capital improvements		652,420
Net cash provided (used) by investing activities	(1,390,921)	10,186,111
CASH FLOWS FROM FINANCING ACTIVITIES:		
Principal payments on notes payable	(44,841)	(707,945)
Proceeds from contributions restricted for capital improvements		34,165
Net cash used by financing activities	(44,841)	(673,780)
NET CHANGE IN CASH AND CASH EQUIVALENTS	(5,085,003)	6,388,198
Cash and cash equivalents, beginning of year	8,208,442	1,820,244
Cash and cash equivalents, end of year	$ 3,123,439	$ 8,208,442

See accompanying notes to consolidated financial statements.

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization – Houston Council on Alcoholism and Drug Abuse, Inc. conducts business as The Council on Recovery (The Council) (formerly known as The Council on Alcohol and Drugs Houston) and is a Texas nonprofit corporation formed to keep the community healthy, productive, and safe by providing services and information to all who may be adversely affected by alcohol and drugs. The Council's programs are operated primarily in the Greater Houston area.

The Foundation for The Council on Alcohol and Drug Abuse – Houston, Inc. (The Foundation), a financially-interrelated organization, is a nonprofit corporation founded in 1986 to support The Council in fulfilling its mission. The Board of Trustees of The Foundation is appointed by the Board of Trustees of The Council.

Austin Recovery, Inc. (Austin Recovery), is a Texas nonprofit corporation created in 1967. Austin Recovery's mission is to provide effective, affordable, and compassionate treatment for chemical dependency. Austin Recovery provides alcohol and drug treatment, assessment, medical detoxification, men's and women's residential programs, an outpatient program, a program for women with children, a family program, an aftercare and an alumni program. Austin Recovery's programs are operated primarily in and around Austin, Texas.

Effective January 1, 2013, The Council acquired Austin Recovery. The Board of Directors of Austin Recovery is appointed by the Board of Trustees of The Council.

Basis of consolidation – These financial statements include the assets, liabilities, net assets, and activities of The Council and its affiliates (collectively the Consolidated Entities). Balances and transactions between the Consolidated Entities have been eliminated in consolidation.

Program services – The combined services of The Council and Austin Recovery provide a broad array of prevention, education and recovery resources to the Houston and Austin communities. With both inpatient and outpatient services, the organizations provide a full continuum of care at affordable rates in a safe environment for people in both communities who are struggling with addiction.

Federal income tax status – The Consolidated Entities are exempt from federal income taxes under §501(c)(3) of the Internal Revenue Code. The Council and Austin Recovery are classified as public charities under §509(a)(1) and §170(b)(1)(A)(vi). The Foundation is classified as a Type I supporting organization under §509(a)(3).

Cash and cash equivalents include demand deposits and highly liquid investments with original maturities of three months or less, except that cash and cash equivalents restricted or designated for long-term purposes are reported separately. Non-negotiable certificates of deposit are reported at face value.

Client accounts receivable are uncollateralized client obligations from clients and third-party payors and are net of allowances for contractual adjustments and of uncollectible accounts of approximately $1,578,000 at August 31, 2015 and $717,000 at August 31, 2014. There is no policy to charge interest on past due accounts. In evaluating the collectability of client accounts receivable, management evaluates its past history and identifies trends for each of its major payor sources of revenue to estimate the appropriate allowance for uncollectible accounts and provision for uncollectible accounts. Client accounts receivable balances are written off against the allowance when management determines a receivable will not be collected. It is possible that management's estimate regarding the collectability of these balances will change in the near term resulting in a change in the carrying value of client accounts receivable.

Pledges receivable that are expected to be collected within one year are reported at net realizable value. Amounts expected to be collected in more than one year are discounted to estimate the present value of future cash flows. An allowance for uncollectible pledges is provided when it is believed balances may not be collected in full. Pledge balances are written off against the allowance when management determines a pledge will not be collected. The loss on pledges recognized each period and the resulting adequacy of the allowance at the end of each period are determined using a combination of historical loss experience and individual account-by-account analysis of pledge balances.

Property and equipment with a cost of more than $5,000 are reported at cost if purchased or at fair value at the date of gift if donated. Depreciation is provided on a straight-line basis over estimated useful lives of 20 to 40 years for buildings and improvements, 10 to 25 years for land improvements, 3 to 10 years for furniture and equipment, and 5 years for vehicles.

Asset impairment – Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable. An impairment loss is recognized in the amount in which the carrying value of the asset exceeds fair value, if the carrying value is not recoverable. There were no asset impairment losses recognized in 2015 or 2014.

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.
- *Temporarily restricted net assets* include contributions restricted by the donor for specific purposes or time periods. When a purpose restriction is accomplished or a time restriction ends, temporarily restricted net assets are released to unrestricted net assets.
- *Permanently restricted net assets* include contributions that donors have restricted in perpetuity. Permanently restricted net assets are invested to support The Waggoners Foundation Speaker Series.

Government grants and fees are recognized as the related services are provided.

Program service fees are recognized as revenue at the estimated net realizable amounts from clients, third-party payors and others when the services are provided. Amounts reimbursed for services rendered to clients covered under third-party payor programs are generally at amounts different than the established billing rates. Differences between the established rates and amounts reimbursed are recognized as contractual adjustments during the period in which the related services are provided. Fees are charged to clients on a sliding-scale basis. Differences between established rates and amounts charged to clients are recognized as sliding-scale fee adjustments in the period in which the related services are provided. Program service fees are presented net of contractual and sliding-scale fee adjustments of approximately $5,237,000 during 2015 and $4,130,000 during 2014.

Charity care – In accordance with the Consolidated Entities' mission to provide effective, compassionate, and affordable chemical dependency treatment to all those seeking recovery, care is provided to clients who are financially unable to pay for the treatment services they receive. All clients who present for services are assessed for ability to pay. Those with limited or no means to pay for treatment are matched to various public and private granting sources available to the Consolidated Entities. If a client does not fit criteria for an available funding source, charity care is provided to resolve the disparity between the funding amount and the cost of treatment. Management does not pursue collection of amounts determined to qualify as charity care and such amounts are not reported as revenue. The cost of providing charity care to clients was approximately $5.3 million during 2015 and $5 million during 2014.

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. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted revenue. Absent explicit donor stipulations about how long such assets must be maintained, expiration of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

Donated materials, services, and use of facilities are recognized at fair value as contributions when an unconditional commitment is received from the donor. The related expense is recognized as the item is used. Contributions of services are recognized when services received (a) create or enhance nonfinancial assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation.

Advertising costs are expensed as incurred.

Special events revenue is recognized when the event occurs. Amounts received but unearned are reported in the statement of financial position as deferred revenue. Cost of direct donor benefits represent the cost of goods and services provided to attendees of special events.

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, the amounts reported as revenue and expenses, and the allocation of expenses among various functions. Actual results could vary from the estimates that were used.

Reclassifications – Certain reclassifications have been made to the prior year financial statements to conform with the current presentation.

Recent financial accounting pronouncement – In May 2014, the Financial Accounting Standards Board 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 Council is required to, and plans to, adopt this ASU effective September 1, 2019 using an appropriate retrospective method. Management has not yet determined the impact adoption of this ASU will have on the financial statements.

NOTE 2 – CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of the following:

	2015	2014
Demand deposits	$ 1,360,397	$ 1,429,782
Non-negotiable certificates of deposit	1,246,000	6,260,210
Money market mutual funds	517,042	518,450
Total cash and cash equivalents	$ 3,123,439	$ 8,208,442

Demand deposits exceed the federally insured limit per depositor per institution.

NOTE 3 – PLEDGES RECEIVABLE

Pledges receivable consist of the following:

	2015	2014
Pledges receivable	$ 1,083,431	$ 982,415
Allowance for uncollectible pledges	(85,311)	(79,375)
Discount to net present value at 1% to 2%		(2,000)
Pledges receivable, net	$ 998,120	$ 901,040

Pledges receivable at August 31, 2015 are expected to be collected in 2016.

NOTE 4 – PROPERTY AND EQUIPMENT

Property and equipment consists of the following:

	2015	2014
Land	$ 2,383,859	$ 848,359
Land improvements		264,844
Buildings and improvements	18,342,787	18,303,445
Furniture and equipment	1,592,587	1,599,146
Vehicles	398,157	398,157
Construction in progress	130,001	130,001
Total property and equipment, at cost	22,847,391	21,543,952
Accumulated depreciation	(7,316,521)	(6,818,622)
Property and equipment, net	$ 15,530,870	$ 14,725,330

NOTE 5 – NOTES PAYABLE

During August 2013, The Council borrowed $279,763 from a bank to fund a pension plan termination liability. The liability arose from the termination of a multi-employer, cash balance defined benefit pension plan sponsored by the United Way of Greater Houston (United Way) in which The Council participated prior to its termination in 2013. The note bears interest at 3.5% and is payable in monthly installments of $4,375 of principal and interest through August 2019 when all outstanding principal and unpaid accrued interest is due. The note is subject to certain financial covenants, including a prohibition against additional debt (see Note 11). The note is guaranteed by United Way.

Principal payments at August 31, 2015 are due as follows:

2016	$ 46,732
2017	48,205
2018	49,920
2019	46,542
Total notes payable	$ 191,399

NOTE 6 – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes:

	2015	2014
30-day recovery program of Austin Recovery	$ 850,000	$ 418,500
Prevention and education programs of The Council	430,765	427,414
Recovery services of The Council	197,895	291,264
Parenting education support of Austin Recovery	50,000	50,000
Casa Marianella funding for Austin Recovery clients	23,187	
Mary Bell fellow position of Austin Recovery	20,000	20,000
Capital improvements of The Foundation		200
Other of Austin Recovery	3,288	
Total temporarily restricted net assets	$ 1,575,135	$ 1,207,378

NOTE 7 – GOVERNMENT GRANTS AND FEES

The Council and Austin Recovery are recipients of government contracts from federal, state, and local agencies. Should these contracts not be renewed, a replacement for this source of support may not be forthcoming and related expenses would not be incurred. Government grants and fees recognized are as follows:

	2015	2014
The Council:		
Texas Department of State Health Services	$ 2,778,777	$ 2,539,029
The Harris Center for Mental Health and IDD (formerly Mental Health and Mental Retardation Authority)	2,069,704	1,631,210
Harris County	254,989	248,486
Other	955	15,183
Austin Recovery:		
Texas Department of State Health Services	1,646,520	1,412,161
Austin Travis County Integral Care		1,135,478
Other	687,432	167,721
Total government grants and fees	$ 7,438,377	$ 7,149,268

Grants from federal, state, and local government funding sources require fulfillment of certain conditions as set forth in the grant contracts and are subject to review and audit by the awarding agencies. Such reviews and audits could result in the discovery of unallowable activities and unallowable costs. Consequently, any of the funding sources may, at their discretion, request reimbursement for expenses or return of funds as a result of non-compliance with the terms of the contracts. Management believes such disallowances, if any, would not be material to the Consolidated Entities' financial position or changes in net assets.

NOTE 8 – PROGRAM SERVICE FEES

Program service fees, net of contractual and sliding-scale fee adjustments, are as follows:

	2015	2014
Client and commercial insurance, net	$ 2,005,759	$ 2,854,115
Client self-pay, net	1,281,000	3,057,849
Other	40,484	39,902
Program service fees, net	$ 3,327,243	$ 5,951,866

NOTE 9 – EMPLOYEE RETIREMENT PLANS

The Council provides a §403(b) defined contribution retirement plan. Employees may elect to participate in the §403(b) plan at the time of hire or at the beginning of any subsequent calendar quarter, if eligible. The Council makes a matching contribution equal to 100% of the employee's contribution up to a maximum of 4% of compensation. Contributions to the §403(b) plan (exclusive of amounts contributed by Austin Recovery) totaled approximately $169,000 and $140,400 for the years ended August 31, 2015 and 2014, respectively.

Austin Recovery maintained a §401(k) pension and profit sharing plan which was terminated in April 2015. The Plan was held in trust in the form of participant-directed investments selected from a portfolio of managed mutual funds. Austin Recovery employees had to meet various eligibility requirements to participate in the plan. No employer contributions were made to the §401(k) plan during the years ended August 31, 2014 or 2015. Beginning January 2015, employees of Austin Recovery were eligible to participate in The Council's §403(b) plan with Austin Recovery making a matching contribution equal to 100% of the employee's contribution up to a maximum of 4% of compensation. Austin Recovery contributions to the §403(b) plan totaled approximately $53,000 for the year ended August 31, 2015.

NOTE 10 – LEASE COMMITMENTS

The Consolidated Entities lease facilities and office equipment under operating lease agreements. Rent expense recognized was approximately $456,000 in 2015 and $270,000 in 2014. Future minimum lease payments under noncancellable operating leases at August 31, 2015 are due as follows:

2016	$ 340,910
2017	257,318
2018	129,656
2019	126,647
2020	10,713
Total	$ 865,244

NOTE 11 – SUBSEQUENT EVENTS

In January 2016, the Board of Trustees authorized the separation of Austin Recovery from The Council, effective January 22, 2016, resulting in Austin Recovery, Inc. resuming use of its corporate name, establishing a separate Board of Trustees and adopting new bylaws. In connection with the separation, The Council and Austin Recovery have entered into a mutual release and indemnity agreement indemnifying each other against existing and future claims against the other. At August 31, 2015, Austin Recovery comprised $8.1 million of total assets, $1.1 million of total liabilities, and $7 million of total net assets. For the year ended August 31, 2015, Austin Recovery comprised $6.8 million of total revenue, $11.1 million of total expenses, and ($4.3 million) of changes in net assets.

In March 2016, The Council acquired a line of credit with a bank in the amount of $750,000. The note payable described in Note 5 included a prohibition against additional debt. The Council obtained a waiver from that bank allowing The Council to be obligated under the line of credit.

Management has evaluated subsequent events through April 26, 2016, which is the date that the financial statements were available for issuance. No other events were identified that are required to be disclosed or would have a material impact on reported net assets or changes in net assets. Subsequent events pertaining solely to Austin Recovery have not been disclosed in these financial statements as they have no ongoing impact on The Council.