

**the Montrose Center and Affiliate**

Consolidated Financial Statements  
and Single Audit Reports  
for the year ended August 31, 2023

# 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 statement of financial position as of August 31, 2023, 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.

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, 2023, and the changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

#### *Basis for Opinion*

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

#### *Emphasis of a Matter – Restatement*

As discussed in Note 2 to the financial statements, the beginning net assets of 2222 Cleburne LP has been restated. Our opinion is not modified with respect to this matter.

#### *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.

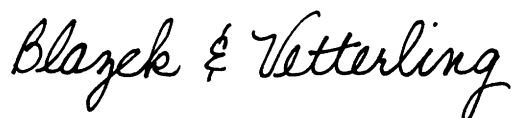
We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

### ***Supplementary Information***

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. Supplementary information in the schedules of expenditures of federal and state awards and the consolidating statement of financial position as of August 31, 2023 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 and state awards for the year ended August 31, 2023 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 the *Texas Grant Management Standards* 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 28, 2024 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 Montrose Center's internal control over financial reporting and compliance.



May 28, 2024

## the Montrose Center and Affiliate

Consolidated Statement of Financial Position as of August 31, 2023

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### ASSETS

Cash	\$ 1,988,502
Contributions receivable, net ( <i>Note 5</i> ):	
Government grants	2,014,341
Operating contributions receivable	585,536
Receivable due from Montrose Counseling Center Permanent Endowment, Inc. ( <i>Note 4</i> )	78,599
Client fees receivable, net of allowance of \$37,146	139,638
Prepaid expenses and other assets	362,833
Receivables for escrowed guarantee deposits	200,000
Cash contractually-restricted for senior housing project	679,370
Right-of-use asset ( <i>Note 8</i> )	2,686,223
Property, net ( <i>Note 6</i> )	<u>26,255,564</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 34,990,606</u></b>

### LIABILITIES AND NET ASSETS

Liabilities:	
Accounts payable and accrued expenses	\$ 790,986
Note payable ( <i>Note 7</i> )	2,449,732
Lease liabilities ( <i>Note 8</i> )	2,674,896
Developer fee payable	<u>771,230</u>
Total liabilities	<u>6,686,844</u>
Commitments and contingencies ( <i>Notes 6 and 12</i> )	
Net assets:	
Without donor restrictions:	
Montrose Center	12,920,855
Noncontrolling ownership interests ( <i>Note 14</i> )	9,344,409
With donor restrictions:	
Montrose Center ( <i>Note 9</i> )	2,773,498
Noncontrolling ownership interests ( <i>Note 14</i> )	<u>3,265,000</u>
Total net assets	<u>28,303,762</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b><u>\$ 34,990,606</u></b>

*See accompanying notes to consolidated financial statements.*

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## the Montrose Center and Affiliate

Consolidated Statement of Activities for the year ended August 31, 2023

	WITHOUT DONOR RESTRICTIONS	WITH DONOR RESTRICTIONS	TOTAL
REVENUE:			
Contributions and grants:			
Government grants <i>(Note 10)</i>		\$ 6,215,721	\$ 6,215,721
Other contributions	\$ 740,362	1,094,141	1,834,503
United Way allocation		545,120	545,120
Nonfinancial contributions <i>(Note 11)</i>	288,469		288,469
Special events revenue	423,227	273,529	696,756
Direct donor benefits	(116,837)	(38,137)	(154,974)
Client fees	1,276,035		1,276,035
Apartment rental income	1,044,717		1,044,717
Other income	<u>126,752</u>		<u>126,752</u>
Total revenue	3,782,725	8,090,374	11,873,099
Net assets released from restrictions:			
Government grant program expenditures	6,215,721	(6,215,721)	
Other program expenditures	<u>1,868,882</u>	<u>(1,868,882)</u>	
Total	<u>11,867,328</u>	<u>5,771</u>	<u>11,873,099</u>
EXPENSES:			
Program expenses:			
Case Management	4,405,935		4,405,935
Senior Housing	2,125,553		2,125,553
LIFE	1,016,007		1,016,007
Chemical Dependency	993,512		993,512
Anti-Violence	719,821		719,821
Community Center Services	422,187		422,187
Youth	282,570		282,570
HIV/AIDS	260,420		260,420
Senior	<u>202,914</u>		<u>202,914</u>
Total program expenses	10,428,919		10,428,919
Management and general	525,040		525,040
Fundraising	<u>632,970</u>		<u>632,970</u>
Total expenses	<u>11,586,929</u>		<u>11,586,929</u>
CHANGES IN NET ASSETS	280,399	5,771	286,170
Net assets, beginning of year <i>(restated, Note 2)</i>	<u>21,984,865</u>	<u>6,032,727</u>	<u>28,017,592</u>
Net assets, end of year	<u>\$ 22,265,264</u>	<u>\$ 6,038,498</u>	<u>\$ 28,303,762</u>

*See accompanying notes to consolidated financial statements.*

## the Montrose Center and Affiliate

Consolidated Statement of Functional Expenses for the year ended August 31, 2023

	CASE MANAGEMENT	SENIOR HOUSING	LIFE	CHEMICAL DEPENDENCY	ANTI- VIOLENCE	COMMUNITY CENTER SERVICES	YOUTH	HIV/AIDS	SENIOR	MANAGEMENT AND GENERAL	FUNDRAISING	TOTAL EXPENSES
Salaries	\$ 1,690,310	\$ 178,015	\$ 749,416	\$ 570,001	\$ 363,118	\$ 230,479	\$ 158,237	\$ 169,221	\$ 104,809	\$ 279,931	\$ 424,298	\$ 4,917,835
Client assistance	2,071,407		(119)	425	181,908	30,123	20,388		953			2,305,085
Depreciation	12,282	1,180,032	2,650	2,556	2,337	1,082	553	762	462	1,182	2,217	1,206,115
Occupancy	228,421	360,703	70,128	75,159	45,210	36,611	24,736	19,704	8,968	48,253	16,456	934,349
Contract services	70,243	165,567	11,415	156,106	8,319	61,974	2,527	8,486	12,810	120,788	2,844	621,079
Payroll taxes	131,013	22,146	51,508	40,982	24,186	19,146	12,002	9,871	7,851	20,056	63,658	402,419
Employee benefits	125,243	23,706	52,365	59,804	38,119	17,737	11,317	12,573	15,432	6,146	16,546	378,988
Supplies	20,949	11,303	15,204	19,072	1,541	3,829	34,473	687	25,609	34,764	82,778	250,209
Interest		137,242										137,242
In-kind professional services			25,751	25,751	25,751			25,751				103,004
Local travel	28,896		43	14,489	586	2,006	2,817		440	100	359	49,736
Telephone	11,261		10,213	5,493	4,499	1,839	1,516	2,433	5,391	384	791	43,820
Bad debt			11,965	3,617	4,313			1,216	1,942			23,053
Printing	1,371		416	3,058	761	167	409	198	4,309	130	684	11,503
Equipment rental and purchases	3,726		1,647	1,240	744	604	405	360	148	234	271	9,379
Professional development	723		3,378	1,509	406	343	100		192	300	899	7,850
Postage	997	273	393	392	290	1,289	151	173	44	22	201	4,225
Other	9,093	46,566	9,634	13,858	17,733	14,958	12,939	8,985	13,554	12,750	20,968	181,038
Total expenses	<u>\$ 4,405,935</u>	<u>\$ 2,125,553</u>	<u>\$ 1,016,007</u>	<u>\$ 993,512</u>	<u>\$ 719,821</u>	<u>\$ 422,187</u>	<u>\$ 282,570</u>	<u>\$ 260,420</u>	<u>\$ 202,914</u>	<u>\$ 525,040</u>	<u>\$ 632,970</u>	<u>\$ 11,586,929</u>
Grant reimbursed management expenses by program	\$ 119,017		\$ 25,031	\$ 41,370	\$ 34,829	\$ 33,030	\$ 9,403	\$ 11,082	\$ 5,568			

See accompanying notes to consolidated financial statements.

## the Montrose Center and Affiliate

Consolidated Statement of Cash Flows for the year ended August 31, 2023

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### CASH FLOWS FROM OPERATING ACTIVITIES:

Changes in net assets	\$ 286,170
Adjustments to reconcile changes in net assets to net cash provided by operating activities:	
Depreciation	1,206,115
Amortization of right-of-use assets	418,553
Changes in operating assets and liabilities:	
Receivables	(863,759)
Prepaid expenses and other assets	(39,473)
Accounts payable and accrued expenses	99,588
Lease liability	<u>(429,880)</u>
Net cash provided by operating activities	<u>677,314</u>

### CASH FLOWS FROM INVESTING ACTIVITIES:

Purchases of property	<u>(65,592)</u>
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### CASH FLOWS FROM FINANCING ACTIVITIES:

Proceeds from contributions restricted for senior housing project	13,646
Repayment of notes payable	<u>(21,226)</u>
Net cash used by financing activities	<u>(7,580)</u>

NET CHANGE IN CASH 604,142

Cash, beginning of year 2,063,730

Cash, end of year \$ 2,667,872

### *Reconciliation of cash balances:*

Cash	\$ 1,988,502
Cash contractually-restricted for senior housing project	<u>679,370</u>
Total cash	<u>\$ 2,667,872</u>

### *Supplemental disclosure of cash flow information:*

Interest paid \$137,242

*See accompanying notes to consolidated financial statements.*

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## **the Montrose Center and Affiliate**

Notes to Consolidated Financial Statements for the year ended August 31, 2023

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### **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, 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.

*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.

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

*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.

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 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>2023</u>	<u>2022</u>	<u>2021</u>
Client receivables	\$ 176,784	\$ 52,859	\$ 356,105
Allowance for uncollectible accounts	<u>(37,146)</u>	<u>(14,130)</u>	<u>(85,163)</u>
Client fees receivable, net	<u>\$ 139,638</u>	<u>\$ 38,729</u>	<u>\$ 270,942</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.

Contractually-restricted cash – In accordance with the partnership agreement, cash has been segregated into operating reserves (\$410,000), replacement reserves (\$42,000), and insurance and tax escrow amounts (\$180,000).

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, 2023, 2022, or 2021.

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.

New accounting standard – The Center adopted Accounting Standards Update (ASU) 2016-02, *Leases (Topic 842)*. Under this ASU, the Center recognizes 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. The Center adopted the new standard effective September 1, 2022 using the modified retrospective method. Comparative information for fiscal year 2022 has not been restated and continues to be reported under the previous standard. There was no cumulative effect on net assets at September 1, 2022.

## NOTE 2 – RESTATEMENT OF BEGINNING NET ASSETS

The noncontrolling interest portion on beginning net assets have been restated to correctly reflect accumulated depreciation and the Center loan on 2222 Cleburne, LP. Accumulated depreciation increased by approximately \$665,000 and the Center loan increased by approximately \$195,000 reflecting a decrease in beginning net assets of approximately \$860,000. A reclassification of beginning net assets has been recorded totaling \$3,265,000 from non-controlling interest unrestricted net assets to non-controlling interest restricted 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, 2023 are as follows:

### Financial assets:

Cash	\$ 1,988,502
Receivables for escrowed guarantee deposits	200,000
Cash restricted for senior housing project	679,370
Client fees receivable	139,638
Other receivables	166,599
Contributions receivable, net	<u>2,599,877</u>

Total financial assets 5,773,986

### Less:

Donor-restricted net assets not expected to be satisfied in coming year	(774,109)
Cash restricted for senior housing	(679,370)
Receivables for escrowed guarantee deposits	(200,000)
Agency funds	<u>(137,472)</u>

Total financial assets available for general expenditure \$ 3,983,035

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, 2023, the Center had receivables from the Endowment in the amount of \$78,599. The Endowment paid approximately \$96,000 to the Center for management and administrative building costs (see Note 8).

#### **NOTE 5 – CONTRIBUTIONS RECEIVABLE**

Contributions receivable at August 31, 2023 are as follows:

Contributions receivable – government grants	\$ 2,014,341
Contributions receivable – operating	<u>585,636</u>
Total	<u>\$ 2,599,977</u>

Contributions receivable at August 31, 2023 are all due within one year.

As of August 31, 2023, the Montrose Center has approximately \$6,100,000 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 at August 31, 2023 is comprised of the following:

Land	\$ 3,265,000
Land improvements	4,024,353
Furniture and equipment	1,409,540
Building	<u>21,507,684</u>
Total property, at cost	30,206,577
Accumulated depreciation and amortization	<u>(3,951,013)</u>
Property, net	<u>\$ 26,255,564</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 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 – NOTE PAYABLE

The note payable at August 31, 2023 is as follows:

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.	\$ 2,568,942
Debt issuance costs, net of amortization.	<u>(119,210)</u>
Total note payable	<u>\$ 2,449,732</u>

Principal payments are due as follows:

2024	\$ 28,333
2025	29,860
2026	31,469
2027	33,164
2028	34,951
Thereafter	<u>2,411,165</u>
Total note payable	<u>\$ 2,568,942</u>

## NOTE 8 – OPERATING LEASES

the Montrose Center leases office space under a non-cancelable operating lease. Right-of-use assets are recognized at the present value of the lease payments at the inception of the lease adjusted, as appropriate, for certain other payments and allowances related to obtaining the lease and placing the asset in service. Operating lease right-of-use assets are amortized so that lease costs remain constant over the lease term. the Montrose Center elected to include building operating costs in the calculation of the lease liability.

During 2023, the lease cost associated with operating leases was \$569,172.

During the year ended August 31, 2023, cash paid for amounts included in the measurement of operating lease liabilities was \$567,048.

As of August 31, 2023, the weighted-average remaining lease term for all operating leases is 5 years and 3 months. The weighted-average discount rate associated with operating leases as of August 31, 2023 is 4.79%

Undiscounted cash flows related to operating leases as of August 31, 2023 are as follows:

2024	\$ 567,048
2025	567,048
2026	567,048
2027	567,048
2028	567,048
Thereafter	<u>189,016</u>
Total undiscounted cash flows	3,024,256
Less discount to present value	<u>(349,360)</u>
Total discount present value of lease liabilities	<u>\$ 2,674,896</u>

## NOTE 9 – NET ASSETS WITH DONOR RESTRICTIONS – MONTROSE CENTER

Net assets with donor restrictions at August 31, 2023 are restricted as follows:

Subject to expenditure for specified purpose:	
Homelessness prevention – youth rapid rehousing	\$ 737,394
Hatch Youth program	422,020
Disaster relief	418,693
United Way allocation	318,912
Transgender Wellness program	300,000
Safe Zones program	288,933
Electronic medical records	172,511
Community Center initiatives	48,552
COVID Relief	28,323
Other	<u>38,160</u>
Total net assets with donor restrictions	<u>\$ 2,773,498</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 at August 31, 2023 include the following:

Federal grants:	
U. S. Department of Health and Human Services	\$ 2,860,171
U. S. Department of Housing and Urban Development	2,149,107
U. S. Department of the Treasury	238,546
U. S. Department of Justice	<u>200,832</u>
Total federal grants	<u>5,448,656</u>
State grants:	
Texas Department of State Health Services	594,738
Texas Office of the Attorney General	157,807
Texas Health and Human Services Commission	<u>14,170</u>
Total state grants	<u>766,715</u>
Other	<u>350</u>
Total government grants	<u>\$ 6,215,721</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 – NONFINANCIAL CONTRIBUTIONS

The Center received the following contributed nonfinancial assets for the year ended August 31, 2023:

Professional counselors (program)	\$ 103,002
Special event items (direct donor benefits)	64,300
Program food supplies	62,733
Other items utilized in programs	<u>58,434</u>
Total contributed nonfinancial assets	<u>\$ 288,469</u>

Professional counselors are based on a rate from Independent Sector multiplied by the number of hours worked. 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 12 – 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. A liability for such repayment is not reported in these consolidated financial statements because management believes the property will be operated in accordance with such restrictions.

## NOTE 13 – 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 \$32,000 to this plan in 2023 and \$47,000 in 2022.

**NOTE 14 – NONCONTROLLING OWNERSHIP INTEREST – CHANGES IN NET ASSETS**

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

	<u>WITHOUT DONOR RESTRICTIONS</u>	<u>WITH DONOR RESTRICTIONS</u>	<u>TOTAL</u>
Noncontrolling ownership interest at August 31, 2022	\$ 10,425,245	\$ 3,265,000	\$ 13,690,245
Change in noncontrolling ownership interest (net loss)	<u>(1,080,836)</u>	<u>                    </u>	<u>(1,080,836)</u>
Noncontrolling ownership interest at August 31, 2023	<u>\$ 9,344,409</u>	<u>\$ 3,265,000</u>	<u>\$ 12,609,409</u>

**NOTE 15 – SUBSEQUENT EVENTS**

Management has evaluated subsequent events through May 28, 2024, 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.

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## the Montrose Center and Affiliate

Consolidating Statement of Financial Position as of August 31, 2023

	MONTROSE CENTER	2222 CLEBURNE, LP	ELIMINATIONS	TOTAL
<b>ASSETS</b>				
Cash	\$ 1,746,636	\$ 241,866		\$ 1,988,502
Contributions receivable:				
Government grants	2,014,341			2,014,341
Operating contributions receivable, net	585,536			585,536
Receivable due from Montrose Counseling Center Permanent Endowment, Inc.	78,599			78,599
Client fees receivable, net of allowance of \$37,146	139,638			139,638
Due from partnership	926,573		\$ (926,573)	
Prepaid expenses and other assets	287,732	75,101		362,833
Receivables for escrowed guarantee deposits		200,000		200,000
Developer fee receivable	1,098,927		(1,098,927)	
Partnership loan receivable	9,250,000		(9,250,000)	
Cash contractually-restricted for senior housing project	126,414	552,956		679,370
Right-of-use asset	2,686,223			2,686,223
Property, net	63,860	26,191,704		26,255,564
<b>TOTAL ASSETS</b>	<u>\$ 19,004,479</u>	<u>\$ 27,261,627</u>	<u>\$ (11,275,500)</u>	<u>\$ 34,990,606</u>
<b>LIABILITIES AND NET ASSETS</b>				
Liabilities:				
Accounts payable and accrued expenses	\$ 635,230	\$ 155,756		\$ 790,986
Due to Montrose Center		926,573	\$ (926,573)	
Notes payable		2,449,732		2,449,732
Lease liabilities	2,674,896			2,674,896
Developer fee payable		1,870,157	(1,098,927)	771,230
Partnership note payable		9,250,000	(9,250,000)	
Total liabilities	<u>3,310,126</u>	<u>14,652,218</u>	<u>(11,275,500)</u>	<u>6,686,844</u>
Net assets:				
Without donor restrictions	12,920,855	9,344,409		22,265,264
With donor restrictions	2,773,498	3,265,000		6,038,498
Total net assets	<u>15,694,353</u>	<u>12,609,409</u>		<u>28,303,762</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u>\$ 19,004,479</u>	<u>\$ 27,261,627</u>	<u>\$ (11,275,500)</u>	<u>\$ 34,990,606</u>

**the Montrose Center**

Schedule of Expenditures of Federal Awards for the year ended August 31, 2023

<u>GRANTOR</u>		<u>Assistance</u>		<u>Grant</u>	<u>Award</u>		<u>Allowable</u>
<u>Pass-through Grantor</u>		<u>Listing</u>		<u>Number</u>	<u>Amount</u>	<u>Revenue</u>	<u>Expenses</u>
<u>Program Title &amp; Period</u>		<u>Number</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	10/01/21 – 09/30/22	93.044		4600015192	\$15,000	\$ 360	\$ 406
#2	10/01/22 – 09/30/23	93.044		4600015192	\$14,940	3,888	5,696
						<u>4,248</u>	<u>6,102</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	10/01/21 – 09/30/22	93.045		3618	\$20,433	1,758	1,758
#4	10/01/22 – 09/30/23	93.045		3618	\$20,727	17,508	17,508
						<u>19,266</u>	<u>19,266</u>
Passed through The Center for Success and Independence:							
Affordable Care Act (ACA) Personal Responsibility Education Program							
#5	10/01/21 – 09/30/22	93.092		N/A	\$240,878	13,660	12,495
#6	10/01/22 – 09/30/23	93.092		N/A	\$240,878	130,204	130,204
						<u>143,864</u>	<u>142,699</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	08/01/22 – 07/31/23	93.153		23TMC00RWD	\$25,618	20,110	20,110
#8	08/01/23 – 07/31/24	93.153		24TMC00RWD	\$25,618	1,316	1,316
						<u>21,426</u>	<u>21,426</u>
Passed through Texas Health and Human Services Commission:							
Social Services Block Grant							
#9	09/01/22 – 08/31/23	93.667		HHS000380000064	\$84,255	35,161	35,161
#10	09/01/22 – 08/31/23	93.667		HHS001102100033	\$101,468	69,318	69,318
Family Violence Prevention and Services							
#11	09/01/22 – 08/31/23	93.671		HHS000380000064	\$76,355	44,008	44,008
Temporary Assistance for Needy Families							
#12	09/01/22 – 08/31/23	93.558		HHS000380000064	\$9,971	4,161	4,161
Block Grants for Prevention and Treatment of Substance Abuse							
Recovery Support Services							
#13	09/01/22 – 08/31/23	93.959		HHS000130500013	\$154,000	137,877	137,877
Substance Abuse Treatment							
#14	09/01/22 – 08/31/23	93.959		HHS000663700051	\$100,000	6,764	12,128
						<u>297,289</u>	<u>302,653</u>

(continued)

**the Montrose Center**

Schedule of Expenditures of Federal Awards for the year ended August 31, 2023

(continued)

<u>GRANTOR</u>	Assistance					
<u>Pass-through Grantor</u>	Listing	Grant	Award			Allowable
<u>Program Title &amp; Period</u>	<u>Number</u>	<u>Number</u>	<u>Amount</u>	<u>Revenue</u>		<u>Expenses</u>
U. S. DEPARTMENT OF HEALTH AND HUMAN SERVICES (continued)						
Passed through The University of Texas Health Science Center at San Antonio:						
Block Grants for Prevention and Treatment of Substance Abuse						
Virtual Behavioral Health Project						
#15	09/01/22 – 08/31/23	93.959	HHS001196700002	\$20,488	<u>7,713</u>	<u>7,713</u>
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	<u>5,653</u>	<u>5,653</u>
Direct Federal Funding:						
Substance Abuse and Mental Health Services Projects of Regional and National Significance						
Sexual Health In Recovery						
#17	09/30/21 – 09/29/22	93.243	6H79T1082483-03M001	\$500,000	27,338	27,338
#18	09/30/22 – 09/29/23	93.243	5H79T1082483-04	\$500,000	414,860	414,860
HIV Field Navigation						
#19	08/31/22 – 08/30/24	93.243	6H79SP082234-01	\$200,000	<u>158,592</u>	<u>158,592</u>
					<u>600,790</u>	<u>600,790</u>
Direct Federal Funding:						
Mental and Behavioral Health Education and Training Grants						
Behavioral Health Workforce Education and Training Program						
#20	09/01/22 – 08/31/23	93.732	5M01HP42445-02	\$496,550	<u>199,586</u>	<u>199,586</u>
Passed through The University of Texas Health Science Center at Houston:						
Opioid STR						
#21	09/01/22 – 08/31/23	93.788	HHS000563200001	\$105,796	<u>77,262</u>	<u>77,262</u>
Passed through Harris County:						
HIV Emergency Relief Project Grants						
Emergency Financial Assistance						
#22	03/01/22 – 02/28/23	93.914	22GEN0506	\$240,000	86,825	100,864
#23	03/01/23 – 02/29/24	93.914	23GEN0417	\$385,543	385,543	430,513
HIV Emergency Relief Project Grants						
Case Management						
#24	03/01/22 – 02/28/23	93.914	22GEN0503	\$328,354	191,785	163,108
#25	03/01/23 – 02/29/24	93.914	23GEN0373	\$307,391	194,754	149,845
HIV Emergency Relief Project Grants						
Substance Abuse						
#26	03/01/22 – 02/28/23	93.914	22GEN0507	\$45,677	4,706	5,792
#27	03/01/23 – 02/29/24	93.914	23GEN0374	\$45,677	<u>12,119</u>	<u>10,042</u>
					<u>875,732</u>	<u>860,164</u>

(continued)

**the Montrose Center**

Schedule of Expenditures of Federal Awards for the year ended August 31, 2023 (continued)

<u>GRANTOR</u>	<u>Assistance</u>					
<u>Pass-through Grantor</u>	<u>Listing</u>	<u>Grant</u>	<u>Award</u>			
<u>Program Title &amp; Period</u>	<u>Number</u>	<u>Number</u>	<u>Amount</u>	<u>Revenue</u>	<u>Allowable</u>	<u>Expenses</u>
U. S. DEPARTMENT OF HEALTH AND HUMAN SERVICES <i>(continued)</i>						
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						
#28	04/01/22 – 03/31/23	93.939	6NU65PS923748	\$400,000	126,087	143,138
#29	04/01/23 – 03/31/24	93.939	5NU65PS923748-02	\$400,000	<u>112,250</u>	<u>95,199</u>
					<u>238,337</u>	<u>238,337</u>
Passed through City of Houston Bureau of HIV/STD Prevention:						
HIV Prevention Activities Health Department Based						
City – Community PROMISE						
#30	01/01/22 – 12/31/22	93.940	4600015911	\$120,120	36,727	36,727
#31	01/01/23 – 03/31/23	93.940	4600015911	\$30,030	27,520	27,520
#32	04/01/23 – 06/30/23	93.940	4600015911	\$30,030	25,814	25,814
#33	07/01/23 – 12/31/23	93.940	4600015911	\$60,060	<u>19,914</u>	<u>19,914</u>
					<u>109,975</u>	<u>109,975</u>
Passed through Office of the Attorney General:						
Preventive Health and Health Services Block Grant						
#34	11/01/21 – 09/30/22	93.991	2220432	\$47,723	1,023	1,023
#35	10/01/22 – 09/30/23	93.991	C-00549	\$52,338	<u>9,527</u>	<u>9,527</u>
					<u>10,550</u>	<u>10,550</u>
Passed through Texas Department of State Health Services:						
HIV Care Formula Grants						
HIV/MAI HIV – Minority AIDS Initiative						
#36	04/01/22 – 03/31/23	93.917	HHS000689400002	\$316,344	145,585	145,585
#37	04/01/23 – 03/31/24	93.917	HHS000689400002	\$316,343	<u>102,895</u>	<u>102,895</u>
					<u>248,480</u>	<u>248,480</u>
Total U. S. Department of Health and Human Services					<u>2,860,171</u>	<u>2,850,656</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						
#38	05/01/21 – 06/30/23	14.241	4600015465	\$1,972,347	276,328	369,296
Housing Opportunities for Persons with AIDS						
#39	07/01/23 – 06/30/24	14.241	4600017788	\$2,461,386	<u>1,386,450</u>	<u>1,293,842</u>
					<u>1,662,778</u>	<u>1,663,138</u>

*(continued)*

**the Montrose Center**

Schedule of Expenditures of Federal Awards for the year ended August 31, 2023 *(continued)*

<u>GRANTOR</u>	<u>Assistance</u>					
<u>Pass-through Grantor</u>	<u>Listing</u>	<u>Grant</u>	<u>Award</u>			
<u>Program Title &amp; Period</u>	<u>Number</u>	<u>Number</u>	<u>Amount</u>	<u>Revenue</u>	<u>Allowable</u>	<u>Expenses</u>
U. S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT <i>(continued)</i>						
Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii						
#40	04/01/20 – 09/30/22	14.228	4600015979	\$685,972	<u>32,875</u>	<u>30,262</u>
Passed through Texas Department of Housing and Community Affairs:						
Emergency Solutions Grant Program						
#41	01/14/21 – 03/31/23	14.231	44207000049	\$787,500	<u>165,061</u>	<u>161,578</u>
Passed through Houston Housing Authority:						
Continuum of Care Program						
Rapid Rehousing and Transition Age Youth Case Management Services						
#42	12/01/21 – 11/30/22	14.267	TX0428L6E001803	\$169,000	27,842	27,842
#43	12/01/22 – 11/30/23	14.267	TX0428L6E001803	\$169,000	<u>80,301</u>	<u>80,301</u>
					<u>108,143</u>	<u>108,143</u>
Direct Federal Funding:						
Continuum of Care Program						
Permanent Housing Program						
#44	10/01/21 – 09/30/22	14.267	TX0171L6E002013	\$163,030	362	362
#45	10/01/22 – 09/30/23	14.267	TX0171L6E002114	\$177,118	<u>103,905</u>	<u>103,905</u>
					<u>104,267</u>	<u>104,267</u>
Passed through The Way Home:						
Continuum of Care Program						
Youth Homeless Demonstration Program						
#46	11/01/22 – 10/31/24	14.267	TX0652Y6E002000	\$472,011	<u>56,199</u>	<u>56,199</u>
Passed through Coalition for the Homeless:						
Continuum of Care Program						
#47	11/01/22 – 10/31/24	14.267	TX0652Y6E002000	\$514,083	<u>19,784</u>	<u>19,784</u>
Total U. S. Department of Housing and Urban Development					<u>2,149,107</u>	<u>2,143,371</u>
U. S. DEPARTMENT OF THE TREASURY						
Passed through Harris County:						
COVID-19 – Coronavirus State and Local Fiscal Recovery Funds						
#48	01/31/23 – 01/30/25	21.027	23GEN0159	\$501,550	229,917	229,917
#49	03/14/23 – 03/13/25	21.027	N/A	\$77,500	<u>8,629</u>	<u>8,629</u>
Total U. S. Department of the Treasury					<u>238,546</u>	<u>238,546</u>

*(continued)*

**the Montrose Center**

Schedule of Expenditures of Federal Awards for the year ended August 31, 2023 *(continued)*

<u>GRANTOR</u>	Assistance					
<u>Pass-through Grantor</u>	Listing	Grant	Award		Allowable	
<u>Program Title &amp; Period</u>	<u>Number</u>	<u>Number</u>	<u>Amount</u>	<u>Revenue</u>	<u>Expenses</u>	
U. S. DEPARTMENT OF JUSTICE						
Passed through Texas Office of the Governor, Criminal Justice Division:						
Violence Against Women Formula Grants						
#50	10/01/21 – 09/30/22	16.588	16934-16	\$232,698	14,507	14,507
#51	10/01/22 – 12/31/23	16.588	16934-17	\$232,698	<u>186,325</u>	<u>186,325</u>
Total U. S. Department of Justice					<u>200,832</u>	<u>200,832</u>
TOTAL FEDERAL AWARDS					<u>\$ 5,448,656</u>	<u>\$ 5,433,405</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	\$ 30,262
14.231	Emergency Solutions Grant Program	161,578
14.241	Housing Opportunities for Persons with AIDS	1,663,138
14.267	Continuum of Care Program	288,393
16.588	Violence Against Women Formula Grants	200,832
21.027	Coronavirus State and Local Fiscal Recovery Funds	238,546
93.044, 93.045	Aging Cluster	25,368
93.092	Affordable Care Act (ACA) Personal Responsibility Education Program	142,699
93.153	Coordinated Services and Access to Research for Women, Infants, Children and Youth	21,426
93.243	Substance Abuse and Mental Health Services Projects of Regional and National Significance	600,790
93.558	Temporary Assistance for Needy Families	4,161
93.667	Social Services Block Grant	104,479
93.671	Family Violence Prevention and Services	44,008
93.732	Mental and Behavioral Health Education and Training Grants	199,586
93.788	Opioid STR	77,262
93.914	HIV Emergency Relief Project Grants	860,164
93.917	HIV Care Formula Grants	248,480
93.939	HIV Prevention Activities Non-Governmental Organization Based	238,337
93.940	HIV Prevention Activities Health Department Based	109,975
93.959	Block Grants for Prevention and Treatment of Substance Abuse	157,718
93.969	PPHF Geriatric Education Centers	5,653
93.991	Preventive Health and Health Services Block Grant	<u>10,550</u>
Total		<u>\$ 5,433,405</u>

*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, 2023

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<u>GRANTOR</u>				
<u>Pass-through Grantor</u>	<u>Contract</u>	<u>Award</u>	<u>Revenue</u>	<u>Allowable</u>
<u>Program Title &amp; Period</u>	<u>Number</u>	<u>Amount</u>		<u>Expenses</u>
TEXAS DEPARTMENT OF STATE HEALTH SERVICES				
Direct Funding:				
CMHG				
#1 09/01/22 – 08/31/23	HHS000477100035	\$222,228	\$ 194,388	\$ 194,388
#2 09/01/22 – 08/31/23	HHS000130500013	\$46,000	46,000	46,000
Passed through Houston Regional HIV/AIDS Resource Group, Inc.:				
Counseling				
#3 09/01/22 – 08/31/23	23TMC00SS	\$224,000	146,316	137,416
Linguistics				
#4 09/01/22 – 08/31/23	23TMC00SS	\$68,000	54,944	74,376
Non-Medical Case Management				
#5 09/01/22 – 08/31/23	23aTMC00SS	\$275,000	<u>153,090</u>	<u>154,264</u>
Total Texas Department of State Health Services			<u>594,738</u>	<u>606,444</u>
TEXAS OFFICE OF THE ATTORNEY GENERAL				
Direct Funding:				
Sexual Assault Prevention and Crisis Services – Crisis Intervention				
#6 09/01/22 – 08/31/23	C-00147	\$152,007	112,824	112,824
Other Victim Assistance Grant				
#7 09/01/22 – 08/31/23	C-00463	\$45,000	<u>44,983</u>	<u>44,983</u>
Total Texas Office of the Attorney General			<u>157,807</u>	<u>157,807</u>
TEXAS HEALTH AND HUMAN SERVICES COMMISSION				
Direct Funding:				
Family Violence Prevention and Services Act				
#8 09/01/22 – 08/31/23	HHS000380000064	\$33,956	<u>14,170</u>	<u>14,170</u>
Total Texas Health and Human Services Commission			<u>14,170</u>	<u>14,170</u>
TOTAL STATE AWARDS			<u>\$ 766,715</u>	<u>\$ 778,421</u>

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

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## **the Montrose Center**

Note to Schedules of Expenditures of Federal and State Awards for the year ended August 31, 2023

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### **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 the *Texas Grant Management Standards*. 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 *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.

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**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, 2023 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 28, 2024. 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We identified a deficiency in internal control, described in the accompanying schedule of findings and questioned costs as item #2023-001 that we consider to be a significant deficiency.

### **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*.

### **The Center's Response to the Finding**

*Government Auditing Standards* requires the auditor to perform limited procedures on the Center's response to the finding identified in our audit and described in the accompanying schedule of findings and questioned costs. The Center's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

### **Purpose of This Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Blazek & Vetterling*

May 28, 2024

## **Independent Auditors' Report on Compliance for Each Major Federal and Major State 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 and Major State Program**

#### ***Opinion on Each Major Federal and Each Major State 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* and in the Texas Grant Management Standards that could have a direct and material effect on each of the Montrose Center's major federal and major state programs for the year ended August 31, 2023. The Montrose Center's major federal and major state 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 and major state programs for the year ended August 31, 2023.

#### ***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), and the Texas Grant Management Standards. Our responsibilities under those standards, the Uniform Guidance and the Texas Grant Management Standards 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 and major state 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 and major state 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*, the Uniform Guidance and the Texas Grant Management Standards 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 and major state program as a whole.

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, the Uniform Guidance and the Texas Grant Management Standards, 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 and the Texas Grant Management Standards, 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.

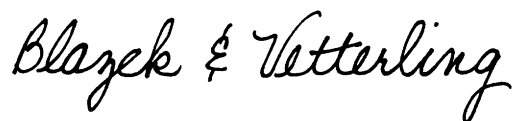
### **Report on Internal Control Over Compliance**

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 and *Texas Grant Management Standards*. Accordingly, this report is not suitable for any other purpose.



May 28, 2024

# the Montrose Center

Schedule of Findings and Questioned Costs for the year ended August 31, 2023

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## 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 and State 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) and the Texas Grant Management Standards?  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
93.732	Mental and Behavioral Health Education and Training Grants

<u>Grantor Number</u>	<u>Name of State Program</u>
23TMC00SS	Linguistics, Mental Health and Case Management – Substance Abuse

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

Auditee qualified as a low-risk auditee?  yes  no

## Section II – Financial Statement Findings

### Finding # 2023-001 – Significant Deficiency

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

***Condition and context:*** The Center’s system of internal control over contributions and the related receivables is not sufficient to ensure that all contributions are recorded in the correct period. During our testing of contribution transactions, we noted 3 contributions that should have been recognized as contributions receivable and the related receivable in fiscal year 2022.

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

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

***Views of responsible officials and planned corrective actions:*** 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 28, 2024

the Montrose Center respectfully submits the following Corrective Action Plan for the year ended August 31, 2023. The audit was performed by: Blazek & Vetterling, 2900 Wesleyan, Suite 200, Houston, Texas, 77027.

The findings from the August 31, 2023 schedule of findings and questioned costs are discussed below. The findings are numbered consistently with the numbers assigned in the schedule.

### FINANCIAL STATEMENT AND FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

#### **Findings #2023-001** – Significant Deficiency

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

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

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

**Estimated completion date:** June 30, 2024

If there are any questions regarding this plan, please call Avery Belyeu at (713) 529-0037.

Sincerely,

Avery Belyeu  
Chief Executive Officer