

the Montrose Center and Affiliate

Consolidated Financial Statements
and Single Audit Reports
for the year ended August 31, 2021

the Montrose Center and Affiliate

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Independent Auditors' Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the Montrose Center and Affiliate, which comprise the consolidated statements of financial position as of August 31, 2021 and 2020 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, 2021 and 2020 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.

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, 2021 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* and in the schedule of expenditures of state awards for the year ended August 31, 2021 as required by the State of Texas *Single Audit Circular* is presented for purposes of additional analysis and is not a required part of the financial statements. Supplementary information in the combining statements of financial position as of August 31, 2021 and 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 May 10, 2022 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.

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

May 10, 2022

the Montrose Center and Affiliate

Consolidated Statements of Financial Position as of August 31, 2021 and 2020

| | <u>2021</u> | <u>2020</u> |
|--------------------------------------------------------------------------------------|-----------------------------|-----------------------------|
| ASSETS | | |
| Cash | \$ 1,372,547 | \$ 1,282,184 |
| Contributions receivable (Note 6): | | |
| Government grants | 1,474,717 | 1,061,333 |
| Operating contributions receivable, net | 342,307 | 392,011 |
| Receivable due from Montrose Counseling Center Permanent Endowment, Inc. (Note 5) | 50,351 | 50,351 |
| Client fees receivable, net of allowance of \$85,163 and \$50,000, respectively | 270,942 | 260,048 |
| Prepaid expenses and other assets | 262,038 | 98,891 |
| Receivables for escrowed guarantee deposits | 700,000 | 700,000 |
| Cash restricted for senior housing project | 1,248,005 | 4,624,695 |
| Contributions receivable restricted for senior housing project, net (Note 6) | 717,956 | 717,956 |
| Property, net (Note 7) | <u>28,952,255</u> | <u>23,216,612</u> |
| TOTAL ASSETS | <u>\$ 34,673,162</u> | <u>\$ 32,404,081</u> |
| LIABILITIES AND NET ASSETS | | |
| Liabilities: | | |
| Accounts payable and accrued expenses | \$ 716,887 | \$ 438,507 |
| Senior housing construction payable | | 2,979,057 |
| Paycheck Protection Program refundable advance (Note 4) | | 550,000 |
| Notes payable (Note 8) | 13,441,506 | 11,152,241 |
| Developer fee payable | <u>1,203,351</u> | <u>1,118,183</u> |
| Total liabilities | <u>15,361,744</u> | <u>16,237,988</u> |
| Commitments and contingencies (Notes 7 and 11) | | |
| Net assets: | | |
| Without donor restrictions | 11,450,676 | 1,254,550 |
| With donor restrictions (Note 9) | <u>2,360,125</u> | <u>9,815,787</u> |
| Total net assets | <u>13,810,801</u> | <u>11,070,337</u> |
| Noncontrolling ownership interest (Note 13) | <u>5,500,617</u> | <u>5,095,756</u> |
| TOTAL LIABILITIES AND NET ASSETS | <u>\$ 34,673,162</u> | <u>\$ 32,404,081</u> |

See accompanying notes to consolidated financial statements.

the Montrose Center and Affiliate

Consolidated Statement of Activities for the year ended August 31, 2021

| | WITHOUT DONOR RESTRICTIONS | WITH DONOR RESTRICTIONS | TOTAL |
|-------------------------------------------------------------------|-------------------------------|----------------------------|----------------------|
| REVENUE: | | | |
| Public support: | | | |
| Contributions | \$ 371,955 | \$ 2,290,820 | \$ 2,662,775 |
| Government grants <i>(Note 10)</i> | | 5,936,217 | 5,936,217 |
| United Way allocation | | 110,917 | 110,917 |
| Special events | 135,916 | 206,780 | 342,696 |
| Direct donor benefits | (16,989) | | (16,989) |
| Client fees | 1,430,585 | | 1,430,585 |
| Developer fee revenue | 592,860 | | 592,860 |
| Apartment rental income | 343,513 | | 343,513 |
| Other income | 208,259 | | 208,259 |
| Total revenue | <u>3,066,099</u> | <u>8,544,734</u> | <u>11,610,833</u> |
| Net assets released from restrictions: | | | |
| Capital expenditures | 9,616,323 | (9,616,323) | |
| Government grant program expenditures | 5,936,217 | (5,936,217) | |
| Other program expenditures | 447,856 | (447,856) | |
| Total | <u>19,066,495</u> | <u>(7,455,662)</u> | <u>11,610,833</u> |
| EXPENSES: | | | |
| Program expenses: | | | |
| Case Management | 4,030,564 | | 4,030,564 |
| Senior Housing | 1,545,053 | | 1,545,053 |
| LIFE | 1,078,829 | | 1,078,829 |
| Anti-Violence | 657,490 | | 657,490 |
| Chemical Dependency | 635,650 | | 635,650 |
| Community Center Services | 251,862 | | 251,862 |
| HIV/AIDS | 236,574 | | 236,574 |
| Senior | 185,531 | | 185,531 |
| Youth | 140,008 | | 140,008 |
| Total program expenses | <u>8,761,561</u> | | <u>8,761,561</u> |
| Management and general | 756,057 | | 756,057 |
| Fundraising | 484,269 | | 484,269 |
| Total expenses | <u>10,001,887</u> | | <u>10,001,887</u> |
| CHANGES IN NET ASSETS BEFORE NONCONTROLLING OWNERSHIP INTEREST | | | |
| | 9,064,608 | (7,455,662) | 1,608,946 |
| Noncontrolling ownership interest loss <i>(Note 13)</i> | <u>1,218,033</u> | | <u>1,218,033</u> |
| CHANGES IN NET ASSETS | 10,282,641 | (7,455,662) | 2,826,979 |
| Net assets, beginning of year | <u>1,168,035</u> | <u>9,815,787</u> | <u>10,983,822</u> |
| Net assets, end of year | <u>\$ 11,450,676</u> | <u>\$ 2,360,125</u> | <u>\$ 13,810,801</u> |

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: | | | |
| Contributions | \$ 467,599 | \$ 5,260,145 | \$ 5,727,744 |
| Government grants <i>(Note 10)</i> | | 4,650,570 | 4,650,570 |
| United Way allocation | | 129,537 | 129,537 |
| Special events | 149,176 | 175,746 | 324,922 |
| Direct donor benefits | (32,527) | | (32,527) |
| Client fees | 1,548,858 | | 1,548,858 |
| Developer fee revenue | 542,707 | | 542,707 |
| Other income | <u>137,143</u> | | <u>137,143</u> |
| 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 | <u>1,293,773</u> | <u>(1,293,773)</u> | |
| Total | <u>8,757,299</u> | <u>4,271,655</u> | <u>13,028,954</u> |
| EXPENSES: | | | |
| Program expenses: | | | |
| Case Management | 3,600,310 | | 3,600,310 |
| Senior Housing | 63,893 | | 63,893 |
| LIFE | 1,272,250 | | 1,272,250 |
| Anti-Violence | 582,849 | | 582,849 |
| Chemical Dependency | 588,194 | | 588,194 |
| Community Center Services | 284,409 | | 284,409 |
| HIV/AIDS | 236,717 | | 236,717 |
| Senior | 178,130 | | 178,130 |
| Youth | <u>242,662</u> | | <u>242,662</u> |
| Total program expenses | 7,049,414 | | 7,049,414 |
| Management and general | 479,029 | | 479,029 |
| Fundraising | <u>470,549</u> | | <u>470,549</u> |
| Total expenses | <u>7,998,992</u> | | <u>7,998,992</u> |
| CHANGES IN NET ASSETS | 758,307 | 4,271,655 | 5,029,962 |
| Net assets, beginning of year | <u>496,243</u> | <u>5,544,132</u> | <u>6,040,375</u> |
| Net assets, end of year | <u>\$ 1,254,550</u> | <u>\$ 9,815,787</u> | <u>\$ 11,070,337</u> |

See accompanying notes to consolidated financial statements.

the Montrose Center and Affiliate

Consolidated Statement of Functional Expenses for the year ended August 31, 2021

| | CASE MANAGEMENT | SENIOR HOUSING | LIFE | ANTI- VIOLENCE | CHEMICAL DEPENDENCY | COMMUNITY CENTER SERVICES | HIV/AIDS | SENIOR | YOUTH | MANAGEMENT AND GENERAL | FUNDRAISING | TOTAL EXPENSES |
|-------------------------------------------------------|---------------------|---------------------|--------------------|-------------------|------------------------|---------------------------------|-------------------|-------------------|-------------------|------------------------------|-------------------|---------------------|
| Salaries | \$ 1,611,730 | \$ 136,706 | \$ 639,578 | \$ 341,805 | \$ 374,891 | \$ 152,809 | \$ 156,097 | \$ 110,082 | \$ 84,878 | \$ 268,566 | \$ 360,804 | \$ 4,237,946 |
| Benefits | 188,675 | 14,251 | 66,480 | 42,590 | 42,757 | 24,310 | 14,997 | 10,446 | 7,432 | 16,242 | 37,992 | 466,172 |
| Payroll taxes | 124,993 | 12,897 | 49,233 | 26,368 | 28,955 | 11,793 | 11,981 | 8,442 | 6,663 | 20,584 | 28,103 | 330,012 |
| Client assistance | 1,727,680 | | 765 | 148,996 | | 23,795 | | | 15,362 | | | 1,916,598 |
| Occupancy | 245,541 | 89,395 | 83,388 | 50,043 | 52,226 | 25,296 | 20,695 | 16,851 | 14,041 | 63,151 | 12,292 | 672,919 |
| Depreciation | 12,991 | 701,676 | 3,484 | 2,124 | 2,054 | 817 | 764 | 621 | 452 | 1,499 | 1,622 | 728,104 |
| Contract services | 26,314 | 178,613 | 167,009 | 1,462 | 87,101 | 205 | 2,076 | 2,366 | 123 | 49,855 | 11,678 | 526,802 |
| Interest | | 268,021 | | | | | | | | 14,637 | | 282,658 |
| Supplies | 36,554 | 14,686 | 4,273 | 5,237 | 3,649 | 512 | 1,171 | 9,412 | 2,166 | 165,042 | 25,952 | 268,654 |
| Bad debt | | | 15,913 | 4,790 | 8,646 | | 2,412 | 3,402 | | 105,298 | | 140,461 |
| Property taxes | | 89,723 | | | | | | | | | | 89,723 |
| In-kind professional services | | | 18,510 | 18,510 | 18,510 | | 18,510 | | | | | 74,040 |
| Telephone | 12,584 | | 17,028 | 3,858 | 3,353 | 1,333 | 1,057 | 8,821 | 770 | 138 | 602 | 49,544 |
| Local travel | 26,647 | | | 13 | 3,761 | 123 | | 297 | 1,127 | 2 | 107 | 32,077 |
| Printing | 1,585 | 24,831 | 801 | 198 | 508 | 28 | 42 | 51 | 43 | 5 | 657 | 28,749 |
| Equipment rental and purchases | 3,941 | | 2,368 | 840 | 874 | 425 | 535 | 267 | 238 | 351 | 207 | 10,046 |
| Professional development | 670 | | 1,223 | 111 | 1,146 | | 95 | 300 | | 625 | 667 | 4,837 |
| Postage | 775 | 380 | 322 | 175 | 184 | 753 | 114 | 52 | 127 | 48 | 481 | 3,411 |
| Other | 9,884 | 13,874 | 8,454 | 10,370 | 7,035 | 9,663 | 6,028 | 14,121 | 6,586 | 50,014 | 3,105 | 139,134 |
| Total expenses | \$ 4,030,564 | \$ 1,545,053 | \$1,078,829 | \$ 657,490 | \$ 635,650 | \$ 251,862 | \$ 236,574 | \$ 185,531 | \$ 140,008 | \$ 756,057 | \$ 484,269 | \$10,001,887 |
| Grant reimbursed management expenses by program | \$142,831 | | \$37,200 | \$38,003 | \$30,443 | \$20,588 | \$9,620 | \$8,438 | \$9,125 | | | |

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 | SENIOR HOUSING | LIFE | ANTI- VIOLENCE | CHEMICAL DEPENDENCY | COMMUNITY CENTER SERVICES | HIV/AIDS | SENIOR | YOUTH | MANAGEMENT AND GENERAL | FUNDRAISING | TOTAL EXPENSES |
|-------------------------------------------------------|---------------------|-------------------|---------------------|-------------------|------------------------|---------------------------------|-------------------|-------------------|-------------------|------------------------------|-------------------|---------------------|
| Salaries | \$ 1,530,305 | | \$ 709,624 | \$ 305,098 | \$ 348,008 | \$ 175,156 | \$ 160,774 | \$ 101,415 | \$ 123,808 | \$ 243,244 | \$ 338,950 | \$ 4,036,382 |
| Benefits | 216,548 | | 85,078 | 37,997 | 49,039 | 26,228 | 18,708 | 12,828 | 16,096 | 17,828 | 32,509 | 512,859 |
| Payroll taxes | 117,830 | | 54,414 | 23,586 | 26,490 | 13,792 | 11,937 | 7,793 | 9,403 | 23,614 | 25,161 | 314,020 |
| Client assistance | 1,325,846 | | 11,613 | 134,095 | 1,103 | 19,824 | | | 26,140 | | | 1,518,621 |
| Occupancy | 237,234 | | 88,713 | 44,931 | 48,355 | 30,200 | 20,265 | 16,463 | 19,056 | 64,040 | 12,835 | 582,092 |
| Depreciation | 10,841 | | 3,936 | 1,973 | 1,889 | 928 | 816 | 654 | 753 | 358 | 626 | 22,774 |
| Contract services | 30,827 | | 232,911 | 1,309 | 70,424 | 246 | 1,116 | 4,217 | 87 | 71,298 | 16,234 | 428,669 |
| Interest | | | | | | | | | | 32,907 | | 32,907 |
| Supplies | 51,594 | | 16,421 | 3,031 | 1,252 | 9,044 | 531 | 1,730 | 18,441 | 3,010 | 21,226 | 126,280 |
| Bad debt | | \$ 63,893 | 21,760 | 5,352 | 10,628 | | 2,522 | | | | | 104,155 |
| In-kind professional services | 16,740 | | 16,279 | 16,279 | 16,279 | | 16,279 | | 19,892 | | | 101,748 |
| Telephone | 11,000 | | 6,696 | 3,415 | 2,993 | 1,411 | 1,060 | 891 | 1,202 | 741 | 702 | 30,111 |
| Local travel | 30,481 | | 744 | 1,007 | 6,958 | 922 | 10 | 1,546 | 5,177 | 28 | 185 | 47,058 |
| Printing | 573 | | 401 | 23 | 19 | 28 | 4 | 1 | 27 | | 518 | 1,594 |
| Equipment rental and purchases | 5,848 | | 2,820 | 1,163 | 1,189 | 1,033 | 542 | 420 | 497 | 91 | 315 | 13,918 |
| Professional development | 4,850 | | 6,772 | 496 | | | 325 | 75 | | 55 | 40 | 12,613 |
| Postage | 1,365 | | 390 | 295 | 274 | 369 | 95 | 69 | 80 | 8 | 1,104 | 4,049 |
| Other | 8,428 | | 13,678 | 2,799 | 3,294 | 5,228 | 1,733 | 30,028 | 2,003 | 21,807 | 20,144 | 109,142 |
| Total expenses | \$ 3,600,310 | \$ 63,893 | \$ 1,272,250 | \$ 582,849 | \$ 588,194 | \$ 284,409 | \$ 236,717 | \$ 178,130 | \$ 242,662 | \$ 479,029 | \$ 470,549 | \$ 7,998,992 |
| Grant reimbursed management expenses by program | \$ 135,402 | | \$ 34,912 | \$ 26,641 | \$ 32,818 | \$ 10,007 | \$ 10,365 | \$ 10,325 | \$ 19,500 | | | |

See accompanying notes to consolidated financial statements.

the Montrose Center and Affiliate

Consolidated Statements of Cash Flows for the years ended August 31, 2021 and 2020

| | <u>2021</u> | <u>2020</u> |
|----------------------------------------------------------------------------------------------|---------------------|---------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Changes in net assets | \$ 2,826,979 | \$ 5,029,962 |
| Adjustments to reconcile changes in net assets to net cash provided by operating activities: | | |
| Depreciation | 728,104 | 22,774 |
| Contributions restricted for senior housing project | (1,742,519) | (4,237,237) |
| Changes in operating assets and liabilities: | | |
| Receivables | (374,574) | (973,033) |
| Prepaid expenses | (163,147) | 156,673 |
| Accounts payable and accrued expenses | 232,085 | 250,377 |
| Paycheck Protection Program refundable advance | (550,000) | 550,000 |
| Developer fee payable | <u>85,168</u> | <u>1,118,813</u> |
| Net cash provided by operating activities | <u>1,042,096</u> | <u>1,918,329</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Purchases of property | <u>(9,529,319)</u> | <u>(13,042,936)</u> |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Proceeds from contributions restricted for senior housing project | 2,460,475 | 4,885,085 |
| Changes in noncontrolling ownership interest | 404,861 | |
| Proceeds from notes payable | 2,365,560 | 10,852,074 |
| Repayment of notes payable | <u>(30,000)</u> | <u>(319,019)</u> |
| Net cash provided by financing activities | <u>5,200,896</u> | <u>15,418,140</u> |
| NET CHANGE IN CASH | (3,286,327) | 4,293,533 |
| Cash, beginning of year | <u>5,906,879</u> | <u>1,613,346</u> |
| Cash, end of year | <u>\$ 2,620,552</u> | <u>\$ 5,906,879</u> |
| <i>Reconciliation of cash balances:</i> | | |
| Cash | \$ 1,372,547 | \$ 1,282,184 |
| Cash restricted for senior housing project | <u>1,248,005</u> | <u>4,624,695</u> |
| Total cash | <u>\$ 2,620,552</u> | <u>\$ 5,906,879</u> |

See accompanying notes to consolidated financial statements.

the Montrose Center and Affiliate

Notes to Consolidated Financial Statements for the years ended August 31, 2021 and 2020

NOTE 1 – ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Organization – the Montrose Center is a Texas non-profit corporation created in 1978 to empower the community of lesbian, gay, bisexual, transgender and queer (LGBTQ) 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. The Montrose Center’s team of state-licensed clinicians, masters-level therapists, skilled educators, support staff and dedicated volunteers work together to create healthier futures for the community by offering outpatient mental health care services, substance abuse treatment and case management services in the Houston area.

In 2019, the Montrose Center formed 2222 Cleburne, GP, a Texas limited liability company. The Montrose Center is the sole member of 2222 Cleburne, GP, which is the general partner of 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 consolidated activities of the Montrose Center and 2222 Cleburne, GP (collectively the Center). 2222 Cleburne, GP is considered to control the limited partnership of 2222 Cleburne, LP and as a result this is included in these consolidated financial statements. 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.

Senior Housing provides a healthy and safe permanent housing option for eligible seniors through operation of the Law Harrington Senior Living Center (the Living Center). The Living Center, located at 2222 Cleburne Street, is an affordable, LGBTQ-affirming senior living center that features 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 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.

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

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

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

Community Center Services include educational programs that 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, to health care and legal professionals, churches and families. Community center programs also include women’s services, which includes 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.

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 LGBTQ people age 60 and older.

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

Federal income tax status – the Montrose Center is exempt from federal income tax under §501(c)(3) of the Internal Revenue Code and is classified as a public charity under §509(a)(2). 2222 Cleburne, GP is a Texas limited liability company. This is a for-profit pass-through entity for tax purposes and is not subject to income taxes. Accordingly, these financial statements do not reflect a provision for income taxes.

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

Contributions receivable that are due within one year are reported at net realizable value. Contributions receivable that are expected to be collected in future years are reported at the present value of the expected future cash flows. The Montrose Center provides an allowance for contributions receivable when it believes balances may not be collected in full. The Montrose Center has a 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.

Client fees receivable are uncollateralized client obligations from clients and third-party payors and are net of allowances for contractual adjustments. There is no policy to charge interest on past due accounts. In evaluating the collectability of client fees receivable, management evaluates its history and identifies trends for each of its major payor sources of revenue to estimate the appropriate allowance for uncollectible accounts and provisions for uncollectible accounts. Client fees receivable balances are written off against the allowance when management determines a receivable will not be collected. It is possible that management’s estimate regarding the collectability of these balances will change in the near term resulting in a change in the carrying value of client fees receivable.

Client fees receivable are as follows:

| | <u>2021</u> | <u>2020</u> | <u>2019</u> |
|--------------------------------------|-------------------|-------------------|-------------------|
| Client receivables | \$ 356,105 | \$ 310,048 | \$ 152,534 |
| Allowance for uncollectible accounts | <u>(85,163)</u> | <u>(50,000)</u> | <u>(50,000)</u> |
| Client receivables, net | <u>\$ 270,942</u> | <u>\$ 260,048</u> | <u>\$ 102,534</u> |

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

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

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

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

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. Funding received before conditions are met is reported as refundable advances.

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

Special events revenue is the total amount paid by sponsors and attendees of an event and includes elements of both contributions and exchange transactions. Special events revenue is recognized when the event occurs. Direct donor benefits 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 when the services are provided at the estimated net realizable amounts from individuals, third-party payors and others. 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. Payments received before the performance obligations are satisfied are reported as deferred revenue. The Montrose Center has no contract assets or deferred revenue from client fees at August 31, 2021, 2020, or 2019.

Developer fee revenue is recognized over time during the construction period based on the external construction costs incurred as a percentage of the total external construction costs expected. 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. The Montrose Center has no accounts receivable from developer fees at August 31, 2021, 2020, or 2019. The Montrose Center has no deferred revenue from client fees at August 31, 2021, 2020, or 2019. The Montrose Center has no contract assets at August 31, 2021, 2020 or 2019.

Apartment rental income is recognized as rent becomes due. Rental payments received in advance are deferred until earned and reported as prepaid rent. Rental rates are set based on the operating expenses of the property and are established at rates at or below HUD defined maximum rental rates. All apartment leases are short-term operating leases.

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.

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

Recent financial accounting pronouncements – In February 2016, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) 2016-02, *Leases (Topic 842)*. Under this ASU, a lessee should recognize in the statement of financial position a lease liability and a lease asset representing its right to use the underlying asset for the term of the lease for both finance and operating leases. An entity may make an accounting policy election not to recognize lease assets and lease liabilities for leases with a term of 12 months or less. Recognition, measurement, and presentation of expenses and cash flows arising from a lease by a lessee have not changed significantly. Qualitative and quantitative disclosures are required by lessees and lessors to enable users of financial statements to assess the amount, timing and uncertainty of cash flows arising from leases. The ASU is effective for the Center for fiscal year 2023. Upon adoption, management expects to recognize lease commitments as both a right of use asset and a lease liability in the statement of financial position for commitments that are currently only disclosed in the financial statements.

ASU 2020-07, *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*, will require contributed nonfinancial assets to be presented as a separate line item in the statement of activities, apart from contributions of cash and other financial assets and will require disclosure about the measurement and use of types of contributed nonfinancial assets. The ASU will be effective for fiscal years beginning after June 15, 2021 and requires retrospective application. The Center will adopt this ASU in fiscal year 2022.

NOTE 2 – ADOPTION OF ACCOUNTING STANDARD

Effective September 1, 2020, the Center adopted ASU 2014-19, *Revenue from Contracts with Customers (Topic 606)*. 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 using a 5-step process to determine when performance obligations are satisfied and revenue is recognized. This ASU has been applied on a retrospective basis to the financial statements for the year ended August 31, 2020. Adoption of this ASU had no impact on total net assets or changes in net assets for 2020.

NOTE 3 – RESTATEMENT OF BEGINNING NET ASSETS

The Center decreased beginning net assets as of September 1, 2019 to restate client fee receivables due to overstatement of approximately \$510,000. There was no impact on the changes in net assets for the year ended August 31, 2020.

NOTE 4 – 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:

| | <u>2021</u> | <u>2020</u> |
|-------------------------------------------------------------------------|---------------------|---------------------|
| Financial assets: | | |
| Cash | \$ 1,372,547 | \$ 1,282,184 |
| Cash restricted for senior housing | 1,248,005 | 4,624,695 |
| Receivables for escrowed guarantee deposits | 700,000 | 700,000 |
| Government contracts and other receivables | 2,437,778 | 1,881,591 |
| Operating contributions receivable, net | <u>342,307</u> | <u>392,011</u> |
| Total financial assets | 6,100,637 | 8,880,481 |
| Less: | | |
| Donor-restricted net assets not expected to be satisfied in coming year | (1,457,759) | (1,061,783) |
| Cash restricted for senior housing | (1,248,005) | (4,624,695) |
| Receivables for escrowed guarantee deposits | <u>(700,000)</u> | <u>(700,000)</u> |
| Total financial assets available for general expenditure | <u>\$ 2,694,873</u> | <u>\$ 2,494,003</u> |

For purposes of analyzing resources available to meet general expenditures over a 12-month period, the Center considers all expenditures related to its ongoing activities of providing outpatient mental health care, substance abuse treatment and case management services, as well as the conduct of services undertaken to support those activities, to be general expenditures. General expenditures do not include funds used for senior housing construction and financing. The Center expects to fund general expenditures in excess of financial assets available to meet cash needs with future contributions and government grants.

In April 2020, the Center received a \$550,000 Paycheck Protection Program loan funded through the Small Business Administration. In June 2021, the Center was notified that the \$550,000 had been forgiven and that amount was recognized as a contribution.

NOTE 5 – 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, 2021 and 2020, the Center had a receivable from the Endowment in the amount of \$50,351.

NOTE 6 – CONTRIBUTIONS RECEIVABLE

Contributions receivable are as follows:

| | <u>2021</u> | <u>2020</u> |
|----------------------------------------------------------------|-----------------------------|---------------------|
| Contributions receivable – government grants | \$ 1,502,973 | \$ 1,089,589 |
| Contributions receivable – operating | 446,040 | 392,460 |
| Contributions receivable restricted for senior housing project | <u> </u> | <u>758,997</u> |
| Total | 1,949,013 | 2,241,046 |
| Allowance for uncollectible contributions receivable | <u>(131,989)</u> | <u>(69,746)</u> |
| Contributions receivable, net | <u>\$ 1,817,024</u> | <u>\$ 2,171,300</u> |

Contributions receivable at August 31, 2021 are expected to be collected as follows:

| | |
|--------------------------------|---------------------|
| Within one year | \$ 1,919,775 |
| In one to five years | <u>29,238</u> |
| Total contributions receivable | <u>\$ 1,949,013</u> |

As of August 31, 2021, the Montrose Center has approximately \$6,700,000 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 7 – PROPERTY

Property is comprised of the following:

| | <u>2021</u> | <u>2020</u> |
|-------------------------------------------|----------------------|----------------------|
| Land | \$ 3,265,000 | \$ 3,265,000 |
| Land improvements | 3,953,297 | |
| Furniture and equipment | 1,443,555 | 574,613 |
| Building | 21,500,487 | |
| Construction in progress | | <u>19,858,979</u> |
| Total property, at cost | 30,162,339 | 23,698,592 |
| Accumulated depreciation and amortization | <u>(1,210,084)</u> | <u>(481,980)</u> |
| Property, net | <u>\$ 28,952,255</u> | <u>\$ 23,216,612</u> |

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 serves 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 \$3,265,000, was donated to 2222 Cleburne, LP by Midtown Redevelopment Authority with a reversionary clause if the property is no longer used for its intended purpose as a senior housing complex.

NOTE 8 – NOTES PAYABLE

Notes payable are as follows:

| | <u>2021</u> | <u>2020</u> |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------|-----------------------------|
| Construction note payable with interest only at LIBOR + 2.5%, net of unamortized debt issuance costs of \$286,596. Matures in June 2022. Converts to permanent loan after construction with term interest at 5.26%. Principal and interest will be paid over 15 years. | \$ 13,517,121 | \$ 11,257,856 |
| Debt issuance costs | (286,596) | (286,596) |
| Note payable at 6.5% secured by contributions receivable. Maturity date of loan is February 28, 2022. | 180,981 | 180,981 |
| Note payable with co-developer of 2222 Cleburne, LP for start-up operations at 6.5% secured. Maturity date of loan is February 28, 2022. | <u>30,000</u> | <u> </u> |
| Total notes payable | <u>\$ 13,441,506</u> | <u>\$ 11,152,241</u> |

NOTE 9 – NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are restricted as follows:

| | <u>2021</u> | <u>2020</u> |
|-----------------------------------------------|---------------------|---------------------|
| Subject to expenditure for specified purpose: | | |
| Homelessness prevention | \$ 539,728 | \$ 280,394 |
| Hurricane Harvey relief | 417,927 | 426,697 |
| Hatch Youth program | 299,641 | 331,263 |
| Electronic medical records | 286,817 | 294,369 |
| Safe Zones program | 270,838 | 221,101 |
| Case management | 250,000 | |
| Community Center initiatives | 170,602 | 200,000 |
| United Way allocation | 35,760 | 41,286 |
| COVID Relief | 30,768 | 75,985 |
| Senior housing project | | 7,873,804 |
| Women’s services | | 46,419 |
| Other | <u>58,044</u> | <u>24,469</u> |
| Total net assets with donor restrictions | <u>\$ 2,360,125</u> | <u>\$ 9,815,787</u> |

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:

| | <u>2021</u> | <u>2020</u> |
|---------------------------------------------------|---------------------|-----------------------------|
| Federal grants: | | |
| U. S. Department of Housing and Urban Development | \$ 2,357,880 | \$ 1,412,590 |
| U. S. Department of Health and Human Services | 2,105,359 | 2,456,888 |
| U. S. Department of Justice | 246,719 | 230,309 |
| Small Business Administration | <u>550,000</u> | <u> </u> |
| Total federal grants | <u>5,259,958</u> | <u>4,099,787</u> |
| State grants: | | |
| Texas Department of State Health Services | 455,108 | 374,645 |
| Texas Office of the Attorney General | 131,235 | 94,506 |
| Texas Health and Human Services Commission | 40,651 | 38,414 |
| Texas Veteran’s Commission | <u>49,265</u> | <u>43,218</u> |
| Total state grants | <u>676,259</u> | <u>550,783</u> |
| Total government grants | <u>\$ 5,936,217</u> | <u>\$ 4,650,570</u> |

The Center’s contracts from federal, state and local governmental agencies require fulfillment of certain conditions as set forth in the grant contracts and are subject to review and audit by the awarding agencies. Such reviews and audits could result in the discovery of unallowable activities and unallowable costs. Consequently, any of the funding sources may, at their discretion, request reimbursement for expenses or return of funds as a result of non-compliance by the Center with the terms of the contracts. Management believes such disallowances, if any, would not be material to the Center’s financial position or changes in net assets.

NOTE 11 – COMMITMENTS AND CONTINGENCIES

The partnership is being funded from federal low-income housing tax credits (HTC) that are contingent on its 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 and construction 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.

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.

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 \$39,000 to this plan in 2021 and \$39,300 in 2020.

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 interest at August 31, 2019 | <u>\$ 5,182,271</u> |
| Noncontrolling ownership interest at August 31, 2020 | <u>5,182,271</u> |
| Sale of noncontrolling ownership interest in limited partnership, net | 1,536,379 |
| Change in noncontrolling ownership interest (net loss) | <u>(1,218,033)</u> |
| Noncontrolling ownership interest at August 31, 2021 | <u>\$ 5,500,617</u> |

NOTE 14 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through May 10, 2022, which is the date that the financial statements were available for issuance. As a result of this evaluation, no events were identified that are required to be disclosed or would have a material impact on reported net assets or changes in net assets.

the Montrose Center and Affiliate

Consolidating Statement of Financial Position as of August 31, 2021

| | MONTROSE CENTER | 2222 CLEBURNE | ELIMINATIONS | TOTAL |
|-----------------------------------------------------------------------------|-----------------------------|-----------------------------|-------------------------------|-----------------------------|
| ASSETS | | | | |
| Cash | \$ 1,296,522 | \$ 76,025 | | \$ 1,372,547 |
| Contributions receivable: | | | | |
| Government grants | 1,474,717 | | | 1,474,717 |
| Operating contributions receivable, net | 342,307 | | | 342,307 |
| Receivable due from Montrose Counseling Center Permanent Endowment, Inc. | 50,351 | | | 50,351 |
| Client fees receivable, net of allowance of \$85,163 | 268,792 | 2,150 | | 270,942 |
| Due from partnership | 105,301 | | \$ (105,301) | |
| Prepaid expenses | 129,228 | 132,810 | | 262,038 |
| Receivables for escrowed guarantee deposits | 500,000 | 200,000 | | 700,000 |
| Developer fee receivable | 1,135,567 | | (1,135,567) | |
| Partnership loan receivable | 9,055,166 | | (9,055,166) | |
| Cash restricted for senior housing project | | 1,248,005 | | 1,248,005 |
| Property, net | <u>91,456</u> | <u>28,860,799</u> | | <u>28,952,255</u> |
| TOTAL ASSETS | <u>\$ 14,449,407</u> | <u>\$ 30,519,789</u> | <u>\$ (10,296,034)</u> | <u>\$ 34,673,162</u> |
| LIABILITIES AND NET ASSETS | | | | |
| Liabilities: | | | | |
| Accounts payable and accrued expenses | \$ 427,625 | \$ 289,262 | | \$ 716,887 |
| Due to Montrose Center | | 105,301 | \$ (105,301) | |
| Notes payable | 210,981 | 13,230,525 | | 13,441,506 |
| Developer fee payable | | 2,338,918 | (1,135,567) | 1,203,351 |
| Partnership note payable | | 9,055,166 | (9,055,166) | |
| Total liabilities | <u>638,606</u> | <u>25,019,172</u> | <u>(10,296,034)</u> | <u>15,361,744</u> |
| Net assets: | | | | |
| Without donor restrictions | 11,450,676 | | | 11,450,676 |
| With donor restrictions | <u>2,360,125</u> | | | <u>2,360,125</u> |
| Total net assets | <u>13,810,801</u> | | | <u>13,810,801</u> |
| Noncontrolling ownership interest | | <u>5,500,617</u> | | <u>5,500,617</u> |
| TOTAL LIABILITIES AND NET ASSETS | <u>\$ 14,449,407</u> | <u>\$ 30,519,789</u> | <u>\$ (10,296,034)</u> | <u>\$ 34,673,162</u> |

the Montrose Center and Affiliate

Consolidating Statement of Financial Position as of August 31, 2020

| | MONTROSE CENTER | 2222 CLEBURNE | ELIMINATIONS | TOTAL |
|-----------------------------------------------------------------------------|----------------------|----------------------|-----------------------|----------------------|
| ASSETS | | | | |
| Cash | \$ 1,282,184 | | | \$ 1,282,184 |
| Developer fee receivable | 542,707 | | \$ (542,707) | |
| Intercompany receivable | 6,954,171 | | (6,954,171) | |
| Contributions receivable: | | | | |
| Government grants | 1,061,333 | | | 1,061,333 |
| Operating contributions receivable, net | 392,011 | | | 392,011 |
| Receivable due from Montrose Counseling Center Permanent Endowment, Inc. | 50,351 | | | 50,351 |
| Client fees receivable, net of allowance of \$50,000 | 260,048 | | | 260,048 |
| Prepaid expenses | 98,891 | | | 98,891 |
| Receivables for escrowed guarantee deposits | 700,000 | | | 700,000 |
| Cash restricted for senior housing project | | \$ 4,624,695 | | 4,624,695 |
| Contributions receivable restricted for senior housing project, net | 717,956 | | | 717,956 |
| Property, net | <u>92,633</u> | <u>23,123,979</u> | | <u>23,216,612</u> |
| TOTAL ASSETS | <u>\$ 12,152,285</u> | <u>\$ 27,748,674</u> | <u>\$ (7,496,878)</u> | <u>\$ 32,404,081</u> |
| LIABILITIES AND NET ASSETS | | | | |
| Liabilities: | | | | |
| Accounts payable and accrued expenses | \$ 437,482 | \$ 1,025 | | \$ 438,507 |
| Intercompany payable | | 6,954,171 | \$ (6,954,171) | |
| Senior housing construction payable | | 2,979,057 | | 2,979,057 |
| Paycheck Protection Program refundable advance | 550,000 | | | 550,000 |
| Notes payable | 180,981 | 10,971,260 | | 11,152,241 |
| Developer fee payable | | 1,660,890 | (542,707) | 1,118,183 |
| Total liabilities | <u>1,168,463</u> | <u>22,566,403</u> | <u>(7,496,878)</u> | <u>16,237,988</u> |
| Net assets: | | | | |
| Without donor restrictions | 1,168,035 | | | 1,168,035 |
| With donor restrictions | <u>9,815,787</u> | | | <u>9,815,787</u> |
| Total net assets | <u>10,983,822</u> | | | <u>10,983,822</u> |
| Noncontrolling ownership interest | | <u>5,182,271</u> | | <u>5,182,271</u> |
| TOTAL LIABILITIES AND NET ASSETS | <u>\$ 12,152,285</u> | <u>\$ 27,748,674</u> | <u>\$ (7,496,878)</u> | <u>\$ 32,404,081</u> |

the Montrose Center and Affiliate

Schedule of Expenditures of Federal Awards for the year ended August 31, 2021

| <u>GRANTOR</u> | | Assistance | | | | |
|----------------------------------------------------------------------------------------------|---------------------|---------------|-----------------|---------------|----------------|-----------------|
| <u>Pass-through Grantor</u> | | Listing | Grant | Award | Revenue | Allowable |
| <u>Program Title & Period</u> | | <u>Number</u> | <u>Number</u> | <u>Amount</u> | | <u>Expenses</u> |
| U. S. DEPARTMENT OF HEALTH AND HUMAN SERVICES | | | | | | |
| Passed through City of Houston Department of Health and Human Services Area Agency on Aging: | | | | | | |
| Special Programs for the Aging, Title III, Part B | | | | | | |
| Grants for Supportive Services and Senior Centers (Aging Cluster) | | | | | | |
| #1 | 10/01/19 – 09/30/20 | 93.044 | 4600015192 | \$42,490 | \$ 720 | \$ 1,537 |
| #2 | 10/01/20 – 09/30/21 | 93.044 | 4600015192 | \$42,490 | 11,880 | 17,309 |
| | | | | | <u>12,600</u> | <u>18,846</u> |
| Passed through BakerRipley and Harris County Area Agency on Aging: | | | | | | |
| Special Programs for the Aging, Title III, Part C, Nutrition Services (Aging Cluster) | | | | | | |
| #3 | 10/01/19 – 09/30/20 | 93.045 | 3618 | \$8,883 | 1,951 | 1,951 |
| #4 | 10/01/20 – 09/30/21 | 93.045 | 3618 | \$8,883 | 22,795 | 22,795 |
| | | | | | <u>24,746</u> | <u>24,746</u> |
| Passed through The Center for Success and Independence: | | | | | | |
| Affordable Care Act (ACA) Personal Responsibility Education Program | | | | | | |
| #5 | 10/01/19 – 09/30/20 | 93.092 | N/A | \$1,054,148 | 13,111 | 13,111 |
| #6 | 10/01/20 – 09/30/21 | 93.092 | N/A | \$240,878 | 142,845 | 142,845 |
| | | | | | <u>155,956</u> | <u>155,956</u> |
| 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 | | | | | | |
| #7 | 08/01/20 – 07/31/21 | 93.153 | 21TMC00RWD | \$24,797 | 11,632 | 11,632 |
| #8 | 08/01/21 – 08/31/22 | 93.153 | 22TMC00RWD | \$24,797 | 838 | 838 |
| | | | | | <u>12,470</u> | <u>12,470</u> |
| Passed through Texas Health and Human Services Commission: | | | | | | |
| Social Security Block Grant | | | | | | |
| #9 | 09/01/20 – 08/31/21 | 93.667 | HHS000380000064 | \$4,309 | 4,309 | 4,291 |
| Family Violence Prevention and Services/Domestic Violence Shelter & Supportive Services | | | | | | |
| #10 | 09/01/20 – 08/31/21 | 93.671 | HHS000380000064 | \$21,032 | 21,032 | 20,943 |
| Family Violence Prevention and Services/Domestic Violence Shelter & Supportive Services | | | | | | |
| CARES Act Supplemental Funding | | | | | | |
| #11 | 09/01/20 – 08/31/21 | 93.671 | HHS000380000064 | \$6,568 | 6,568 | 3,610 |
| | | | | | <u>27,600</u> | <u>24,553</u> |
| Temporary Assistance for Needy Families | | | | | | |
| #12 | 09/01/20 – 08/31/21 | 93.558 | HHS000380000064 | \$40,638 | 40,638 | 40,465 |
| Block Grants for Prevention and Treatment of Substance Abuse | | | | | | |
| Recovery Support Services | | | | | | |
| #13 | 09/01/20 – 08/31/21 | 93.959 | HHS000130500013 | \$200,000 | 159,202 | 159,202 |
| Block Grants for Prevention and Treatment of Substance Abuse | | | | | | |
| Substance Abuse Treatment | | | | | | |
| #14 | 09/01/20 – 08/31/21 | 93.959 | HHS000663700051 | \$105,000 | 16,499 | 25,773 |
| | | | | | <u>175,701</u> | <u>184,975</u> |

(continued)

the Montrose Center and Affiliate

Schedule of Expenditures of Federal Awards for the year ended August 31, 2021 (continued)

| <u>GRANTOR</u> <u>Pass-through Grantor</u> <u>Program Title & Period</u> | <u>Assistance</u> <u>Listing</u> <u>Number</u> | <u>Grant</u> <u>Number</u> | <u>Award</u> <u>Amount</u> | <u>Revenue</u> | <u>Allowable</u> <u>Expenses</u> | |
|-------------------------------------------------------------------------------------------|------------------------------------------------------|-------------------------------|-------------------------------|----------------|-------------------------------------|---------|
| U. S. DEPARTMENT OF HEALTH AND HUMAN SERVICES <i>(continued)</i> | | | | | | |
| Passed through Baylor College of Medicine: | | | | | | |
| PPHF Geriatric Education Centers | | | | | | |
| Geriatrics Workforce Enhancement Program | | | | | | |
| #15 | 07/01/19 – 06/30/24 | 93.969 | U1QHP330680100 | \$25,480 | 1,804 | 1,096 |
| Direct Federal Funding: | | | | | | |
| Substance Abuse and Mental Health Services Projects of Regional and National Significance | | | | | | |
| Sexual Health In Recovery | | | | | | |
| #16 | 09/30/19 – 09/29/20 | 93.243 | 1H79T1082483-01 | \$500,000 | 24,210 | 24,210 |
| #17 | 09/30/20 – 09/29/21 | 93.243 | 6H79T1082483-02 | \$500,000 | 304,623 | 304,623 |
| HIV Field Navigation | | | | | | |
| #18 | 08/31/20 – 08/30/21 | 93.243 | 1H79SP082234-01 | \$200,000 | 156,344 | 156,344 |
| | | | | <u>485,177</u> | <u>485,177</u> | |
| Passed through The University of Texas Health Science Center at Houston: | | | | | | |
| Opioid STR | | | | | | |
| #19 | 09/01/20 – 08/31/22 | 93.788 | HHS000563200001 | \$278,104 | 29,931 | 29,931 |
| Direct Federal Funding: | | | | | | |
| Section 223 Demonstration Programs to Improve Community Mental Health Services | | | | | | |
| CCBHC's Planning Grants | | | | | | |
| #20 | 09/30/19 – 09/29/20 | 93.829 | 1H79SM081815-01 | \$1,282,017 | 39,642 | 39,642 |
| #21 | 09/30/20 – 09/29/21 | 93.829 | 1H79SM081815-01 | \$1,274,677 | 324,660 | 324,660 |
| | | | | <u>364,302</u> | <u>364,302</u> | |
| Passed through Harris County: | | | | | | |
| HIV Emergency Relief Project Grants | | | | | | |
| Emergency Financial Assistance | | | | | | |
| #22 | 03/01/20 – 02/28/21 | 93.914 | COVID-19-10870 | \$300,000 | 96,787 | 111,687 |
| #23 | 03/01/21 – 02/28/22 | 93.914 | 21GEN0212 | \$240,000 | 41,688 | 78,260 |
| HIV Emergency Relief Project Grants | | | | | | |
| Case Management | | | | | | |
| #24 | 03/01/20 – 02/28/21 | 93.914 | 20GEN0333 | \$244,328 | 125,520 | 106,252 |
| #25 | 03/01/21 – 02/28/22 | 93.914 | 21GEN0010 | \$122,164 | 88,098 | 104,084 |
| HIV Emergency Relief Project Grants | | | | | | |
| Substance Abuse | | | | | | |
| #26 | 03/01/20 – 02/28/21 | 93.914 | COVID-19-10057 | \$50,375 | 14,556 | 10,563 |
| #27 | 03/01/21 – 02/28/22 | 93.914 | 21GEN0242 | \$45,677 | 20,294 | 17,054 |
| | | | | <u>386,943</u> | <u>427,900</u> | |

(continued)

the Montrose Center and Affiliate

Schedule of Expenditures of Federal Awards for the year ended August 31, 2021 *(continued)*

| <u>GRANTOR</u> | Assistance | | | | | |
|-----------------------------------------------------------------------------------------|---------------------|---------------|-----------------|------------------|------------------|---------|
| <u>Pass-through Grantor</u> | Listing | Grant | Award | | Allowable | |
| <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 <i>(continued)</i> | | | | | | |
| Passed through City of Houston Bureau of HIV/STD Prevention: | | | | | | |
| HIV Prevention Activities Health Department Based | | | | | | |
| City – Community PROMISE | | | | | | |
| #28 | 04/01/20 – 12/31/20 | 93.940 | 4600015911 | \$135,000 | 50,372 | 50,372 |
| #29 | 01/01/20 – 12/31/21 | 93.940 | 4600015911 | \$150,000 | 97,696 | 97,696 |
| | | | | <u>148,068</u> | <u>148,068</u> | |
| Passed through Texas Department of State Health Services: | | | | | | |
| HIV Care Formula Grants | | | | | | |
| HIV/MAI HIV – Minority AIDS Initiative | | | | | | |
| #30 | 09/01/20 – 03/31/22 | 93.917 | HHS000689400002 | \$500,878 | 234,839 | 234,839 |
| Passed through Houston Regional HIV/AIDS Resource Group, Inc.: | | | | | | |
| HIV Care Formula Grants | | | | | | |
| Ryan White Part B – CARES – Approved Purchases – Equipment, PPE | | | | | | |
| #31 | 04/01/20 – 03/31/21 | 93.917 | 21TMC00PTBCARES | \$15,000 | 274 | 274 |
| Total U. S. Department of Health and Human Services | | | | <u>2,105,358</u> | <u>2,157,889</u> | |
| U. S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT | | | | | | |
| Passed through City of Houston Housing and Community Development Department: | | | | | | |
| Housing Opportunities for Persons with AIDS | | | | | | |
| #32 | 05/01/20 – 04/30/21 | 14.241 | 4600015465 | \$1,487,210 | 750,077 | 750,077 |
| #33 | 05/01/21 – 04/30/22 | 14.241 | 4600015465 | \$1,487,210 | 363,847 | 363,847 |
| COVID-19 – Housing Opportunities for Persons with AIDS | | | | | | |
| #34 | 07/01/20 – 06/30/21 | 14.241 | 4600016164 | \$670,220 | 500,790 | 500,790 |
| Community Development Block Grants/State’s Program and Non-Entitlement Grants in Hawaii | | | | | | |
| #35 | 04/01/20 – 03/31/22 | 14.228 | 4600015979 | \$685,972 | 275,825 | 275,825 |
| | | | | <u>1,890,539</u> | <u>1,890,539</u> | |
| Passed through Texas Department of Housing and Community Affairs: | | | | | | |
| Emergency Solutions Grant Program | | | | | | |
| #36 | 01/14/21 – 03/31/22 | 14.231 | 44207000049 | \$630,000 | 249,113 | 249,113 |
| Passed through Houston Housing Authority: | | | | | | |
| Continuum of Care Program | | | | | | |
| Rapid Rehousing and Transition Age Youth Case Management Services | | | | | | |
| #37 | 12/01/19 – 11/30/20 | 14.267 | 16-31-D | \$171,059 | 26,419 | 26,419 |
| #38 | 12/01/20 – 11/30/21 | 14.267 | TX0428L6E001803 | \$180,000 | 62,392 | 62,392 |
| | | | | <u>88,811</u> | <u>88,811</u> | |

(continued)

the Montrose Center and Affiliate

Schedule of Expenditures of Federal Awards for the year ended August 31, 2021 *(continued)*

| <u>GRANTOR</u> | <u>Assistance</u> | | | | | |
|-------------------------------------------------------------------------|---------------------|---------------|-----------------|----------------|---------------------|---------------------|
| <u>Pass-through Grantor</u> | <u>Listing</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 HOUSING AND URBAN DEVELOPMENT <i>(continued)</i> | | | | | | |
| Direct Federal Funding: | | | | | | |
| Continuum of Care Program | | | | | | |
| Permanent Housing Program | | | | | | |
| #39 | 10/01/19 – 09/30/20 | 14.267 | TX0171L6E001811 | \$120,517 | 4,160 | 4,160 |
| #40 | 10/01/20 – 09/30/21 | 14.267 | TX0171L6E001912 | \$163,030 | <u>125,258</u> | <u>125,258</u> |
| | | | | | <u>129,418</u> | <u>129,418</u> |
| Total U. S. Department of Housing and Urban Development | | | | | <u>2,357,881</u> | <u>2,357,881</u> |
| U. S. DEPARTMENT OF JUSTICE | | | | | | |
| Passed through Texas Office of the Governor, Criminal Justice Division: | | | | | | |
| Violence Against Women Formula Grants | | | | | | |
| #41 | 10/01/18 – 09/30/20 | 16.588 | 16934-14 | \$489,889 | 14,869 | 14,869 |
| #42 | 10/01/20 – 09/30/21 | 16.588 | 16934-15 | \$232,698 | <u>231,850</u> | <u>231,850</u> |
| Total U. S. Department of Justice | | | | | <u>246,719</u> | <u>246,719</u> |
| TOTAL FEDERAL AWARDS | | | | | <u>\$ 4,709,958</u> | <u>\$ 4,762,489</u> |

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

| <u>Assistance Listing Number(s)</u> | <u>Name of Program or Cluster</u> | <u>Amount</u> |
|-------------------------------------|----------------------------------------------------------------------------------------------|---------------|
| 14.228 | Community Development Block Grants/State's program and Non-Entitlement Grants in Hawaii | \$ 275,825 |
| 14.231 | Emergency Solutions Grant Program | 249,113 |
| 14.241 | Housing Opportunities for Persons with AIDS | 1,614,714 |
| 14.267 | Continuum of Care Program | 218,228 |
| 16.588 | Violence Against Women Formula Grants | 246,719 |
| 93.044, 93.045 | Aging Cluster | 43,592 |
| 93.092 | Affordable Care Act (ACA) Personal Responsibility Education Program | 155,957 |
| 93.153 | Coordinated Services and Access to Research for Women, Infants, Children and Youth | 12,470 |
| 93.243 | Substance Abuse and Mental Health Services Projects of Regional and National Significance | 485,177 |
| 93.558 | Temporary Assistance for Needy Families | 40,465 |
| 93.667 | Administration for Children and Families | 4,291 |

(continued)

the Montrose Center and Affiliate

Schedule of Expenditures of Federal Awards for the year ended August 31, 2021 *(continued)*

| <u>GRANTOR</u> <u>Pass-through Grantor</u> <u>Program Title & Period</u> | <u>Assistance</u> <u>Listing</u> <u>Number</u> | <u>Grant</u> <u>Number</u> | <u>Award</u> <u>Amount</u> | <u>Revenue</u> | <u>Allowable</u> <u>Expenses</u> |
|------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------|-------------------------------|-------------------------------|----------------|-------------------------------------|
| <u>Assistance Listing Number(s)</u> | <u>Name of Program or Cluster</u> | | | <u>Amount</u> | |
| 93.671 | Family Violence Prevention and Services/Domestic Violence Shelter & Supportive Services | | | | 24,552 |
| 93.788 | Opioid STR | | | | 29,931 |
| 93.829 | Section 223 Demonstration Programs to Improve Community Mental Health Services | | | | 364,302 |
| 93.914 | HIV Emergency Relief Project Grants | | | | 427,898 |
| 93.917 | HIV Care Formula Grants | | | | 235,113 |
| 93.940 | HIV Prevention Activities Health Department Based | | | | 148,068 |
| 93.959 | Block Grants for Prevention and Treatment of Substance Abuse | | | | 184,975 |
| 93.969 | PPHF Geriatric Education Centers | | | | <u>1,096</u> |
| Total | | | | | <u>\$ 4,762,486</u> |

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

the Montrose Center and Affiliate

Schedule of Expenditures of State Awards for the year ended August 31, 2021

| <u>GRANTOR</u> | | | | |
|---------------------------------------------------------------------|-----------------|---------------|-------------------|-------------------|
| <u>Pass-through Grantor</u> | <u>Contract</u> | <u>Award</u> | <u>Revenue</u> | <u>Allowable</u> |
| <u>Program Title & Period</u> | <u>Number</u> | <u>Amount</u> | | <u>Expenses</u> |
| TEXAS DEPARTMENT OF STATE HEALTH SERVICES | | | | |
| Direct Funding: | | | | |
| CMHG | | | | |
| #1 09/01/20 – 08/31/22 | HHS000477100035 | \$367,346 | \$ 91,463 | \$ 91,463 |
| Passed through Houston Regional HIV/AIDS Resource Group, Inc.: | | | | |
| Counseling | | | | |
| #2 09/01/20 – 08/31/21 | 21TMC00SS | \$223,000 | 108,696 | 118,670 |
| Linguistics | | | | |
| #3 09/01/20 – 08/31/21 | 21TMC00SS | \$64,699 | 54,600 | 50,240 |
| Non-Medical Case Management | | | | |
| #4 09/01/20 – 08/31/21 | 21TMC00SS | \$275,000 | <u>200,349</u> | <u>200,349</u> |
| Total Texas Department of State Health Services | | | <u>455,108</u> | <u>460,722</u> |
| TEXAS OFFICE OF THE ATTORNEY GENERAL | | | | |
| Direct Funding: | | | | |
| Sexual Assault Prevention and Crisis Services – Crisis Intervention | | | | |
| #5 09/01/20 – 08/31/21 | 2109650 | \$128,241 | 89,235 | 89,235 |
| Other Victim Assistance Grant | | | | |
| #6 09/01/20 – 08/31/21 | 2110260 | \$42,000 | <u>42,000</u> | <u>42,000</u> |
| Total Texas Office of the Attorney General | | | <u>131,235</u> | <u>131,235</u> |
| TEXAS HEALTH AND HUMAN SERVICES COMMISSION | | | | |
| Direct Funding: | | | | |
| Family Violence Prevention and Services Act | | | | |
| #7 09/01/20 – 08/31/21 | HHS000380000064 | \$40,651 | <u>40,651</u> | <u>40,479</u> |
| Total Texas Health and Human Services Commission | | | <u>40,651</u> | <u>40,479</u> |
| TEXAS VETERAN’S COMMISSION | | | | |
| Direct Funding: | | | | |
| Fund for Veteran’s Assistance | | | | |
| #8 07/01/20 – 06/30/21 | GT-VMH20-013 | \$100,000 | <u>49,265</u> | <u>40,148</u> |
| Total Texas Veteran’s Commission | | | <u>49,265</u> | <u>40,148</u> |
| TOTAL STATE AWARDS | | | <u>\$ 676,259</u> | <u>\$ 672,584</u> |

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

the Montrose Center and Affiliate

Note to Schedules of Expenditures of Federal and State Awards for the year ended August 31, 2021

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, 2021 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 May 10, 2022. 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) as a basis for designing 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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph 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 have not been identified. However, as described in the accompanying schedule of findings and questioned costs, we did identify certain deficiencies in internal control that we consider to be a material weakness and a significant deficiency.

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. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item #2021-001 to be a material weakness.

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. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item #2021-002 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 financial statements. 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 it.

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

May 10, 2022

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, 2021. 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, 2021. 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 Montrose 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, 2021.

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 Montrose 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. We did not identify any deficiencies in internal control over compliance that we consider to be a material weakness. However, material weaknesses may exist that have not been identified.

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

The image shows a handwritten signature in black ink that reads "Blazeck & Vetterling". The signature is written in a cursive, flowing style.

May 10, 2022

the Montrose Center and Affiliate

Schedule of Findings and Questioned Costs for the year ended August 31, 2021

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:

Assistance

| <u>Listing Number(s)</u> | <u>Name of Federal Program or Cluster</u> |
|--------------------------|-------------------------------------------------------------------------------------------|
| 14.241 | Housing Opportunities for Persons with AIDS |
| 93.243 | Substance Abuse and Mental Health Services Projects of Regional and National Significance |

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

Finding #2021-001 – 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.

Condition and context: The Montrose Center, as the general partner of 2222 Cleburne, LP (partnership), is required to consolidate with the partnership for purposes of financial reporting in accordance with generally accepted accounting principles. It is the Montrose Center’s responsibility to ensure significant general ledger accounts for

both the Montrose Center and the partnership are periodically analyzed and reconciled in order to prevent or detect errors in financial reporting. Material adjustments were required for the Montrose Center and the partnership to correctly report intercompany transactions, property additions and related depreciation, contributions, and net assets in order 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 Montrose Center's ability to prepare financial statements in accordance with generally accepted accounting principles and may result in financial statement misstatements.

Recommendation: Consider support necessary to increase the Finance Department expertise for preparation of consolidated financial reporting. Establish policies and procedures for the reconciliation and review of all accounts related to the partnership and the Montrose Center to ensure that financial information is properly reported.

Repeat finding: This is a repeat finding reported in the prior year as finding #2020-001.

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

Finding #2021-002 – Significant Deficiency

Criteria: The management of the Center is responsible for establishing and maintaining an effective system of internal control over client fees and the related receivables in order to accurately state them in the financial statements.

Condition and context: Audit adjustments were required to properly state client fee receivables on the financial statements for the Montrose Center. During the year, payments on receivables were not properly applied to the receivable balances resulting in an overstatement of revenues.

Effect: Failure to establish and maintain an adequate system of internal control over the reconciliations for receivable balances could result in financial statement misstatements.

Recommendation: Re-emphasize policies and procedures for the monthly reconciliation and review of accounts receivable balances to ensure that financial information is properly reported.

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

May 10, 2022

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, 2021. The audit was performed by: Blazek & Vetterling, 2900 Wesleyan, Suite 200, Houston, Texas, 77027.

The findings from the August 31, 2021 schedule of findings and questioned costs are discussed below. The findings are numbered consistently with the numbers assigned in the schedule.

FINANCIAL STATEMENT FINDINGS AND QUESTIONED COSTS

Finding #2021-001 – Material Weakness

Recommendation: Consider support necessary to increase the Finance Department expertise for preparation of consolidated financial reporting. Establish policies and procedures for the reconciliation and review of all accounts related to the partnership and the Montrose Center to ensure that financial information is properly reported.

Planned corrective action: The timing of the Low-Income Housing Tax Credit certification audit of the partnership will occur in early 2022 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 with tax credit requirements of the partnership. 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: Completed

Finding #2021-002 – Significant Deficiency

Recommendation: Re-emphasize policies and procedures for the monthly reconciliation and review of accounts receivable balances to ensure that financial information is properly reported.

Planned corrective action: We concur with this recommendation. Management will re-emphasize policies and procedures for the application of payments for client fee receivables.

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

Estimated completion date: Completed

Sincerely,

Ann J. Robison, PhD
Executive Director

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Empowering **LGBT** Houston



Summary Schedule of Prior Audit Findings

The following audit finding for the year ended August 31, 2020, is required to be reported in accordance with 2 CFR §200.511.

Finding #2020-001 – Material Weakness

Recommendation: Establish policies and procedures for the reconciliation and review of all accounts related to the partnership 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.

Management’s 2021 follow-up response: The Low-Income Housing Tax Credit certification audit of the partnership is underway in early 2022. The Center’s accounting staff will be provided with additional training to provide consolidated financial statements in accordance with generally accepted accounting principles.