

**the Montrose Center**

Financial Statements  
and Single Audit Reports  
for the year ended August 31, 2018

# the Montrose Center

## Table of Contents

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	Page
<b>Independent Auditors' Report</b>	1
<b>Financial Statements:</b>	
Statements of Financial Position as of August 31, 2018 and 2017	3
Statement of Activities for the year ended August 31, 2018	4
Statement of Activities for the year ended August 31, 2017	5
Statement of Functional Expenses for the year ended August 31, 2018	6
Statement of Functional Expenses for the year ended August 31, 2017	7
Statements of Cash Flows for the years ended August 31, 2018 and 2017	8
Notes to Financial Statements for the years ended August 31, 2018 and 2017	9
<b>Supplementary Information:</b>	
Schedule of Expenditures of Federal Awards for the year ended August 31, 2018	15
Schedule of Expenditures of State Awards for the year ended August 31, 2018	19
Note to Schedules of Expenditures of Federal and State Awards for the year ended August 31, 2018	20
<b>Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i></b>	21
<b>Independent Auditors' Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance Required by the Uniform Guidance</b>	22
Schedule of Findings and Questioned Costs for the year ended August 31, 2018	24

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## Independent Auditors' Report

To the Board of Directors of  
the Montrose Center:

### Report on the Financial Statements

We have audited the accompanying financial statements of the Montrose Center, which comprise the statements of financial position as of August 31, 2018 and 2017 and the related statements of activities, of functional expenses, and of cash flows for the years then ended, and the related notes to the financial statements.

### *Management's Responsibility for the Financial Statements*

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

### *Auditors' Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform our audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

### *Opinion*

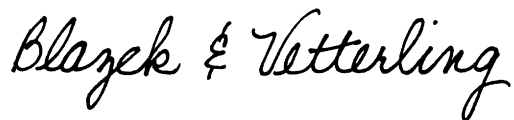
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Montrose Center as of August 31, 2018 and 2017 and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Supplementary Information***

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplementary information included in the schedule of expenditures of federal awards for the year ended August 31, 2018 as required by Title 2 U. S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* is presented for purposes of additional analysis and is not a required part of the financial statements. The accompanying supplementary information in the schedule of expenditures of state awards for the year ended August 31, 2018 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.

### **Report Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated January 17, 2019 on our consideration of the Montrose Center's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Montrose Center's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Montrose Center's internal control over financial reporting and compliance.

A handwritten signature in cursive script that reads "Blazek & Vetterling".

January 17, 2019

## the Montrose Center

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

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	<u>2018</u>	<u>2017</u>
ASSETS		
Cash and cash equivalents <i>(Note 3)</i>	\$ 1,059,587	\$ 205,337
Receivables:		
Government contracts	951,736	895,531
Client fees, net	589,044	527,194
Operating pledges, net <i>(Note 4)</i>	234,395	328,386
United Way allocation	44,976	46,732
Receivable due from Montrose Counseling Center Permanent Endowment, Inc. <i>(Note 2)</i>	59,808	
Prepaid expenses	234,371	211,886
Cash restricted for senior housing <i>(Note 3)</i>	494,558	827,493
Pledges receivable restricted for senior housing, net <i>(Note 4)</i>	198,803	239,351
Property, net <i>(Note 5)</i>	<u>965,354</u>	<u>182,920</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 4,832,632</u></b>	<b><u>\$ 3,464,830</u></b>

### LIABILITIES AND NET ASSETS

Liabilities:		
Accounts payable and accrued expenses	\$ 212,980	\$ 229,442
Construction payable	248,101	
Note payable <i>(Note 7)</i>	59,834	59,834
Deferred revenue – special events		14,500
Payable to Montrose Counseling Center Permanent Endowment, Inc. <i>(Note 2)</i>		<u>114,802</u>
Total liabilities	<u>520,915</u>	<u>418,578</u>
Net assets:		
Unrestricted	923,787	792,330
Temporarily restricted <i>(Note 6)</i>	<u>3,387,930</u>	<u>2,253,922</u>
Total net assets	<u>4,311,717</u>	<u>3,046,252</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b><u>\$ 4,832,632</u></b>	<b><u>\$ 3,464,830</u></b>

*See accompanying notes to financial statements.*

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## the Montrose Center

Statement of Activities for the year ended August 31, 2018

	<u>UNRESTRICTED</u>	TEMPORARILY <u>RESTRICTED</u>	<u>TOTAL</u>
<b>REVENUE:</b>			
Government contracts ( <i>Note 8</i> )	\$ 4,058,683		\$ 4,058,683
Client fees	1,437,851		1,437,851
Contributions	528,872	\$ 2,049,310	2,578,182
Special events	210,235	13,942	224,177
Direct donor benefits	(68,240)		(68,240)
United Way allocation		136,736	136,736
Other income	<u>174,900</u>		<u>174,900</u>
Total revenue	6,342,301	2,199,988	8,542,289
Net assets released from restrictions:			
Expiration of time restrictions	662	(662)	
Expenditure for program purposes	<u>1,065,318</u>	<u>(1,065,318)</u>	
Total	<u>7,408,281</u>	<u>1,134,008</u>	<u>8,542,289</u>
<b>EXPENSES:</b>			
Program expenses:			
Case Management	3,598,579		3,598,579
LIFE	617,019		617,019
Anti-Violence	544,301		544,301
Chemical Dependency	437,708		437,708
Education	428,580		428,580
HIV/AIDS	299,703		299,703
Youth	199,442		199,442
Senior	157,584		157,584
Women's services	<u>114,567</u>		<u>114,567</u>
Total program expenses	6,397,483		6,397,483
Management and general	360,683		360,683
Fundraising	<u>518,658</u>		<u>518,658</u>
Total expenses	<u>7,276,824</u>		<u>7,276,824</u>
CHANGES IN NET ASSETS	131,457	1,134,008	1,265,465
Net assets, beginning of year	<u>792,330</u>	<u>2,253,922</u>	<u>3,046,252</u>
Net assets, end of year	<u>\$ 923,787</u>	<u>\$ 3,387,930</u>	<u>\$ 4,311,717</u>

*See accompanying notes to financial statements.*

## the Montrose Center

Statement of Activities for the year ended August 31, 2017

	<u>UNRESTRICTED</u>	TEMPORARILY <u>RESTRICTED</u>	<u>TOTAL</u>
<b>REVENUE:</b>			
Government contracts ( <i>Note 8</i> )	\$ 4,229,930		\$ 4,229,930
Client fees	1,328,921		1,328,921
Contributions	276,886	\$ 1,397,064	1,673,950
Special events	37,590	327,175	364,765
Direct donor benefits	(21,397)	(20,531)	(41,928)
United Way allocation	3,630	136,734	140,364
Other income	<u>133,952</u>		<u>133,952</u>
Total revenue	5,989,512	1,840,442	7,829,954
Net assets released from restrictions:			
Expiration of time restrictions	3,036	(3,036)	
Expenditure for program purposes	<u>331,136</u>	<u>(331,136)</u>	
Total	<u>6,323,684</u>	<u>1,506,270</u>	<u>7,829,954</u>
<b>EXPENSES:</b>			
Program expenses:			
Case Management	2,992,794		2,992,794
LIFE	701,373		701,373
Anti-Violence	510,025		510,025
Chemical Dependency	420,029		420,029
Education	500,946		500,946
HIV/AIDS	426,497		426,497
Youth	231,493		231,493
Senior	174,409		174,409
Women's services	<u>104,909</u>		<u>104,909</u>
Total program expenses	6,062,475		6,062,475
Management and general	382,887		382,887
Fundraising	<u>272,019</u>		<u>272,019</u>
Total expenses	<u>6,717,381</u>		<u>6,717,381</u>
CHANGES IN NET ASSETS	(393,697)	1,506,270	1,112,573
Net assets, beginning of year	<u>1,186,027</u>	<u>747,652</u>	<u>1,933,679</u>
Net assets, end of year	<u>\$ 792,330</u>	<u>\$ 2,253,922</u>	<u>\$ 3,046,252</u>

*See accompanying notes to financial statements.*

## the Montrose Center

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

	CASE MANAGEMENT	LIFE	ANTI- VIOLENCE	CHEMICAL DEPENDENCY	EDUCATION	HIV/AIDS	YOUTH	SENIOR	WOMEN'S SERVICES	MANAGEMENT AND GENERAL	FUNDRAISING	TOTAL EXPENSES
Salaries	\$ 1,554,432	\$ 423,190	\$ 282,471	\$ 263,224	\$ 256,003	\$ 204,649	\$ 95,552	\$ 111,989	\$ 48,783	\$ 165,713	\$ 349,268	\$ 3,755,274
Benefits	334,345	57,666	47,282	57,881	70,699	23,530	22,883	13,871	12,001	24,696	80,364	745,218
Payroll taxes	119,649	31,041	19,945	19,416	19,643	14,468	6,992	8,131	3,121	14,426	32,597	289,429
Client assistance	1,085,198		107,073	1,015	150		10,810		26,101			1,230,347
Occupancy	246,884	53,018	42,810	39,906	41,330	24,235	12,919	15,378	9,838	85,837	9,868	582,023
In-kind professional services	32,876	22,549	22,547	22,549		22,549	35,724					158,794
Contract services	70,810	6,910	4,189	2,240	851	1,592	265	478	2,465	34,323	18,908	143,031
Local travel	44,182	935	1,545	7,193	26,468			784	95	29	269	81,500
Supplies	36,517	1,201	1,137	4,937	1,048	579	1,037	1,884	785	740	787	50,652
Telephone	13,910	2,982	3,494	3,332	2,333	1,353	716	876	555	1,500	909	31,960
Professional development	15,416	1,660	665	3,613	3,193	476		173	170	59	40	25,465
Equipment rental and purchases	10,152	2,842	1,764	1,695	1,699	998	530	633	404	2,092	406	23,215
Bad debt		5,533	2,129	4,955		1,372	5,697	1,769				21,455
Depreciation	9,184	1,526	1,339	1,076	1,109	711	421	405	294	844	1,389	18,298
Printing	2,070	370	895	905	127	278	148	416	1,739	302	1,355	8,605
Postage	1,083	256	282	160	168	97	51	63	39	186	1,007	3,392
Other	<u>21,871</u>	<u>5,340</u>	<u>4,734</u>	<u>3,611</u>	<u>3,759</u>	<u>2,816</u>	<u>5,697</u>	<u>734</u>	<u>8,177</u>	<u>29,936</u>	<u>21,491</u>	<u>108,166</u>
Total expenses	<u>\$ 3,598,579</u>	<u>\$ 617,019</u>	<u>\$ 544,301</u>	<u>\$ 437,708</u>	<u>\$ 428,580</u>	<u>\$ 299,703</u>	<u>\$ 199,442</u>	<u>\$ 157,584</u>	<u>\$ 114,567</u>	<u>\$ 360,683</u>	<u>\$ 518,658</u>	<u>\$ 7,276,824</u>
Grant reimbursed management expenses by program	\$102,086	\$24,433	\$25,340	\$16,739	\$25,502	\$10,954	\$3,883	\$8,663	\$1,882			

*See accompanying notes to financial statements.*



## the Montrose Center

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

	CASE MANAGEMENT	LIFE	ANTI- VIOLENCE	CHEMICAL DEPENDENCY	EDUCATION	HIV/AIDS	YOUTH	SENIOR	WOMEN'S SERVICES	MANAGEMENT AND GENERAL	FUNDRAISING	TOTAL EXPENSES
Salaries	\$ 1,281,968	\$ 464,335	\$ 267,632	\$ 253,865	\$ 296,163	\$ 289,425	\$ 114,557	\$ 112,937	\$ 49,282	\$ 176,313	\$ 194,415	\$ 3,500,892
Benefits	352,762	91,146	45,488	63,529	95,867	46,332	27,237	21,815	10,279	32,426	28,285	815,166
Payroll taxes	96,591	34,586	19,945	19,006	22,343	21,523	8,425	8,579	3,753	12,982	14,745	262,478
Client assistance	850,038		95,997	688	230		3,915		22,440			973,308
Occupancy	210,876	62,018	41,545	37,509	53,292	35,635	16,809	19,789	7,775	88,434	8,120	581,802
In-kind professional services	28,814	21,113	21,111	21,113		21,113	35,418					148,682
Contract services	49,891	8,008	4,364	3,038	2,218	2,856	1,440	1,012	919	39,347	353	113,446
Local travel	31,817	798	1,477	4,876	15,897	70	7,789	1,452	1,118	76	54	65,424
Supplies	32,057	1,988	1,059	1,400	1,814	865	8,046	1,653	1,082	589	15,006	65,559
Telephone	11,248	3,301	3,461	3,145	2,803	1,899	896	1,055	430	1,373	437	30,048
Professional development	14,587	2,420	249	2,501	3,573	138	75	210	204	411	5	24,373
Equipment rental and purchases	8,419	3,414	1,727	1,563	2,206	1,790	706	821	323	2,275	337	23,581
Bad debt		1,822	698	1,754		644		601				5,519
Depreciation	10,118	2,375	1,789	1,454	1,706	1,531	711	827	427	1,294	495	22,727
Printing	6,482	82	107	70	268	179	293	429	989	306	283	9,488
Postage	1,057	327	213	190	244	168	92	103	641	207	388	3,630
Other	<u>6,069</u>	<u>3,640</u>	<u>3,163</u>	<u>4,328</u>	<u>2,322</u>	<u>2,329</u>	<u>5,084</u>	<u>3,126</u>	<u>5,247</u>	<u>26,854</u>	<u>9,096</u>	<u>71,258</u>
Total expenses	<u>\$ 2,992,794</u>	<u>\$ 701,373</u>	<u>\$ 510,025</u>	<u>\$ 420,029</u>	<u>\$ 500,946</u>	<u>\$ 426,497</u>	<u>\$ 231,493</u>	<u>\$ 174,409</u>	<u>\$ 104,909</u>	<u>\$ 382,887</u>	<u>\$ 272,019</u>	<u>\$ 6,717,381</u>
Grant reimbursed management expenses by program	\$120,637	\$428	\$30,718	\$18,262	\$40,417	\$12,986	\$6,699	\$7,196				

See accompanying notes to financial statements.

## the Montrose Center

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

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	<u>2018</u>	<u>2017</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in net assets	\$ 1,265,465	\$ 1,112,573
Adjustments to reconcile changes in net assets to net cash provided (used) by operating activities:		
Depreciation	18,298	22,727
Contributions restricted for senior housing	(409,288)	(1,071,950)
Changes in operating assets and liabilities:		
Receivables	(82,116)	(303,187)
Prepaid expenses	(22,485)	(19,752)
Deferred revenue – special events	(14,500)	14,500
Payables and accrued expenses	<u>(131,264)</u>	<u>61,359</u>
Net cash provided (used) by operating activities	<u>624,110</u>	<u>(183,730)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property	<u>(552,631)</u>	<u>(37,055)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from contributions restricted for senior housing	<u>449,836</u>	<u>939,199</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	521,315	718,414
Cash and cash equivalents, beginning of year	<u>1,032,830</u>	<u>314,416</u>
Cash and cash equivalents, end of year	<u>\$ 1,554,145</u>	<u>\$ 1,032,830</u>
<i>Reconciliation of cash balances:</i>		
Cash and cash equivalents	\$ 1,059,587	\$ 205,337
Cash restricted for senior housing	<u>494,558</u>	<u>827,493</u>
Total cash	<u>\$ 1,554,145</u>	<u>\$ 1,032,830</u>

*See accompanying notes to financial statements.*

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## the Montrose Center

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

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### NOTE 1 – ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Organization – Montrose Counseling Center, Inc., doing business as the Montrose Center (the Center), is a Texas non-profit corporation created in 1978 to provide outpatient mental health care services, substance abuse treatment, and case management services in the Houston area.

In 2015, the Center and AssistHers, Inc. (AssistHers), a Texas non-profit corporation organized to provide services to lesbian women, entered into an agreement in which the Center was to provide specified administrative services to AssistHers. The agreement contained provisions whereby on its first anniversary date, the AssistHers corporate entity would be dissolved and the Center would assume responsibility for its programs and services. Under the terms of the agreement, the net assets of AssistHers would be transferred to the Center to support the continuance of AssistHers activities, an advisory panel for such activities would be formed consisting of the former board members of AssistHers, and efforts would be undertaken to add two of the former AssistHers board members to the Board of Directors of the Center.

On April 21, 2016, the Board of Directors of the Center adopted a resolution to continue the services of AssistHers as a program of the Center, so named, and to accept the assets of AssistHers for that purpose. Approximately \$220,000 of cash was transferred to the Center in connection with this transaction.

Program services are as follows:

*Case Management* – Services are provided by the Center to assist clients in dealing with basic everyday challenges, including access to health and psychosocial services, in a timely and coordinated manner. Services include housing financial assistance, assistance with obtaining and completing governmental forms, as well as locating transportation, housing, and other resources. The Center’s primary goal is to promote continuity of care so that clients can function interdependently by using government, private and community resources. In addition to case management services to those living with HIV disease, specialized case management services are available to those who are living with HIV, as well as deaf/hard-of-hearing, mental retardation, severe learning disability or severe cognitive impairment; or survivors of sexual assault, same-sex domestic violence or a bias/hate crime. Activities of the AssistHers program are reported as a part of case management services.

*Living Insightfully for Empowerment (LIFE)* is a psychotherapy and counseling program that provides quality counseling within a supportive atmosphere in which a person may feel empowered to explore all issues without fear of encountering prejudice, ignorance, homophobia or heterosexism.

*Anti-Violence* provides counseling services to address issues related to domestic violence, sexual assault, hate crimes and childhood sexual abuse.

*Chemical Dependency* provides a combination of education, therapy, and counseling. It is a state licensed, outpatient treatment program designed primarily for the Lesbian, Gay, Bisexual and Transgender (LGBT) communities. All phases of the program offer services to family members and others significant in the lives of clients participating in the program.

*Education* programs provide current and accessible information on HIV, sexually transmitted infections, chemical dependency, hepatitis and tuberculosis, and offer seminars on issues such as homophobia, heterosexism and cultural sensitivity. The Center also provides anti-violence education. The programs provide education and training not only to LGBT individuals, but to the greater Houston metropolitan area as a whole. These services are provided in prisons, half-way houses, inpatient and outpatient recovery centers, schools, social organizations, businesses and corporations, community and neighborhood groups, health care and legal professionals, churches and families.

*HIV/AIDS* provides individual, couple, and group counseling to people infected and affected with HIV and/or AIDS.

*Youth* provides adolescents and young adults who identify as LGBTQ outreach, counseling, role models and peer support to help prevent homelessness among youth.

*Senior* provides counseling services, case management services, social and recreational activities and health and wellness education to LGBT people age 60 and older.

*Women's services* include AssistHers, Lesbian Health Initiative, and Kindred Spirits. AssistHers provides a network of support to lesbian women struggling with debilitating or life-threatening illnesses in order for them to live as normally as possible, educates lesbian women and others about important health issues and eradicates discrimination and breaks down barriers which lesbians face when accessing health and social service systems. Lesbian Health Initiative works to illuminate and eliminate barriers to accessing health care for lesbians and trans men through advocacy, professional and community education and case management. Kindred Spirits is an annual celebration dance supporting women and their friends.

Federal income tax status – The Center 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 equivalents are highly liquid investments with original maturities of three months or less.

Pledges receivable that are due within one year are reported at net realizable value. Pledges receivable that are expected to be collected in future years are reported at the present value of the expected future cash flows.

Allowance for uncollectible receivables – An allowance for receivables is provided when it is believed balances may not be collected in full. The amount of bad debt expense or loss on receivables 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. 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.

Property is reported at cost if purchased and at estimated fair value at the date of gift if donated. The Center capitalizes property with a cost or fair value of \$5,000 or greater and an estimated useful life of more than one year. Depreciation is calculated on a straight-line basis over estimated useful lives of 5 to 20 years.

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.

Fee revenue – Revenue from government contracts and client fees are recognized when the related services are provided.

Contributions are recognized as revenue 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.

Non-cash contributions – Donated materials and use of facilities are recognized 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.

Special events revenue is recognized when the event occurs. Amounts received in advance are reported as deferred revenue until earned. Costs of benefits provided to donors represents the expenses recognized for food, beverages, facility rentals, and entertainment.

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.

Restatement of statement of cash flows – In fiscal year 2018, the Center adopted the Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2016-18, *Statement of Cash Flows – Restricted Cash*, which requires the statement of cash flows to explain the change in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Prior to adoption, restricted cash and cash equivalents were excluded from beginning and ending cash and cash equivalents in the statement of cash flows. The statement of cash flows for the year ended August 31, 2017 was restated to reflect the retrospective adoption. This change had no impact on net assets or changes in net assets.

Recent financial accounting pronouncements – In May 2014, the FASB issued 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 Center is required to adopt this ASU effective September 1, 2020. Management has not yet determined the impact 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 for both finance and operating leases. 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 periods beginning after December 15, 2019. The Center plans to adopt this ASU for its fiscal year ending August 31, 2021. Management has not yet determined the impact adoption of this ASU will have 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 Center 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 provide 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 Center 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 adoption also is permitted. Management has not determined the impact adoption of this ASU will have on the financial statements.

**NOTE 2 – MONTROSE COUNSELING CENTER PERMANENT ENDOWMENT, INC.**

Montrose Counseling Center Permanent Endowment, Inc. (the Endowment) is a nonprofit organization established to provide financial support for the Center. The Endowment is governed by an independent, self-perpetuating board of directors and serves as a permanent fund whereby donations are held in perpetuity. The financial activity of the Endowment is not included in these financial statements.

In 2007, the Endowment purchased an office building to house the operations of the Center. The office building is leased to the Center under a noncancelable operating lease agreement through December 31, 2028. The Center pays the expenses for building personnel and supplies, insurance, accounting and other administrative services. The property has annual rental payments of approximately \$567,000 through 2028. At August 31, 2018, the Center had a receivable from the Endowment in the amount of \$59,808. At August 31, 2017, the Center had a payable to the Endowment in the amount of \$114,802.

**NOTE 3 – CASH AND CASH EQUIVALENTS**

Cash and cash equivalents consist of the following:

	<u>2018</u>	<u>2017</u>
Bank deposits	\$ 1,245,320	\$ 979,022
Money market mutual funds	280,567	25,733
Certificates of deposit	<u>28,258</u>	<u>28,075</u>
Total cash and cash equivalents	<u>\$ 1,554,145</u>	<u>\$ 1,032,830</u>

**NOTE 4 – PLEDGES RECEIVABLE**

Pledges receivable are as follows:

	<u>2018</u>	<u>2017</u>
Pledges receivable – operating	\$ 234,844	\$ 328,835
Pledges receivable restricted for senior housing, net	<u>232,108</u>	<u>272,656</u>
Total	466,952	601,491
Allowance for uncollectible pledges	(27,974)	(27,974)
Discount to net present value at 1.19% to 2.70%	<u>(5,780)</u>	<u>(5,780)</u>
Pledges receivable, net	<u>\$ 433,198</u>	<u>\$ 567,737</u>

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

Within one year	\$ 359,577
In one to five years	<u>107,375</u>
Total pledges receivable	<u>\$ 466,952</u>

The Center has conditional pledges totaling \$200,000 to provide funding for a LGBT-friendly senior housing project to be developed and managed by the Center. The Center has not recognized any of the pledges as contribution revenue because the conditions have not been met.

## NOTE 5 – PROPERTY

Property is comprised of the following:

	<u>2018</u>	<u>2017</u>
Furniture and equipment	\$ 497,752	\$ 479,971
Construction in progress	904,877	121,926
Accumulated depreciation	<u>(437,275)</u>	<u>(418,977)</u>
Property, net	<u>\$ 965,354</u>	<u>\$ 182,920</u>

## NOTE 6 – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes:

	<u>2018</u>	<u>2017</u>
Senior housing	\$ 1,598,238	\$ 1,188,950
Hurricane Harvey relief	1,037,865	288,834
Hatch Youth program	261,193	162,185
Safe Zones program	180,411	189,035
Women's services	139,425	205,100
SPRY program	58,830	49,217
United Way allocation	44,976	46,732
Homelessness prevention	39,449	61,478
Pledges restricted for use in future periods	1,294	1,956
NEST program	667	26,066
Other	<u>25,582</u>	<u>34,369</u>
Total temporarily restricted net assets	<u>\$ 3,387,930</u>	<u>\$ 2,253,922</u>

## NOTE 7 – NOTE PAYABLE

The Center has a non-interest bearing note payable with an organization that funded architectural, survey, and market study costs for the senior housing project.

## NOTE 8 – GOVERNMENT CONTRACTS

The Center is a party to contracts with federal, state, and local governmental 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. Sources of significant federal and state grants received as direct and pass-through funding include the following:

	<u>2018</u>	<u>2017</u>
Federal grants:		
U. S. Department of Health and Human Services	\$ 2,374,523	\$ 2,425,323
U. S. Department of Housing and Urban Development	1,084,070	1,115,778
U. S. Department of Justice	<u>261,449</u>	<u>218,746</u>
Total federal grants	<u>3,720,042</u>	<u>3,759,847</u>
State grants:		
Texas Department of State Health Services	237,139	384,443
Texas Office of the Attorney General	59,646	47,604
Texas Health and Human Services Commission	<u>41,856</u>	<u>38,036</u>
Total state grants	<u>338,641</u>	<u>470,083</u>
Total government grants	<u>\$ 4,058,683</u>	<u>\$ 4,229,930</u>

The Center's contracts from federal, state and local governmental agencies 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 by the Center with the terms of the contracts. Management believes such disallowances, if any, would not be material to the Center's financial position or changes in net assets.

#### **NOTE 9 – RETIREMENT PLAN**

The Center participates in a §403(b) defined contribution annuity plan. Contributions to the plan include the employee's deferral of salary plus an employer match. The Center matches 50% of the employee's contributions, up to a maximum of 3% of the employee's salary. The Center contributed \$39,600 to this plan in 2018 and \$42,900 in 2017.

#### **NOTE 10 – COMMITMENTS**

At August 31, 2018, the Center had unfunded construction commitments totaling approximately \$166,000.

#### **NOTE 11 – SUBSEQUENT EVENTS**

Management has evaluated subsequent events through January 17, 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.

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**the Montrose Center**

Schedule of Expenditures of Federal Awards for the year ended August 31, 2018

<u>GRANTOR</u>						
<u>Pass-through Grantor</u>	<u>CFDA</u>	<u>Grant</u>	<u>Award</u>	<u>Revenue</u>	<u>Allowable</u>	
<u>Program Title &amp; Period</u>	<u>Number</u>	<u>Number</u>	<u>Amount</u>		<u>Expenses</u>	
U. S. DEPARTMENT OF HEALTH AND HUMAN SERVICES						
Passed through City of Houston Department of Health and Human Services Area Agency on Aging:						
Special Programs for the Aging Title III, Part B						
Grants for Supportive Services and Senior Centers (Aging Cluster)						
#1	10/01/16 – 09/30/17	93.044	4600010084	\$53,000	\$ 1,920	\$ 3,647
#2	10/01/17 – 12/31/18	93.044	4600010084	\$34,504	16,541	43,927
					<u>18,461</u>	<u>47,574</u>
Passed through BakerRipley and Harris County Area Agency on Aging:						
Special Programs for the Aging, Title III, Part C, Nutrition Services						
Nutrition Services (Aging Cluster)						
#3	10/01/16 – 09/30/17	93.045	3618	\$8,159	529	529
#4	10/01/17 – 09/30/18	93.045	5423	\$8,813	7,283	7,283
					<u>7,812</u>	<u>7,812</u>
Passed through the Center for Success and Independence:						
Administration for Children & Families, Family and Youth Services Bureau						
Affordable Care Act (ACA) Personal Responsibility Education Program						
#5	10/01/15 – 09/30/18	93.092	N/A	\$790,611	229,613	229,613
Passed through Houston Regional HIV/AIDS Resource Group, Inc.:						
Coordinated Services and Access to Research for Women, Infants, Children and Youth						
Ryan White, Part D, Mental Health						
#6	08/01/17 – 07/31/18	93.153	18TMC00PTD	\$18,230	11,237	11,237
#7	08/01/18 – 07/31/19	93.153	19TMC00PTD	\$18,066	974	974
					<u>12,211</u>	<u>12,211</u>
Passed through Texas Health and Human Services Commission:						
Administration for Children and Families						
Social Services Block Grant						
#8	09/01/17 – 08/31/18	93.667	529-15-0031-00005D	\$38,760	38,760	38,760
Family Violence Prevention and Services						
#9	09/01/17 – 08/31/19	93.671	529-15-0031-00005D	\$18,177	18,177	18,177
Block Grants for Prevention and Treatment of Substance Abuse						
HIV Early Intervention						
#10	09/01/17 – 08/31/18	93.959	2016-048268-003	\$423,607	291,134	291,134
HIV Outreach						
#11	09/01/17 – 08/31/18	93.959	2016-048183-003	\$844,571	814,449	814,449
Recovery Support Services						
#12	09/01/17 – 08/31/18	93.959	2016-048373-003	\$262,038	187,117	196,965

(continued)

**the Montrose Center**

Schedule of Expenditures of Federal Awards for the year ended August 31, 2018 (continued)

<u>GRANTOR</u>						
<u>Pass-through Grantor</u>	<u>CFDA</u>	<u>Grant</u>	<u>Award</u>	<u>Revenue</u>	<u>Allowable</u>	
<u>Program Title &amp; Period</u>	<u>Number</u>	<u>Number</u>	<u>Amount</u>		<u>Expenses</u>	
U. S. DEPARTMENT OF HEALTH AND HUMAN SERVICES <i>(continued)</i>						
Substance Abuse Treatment						
#13	09/01/17 – 08/31/18	93.959	2016-048471-003	\$35,037	<u>18,745</u>	<u>51,285</u>
					<u>1,368,382</u>	<u>1,410,770</u>
Passed through the Substance Abuse and Mental Health Services Administration:						
State Targeted Response to the Opioid Crisis Grants						
Opioid STR						
#14	09/01/17 – 08/31/18	93.788	2016-048183-003	\$60,419	60,419	60,419
#15	09/01/17 – 08/31/18	93.788	2016-048373-003	\$64,338	<u>64,338</u>	<u>64,338</u>
					<u>124,757</u>	<u>124,757</u>
Passed through Harris County:						
HIV Emergency Relief Project Grants						
Case Management						
#16	03/01/17 – 02/28/18	93.914	17GEN0912	\$309,328	101,610	85,822
#17	03/01/18 – 02/28/19	93.914	18GEN0114	\$244,328	83,730	82,158
Substance Abuse						
#18	03/01/17 – 02/28/18	93.914	17GEN0114	\$45,677	22,850	29,803
#19	03/01/18 – 02/28/19	93.914	18GEN0108	\$45,677	<u>16,919</u>	<u>24,191</u>
					<u>225,109</u>	<u>221,974</u>
Passed through City of Houston Bureau of HIV/STD Prevention:						
HIV Prevention Activities Health Department Based						
City – Community PROMISE						
#20	01/01/17 – 12/31/17	93.940	4600012431	\$200,000	58,284	58,284
#21	01/01/18 – 12/31/18	93.940	4600012431	\$160,000	<u>94,870</u>	<u>95,501</u>
					<u>153,154</u>	<u>153,785</u>
Passed through Texas Department of State Health Services:						
HIV Care Project Grants						
HIV/MAI HIV – Minority AIDS Initiative						
#22	04/01/17 – 03/31/18	93.917	2016-003878B	\$229,500	123,840	123,840
#23	04/01/18 – 03/31/19	93.917	2016-003878C	\$229,500	<u>97,308</u>	<u>99,675</u>
					<u>221,148</u>	<u>223,515</u>
Passed through The Resource Group:						
Housing Opportunities for Persons with AIDS						
#24	02/01/17 – 01/31/18	14.241	18TMC00HP	\$14,118	5,779	5,779

*(continued)*

**the Montrose Center**

Schedule of Expenditures of Federal Awards for the year ended August 31, 2018 (continued)

<u>GRANTOR</u>					
<u>Pass-through Grantor</u>	<u>CFDA</u>	<u>Grant</u>	<u>Award</u>	<u>Revenue</u>	<u>Allowable</u>
<u>Program Title &amp; Period</u>	<u>Number</u>	<u>Number</u>	<u>Amount</u>		<u>Expenses</u>
U. S. DEPARTMENT OF HEALTH AND HUMAN SERVICES <i>(continued)</i>					
#25 02/01/18 – 01/31/19	14.241	19TMC00HP	\$13,609	<u>8,097</u>	<u>8,097</u>
				<u>13,876</u>	<u>13,876</u>
Total U. S. Department of Health and Human Services				<u>2,374,523</u>	<u>2,445,887</u>
U. S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT					
Passed through City of Houston Housing and Community Development Department: Housing Opportunities for Persons with AIDS					
#26 05/01/16 – 04/30/19	14.241	4600013822	\$3,585,964	<u>924,491</u>	<u>924,491</u>
Passed through Houston Housing Authority:					
Continuum of Care Program					
Rapid Rehousing and Transition Age Youth Case Management Services					
#27 12/01/16 – 11/30/17	14.267	16-31-A	\$60,973	13,815	13,815
#28 12/01/17 – 11/30/18	14.267	16-31-B	\$60,973	<u>41,602</u>	<u>41,602</u>
				<u>55,417</u>	<u>55,417</u>
Direct Federal Funding:					
Continuum of Care Program					
Rapid Rehousing Program					
#29 10/01/16 – 09/30/17	14.267	TX0171L6E001508	\$109,465	14,564	14,564
#30 10/01/17 – 09/30/18	14.267	TX0171L6E001609	\$109,465	<u>89,598</u>	<u>89,598</u>
				<u>104,162</u>	<u>104,162</u>
Total U. S. Department of Housing and Urban Development				<u>1,084,070</u>	<u>1,084,070</u>
U. S. DEPARTMENT OF JUSTICE					
Passed through Texas Office of the Governor, Criminal Justice Division: Violence Against Women Formula Grants					
#31 10/01/16 – 09/30/18	16.588	16934-13	\$480,195	<u>261,449</u>	<u>261,449</u>
Total U. S. Department of Justice				<u>261,449</u>	<u>261,449</u>
TOTAL FEDERAL AWARDS				<u>\$ 3,720,042</u>	<u>\$ 3,791,406</u>

*(continued)*

**the Montrose Center**

Schedule of Expenditures of Federal Awards for the year ended August 31, 2018 *(continued)*

Federal funds expended by the Montrose Center, by CFDA number or CFDA cluster, are summarized as follows:

<u>CFDA Number(s)</u>	<u>Name of Program or Cluster</u>	<u>Amount</u>
14.241	Housing Opportunities for Persons with AIDS	\$ 938,367
14.267	Continuum of Care Program	159,579
16.588	Violence Against Women Formula Grants	261,449
93.044, 93.045	Aging Cluster	55,386
93.092	Affordable Care Act (ACA) Personal Responsibility Education Program	229,613
93.153	Coordinated Services and Access to Research for Women, Infants, Children and Youth	12,211
93.667	Social Services Block Grant	38,760
93.671	Family Violence Prevention and Services	18,177
93.788	Opioid STR	124,757
93.914	HIV Emergency Relief Project Grants	221,974
93.917	HIV Care Formula Grants	223,515
93.940	HIV Prevention Activities – Health Department Based	153,785
93.959	Block Grants for Prevention and Treatment of Substance Abuse	<u>1,353,833</u>
Total		<u>\$ 3,791,406</u>

*See accompanying note to schedules of expenditures of federal and state awards.*

**the Montrose Center**

Schedule of Expenditures of State Awards for the year ended August 31, 2018

<u>GRANTOR</u>				
<u>Pass-through Grantor</u>	<u>Contract</u>	<u>Award</u>	<u>Revenue</u>	<u>Allowable</u>
<u>Program Title &amp; Period</u>	<u>Number</u>	<u>Amount</u>		<u>Expenses</u>
TEXAS DEPARTMENT OF STATE HEALTH SERVICES				
Direct Funding:				
HIV Early Intervention				
#1 09/01/17 – 08/31/18	2016-048261-003	\$16,638	\$ 16,638	\$ 16,638
HIV Outreach				
#2 09/01/17 – 08/31/18	2016-048183-003	\$21,171	21,171	21,171
Substance Abuse Treatment				
#3 09/01/17 – 08/31/18	2016-048471-003	\$3,468	3,468	3,468
Passed through Houston Regional HIV/AIDS Resource Group, Inc.:				
Counseling				
#4 09/01/17 – 08/31/18	18TMC00SS	\$300,000	157,212	157,891
Linguistics				
#5 09/01/17 – 08/31/18	18TMC00SS	\$51,211	<u>38,650</u>	<u>63,341</u>
Total Texas Department of State Health Services			<u>237,139</u>	<u>262,509</u>
TEXAS OFFICE OF THE ATTORNEY GENERAL				
Direct Funding:				
Sexual Assault Prevention and Crisis Services – Crisis Intervention				
#6 09/01/17 – 08/31/18	1881366	\$87,382	34,933	34,933
Other Victim Assistance Grant				
#7 09/01/17 – 08/31/18	1879758	\$42,000	<u>24,713</u>	<u>24,713</u>
Total Texas Office of the Attorney General			<u>59,646</u>	<u>59,646</u>
TEXAS HEALTH AND HUMAN SERVICES COMMISSION				
Direct Funding:				
Family Violence Prevention and Services Act				
#8 09/01/17 – 08/31/18	529-15-0031-00005D	\$38,760	38,761	38,761
Texas Veterans and Family Alliance Grant Program				
#9 07/01/18 – 12/31/19	HHS000125400012	\$118,615	<u>3,095</u>	<u>3,095</u>
Total Texas Health and Human Services Commission			<u>41,856</u>	<u>41,856</u>
TOTAL STATE AWARDS			<u>\$ 338,641</u>	<u>\$ 364,011</u>

*See accompanying note to schedules of expenditures of federal and state awards.*

## the Montrose Center

Note to Schedules of Expenditures of Federal and State Awards for the year ended August 31, 2018

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### NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation – The schedules of expenditures of federal and state awards are prepared on the accrual basis of accounting. The information in these schedules is presented in accordance with the requirements of Title 2 U. S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) and State of Texas *Single Audit Circular*. Federal and state expenses include allowable expenses funded by federal and state grants. Non-federal or non-state expenditures include allowable expenses funded by other sources of revenue. Allowable costs are subject to the cost principles of the Uniform Guidance and the State of Texas *Uniform Grant Management Standards*, and include both costs that are capitalized and costs that are recognized as expenses in the Center’s financial statements in conformity with generally accepted accounting principles. The Center utilizes the 10% de minimus cost rate for indirect costs or rates as stated by contract.

Because the schedules present only a selected portion of the operations of the Center, they are not intended to and do not present the financial position, changes in net assets, or cash flows of the Center.

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**Independent Auditors' Report on Internal Control Over Financial Reporting and on  
Compliance and Other Matters Based on an Audit of Financial Statements  
Performed in Accordance with *Government Auditing Standards***

To the Board of Directors of  
the Montrose Center:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Montrose Center (the Center), which comprise the statement of financial position as of August 31, 2018 and the related statements of activities, of functional expenses, and of cash flows for the year then ended, and the related notes to the financial statements and have issued our report thereon dated January 17, 2019.

***Internal Control Over Financial Reporting***

In planning and performing our audit of the financial statements, we considered the Center's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Center's internal control. Accordingly, we do not express an opinion on the effectiveness of the Center's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

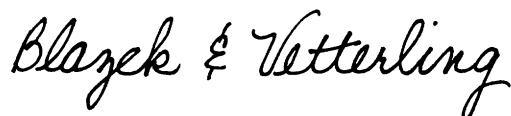
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

***Compliance and Other Matters***

As part of obtaining reasonable assurance about whether the Center's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

***Purpose of this Report***

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



January 17, 2019

## **Independent Auditors' Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance Required by the Uniform Guidance**

To the Board of Directors of  
the Montrose Center:

### **Report on Compliance for Each Major Federal Program**

We have audited the Montrose Center's (the Center) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Center's major federal programs for the year ended August 31, 2018. The Center's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

#### ***Management's Responsibility***

Management is responsible for compliance with the requirements of federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

#### ***Auditors' Responsibility***

Our responsibility is to express an opinion on compliance for each of the Center's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U. S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Center's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Center's compliance.

#### ***Opinion on Each Major Federal Program***

In our opinion, the Center complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended August 31, 2018.

#### ***Other Matters***

The results of our auditing procedures disclosed instances of noncompliance which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as findings #2018-001 and #2018-002. Our opinion on each major federal program is not modified with respect to these matters.

The Center's responses to the noncompliance findings identified in our audit are described in the accompanying Corrective Action Plan. The Center's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.



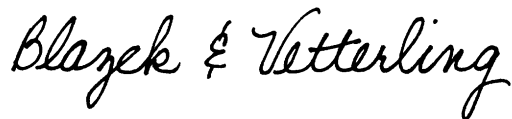
## Report on Internal Control Over Compliance

Management of the Center is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Center's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Center's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

The image shows a handwritten signature in cursive script that reads "Blazek & Vetterling". The signature is written in black ink and is positioned above the date.

January 17, 2019

**the Montrose Center**

Schedule of Findings and Questioned Costs for the year ended August 31, 2018

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**Section I – Summary of Auditors’ Results**

*Financial Statements*

Type of auditors’ report issued:  unmodified  qualified  adverse  disclaimer

Internal control over financial reporting:

- Material weakness(es) identified?  yes  no
- Significant deficiency(ies) identified that are not considered to be material weakness(es)?  yes  none reported

Noncompliance material to the financial statements noted?  yes  no

*Federal Awards*

Internal control over major programs:

- Material weakness(es) identified?  yes  no
- Significant deficiency(ies) identified that are not considered to be material weakness(es)?  yes  none reported

Type of auditors’ report issued on compliance for major programs:  unmodified  qualified  adverse  disclaimer

Any audit findings disclosed that are required to be reported in accordance with 2 CFR §200.516(a)?  yes  no

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
93.959	Block Grants for Prevention and Treatment of Substance Abuse
93.917	HIV Care Formula Grants Minority AIDS Initiative

Dollar threshold used to distinguish between Type A and Type B programs: \$750,000

Auditee qualified as a low-risk auditee?  yes  no

**Section II – Financial Statement Findings**

There were no findings related to the financial statements which are required to be reported in accordance with *Government Auditing Standards*.

### Section III – Federal Award Findings and Questioned Costs

#### **Finding #2018-001** – Other Noncompliance

##### ***Applicable federal program:***

U. S. Department of Health and Human Services  
Passed through Texas Department of State Health Services  
HIV Care Formula Grants  
CFDA #93.917  
Contract Number: 2016-003878C  
Contract Year: 04/01/18 – 03/31/19

***Criteria:*** The contract with the Texas Department of State Health Services requires that proof of HIV+ status be retained in client files.

***Condition and context:*** During our test of 40 clients, 3 files did not include proof of the client’s HIV+ status.

***Cause:*** The finding occurred because of a failure to comply with existing policies and procedures.

***Effect:*** The Center is out of compliance with its contract.

***Recommendation:*** Re-emphasize procedures to ensure that proof of HIV+ status is retained in each client’s file.

***Views of responsible officials and planned corrective action:*** Management agrees with the finding. See Corrective Action Plan.

#### **Finding #2018-002** – Other Noncompliance

##### ***Applicable federal program:***

U. S. Department of Health and Human Services  
Passed through Texas Health and Human Services Commission  
Block Grants for Prevention and Treatment of Substance Abuse  
CFDA #93.959  
Contract Numbers: 2016-048268-003, 2016-048183-003, 2016-048373-003  
Contract Year: 09/01/17 – 08/31/18

***Criteria:*** The contract with the Texas Health and Human Services Commission requires quarterly reporting by the end of the month following the quarter.

***Condition and context:*** Out of 16 reports filed during the year, three June reports were not filed until August 8 although they were due on July 31.

***Cause:*** The finding occurred because of a failure to comply with existing policies and procedures.

***Effect:*** The Center is out of compliance with its contract.

***Recommendation:*** Re-emphasize that all reports be filed timely.

***Views of responsible officials and planned corrective action:*** Management agrees with the finding. See Corrective Action Plan.



## CORRECTIVE ACTION PLAN

January 17, 2019

U. S. DEPARTMENT OF HEALTH AND HUMAN SERVICES

The Montrose Center respectfully submits the following corrective action plan for the year ended August 31, 2018. The audit was performed by: Blazek & Vetterling, 2900 Wesleyan, Suite 200, Houston, Texas, 77027.

The findings from the August 31, 2018 schedule of findings and questioned costs are discussed below.

### **FINDINGS – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

#### **Finding #2018-001** – Other Noncompliance

##### ***Applicable federal program:***

U. S. Department of Health and Human Services  
Passed through Texas Department of State Health Services  
HIV Care Formula Grants  
CFDA #93.917  
Contract Number: 2016-003878C  
Contract Year: 04/01/18 – 03/31/19

***Recommendation:*** Re-emphasize procedures to ensure that proof of HIV+ status is retained in each client's file.

***Planned corrective action plan:*** §4.2.1.1 MAI Re-Entry Checklist has been implemented to ensure that all proper documentation, including HIV status, is included in client files.

***Responsible officer:*** Jaymie Mielke-Quiroz, MA, Prevention Program Coordinator

***Estimated completion date:*** October 1, 2018

#### **Finding #2018-002** – Other Noncompliance

##### ***Applicable federal program:***

U. S. Department of Health and Human Services  
Passed through Texas Health and Human Services Commission  
Block Grants for Prevention and Treatment of Substance Abuse  
CFDA #93.959  
Contract Numbers: 2016-048268-003, 2016-048183-003, 2016-048373-003  
Contract Year: 09/01/17 – 08/31/18

***Recommendation:*** Re-emphasize that all reports be filed timely.

– 26 –

**Empowering LGBT Houston**

***Planned corrective action plan:*** Retrain staff on deadlines and ensure that all deadlines are entered into the staff member's calendar with reminders turned on.

***Responsible officer:*** Gary Powers, CMA, Finance Director

***Estimated completion date:*** December 1, 2018

If the U. S. Department of Health and Human Services has questions regarding this plan, please call Dr. Ann J. Robison at (713) 800-0900.

Sincerely,



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Ann J. Robison, PhD  
Executive Director