The Council on Recovery
(Parent-Only)

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

The Council on Recovery (Parent-Only)

Table of Contents

Blazek & Vetterling

CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditors' Report

To the Board of Trustees of
The Council on Recovery:

Report on the Financial Statements

We have audited the accompanying parent-only financial statements of The Council on Recovery, which comprise the statements of financial position as of August 31, 2015 and 2014 and the related 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 conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. 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 parent-only financial statements referred to above present fairly, in all material respects, the parent-only financial position of The Council on Recovery 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.

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Report Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 26, 2016 on our consideration of The Council on Recovery's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering The Council on Recovery's internal control over financial reporting and compliance.

Blazek & Vetterling

April 26, 2016

The Council on Recovery (Parent-Only)

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

	2015	2014
ASSETS		
Cash	$ 899,872	$ 742,726
Accounts receivable:		
The Harris Center for Mental Health and IDD	204,242	378,180
Texas Department of State Health Services	118,346	93,036
Clients, net	108,410	90,874
Other government contracts	39,401	42,218
Other	12,940	13,467
Receivable from affiliates	132,367	76,292
Prepaid expenses and other assets	138,623	163,556
Pledges receivable, net *(Note 2)*	175,858	367,774
Property and equipment, net *(Note 3)*	54,117	56,768
TOTAL ASSETS	$ 1,884,176	$ 2,024,891
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable	$ 154,822	$ 159,033
Accrued expenses	29,965	60,612
Deferred revenue:		
Special events	331,000	117,000
Services and fees	67,483	62,780
Note payable *(Note 4)*	191,399	236,240
Total liabilities	774,669	635,665
Net assets:		
Unrestricted	480,847	670,548
Temporarily restricted *(Note 5)*	628,660	718,678
Total net assets	1,109,507	1,389,226
TOTAL LIABILITIES AND NET ASSETS	$ 1,884,176	$ 2,024,891

See accompanying notes to financial statements.

The Council on Recovery (Parent-Only)

Statement of Activities for the year ended August 31, 2015

	UNRESTRICTED	TEMPORARILY RESTRICTED	TOTAL
REVENUE:			
Government grants and fees *(Note 6)*	$ 5,104,425		$ 5,104,425
Contributions:			
United Way		$ 503,190	503,190
Grant from The Foundation	18,500		18,500
Donated use of facilities from The Foundation	223,105		223,105
Other	358,184	863,139	1,221,323
Special events	826,051		826,051
Cost of direct donor benefits at special events	(81,859)		(81,859)
Program service fees	753,572		753,572
Building rental	45,970		45,970
Other income	24,511		24,511
Total revenue	7,272,459	1,366,329	8,638,788
Net assets released from restrictions:			
Expenditures for program purposes	1,456,347	(1,456,347)	
Total	8,728,806	(90,018)	8,638,788
EXPENSES:			
Program services:			
Recovery services	5,048,494		5,048,494
Prevention and education	2,170,350		2,170,350
Total program services	7,218,844		7,218,844
Supporting services:			
Management and general	1,234,371		1,234,371
Fundraising	465,292		465,292
Total supporting services	1,699,663		1,699,663
Total expenses	8,918,507		8,918,507
CHANGES IN NET ASSETS	(189,701)	(90,018)	(279,719)
Net assets, beginning of year	670,548	718,678	1,389,226
Net assets, end of year	$ 480,847	$ 628,660	$ 1,109,507

See accompanying notes to financial statements.

The Council on Recovery (Parent-Only)

Statement of Activities for the year ended August 31, 2014

	UNRESTRICTED	TEMPORARILY RESTRICTED	TOTAL
REVENUE:			
Government grants and fees *(Note 6)*	$ 4,433,908		$ 4,433,908
Contributions:			
United Way		$ 516,889	516,889
Grants from The Foundation	16,988		16,988
Donated use of facilities from The Foundation	457,428		457,428
Other	561,237	889,331	1,450,568
Special events	1,040,367		1,040,367
Cost of direct donor benefits at special events	(93,834)		(93,834)
Program service fees	649,440		649,440
Building rental	59,928		59,928
Other income	71,352		71,352
Total revenue	7,196,814	1,406,220	8,603,034
Net assets released from restrictions:			
Expenditures for program purposes	1,330,192	(1,330,192)	
Total	8,527,006	76,028	8,603,034
EXPENSES:			
Program services:			
Recovery services	4,246,539		4,246,539
Prevention and education	2,011,388		2,011,388
Total program services	6,257,927		6,257,927
Supporting services:			
Management and general	1,486,155		1,486,155
Fundraising	491,831		491,831
Total supporting services	1,977,986		1,977,986
Total expenses	8,235,913		8,235,913
CHANGES IN NET ASSETS	291,093	76,028	367,121
Net assets, beginning of year	379,455	642,650	1,022,105
Net assets, end of year	$ 670,548	$ 718,678	$ 1,389,226

See accompanying notes to financial statements.

The Council on Recovery (Parent-Only)

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

	PROGRAM SERVICES		SUPPORTING SERVICES		
	RECOVERY SERVICES	PREVENTION AND EDUCATION	MANAGEMENT AND GENERAL	FUNDRAISING	TOTAL
Salaries	$ 3,377,368	$ 1,221,185	$ 785,841	$ 197,098	$ 5,581,492
Benefits and payroll taxes	837,127	320,626	122,482	33,472	1,313,707
Total salaries and related expenses	4,214,495	1,541,811	908,323	230,570	6,895,199
Occupancy	267,190	243,396	43,486	14,539	568,611
Professional fees	118,074	63,656	125,049	117,937	424,716
Supplies	70,374	69,104	45,084	59,338	243,900
Travel	87,609	49,566	16,209	4,514	157,898
Software licensing and maintenance	59,452	29,925	17,028	7,059	113,464
Participant activities and incentives	36,482	62,504			98,986
Communications	48,781	26,816	12,719	3,723	92,039
Promotions and advertising	2,392	30,560	22,657	3,643	59,252
Insurance	30,183	11,483	15,862	1,202	58,730
Bad debt expense	46,529				46,529
Training	18,074	15,974	1,435	164	35,647
Equipment rental and maintenance	14,668	14,815	1,997	646	32,126
Credit card processing fees	14,321	1,728		12,591	28,640
Depreciation	11,916	5,932	1,831	472	20,151
Postage and shipping	1,070	378	461	8,764	10,673
Interest			7,583		7,583
Vehicle	159	201	6,880	8	7,248
Dues and license fees	2,761	1,421	2,839	31	7,052
Other	3,964	1,080	4,928	91	10,063
Total expenses	$ 5,048,494	$ 2,170,350	$ 1,234,371	$ 465,292	8,918,507
Cost of direct donor benefits at special events					81,859
Total					$ 9,000,366

See accompanying notes to financial statements.

The Council on Recovery (Parent-Only)

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

	PROGRAM SERVICES		SUPPORTING SERVICES		
	RECOVERY SERVICES	PREVENTION AND EDUCATION	MANAGEMENT AND GENERAL	FUNDRAISING	TOTAL
Salaries	$ 2,725,316	$ 1,112,856	$ 950,572	$ 185,755	$ 4,974,499
Benefits and payroll taxes	610,416	246,724	198,607	40,463	1,096,210
Total salaries and related expenses	3,335,732	1,359,580	1,149,179	226,218	6,070,709
Occupancy	395,085	304,442	100,677	24,305	824,509
Professional fees	101,573	41,224	41,995	131,191	315,983
Supplies	79,792	65,679	33,109	57,329	235,909
Travel	60,932	33,805	11,037	6,333	112,107
Software licensing and maintenance	62,028	31,673	38,114	12,045	143,860
Participant activities and incentives	30,614	72,568			103,182
Communications	42,326	20,040	16,462	4,257	83,085
Promotions and advertising	3,182	30,167	11,633	209	45,191
Insurance	23,302	9,789	17,805	1,545	52,441
Bad debt expense	29,354				29,354
Training	14,817	14,836	6,967	143	36,763
Equipment rental and maintenance	11,203	8,818	19,533	573	40,127
Credit card processing fees	13,504	1,051		14,454	29,009
Depreciation	11,883	6,304	4,623	848	23,658
Postage and shipping	879	533	740	6,984	9,136
Interest			8,793		8,793
Dues and license fees	3,086	1,369	8,397	169	13,021
Grant to Austin Recovery	24,619	9,318	10,783	3,280	48,000
Other	2,628	192	6,308	1,948	11,076
Total expenses	$ 4,246,539	$ 2,011,388	$ 1,486,155	$ 491,831	8,235,913
Cost of direct donor benefits at special events					93,834
Total					$ 8,329,747

See accompanying notes to financial statements.

The Council on Recovery (Parent-Only)

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

	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in net assets	$ (279,719)	$ 367,121
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation	20,151	23,658
Loss on disposal of property and equipment		26,053
Changes in operating assets and liabilities:		
Accounts receivable and receivable from affiliates	78,361	(155,319)
Prepaid expenses and other assets	24,933	32,424
Pledges receivable	191,916	(45,639)
Accounts payable and accrued expenses	(34,858)	(84,837)
Deferred revenue	218,703	(99,492)
Net cash provided by operating activities	219,487	63,969
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(17,500)	(58,967)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Principal repayments of note payable	(44,841)	(43,523)
NET CHANGE IN CASH	157,146	(38,521)
Cash, beginning of year	742,726	781,247
Cash, end of year	$ 899,872	$ 742,726

See accompanying notes to 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.

Effective January 1, 2013, The Council acquired Austin Recovery, Inc. (Austin Recovery), a Texas nonprofit corporation created in 1967. The Board of Directors of Austin Recovery is appointed by the Board of Trustees of The Council. 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.

Basis of presentation – The consolidated financial statements of The Council and its affiliates, which are not presented here, are the general-purpose financial statements of The Council. These parent-only financial statements include only the assets, liabilities, net assets, and activities of The Council and are not a substitute for the consolidated financial statements. Balances and transactions between The Council and its affiliates have not been eliminated in these financial statements.

Program services – The Council provides services in 50 different locations in and around Houston, Texas through the following programs:

Recovery services: The specific services included are confidential screenings and diagnostic assessments; individual, family and group counseling; aftercare; intervention; psychoeducation; intensive outpatient treatment for adults; and case management services for individuals and families. Children's therapists also provide play therapy, parent coaching and Kids Camp at The Council – a 4-day prevention and support program. For teens who are experimenting with alcohol/drugs and other unsafe behaviors, we provide a "high-risk behavior class." The caregivers of these teens participate in a similar class that provides them with the same information their children receive, as well as parenting skills and support. Additionally, teens who have moved beyond experimentation and are diagnosed with a substance abuse disorder or are experiencing significant family, school and legal issues as a result of their behaviors, participate in individual, family and/or group therapy.

Case managers provide services to pregnant and parenting women in The Council offices, in client's homes and in various community sites including schools, shelters, clinics and multi-service centers. These services include intensive case management, parenting classes, crisis intervention, and substance abuse education. The goal is to enhance the women's and children's lives and keep families intact. Specifically, these services help women deliver healthy babies, develop positive parenting skills, and become and remain sober.

The Council also serves as the primary access point for state-funded, residential treatment services for alcohol and/or drug addiction. Counselors screen each client for substance use and financial eligibility, provide motivational interviewing and refer clients to the appropriate care. Other clinical services offered in the community are provided to clients of The Harris Center for Mental Health and IDD (formerly Mental Health and Mental Retardation Authority of Harris County) at their clinics. These services are therapeutic and specifically designed for people with serious mental illness who are abusing alcohol and/or other drugs.

Prevention and education: The goals of The Council's prevention and education programs are (a) to cultivate individual and community awareness about the dangerous effects and often fatal consequences of substance use and abuse; and (b) decrease risk factors and increase protective factors that have been shown to prevent substance abuse. The Council provides prevention services in elementary and middle schools, focusing on the development of life skills. Prevention specialists also facilitate an evidence-based peer support program for higher risk middle school students. For high school students, staff conduct a substance abuse and dropout prevention/intervention program. The elementary and middle school programs are also offered in the summer at camps in the Houston area. Drug Free Youth, another prevention/intervention program, also is provided to youth involved in the juvenile justice system. The Council also educates older adults and their care providers about the increased risk of alcohol and drug abuse due to the potential need for addictive pain medications and a lack of understanding of the effects of alcohol on people as they age.

Community education services include workshops and lectures for the public that address addiction issues, other compulsive behaviors, co-occurring mental health disorders, as well as the challenges and successful approaches to treatment and recovery. Additionally, The Council provides recovery support services, through specially designed meetings and events (educational, social, supportive) and by providing meeting space for a variety of 12-step and other support programs.

Federal income tax status – The Council is exempt from federal income tax under §501(c)(3) of the Internal Revenue Code and is classified as a public charity under §509(a)(1) and §170(b)(1)(A)(vi).

Cash – Bank deposits exceed the federally insured limit per depositor per institution.

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 $84,000 in 2015 and $37,000 in 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 3 to 10 years for furniture and equipment.

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.

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

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. Conditional contributions are recognized in the same manner when the conditions are substantially met.

Donated materials, use of facilities and services 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.

Special events revenue is recognized when the event occurs. Conditional contributions received for future events 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.

Program services 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 Medicare and other 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 in 2015 and 2014 net of contractual and sliding-scale fee adjustments of approximately $725,000 and $396,000, respectively.

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 – PLEDGES RECEIVABLE

Pledges receivable consist of the following:

	2015	2014
Pledges receivable from United Way	$ 167,729	$ 172,296
Pledges receivable from others	58,440	225,853
Total pledges receivable	226,169	398,149
Allowance for uncollectible accounts	(50,311)	(30,375)
Pledges receivable, net	$ 175,858	$ 367,774

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

NOTE 3 – PROPERTY AND EQUIPMENT

Property and equipment consists of the following:

	2015	2014
Furniture and equipment	$ 223,050	$ 207,941
Accumulated depreciation	(168,933)	(151,173)
Property and equipment, net	$ 54,117	$ 56,768

NOTE 4 – NOTE 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 8). 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 note payable	$ 191,399

NOTE 5 – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes:

	2015	2014
Prevention and education	$ 430,765	$ 427,414
Recovery services	197,895	291,264
Total temporarily restricted net assets	$ 628,660	$ 718,678

NOTE 6 – GOVERNMENT GRANTS AND FEES

The Council is the recipient 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
Texas Department of State Health Services	$ 2,778,777	$ 2,539,029
The Harris Center for Mental Health and IDD	2,069,704	1,631,210
Harris County, Texas	254,989	248,486
Other	955	15,183
Total government grants and fees	$ 5,104,425	$ 4,433,908

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 Council's financial position or changes in net assets.

NOTE 7 – EMPLOYEE BENEFIT PLAN

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 totaled approximately $169,000 and $140,400 for the years ended August 31, 2015 and 2014, respectively.

NOTE 8 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through April 26, 2016, which is the date that the financial statements were available for issuance. In January 2016, The Council and Austin Recovery initiated a plan for The Council to cede control of Austin Recovery to its Board of Directors. While deconsolidation of Austin Recovery will have a significant impact on The Council's consolidated financial statements, management does not expect deconsolidation to materially impact its parent-only financial statements. 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 4 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. 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.