

**The Monarch School
(dba The Monarch Institute for
Neurological Differences)**

Financial Statements
and Independent Auditors' Report
for the years ended June 30, 2017 and 2016

Independent Auditors' Report

To the Board of Trustees of
The Monarch School:

We have audited the accompanying financial statements of The Monarch School (dba The Monarch Institute for Neurological Differences), which comprise the statements of financial position as of June 30, 2017 and 2016 and the related statements of activities and of cash flows for the years then ended, and the related notes to the financial statements.

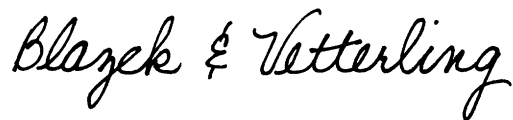
Management's Responsibility for the Financial Statements – Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility – Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform our audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion – In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Monarch School (dba The Monarch Institute for Neurological Differences) as of June 30, 2017 and 2016 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.



December 8, 2017

**The Monarch School
(dba The Monarch Institute for Neurological Differences)**

Statements of Financial Position as of June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
ASSETS		
Cash	\$ 663,554	\$ 1,003,830
Tuition and other receivables	67,978	81,629
Prepaid expenses and other assets	39,352	35,225
Pledges receivable, net (<i>Note 2</i>)	1,540,457	2,026,348
Cash designated or restricted for long-term purposes (<i>Note 3</i>)	313,427	320,739
Property, net (<i>Note 4</i>)	<u>13,868,215</u>	<u>14,238,835</u>
TOTAL ASSETS	<u>\$ 16,492,983</u>	<u>\$ 17,706,606</u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued expenses	\$ 89,321	\$ 430,170
Deferred tuition and fees	750,348	734,211
Notes payable (<i>Note 5</i>)	<u>1,790,000</u>	<u>2,265,000</u>
Total liabilities	<u>2,629,669</u>	<u>3,429,381</u>
Net assets:		
Unrestricted	13,736,842	14,025,805
Temporarily restricted (<i>Note 6</i>)	71,189	196,137
Permanently restricted	<u>55,283</u>	<u>55,283</u>
Total net assets	<u>13,863,314</u>	<u>14,277,225</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 16,492,983</u>	<u>\$ 17,706,606</u>

See accompanying notes to financial statements.

The Monarch School
(dba The Monarch Institute for Neurological Differences)

Statement of Activities for the year ended June 30, 2017

	<u>UNRESTRICTED</u>	TEMPORARILY <u>RESTRICTED</u>	PERMANENTLY <u>RESTRICTED</u>	<u>TOTAL</u>
REVENUE:				
Tuition and fees	\$ 5,303,401			\$ 5,303,401
Student financial aid	<u>(195,433)</u>			<u>(195,433)</u>
Net tuition and fees	5,107,968			5,107,968
Contributions	780,526	\$ 160,173		940,699
Other	<u>23,714</u>			<u>23,714</u>
Total revenue	5,912,208	160,173		6,072,381
Net assets released from restrictions:				
Expenditure for program activities	169,208	(169,208)		
Release of time restriction	<u>115,913</u>	<u>(115,913)</u>		
Total	<u>6,197,329</u>	<u>(124,948)</u>		<u>6,072,381</u>
EXPENSES:				
Program services:				
Instruction and student activities	4,784,786			4,784,786
Transition services program	<u>648,278</u>			<u>648,278</u>
Total program services	5,433,064			5,433,064
Management and general	882,162			882,162
Fundraising	<u>171,066</u>			<u>171,066</u>
Total expenses	<u>6,486,292</u>			<u>6,486,292</u>
CHANGES IN NET ASSETS	(288,963)	(124,948)		(413,911)
Net assets, beginning of year	<u>14,025,805</u>	<u>196,137</u>	\$ <u>55,283</u>	<u>14,277,225</u>
Net assets, end of year	<u>\$ 13,736,842</u>	<u>\$ 71,189</u>	<u>\$ 55,283</u>	<u>\$ 13,863,314</u>

See accompanying notes to financial statements.

**The Monarch School
(dba The Monarch Institute for Neurological Differences)**

Statement of Activities for the year ended June 30, 2016

	<u>UNRESTRICTED</u>	TEMPORARILY <u>RESTRICTED</u>	PERMANENTLY <u>RESTRICTED</u>	<u>TOTAL</u>
REVENUE:				
Tuition and fees	\$ 5,949,015			\$ 5,949,015
Student financial aid	<u>(177,530)</u>			<u>(177,530)</u>
Net tuition and fees	5,771,485			5,771,485
Contributions	539,544	\$ 135,495		675,039
Other	<u>38,045</u>			<u>38,045</u>
Total revenue	6,349,074	135,495		6,484,569
Net assets released from restrictions:				
Expenditure for program activities	118,895	(118,895)		
Release of time restriction	<u>341,390</u>	<u>(341,390)</u>		
Total	<u>6,809,359</u>	<u>(324,790)</u>		<u>6,484,569</u>
EXPENSES:				
Program services:				
Instruction and student activities	5,829,314			5,829,314
Transition services program	<u>584,213</u>			<u>584,213</u>
Total program services	6,413,527			6,413,527
Management and general	816,162			816,162
Fundraising	<u>161,125</u>			<u>161,125</u>
Total expenses	<u>7,390,814</u>			<u>7,390,814</u>
CHANGES IN NET ASSETS	(581,455)	(324,790)		(906,245)
Net assets, beginning of year	<u>14,607,260</u>	<u>520,927</u>	\$ <u>55,283</u>	<u>15,183,470</u>
Net assets, end of year	<u>\$ 14,025,805</u>	<u>\$ 196,137</u>	<u>\$ 55,283</u>	<u>\$ 14,277,225</u>

See accompanying notes to financial statements.

The Monarch School
(dba The Monarch Institute for Neurological Differences)

Statements of Cash Flows for the years ended June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in net assets	\$ (413,911)	\$ (906,245)
Adjustments to reconcile changes in net assets to net cash provided (used) by operating activities:		
Depreciation	378,198	439,583
Changes in operating assets and liabilities:		
Tuition and other receivables	13,651	(2,895)
Prepaid expenses and other assets	(4,127)	(9,582)
Pledges receivable	485,891	625,019
Accounts payable and accrued expenses	(340,849)	202,667
Deferred tuition and fees	<u>16,137</u>	<u>(370,244)</u>
Net cash provided (used) by operating activities	<u>134,990</u>	<u>(21,697)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Change in cash designated or restricted for long-term purposes	7,312	(210)
Payments for purchases of property	<u>(7,578)</u>	<u> </u>
Net cash used by investing activities	<u>(266)</u>	<u>(210)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Principal repayments on notes payable	<u>(475,000)</u>	<u>(375,000)</u>
NET CHANGE IN CASH	(340,276)	(396,907)
Cash, beginning of year	<u>1,003,830</u>	<u>1,400,737</u>
Cash, end of year	<u>\$ 663,554</u>	<u>\$ 1,003,830</u>
<i>Supplemental disclosure of cash flow information:</i>		
Interest paid	\$87,204	\$91,829

See accompanying notes to financial statements.

The Monarch School (dba The Monarch Institute for Neurological Differences)

Notes to Financial Statements for the years ended June 30, 2017 and 2016

NOTE 1 – ORGANIZATION AND SUMMARY OF ACCOUNTING POLICIES

Organization – The Monarch School dba The Monarch Institute for Neurological Differences (the Monarch Institute), a Texas not-for-profit corporation located in Houston, Texas, is dedicated to providing an innovative, therapeutic education for individuals with neurological differences. In order to provide life-changing opportunities for individuals with neurological differences, the Monarch Institute offers a comprehensive range of services that drive dramatic emotional, social, and academic development from ages pre-kindergarten to post high school, including:

- *The Monarch School*, where learning is customized for each learner in a low faculty-student ratio setting, focusing student practice on individual developmental growth objectives within four core goal areas, comprising self-regulation and self-awareness, executive functions, relationship development, and academic and professional competence.
- *The Monarch Diagnostic Clinic* provides psychological and educational assessments for clients of all ages.
- *Monarch Therapy Services* provides transformational DIR[®], speech, occupational and neurologic music therapy to the community.
- *Monarch Training Center* shares the Monarch Institute’s philosophy and methodology with parents, educators, and mental health professionals.
- *Monarch Replication* trains teams of professionals to establish schools and other programs, based on the Monarch Institute’s model, throughout the world.
- *Monarch Transition Services* provides transitional residential and college, intern and career opportunities for graduates and other young adults in the community.

During the 2016-2017 school year, the Monarch Institute had approximately 127 students enrolled, including approximately 20 students also enrolled in the Monarch Transition Services residential program.

Federal income tax status – The Monarch Institute 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)(ii).

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

Allowance for uncollectible accounts – An allowance for tuition receivable or pledges receivable is provided when it is believed accounts may not be collected in full. The amount of bad debt expense or 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 analysis of individual balances each period. It is possible that management’s estimates regarding the collectability of the balances will change in the near term resulting in a change in the carrying value of these receivables.

Pledges receivable that are expected to be collected within one year are reported at net realizable value. Amounts expected to be collected in future years are discounted, if material, to estimate the present value of future cash flows. Discounts are computed using risk-free interest rates applicable to the years in which the promises are received. Amortization of discounts is included in contribution revenue.

Cash designated for PPRRSM – The Monarch Institute maintains a separate cash account for its internally designated Provision for Plant Replacement, Renewal, and Special Maintenance (PPRRSM). Additions to and uses of these funds are at the discretion of the Monarch Institute’s Board of Trustees.

Property is reported at cost if purchased or at fair value at the date of gift if donated. The Monarch Institute capitalizes all property and equipment in excess of \$5,000. Depreciation is computed on a straight-line basis over estimated useful lives of 5 years for furniture and equipment, 8 years for school buses, vans and automobiles and 20 to 50 years for buildings – leasehold improvements.

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* are non-expendable endowment funds that have been restricted by the donor to investment in perpetuity. The investment return may be used to support the activities of the Monarch Institute.

Tuition and fees are recognized in the period in which the services are provided. Amounts received in advance are reported as deferred tuition and fees until earned.

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 revenue. Conditional promises to give are included in contribution revenue when the conditions are substantially met. 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 classified as restricted revenue. Absent explicit donor stipulations about how long such assets must be maintained, the Monarch Institute reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

In-kind contributions – Donated assets and materials 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.

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

Recent financial accounting pronouncement – In August 2016, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The amendments in this ASU are the first phase of

changes 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*. 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. The ASU is effective for fiscal periods beginning after December 15, 2017, but early adoption is permitted. Adoption of this ASU will impact the presentation and disclosures of the financial statements.

NOTE 2 – PLEDGES RECEIVABLE

During the year ended June 30, 2014, the Monarch Institute completed a \$11.5 million capital campaign to construct new buildings: the Monarch Training Center; the Life Academy; the Diagnostic Clinic and Administrative Offices; The Butterfly Building, a new classroom building; and the Living Building Challenge Studio. Through June 30, 2017, cumulative contributions recognized from the campaign excluding pledge allowances and discount totaled approximately \$11 million.

Pledges receivable consist of the following:

	<u>2017</u>	<u>2016</u>
Capital campaign	\$ 1,537,750	\$ 1,919,000
Miracle Makers Morning	31,117	171,805
Other	<u> </u>	<u>75,000</u>
Total pledges receivable	1,568,867	2,165,805
Allowance for uncollectible pledges	(18,928)	(126,800)
Discount to net present value at 0.22% to 0.51%	<u>(9,482)</u>	<u>(12,657)</u>
Pledges receivable, net	<u>\$ 1,540,457</u>	<u>\$ 2,026,348</u>

Pledges receivable at June 30, 2017 are expected to be collected as follows:

Within one year	\$ 348,150
In one to five years	<u>1,220,717</u>
Total pledges receivable	<u>\$ 1,568,867</u>

Concentration – At June 30, 2017, a pledge from one foundation comprised 98% of total capital campaign pledges.

NOTE 3 – CASH DESIGNATED OR RESTRICTED FOR LONG-TERM PURPOSES

Cash whose use has been designated or restricted for long-term purposes consists of the following:

	<u>2017</u>	<u>2016</u>
Board-designated for PPRRSM	\$ 258,144	\$ 265,456
Donor-restricted for endowment	<u>55,283</u>	<u>55,283</u>
Total	<u>\$ 313,427</u>	<u>\$ 320,739</u>

NOTE 4 – PROPERTY

Property is comprised of the following:

	<u>2017</u>	<u>2016</u>
Buildings – leasehold improvements	\$ 15,676,952	\$ 15,669,374
Furniture and equipment	388,250	388,250
School buses, vans and automobiles	<u>148,006</u>	<u>148,006</u>
Total property, at cost	16,213,208	16,205,630
Accumulated depreciation	<u>(2,344,993)</u>	<u>(1,966,795)</u>
Property, net	<u>\$ 13,868,215</u>	<u>\$ 14,238,835</u>

The Monarch Institute entered into a 40-year ground lease agreement with renewal options for an additional 50 years. Under the terms of the lease, the Monarch Institute is required to pay a de minimus annual rental payment plus property taxes.

NOTE 5 – NOTES PAYABLE

During February 2017, the Monarch Institute renewed the construction loan used to finance the expansion of the facilities. The balance refinanced was \$1,790,000. The note payable bears interest at 4.75% and requires monthly payments of interest only. The loan agreement requires that the outstanding principal balance be reduced to \$1,490,000 before April 3, 2018, to \$1,190,000 before April 3, 2019, to \$890,000 before April 3, 2020, to \$437,000 before April 3, 2021, with the remaining principal balance outstanding due at maturity on April 3, 2022. The note is secured by a lien on the lease and all leasehold improvements.

The loan agreement requires, among other things, that the Monarch Institute deposit all amounts collected from pledge payments into a designated account held by the bank and that these funds be used solely for the payment of amounts related to the expansion project. Additionally, the terms of the loan prohibit the Monarch Institute from entering into any additional debt agreements. The note is secured by the proceeds from the capital campaign and all capital improvements. At June 30, 2017, cash balances held in the designated account were \$114,847.

Additionally, the Monarch Institute maintains a working capital line of credit with available borrowings of \$250,000. There were no outstanding borrowings associated with this line of credit as of June 30, 2017.

The Monarch Institute recognized interest expense of approximately \$87,000 in 2017 and \$92,000 in 2016.

NOTE 6 – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes:

	<u>2017</u>	<u>2016</u>
For use in future operations	\$ 31,117	\$ 145,530
Academics	13,715	
Other	<u>26,357</u>	<u>50,607</u>
Total temporarily restricted net assets	<u>\$ 71,189</u>	<u>\$ 196,137</u>

NOTE 7 – EMPLOYEE RETIREMENT PLAN

The Monarch Institute maintains a §403(b) retirement plan for full-time employees. Upon completion of one year of service, the Monarch Institute contributes 3% of each eligible employee's annual salary and matches up to an additional 3% of salary that employees contribute towards the plan, up to \$6,000 per employee. Contributions to the plan were approximately \$127,000 in 2017 and \$154,000 in 2016.

NOTE 8 – RELATED PARTY TRANSACTIONS

The Monarch Institute leases housing units for the transition services program on a month-to-month basis from limited liability companies, the principal member of which is a board member. Rent expense for the leases totaled approximately \$58,000 in 2017 and \$64,000 in 2016.

NOTE 9 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through December 8, 2017, 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.
