the Montrose Center and Affiliate

Consolidated Financial Statements
and Single Audit Reports
for the year ended August 31, 2020

the Montrose Center and Affiliate

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Blazek & Vetterling

CERTIFIED PUBLIC ACCOUNTANTS

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 consolidated statements of financial position as of August 31, 2020 and 2019 and the related consolidated 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. The financial statements of the affiliate were not audited in accordance with *Government Auditing Standards*.

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 consolidated financial position of the Montrose Center and Affiliate as of August 31, 2020 and 2019 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.

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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, 2020 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, 2020 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 25, 2021 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.

Blazek & Vetterling

February 25, 2021

the Montrose Center and Affiliate

Consolidated Statements of Financial Position as of August 31, 2020 and 2019

	2020	2019
ASSETS		
Cash	$ 1,282,184	$ 414,173
Contributions receivable:		
Government grants	1,061,333	961,189
Operating contributions receivable, net *(Note 5)*	222,034	249,179
Other receivable	169,977	176,877
Receivable due from Montrose Counseling Center Permanent Endowment, Inc. *(Note 4)*	50,351	1,561
Client fees receivable, net of allowance of $192,477	769,907	612,393
Prepaid expenses	98,891	255,564
Receivables for developer fees and other escrowed guarantee deposits	1,242,707	700,000
Cash restricted for senior housing project	4,624,695	1,199,173
Contributions receivable restricted for senior housing project, net *(Note 5)*	717,956	1,365,804
Property, net *(Note 6)*	23,216,612	6,803,989
TOTAL ASSETS	$ 33,456,647	$ 12,739,902
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued expenses	$ 438,507	$ 188,130
Senior housing construction payable	2,979,057	
Paycheck Protection Program refundable advance *(Note 9)*	550,000	
Notes payable *(Note 7)*	11,152,241	905,782
Developer fee payable	1,660,890	
Total liabilities	16,780,695	1,093,912
Commitments and contingencies *(Notes 6 and 11)*		
Net assets:		
Without donor restrictions	5,029,409	4,271,102
With donor restrictions *(Note 8)*	9,815,787	5,544,132
Total net assets	14,845,196	9,815,234
Noncontrolling ownership interest *(Note 13)*	1,830,756	1,830,756
TOTAL LIABILITIES AND NET ASSETS	$ 33,456,647	$ 12,739,902

See accompanying notes to consolidated financial statements.

the Montrose Center and Affiliate

Consolidated Statement of Activities for the year ended August 31, 2020

	WITHOUT DONOR RESTRICTIONS	WITH DONOR RESTRICTIONS	TOTAL
REVENUE:			
Public support:			
Government grants *(Note 10)*		$ 4,650,570	$ 4,650,570
Contributions	$ 467,599	5,260,145	5,727,744
Special events	149,176	175,746	324,922
Direct donor benefits	(32,527)		(32,527)
United Way allocation		129,537	129,537
Client fees	1,548,858		1,548,858
Developer fee revenue	542,707		542,707
Other income	137,143		137,143
Total revenue	2,812,956	10,215,998	13,028,954
Net assets released from restrictions:			
Government grant program expenditures	4,650,570	(4,650,570)	
Other program expenditures	1,293,773	(1,293,773)	
Total	8,757,299	4,271,655	13,028,954
EXPENSES:			
Program expenses:			
Case Management	3,600,310		3,600,310
LIFE	1,272,250		1,272,250
Chemical Dependency	588,194		588,194
Anti-Violence	582,849		582,849
Youth	242,662		242,662
Senior	242,023		242,023
HIV/AIDS	236,717		236,717
Education	153,153		153,153
Women's services	131,256		131,256
Total program expenses	7,049,414		7,049,414
Management and general	479,029		479,029
Fundraising	470,549		470,549
Total expenses	7,998,992		7,998,992
CHANGES IN NET ASSETS	758,307	4,271,655	5,029,962
Net assets, beginning of year	4,271,102	5,544,132	9,815,234
Net assets, end of year	$ 5,029,409	$ 9,815,787	$ 14,845,196

See accompanying notes to consolidated financial statements.

the Montrose Center and Affiliate

Consolidated Statement of Activities for the year ended August 31, 2019

	WITHOUT DONOR RESTRICTIONS	WITH DONOR RESTRICTIONS	TOTAL
REVENUE:			
Public support:			
Government grants *(Note 10)*		$ 5,217,992	$ 5,217,992
Contribution of land	$ 3,265,000		3,265,000
Contributions	154,045	2,765,405	2,919,450
Special events	348,485	11,633	360,118
Direct donor benefits	(85,061)		(85,061)
United Way allocation		141,324	141,324
Client fees	1,594,988		1,594,988
Other income	162,309		162,309
Total revenue	5,439,766	8,136,354	13,576,120
Net assets released from restrictions:			
Government contract program expenditures	5,217,992	(5,217,992)	
Other program expenditures	760,866	(760,866)	
Expiration of time restrictions	1,294	(1,294)	
Total	11,419,918	2,156,202	13,576,120
EXPENSES:			
Program expenses:			
Case Management	4,075,010		4,075,010
LIFE	981,736		981,736
Chemical Dependency	404,417		404,417
Anti-Violence	523,183		523,183
Youth	201,977		201,977
Senior	155,555		155,555
HIV/AIDS	300,272		300,272
Education	356,712		356,712
Women's services	100,037		100,037
Total program expenses	7,098,899		7,098,899
Management and general	533,342		533,342
Fundraising	440,362		440,362
Total expenses	8,072,603		8,072,603
CHANGES IN NET ASSETS	3,347,315	2,156,202	5,503,517
Net assets, beginning of year	923,787	3,387,930	4,311,717
Net assets, end of year	$ 4,271,102	$ 5,544,132	$ 9,815,234

See accompanying notes to consolidated financial statements.

the Montrose Center and Affiliate

Consolidated Statement of Functional Expenses for the year ended August 31, 2020

	CASE MANAGEMENT	LIFE	CHEMICAL DEPENDENCY	ANTI-VIOLENCE	YOUTH	SENIOR	HIV/AIDS	EDUCATION	WOMEN'S SERVICES	MANAGEMENT AND GENERAL	FUNDRAISING	TOTAL EXPENSES
Salaries	$ 1,530,305	$ 709,624	$ 348,008	$ 305,098	$ 123,808	$ 101,415	$ 160,774	$ 105,177	$ 69,979	$ 243,244	$ 338,950	$ 4,036,382
Benefits	216,548	85,078	49,039	37,997	16,096	12,828	18,708	16,250	9,978	17,828	32,509	512,859
Payroll taxes	117,830	54,414	26,490	23,586	9,403	7,793	11,937	7,984	5,808	23,614	25,161	314,020
Client assistance	1,325,846	11,613	1,103	134,095	26,140				19,824			1,518,621
Occupancy	237,234	88,713	48,355	44,931	19,056	16,463	20,265	19,440	10,760	64,040	12,835	582,092
Contract services	30,827	232,911	70,424	1,309	87	4,217	1,116	187	59	71,298	16,234	428,669
Supplies	51,594	16,421	1,252	3,031	18,441	1,730	531	362	8,682	3,010	21,226	126,280
Bad debt		21,760	10,628	5,352		63,893	2,522					104,155
In-kind professional services	16,740	16,279	16,279	16,279	19,892		16,279					101,748
Local travel	30,481	744	6,958	1,007	5,177	1,546	10	922		28	185	47,058
Interest										32,907		32,907
Telephone	11,000	6,696	2,993	3,415	1,202	891	1,060	888	523	741	702	30,111
Depreciation	10,841	3,936	1,889	1,973	753	654	816	502	426	358	626	22,774
Equipment rental and purchases	5,848	2,820	1,189	1,163	497	420	542	758	275	91	315	13,918
Professional development	4,850	6,772		496		75	325			55	40	12,613
Postage	1,365	390	274	295	80	69	95	74	295	8	1,104	4,049
Printing	573	401	19	23	27	1	4	2	26		518	1,594
Other	8,428	13,678	3,294	2,799	2,003	30,028	1,733	607	4,621	21,807	20,144	109,142
Total expenses	$ 3,600,310	$ 1,272,250	$ 588,194	$ 582,849	$ 242,662	$ 242,023	$ 236,717	$ 153,153	$ 131,256	$ 479,029	$ 470,549	$ 7,998,992
Grant reimbursed management expenses by program	$135,402	$34,912	$32,818	$26,641	$19,500	$10,325	$10,365	$8,070	$1,937			

See accompanying notes to consolidated financial statements.

the Montrose Center and Affiliate

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

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

the Montrose Center and Affiliate

Consolidated Statements of Cash Flows for the years ended August 31, 2020 and 2019

	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in net assets	$ 5,029,962	$ 5,503,517
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation	22,774	21,931
Contributed land		(3,265,000)
Contributions restricted for senior housing project	(4,237,237)	(2,038,329)
Changes in operating assets and liabilities:		
Receivables	(973,033)	(121,240)
Developer fee	1,118,813	
Prepaid expenses	156,673	(21,193)
Accounts payable and accrued expenses	250,377	(24,850)
Paycheck Protection Program refundable advance	550,000	
Net cash provided by operating activities	1,918,329	54,836
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property	(13,042,936)	(3,543,667)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from contributions restricted for senior housing	4,885,085	871,328
Proceeds from note payable	10,852,074	1,392,378
Debt issuance costs		(286,596)
Repayment of note payable	(319,019)	(259,834)
Changes in noncontrolling ownership interest		1,830,756
Net cash provided by financing activities	15,418,140	3,548,032
NET CHANGE IN CASH	4,293,533	59,201
Cash, beginning of year	1,613,346	1,554,145
Cash, end of year	$ 5,906,879	$ 1,613,346
Reconciliation of cash balances:		
Cash	$ 1,282,184	$ 414,173
Cash restricted for senior housing	4,624,695	1,199,173
Total cash	$ 5,906,879	$ 1,613,346

See accompanying notes to consolidated financial statements.

NOTE 1 – ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Organization – the Montrose Center is a Texas non-profit corporation created in 1978 to empower our community of lesbian, gay, bisexual, transgender and queer (LGTBQ) individuals and their families to live healthier more fulfilling lives. Because LGBTQ persons face numerous health disparities compared to the general population, the Montrose Center has embraced an integrated care model with one-stop access to behavioral health and support services, adult primary care and psychiatry, and free wellness programs that empower individuals to proactively participate in their own care. Our team of state-licensed clinicians, masters-level therapists, skilled educators, support staff and dedicated volunteers work together to create healthier futures for our community by offering outpatient mental health care services, substance abuse treatment and case management services in the Houston area.

Beginning in 2021, the Law Harrington Senior Living Center will begin to provide a healthy and safe permanent housing option for eligible seniors. The Living Center located at 2222 Cleburne Street is an affordable, LGBTQ-affirming senior living center that will feature 112 one and two bedroom independent living apartments for low-income individuals and couples who are 62 years and older. Additional features of the property will include: a social services department managed by the Montrose Center, a geriatric primary care clinic provided by Legacy Community Health, a group dining area, meeting and game rooms, a fitness center, dog park, and outdoor recreational spaces.

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 (the partnership), a domestic limited partnership 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.

Chemical Dependency provides a combination of education, therapy, and counseling. It is a state licensed, out-patient 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.

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

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.

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

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.

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.

<u>Federal income tax status</u> – 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.

<u>Cash equivalents</u> are highly liquid investments with original maturities of three months or less.

<u>Project development fees</u> are recognized over time during the construction period based on the percentage of construction completed. On tax credit projects, development fees are typically 15% of the total development cost. Developer fees that are earned during construction and paid for with investor equity or project debt are capitalized as property.

<u>Contributions receivable</u> 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. The Montrose Center provides an allowance for contributions receivable when it believes balances may not be collected in full. Their policy is to write off receivables against the allowance when management determines the receivable will not be collected. The amount of bad debt expense 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 donor by donor analysis of balances.

<u>Allowance for uncollectible client fee receivables</u> 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.

<u>Property</u> 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.

<u>Debt issuance costs</u> 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.

<u>Net asset classification</u> – 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.

Contributions and government grants are recognized as revenue at fair value when an unconditional commitment is received from the donor. Contributions received with donor stipulations that limit their use are classified as *with donor restrictions*. Conditional contributions are subject to one or more barriers that must be overcome before the Montrose Center is entitled to receive or retain funding. Conditional contributions are recognized as revenue at fair value when the conditions have been 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 event revenue is the total amount paid by sponsors and attendees of an event and includes elements of both contributions and exchange transactions. Special event revenue is recognized when the event occurs. Direct donor benefit costs represent the cost of goods and services provided to attendees of the special event.

Client fees are derived from providing outpatient counseling services to individuals. Performance obligations are recognized at the point in time the services are provided. Client fees are recognized at the amount of consideration the Montrose Center expects to be entitled to in exchange for those services. Amounts are due from third-party payors billed weekly at amounts expected to be received and copayments are due from individuals when services are provided.

Non-controlling ownership interest – These amounts represent the aggregate balance of the limited partner interests in 2222 Cleburne, LP.

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.

Reclassification – Prior year financial statements include reclassifications of $1,830,756 in the noncontrolling ownership from net assets without donor restrictions.

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, 2021. Management has not yet determined the impact adoption of this ASU will have on the financial statements.

NOTE 2 – ADOPTION OF ACCOUNTING STANDARDS UPDATES

Effective July 1, 2019, the Montrose Center also adopted ASU 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made.* This guidance clarifies the distinction between contributions and exchange transactions and between conditional and unconditional contributions. This ASU has been applied on a retrospective basis effective July 1, 2018. Adoption of this ASU resulted in reclassification of previously reported government grants revenue to conform to the 2020 presentation but had no impact on total net assets or total changes in net assets for 2019.

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 are as follows:

	2020	2019
Financial assets:		
Cash	$ 1,282,184	$ 414,173
Government contracts and other receivables	2,346,838	1,752,020
Contributions receivable, net	222,034	249,179
Total financial assets	3,851,056	2,415,372
Less: Donor-restricted net assets not expected to be satisfied in coming year	(1,061,783)	(1,298,264)
Total financial assets available for general expenditure	$ 2,789,273	$ 1,117,108

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. General expenditures do not include funds used for construction. The Center expects to fund general expenditures in excess of financial assets available to meet cash needs with future contributions and government grants.

In March 2020, the Director-General of the World Health Organization declared a pandemic related to the global outbreak of the new coronavirus COVID-19 and a national emergency was declared in the United States. The Center closed for a few months. The extent of the impact of COVID-19 on the Center's operational and financial performance will depend on developments such as the duration and spread of the outbreak, impact on clients, donors, employees and vendors, all of which are uncertain and cannot be predicted. Therefore, while the Center expects this to negatively impact its operating results and financial position, the financial impact cannot be reasonably estimated at this time.

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, 2020, the Center had a receivable from the Endowment in the amount of $50,351. At August 31, 2019, the Center had a receivable from the Endowment in the amount of $1,561.

NOTE 5 – CONTRIBUTIONS RECEIVABLE

Contributions receivable are as follows:

	2020	2019
Contributions receivable – operating	$ 222,483	$ 249,628
Contributions receivable restricted for senior housing	758,997	1,396,190
Total	981,480	1,645,818
Allowance for uncollectible contributions receivable	(41,490)	(30,835)
Contributions receivable, net	$ 939,990	$ 1,614,983

Contributions receivable at August 31, 2020 are expected to be collected as follows:

Within one year	$ 911,153
In one to five years	70,327
Total contributions receivable	$ 981,480

As of August 31, 2020, the Montrose Center has approximately $6,200,000 of conditional contributions from various government agencies. The contributions will be recognized as revenue when the conditions, which include performance of allowable activities and incurring allowable expenses, are met.

NOTE 6 – PROPERTY

Property is comprised of the following:

	2020	2019
Land	$ 3,265,000	$ 3,265,000
Furniture and equipment	574,613	535,674
Construction in progress	19,858,979	3,462,521
Subtotal	23,698,592	7,263,195
Accumulated depreciation	(481,980)	(459,206)
Property, net	$ 23,216,612	$ 6,803,989

In 2019, 2222 Cleburne, LP was formed as a limited liability 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. NEF, as a limited partner, has a 99.99% interest in 2222 Cleburne, LP for approximately $14,100,000 payable at specified times during development of the project. In June 2019, 2222 Cleburne, LP executed a $14.3 million promissory note with a bank to provide construction funding for the project. The City of Houston has provided additional funding totaling $5,100,000 as a promissory note that will be forgiven at the end of a 30-year period if no default occurs, as defined in the agreement.

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 the $3,650,000 note from 2222 Cleburne, LP to the Montrose Center. Additionally, the Montrose Center obtained funding from the Federal Home Loan Bank (FHLB) totaling $500,000 and from various private foundations and individuals. Under the terms of the FHLB agreement, principal and interest will be forgiven 15 years after completion of the facility provided the Montrose Center continues to comply with the terms of the agreements. This note is secured by a deed of trust. At August 31, 2020, the Center is party to construction contracts totaling approximately $6,000,000 related to the project.

NOTE 7 – NOTES PAYABLE

Notes payable are as follows:

	2020	2019
Construction note payable with interest only at LIBOR + 2.5%, net of unamortized debt issuance costs of $286,596. Matures in June 2021. Converts to permanent loan after construction with term interest at 5.26%. Principal and interest will be paid over 15 years.	$ 11,257,856	$ 692,378
Debt issuance costs	(286,596)	(286,596)
Note payable at 6.5% secured by contributions receivable. Maturity date of loan is December 20, 2020.	180,981	500,000
Total notes payable	$ 11,152,241	$ 905,782

NOTE 8 – NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are restricted as follows:

	2020	2019
Senior housing project	$ 7,873,804	$ 3,636,567
Hurricane Harvey relief	426,697	515,525
Hatch Youth program	331,263	360,110
Electronic medical records	294,369	302,674
Homelessness prevention	280,394	63,270
Safe Zones program	221,101	175,570
Community Center initiatives	200,000	300,000
COVID Relief	75,985	
Women's services	46,419	111,115
United Way allocation	41,286	46,334
Other	24,469	32,967
Total net assets with donor restrictions	$ 9,815,787	$ 5,544,132

NOTE 9 – PAYCHECK PROTECTION PROGRAM REFUNDABLE ADVANCE

In April 2020, the Center received an unsecured bank loan of $550,000 funded through the Federal Paycheck Protection Program (PPP). The loan bears interest at 1.0% and may be repaid over 2 years. PPP loan principal and interest may be forgiven, in whole or in part, if the Center meets eligibility requirements and uses the loan to fund qualified payroll and other eligible costs. The Center has submitted an application for forgiveness and expects to qualify for full forgiveness.

NOTE 10 – GOVERNMENT GRANTS

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:

	2020	2019
Federal grants:		
U. S. Department of Health and Human Services	$ 2,456,888	$ 2,671,392
U. S. Department of Housing and Urban Development	1,412,590	1,941,200
U. S. Department of Justice	230,309	224,000
Total federal grants	4,099,787	4,836,592
State grants:		
Texas Department of State Health Services	374,645	239,828
Texas Office of the Attorney General	94,506	78,130
Texas Health and Human Services Commission	38,414	62,778
Texas Veteran's Commission	43,218	664
Total state grants	550,783	381,400
Total government grants	$ 4,650,570	$ 5,217,992

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 – COMMITMENTS AND CONTINGENCIES

The partnership is being funded from federal low-income housing tax credits (HTC) that are contingent on their ability to maintain compliance with Section 42 of the Internal Revenue Code. In order to qualify for these credits, the properties must comply with various federal and state requirements. These requirements include, but are not limited to, renting to low-income tenants at rental rates which do not exceed specified percentages of area median gross income for the first 15 years of operation. The partnership has agreed to maintain and operate the properties as low-income housing for an additional 15 years beyond the initial 15-year compliance period. Because the tax credits are subject to compliance with certain requirements, there can be no assurance that the aggregate amount of tax credits will be realized, and failure to meet all such requirements or to correct noncompliance within a specified time period may result in generating a lesser amount of tax credits than expected in future years, and/or recapture of tax credits previously allocated. A reduction of future credits or recapture could require the Montrose Center to make credit deficit payments to the limited partner under the terms of the partnership agreements.

Additionally, a portion of the development costs of 2222 Cleburne, LP has been funded through governmental grants or performance-based loans. These agreements have various restrictive covenants, including operating and financial constraints such as limitations on transfer or sale of the properties or additional borrowings and required replacement and other reserves. These sources of funding generally place specific long-term restrictions on the properties as to their operation as affordable housing. Should these restrictions not be met in the future, the Montrose Center would be responsible for refunding all or a portion of these proceeds to the government. A liability for such repayment is not reported in these consolidated financial statements because management believes the property will be operated in accordance with such restrictions.

NOTE 12 – 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 $39,300 to this plan in 2020 and $41,600 in 2019.

NOTE 13 – NONCONTROLLING OWNERSHIP INTEREST

Noncontrolling ownership interest represents the limited partner's ownership of 2222 Cleburne, LP. The changes in noncontrolling interest are as follows:

Noncontrolling ownership at August 31, 2018	$ 0
Sale of noncontrolling ownership interest in limited partnership	1,830,756
Noncontrolling ownership interest at August 31, 2019	1,830,756
Noncontrolling ownership interest at August 31, 2020	$ 1,830,756

NOTE 14 – SUBSEQUENT EVENTS

The Law Harrington Senior Living Center owned by 2222 Cleburne, LP was opened in December 2020 for residents. In connection with the building completion, the Montrose Center increased their construction note payable by approximately $3,000,000.

Management has evaluated subsequent events through February 25, 2021, which is the date that the financial statements were available for issuance. As a result of this evaluation, no events other than the above and the ongoing pandemic, 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, 2020

	GRANTOR Pass-through Grantor Program Title & Period	CFDA Number	Grant Number	Award Amount	Revenue	Allowable Expenses
	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	10/01/18 – 09/30/19	93.044	4600015192	$19,435	$ 360	$ 3,675
#2	10/01/19 – 09/30/20	93.044	4600015192	$19,435	13,200	35,096
					13,560	38,771
	Passed through BakerRipley and Harris County Area Agency on Aging:					
	Special Programs for the Aging, Title III, Part C, Nutrition Services (Aging Cluster)					
#3	10/01/18 – 09/30/19	93.045	3618	$8,848	562	562
#4	10/01/19 – 09/30/20	93.045	3618	$8,883	14,443	14,443
					15,005	15,005
	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 – 09/30/20	93.092	N/A	$1,054,148	173,520	173,520
	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, Women, Infants, Children and Youth WICY Programs					
#6	08/01/19 – 07/31/20	93.153	20TMC00RWD	$18,066	4,638	4,638
#7	08/01/19 – 07/31/20	93.153	21TMC00RWD	$18,066	358	358
					4,996	4,996
	Passed through Texas Health and Human Services Commission:					
	Administration for Children and Families					
	Social Security Block Grant					
#8	09/01/19 – 08/31/20	93.667	HHS000380000064	$4,072	4,072	4,072
	Family Violence Program Prevention Services Domestic Violence Shelter and Supportive Services					
#9	09/01/19 – 08/31/20	93.671	HHS000380000064	$19,874	19,874	19,874
	COVID-19 – Family Violence Program Prevention Services Domestic Violence Shelter and Supportive Services					
#10	07/01/20 – 08/31/20	93.671	HHS000380000064	$6,568	5,367	5,367
	Temporary Assistance for Needy Families					
#11	09/01/19 – 08/31/20	93.558	HHS000380000064	$39,602	39,602	39,602
	Block Grants for Prevention and Treatment of Substance Abuse					
	HIV Early Intervention					
#12	09/01/19 – 08/31/20	93.959	2016-048268-003	$236,990	132,475	132,475
	HIV Outreach					
#13	09/01/19 – 08/31/20	93.959	2016-048183-003	$450,761	273,204	273,204
	Recovery Support Services					
#14	09/01/19 – 08/31/20	93.959	2016-048373-003	$225,000	225,000	225,000

(continued)

GRANTOR Pass-through Grantor Program Title & Period	CFDA Number	Grant Number	Award Amount	Revenue	Allowable Expenses
U. S. DEPARTMENT OF HEALTH AND HUMAN SERVICES *(continued)*					
Passed through Texas Health and Human Services Commission:					
Administration for Children and Families					
Substance Abuse Treatment					
#15 09/01/19 – 08/31/20	93.959	2016-048471-003	$38,786	32,460	42,123
				732,054	741,717
Passed through Baylor College of Medicine:					
PPHF Geriatric Education Centers					
Geriatrics Workforce Enhancement Program					
#16 07/01/19 – 06/30/24	93.969	U1QHP330680100	$25,480	3,257	3,257
Passed through the Substance Abuse and Mental Health Services Administration					
State Targeted Response to the Opioid Crisis Grants					
Opioid STR					
#17 09/01/19 – 08/31/20	93.788	2016-048183-003	$54,959	4,580	4,580
#18 09/01/19 – 08/31/20	93.788	2016-048373-003	$77,651	11,529	11,529
				16,109	16,109
Direct Federal Funding:					
Substance Abuse and Mental Health Services Projects of Regional and National Significance					
Sexual Health in Recovery					
#19 09/30/19 – 09/29/20	93.243	19TI82483A	$500,000	202,366	202,366
Section 223 Demonstration Programs to Improve Community Mental Health Services					
CCBHC Planning Grants					
#20 09/30/18 – 09/29/19	93.829	1H79SM081815-01	$1,282,017	44,609	44,609
#21 09/30/19 – 09/29/20	93.829	5H79SM081815-01	$1,274,677	548,092	548,092
				592,701	592,701
Passed through Harris County:					
HIV Emergency Relief Project Grants					
COVID-19 – Emergency Financial Assistance					
#22 03/01/20 – 02/28/21	93.914	COVID-19-10870	$300,000	12,512	21,319
Case Management					
#23 03/01/19 – 02/29/20	93.914	19GEN0084	$244,328	126,150	107,921
#24 03/01/20 – 02/28/21	93.914	20GEN0333	$244,328	118,800	108,496
Substance Abuse					
#25 03/01/19 – 02/29/20	93.914	19GEN2237	$35,677	22,769	13,159
#26 03/01/20 – 02/28/21	93.914	20GEN0038	$45,677	1,850	1,316
#27 03/01/20 – 02/29/21	93.914	COVID-19-10057	$14,050	9,500	8,228
				291,581	260,439

(continued)

the Montrose Center and Affiliate

GRANTOR Pass-through Grantor Program Title & Period	CFDA Number	Grant Number	Award Amount	Revenue	Allowable Expenses
U. S. DEPARTMENT OF HEALTH AND HUMAN SERVICES *(continued)*					
Passed through City of Houston Bureau of HIV/STD Prevention:					
HIV Prevention Activities Health Department Based					
City – Community PROMISE					
#28 01/01/19 – 12/31/19	93.940	4600012431	$160,000	61,933	61,933
#29 01/01/20 – 03/31/20	93.940	4600015911	$40,000	39,627	39,627
#30 04/01/20 – 12/31/20	93.940	4600015911	$135,000	46,138	46,138
				147,698	147,698
Passed through Texas Department of State Health Services:					
HIV Care Formula Grants					
HIV/MAI HIV – Minority AIDS Initiative					
#31 04/01/19 – 03/31/20	93.917	2016-002574	$236,688	143,430	143,430
#32 04/01/20 – 08/31/20	93.917	2016-003878	$398,378	110,322	110,322
				253,752	253,752
Passed through Houston Regional HIV/AIDS Resource Group, Inc.:					
HIV Care Project Grants					
Ryan White Part B – CARES – Approved Purchases – Equipment, PPE					
#33 04/01/20 – 03/31/21	93.917	21TMC00PTBCARES	$15,000	10,289	10,289
Total U. S. Department of Health and Human Services				2,456,888	2,460,620
U. S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT					
Passed through City of Houston Housing and Community Development Department:					
Housing Opportunities for Persons with AIDS					
#34 05/01/19 – 04/30/20	14.241	4600015465	$1,487,210	591,024	591,024
#35 05/01/20 – 04/30/21	14.241	4600015465	$1,487,210	469,725	469,725
COVID-19 – Housing Opportunities for Persons with AIDS					
#36 07/01/20 – 04/30/21	14.241	4600016164	$670,220	5,181	5,181
				1,065,930	1,065,930
COVID-19 – Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii					
#37 04/01/20 – 03/31/21	14.228	4600015979	$415,980	105,461	105,461
Passed through the Coalition for the Homeless of Houston/Harris County:					
Emergency Solutions Grant Program					
#38 03/01/19 – 02/29/20	14.231	C2019-0031b	$57,464	26,659	26,659

(continued)

GRANTOR Pass-through Grantor Program Title & Period	CFDA Number	Grant Number	Award Amount	Revenue	Allowable Expenses
U. S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT *(continued)*					
Passed through Houston Housing Authority:					
Continuum of Care Program					
Rapid Rehousing and Transition Age Youth Case Management Services					
#39 12/01/18 – 11/30/19	14.267	16-31-C	$67,561	20,427	20,427
#40 12/01/19 – 11/30/20	14.267	16-31-D	$171,059	83,944	83,944
				104,371	104,371
Direct Federal Funding:					
Continuum of Care Program					
Permanent Housing Program					
#41 10/01/18 – 09/30/19	14.267	TX0171L6E001710	$112,153	2,090	2,090
#42 10/01/19 – 09/30/20	14.267	TX0171L6E001811	$120,517	108,079	108,079
				110,169	110,169
Total U. S. Department of Housing and Urban Development				1,412,590	1,412,590
U. S. DEPARTMENT OF JUSTICE					
Passed through Texas Office of the Governor, Criminal Justice Division:					
Violence Against Women Formula Grants					
#43 10/01/18 – 09/30/20	16.588	16934-14	$489,889	225,030	225,030
Passed through the Texas Council on Family Violence:					
Crime Victim Assistance					
#44 05/01/20 – 08/31/20	16.575	4129501	$5,279	5,279	5,279
Total U. S. Department of Justice				230,309	230,309
TOTAL FEDERAL AWARDS				$ 4,099,787	$ 4,103,519

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

CFDA Number(s)	Name of Program or Cluster	Amount
14.228	Community Development Block Grants/State's program and Non-Entitlement Grants in Hawaii	$ 105,461
14.241	Housing Opportunities for Persons with AIDS	1,065,930
14.231	Emergency Solutions Grant Program	26,659
14.267	Continuum of Care Program	214,540

(continued)

the Montrose Center and Affiliate

Schedule of Expenditures of Federal Awards for the year ended August 31, 2020 *(continued)*

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

CFDA Number(s)	Name of Program or Cluster	Amount
16.575	Crime Victim Assistance	5,279
16.588	Violence Against Women Formula Grants	225,030
93.044, 93.045	Aging Cluster	53,776
93.092	Affordable Care Act (ACA) Personal Responsibility Education Program	173,520
93.153	Coordinated Services and Access to Research for Women, Infants, Children and Youth	4,996
93.243	Substance Abuse and Mental Health Services Projects of Regional and National Significance	202,366
93.558	Temporary Assistance for Needy Families	39,602
93.667	Social Security Block Grant	4,072
93.671	Family Violence Program Prevention Services Domestic Violence Shelter and Supportive Services	25,241
93.788	Opioid STR	16,109
93.829	Section 233 Demonstration Programs to Improve Community Mental Health Services	592,701
93.914	HIV Emergency Relief Project Grants	260,439
93.917	HIV Care Formula Grants	264,041
93.940	HIV Prevention Activities Health Department Based	147,698
93.959	Block Grants for Prevention and Treatment of Substance Abuse	672,802
93.969	PPHF Geriatric Education Centers	3,257
Total		$ 4,103,519

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, 2020

GRANTOR Pass-through Grantor Program Title & Period		Contract Number	Award Amount	Revenue	Allowable Expenses
TEXAS DEPARTMENT OF STATE HEALTH SERVICES					
Direct Funding:					
	Substance Abuse Treatment				
#1	09/01/19 – 08/31/20	2016-048471-003	$6,045	$ 6,045	$ 6,045
Passed through Houston Regional HIV/AIDS Resource Group, Inc.:					
	Counseling				
#2	09/01/19 – 08/31/20	20TMC00SS	$223,000	119,793	127,534
	Linguistics				
#3	09/01/19 – 08/31/20	20TMC00SS	$68,000	47,663	38,968
	Non-Medical Case Management				
#4	09/01/19 – 08/31/20	20TMC00SS	$275,000	201,145	201,145
Total Texas Department of State Health Services				374,646	373,692
TEXAS OFFICE OF THE ATTORNEY GENERAL					
Direct Funding:					
	Sexual Assault Prevention and Crisis Services – Crisis Intervention				
#5	09/01/19 – 08/31/20	2099604	$128,241	61,288	61,288
	Other Victim Assistance Grant				
#6	09/01/19 – 08/31/20	2098085	$42,000	33,218	33,218
Total Texas Office of the Attorney General				94,506	94,506
TEXAS HEALTH AND HUMAN SERVICES COMMISSION					
Direct Funding:					
	Family Violence Prevention and Services Act				
#7	09/01/19 – 08/31/20	HHS000380000064	$38,414	38,414	38,414
Total Texas Health and Human Services Commission				38,414	38,414
TEXAS VETERAN'S COMMISSION					
Direct Funding:					
	Fund for Veteran's Assistance				
#8	07/01/19 – 06/30/20	GT-VMH19-006	$100,000	34,096	34,096
#9	07/01/20 – 06/30/21	GT-VMH20-013	$100,000	9,121	9,121
Total Texas Veteran's Commission				43,217	43,217
TOTAL STATE AWARDS				$ 550,783	$ 549,829

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, 2020

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. The Center does not have any subrecipients.

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:

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, 2020 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 25, 2021. The financial statements of 2222 Cleburne, LP, a consolidated affiliate, were not audited in accordance with *Government Auditing Standards*, and accordingly, this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance associated with 2222 Cleburne, LP.

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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify a deficiency in internal control, described in the accompanying schedule of finding and questioned costs as finding #2020-001, that we consider to be a material weakness.

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*.

The Center's Response to Finding

The Center's response to the 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 the financial statements and, accordingly, we express no opinion on the response.

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.

Blazek & Vetterling

February 25, 2021

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's 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 Montrose Center's major federal programs for the year ended August 31, 2020. The Montrose Center's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

The Montrose Center's basic financial statements include the operations of 2222 Cleburne, LP, which did not expend any federal or state awards, therefore, the Montrose Center's expenditures of federal or state awards does not include expenditures of 2222 Cleburne, LP for the year ended August 31, 2020. Our audit, described below, did not include the operations of 2222 Cleburne, LP because this affiliate does not expend federal or state funds.

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 Montrose 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 Montrose 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 Montrose 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, 2020.

Report on Internal Control Over Compliance

Management of the Montrose 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 Montrose 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.

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.

Blazek & Vetterling

February 25, 2021

the Montrose Center and Affiliate

<u>Schedule of Findings and Questioned Costs for the year ended August 31, 2020</u>

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>
93.914	HIV Emergency Relief Project Grants
93.959	Block Grants for Prevention and Treatment of Substance Abuse

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

<u>Finding #2020-001</u> – Material Weakness

Criteria: The management of the Center is responsible for establishing and maintaining an effective system of internal control over financial reporting in order to prepare financial statements in accordance with generally accepted accounting principles.

Material weakness: Beginning with the year ended August 31, 2019, the Montrose Center, as the general partner of 2222 Cleburne, LP (Partnership), is required to consolidate with the Partnership for purposes of external financial reporting. It is the Montrose Center's responsibility to ensure significant general ledger accounts related to the Partnership are periodically analyzed and reconciled in order to prevent or detect errors. Material adjustments were required to prepare consolidated financial statements in accordance with generally accepted accounting principles.

Effect: Failure to establish and maintain an adequate system of internal control over financial reporting adversely affects the Center's ability to prepare financial statements in accordance with generally accepted accounting principles and may result in financial statement misstatements.

Recommendation: Establish policies and procedures for the reconciliation and review of all accounts related to 2222 Cleburne, LP and the Montrose Center to ensure that financial information is properly reported at year-end.

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

Section III – Federal Award Findings and Questioned Costs

There were no findings for federal awards required to be reported in accordance with 2 CFR §200.516(a).

CORRECTIVE ACTION PLAN

February 25, 2021

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, 2020. The audit was performed by: Blazek & Vetterling, 2900 Weslayan, Suite 200, Houston, Texas, 77027.

The findings from the August 31, 2020 schedule of findings and questioned costs are discussed below. The findings are numbered consistently with the numbers assigned in the schedule.

FINANCIAL STATEMENT AND FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Finding #2020-001 – Material Weakness

Recommendation: Establish policies and procedures for the reconciliation and review of all accounts related to 2222 Cleburne, LP and the Montrose Center to ensure that financial information is properly reported at year-end.

Planned corrective action: The timing of the Low-Income Housing Tax Credit certification audit of the Partnership will occur in early 2021 and management will arrange assistance for the Partnership's internal accounting. The Center has engaged an experienced property management and leasing company to manage the Law Harrington Senior Living Center and compliance to tax credit requirements owned by 2222 Cleburne, LP. The Center's accounting staff will be provided with additional training to provide consolidated financial statements in accordance with generally accepted accounting principles.

Responsible officer: Ann J. Robison, PhD, Executive Director, (713) 800-0900

Estimated completion date: April 30, 2021

Sincerely,

Ann J. Robison, PhD
Executive Director

Empowering LGBT Houston

401 Branard Street, 2nd Floor | Houston, Texas 77006 | 713.529.0037 | Fax 713.526.4367 | www.montrosecenter.org

Summary Schedule of Prior Audit Findings

The following audit finding for the year ended August 31, 2019, is required to be reported in accordance with 2 CFR §200.511.

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

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

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.

Management's 2020 follow-up response: No advances were requested in the current fiscal year in excess of expected expenses.