the Montrose Center and Affiliate

Consolidated Financial Statements
and Single Audit Reports
for the year ended August 31, 2022

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 Audit of the Financial Statements

Opinion

We have audited the financial statements of the Montrose Center and Affiliate, which comprise the consolidated statements of financial position as of August 31, 2022 and 2021, 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.

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Montrose Center and Affiliate as of August 31, 2022 and 2021, 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.

Basis for Opinion

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. The financial statements of the Affiliate were not audited in accordance with *Government Auditing Standards*. Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are required to be independent of the Montrose Center and Affiliate and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Montrose Center and Affiliate's ability to continue as a going concern for one year after the date that the financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Montrose Center and Affiliate's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Montrose Center and Affiliate's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. Supplementary information in the schedule of expenditures of state awards and the consolidating statements of financial position as of August 31, 2022 and 2021 is presented for purposes of additional analysis and is not a required part of the financial statements. The accompanying supplementary information included in the schedule of expenditures of federal awards for the year ended August 31, 2022 as required by Title 2 U. S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* is presented for purposes of additional analysis and is not a required part of the financial statements. 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 18, 2023 on our consideration of the Montrose Center's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Montrose Center's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the the Montrose Center's internal control over financial reporting and compliance.

Blazek & Vetterling

May 18, 2023

the Montrose Center and Affiliate

Consolidated Statements of Financial Position as of August 31, 2022 and 2021

	2022	2021
ASSETS		
Cash	$ 1,360,832	$ 1,372,547
Contributions receivable, net *(Note 5)*:		
Government grants	1,540,439	1,474,717
Operating contributions receivable, net	385,466	342,307
Receivable due from Montrose Counseling Center Permanent Endowment, Inc. *(Note 4)*	78,599	50,351
Client fees receivable, net of allowance of $14,130 and $85,163, respectively	68,907	270,942
Prepaid expenses and other assets	217,950	262,038
Receivables for escrowed guarantee deposits	200,000	700,000
Cash contractually-restricted for senior housing project	702,898	1,248,005
Property, net *(Note 6)*	28,031,622	28,952,255
TOTAL ASSETS	$ 32,586,713	$ 34,673,162
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued expenses	$ 465,822	$ 716,887
Notes payable *(Note 7)*	2,470,958	13,441,506
Developer fee payable	771,230	1,203,351
Total liabilities	3,708,010	15,361,744
Commitments and contingencies *(Notes 6 and 11)*		
Net assets:		
Without donor restrictions	11,559,620	11,450,676
With donor restrictions *(Note 8)*	2,767,727	2,360,125
Total net assets	14,327,347	13,810,801
Noncontrolling ownership interest *(Note 13)*	14,551,356	5,500,617
TOTAL LIABILITIES AND NET ASSETS	$ 32,586,713	$ 34,673,162

See accompanying notes to consolidated financial statements.

the Montrose Center and Affiliate

Consolidated Statement of Activities for the year ended August 31, 2022

	WITHOUT DONOR RESTRICTIONS	WITH DONOR RESTRICTIONS	TOTAL
REVENUE:			
Contributions and grants:			
Government grants *(Note 9)*		$ 5,245,747	$ 5,245,747
Other contributions	$ 914,022	271,011	1,185,033
United Way allocation		572,290	572,290
Nonfinancial contributions *(Note 10)*	351,870		351,870
Special events	309,858	217,682	527,540
Direct donor benefits	(90,544)	(79,690)	(170,234)
Client fees	904,089		904,089
Apartment rental income	956,205		956,205
Other income	118,854		118,854
Total revenue	3,464,354	6,227,040	9,691,394
Net assets released from restrictions:			
Government grant program expenditures	5,245,747	(5,245,747)	
Other program expenditures	573,691	(573,691)	
Total	9,283,792	407,602	9,691,394
EXPENSES:			
Program expenses:			
Case Management	3,872,767		3,872,767
Senior Housing	2,417,321		2,417,321
LIFE	835,118		835,118
Chemical Dependency	794,804		794,804
Anti-Violence	736,375		736,375
Community Center Services	340,861		340,861
HIV/AIDS	238,255		238,255
Youth	168,896		168,896
Senior	145,261		145,261
Total program expenses	9,549,658		9,549,658
Management and general	391,064		391,064
Fundraising	695,096		695,096
Total expenses	10,635,818		10,635,818
CHANGES IN NET ASSETS BEFORE NONCONTROLLING OWNERSHIP INTEREST	(1,352,026)	407,602	(944,424)
Noncontrolling ownership interest loss *(Note 13)*	1,460,970		1,460,970
CHANGES IN NET ASSETS	108,944	407,602	516,546
Net assets, beginning of year	11,450,676	2,360,125	13,810,801
Net assets, end of year	$ 11,559,620	$ 2,767,727	$ 14,327,347

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:			
Contributions and grants:			
Government grants *(Note 9)*		$ 5,936,217	$ 5,936,217
Other contributions	$ 261,501	2,290,820	2,552,321
United Way allocation		110,917	110,917
Nonfinancial contributions *(Note 10)*	110,454		110,454
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	3,066,099	8,544,734	11,610,833
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	19,066,495	(7,455,662)	11,610,833
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
Chemical Dependency	635,650		635,650
Anti-Violence	657,490		657,490
Community Center Services	251,862		251,862
HIV/AIDS	236,574		236,574
Youth	140,008		140,008
Senior	185,531		185,531
Total program expenses	8,761,561		8,761,561
Management and general	756,057		756,057
Fundraising	484,269		484,269
Total expenses	10,001,887		10,001,887
CHANGE IN NET ASSETS BEFORE NONCONTROLLING OWNERSHIP INTEREST	9,064,608	(7,455,662)	1,608,946
Noncontrolling ownership interest loss *(Note 13)*	1,218,033		1,218,033
CHANGES IN NET ASSETS	10,282,641	(7,455,662)	2,826,979
Net assets, beginning of year	1,168,035	9,815,787	10,983,822
Net assets, end of year	$ 11,450,676	$ 2,360,125	$ 13,810,801

See accompanying notes to consolidated financial statements.

the Montrose Center and Affiliate

Consolidated Statement of Functional Expenses for the year ended August 31, 2022

	CASE MANAGEMENT	SENIOR HOUSING	LIFE	CHEMICAL DEPENDENCY	ANTI-VIOLENCE	COMMUNITY CENTER SERVICES	HIV/AIDS	YOUTH	SENIOR	MANAGEMENT AND GENERAL	FUNDRAISING	TOTAL EXPENSES
Salaries	$ 1,607,567	$ 171,391	$ 529,570	$ 436,276	$ 341,223	$ 198,168	$ 138,989	$ 108,633	$ 71,891	$ 224,460	$ 452,912	$ 4,281,080
Client assistance	1,545,393		13	1,987	199,175	29,730		5,318	912			1,782,528
Depreciation	12,457	992,736	2,687	2,593	2,369	1,097	773	561	467	1,197	2,247	1,019,184
Occupancy	243,334	200,856	79,333	59,950	51,243	32,052	20,529	17,977	12,318	50,726	16,560	784,878
Contract services	54,066	201,055	58,297	144,237	11,839	22,390	14,814	2,822	29,037	56,439	3,814	598,810
Interest	965	470,196										471,161
Employee benefits	145,836	19,635	58,486	52,764	50,500	28,879	12,739	7,252	12,258	7,435	45,456	441,240
Payroll taxes	128,638	17,350	41,581	34,215	26,578	15,872	10,989	8,857	5,425	18,838	36,666	345,009
Property taxes		199,558										199,558
Supplies	74,291	2,746	4,399	5,524	1,287	1,049	778	3,548	2,691	939	83,439	180,691
In-kind professional services			29,003	29,003	29,003		29,003					116,012
Telephone	12,149		10,529	5,071	6,140	1,604	3,640	1,065	5,300	222	816	46,536
Local travel	31,695		23	4,460		883		1,517	151	62	354	39,145
Bad debt										19,162		19,162
Equipment rental and purchases	4,163		1,826	1,005	857	537	264	307	206	75	277	9,517
Printing	828		130	962	30	128	1	257	2,998	64	1,665	7,063
Professional development	834		2,010	1,828	188	920			35		180	5,995
Postage	514	930	431	131	112	931	48	56	29	36	37	3,255
Other	10,037	140,868	16,800	14,798	15,831	6,621	5,688	10,726	1,543	11,409	50,673	284,994
Total expenses	$ 3,872,767	$ 2,417,321	$ 835,118	$ 794,804	$ 736,375	$ 340,861	$ 238,255	$ 168,896	$ 145,261	$ 391,064	$ 695,096	$10,635,818
Grant reimbursed management expenses by program	$127,882		$17,042	$30,777	$33,251	$19,854	$6,075	$6,806	$5,034			

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

See accompanying notes to consolidated financial statements.

the Montrose Center and Affiliate

Consolidated Statements of Cash Flows for the years ended August 31, 2022 and 2021

	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in net assets	$ 516,546	$ 2,826,979
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation	1,023,539	728,104
Contributions restricted for senior housing project		(1,742,519)
Changes in operating assets and liabilities:		
Receivables	435,268	(374,574)
Prepaid expenses and other assets	44,088	(163,147)
Accounts payable and accrued expenses	(251,065)	232,085
Paycheck Protection Program refundable advance		(550,000)
Developer fee payable	(432,121)	85,168
Net cash provided by operating activities	1,336,255	1,042,096
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property	(102,906)	(9,529,319)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from contributions restricted for senior housing project	129,638	2,460,475
Changes in noncontrolling ownership interest	9,050,739	404,861
Proceeds from notes payable	2,600,000	2,365,560
Repayment of notes payable	(13,570,548)	(30,000)
Net cash provided (used) by financing activities	(1,790,171)	5,200,896
NET CHANGE IN CASH	(556,822)	(3,286,327)
Cash, beginning of year	2,620,552	5,906,879
Cash, end of year	$ 2,063,730	$ 2,620,552

	2022	2021
Reconciliation of cash balances:		
Cash	$ 1,360,832	$ 1,372,547
Cash contractually-restricted for senior housing project	702,898	1,248,005
Total cash	$ 2,063,730	$ 2,620,552

	2022	2021
Supplemental disclosure of cash flow information:		
Interest paid	$366,479	$397,213

See accompanying notes to consolidated financial statements.

NOTE 1 – ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Organization – the Montrose Center is a Texas non-profit corporation created in 1978 to empower 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.

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

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

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.

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

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

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. 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:

	2022	2021	2020
Client receivables	$ 52,859	$ 356,105	$ 310,048
Allowance for uncollectible accounts	(14,130)	(85,163)	(50,000)
Client fees receivable, net	$ 38,729	$ 270,942	$ 260,048

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.

Nonfinancial 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, 2022, 2021, or 2020.

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.

Apartment rental income is recognized as rent becomes due under the terms of one-year operating leases with tenants. 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.

Recent financial accounting pronouncement – 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.

NOTE 2 – ADOPTION OF ACCOUNTING STANDARD

The Center adopted the amendments of ASU 2020-07, *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*. The amendments have been applied on a retrospective basis to the financial statements for the year ended August 31, 2022. Adoption of this ASU expanded the disclosures related to contributions, but did not have an impact on net assets.

NOTE 3 – LIQUIDITY AND AVAILABILITY OF RESOURCES

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

	2022	2021
Financial assets:		
Cash	$ 1,360,832	$ 1,372,547
Cash restricted for senior housing	702,898	1,248,005
Receivables for escrowed guarantee deposits	200,000	700,000
Operating contributions receivable, net	2,043,233	2,780,085
Total financial assets	4,306,963	6,100,637
Less:		
Donor-restricted net assets not expected to be satisfied in coming year	(999,202)	(1,457,759)
Cash restricted for senior housing	(702,898)	(1,248,005)
Receivables for escrowed guarantee deposits	(200,000)	(700,000)
Agency funds	(92,996)	(161,005)
Total financial assets available for general expenditure	$ 2,311,867	$ 2,533,868

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.

NOTE 4 – MONTROSE COUNSELING CENTER PERMANENT ENDOWMENT, INC.

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

In 2007, the Endowment purchased an office building to house the operations of the Center. The office building is leased to the Center under a noncancelable operating lease agreement through December 31, 2028. The Center pays the expenses for building personnel and supplies, insurance, accounting, and other administrative services. The property has annual rental payments of approximately $567,000 through 2028. At August 31, 2022 and 2021, the Center had receivables from the Endowment in the amounts of $78,999 and $50,351, respectively.

NOTE 5 – CONTRIBUTIONS RECEIVABLE

Contributions receivable are as follows:

	2022	2021
Contributions receivable – government grants	$ 1,540,439	$ 1,502,973
Contributions receivable – operating	412,455	446,040
Total	1,952,894	1,949,013
Allowance for uncollectible contributions receivable	(26,989)	(131,989)
Contributions receivable, net	$ 1,925,905	$ 1,817,024

Contributions receivable at August 31, 2022 are expected to be collected as follows:

Within one year	$ 1,942,870
In one to five years	9,984
Total contributions receivable	$ 1,952,854

As of August 31, 2022, the Montrose Center has approximately $4,200,000 of conditional contributions from various government agencies. The contributions will be recognized as revenue when the conditions, which include performance of allowable activities and incurring allowable expenses, are met.

NOTE 6 – PROPERTY

Property is comprised of the following:

	2022	2021
Land	$ 3,265,000	$ 3,265,000
Land improvements	3,966,756	3,953,297
Furniture and equipment	1,521,451	1,443,555
Building	21,507,684	21,500,487
Total property, at cost	30,260,891	30,162,339
Accumulated depreciation and amortization	(2,229,269)	(1,210,084)
Property, net	$ 28,031,622	$ 28,952,255

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 that was repaid and converted to a $2.6 million permanent loan in August 2022. 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 7 – NOTES PAYABLE

Notes payable are as follows:

	2022	2021
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
Permanent note payable with interest at 5.26% per annum for fifteen years, collateralized by the property at 2222 Cleburne. The note payable matures in August 2037.	$ 2,600,000	
Debt issuance costs.	(129,042)	(286,596)
Note payable at 6.5% secured by contributions receivable. Maturity date of loan was February 28, 2022.		180,981
Note payable with co-developer of 2222 Cleburne, LP for start-up operations at 6.5% secured. Maturity date of loan was February 28, 2022.		30,000
Total notes payable	$ 2,470,958	$ 13,441,506

NOTE 8 – NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are restricted as follows:

	2022	2021
Subject to expenditure for specified purpose:		
United Way allocation	$ 554,775	$ 35,760
Homelessness prevention	454,911	539,728
Hurricane Harvey relief	412,549	417,927
Hatch Youth program	384,007	299,641
Safe Zones program	270,364	270,838
Case management	260,000	250,000
Electronic medical records	228,640	286,817
Community Center initiatives	125,894	170,602
COVID Relief	28,323	30,768
Workforce Development	15,000	
Other	33,264	58,044
Total net assets with donor restrictions	$ 2,767,727	$ 2,360,125

NOTE 9 – 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:

	2022	2021
Federal grants:		
U. S. Department of Housing and Urban Development	$ 2,285,433	$ 2,357,880
U. S. Department of Health and Human Services	2,031,020	2,105,359
U. S. Department of Justice	209,806	246,719
Small Business Administration		550,000
Total federal grants	4,526,259	5,259,958
State grants:		
Texas Department of State Health Services	549,694	455,108
Texas Office of the Attorney General	121,990	131,235
Texas Health and Human Services Commission	47,804	40,651
Texas Veteran's Commission		49,265
Total state grants	719,488	676,259
Total government grants	$ 5,245,747	$ 5,936,217

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 10 – NONFINANCIAL CONTRIBUTIONS

The Center received the following contributed nonfinancial assets for the year ended August 31:

	2022	2021
Professional counselors	$ 116,013	$ 47,122
Special event items (direct donor benefits)	83,822	9,387
Program food supplies	79,110	53,945
Other items used in programs	72,925	
Total contributed nonfinancial assets	$ 351,870	$ 110,454

Professional counselors are based on a rate from Independent Sector multiplied by the number of hours they work. Food is valued based on the rate per pound from Feeding America. Special events venue and entertainment items were valued at cost to rent facility and engage entertainment. Program supplies and other items are based on prices for similar items.

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. Pursuant to the affordable housing agreements, 95% of the units are to be leased to families whose income does not exceed 60% of HUD median income, provided that 40% of the units are leased to tenants whose annual income does not exceed 50% of the median income for 20 years. 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 agreement. 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 approximately $47,000 to this plan in 2022 and $39,000 in 2021.

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, 2020	$ 5,182,271
Sale of noncontrolling ownership interest in limited partnership, net	1,536,379
Change in noncontrolling ownership interest (net loss)	(1,218,033)
Noncontrolling ownership interest at August 31, 2021	5,500,617
Sale of noncontrolling ownership interest in limited partnership, net	10,511,709
Change in noncontrolling ownership interest (net loss)	(1,460,970)
Noncontrolling ownership interest at August 31, 2022	$ 14,551,356

NOTE 14 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through May 18, 2023, 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, 2022

	MONTROSE CENTER	2222 CLEBURNE	ELIMINATIONS	TOTAL
ASSETS				
Cash	$ 1,314,121	$ 46,711		$ 1,360,832
Contributions receivable:				
Government grants	1,540,439			1,540,439
Operating contributions receivable, net	385,466			385,466
Receivable due from Montrose Counseling Center Permanent Endowment, Inc.	78,599			78,599
Client fees receivable, net of allowance of $14,130	38,729	30,178		68,907
Due from partnership	760,878		$ (760,878)	
Prepaid expenses and other assets	140,593	77,357		217,950
Receivables for escrowed guarantee deposits		200,000		200,000
Developer fee receivable	1,098,927		(1,098,927)	
Partnership loan receivable	9,055,166		(9,055,166)	
Cash contractually-restricted for senior housing project	113,270	589,628		702,898
Property, net	81,948	27,949,674		28,031,622
TOTAL ASSETS	$ 14,608,136	$ 28,893,548	$ (10,914,971)	$ 32,586,713
LIABILITIES AND NET ASSETS				
Liabilities:				
Accounts payable and accrued expenses	$ 280,789	$ 185,033		$ 465,822
Due to Montrose Center		760,878	$ (760,878)	
Notes payable		2,470,958		2,470,958
Developer fee payable		1,870,157	(1,098,927)	771,230
Partnership note payable		9,055,166	(9,055,166)	
Total liabilities	280,789	14,342,192	(10,914,971)	3,708,010
Net assets:				
Without donor restrictions	11,559,620			11,559,620
With donor restrictions	2,767,727			2,767,727
Total net assets	14,327,347			14,327,347
Noncontrolling ownership interest		14,551,356		14,551,356
TOTAL LIABILITIES AND NET ASSETS	$ 14,608,136	$ 28,893,548	$ (10,914,971)	$ 32,586,713

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 and other assets	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 contractually-restricted for senior housing project		1,248,005		1,248,005
Property, net	91,456	28,860,799		28,952,255
TOTAL ASSETS	$ 14,449,407	$ 30,519,789	$ (10,296,034)	$ 34,673,162
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	638,606	25,019,172	(10,296,034)	15,361,744
Net assets:				
Without donor restrictions	11,450,676			11,450,676
With donor restrictions	2,360,125			2,360,125
Total net assets	13,810,801			13,810,801
Noncontrolling ownership interest		5,500,617		5,500,617
TOTAL LIABILITIES AND NET ASSETS	$ 14,449,407	$ 30,519,789	$ (10,296,034)	$ 34,673,162

the Montrose Center

Schedule of Expenditures of Federal Awards for the year ended August 31, 2022

GRANTOR Pass-through Grantor Program Title & Period		Assistance Listing Number	Grant Number	Award Amount	Revenue	Allowable Expenses
U. S. DEPARTMENT OF HEALTH AND HUMAN SERVICES						
Passed through City of Houston Department of Health and Human Services Area Agency on Aging:						
	Special Programs for the Aging, Title III, Part B Grants for Supportive Services and Senior Centers (Aging Cluster)					
#1	10/01/20 – 09/30/21	93.044	4600015192	$42,490	$ 240	$ 1,522
#2	10/01/21 – 09/30/22	93.044	4600015192	$15,000	6,360	10,998
					6,600	12,520
Passed through BakerRipley and Harris County Area Agency on Aging:						
	Special Programs for the Aging, Title III, Part C, Nutrition Services (Aging Cluster)					
#3	10/01/20 – 09/30/21	93.045	3618	N/A	1,974	1,974
#4	10/01/21 – 09/30/22	93.045	3618	N/A	20,433	20,433
					22,407	22,407
Passed through The Center for Success and Independence:						
	Affordable Care Act (ACA) Personal Responsibility Education Program					
#5	10/01/20 – 09/30/21	93.092	N/A	$240,878	13,316	13,316
#6	10/01/21 – 09/30/22	93.092	N/A	$240,878	144,846	144,846
					158,162	158,162
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	08/01/21 – 07/31/22	93.153	22TMC00RWD	$24,797	12,683	12,683
#8	08/01/22 – 07/31/23	93.153	23TMC00RWD	$25,618	1,523	1,523
					14,206	14,206
Passed through Texas Health and Human Services Commission:						
	Social Services Block Grant					
#9	09/01/21 – 08/31/22	93.667	HHS000380000064	$3,150	3,150	3,150
	Family Violence Prevention and Services/Domestic Violence Shelter and Supportive Services					
#10	09/01/21 – 08/31/22	93.671	HHS000380000064	$21,575	21,575	21,575
	Family Violence Prevention and Services Sexual Assault/Rape Crisis Services and Supportive Services					
#11	09/01/21 – 08/31/22	93.497	HHS000380000064	$9,005	9,005	9,005
	Temporary Assistance for Needy Families					
#12	09/01/21 – 08/31/22	93.558	HHS000380000064	$44,636	44,636	44,636
	Block Grants for Prevention and Treatment of Substance Abuse Recovery Support Services					
#13	09/01/21 – 08/31/22	93.959	HHS000130500013	$178,369	117,800	117,800
	Block Grants for Prevention and Treatment of Substance Abuse Substance Abuse Treatment					
#14	09/01/21 – 08/31/22	93.959	HHS000663700051	$100,000	12,905	20,020

(continued)

GRANTOR Pass-through Grantor Program Title & Period	Assistance Listing Number	Grant Number	Award Amount	Revenue	Allowable Expenses
U. S. DEPARTMENT OF HEALTH AND HUMAN SERVICES *(continued)*					
Passed through The University of Texas Health Science Center at San Antonio:					
Block Grants for Prevention and Treatment of Substance Abuse					
COVID-19 Virtual Behavioral Health Project					
#15 03/01/22 – 08/31/22	93.959	HHS001196700002	$18,000	3,366	3,366
				134,071	141,186
Passed through Baylor College of Medicine:					
PPHF Geriatric Education Centers					
Geriatrics Workforce Enhancement Program					
#16 07/01/19 – 06/30/24	93.969	U1QHP330680100	$25,480	9,032	1,396
Direct Federal Funding:					
Substance Abuse and Mental Health Services Projects of Regional and National Significance					
Sexual Health In Recovery					
#17 09/30/20 – 09/29/21	93.243	6H79T1082483-021	$500,000	25,516	25,516
#18 09/30/21 – 09/29/22	93.243	6H79TI082483-03M001	$500,000	434,869	434,869
HIV Field Navigation					
#19 08/31/21 – 08/30/22	93.243	1H79SP082234-01	$200,000	165,372	165,372
				625,757	625,757
Direct Federal Funding:					
Mental and Behavioral Health Education and Training Grants					
Behavioral Health Workforce Education and Training Program					
#20 09/30/21 – 08/31/22	93.732	1M01HP42445-01-00	$496,550	82,169	82,169
Passed through The University of Texas Health Science Center at Houston:					
Opioid STR					
#21 09/01/20 – 08/31/22	93.788	HHS000563200001	$278,104	77,825	77,825
Direct Federal Funding:					
Section 223 Demonstration Programs to Improve Community Mental Health Services					
CCBHC's Planning Grants					
#22 09/30/20 – 09/29/21	93.829	1H79SM081815-01	$1,274,677	11,038	11,038
Passed through Harris County:					
HIV Emergency Relief Project Grants					
Emergency Financial Assistance					
#23 03/01/20 – 02/28/21	93.914	COVID-19-10870	$300,000	7,582	7,582
#24 03/01/21 – 02/28/22	93.914	21GEN0212	$240,000	37,827	58,853
#25 03/01/22 – 02/28/23	93.914	22GEN0506	$240,000	52,663	81,380

(continued)

GRANTOR Pass-through Grantor Program Title & Period	Assistance Listing Number	Grant Number	Award Amount	Revenue	Allowable Expenses
U. S. DEPARTMENT OF HEALTH AND HUMAN SERVICES *(continued)*					
HIV Emergency Relief Project Grants					
Case Management					
#26 03/01/21 – 02/28/22	93.914	21GEN0010	$242,638	93,716	116,322
#27 03/01/22 – 02/28/23	93.914	21GEN0503	$244,328	185,075	160,197
HIV Emergency Relief Project Grants					
Substance Abuse					
#28 03/01/21 – 02/28/22	93.914	21GEN0242	$45,677	6,894	9,339
#29 03/01/22 – 02/28/23	93.914	22GEN0507	$45,677	2,081	4,492
				385,838	438,165
Direct Federal Funding:					
HIV Prevention Activities Non-Governmental Organization Based					
Comprehensive High-Impact HIV Prevention Program for Young Men of Color Who Have Sex with Men					
#30 04/01/22 – 03/31/23	93.939	6NU65PS923748-01-01	$400,000	56,433	56,433
Passed through City of Houston Bureau of HIV/STD Prevention:					
HIV Prevention Activities Health Department Based					
City – Community PROMISE					
#31 01/01/21 – 12/31/21	93.940	4600015911	$150,000	52,304	52,304
#32 01/01/22 – 12/31/22	93.940	4600015911	$120,120	85,322	85,322
				137,626	137,626
Passed through Office of the Attorney General:					
Preventive Health and Health Services Block Grant					
#33 11/01/21 – 09/30/22	93.991	2220432	$47,723	18,560	18,560
Passed through Texas Department of State Health Services:					
HIV Care Formula Grants					
HIV/MAI HIV – Minority AIDS Initiative					
#34 09/01/20 – 03/31/22	93.917	HHS000689400002	$500,878	116,908	116,908
#35 04/01/22 – 03/31/23	93.917	HHS000689400002	$316,344	96,022	96,022
				212,930	212,930
Total U. S. Department of Health and Human Services				2,031,020	2,088,746
U. S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT					
Passed through City of Houston Housing and Community Development Department:					
Housing Opportunities for Persons with AIDS					
#36 05/01/21 – 01/31/23	14.241	4600015465	$1,517,210	1,332,172	1,332,172
COVID-19 – Housing Opportunities for Persons with AIDS					
#37 07/01/20 – 12/31/21	14.241	4600016164	$670,220	27,451	27,451
				1,359,623	1,359,623

(continued)

GRANTOR Pass-through Grantor Program Title & Period	Assistance Listing Number	Grant Number	Award Amount	Revenue	Allowable Expenses
U. S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT *(continued)*					
Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii					
#38 04/01/20 – 09/30/22	14.228	4600015979	$685,972	265,760	265,760
Passed through Texas Department of Housing and Community Affairs:					
Emergency Solutions Grant Program					
#39 01/14/21 – 03/31/23	14.231	44207000049	$630,000	351,359	351,359
Passed through Houston Housing and Community Development Department/Houston Health Department:					
Community Development Block Grants/Entitlement Grants					
#40 11/01/21 – 06/30/22	14.218	4600016919	$28,823	20,720	12,797
Passed through Houston Housing Authority:					
Continuum of Care Program					
Rapid Rehousing and Transition Age Youth Case Management Services					
#41 12/01/20 – 11/30/21	14.267	TX0428L6E001803	$180,000	12,572	12,572
#42 12/01/21 – 11/30/22	14.267	TX0428L6E001803	$169,000	96,663	96,663
				109,235	109,235
Direct Federal Funding:					
Continuum of Care Program					
Permanent Housing Program					
#43 10/01/20 – 09/30/21	14.267	TX0171L6E001912	$163,030	19,333	19,333
#44 10/01/21 – 09/30/22	14.267	TX0171L6E002013	$163,030	159,403	159,403
				178,736	178,736
Total U. S. Department of Housing and Urban Development				2,285,433	2,277,510
U. S. DEPARTMENT OF JUSTICE					
Passed through Texas Office of the Governor, Criminal Justice Division:					
Violence Against Women Formula Grants					
#45 10/01/20 – 09/30/21	16.588	16934-15	$232,698	830	830
#46 10/01/21 – 09/30/22	16.588	16934-16	$232,698	208,976	208,976
Total U. S. Department of Justice				209,806	209,806
TOTAL FEDERAL AWARDS				$ 4,526,259	$ 4,576,062

(continued)

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

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

Assistance Listing Number(s)	Name of Program or Cluster	Amount
14.218	Community Development Block Grants/Entitlement Grants Cluster	$ 12,797
14.228	Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii	265,760
14.231	Emergency Solutions Grant Program	351,359
14.241	Housing Opportunities for Persons with AIDS	1,359,623
14.267	Continuum of Care Program	287,972
16.588	Violence Against Women Formula Grants	209,806
93.044, 93.045	Aging Cluster	34,927
93.092	Affordable Care Act (ACA) Personal Responsibility Education Program	158,162
93.153	Coordinated Services and Access to Research for Women, Infants, Children and Youth	14,206
93.243	Substance Abuse and Mental Health Services Projects of Regional and National Significance	625,757
93.497	Family Violence Prevention and Services/ Domestic Violence Shelter & Supportive Services	9,005
93.558	Temporary Assistance for Needy Families	44,636
93.667	Social Security Block Grant	3,150
93.671	Family Violence Prevention and Services/Domestic Violence Shelter & Supportive Services	21,575
93.732	Mental and Behavioral Health Education and Training Grants	82,169
93.788	Opioid STR	77,825
93.829	Section 223 Demonstration Programs to Improve Community Mental Health Services	11,038
93.914	HIV Emergency Relief Project Grants	438,167
93.917	HIV Care Formula Grants	212,930
93.939	HIV Prevention Activities Non-Governmental Organization Based	56,433
93.940	HIV Prevention Activities Health Department Based	137,626
93.959	Block Grants for Prevention and Treatment of Substance Abuse	141,186
93.969	PPHF Geriatric Education Centers	1,393
93.991	Preventive Health and Health Services Block Grant	18,560
Total		$ 4,576,062

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

the Montrose Center

Schedule of Expenditures of State Awards for the year ended August 31, 2022

GRANTOR Pass-through Grantor Program Title & Period	Contract Number	Award Amount	Revenue	Allowable Expenses
TEXAS DEPARTMENT OF STATE HEALTH SERVICES				
Direct Funding:				
CMHG				
#1 09/01/21 – 08/31/22	HHS000477100035	$275,883	$ 237,328	$ 237,328
#2 09/01/21 – 08/31/22	HHS000130500013	$21,631	21,631	21,631
Passed through Houston Regional HIV/AIDS Resource Group, Inc.:				
Counseling				
#3 09/01/21 – 03/31/22	22TMC00SS	$223,000	46,500	54,061
#4 04/01/22 – 08/31/22	22aTMC00SS	$100,000	41,700	51,193
Linguistics				
#5 09/01/21 – 03/31/22	22TMC00SS	$68,000	39,938	39,767
#6 04/01/22 – 08/31/22	22aTMC00SS	$40,000	26,288	26,355
Non-Medical Case Management				
#7 09/01/22 – 03/31/22	22TMC00SS	$275,000	80,288	80,288
#8 04/01/22 – 08/31/22	22aTMC00SS	$100,000	56,021	56,021
Total Texas Department of State Health Services			549,694	566,644
TEXAS OFFICE OF THE ATTORNEY GENERAL				
Direct Funding:				
Sexual Assault Prevention and Crisis Services – Crisis Intervention				
#9 09/01/21 – 08/31/22	2218139	$152,007	92,035	92,035
Other Victim Assistance Grant				
#10 09/01/21 – 08/31/22	2217206	$45,000	29,955	29,955
Total Texas Office of the Attorney General			121,990	121,990
TEXAS HEALTH AND HUMAN SERVICES COMMISSION				
Direct Funding:				
Family Violence Prevention and Services Act				
#11 09/01/21 – 08/31/22	HHS000380000064	$47,804	47,804	47,804
Total Texas Health and Human Services Commission			47,804	47,804
TOTAL STATE AWARDS			$ 719,488	$ 736,438

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

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). Federal and state expenses include allowable expenses funded by federal and state grants. Allowable costs are subject to the cost principles of the Uniform Guidance and the State of Texas *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 (the Center), which comprise the statement of financial position as of August 31, 2022 and the related statements of activities, of functional expenses, and of cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated May 18, 2023. 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.

Report on 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.

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

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

Report on 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*.

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 18, 2023

2900 Weslayan, Suite 200 Houston, Texas 77027-5132 (713) 439-5757 Fax (713) 439-5758

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

To the Board of Directors of
the Montrose Center:

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited the Montrose Center's compliance with the types of compliance requirements identified as subject to audit 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, 2022. 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.

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, 2022.

Basis for Opinion on Each Major Federal Program

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). Our responsibilities under those standards and the Uniform Guidance are further described in the *Auditors' Responsibilities for the Audit of Compliance* section of our report.

We are required to be independent of the Montrose Center and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of the Montrose Center's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules and provisions of contracts or grant agreements applicable to the Montrose Center's federal programs.

Auditors' Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the Montrose Center's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the Montrose Center's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the Montrose Center's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the Montrose Center's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances 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 the Montrose Center's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on 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 *Auditors' Responsibilities for the Audit of Compliance* section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

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

Blazek & Vetterling

May 18, 2023

the Montrose Center

Schedule of Findings and Questioned Costs for the year ended August 31, 2022

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 Listing Number(s)	Name of Federal Program or Cluster
14.231	Emergency Solutions Grant Program
14.241	Housing Opportunities for Persons with AIDS
93.914	HIV Emergency Relief Project Grants

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

Auditee qualified as a low-risk auditee? ☐ yes ☒ no

Section II – Financial Statement Findings

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

Section III – Federal Award Findings and Questioned Costs

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

Summary Schedule of Prior Audit Findings

The following audit findings for the year ended August 31, 2021 are required to be reported in accordance with 2 CFR §200.511.

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.

Management's 2022 follow-up response: The Montrose Center engaged a regional accounting firm to review all of our partnership and pass though transactions and to be on standby for any audit-related questions and adjustments. We have commenced a search for a Chief Financial Officer to strengthen our finance department and internal controls.

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.

Management's 2022 follow-up response: A complete review of the client receivables was undertaken, and a new insurance verification process and billing vendor was added. The Revenue Cycle Manager was replaced and all of the policies were reviewed and revised. The new Revenue Cycle Manager was trained on the new processes and the processes are regularly monitored. This implementation plan has been completed.

Empowering LGBT Houston

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United Way
United Way of Greater Houston