MISSION ROAD DEVELOPMENTAL CENTER

FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2018

MISSION ROAD DEVELOPMENTAL CENTER

FINANCIAL STATEMENTS

Year Ended June 30, 2018

Table of Contents

Page No.

Independent auditor's report 1

Financial statements

Statement of financial position 2
Statement of activities 3
Statement of functional expenses 4
Statement of cash flows 5
Notes to financial statements 6

SAGEBIEL RAVENBURG & SCHUH, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditor's Report

To the Board of Directors
Mission Road Developmental Center
San Antonio, Texas

We have audited the accompanying financial statements of Mission Road Developmental Center (a nonprofit organization), which comprise the statements of financial position as of June 30, 2018 and 2017, and the related statements of activities and functional expenses for the year ended June 30, 2018, and cash flows for the years ended June 30, 2018 and 2017, 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.

Auditor's 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 the audit 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 auditor's 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 Mission Road Developmental Center as of June 30, 2018 and 2017, the changes in its net assets and functional expenses for the year ended June 30, 2018, and its cash flows for the years ended June 30, 2018 and 2017, in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 17 to the financial statements, as of July 1, 2018, Unicorn Centers. Inc. merged its operations into Mission Road Developmental Center. Our opinion is not modified with respect to that matter.

Report on Summarized Comparative Information

We have previously audited Mission Road Developmental Center's 2017 financial statements, and our report dated November 7, 2017, expressed an unmodified opinion on those financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2017, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Sagebiel, Ravenburg & Schuh, P.C.

San Antonio, Texas
November 6, 2018

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MISSION ROAD DEVELOPMENTAL CENTER

STATEMENT OF FINANCIAL POSITION

June 30, 2018 and 2017

ASSETS	2018	2017
Current assets:		
Cash and cash equivalents	$ 2,002,073	$ 1,775,656
Restricted cash - client trust funds	145,407	145,333
Accounts receivable:		
Program tuition and expense reimbursements, net	952,411	907,096
Affiliate	15,236	16,302
Other	2,624	1,100
Unconditional promises to give, net	252,500	1,500
Prepaid expenses and other assets	19,508	20,211
Total current assets	3,389,759	2,867,198
Investments	4,289,071	2,177,846
Property and equipment, net	10,537,131	10,354,901
Total assets	$ 18,215,961	$ 15,399,945

LIABILITIES AND NET ASSETS	2018	2017
Current liabilities:		
Accounts payable:		
Trade	$ 395,374	$ 291,742
Affiliate	32,662	92,598
Accrued retirement plan contribution	58,440	54,919
Accrued salary and related expenses	375,474	334,292
Client trust funds	145,407	145,333
Other current liabilities	13,015	356,013
Total current liabilities	1,020,372	1,274,897
Net assets:		
Unrestricted - operations	6,003,913	3,570,625
Unrestricted - property and equipment	10,448,737	10,266,507
	16,452,650	13,837,132
Temporarily restricted	654,545	199,522
Permanently restricted	88,394	88,394
Total net assets	17,195,589	14,125,048
Total liabilities and net assets	$ 18,215,961	$ 15,399,945

The accompanying notes are an integral part
of the financial statements.

MISSION ROAD DEVELOPMENTAL CENTER

STATEMENT OF ACTIVITIES

Year Ended June 30, 2018

(With Comparative Totals For Year Ended June 30, 2017)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2018	Total 2017
Support and revenue:					
Contributions:					
Individuals	$ 26,639	$ 2,026	$ -	$ 28,665	$ 29,218
Corporations	25,346	34,630	-	59,976	27,880
Foundations	389,970	600,514	-	990,484	942,373
Affiliates	454,321	120,000	-	574,321	397,770
United Way allocation	695,189	-	-	695,189	696,520
Allocations from MRM Shindig	-	181,025	-	181,025	220,625
Governmental support:					
Nutrition program	31,998	-	-	31,998	31,433
Program service fees and tuition	10,881,876	-	-	10,881,876	10,706,064
Private program services fees and tuition	1,768,822	-	-	1,768,822	1,614,218
Investment income, net of fees	72,736	-	-	72,736	49,816
Realized losses on investments, net	(16)	-	-	(16)	(11,150)
Gains (losses) on disposal of property and equipment	376,127	-	-	376,127	(8,415)
In-kind contribution of property and equipment	-	-	-	-	172,039
Miscellaneous	37,784	-	-	37,784	39,149
Related agency revenue - affiliate	110,930	-	-	110,930	113,380
	14,871,722	938,195	-	15,809,917	15,020,920
Net assets released from restrictions	483,172	(483,172)	-	-	-
Total support and revenue	15,354,894	455,023	-	15,809,917	15,020,920
Expenses:					
Program services:					
Habilitation and care	13,794,215	-	-	13,794,215	13,564,214
Supporting services:					
Administrative and general	845,971	-	-	845,971	975,000
Fundraising	138,444	-	-	138,444	78,309
Total expenses	14,778,630	-	-	14,778,630	14,617,523
Change in net assets before unrealized gains (losses) and transfers from affiliates	576,264	455,023	-	1,031,287	403,397
Unrealized gains (losses) on investments	39,254	-	-	39,254	177,468
Transfer from affiliate	2,000,000	-	-	2,000,000	-
Change in net assets	2,615,518	455,023	-	3,070,541	580,865
Net assets at beginning of year	13,837,132	199,522	88,394	14,125,048	13,544,183
Net assets at end of year	$ 16,452,650	$ 654,545	$ 88,394	$ 17,195,589	$ 14,125,048

The accompanying notes are an integral part of the financial statements.

MISSION ROAD DEVELOPMENTAL CENTER

STATEMENT OF FUNCTIONAL EXPENSES

Year Ended June 30, 2018

(With Comparative Totals For Year Ended June 30, 2017)

	Program Services	Supporting Services		Total	
	Habilitation and Care	Administrative and General	Fundraising	2018	2017
Salaries	$ 7,093,607	$ 664,807	$ 106,219	$ 7,864,633	$ 7,935,888
Employee health and welfare	466,416	40,193	8,899	515,508	515,084
Employee retirement	155,730	19,416	3,993	179,139	149,642
Payroll taxes	547,374	48,921	7,711	604,006	639,733
Workers' compensation insurance	65,417	1,148	198	66,763	77,089
Total salary and related expenses	8,328,544	774,485	127,020	9,230,049	9,317,436
Employee screening	21,801	3,221	63	25,085	34,298
Professional fees - accounting, legal, and other	72,569	11,717	-	84,286	76,053
Professional fees - program	2,049,972	-	-	2,049,972	1,835,086
Professional fees - related agency	237,426	-	-	237,426	192,960
IT support services	139,124	11,460	5,716	156,300	164,989
Training - client	177,724	-	-	177,724	195,585
Supplies	744,822	8,646	932	754,400	792,347
Telephone	90,003	3,092	754	93,849	84,255
Postage and shipping	3,473	3,895	867	8,235	7,551
Printing and publications	2,658	958	850	4,466	6,557
Advertising - employee recruitment	10,591	628	-	11,219	15,355
Occupancy	308,480	4,304	19	312,803	362,648
Utilities	295,868	8,611	-	304,479	275,434
Equipment maintenance	7,258	163	-	7,421	11,743
Equipment rental	5,638	-	-	5,638	4,286
Corporate insurance	137,890	10,482	-	148,372	135,691
Transportation	177,515	307	323	178,145	182,612
Meetings and conferences	3,783	3,195	503	7,481	6,483
Specific assistance to individuals	228,660	-	-	228,660	211,707
Membership dues	8,320	617	-	8,937	8,224
Miscellaneous	6,684	41	107	6,832	3,192
Bad debt	11,608	-	462	12,070	2,897
Public relations and charitable contributions	1,067	149	264	1,480	1,197
Bank and credit card fees	1,526	-	564	2,090	1,078
Total expenses before depreciation	13,073,004	845,971	138,444	14,057,419	13,929,664
Depreciation	721,211	-	-	721,211	687,859
Total expenses	$ 13,794,215	$ 845,971	$ 138,444	$ 14,778,630	$ 14,617,523

The accompanying notes are an integral part
of the financial statements.

MISSION ROAD DEVELOPMENTAL CENTER

STATEMENT OF CASH FLOWS

Years Ended June 30, 2018 and 2017

	2018	2017
Cash flows from operating activities:		
Change in net assets	$ 3,070,541	$ 580,865
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation expense	721,211	687,859
Bad debt expense	12,070	2,897
(Gains) losses on disposal of property and equipment	(376,127)	8,415
In-kind contribution of property and equipment	-	(172,039)
Contributions restricted for purchase of property and equipment	(745,944)	(536,012)
Realized and unrealized (gains) and losses, net	(39,238)	(166,318)
Change in:		
Program tuition and expense reimbursements receivable	(57,385)	(22,188)
Affiliate receivables	1,066	4,193
Other receivables	(1,524)	14,732
Promises to give receivable	(251,000)	21,161
Prepaid expenses and other assets	703	46,688
Trade accounts payable	103,632	178,258
Affiliate accounts payable	(59,936)	90,359
Accrued retirement plan contribution	3,521	(81)
Accrued salary expenses	41,182	52,024
Client trust funds	74	34,538
Deferred revenues	-	(2,350)
Other current liabilities	(342,998)	355,840
Net cash provided by operating activities	2,079,848	1,178,841
Cash flows from investing activities:		
Insurance proceeds from damage to property and equipment	519,211	-
Purchases of property and equipment	(1,046,525)	(862,994)
Proceeds from sales and maturities of investments	1,179,904	480,002
Purchases of investments	(3,251,891)	(529,492)
Net cash used by investing activities	(2,599,301)	(912,484)
Cash flows from financing activities:		
Proceeds from contributions restricted for purchase of property and equipment	745,944	536,012
Net increase in cash, cash equivalents, and restricted cash	226,491	802,369
Cash, and cash equivalents, and restricted cash at beginning of year	1,920,989	1,118,620
Cash, and cash equivalents, and restricted cash at end of year	$ 2,147,480	$ 1,920,989

The accompanying notes are an integral part of the financial statements.

1 NATURE OF ORGANIZATION

Founded in 1947 in San Antonio, Texas, Mission Road Developmental Center (MRDC) provides a continuum of care for children and adults with intellectual and other developmental disabilities (IDD) in residential and nonresidential settings. Services are provided in the person's residence (in-home services), at the MRDC Day Services facilities, in residential programs consisting of six (6) campus cottages located on its 20-acre campus, and in twenty (20) community group homes in various locations within San Antonio. MRDC provides quality care and training where persons are given the opportunity to achieve their individual potential for independence, productivity, and integration into the community.

On July 1, 2000, MRDC became affiliated with a newly formed Texas corporation, Mission Road Ministries, Inc. (MRM), a nonprofit corporation under Section 501(c)(3) of the Internal Revenue Code (the IRC) formed for governance and oversight of affiliated 501(c)(3) non-profit agencies which provide a continuum of care for persons with intellectual and other developmental disabilities. The affiliates of MRM who each play a role in providing the continuum of care are MRDC, Unicorn Centers, Inc. (Unicorn), and three supervised living apartments subsidized by the U.S Department of Housing and Urban Development and managed by a contracted apartment management company. These three apartments are Independence Square, Inc., 200 Oblate, Incorporated d/b/a Murray Manor, and Meadow Brook Apartments (collectively, the Apartments). MRM was incorporated in 2000 with an oversight Board of Directors from MRDC and Unicorn. MRDC coordinates with Unicorn, a not-for-profit organization whose mission is to provide life skills and vocational training in San Antonio, Texas for adults with intellectual and other developmental disabilities. MRDC and Unicorn mutually agreed to coordinate services for persons with intellectual and other disabilities. MRDC provides residential, day activity, and in-home services for both children and adults, while Unicorn provides job and life skills training, supported employment and job coaching, and day activity for adults.

Under a contribution agreement effective August 1, 2016, MRDC received certain assets of HandsOn, a 501(c)(3) organization that provided residential and nonresidential services for persons who are deaf-blind with multiple disabilities. This event is discussed in Note 13.

In addition to the entity relationships discussed above, MRDC is affiliated with the Clifford Craig Bledsoe Memorial Foundation (the Bledsoe Foundation). The Bledsoe Foundation was created in a Trust Indenture on July 3, 1967, for the sole purpose of providing financial support to MRDC.

While the reporting for these financial statements is solely for MRDC, these financial statements have been included in the combined financial statements of MRM and its affiliates, as noted above.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The financial statements of MRDC have been prepared on the accrual basis of accounting and accordingly reflect all significant receivables, payables, and other liabilities.

Basis of Presentation

MRDC reports information regarding its financial position and activities according to three classes of net assets, as follows:

- Unrestricted - Resources that are expendable at the discretion of the Board of Directors for conducting the operations of MRDC. Unrestricted net assets may be designated by the Board of Directors for a specific purpose.
- Temporarily Restricted - Resources that are limited by donor-imposed restrictions that either expire by the passage of time or can be fulfilled and otherwise removed by actions of MRDC pursuant to those restrictions.

(Continued)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation (Continued)

- Permanently Restricted - Portion of the net assets resulting from contributions and other inflows of assets whose use by MRDC is limited by donor-imposed restrictions that neither expire by the passage of time, nor can be fulfilled or otherwise removed by actions of MRDC.

Comparative Financial Information

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with MRDC's financial statements for the year ended June 30, 2017, from which the summarized information was derived.

Reclassifications

Certain accounts in the prior-year financial statements have been reclassified for comparative purposes to conform with the presentation in the current-year financial statements.

Cash and Cash Equivalents

For purposes of the statements of cash flows, MRDC considers all highly liquid investments with an initial maturity of three months or less to be cash equivalents, unless the investments are held for meeting restrictions for purchase of property and equipment, payment of long-term debt, or endowment.

Promises to Give

Promises receivable consist of promises to give from individuals, corporations, foundations, and other agencies. Unconditional promises to give are recognized as revenues in the period received and as assets, decreases of liabilities, or expenses depending on the form of the benefits received. Conditional promises to give are recognized only when the conditions on which they depend are substantially met and the promises then become unconditional.

All promises to give are due in less than one year; therefore, no discount has been applied and management believes they are presented at their net realizable value.

Accounts Receivable

Accounts receivable primarily consist of tuition reimbursements from various individuals, organizations, and governmental agencies for program services provided by MRDC. Accounts receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a provision for bad debt expense and an adjustment to an allowance for doubtful accounts based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the allowance for doubtful accounts and a credit to accounts receivable. Changes in the allowance for doubtful accounts have not been material to the financial statements.

Investments

Investments in marketable securities with readily determinable fair values are stated at fair value.

(Continued)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property and Equipment

Effective July 1, 2017, MRDC capitalizes all expenditures for property and equipment that cost $5,000 or more. Prior to July 1, 2017, MRDC capitalized all expenditures for property and equipment that cost $1,000 or more. Purchased property and equipment are carried at cost. Donated property and equipment are carried at fair value at the date of donation. Depreciation is provided over the estimated useful life of each class of depreciable assets and is computed using the straight-line method.

Depreciation is based on the following estimated useful lives:

	Years
Buildings and improvements	5 - 40
Equipment	3 - 25
Furniture	5 - 15
Vehicles	3 - 7

Program Revenue and Revenue Recognition

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law. Program revenue is considered earned as services are provided to clients.

Income Tax Status

MRDC is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. In addition, MRDC qualifies for the charitable contribution deduction under Section 170(b)(1)(A) and has been classified as an organization other than a private foundation under Section 509(a)(2).

During fiscal year 2013, MRM, MRDC, and Unicorn voluntarily elected to file with the IRS Form 5768, *Election/Revocation of Election by an Eligible Section 501(c)(3) Organization to Make Expenditures to Influence Legislation*. This Board-approved action was made to take advantage of IRS rules that set out spending limits for lobbying purposes with various levels of penalties, before loss of the 501(c)(3) status. Without the election, the only sanction for lobbying violations was loss of the 501(c)(3) status. The election begins for the fiscal year in which the election was made, and is in force until revoked by MRDC. There are no immediate plans for lobbying activities, but if there are in the future, they must be approved by affirmative Board action. This election provides a level of protection to the 501(c)(3) status not otherwise available.

Functional Expenses

The cost of providing the various programs and activities has been summarized on a functional basis in the statements of activities and in the statement of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Professional administrative and fundraising expenses are centralized under MRM to eliminate some redundancy at the affiliate level. MRM charges its affiliates a management fee to perform these functions. The total annual management fee expenditure has been allocated to various MRDC expense accounts based on the actual administrative and fundraising expense account activities of MRM.

(Continued)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Estimates

Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. On an ongoing basis, management evaluates the estimates and assumptions based on new information. Management believes that the estimates and assumptions are reasonable in the circumstances; however, actual results could differ from those estimates.

Advertising Expenses

Advertising and similar expenses are expensed as incurred, and are not capitalized.

Accounting Pronouncements Issued but Not Yet Adopted

Revenue from Contracts with Customers (Topic 606)

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which is a comprehensive new revenue recognition standard that will supersede existing revenue recognition guidance. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customer in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

FASB issued ASU 2015-14 that deferred the effective date until annual periods beginning after December 15, 2018. Earlier adoption is permitted subject to certain limitations. The amendments in this update are required to be applied retrospectively to each prior reporting period presented or with the cumulative effect being recognized at the date of initial application. Management is currently evaluating the impact of this ASU on its financial statements. This may affect MRDC in fiscal year 2020.

Leases (Topic 842)

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*, to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the statement of financial position and disclosing key information about leasing arrangements for lessees and lessors. The new standard applies a right-of-use (ROU) model that requires, for all leases with a lease term of more than 12 months, an asset representing its right to use the underlying asset for the lease term and a liability to make lease payments to be recorded.

The ASU is effective for MRDC's fiscal years beginning after December 15, 2019 with early adoption permitted. Management is currently evaluating the impact of this ASU on its financial statements. This may affect MRDC in fiscal year 2021.

(Continued)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Accounting Pronouncements Issued but Not Yet Adopted (Continued)

Not-for-Profit Entities (Topic 958) - Presentation of Financial Statements of Not-for-Profit Entities

In August 2016, the FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958) - Presentation of Financial Statements for Not-for-Profit Entities*. The ASU amends the current reporting model for nonprofit organizations and enhances their required disclosures. The major changes include; (a) requiring the presentation of only two classes of net assets now entitled "net assets without donor restrictions" and "net assets with donor restrictions", (b) modifying the presentation of underwater endowment funds and related disclosures, (c) requiring the use of the placed in service approach to recognize the expirations of restrictions on gifts used to acquire or construct long-lived assets absent explicit donor stipulations otherwise, (d) requiring that all nonprofits present an analysis of expenses by function and nature in either the statement of activities, a separate statement, or in the notes and disclose a summary of the allocation methods used to allocate costs, (e) requiring the disclosure of quantitative and qualitative information regarding liquidity and availability of resources, (f) presenting investment return net of external and direct expenses, and (g) modifying other financial statement reporting requirements and disclosures intended to increase the usefulness of nonprofit financial statements.

The ASU is effective for MRDC's financial statements for fiscal years beginning after December 15, 2017. Early adoption is permitted. The provisions of the ASU must be applied on a retrospective basis for all years presented although certain optional practical expedients are available for periods prior to adoption. Management is currently evaluating the impact of this ASU on their financial statements. This may affect MRDC in fiscal year 2019.

Subsequent Events

MRDC has evaluated subsequent events through November 6, 2018, the date which the financial statements were available for issue. Subsequent events relating to the Unicorn Centers, Inc. merger into MRDC, effective July 1, 2018, are discussed in Note 17.

3 CONCENTRATION OF CREDIT RISK

MRDC maintains its cash and cash equivalent balances in two financial institutions. At June 30, 2018, MRDC's cash and cash equivalents exceeded federally insured limits by $1,975,075 in one financial institution.

4 INVESTMENTS

Investments consisted of the following at June 30, 2018 and 2017:

	2018	2017
Money market funds	$ 73,333	$ 53,087
Mutual funds:		
Bond funds	1,474,505	676,573
Foreign large blend funds	194,461	115,822
Large blend funds	303,849	168,145
Large value funds	359,870	193,539
Long-short equity funds	442,865	225,395
Multi-alternative funds	276,570	135,963
Small blend funds	109,672	60,773
World allocation funds	1,053,946	548,549
	$ 4,289,071	$ 2,177,846

(Continued)

4 INVESTMENTS (Continued)

Investment return is summarized as follows:

	2018	2017
Interest and dividend income	$ 80,843	57,188
Investment management fees	(8,107)	(7,372)
Investment income, net of fees	72,736	49,816
Realized gains and losses	(16)	(11,150)
Unrealized gains and losses	39,254	177,468
Total investment return	$ 111,974	$ 216,134

Generally accepted accounting principles provide a framework for measuring fair value. That framework establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). At June 30, 2018 and 2017, MRDC's investments were reported at fair value using a Level 1 measure.

See Note 14 for additional information regarding transfers of investments from an affiliate.

5 TUITION AND EXPENSE REIMBURSEMENTS RECEIVABLE

Receivables result primarily from government agencies, individual families, and organizations other than affiliates who utilize services provided by MRDC. Tuition and expense reimbursement receivables consisted of the following at June 30:

	2018	2017
Government agency fees	$ 829,682	$ 795,138
Program fees and tuition	136,266	121,126
Program tuition and expense reimbursements receivable, gross	965,948	916,264
Allowance for doubtful accounts	(13,537)	(9,168)
Program tuition and expense reimbursements receivable, net	$ 952,411	$ 907,096

6 UNCONDITIONAL PROMISES TO GIVE

Unconditional promises to give are as follows:

	2018	2017
Restricted for purchase of property and equipment	$ 250,000	$ -
Restricted for use in future periods	2,500	1,500
	$ 252,500	$ 1,500

	2018	2017
Pledges due in one year or less	$ 252,500	$ 1,500
Less: estimated allowance for uncollectible pledges	-	-
Unconditional promises to give, net	$ 252,500	$ 1,500

7 PROPERTY AND EQUIPMENT

At June 30, the carrying values of property and equipment were as follows:

	2018	2017
Land	$ 244,651	$ 244,651
Buildings and improvements	13,909,051	13,630,470
Equipment	1,088,795	1,028,004
Furniture	54,024	54,024
Vehicles	1,101,746	926,345
Construction in progress	760,003	625,279
Property and equipment, gross	17,158,270	16,508,773
Accumulated depreciation	(6,621,139)	(6,153,872)
Property and equipment, net	$ 10,537,131	$ 10,354,901

Hail Damage to Property and Equipment

Buildings owned by MRDC and the Apartments received hail damage from the April 2016 hail storm that hit San Antonio, Texas. An insurance claim was filed shortly thereafter. As of June 30, 2017, work had not yet begun and MRDC had received $317,152 of insurance proceeds. Of the $317,152 balance of insurance proceeds held at June 30, 2017, $98,969 was held by MRDC for the Apartments and is included in affiliate accounts payable, and the remaining $218,183 is included in other current liabilities. On July 21, 2017, management approved finalization of the claim and received additional payments of $234,007. During the year ended June 30, 2018, an additional $63,383 for recoverable depreciation was received after completion of the roof replacements, making the total paid claim $614,542 for this event with $112,238 for the Apartments and $502,304 for MRDC ($500,427 plus $1,877 not applied to specific roof impairments). Roof replacements were completed at a total cost of $630,657 ($120,799 for the Apartments and $509,858 for MRDC).

Original asset costs were impaired for the roof portion of the properties, reducing the net book value by $38,660 for the Apartments and $139,168 for MRDC properties. This resulted in a gain on disposal of assets of $73,578 for the Apartments and $361,259 for MRDC. Not related to this event, MRDC had other gains of $14,868 on the disposal of fully depreciated automobiles making MRDC's total FY 2018 gains on disposal of assets $376,127.

8 CLIENT TRUST FUNDS

MRDC administers cash trust accounts for its clients. These funds totaled $145,407 and $145,333 at June 30, 2018 and 2017, respectively. A corresponding liability is recorded in current liabilities in the statement of financial position.

9 SUPPORT AND REVENUE CONCENTRATIONS

MRDC received $10,913,874, and $10,737,497 of revenue from governmental agencies for the years ended June 30, 2018 and 2017, respectively. This equates to 69.0% and 71.5%, respectively, of total support and revenue for those years

10 RESTRICTED NET ASSETS

Temporarily Restricted

Temporarily restricted net assets consisted of the following at June 30:

	2018	2017
Fixed asset additions and improvements	$ 505,281	$ 7,281
Future program expenses	149,264	192,241
Temporarily restricted net assets	$ 654,545	$ 199,522

Permanently Restricted

Permanently restricted net assets are included in fixed assets, and consisted of the following at June 30:

	2018	2017
Mockingbird Property	$ 88,394	$ 88,394

11 NET ASSETS RELEASED FROM RESTRICTIONS

Net assets were released from temporary donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors as follows:

	2018	2017
Purpose restriction accomplished:		
Camps and SOAR	$ 204,157	$ 195,673
Property and equipment purchases	247,944	567,589
Other program services	31,071	201,859
Net assets released from restriction	$ 483,172	$ 965,121

12 LEASES

MRDC has several noncancellable operating leases for office equipment, storage space, and three rental homes for client residential care, which expire at various dates through June 2021. Rental expenses under these leases consisted of $50,536 and $50,580, for the years ended June 30, 2018 and 2017, respectively.

Future minimum lease payments under these leases are:

	Amount
Year Ending June 30,	
2019	$ 16,182
2020	1,417
2021	1,417
	$ 19,016

13 IN-KIND CONTRIBUTIONS

Under a contribution agreement effective August 1, 2016, MRDC received certain assets of HandsOn, a 501(c)(3) organization that provided residential and nonresidential services for persons who are deaf-blind with multiple disabilities (DBMD). Contribution revenue of $172,039 has been recognized in the year ended June 30, 2017 for the value of the assets received from HandsOn. The assets received included the community residential home and furnishings at 6706 Country Breeze, which was recognized at estimated fair value based on a review of comparable property listings at August 1, 2016. MRDC also received three passenger vans providing transportation for DBMD clients; those vans were recognized at estimated fair value based on estimates provided by a local dealership. MRDC did not assume any liabilities from HandsOn, other than those related to the three property leases for the group homes operated by HandsOn. MRDC also agreed to hire certain eligible employees of HandsOn. MRDC had eleven months of HandsOn program activity during the year ended June 30, 2017, and twelve months of activity during the year ended June 30, 2018.

14 AFFILIATE ORGANIZATIONS AND RELATED PARTY INFORMATION

Founded in 2000, MRM provides centralized administrative support and ongoing coordinated oversight of MRDC and other affiliates, as well as creating cost benefits, as a result of common management. MRM charges a management fee to MRDC and Unicorn for these coordinated services. Unicorn and MRDC mutually agreed to coordinate services for persons with intellectual and other disabilities. Unicorn charges MRDC for program services provided to MRDC residents. MRDC charges Unicorn for property maintenance, staff training and chaplain fees.

Total tuition and job coaching revenue billed to MRDC by Unicorn was $167,060 and $167,869 for the years ended June 30, 2018 and 2017, respectively.

MRM made contributions to MRDC of $631,245 and $615,895 in 2018 and 2017, respectively. In addition, MRM made a contribution to MRDC of $120,000 and $-0- for the capital expansion project in 2018 and 2017, respectively. The Bledsoe Foundation made contributions to MRDC of $4,101 and $2,500 in 2018 and 2017, respectively.

Unicorn paid MRDC $110,930 and $113,380 in 2018 and 2017, respectively, for staff training, property maintenance and chaplain fees. MRDC paid Unicorn $53,916 and $9,821 in 2018 and 2017, respectively, for employee services.

MRDC paid MRM $984,417 and $1,053,309 in management fees during 2018 and 2017, respectively. MRDC paid MRM $16,450 and $15,270 in 2018 and 2017, respectively, for cost to hire employees.

At June 30, the following amounts were owed to MRDC by its affiliates:

	2018	2017
Affiliate accounts receivable, net:		
MRM	$ -	$ 6,140
Unicorn	15,236	10,162
	$ 15,236	$ 16,302

(Continued)

14 AFFILIATE ORGANIZATIONS AND RELATED PARTY INFORMATION (Continued)

At June 30, the following amounts were owed by MRDC to its affiliates:

	2018	2017
Affiliate accounts payable, net:		
200 Oblate	$ -	$ 35,497
Independence Square	-	25,874
Meadow Brook	-	31,227
MRM	32,662	-
	$ 32,662	$ 92,598

MRDC and its affiliates share pooled corporate insurance policies. The annual premiums for these insurance policies are paid proportionately by MRDC and its affiliates.

Intercompany Transfers

In 2018, the boards of MRM and its affiliates reevaluated the boards' current and past intent of the allocation and possession of the organizations' investments and MRM's endowment investments. The boards elected to transfer $2,000,000 from MRM investments to MRDC investments based on the original donor intent. To accomplish this, in the last week in June 2018, MRM sold securities and transferred funds to the appropriate MRDC accounts. These funds were then reinvested before June 30, 2018.

Due to these sales of securities and reinvestment, MRM and MRDC had a one time event affecting investments, realized and unrealized gains as well as proceeds from sales of investments and purchases of investments.

15 EMPLOYEE BENEFIT PLAN

MRDC subscribes to MRM's defined contribution retirement plan. This plan covers all MRDC full-time and non-excluded class employees who are active employees on December 31, have attained age 21, and have completed three months of service. MRDC's portion of retirement plan contributions for the years ended June 30, 2018 and 2017 was $124,586 and $113,625, respectively.

16 CONTINGENCIES

MRDC was contacted in July 2017 by the Office of Inspector General, U.S. Department of Health & Human Services (OIG) to undergo a review of MRDC's residential HCS program. In October 2017, the OIG began their review and in February 2018 provided their findings that MRDC had billed $4,031 for services without proper documentation. The OIG extrapolated its sample-based findings to the entirety of the program based on the program's annual revenue, and initially assessed that they would recover $87,283 from MRDC. Management has since provided documentation to the OIG to support the contested billings. Furthermore, management has engaged legal counsel to challenge the OIG's decision to extrapolate the amount to be recovered, as management believes such extrapolation would be inconsistent with the rules and regulations applicable to the HCS program. Management believes that a loss of up to $87,283 is possible, but that the probable final amount will be considerably less than that.

17 SUBSEQUENT EVENTS

Effective July 1, 2018 Unicorn Centers, Inc. merged its operations into MRDC. MRDC received Unicorn's assets and liabilities based on values as of June 30, 2018. Employees of Unicorn became employees of MRDC, and MRDC obtained the necessary licenses for the Unicorn programs, such that Unicorn will be operated as a program under MRDC. Upon filing the final IRS 990 for Unicorn's fiscal year ending June 30, 2018, Unicorn Centers, Inc. will be dissolved as a separate entity.