

the Montrose Center

Financial Statements
and Single Audit Reports
for the year ended August 31, 2014

the Montrose Center

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Independent Auditors' Report

To the Board of Directors of
the Montrose Center:

Report on the Financial Statements

We have audited the accompanying financial statements of the Montrose Center, which comprise the statements of financial position as of August 31, 2014 and 2013 and the related statements of activities, of functional expenses, and of cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Montrose Center as of August 31, 2014 and 2013 and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplementary information included in the schedule of expenditures of federal awards for the year ended August 31, 2014 as required by Office of Management and Budget *Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the financial statements. Supplemental information in the schedule of expenditures of state awards for the year ended August 31, 2014 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Report Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 15, 2015 on our consideration of the Montrose Center's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Montrose Center's internal control over financial reporting and compliance.

Blazek & Vetterling

January 15, 2015

the Montrose Center

Statements of Financial Position as of August 31, 2014 and 2013

	<u>2014</u>	<u>2013</u>
ASSETS		
Cash and cash equivalents (<i>Note 3</i>)	\$ 300,556	\$ 594,724
Receivables:		
Government contracts	988,483	865,138
United Way allocation	39,787	33,120
Client fees, net	204,224	131,267
Pledges, net (<i>Note 4</i>)	109,064	56,952
Prepaid expenses	221,289	160,736
Property, net (<i>Note 5</i>)	<u>179,191</u>	<u>263,155</u>
TOTAL ASSETS	<u>\$ 2,042,594</u>	<u>\$ 2,105,092</u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued expenses	<u>\$ 109,181</u>	<u>\$ 140,998</u>
Net assets:		
Unrestricted	1,328,820	1,376,465
Temporarily restricted (<i>Note 6</i>)	<u>604,593</u>	<u>587,629</u>
Total net assets	<u>1,933,413</u>	<u>1,964,094</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 2,042,594</u>	<u>\$ 2,105,092</u>

See accompanying notes to financial statements.

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Statement of Activities for the year ended August 31, 2014

	<u>UNRESTRICTED</u>	<u>TEMPORARILY RESTRICTED</u>	<u>TOTAL</u>
REVENUE:			
Government contracts (<i>Note 7</i>)	\$ 3,851,086		\$ 3,851,086
Client fees	1,235,563		1,235,563
Contributions	327,410	\$ 210,968	538,378
Loss on valuation of pledges	(20,779)		(20,779)
United Way allocation		121,450	121,450
Other income	<u>66,007</u>	<u> </u>	<u>66,007</u>
Total revenue	5,459,287	332,418	5,791,705
Net assets released from restrictions:			
Expenditure for program purposes	<u>315,454</u>	<u>(315,454)</u>	<u> </u>
Total	<u>5,774,741</u>	<u>16,964</u>	<u>5,791,705</u>
EXPENSES:			
Program expenses:			
Case Management	2,525,738		2,525,738
Chemical Dependency	581,172		581,172
Anti-Violence	505,664		505,664
Education	502,329		502,329
LIFE	471,688		471,688
HIV/AIDS	463,881		463,881
Senior	<u>249,745</u>	<u> </u>	<u>249,745</u>
Total program expenses	5,300,217		5,300,217
Management and general	351,287		351,287
Fundraising	<u>170,882</u>	<u> </u>	<u>170,882</u>
Total expenses	<u>5,822,386</u>	<u> </u>	<u>5,822,386</u>
CHANGES IN NET ASSETS	(47,645)	16,964	(30,681)
Net assets, beginning of year	<u>1,376,465</u>	<u>587,629</u>	<u>1,964,094</u>
Net assets, end of year	<u>\$ 1,328,820</u>	<u>\$ 604,593</u>	<u>\$ 1,933,413</u>

See accompanying notes to financial statements.

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Statement of Activities for the year ended August 31, 2013

	<u>UNRESTRICTED</u>	TEMPORARILY <u>RESTRICTED</u>	<u>TOTAL</u>
REVENUE:			
Government contracts (<i>Note 7</i>)	\$ 4,072,402		\$ 4,072,402
Client fees	967,637		967,637
Contributions	247,936	\$ 181,338	429,274
United Way allocation		101,833	101,833
Other income	<u>41,532</u>		<u>41,532</u>
Total revenue	5,329,507	283,171	5,612,678
Net assets released from restrictions:			
Expenditure for program purposes	<u>279,591</u>	<u>(279,591)</u>	
Total	<u>5,609,098</u>	<u>3,580</u>	<u>5,612,678</u>
EXPENSES:			
Program expenses:			
Case Management	2,466,996		2,466,996
Chemical Dependency	522,645		522,645
Anti-Violence	467,629		467,629
Education	531,929		531,929
LIFE	432,064		432,064
HIV/AIDS	448,692		448,692
Senior	<u>257,738</u>		<u>257,738</u>
Total program expenses	5,127,693		5,127,693
Management and general	355,920		355,920
Fundraising	<u>145,674</u>		<u>145,674</u>
Total expenses	<u>5,629,287</u>		<u>5,629,287</u>
CHANGES IN NET ASSETS	(20,189)	3,580	(16,609)
Net assets, beginning of year	<u>1,396,654</u>	<u>584,049</u>	<u>1,980,703</u>
Net assets, end of year	<u>\$ 1,376,465</u>	<u>\$ 587,629</u>	<u>\$ 1,964,094</u>

See accompanying notes to financial statements.

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Statement of Functional Expenses for the year ended August 31, 2014

	CASE MANAGEMENT	CHEMICAL DEPENDENCY	ANTI- VIOLENCE	EDUCATION	LIFE	HIV/AIDS	SENIOR	MANAGEMENT AND GENERAL	FUNDRAISING	TOTAL EXPENSES
Salaries	\$ 1,270,242	\$ 302,690	\$ 251,367	\$ 289,291	\$ 313,068	\$ 315,823	\$ 156,059	\$ 166,599	\$ 97,738	\$ 3,162,877
Benefits	219,675	42,791	31,756	45,697	40,410	37,910	18,310	25,640	14,624	476,813
Payroll taxes	98,972	23,383	19,360	22,585	24,078	24,342	12,376	12,300	7,494	244,890
Client assistance	489,591	8,185	110,794		475		5,985			615,030
Occupancy	218,469	47,260	48,051	53,497	45,489	42,546	22,987	91,488	5,694	575,481
Contract services	37,536	102,998	2,096	27,454	9,546	7,349	8,785	27,952	16,543	240,259
In-kind professional services	28,860	15,201	16,680	18,773	13,851	15,201	9,762	423	9,531	128,282
Depreciation	45,883	10,581	9,149	9,146	8,543	8,397	4,521	8,080	3,560	107,860
Local travel	36,922	714	2,633	10,482	1,589	188	1,291	367	270	54,456
Bad debt – uncollectible accounts	24,449	5,094	5,094	4,584	4,584	4,584	2,547			50,936
Supplies	19,697	2,685	1,526	7,708	1,847	2,663	2,620	1,690	3,180	43,616
Professional development	10,939	11,019	20	2,353	1,347	170	2,075	159	376	28,458
Telephone	8,711	2,342	3,464	2,504	2,061	1,946	930	1,294	217	23,469
Equipment rental and purchases	4,997	1,641	1,083	1,330	1,261	968	533	691	134	12,638
Printing	3,401	907	290	1,116	1,062	259	277	152	368	7,832
Postage	1,147	344	310	286	288	203	115	127	27	2,847
Other	6,247	3,337	1,991	5,523	2,189	1,332	572	14,325	11,126	46,642
Total expenses	\$ 2,525,738	\$ 581,172	\$ 505,664	\$ 502,329	\$ 471,688	\$ 463,881	\$ 249,745	\$ 351,287	\$ 170,882	\$ 5,822,386
Grant reimbursed management expenses by program	\$141,333	\$1,004	\$13,943	\$27,857	\$20,675	\$16,083	\$5,357			

See accompanying notes to financial statements.

the Montrose Center

Statement of Functional Expenses for the year ended August 31, 2013

	CASE MANAGEMENT	CHEMICAL DEPENDENCY	ANTI- VIOLENCE	EDUCATION	LIFE	HIV/AIDS	SENIOR	MANAGEMENT AND GENERAL	FUNDRAISING	TOTAL EXPENSES
Salaries	\$ 1,198,233	\$ 267,777	\$ 241,046	\$ 335,582	\$ 277,774	\$ 295,747	\$ 171,097	\$ 179,801	\$ 94,023	\$ 3,061,080
Benefits	200,834	35,528	32,532	50,830	31,972	35,212	20,263	24,943	14,592	446,706
Payroll taxes	100,308	22,113	19,986	28,157	22,889	24,448	14,431	13,941	7,795	254,068
Client assistance	515,957	564	96,757		9					613,287
Occupancy	198,176	42,384	48,221	61,032	41,415	59,478	24,831	92,714	4,884	573,135
Contract services	72,933	98,577	390	2,931	22,686	7,444	2,659	29,322	144	237,086
In-kind professional services	19,296	4,433	4,745	4,392	4,529	4,433	3,560	37	4,627	50,052
Depreciation	47,941	10,166	9,062	10,352	8,371	8,718	5,003	8,624	2,896	111,133
Local travel	28,595	226	1,595	13,225	1,507	19	820	224	22	46,233
Bad debt – uncollectible accounts		45	577		7,679	1,525				9,826
Supplies	50,221	9,877	6,680	12,128	7,589	7,938	9,161		8,708	112,302
Professional development	6,415	3,503	618	1,233	1,056	161	1,661	565	240	15,452
Telephone	9,293	1,825	3,773	3,281	1,785	1,802	1,075	1,614	203	24,651
Equipment rental and purchases	4,571	1,381	1,029	1,518	1,287	1,054	631	991	169	12,631
Printing	3,798	327	422	1,463	422	320	361	473	34	7,620
Postage	1,046	155	194	294	198	158	95	97	18	2,255
Other	9,379	23,764	2	5,511	896	235	2,090	2,574	7,319	51,770
Total expenses	\$ 2,466,996	\$ 522,645	\$ 467,629	\$ 531,929	\$ 432,064	\$ 448,692	\$ 257,738	\$ 355,920	\$ 145,674	\$ 5,629,287
Grant reimbursed management expenses by program	\$146,433	\$19,363	\$17,139	\$37,726	\$1,679	\$16,040	\$7,306			

See accompanying notes to financial statements.

the Montrose Center

Statements of Cash Flows for the years ended August 31, 2014 and 2013

	<u>2014</u>	<u>2013</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in net assets	\$ (30,681)	\$ (16,609)
Adjustments to reconcile changes in net assets to net cash used by operating activities:		
Depreciation	107,860	111,133
Changes in operating assets and liabilities:		
Receivables	(255,081)	1,892
Prepaid expenses	(60,553)	1,294
Accounts payable and accrued expenses	<u>(31,817)</u>	<u>(140,429)</u>
Net cash used by operating activities	<u>(270,272)</u>	<u>(42,719)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property	<u>(23,896)</u>	<u>(15,171)</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	(294,168)	(57,890)
Cash and cash equivalents, beginning of year	<u>594,724</u>	<u>652,614</u>
Cash and cash equivalents, end of year	<u>\$ 300,556</u>	<u>\$ 594,724</u>

See accompanying notes to financial statements.

the Montrose Center

Notes to Financial Statements for the years ended August 31, 2014 and 2013

NOTE 1 – ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Organization – Montrose Counseling Center, Inc., doing business as the Montrose Center (the Center), is a Texas non-profit corporation created in 1978 to provide outpatient mental health care services, substance abuse treatment, and case management services in the Houston area. 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, living with HIV as well as mental retardation, severe learning disability or severe cognitive impairment; or survivors of sexual assault, same-sex domestic violence or a bias/hate crime.

Chemical Dependency provides a combination of education, therapy, and counseling. It is a state licensed, out-patient treatment program designed primarily for the 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.

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 Lesbian, Gay, Bisexual and Transgender individuals (LGBT), 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.

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, fear, ignorance, homophobia or heterosexism.

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

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

Federal income tax status – The Center is exempt from federal income taxes under §501(c)(3) of the Internal Revenue Code and is classified as a public charity under §509(a)(2). The Center files annual federal information returns that are subject to routine examination; however, there are no examinations for any tax periods currently in progress. The Center believes it is no longer subject to examinations of returns for tax years ended before August 31, 2011.

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

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

Allowance for uncollectible accounts – 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 pledges recognized and the resulting adequacy of the allowance 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. Depreciation is calculated on a straight-line basis over estimated useful lives of 5 to 20 years.

Net asset classification – Contributions and the related net assets are classified based on the existence or absence of donor-imposed restrictions, as follows:

- *Unrestricted net assets* include those net assets whose use is not restricted by donor-imposed stipulations even though their use may be limited in other respects such as by contract or board designation.
- *Temporarily restricted net assets* include contributions restricted by the donor for specific purposes or time periods. When a purpose restriction is accomplished or a time restriction ends, temporarily restricted net assets are released to unrestricted net assets.

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

Contributions are recognized as revenue when an unconditional commitment is received from the donor. Contributions received with donor stipulations that limit their use are classified as restricted support. Conditional contributions are recognized in the same manner when the conditions are substantially met.

Non-cash contributions – Donated materials and use of facilities are recognized at fair value when an unconditional commitment is received from the donor. The related expense is recognized as the item is used. Contributions of services are recognized when services received (a) create or enhance nonfinancial assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation.

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.

NOTE 2 – MONTROSE COUNSELING CENTER PERMANENT ENDOWMENT, INC.

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

In 2007, the Endowment purchased an office building to house the operations of the Center. The office building is leased to the Center under a noncancelable operating lease agreement through September 30, 2022. 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 2022.

NOTE 3 – CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of the following:

	<u>2014</u>	<u>2013</u>
Bank deposits	\$ 162,029	\$ 451,492
Money market mutual funds	109,339	114,044
Certificates of deposit	<u>29,188</u>	<u>29,188</u>
Total cash and cash equivalents	<u>\$ 300,556</u>	<u>\$ 594,724</u>

NOTE 4 – PLEDGES RECEIVABLE

Pledges receivable are as follows:

	<u>2014</u>	<u>2013</u>
Pledges receivable	\$ 122,147	\$ 71,582
Allowance for uncollectible pledges	(11,885)	(13,759)
Discount to net present value at 1% to 2%	<u>(1,198)</u>	<u>(871)</u>
Pledges receivable, net	<u>\$ 109,064</u>	<u>\$ 56,952</u>

Pledges receivable at August 31, 2014 are expected to be collected as follows:

Within one year	\$ 87,617
In one to five years	<u>34,530</u>
Total pledges receivable	<u>\$ 122,147</u>

NOTE 5 – PROPERTY

Property is comprised of the following:

	<u>2014</u>	<u>2013</u>
Furniture and equipment	\$ 615,750	\$ 591,854
Accumulated depreciation	<u>(436,559)</u>	<u>(328,699)</u>
Property, net	<u>\$ 179,191</u>	<u>\$ 263,155</u>

NOTE 6 – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes:

	<u>2014</u>	<u>2013</u>
Safe Zones program	\$ 232,963	\$ 269,697
Pledges restricted for use in future periods	122,147	71,582
HATCH program	80,803	74,715
Volunteer program	46,713	54,473
Outreach	44,417	44,417
United Way allocation	39,787	33,120
Other	<u>37,763</u>	<u>39,625</u>
Total temporarily restricted net assets	<u>\$ 604,593</u>	<u>\$ 587,629</u>

NOTE 7 – 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>2014</u>	<u>2013</u>
Texas Department of State Health Services	\$ 1,591,552	\$ 1,509,759
City of Houston	888,623	972,020
U. S. Department of Health and Human Services – direct funding	674,996	885,277
Harris County – Ryan White Care Act, Part A	268,795	276,500
U. S. Department of Housing and Urban Development – direct funding	100,939	94,314
Texas Office of the Governor, Criminal Justice Division	93,620	90,490
Texas Office of the Attorney General	70,849	78,336
Health and Human Services Commission	58,356	57,018
Other	<u>103,356</u>	<u>108,688</u>
Total revenue from government contracts	<u>\$ 3,851,086</u>	<u>\$ 4,072,402</u>

The Center 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 8 – 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 \$36,200 to this plan in 2014 and \$35,300 in 2013.

NOTE 9 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through January 15, 2015, 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

Schedule of Expenditures of Federal Awards for the year ended August 31, 2014

GRANTOR

<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

(a) #1	10/01/12 – 09/30/13	93.044	4600010084	\$65,205		\$ 6,085
(a) #2	10/01/13 – 09/30/14	93.044	4500094971	\$65,205	\$ 65,205	82,349
					<u>65,205</u>	<u>88,434</u>

Passed through Neighborhood Centers Inc. and Harris County Area Agency on Aging:

Special Programs for the Aging, Title III, Part C, Nutrition Services

Nutrition and/or Senior Services – Congregate Meals

(a) #3	10/01/12 – 09/30/14	93.045	3618	\$7,636	5,412	5,412
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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

#4	08/01/13 – 07/31/14	93.153	13MCC00RWD	\$26,691	17,917	20,332
#5	08/01/14 – 07/31/15	93.153	15TMC00PTD	\$13,340	1,450	1,741
					<u>19,367</u>	<u>22,073</u>

Direct Federal Funding:

Substance Abuse and Mental Health Services Administration –

Projects of Regional and National Significance

Community PROMISE Center for Substance Abuse Prevention

#6	09/30/13 – 09/29/14	93.243	5U79SP015106-05	\$391,282	165,618	165,618
#7	09/30/12 – 09/29/13	93.243	5H79SM059742-03	\$500,000	29,085	29,321
#8	09/30/13 – 09/29/14	93.243	5H79SM059742-04	\$500,000	348,288	348,052
#9	09/30/11 – 03/29/14	93.243	1H79SM060695-01	\$356,344	74,487	74,487
#10	09/30/13 – 09/29/14	93.243	1U79SP020243-01	\$116,000	57,518	57,518
					<u>674,996</u>	<u>674,996</u>

(continued)

the Montrose Center

Schedule of Expenditures of Federal Awards for the year ended August 31, 2014 *(continued)*

GRANTOR

<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 *(continued)*

Passed through Houston Rescue and Restore Coalition:

Project Grants Services to Victims of a Severe Form of Trafficking						
#11	07/01/13 – 06/30/14	93.598	HHS2013CONORRZV0089	\$50,000	41,324	49,050

Passed through Texas Health and Human Services Commission:

Administration for Children and Families						
Social Services Block Grant Supplemental Fund						
#12	09/01/13 – 08/31/14	93.667	529-14-0052-00006	\$37,253	37,253	37,515

Family Violence Program Prevention and Service Act

#13	09/01/13 – 08/31/14	93.671	529-14-0052-00006	\$16,414	16,414	16,529
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Passed through Harris County:

Ryan White Care Act, Part A, HIV Emergency Project Formula Grants						
Case Management						
#14	03/01/13 – 02/28/14	93.914	13GEN0050	\$246,225	116,100	83,277
#15	03/01/14 – 02/28/15	93.914	14GEN0084	\$224,025	112,000	92,983
Substance Abuse						
#16	03/01/13 – 02/28/14	93.914	13GEN0049	\$45,750	17,650	10,760
#17	03/01/14 – 02/28/15	93.914	14GEN0083	\$45,750	16,100	17,477

Passed through Houston Regional HIV/AIDS Resource Group, Inc.:

Beaumont Mental Health Services						
#18	09/01/13 – 08/31/14	93.914	14TMC00SS-15	\$16,000	6,945	7,485
					268,795	211,982

Passed through City of Houston Bureau of HIV/STD Prevention:

HIV Prevention Activities Health Department Based City – Community PROMISE						
#19	01/01/13 – 12/31/13	93.940	4600008358	\$280,860	88,727	88,651
#20	01/01/14 – 12/31/14	93.940	4600012431	\$200,000	136,242	136,318
					224,969	224,969

(continued)

the Montrose Center

Schedule of Expenditures of Federal Awards for the year ended August 31, 2014 (continued)

GRANTOR

<u>Pass-through Grantor</u>	<u>CFDA</u>	<u>Grant</u>	<u>Award</u>		<u>Allowable</u>
<u>Program Title & Period</u>	<u>Number</u>	<u>Number</u>	<u>Amount</u>	<u>Revenue</u>	<u>Expenses</u>

U. S. DEPARTMENT OF HEALTH AND HUMAN SERVICES *(continued)*

Passed through Texas Department of State Health Services:

Block Grants for Prevention and Treatment of Substance Abuse

HIV Early Intervention

#21	09/01/13 – 08/31/14	93.959	2014-044729-001	\$531,674	415,804	415,804
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HIV Outreach

#22	09/01/13 – 08/31/14	93.959	2014-044617-001	\$688,247	688,247	713,347
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Recovery Support Services

#23	04/01/14 – 08/31/14	93.959	2014-045612-001	\$112,500	43,006	47,537
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Substance Abuse Treatment

#24	09/01/13 – 08/31/14	93.959	2014-044384-001	\$29,411	29,411	53,866
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Co-occurring Psychiatric and Substance Abuse Disorders

#25	09/01/13 – 08/31/14	93.959	2014-044414-001	\$3,421	<u>3,421</u>	<u>4,470</u>
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	<u>1,179,889</u>	<u>1,235,024</u>
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Total U. S. Department of Health and Human Services	<u>2,533,624</u>	<u>2,565,984</u>
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U. S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

Direct Federal Funding:

Supportive Housing Program

#26	10/01/12 – 09/30/13	14.235	TX0171B6E001104	\$105,259	12,946	12,946
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#27	10/01/13 – 09/30/14	14.235	TX0171L6E001205	\$102,290	<u>87,993</u>	<u>90,762</u>
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	<u>100,939</u>	<u>103,708</u>
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Passed through City of Houston Housing and Community Development Department:

Housing Opportunities for Persons with AIDS

#28	04/19/12 – 04/30/14	14.241	4600011407	\$608,119	346,007	346,744
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#29	05/01/14 – 04/30/15	14.241	4600012670	\$982,496	<u>252,442</u>	<u>260,816</u>
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	<u>598,449</u>	<u>607,560</u>
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Total U. S. Department of Housing and Urban Development	<u>699,388</u>	<u>711,268</u>
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(continued)

the Montrose Center

Schedule of Expenditures of State Awards for the year ended August 31, 2014

GRANTOR

<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 09/01/13 – 08/31/14	2014-044729-001	\$35,122	\$ 35,122	\$ 35,122
HIV Outreach				
#2 09/01/13 – 08/31/14	2014-044617-001	\$22,211	22,211	22,211
Substance Abuse Treatment				
#3 09/01/13 – 08/31/14	2014-044384-001	\$5,885	5,885	5,885
Co-occurring Psychiatric and Substance Abuse Disorders				
#4 09/01/13 – 08/31/14	2014-044414-001	\$880	880	880

Passed through Houston Regional HIV/AIDS Resource Group, Inc.:

Mental Health				
#5 09/01/13 – 08/31/14	14MCC00SS	\$313,590	313,590	274,681
Linguistics				
#6 09/01/13 – 08/31/14	14MCC00SS	\$35,000	<u>33,975</u>	<u>35,545</u>
Total Texas Department of State Health Services			<u>411,663</u>	<u>374,324</u>

TEXAS OFFICE OF THE ATTORNEY GENERAL

Direct Funding:

Sexual Assault Prevention and Crisis Services – Crisis Intervention				
#7 09/01/13 – 08/31/14	1440155	\$52,880	28,858	28,858
Crime Victim Services Division – Other Victim Assistance Grant				
#8 09/01/13 – 08/31/14	1444215	\$42,000	<u>41,991</u>	<u>41,991</u>
Total Texas Office of the Attorney General			<u>70,849</u>	<u>70,849</u>

TEXAS HEALTH AND HUMAN SERVICES COMMISSION

Direct Funding:

Family Violence Prevention and Services Act				
#9 09/01/13 – 08/31/14	529-14-0052-00006	\$37,253	37,253	37,515
Family Violence Prevention and Services Act – Exceptional Item Funding				
#1004/01/14 – 08/31/14	529-14-0069	\$24,816	<u>4,689</u>	<u>4,707</u>
Total Texas Health and Human Services Commission			<u>41,942</u>	<u>42,222</u>

TOTAL STATE AWARDS			<u>\$ 524,454</u>	<u>\$ 487,395</u>
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See accompanying note to schedules of expenditures of federal and state awards.

the Montrose Center

Note to Schedules of Expenditures of Federal and State Awards for the year ended August 31, 2014

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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* for federal awards and the State of Texas *Single Audit Circular* for state awards. Expenses include allowable expenses funded by federal and state grants and other funding sources for each program. Allowable expenses are determined according to the standards of Office of Management and Budget Circular A-122, *Cost Principles for Non-Profit Organizations* and the *Texas Uniform Grants Management Standards*, and include both costs that are capitalized in the Center’s statement of financial position and costs that are expensed in the Center’s statement of activities in conformity with generally accepted accounting principles.

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

To the Board of Directors of
the Montrose Center:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Montrose Center (the Center), which comprise the statements of financial position as of August 31, 2014 and the related statements of activities, of functional expenses, and of cash flows for the year then ended, and the related notes to the financial statements and have issued our report thereon dated January 15, 2015.

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. We did identify a deficiency in internal control described in the accompanying schedule of findings and question costs as finding #2014-001 that we consider to be a significant deficiency.

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 the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the Center's response 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

January 15, 2015

Independent Auditors' Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance Required by OMB Circular A-133

To the Board of Directors of
the Montrose Center:

Report on Compliance for Each Major Federal Program

We have audited the Montrose Center's (the Center) compliance with the types of compliance requirements described in the *OMB Circular A-133 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, 2014. 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 laws, regulations, contracts, and grants applicable to its federal and state 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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 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 types of 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, 2014.

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 OMB Circular A-133, 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 combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Blazek & Vetterling

January 15, 2015

the Montrose Center

Schedule of Findings and Questioned Costs for the year ended August 31, 2014

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 §.510(a) of Circular A-133 yes no

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
93.243	Block Grants for Substance Abuse and Mental Health Services Administration
93.940	Grant for HIV Prevention Activities Health Department Based

Dollar threshold used to distinguish between Type A and Type B programs: \$300,000

Auditee qualified as a low-risk auditee? yes no

Section II – Financial Statement Findings

Finding # 2014-001

Criteria: The management of the Center is responsible for establishing a system of internal control over financial reporting.

Significant deficiency: The Center's system of internal control over pledges receivable is not sufficient to ensure that all pledges receivable are properly recorded. During our testing of contributions, we discovered a contribution that should have been recorded in 2013 as a multi-year pledge.

Effect: Failure to adequately establish and maintain a system of internal control over the financial reporting of pledges receivable adversely affects the Center's ability to prepare financial statements in accordance with generally accepted accounting principles.

Recommendation: Implement procedures to reconcile the donor database pledges receivable and contribution reports maintained by the Development Department to the general ledger. Copies of documentation regarding pledges and contributions received by the Development Department should be forwarded to the Accounting Department.

Management response and corrective action plan: We will implement a quarterly reconciliation of pledges and other contributions between the donor database and the general ledger and procedures to ensure that the Accounting Department receives copies of donor documentation.

Responsible officer: Gary J. Powers, CMA, Finance Director

Estimated completion date: February 28, 2015

Section III – Federal Award Findings and Questioned Costs

There were no findings for federal awards required to be reported in accordance with §.510(a) of OMB Circular A-133.