

**The Council on Recovery and
The Foundation for The Council on Recovery**

Consolidated Financial Statements
and Independent Auditors' Report
for the years ended August 31, 2018 and 2017

The Council on Recovery and The Foundation for The Council on Recovery

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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 The Foundation for The Council on Recovery, which comprise the consolidated statements of financial position as of August 31, 2018 and 2017 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.

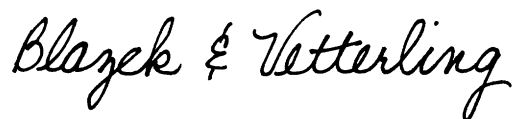
Management's Responsibility for the Financial Statements – Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance 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 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 consolidated financial position of The Council on Recovery and The Foundation for The Council on Recovery as of August 31, 2018 and 2017 and the changes in their net assets and their cash flows for the years ended in accordance with accounting principles generally accepted in the United States of America.



January 31, 2019

The Council on Recovery and The Foundation for The Council on Recovery

Consolidated Statements of Financial Position as of August 31, 2018 and 2017

| | <u>2018</u> | <u>2017</u> |
|---|-----------------------------|-----------------------------|
| ASSETS | | |
| Cash and cash equivalents (<i>Note 2</i>) | \$ 1,614,029 | \$ 1,254,184 |
| Government contracts receivable | 365,756 | 463,054 |
| Program service fees and other receivables, net | 73,749 | 111,593 |
| Prepaid expenses and other assets | 150,561 | 108,170 |
| Pledges receivable, net (<i>Note 3</i>) | 2,621,304 | 1,309,551 |
| Cash equivalents restricted to support speaker series (<i>Note 2</i>) | 113,600 | 113,600 |
| Property and equipment, net (<i>Note 4</i>) | <u>9,898,488</u> | <u>10,240,756</u> |
| TOTAL ASSETS | <u>\$ 14,837,487</u> | <u>\$ 13,600,908</u> |
| LIABILITIES AND NET ASSETS | | |
| Liabilities: | | |
| Accounts payable and accrued expenses | \$ 292,847 | \$ 242,099 |
| Deferred revenue: | | |
| Special events | 282,801 | 409,050 |
| Program service fees | 106,530 | 65,977 |
| Note payable (<i>Note 5</i>) | <u>47,002</u> | <u>96,871</u> |
| Total liabilities | <u>729,180</u> | <u>813,997</u> |
| Net assets: | | |
| Unrestricted | 10,809,787 | 11,125,296 |
| Temporarily restricted (<i>Note 6</i>) | 3,184,920 | 1,548,015 |
| Permanently restricted to support speaker series | <u>113,600</u> | <u>113,600</u> |
| Total net assets | <u>14,108,307</u> | <u>12,786,911</u> |
| TOTAL LIABILITIES AND NET ASSETS | <u>\$ 14,837,487</u> | <u>\$ 13,600,908</u> |

See accompanying notes to consolidated financial statements.

The Council on Recovery and The Foundation for The Council on Recovery

Consolidated Statement of Activities for the year ended August 31, 2018

| | <u>UNRESTRICTED</u> | <u>TEMPORARILY RESTRICTED</u> | <u>PERMANENTLY RESTRICTED</u> | <u>TOTAL</u> |
|---|----------------------|-----------------------------------|-----------------------------------|----------------------|
| REVENUE: | | | | |
| Government contracts and fees <i>(Note 7)</i> | \$ 4,432,172 | | | \$ 4,432,172 |
| Contributions: | | | | |
| United Way | | \$ 454,657 | | 454,657 |
| Other | 600,717 | 3,631,181 | | 4,231,898 |
| Special events | 1,078,013 | | | 1,078,013 |
| Cost of direct donor benefits at special events | (98,915) | | | (98,915) |
| Program service fees, net | 878,945 | | | 878,945 |
| Building rental | 140,828 | | | 140,828 |
| Other income | <u>73,588</u> | | | <u>73,588</u> |
| Total revenue | 7,105,348 | 4,085,838 | | 11,191,186 |
| Net assets released from restrictions: | | | | |
| Expenditures for program purposes | <u>2,448,933</u> | <u>(2,448,933)</u> | | |
| Total | <u>9,554,281</u> | <u>1,636,905</u> | | <u>11,191,186</u> |
| EXPENSES: | | | | |
| Program services: | | | | |
| Risk reduction services | 4,371,045 | | | 4,371,045 |
| Treatment and recovery services | <u>3,302,280</u> | | | <u>3,302,280</u> |
| Total program services | <u>7,673,325</u> | | | <u>7,673,325</u> |
| Supporting services: | | | | |
| Management and general | 1,495,198 | | | 1,495,198 |
| Fundraising | <u>701,267</u> | | | <u>701,267</u> |
| Total supporting services | <u>2,196,465</u> | | | <u>2,196,465</u> |
| Total expenses | <u>9,869,790</u> | | | <u>9,869,790</u> |
| CHANGES IN NET ASSETS | (315,509) | 1,636,905 | | 1,321,396 |
| Net assets, beginning of year | <u>11,125,296</u> | <u>1,548,015</u> | \$ 113,600 | <u>12,786,911</u> |
| Net assets, end of year | <u>\$ 10,809,787</u> | <u>\$ 3,184,920</u> | <u>\$ 113,600</u> | <u>\$ 14,108,307</u> |

See accompanying notes to consolidated financial statements.

The Council on Recovery and The Foundation for The Council on Recovery

Consolidated Statement of Activities for the year ended August 31, 2017

| | <u>UNRESTRICTED</u> | <u>TEMPORARILY RESTRICTED</u> | <u>PERMANENTLY RESTRICTED</u> | <u>TOTAL</u> |
|---|----------------------|-----------------------------------|-----------------------------------|----------------------|
| REVENUE: | | | | |
| Government grants and fees <i>(Note 7)</i> | \$ 4,982,701 | | | \$ 4,982,701 |
| Contributions: | | | | |
| United Way | | \$ 463,934 | | 463,934 |
| Other | 621,337 | 1,674,064 | | 2,295,401 |
| Special events | 936,551 | | | 936,551 |
| Cost of direct donor benefits at special events | (85,133) | | | (85,133) |
| Program service fees, net | 892,771 | | | 892,771 |
| Building rental | 127,069 | | | 127,069 |
| Other income | <u>24,116</u> | | | <u>24,116</u> |
| Total revenue | 7,499,412 | 2,137,998 | | 9,637,410 |
| Net assets released from restrictions: | | | | |
| Expenditures for program purposes | <u>1,775,638</u> | <u>(1,775,638)</u> | | |
| Total | <u>9,275,050</u> | <u>362,360</u> | | <u>9,637,410</u> |
| EXPENSES: | | | | |
| Program services: | | | | |
| Risk reduction services | 3,728,713 | | | 3,728,713 |
| Treatment and recovery services | <u>3,873,493</u> | | | <u>3,873,493</u> |
| Total program services | <u>7,602,206</u> | | | <u>7,602,206</u> |
| Supporting services: | | | | |
| Management and general | 1,431,061 | | | 1,431,061 |
| Fundraising | <u>614,764</u> | | | <u>614,764</u> |
| Total supporting services | <u>2,045,825</u> | | | <u>2,045,825</u> |
| Total expenses | <u>9,648,031</u> | | | <u>9,648,031</u> |
| CHANGES IN NET ASSETS | (372,981) | 362,360 | | (10,621) |
| Net assets, beginning of year | <u>11,498,277</u> | <u>1,185,655</u> | \$ 113,600 | <u>12,797,532</u> |
| Net assets, end of year | <u>\$ 11,125,296</u> | <u>\$ 1,548,015</u> | <u>\$ 113,600</u> | <u>\$ 12,786,911</u> |

See accompanying notes to consolidated financial statements.

The Council on Recovery and The Foundation for The Council on Recovery

Consolidated Statement of Functional Expenses for the year ended August 31, 2018

| | PROGRAM SERVICES | | SUPPORTING SERVICES | | <u>TOTAL</u> |
|---|--|--|-----------------------------------|--------------------|---------------------|
| | <u>RISK REDUCTION SERVICES</u> | <u>TREATMENT AND RECOVERY SERVICES</u> | <u>MANAGEMENT AND GENERAL</u> | <u>FUNDRAISING</u> | |
| Salaries | \$ 2,402,313 | \$ 2,149,995 | \$ 979,285 | \$ 356,309 | \$ 5,887,902 |
| Benefits and payroll taxes | <u>668,779</u> | <u>567,518</u> | <u>169,598</u> | <u>55,027</u> | <u>1,460,922</u> |
| Total salaries and related expenses | 3,071,092 | 2,717,513 | 1,148,883 | 411,336 | 7,348,824 |
| Professional fees | 432,051 | 77,767 | 167,706 | 180,290 | 857,814 |
| Depreciation | 230,891 | 106,919 | 23,521 | 7,558 | 368,889 |
| Occupancy | 211,220 | 112,151 | 34,314 | 9,638 | 367,323 |
| Supplies | 91,753 | 60,230 | 33,625 | 48,519 | 234,127 |
| Participant activities and incentives | 86,169 | 45,172 | | | 131,341 |
| Software licensing and maintenance | 38,011 | 26,511 | 23,698 | 13,292 | 101,512 |
| Communications | 44,699 | 35,298 | 13,069 | 3,938 | 97,004 |
| Travel | 54,684 | 23,330 | 6,707 | 1,937 | 86,658 |
| Insurance | 24,813 | 19,834 | 17,144 | 2,067 | 63,858 |
| Equipment rental and maintenance | 22,011 | 11,330 | 12,111 | 912 | 46,364 |
| Bad debt expense | | 39,126 | | | 39,126 |
| Training – conferences and workshops | 13,932 | 10,904 | 317 | 6,095 | 31,248 |
| Promotions and advertising | 19,344 | 2,000 | 2,952 | 727 | 25,023 |
| Credit card processing fees | 4,023 | 9,074 | 46 | 10,320 | 23,463 |
| Postage and shipping | 808 | 467 | 1,427 | 4,142 | 6,844 |
| Interest | 1,714 | 1,369 | 3,543 | 34 | 6,660 |
| Dues and license fees | 2,125 | 2,014 | 373 | 324 | 4,836 |
| Other | <u>21,705</u> | <u>1,271</u> | <u>5,762</u> | <u>138</u> | <u>28,876</u> |
| Total expenses | <u>\$ 4,371,045</u> | <u>\$ 3,302,280</u> | <u>\$ 1,495,198</u> | <u>\$ 701,267</u> | 9,869,790 |
| Cost of direct donor benefits at special events | | | | | <u>98,915</u> |
| Total | | | | | <u>\$ 9,968,705</u> |

See accompanying notes to consolidated financial statements.

The Council on Recovery and The Foundation for The Council on Recovery

Consolidated Statement of Functional Expenses for the year ended August 31, 2017

| | PROGRAM SERVICES | | SUPPORTING SERVICES | | TOTAL |
|---|-------------------------------|---------------------------------------|---------------------------|-------------------|---------------------|
| | RISK REDUCTION SERVICES | TREATMENT AND RECOVERY SERVICES | MANAGEMENT AND GENERAL | FUNDRAISING | |
| Salaries | \$ 2,122,606 | \$ 2,568,312 | \$ 952,926 | \$ 309,740 | \$ 5,953,584 |
| Benefits and payroll taxes | <u>538,491</u> | <u>659,775</u> | <u>139,351</u> | <u>41,433</u> | <u>1,379,050</u> |
| Total salaries and related expenses | 2,661,097 | 3,228,087 | 1,092,277 | 351,173 | 7,332,634 |
| Professional fees | 165,993 | 64,081 | 135,009 | 148,941 | 514,024 |
| Depreciation | 224,169 | 110,436 | 23,301 | 8,057 | 365,963 |
| Occupancy | 207,631 | 120,284 | 46,515 | 12,209 | 386,639 |
| Supplies | 112,206 | 50,797 | 39,363 | 59,547 | 261,913 |
| Participant activities and incentives | 68,034 | 13,785 | | | 81,819 |
| Software licensing and maintenance | 35,275 | 35,301 | 18,017 | 10,216 | 98,809 |
| Communications | 44,816 | 37,650 | 13,702 | 3,224 | 99,392 |
| Travel | 71,491 | 60,678 | 6,081 | 2,299 | 140,549 |
| Insurance | 22,105 | 22,727 | 17,181 | 1,766 | 63,779 |
| Equipment rental and maintenance | 23,730 | 12,191 | 11,989 | 1,089 | 48,999 |
| Bad debt expense | | 83,225 | | | 83,225 |
| Training – conferences and workshops | 21,315 | 9,236 | 2,076 | 208 | 32,835 |
| Promotions and advertising | 25,060 | 4,104 | 13,213 | 2,515 | 44,892 |
| Credit card processing fees | 4,634 | 12,735 | 25 | 8,999 | 26,393 |
| Postage and shipping | 744 | 1,522 | 281 | 4,215 | 6,762 |
| Interest | 1,559 | 538 | 5,360 | 45 | 7,502 |
| Dues and license fees | 4,394 | 4,563 | 1,006 | 124 | 10,087 |
| Other | <u>34,460</u> | <u>1,553</u> | <u>5,665</u> | <u>137</u> | <u>41,815</u> |
| Total expenses | <u>\$ 3,728,713</u> | <u>\$ 3,873,493</u> | <u>\$ 1,431,061</u> | <u>\$ 614,764</u> | 9,648,031 |
| Cost of direct donor benefits at special events | | | | | <u>85,133</u> |
| Total | | | | | <u>\$ 9,733,164</u> |

See accompanying notes to consolidated financial statements.

The Council on Recovery and The Foundation for The Council on Recovery

Consolidated Statements of Cash Flows for the years ended August 31, 2018 and 2017

| | <u>2018</u> | <u>2017</u> |
|---|---------------------|---------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Changes in net assets | \$ 1,321,396 | \$ (10,621) |
| Adjustments to reconcile changes in net assets to net cash provided (used) by operating activities: | | |
| Depreciation | 368,889 | 365,963 |
| Changes in operating assets and liabilities: | | |
| Receivables | 135,142 | (44,127) |
| Prepaid expenses and other assets | (42,391) | (4,759) |
| Pledges receivable | (1,311,753) | (597,887) |
| Accounts payable and accrued expenses | 50,748 | 83,344 |
| Deferred revenue | <u>(85,696)</u> | <u>9,476</u> |
| Net cash provided (used) by operating activities | <u>436,335</u> | <u>(198,611)</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Purchases of property and equipment | <u>(26,621)</u> | <u>(42,106)</u> |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Principal payments on note payable | <u>(49,869)</u> | <u>(48,086)</u> |
| NET CHANGE IN CASH AND CASH EQUIVALENTS | 359,845 | (288,803) |
| Cash and cash equivalents, beginning of year | <u>1,254,184</u> | <u>1,542,987</u> |
| Cash and cash equivalents, end of year | <u>\$ 1,614,029</u> | <u>\$ 1,254,184</u> |

See accompanying notes to consolidated financial statements.

The Council on Recovery and The Foundation for The Council on Recovery

Notes to Consolidated Financial Statements for the years ended August 31, 2018 and 2017

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization – The Council on Recovery (The Council) is a Texas nonprofit corporation located in Houston, Texas formed to keep the community healthy, productive, and safe by providing services and information to all who may be adversely affected by alcohol, drugs, and related issues. The Council's programs are operated primarily in the Greater Houston area.

The Foundation for The Council on Recovery (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.

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

Program services – The Council provides services in approximately 125 different locations in the greater Houston area through the following programs:

Risk reduction services: The Council provides education, counseling and case management services to children, adolescents, adults, older adults and professionals along the no-use, experimental use, occasional use and mild harmful use spectrum. The Council teaches prevention education classes, provides enrichment activities and facilitates evidence-based curriculums in local elementary, middle and high schools. The Council also offers mindful choices classes to adolescents and their parents to help reduce high risk behaviors and school dropout rates. Older adults and their care providers are educated 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 the body as they age and the potential risks of combining alcohol with prescribed medications. Pregnant and post-partum women receive education about the impact of substances on their unborn or newborn child, as well as parenting education that assists them in parenting a new baby who may have been substance exposed or is being raised in a home where someone uses substances. These women also receive case management services to assist them in locating resources and enrolling in essential services. Professionals are educated during workshops and lectures about addiction issues, other compulsive behaviors, co-occurring mental health disorders, as well as the challenges and successful approaches to treatment and recovery.

Treatment and recovery services: The Council provides screening and referral services to adolescents, adults and older adults along the harmful use, addiction and recovery continuum. The screening identifies the individual's level of care needed. When the individual needs residential treatment, referrals and linkages are made for the client to appropriate treatment programs. Individual, family and group therapy and/or Intensive Outpatient Treatment as well as aftercare services are offered to those who are returning from residential treatment or to those whose use does not need a residential level of care. Additionally, The Council provides recovery support through specially designed education, social and supportive meetings and events.

Federal income tax status – The Consolidated Entities are exempt from federal income tax under §501(c)(3) of the Internal Revenue Code. The Council is classified as a public charity 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 highly liquid financial instruments with original maturities of three months or less, except that cash and cash equivalents invested for long-term purposes are reported separately.

Program service fees 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 \$108,000 and \$78,000 at August 31, 2018 and 2017, respectively. 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, if material, 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 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 and 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.
- *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.

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.

During the year ended August 31, 2018, approximately 42% of contributions were from two donors.

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 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 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 net of contractual and sliding-scale fee adjustments of approximately \$730,000 and \$696,000 for the years ended August 31, 2018 and 2017, 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.

Recent financial accounting pronouncements – In May 2014, the Financial Accounting Standards Board (FASB) 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 adopt this ASU for fiscal year 2020 using an appropriate retrospective method. Management does not believe this ASU will have a significant impact on the financial statements.

In August 2016, the FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The amendments in this ASU are aimed at providing more useful information to users of not-for-profit financial statements. Under this ASU, net assets will be presented in two classes: *net assets with donor restrictions* and *net assets without donor restrictions* and underwater endowments will be grouped with *net assets with donor restrictions*. New or enhanced disclosures will be required about the nature and composition of net assets, and the liquidity and availability of resources for general operating expenditures within one year of the balance sheet date. Expenses will be required to be presented by both nature and function and investment return will be presented net of external and direct internal investment expenses. Absent explicit donor stipulations, restrictions on long-lived assets will expire when assets are placed in service. The Council is required to adopt this ASU for fiscal year 2019. Adoption of this ASU will impact the presentation and disclosures of the financial statements.

In June 2018, the FASB issued ASU 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The amendments in this ASU clarify and improve current guidance about whether a transfer of assets (or the reduction, settlement, or cancellation of liabilities) is a contribution or an exchange transaction and provides additional guidance on determining whether a contribution is conditional or unconditional. This ASU could impact the timing of revenue recognition and the financial statement disclosures related to such transactions. The Council is required to apply the amendments in its fiscal year 2020 financial statements. The amendments should be applied on a modified prospective basis, but retrospective application also is permitted. Management has not determined the eventual method of adoption of the ASU or the impact on the financial statements.

NOTE 2 – CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of the following:

| | <u>2018</u> | <u>2017</u> |
|--|---------------------|---------------------|
| Cash and cash equivalents: | | |
| Demand deposits | \$ 966,819 | \$ 765,352 |
| Money market mutual funds | <u>647,210</u> | <u>488,832</u> |
| Total | 1,614,029 | 1,254,184 |
| Cash equivalents restricted to support speaker series: | | |
| Money market mutual funds | <u>113,600</u> | <u>113,600</u> |
| Total cash and cash equivalents | <u>\$ 1,727,629</u> | <u>\$ 1,367,784</u> |

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

NOTE 3 – PLEDGES RECEIVABLE

Pledges receivable consist of the following:

| | <u>2018</u> | <u>2017</u> |
|---|---------------------|-----------------------------|
| United Way | \$ 150,521 | \$ 153,589 |
| Other programs | 939,429 | 1,213,673 |
| Campaign for sustainability | <u>1,646,840</u> | <u> </u> |
| Total pledges receivable | 2,736,790 | 1,367,262 |
| Allowance for uncollectible accounts | (47,486) | (51,711) |
| Discount to net present value at 1% to 2.8% | <u>(68,000)</u> | <u>(6,000)</u> |
| Pledges receivable, net | <u>\$ 2,621,304</u> | <u>\$ 1,309,551</u> |

Pledges receivable at August 31, 2018 are expected to be collected as follows:

| | |
|--------------------------|---------------------|
| 2019 | \$ 1,436,790 |
| 2020 | 500,000 |
| 2021 | 400,000 |
| 2022 | <u>400,000</u> |
| Total pledges receivable | <u>\$ 2,736,790</u> |

Concentration – At August 31, 2018, pledges from three donors comprised approximately 75% of pledges receivable. At August 31, 2017, pledges from four donors comprised approximately 82% of pledges receivable.

NOTE 4 – PROPERTY AND EQUIPMENT

Property and equipment consists of the following:

| | <u>2018</u> | <u>2017</u> |
|---------------------------------------|---------------------|----------------------|
| Land | \$ 728,359 | \$ 728,359 |
| Buildings and improvements | 13,291,501 | 13,283,375 |
| Furniture and equipment | <u>736,235</u> | <u>717,735</u> |
| Total property and equipment, at cost | 14,756,095 | 14,729,469 |
| Accumulated depreciation | <u>(4,857,607)</u> | <u>(4,488,713)</u> |
| Property and equipment, net | <u>\$ 9,898,488</u> | <u>\$ 10,240,756</u> |

NOTE 5 – 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. The note is guaranteed by United Way. At August 31, 2018, the note payable is expected to be paid within one year.

The Council has a \$750,000 line of credit with a bank that expires in March 2019. The note payable described above 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. At August 31, 2018, no balance was outstanding on this line of credit.

NOTE 6 – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes:

| | <u>2018</u> | <u>2017</u> |
|---|---------------------|---------------------|
| Campaign for sustainability | \$ 1,985,000 | |
| Risk reduction services | 605,270 | \$ 1,228,008 |
| Integrated Care Initiative | 250,000 | 119,307 |
| Post disaster recovery services | 223,135 | |
| Treatment and recovery services | 94,515 | 136,700 |
| Financial assistance | | 50,000 |
| Other | <u>27,000</u> | <u>14,000</u> |
| Total temporarily restricted net assets | <u>\$ 3,184,920</u> | <u>\$ 1,548,015</u> |

NOTE 7 – 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:

| | <u>2018</u> | <u>2017</u> |
|---|---------------------|---------------------|
| Texas Health and Human Services Commission | \$ 2,681,250 | \$ 2,358,843 |
| The Harris Center for Mental Health and IDD | 1,381,802 | 2,371,624 |
| Harris County, Texas | 261,883 | 205,247 |
| Other | <u>107,237</u> | <u>46,987</u> |
| Total government grants and fees | <u>\$ 4,432,172</u> | <u>\$ 4,982,701</u> |

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 8 – 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 \$138,000 and \$144,000 for the years ended August 31, 2018 and 2017, respectively.

NOTE 9 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through January 31, 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.