The Men’s Center, Incorporated
(dba Recenter)

Financial Statements
and Independent Auditors’ Report
for the years ended December 31, 2016 and 2015

The Men’s Center, Incorporated (dba Recenter)

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Independent Auditors' Report

To the Board of Directors of
The Men's Center, Incorporated:

We have audited the accompanying financial statements of The Men's Center, Incorporated (dba Recenter), which comprise the statements of financial position as of December 31, 2016 and 2015 and the related statements of activities, of functional expenses, and of cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. 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 Men's Center, Incorporated (dba Recenter) as of December 31, 2016 and 2015 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.

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. Supplementary information included in the schedule of real property as of December 31, 2016 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Blazek & Vetterling

April 19, 2017

The Men’s Center, Incorporated (dba Recenter)

Statements of Financial Position as of December 31, 2016 and 2015

	2016	2015
ASSETS		
Cash	$ 534,552	$ 764,590
Prepaid and other assets	26,869	29,131
Pledges receivable:		
Government grants	21,782	135,371
Other	70,065	144,500
Cash restricted for capital projects	245,584	102,188
Property, net *(Note 2)*	9,067,430	9,038,005
TOTAL ASSETS	$ 9,966,282	$ 10,213,785
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued expenses	$ 68,467	$ 73,390
Construction payable		164,216
Note payable *(Note 3)*	997,303	1,036,101
Total liabilities	1,065,770	1,273,707
Commitments and contingencies *(Note 4)*		
Net assets:		
Unrestricted	7,728,845	7,642,429
Temporarily restricted for transitional housing construction	1,171,667	1,297,649
Total net assets	8,900,512	8,940,078
TOTAL LIABILITIES AND NET ASSETS	$ 9,966,282	$ 10,213,785

See accompanying notes to financial statements.

The Men’s Center, Incorporated (dba Recenter)

Statement of Activities for the year ended December 31, 2016

	UNRESTRICTED	TEMPORARILY RESTRICTED	TOTAL
REVENUE:			
Contributions:			
Government grants		$ 149,304	$ 149,304
Other	$ 88,895	250,250	339,145
Rent and other income	799,126		799,126
Total revenue	888,021	399,554	1,287,575
Net assets released from restrictions:			
Capital expenditures	447,154	(447,154)	
Satisfaction of program restrictions	78,382	(78,382)	
Total	1,413,557	(125,982)	1,287,575
EXPENSES:			
Program services	1,013,226		1,013,226
Management and general	266,045		266,045
Fundraising	47,870		47,870
Total expenses	1,327,141		1,327,141
CHANGES IN NET ASSETS	86,416	(125,982)	(39,566)
Net assets, beginning of year	7,642,429	1,297,649	8,940,078
Net assets, end of year	$ 7,728,845	$ 1,171,667	$ 8,900,512

See accompanying notes to financial statements.

The Men’s Center, Incorporated (dba Recenter)

Statement of Activities for the year ended December 31, 2015

	UNRESTRICTED	TEMPORARILY RESTRICTED	TOTAL
REVENUE:			
Contributions:			
Government grants		$ 551,140	$ 551,140
Other	$ 99,965	200,000	299,965
Rent and other income	736,355		736,355
Loss on disposal of property	(119,895)		(119,895)
Total revenue	716,425	751,140	1,467,565
EXPENSES:			
Program services	1,000,661		1,000,661
Management and general	297,212		297,212
Fundraising	76,083		76,083
Total expenses	1,373,956		1,373,956
CHANGES IN NET ASSETS	(657,531)	751,140	93,609
Net assets, beginning of year	8,299,960	546,509	8,846,469
Net assets, end of year	$ 7,642,429	$ 1,297,649	$ 8,940,078

See accompanying notes to financial statements.

The Men’s Center, Incorporated (dba Recenter)

Statements of Functional Expenses for the years ended December 31, 2016 and 2015

	2016			
	PROGRAM SERVICES	MANAGEMENT AND GENERAL	FUNDRAISING	TOTAL
Salaries and related expenses	$ 391,877	$ 117,834	$ 14,757	$ 524,468
Professional services	50,405	101,906	30,881	183,192
Depreciation	155,723			155,723
Utilities	138,352	15,372		153,724
Insurance	47,940	10,563	1,519	60,022
Rent	50,000			50,000
Repairs and maintenance	47,938			47,938
Interest	46,384			46,384
Supplies	26,083	16,389	550	43,022
Property tax	26,583			26,583
Food	16,353			16,353
Other	15,588	3,981	163	19,732
Total expenses	$ 1,013,226	$ 266,045	$ 47,870	$ 1,327,141

	2015			
	PROGRAM SERVICES	MANAGEMENT AND GENERAL	FUNDRAISING	TOTAL
Salaries and related expenses	$ 334,846	$ 112,357	$ 18,091	$ 465,294
Professional services	43,940	134,264	54,039	232,243
Depreciation	191,495			191,495
Utilities	157,800	17,533		175,333
Insurance	73,799	9,815	149	83,763
Rent	47,671			47,671
Repairs and maintenance	25,532			25,532
Interest	46,137			46,137
Supplies	28,725	19,503	1,552	49,780
Property tax	27,301			27,301
Food	12,855			12,855
Other	10,560	3,740	2,252	16,552
Total expenses	$ 1,000,661	$ 297,212	$ 76,083	$ 1,373,956

See accompanying notes to financial statements.

The Men’s Center, Incorporated (dba Recenter)

Statements of Cash Flows for the years ended December 31, 2016 and 2015

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in net assets	$ (39,566)	$ 93,609
Adjustments to reconcile changes in net assets to net cash used by operating activities:		
Loss on disposal of property		119,895
Depreciation	155,723	191,495
Government grants and other contributions restricted for construction	(321,172)	(751,140)
Changes in operating assets and liabilities:		
Prepaid and other assets	2,262	19,132
Pledges receivable	(18,772)	(15,000)
Accounts payable and accrued expenses	(4,923)	62,304
Net cash used by operating activities	(226,448)	(279,705)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Net change in cash restricted for capital projects	(143,396)	308,744
Expenditures for acquisition and construction of property	(349,364)	(694,313)
Net cash used by investing activities	(492,760)	(385,569)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayments on note payable	(38,798)	(29,623)
Proceeds from government grants and other contributions restricted for construction	527,968	520,269
Net cash provided by financing activities	489,170	490,646
NET CHANGE IN CASH	(230,038)	(174,628)
Cash, beginning of year	764,590	939,218
Cash, end of year	$ 534,552	$ 764,590

Supplemental disclosure of cash flow information:

Interest paid	$46,605	$48,402

See accompanying notes to financial statements.

NOTE 1 – ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Organization – The Men's Center, Incorporated (dba Recenter) is a Texas nonprofit charitable organization located in Houston, Texas, which began operating in 1950. Recenter helps individuals who are predominately homeless recover from alcoholism and/or drug addiction in order to lead more productive lives. Recenter provides onsite housing and meals for men and women recovering from alcoholism and drug addiction, offering an affordable alternative for those wishing to re-enter society as productive citizens. Recenter supports those in recovery through ongoing programs and supportive services such as case management, physical and mental health referrals and collaborations, community education, and hosting forty 12 Step meetings each week. Recenter assists in creating healthy lifestyles by establishing productive habits and routines, including obtaining gainful employment, volunteering in the community and paying monthly rent.

Federal income tax status – Recenter 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)(2).

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

Pledges receivable that are expected to be collected within one year are reported at net realizable value. Amounts that are expected to be collected after one year, if material, are discounted to estimate the present value of future cash flows. At December 31, 2016, pledges receivable are expected to be collected as follows: $71,847 in 2017, and $20,000 from 2018 to 2020.

Property is reported at cost if purchased or at fair value at the date of gift if donated. Acquisitions in excess of $2,500 are capitalized. Depreciation is provided on a straight-line basis over estimated useful lives of 10 to 40 years for buildings and building improvements, and 5 to 10 years for furniture and equipment, and vehicles.

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 future time periods. When a purpose restriction is accomplished or a time restriction ends, temporarily restricted net assets are released to unrestricted net assets.

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

Donated materials and services – Donated materials are recognized as contributions at fair value 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.

Rent revenue is recognized when the related services are provided.

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.

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

Recent financial accounting pronouncements – In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers*. The ASU supersedes the revenue recognition requirements for most exchange transactions not specifically covered by other guidance. It does not apply to 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 revenue is recognized. The ASU is effective for fiscal periods that begin after December 15, 2017 and must be applied retrospectively. Recenter plans to adopt this guidance for its fiscal year ending December 31, 2018. Management has not yet determined the impact that adoption of this ASU will have on the financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. Under this ASU, a lessee should recognize in the statement of financial position a lease liability and a lease asset representing its right to use the underlying asset for the term of the lease. An entity may make an accounting policy election not to recognize lease assets and lease liabilities for leases with a term of 12 months or less. Recognition, measurement, and presentation of expenses and cash flows arising from a lease by a lessee have not changed significantly. Qualitative and quantitative disclosures are required to enable users of financial statements to assess the amount, timing and uncertainty of cash flows arising from leases. The ASU is effective for fiscal years beginning after December 15, 2019. Recenter plans to adopt this ASU for its fiscal year ending December 31, 2020. Management has not yet determined the impact adoption of this ASU will have on the financial statements.

In August 2016, the Financial Accounting Standards Board (FASB) 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* 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 ASU is effective for fiscal periods beginning after December 15, 2017 but early adoption is permitted. Recenter plans to adopt this ASU for its fiscal year ending December 31, 2018. Adoption of this ASU will impact the presentation and disclosures in the financial statements.

NOTE 2 – PROPERTY

Property consists of the following:

	2016	2015
Land	$ 1,583,115	$ 1,583,115
Buildings	6,952,907	6,952,907
Building improvements	489,634	241,904
Furniture and equipment	80,718	80,718
Vehicles	19,000	19,000
Construction in progress	897,508	960,090
Total property, at cost	10,022,882	9,837,734
Accumulated depreciation	(955,452)	(799,729)
Property, net	$ 9,067,430	$ 9,038,005

NOTE 3 – NOTE PAYABLE

In 2012, Recenter entered into a $1,200,000 line of credit agreement with a bank to provide gap financing for the construction of a new residence hall. The line of credit was converted to a promissory note on December 10, 2013. The note bears interest at 4.5%. Principal and interest are due in monthly installments of $7,093, with a final payment of $921,878 due at maturity date on December 13, 2018. The note is secured by property.

Principal repayments of the note payable are due as follows:

2017	$ 40,166
2018	957,137
Total	$ 997,303

NOTE 4 – COMMITMENTS AND CONTINGENCIES

A portion of the development costs of Recenter's residential housing properties was funded through HOME funds, government grants funded by the U. S. Department of Housing and Urban Development (HUD), or performance-based loans. These agreements have various restrictive covenants, including operating and financial constraints such as limitations on transfer or sale of the properties or additional borrowings and required replacement and other reserves. These sources of funding generally place specific long-term restrictions on the properties to the operation as low-income housing. Should these restrictions not be met in the future, Recenter would be responsible for refunding all or a portion of these proceeds to the government. A liability for such repayment is not reported in these financial statements because management believes the properties are and will continue to be operated in accordance with such restrictions.

The principal outstanding contingencies are as follows:

Texas Community Development Block Grant Disaster Recovery – In 2012, Recenter was awarded a Community Development Block Grant (CDBG) of $9,922,690 from Harris County to develop transitional and permanent supportive housing for the homeless. The agreement requires that 56 units be "set-aside" for rent to low-income households, as defined in the agreement. Recenter executed a deed of trust to secure performance according to the agreement for 20 years following the date of project completion. Revenue recognized from this grant was approximately $71,000 and $551,000 in 2016 and 2015, respectively. Recognition of the remaining grant is conditioned upon construction progress.

HOME Investment Partnership Agreements – In 2012, Recenter entered into a $3,000,000 loan agreement with the City of Houston (the City) to provide funding for construction of a building on Alabama Street to provide transitional housing to homeless men recovering from addiction. Under the terms of the agreement, this amount and accrued interest are to be forgiven 20 years from the project completion date, provided Recenter complies with the terms of the agreement, including lease of the units at rents affordable to low-income households as defined in the agreement. The agreement requires that 31 units be "set-aside" for rent to low-income households. The loan agreement is collateralized by real property and improvements.

In May 2011, Recenter was awarded a HUD grant of $1,687,000 from Harris County to develop a transitional housing complex on Alabama Street for homeless men recovering from addiction. The agreement requires that 25 units be "set-aside" for rent to low-income individuals, as defined in the agreement. Recenter executed a deed of trust to secure performance according to the agreement for 20 years following the project completion in 2014.

Federal Home Loan Bank subsidy – In 2015, Recenter was awarded an Affordable Housing Program subsidy of $500,000 from the Federal Home Loan Bank of Dallas to partially finance the Campus of Hope Phase II Project. Receipt of the subsidy was conditioned upon construction of rental housing affordable to households with eligible income, as defined in the agreement. No revenue was recognized from this grant in 2016 and 2015.

In 2013, Recenter recognized an Affordable Housing Program subsidy of $500,000 from the Federal Home Loan Bank of Dallas to partially finance the Center of Hope Project. The funds were used for construction of rental housing affordable to households with incomes not exceeding 80% of the area median income for a period of 15 years commencing upon the project completion in 2017.

NOTE 5 – LEASE COMMITMENTS

In 2014, Recenter entered into a property lease agreement that expires in May 2029, with an option to renew for three additional five-year terms. Recenter constructed a meeting hall and kitchen on the site. All improvements will become the property of the landlord at the termination of the lease. At December 31, 2016, future minimum lease payments are as follows:

2017	$ 50,000
2018	50,000
2019	56,667
2020	60,000
2021	60,000
Thereafter	460,000
Total	$ 736,667

Lease expense of approximately $50,000 and $48,000 was recognized in 2016 and 2015, respectively.

NOTE 6 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through April 19, 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.

The Men's Center, Incorporated (dba Recenter)

Schedule of Real Property as of December 31, 2016

	FUNDING		
	PRIVATE	FEDERAL	TOTAL
Land	$ 979,543	$ 603,572	$ 1,583,115
Buildings	2,265,907	4,687,000	6,952,907
Building improvements	242,480		242,480
Construction in progress	401,091	743,571	1,144,662
Total	$ 3,889,021	$ 6,034,143	$ 9,923,164