

the Montrose Center and Affiliate

Financial Statements
and Single Audit Reports
for the year ended August 31, 2019

the Montrose Center and Affiliate

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Independent Auditors' Report

To the Board of Directors of
the Montrose Center and Affiliate:

Report on the Financial Statements

We have audited the accompanying financial statements of the Montrose Center and Affiliate, which comprise the statements of financial position as of August 31, 2019 and 2018 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 and Affiliate as of August 31, 2019 and 2018 and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Adoption of New Accounting Standard

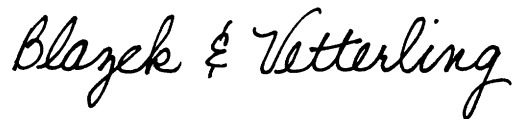
As discussed in Note 2 to the financial statements, the Montrose Center and Affiliate adopted the amendments of Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*, as of and for the year ended August 31, 2019. These amendments have been applied on a retrospective basis to the financial statements as of and for the year ended August 31, 2018, except that certain information has been omitted as permitted by the ASU. Our opinion is not modified with respect to this matter.

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, 2019 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, 2019 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 February 20, 2020 on our consideration of the Montrose Center and Affiliate'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 and Affiliate'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 and Affiliate's internal control over financial reporting and compliance.



February 20, 2020

the Montrose Center and Affiliate

Statements of Financial Position as of August 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
ASSETS		
Cash and cash equivalents (<i>Note 5</i>)	\$ 414,173	\$ 1,059,587
Receivables:		
Government contracts	961,189	951,736
Client fees, net	612,393	589,044
Operating contributions receivable, net (<i>Note 6</i>)	202,845	234,395
United Way allocation	46,334	44,976
Receivable due from Montrose Counseling Center Permanent Endowment, Inc. (<i>Note 4</i>)	1,561	59,808
Other	176,877	
Prepaid expenses	255,564	234,371
Cash restricted for senior housing (<i>Note 5</i>)	1,199,173	494,558
Contributions receivable restricted for senior housing, net (<i>Note 6</i>)	1,365,804	198,803
Property, net (<i>Note 7</i>)	<u>7,503,989</u>	<u>965,354</u>
TOTAL ASSETS	<u>\$ 12,739,902</u>	<u>\$ 4,832,632</u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued expenses	\$ 188,130	\$ 212,980
Construction payable		248,101
Notes payable (<i>Note 9</i>)	<u>905,782</u>	<u>59,834</u>
Total liabilities	<u>1,093,912</u>	<u>520,915</u>
Net assets:		
Without donor restrictions	6,101,858	923,787
With donor restrictions (<i>Note 8</i>)	<u>5,544,132</u>	<u>3,387,930</u>
Total net assets	<u>11,645,990</u>	<u>4,311,717</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 12,739,902</u>	<u>\$ 4,832,632</u>

See accompanying notes to financial statements.

the Montrose Center and Affiliate

Statement of Activities for the year ended August 31, 2019

	WITHOUT DONOR RESTRICTIONS	WITH DONOR RESTRICTIONS	TOTAL
REVENUE:			
Government contracts (<i>Note 10</i>)	\$ 5,217,992		\$ 5,217,992
Client fees	1,594,988		1,594,988
Contributions	5,249,801	\$ 2,765,405	8,015,206
Special events	348,485	11,633	360,118
Direct donor benefits	(85,061)		(85,061)
United Way allocation		141,324	141,324
Other income	<u>162,309</u>		<u>162,309</u>
Total revenue	12,488,514	2,918,362	15,406,876
Net assets released from restrictions:			
Expiration of time restrictions	1,294	(1,294)	
Expenditure for program purposes	<u>760,866</u>	<u>(760,866)</u>	
Total	<u>13,250,674</u>	<u>2,156,202</u>	<u>15,406,876</u>
EXPENSES:			
Program expenses:			
Case Management	4,075,010		4,075,010
LIFE	981,736		981,736
Anti-Violence	523,183		523,183
Chemical Dependency	404,417		404,417
Education	356,712		356,712
HIV/AIDS	300,272		300,272
Youth	201,977		201,977
Senior	155,555		155,555
Women's services	<u>100,037</u>		<u>100,037</u>
Total program expenses	7,098,899		7,098,899
Management and general	533,342		533,342
Fundraising	<u>440,362</u>		<u>440,362</u>
Total expenses	<u>8,072,603</u>		<u>8,072,603</u>
CHANGES IN NET ASSETS	5,178,071	2,156,202	7,334,273
Net assets, beginning of year	<u>923,787</u>	<u>3,387,930</u>	<u>4,311,717</u>
Net assets, end of year	<u>\$ 6,101,858</u>	<u>\$ 5,544,132</u>	<u>\$ 11,645,990</u>

See accompanying notes to financial statements.

the Montrose Center and Affiliate

Statement of Activities for the year ended August 31, 2018

	WITHOUT DONOR RESTRICTIONS	WITH DONOR RESTRICTIONS	TOTAL
REVENUE:			
Government contracts (<i>Note 10</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>
EXPENSES:			
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 (<i>Note 2</i>)	<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 and Affiliate

Statement of Functional Expenses for the year ended August 31, 2019

	CASE MANAGEMENT	LIFE	ANTI- VIOLENCE	CHEMICAL DEPENDENCY	EDUCATION	HIV/AIDS	YOUTH	SENIOR	WOMEN'S SERVICES	MANAGEMENT AND GENERAL	FUNDRAISING	TOTAL EXPENSES
Salaries	\$ 1,568,155	\$ 599,953	\$ 297,245	\$ 256,806	\$ 225,296	\$ 210,417	\$ 105,146	\$ 106,166	\$ 42,242	\$ 247,938	\$ 313,516	\$ 3,972,880
Benefits	205,481	56,340	29,462	35,959	34,538	17,021	12,770	9,237	7,774	21,870	32,547	462,999
Payroll taxes	134,450	49,486	24,960	21,614	19,222	17,198	8,815	9,087	3,642	29,075	25,584	343,133
Client assistance	1,642,400	18,774	86,276	452	150		19,979		16,598			1,784,629
Occupancy	249,066	68,568	44,501	39,014	40,051	24,812	15,208	16,548	8,727	64,000	11,449	581,944
Contract services	81,096	130,216	536	1,486	158	1,135	2,225	239	34	142,367	21,793	381,285
In-kind professional services	29,166	20,649	20,647	20,647		20,647	23,303					135,059
Supplies	60,097	12,573	3,631	3,396	2,012	1,076	6,691	4,342	14,090	1,544	11,549	121,001
Local travel	48,240	55	1,305	11,592	27,153	5	2,594	679	22	183	112	91,940
Telephone	17,846	5,261	4,274	3,378	2,855	1,755	1,367	1,197	950	517	818	40,218
Depreciation	11,214	2,707	1,447	1,121	992	830	558	421	277	1,161	1,203	21,931
Equipment rental and purchases	9,431	3,837	1,696	1,485	1,523	924	570	622	332	294	435	21,149
Professional development	4,065	3,809	1,845	600	600		195	617		40	335	12,106
Bad debt		3,182	1,156	2,662		511		896				8,407
Printing	3,997	283	99	93	2	39	1	245	725	1,280	155	6,919
Postage	998	298	237	191	161	150	55	238	35	593	663	3,619
Other	9,308	5,745	3,866	3,921	1,999	3,752	2,500	5,021	4,589	22,480	20,203	83,384
Total expenses	\$ 4,075,010	\$ 981,736	\$ 523,183	\$ 404,417	\$ 356,712	\$ 300,272	\$ 201,977	\$ 155,555	\$ 100,037	\$ 533,342	\$ 440,362	\$ 8,072,603
Grant reimbursed management expenses by program	\$147,004	\$21,265	\$20,485	\$14,906	\$45,365	\$11,344	\$5,876	\$7,313	\$1,629			

See accompanying notes to financial statements.

the Montrose Center and Affiliate

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
Contract services	70,810	6,910	4,189	2,240	851	1,592	265	478	2,465	34,323	18,908	143,031
In-kind professional services	32,876	22,549	22,547	22,549		22,549	35,724					158,794
Supplies	36,517	1,201	1,137	4,937	1,048	579	1,037	1,884	785	740	787	50,652
Local travel	44,182	935	1,545	7,193	26,468			784	95	29	269	81,500
Telephone	13,910	2,982	3,494	3,332	2,333	1,353	716	876	555	1,500	909	31,960
Depreciation	9,184	1,526	1,339	1,076	1,109	711	421	405	294	844	1,389	18,298
Equipment rental and purchases	10,152	2,842	1,764	1,695	1,699	998	530	633	404	2,092	406	23,215
Professional development	15,416	1,660	665	3,613	3,193	476		173	170	59	40	25,465
Bad debt		5,533	2,129	4,955		1,372	5,697	1,769				21,455
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 and Affiliate

Statements of Cash Flows for the years ended August 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in net assets	\$ 7,334,273	\$ 1,265,465
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation	21,931	18,298
Contributed land	(3,265,000)	
Contributions restricted for senior housing	(2,038,329)	(409,288)
Changes in operating assets and liabilities:		
Receivables	(121,240)	(82,116)
Prepaid expenses	(21,193)	(22,485)
Deferred revenue – special events		(14,500)
Accounts payable and accrued expenses	<u>(24,850)</u>	<u>(131,264)</u>
Net cash provided by operating activities	<u>1,885,592</u>	<u>624,110</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property	<u>(3,543,667)</u>	<u>(552,631)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from contributions restricted for senior housing	871,328	449,836
Proceeds from debt	1,392,378	
Debt issuance costs	(286,596)	
Repayment of debt	<u>(259,834)</u>	<u> </u>
Net cash provided by financing activities	<u>1,717,276</u>	<u>449,836</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	59,201	521,315
Cash and cash equivalents, beginning of year	<u>1,554,145</u>	<u>1,032,830</u>
Cash and cash equivalents, end of year	<u>\$ 1,613,346</u>	<u>\$ 1,554,145</u>
<i>Reconciliation of cash balances:</i>		
Cash and cash equivalents	\$ 414,173	\$ 1,059,587
Cash restricted for senior housing	<u>1,199,173</u>	<u>494,558</u>
Total cash	<u>\$ 1,613,346</u>	<u>\$ 1,554,145</u>

See accompanying notes to financial statements.

the Montrose Center and Affiliate

Notes to Financial Statements for the years ended August 31, 2019 and 2018

NOTE 1 – ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Organization – The Montrose 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 2019, the Montrose Center formed 2222 Cleburne, GP, a Texas limited liability company. The Montrose Center is the sole member of 2222 Cleburne, GP, which is the general partner in 2222 Cleburne, LP, a domestic limited partnership that was formed to develop a 112-unit affordable senior housing project (see Note 6).

Basis of consolidation – These financial statements include the assets, liabilities, net assets and activities of the Montrose Center, 2222 Cleburne, GP, and 2222 Cleburne, LP (collectively the Center). All balances and transactions between the consolidated entities have been eliminated.

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 Montrose 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). 2222 Cleburne, GP and 2222 Cleburne, LP are pass-through entities for tax purposes and are not subject to income taxes.

Cash equivalents are highly liquid investments with original maturities of three months or less.

Contributions receivable that are due within one year are reported at net realizable value. Contributions 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.

Debt issuance costs related to issuance of notes payable are reported as a direct reduction of the related debt and are amortized as interest expense over the life of the debt.

Net asset classification – Net assets, revenue, gains, and losses are classified based on the existence or absence of donor-imposed restrictions, as follows:

- *Net assets without donor restrictions* are not subject to donor-imposed restrictions even though their use may be limited in other respects such as by contract or board designation.
- *Net assets with donor restrictions* are subject to donor-imposed restrictions. Restrictions may be temporary in nature, such as those that will be met by the passage of time or use for a purpose specified by the donor, or may be perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Net assets are released from restrictions when the stipulated time has elapsed, or purpose has been fulfilled, or both.

Government contracts and client fees are recognized as revenue 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.

Functional allocation of expenses – Expenses are reported by their functional classification. Program services are the direct conduct or supervision of activities that fulfill the purposes for which the organization exists. Fundraising activities include the solicitation of contributions of money, securities, materials, facilities, other assets, and time. Management and general activities are not directly identifiable with specific program or fundraising activities. Expenses that are attributable to more than one activity are allocated among the activities benefitted. Salaries and related costs are allocated on the basis of estimated time and effort expended. Depreciation, utilities, and facilities related costs are allocated based on square footage.

Estimates – Management must make estimates and assumptions to prepare financial statements in accordance with generally accepted accounting principles. These estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, the amounts of reported revenue and expenses, and the allocation of expenses among various functions. Actual results could vary from the estimates that were used.

Recent financial accounting pronouncements – In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers*, which replaces most existing revenue recognition guidance for exchange transactions not specifically covered by other guidance. This ASU does not apply to non-exchange transactions such as contributions. The core principle of the new guidance is that an entity should recognize revenue in an amount that reflects the consideration to which it expects to be entitled in exchange for transferred goods or services and establishes a 5-step process to determine when performance obligations are satisfied and revenue is recognized. The 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 by lessees and lessors 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, 2020. The Center plans to adopt this ASU for its fiscal year ending August 31, 2022. Management has not yet determined the impact adoption of this ASU will have on 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 ending August 31, 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 – ADOPTION OF ACCOUNTING STANDARDS UPDATE 2016-14

The Center adopted the amendments of ASU 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*, as of and for the year ended August 31, 2019. These amendments have been applied on a retrospective basis to the financial statements for the year ended August 31, 2018, except that information regarding liquidity and availability of resources has been omitted as permitted by the ASU. Adoption of this ASU resulted in reclassification of previously reported activities and net assets to conform to the 2019 presentation but had no impact on total net assets or total changes in net assets for 2018.

NOTE 3 – LIQUIDITY AND AVAILABILITY OF RESOURCES

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use within one year of August 31, 2019 are as follows:

Financial assets at August 31, 2019:

Cash	\$ 414,173
Government grants and other receivables	1,752,020
Contributions receivable	<u>249,179</u>
Total financial assets	2,415,372
Less: Donor-restricted net assets not expected to be satisfied	<u>(1,298,264)</u>
Total financial assets available for general expenditure	<u>\$ 1,117,108</u>

For purposes of analyzing resources available to meet general expenditures over a 12-month period, the Center considers all expenditures related to its ongoing activities of providing outpatient mental health care, substance abuse treatment and case management services, as well as the conduct of services undertaken to support those activities, to be general expenditures. The Center expects to fund general expenditures in excess of financial assets available to meet cash needs with future contributions and government grants.

NOTE 4 – 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, 2019, the Center had a receivable from the Endowment in the amount of \$1,561. At August 31, 2018, the Center had a receivable from the Endowment in the amount of \$59,808.

NOTE 5 – CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of the following:

	<u>2019</u>	<u>2018</u>
Bank deposits	\$ 1,567,816	\$ 1,517,171
Money market mutual funds	12,237	8,716
Certificates of deposit	<u>33,293</u>	<u>28,258</u>
Total cash and cash equivalents	<u>\$ 1,613,346</u>	<u>\$ 1,554,145</u>

NOTE 6 – CONTRIBUTIONS RECEIVABLE

Contributions receivable are as follows:

	<u>2019</u>	<u>2018</u>
Contributions receivable – operating	\$ 203,294	\$ 234,844
Contributions receivable restricted for senior housing	<u>1,396,190</u>	<u>232,108</u>
Total	1,599,484	466,952
Allowance for uncollectible contributions receivable	(27,974)	(27,974)
Discount to net present value at 1.19% to 2.70%	<u>(2,861)</u>	<u>(5,780)</u>
Contributions receivable, net	<u>\$ 1,568,649</u>	<u>\$ 433,198</u>

Contributions receivable at August 31, 2019 are expected to be collected as follows:

Within one year	\$ 1,334,344
In one to five years	<u>265,140</u>
Total contributions receivable	<u>\$ 1,599,484</u>

NOTE 7 – PROPERTY

Property is comprised of the following:

	<u>2019</u>	<u>2018</u>
Land	\$ 3,265,000	
Furniture and equipment	535,674	\$ 497,752
Construction in progress	4,162,521	904,877
Accumulated depreciation	<u>(459,206)</u>	<u>(437,275)</u>
Property, net	<u>\$ 7,503,989</u>	<u>\$ 965,354</u>

In 2019, 2222 Cleburne, LP was formed as a partnership between 2222 Cleburne, GP and National Equity Fund, Inc. (NEF) to own and operate a 122-unit senior housing project. 2222 Cleburne, GP has a .01% interest in the project and will serve as the general partner. In June 2019, 2222 Cleburne, LP executed a \$13,628,000 promissory note with a bank to provide construction funding for the project. Additional funding will be provided by a \$5,100,000 promissory note with the City of Houston that will be forgiven at the end of a 30-year period if no default, as defined, has occurred. NEF will obtain a 99.99% interest in 2222 Cleburne, LP for approximately \$14,100,000 payable at specified times during development of the project. The land upon which the project is located, valued at \$3,650,000, was donated to the Montrose Center by Midtown Redevelopment Authority and sold to 2222 Cleburne, LP in exchange for \$3,650,000 note from 2222 Cleburne, LP to the Montrose Center. At August 31, the Center is party to construction contracts totaling approximately \$20,240,000 related to the project.

NOTE 8 – NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are restricted as follows:

	<u>2019</u>	<u>2018</u>
Senior housing	\$ 3,636,567	\$ 1,598,238
Hurricane Harvey relief	515,525	686,548
Hatch Youth program	360,110	261,193
Electronic medical records	302,674	351,317
Community Center initiatives	300,000	
Safe Zones program	175,570	180,411
Women’s services	111,115	139,425
Homelessness prevention	63,270	39,449
United Way allocation	46,334	44,976
SPRY program	9,599	58,830
Other	<u>23,368</u>	<u>27,543</u>
Total net assets with donor restrictions	<u>\$ 5,544,132</u>	<u>\$ 3,387,930</u>

NOTE 9 – NOTE PAYABLE

Notes payable are as follows:

	<u>2019</u>	<u>2018</u>
Note payable at 6.5% secured by contributions receivable. Maturity date of loan is December 20, 2020.	\$ 500,000	
Construction note payable with interest only at LIBOR + 2.5%, net of unamortized debt issuance costs of \$286,596. Matures June 2021. Converts to permanent loan after construction with term interest at 5.26%. Principal and interest will be paid over 15 years.	405,782	
Non-interest bearing note payable for architectural, survey, and market study costs for senior housing.	<u> </u>	<u>\$ 59,834</u>
Total notes payable	<u>\$ 905,782</u>	<u>\$ 59,834</u>

NOTE 10 – 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>2019</u>	<u>2018</u>
Federal grants:		
U. S. Department of Health and Human Services	\$ 2,671,392	\$ 2,374,523
U. S. Department of Housing and Urban Development	1,941,200	1,084,070
U. S. Department of Justice	<u>224,000</u>	<u>261,449</u>
Total federal grants	<u>4,836,592</u>	<u>3,720,042</u>
State grants:		
Texas Department of State Health Services	239,828	237,139
Texas Office of the Attorney General	78,130	59,646
Texas Health and Human Services Commission	62,778	41,856
Texas Veteran’s Commission	<u>664</u>	<u> </u>
Total state grants	<u>381,400</u>	<u>338,641</u>
Total government grants	<u>\$ 5,217,992</u>	<u>\$ 4,058,683</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 11 – 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 \$41,600 to this plan in 2019 and \$39,600 in 2018.

NOTE 12 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through February 20, 2020, 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 Montrose Center and Affiliate

Schedule of Expenditures of Federal Awards for the year ended August 31, 2019

<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 & 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	10/01/17 – 09/30/18	93.044	4600010084	\$34,504	\$ 1,191	\$ 4,112
#2	10/01/18 – 09/30/19	93.044	4600015192	\$19,435	16,439	46,483
					<u>17,630</u>	<u>50,595</u>
Passed through BakerRipley and Harris County Area Agency on Aging:						
Special Programs for the Aging, Title III, Part C, Nutrition Services (Aging Cluster)						
#3	10/01/17 – 09/30/18	93.045	5423	\$8,813	625	625
#4	10/01/18 – 09/30/19	93.045	3618	\$8,848	7,273	7,273
					<u>7,898</u>	<u>7,898</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 – 09/30/19	93.092	N/A	\$1,054,148	225,130	225,130
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	08/01/18 – 07/31/19	93.153	19TMC00PTD	\$18,066	11,869	11,869
#7	08/01/19 – 07/31/20	93.153	20TMC00PTD	\$18,066	615	615
					<u>12,484</u>	<u>12,484</u>
Passed through Texas Health and Human Services Commission:						
Administration for Children and Families						
Temporary Assistance for Needy Families						
#8	09/01/18 – 08/31/19	93.558	529-15-0031-00005	\$34,641	34,641	34,641
Social Services Block Grant						
#9	09/01/18 – 08/31/19	93.667	529-15-0031-00005	\$4,120	4,120	4,120
Family Violence Prevention and Services						
#10	09/01/18 – 08/31/19	93.671	529-15-0031-00005	\$18,318	18,318	18,318
Block Grants for Prevention and Treatment of Substance Abuse						
HIV Early Intervention						
#11	09/01/18 – 08/31/19	93.959	2016-048268-003	\$423,218	254,597	254,597
HIV Outreach						
#12	09/01/18 – 08/31/19	93.959	2016-048183-003	\$815,835	752,755	752,755
Recovery Support Services						
#13	09/01/18 – 08/31/19	93.959	2016-048373-003	\$231,579	164,495	164,495

(continued)

the Montrose Center and Affiliate

Schedule of Expenditures of Federal Awards for the year ended August 31, 2019 (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 & 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						
#14	09/01/18 – 08/31/19	93.959	2016-048471-003	\$32,460	24,663	44,163
State Targeted Response to the Opioid Crisis Grants						
Opioid STR						
#15	09/01/18 – 08/31/19	93.788	2016-048183-003	\$54,959	54,959	54,959
#16	09/01/18 – 08/31/19	93.788	2016-048373-003	\$71,072	<u>71,072</u>	<u>71,072</u>
				<u>1,379,620</u>	<u>1,399,120</u>	
Direct Federal Funding:						
Section 223 Demonstration Programs to Improve Community Mental Health Services						
CCBHC Planning Grants						
#17	09/30/18 – 09/29/19	93.829	1H79SM081815-01	\$1,282,017	<u>379,496</u>	<u>379,496</u>
Passed through Harris County:						
HIV Emergency Relief Project Grants						
Case Management						
#18	03/01/18 – 02/28/19	93.914	18GEN0114	\$224,328	138,270	89,927
#19	03/01/19 – 02/29/20	93.914	19GEN0084	\$244,328	118,170	88,026
Substance Abuse						
#20	03/01/18 – 02/28/19	93.914	18GEN0108	\$45,677	15,388	11,663
#21	03/01/19 – 02/29/20	93.914	19GEN0325	\$45,677	<u>12,575</u>	<u>19,351</u>
				<u>284,403</u>	<u>208,967</u>	
Passed through City of Houston Bureau of HIV/STD Prevention:						
HIV Prevention Activities Health Department Based						
City – Community PROMISE						
#22	01/01/18 – 12/31/18	93.940	4600012431	\$160,000	65,108	65,108
#23	01/01/19 – 12/31/19	93.940	4600012431	\$160,000	<u>93,697</u>	<u>93,697</u>
				<u>158,805</u>	<u>158,805</u>	
Passed through Texas Department of State Health Services:						
HIV Care Formula Grants						
HIV/MAI HIV – Minority AIDS Initiative						
#24	04/01/18 – 03/31/19	93.917	2016-003878	\$229,500	111,502	111,502
#25	04/01/19 – 03/31/20	93.917	2016-002574	\$229,500	<u>93,258</u>	<u>93,258</u>
				<u>204,760</u>	<u>204,760</u>	
Total U. S. Department of Health and Human Services					<u>2,670,226</u>	<u>2,647,255</u>

(continued)

the Montrose Center and Affiliate

Schedule of Expenditures of Federal Awards for the year ended August 31, 2019 (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 & Period</u>	<u>Number</u>	<u>Number</u>	<u>Amount</u>		<u>Expenses</u>		
U. S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT							
Passed through The Resource Group:							
Housing Opportunities for Persons with AIDS							
#26	02/01/18 – 01/31/19	14.241	19TMC00HP	\$13,609	<u>1,166</u>	<u>1,166</u>	
Passed through City of Houston Housing and Community Development Department:							
Housing Opportunities for Persons with AIDS							
#27	05/01/16 – 04/30/19	14.241	4600013822	\$3,585,964	1,097,082	1,097,082	
#28	05/01/19 – 04/30/20	14.241	4600015465	\$1,487,210	<u>683,917</u>	<u>683,917</u>	
					<u>1,780,999</u>	<u>1,780,999</u>	
Passed through the Coalition for the Homeless of Houston/Harris County:							
Emergency Solutions Grant Program							
#29	03/01/19 – 02/29/20	14.231	C2019-0031b	\$57,464	<u>15,511</u>	<u>15,511</u>	
Passed through Houston Housing Authority:							
Continuum of Care Program							
Rapid Rehousing and Transition Age Youth Case Management Services							
#30	12/01/17 – 11/30/18	14.267	16-31-B	\$60,973	13,800	13,800	
#31	12/01/18 – 11/30/19	14.267	16-31-C	\$60,973	<u>43,033</u>	<u>43,033</u>	
					<u>56,833</u>	<u>56,833</u>	
Direct Federal Funding:							
Continuum of Care Program							
Rapid Rehousing Program							
#32	10/01/17 – 09/30/18	14.267	TX0171L6E001609	\$109,465	2,925	2,925	
#33	10/01/18 – 09/30/19	14.267	TX0171L6E001710	\$112,153	<u>84,932</u>	<u>84,932</u>	
					<u>87,857</u>	<u>87,857</u>	
Total U. S. Department of Housing and Urban Development					<u>1,942,366</u>	<u>1,942,366</u>	
U. S. DEPARTMENT OF JUSTICE							
Passed through Texas Office of the Governor, Criminal Justice Division:							
Violence Against Women Formula Grants							
#34	10/01/16 – 09/30/18	16.588	16934-13	\$498,606	18,411	18,411	
#35	10/01/18 – 03/31/20	16.588	16934-14	\$489,889	<u>205,589</u>	<u>205,589</u>	
Total U. S. Department of Justice					<u>224,000</u>	<u>224,000</u>	
TOTAL FEDERAL AWARDS					<u>\$ 4,836,592</u>	<u>\$ 4,813,621</u>	

(continued)

the Montrose Center and Affiliate

Schedule of Expenditures of Federal Awards for the year ended August 31, 2019 *(continued)*

GRANTOR
Pass-through Grantor CFDA Grant Award Allowable
Program Title & Period Number Number Amount Revenue Expenses

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>
14.231	Emergency Solutions Grant Program	\$ 15,511
14.241	Housing Opportunities for Persons with AIDS	1,782,165
14.267	Continuum of Care Program	144,690
16.588	Violence Against Women Formula Grants	224,000
93.044, 93.045	Aging Cluster	58,493
93.092	Affordable Care Act (ACA) Personal Responsibility Education Program	225,130
93.153	Coordinated Services and Access to Research for Women, Infants, Children and Youth	12,484
93.558	Temporary Assistance for Needy Families	34,641
93.667	Social Services Block Grant	4,120
93.671	Family Violence Prevention and Services	18,318
93.788	Opioid STR	126,031
93.829	CCBHC Planning Grants	379,496
93.914	HIV Emergency Relief Project Grants	208,967
93.917	HIV Care Formula Grants	204,760
93.940	HIV Prevention Activities Health Department Based	158,805
93.959	Block Grants for Prevention and Treatment of Substance Abuse	<u>1,216,010</u>
Total		<u>\$ 4,813,621</u>

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

the Montrose Center and Affiliate

Schedule of Expenditures of State Awards for the year ended August 31, 2019

<u>GRANTOR</u>				
<u>Pass-through Grantor</u>	<u>Contract</u>	<u>Award</u>	<u>Revenue</u>	<u>Allowable</u>
<u>Program Title & Period</u>	<u>Number</u>	<u>Amount</u>		<u>Expenses</u>
TEXAS DEPARTMENT OF STATE HEALTH SERVICES				
Direct Funding:				
HIV Early Intervention				
#1 09/01/18 – 08/31/19	2016-048261-003	\$17,027	\$ 17,027	\$ 17,027
HIV Outreach				
#2 09/01/18 – 08/31/19	2016-048183-003	\$21,175	21,175	21,175
Substance Abuse Treatment				
#3 09/01/18 – 08/31/19	2016-048471-003	\$6,045	6,045	6,045
Passed through Houston Regional HIV/AIDS Resource Group, Inc.:				
Counseling				
#4 09/01/18 – 08/31/19	19TMC00SS	\$200,000	142,069	164,485
Linguistics				
#5 09/01/18 – 08/31/19	19TMC00SS	\$68,000	<u>53,512</u>	<u>43,088</u>
Total Texas Department of State Health Services			<u>239,828</u>	<u>251,820</u>
TEXAS OFFICE OF THE ATTORNEY GENERAL				
Direct Funding:				
Sexual Assault Prevention and Crisis Services – Crisis Intervention				
#6 09/01/18 – 08/31/19	1989011	\$87,382	38,389	38,389
Other Victim Assistance Grant				
#7 09/01/18 – 08/31/19	1987858	\$42,000	<u>39,741</u>	<u>39,741</u>
Total Texas Office of the Attorney General			<u>78,130</u>	<u>78,130</u>
TEXAS HEALTH AND HUMAN SERVICES COMMISSION				
Direct Funding:				
Family Violence Prevention and Services Act				
#8 09/01/18 – 08/31/19	529-15-0031-00005	\$38,619	38,619	38,619
Texas Veterans and Family Alliance Grant Program				
#9 07/01/18 – 12/31/19	HHS000125400012	\$118,615	<u>24,159</u>	<u>24,159</u>
Total Texas Health and Human Services Commission			<u>62,778</u>	<u>62,778</u>
TEXAS VETERAN'S COMMISSION				
Direct Funding:				
Fund for Veteran's Assistance				
#10 07/01/19 – 06/30/20	GT-VMH19-006	\$100,000	<u>664</u>	<u>664</u>
TOTAL STATE AWARDS			<u>\$ 381,400</u>	<u>\$ 393,392</u>

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

the Montrose Center and Affiliate

Note to Schedules of Expenditures of Federal and State Awards for the year ended August 31, 2019

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.

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 and Affiliate:

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 and Affiliate (the Center), which comprise the consolidated statement of financial position as of August 31, 2019 and the related consolidated 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 February 20, 2020.

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.

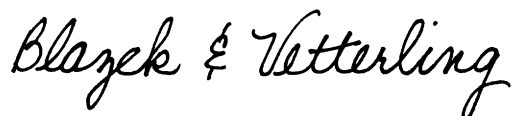
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not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



February 20, 2020

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

To the Board of Directors of
the Montrose Center and Affiliate:

Report on Compliance for Each Major Federal Program

We have audited the Montrose Center and Affiliate'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, 2019. 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, 2019.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance which is required to be reported in accordance with the Uniform Guidance and which is described in the accompanying schedule of findings and questioned costs as finding #2019-001. Our opinion on each major federal program is not modified with respect to this matter.

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

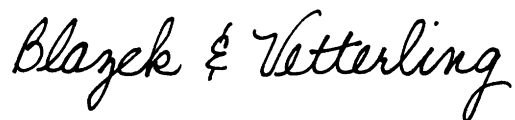
Report on Internal Control Over Compliance

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 and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, we identified certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as findings #2019-001, that we consider to be a significant deficiency.

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.



February 20, 2020

the Montrose Center and Affiliate

Schedule of Findings and Questioned Costs for the year ended August 31, 2019

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>
14.241	Housing Opportunities for Persons with AIDS
93.829	CCBHC Planning Grants

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 #2019-001 – Other Noncompliance

Applicable federal program:

U. S. Department of Health and Human Services
Demonstration Programs to Improve Community Mental Health Services
CFDA #93.829
Contract Number: 1H79SM081815-01
Contract Year: 09/30/18 – 09/29/19

Criteria: Cash Management – Under the *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) §200.305, if advances are provided, management is required to establish policies to minimize the lapse of time between the receipt and the expenditure of funds. 45 CFR §75.305 requires Health and Human Services recipients to limit advances to the minimum amounts needed and be timed in accordance with the actual, immediate cash requirements for carrying out the program. The “Payment” section of the Health and Human Services Grants Policy Statement requires federal funds be fully disbursed by the close of business the next work day after receipt of the funds.

Condition and context: In 2019, the Center had a \$350,000 draw down in December 2018 that was not fully disbursed until August 2019.

Cause: Appropriate policies and procedures were not developed and implemented to ensure that draws were limited to the amount required for immediate cash needs.

Effect: Failure to comply with cash management provisions could affect the ability to request future cash advances.

Recommendation: Strengthen controls to ensure that advance requests are made in compliance with the program’s compliance requirements.

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



CORRECTIVE ACTION PLAN

February 20, 2020

U. S. DEPARTMENT OF HEALTH AND HUMAN SERVICES

The Montrose Center and Affiliate (the Center) respectfully submits the following corrective action plan for the year ended August 31, 2019. The audit was performed by: Blazek & Vetterling, 2900 Wesleyan, Suite 200, Houston, Texas, 77027.

The finding from the August 31, 2019 schedule of findings and questioned costs is discussed below.

FINDINGS – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Finding #2019-001 – Other Noncompliance

Applicable federal program:

U. S. Department of Health and Human Services
Demonstration Programs to Improve Community Mental Health Service
CFDA #93.829
Contract Number: 1H79SM081815-01
Contract Year: 9/30/18 – 9/29/19

Recommendation: Strengthen controls to ensure that advance requests are made in compliance with the program's compliance requirements.

Planned corrective action: This advance was only requested because there was a Federal government shutdown looming of an undetermined length. There was no communication from the Federal government about whether the PMS process would be accessible during the shutdown. The advance draw down was less than one quarter of the award and was expected to be spent down in the quarter. Because it was so difficult to find a budgeted, eligible prescriber until the third quarter, the expenses were less than expected. In the future, no advances will be drawn down without a detailed review of expected expenses for the quarter.

Responsible officer: Ann J. Robison, PhD, Executive Director

Estimated completion date: November 8, 2019

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,

Ann J. Robison, PhD
Executive Director

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Summary Schedule of Prior Audit Findings

The following audit finding for the year ended August 31, 2018, is required to be reported in accordance with 2 CFR §200.511.

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

Management's 2019 follow-up response: A checklist has been implemented for each file to ensure all required documentation is included.

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.

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

Management's 2019 follow-up response: All reports were submitted timely for 2019.

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