

**the Montrose Center
(Parent-Only)**

Financial Statements
and Single Audit Reports
for the year ended August 31, 2024

the Montrose Center (Parent-Only)

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Independent Auditors' Report

To the Board of Directors of
the Montrose Center:

Report on the Audit of the Financial Statements

Opinion

We have audited the parent-only financial statements of the Montrose Center, which comprise the statement of financial position as of August 31, 2024, 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.

In our opinion, the accompanying parent-only financial statements present fairly, in all material respects, the parent-only financial position of the Montrose Center as of August 31, 2024, and the changes in its net assets and its 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. 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 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.

Emphasis of A Matter

As described in Note 2, beginning net assets were restated in order to properly reflect refundable government loans. 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'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'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's ability to continue as a going concern for a reasonable period of time.

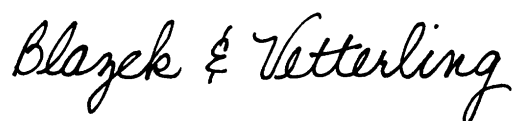
We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplementary information included in the schedule of expenditures of federal awards for the year ended August 31, 2024 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 February 18, 2025 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.



February 18, 2025

the Montrose Center (Parent-Only)

Statement of Financial Position as of August 31, 2024

ASSETS

Cash	\$ 1,294,356
Contributions receivable:	
Government grants	2,374,811
Operating contributions receivable, net	410,407
Receivable due from Montrose Counseling Center Permanent	
Endowment, Inc. (Note 6)	78,599
Due from partnership (Note 4)	695,454
Prepaid expenses and other assets	495,618
Developer fee receivable (Note 4)	1,098,927
Partnership loan receivable (Note 4)	9,871,928
Operating lease – right-of-use asset (Note 7)	<u>2,234,889</u>
TOTAL ASSETS	<u>\$ 18,554,989</u>

LIABILITIES AND NET ASSETS

Liabilities:	
Accounts payable and accrued expenses	\$ 414,781
Refundable advance – special event	90,150
Lease liabilities (Note 7)	2,225,686
Deferred payment loans (Note 5)	<u>5,600,000</u>
Total liabilities	<u>8,330,617</u>
Net assets:	
Without donor restrictions	7,736,999
With donor restrictions (Note 8)	<u>2,487,373</u>
Total net assets	<u>10,224,372</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 18,554,989</u>

See accompanying notes to financial statements.

the Montrose Center (Parent-Only)

Statement of Activities for the year ended August 31, 2024

	WITHOUT DONOR RESTRICTIONS	WITH DONOR RESTRICTIONS	TOTAL
REVENUE:			
Contributions and grants:			
Government grants (Note 9)		\$ 6,914,592	\$ 6,914,592
Other contributions	\$ 1,007,176	735,660	1,742,836
United Way allocation		538,094	538,094
Nonfinancial contributions (Note 10)	301,064		301,064
Loss on valuation of contributions receivable		(65,815)	(65,815)
Special events revenue	515,115	32,512	547,627
Direct donor benefits	(150,427)	(20,940)	(171,367)
Client fees	843,871		843,871
Partnership administrative fee	193,623		193,623
Other income	<u>191,082</u>		<u>191,082</u>
Total revenue	2,901,504	8,134,103	11,035,607
Net assets released from restrictions:			
Government grant program expenditures	6,914,592	(6,914,592)	
Other program expenditures	<u>1,505,636</u>	<u>(1,505,636)</u>	
Total	<u>11,321,732</u>	<u>(286,125)</u>	<u>11,035,607</u>
EXPENSES:			
Program expenses:			
Case Management	5,330,412		5,330,412
Chemical Dependency	1,219,391		1,219,391
LIFE	1,096,461		1,096,461
Anti-Violence	807,474		807,474
Youth	449,677		449,677
Community Center Services	355,839		355,839
HIV/AIDS	312,303		312,303
Senior	<u>170,576</u>		<u>170,576</u>
Total program expenses	9,742,133		9,742,133
Management and general	575,902		575,902
Fundraising	<u>771,552</u>		<u>771,552</u>
Total expenses	<u>11,089,587</u>		<u>11,089,587</u>
CHANGES IN NET ASSETS	232,145	(286,125)	(53,980)
Net assets, beginning of year (Note 2)	<u>7,504,854</u>	<u>2,773,498</u>	<u>10,278,352</u>
Net assets, end of year	<u>\$ 7,736,999</u>	<u>\$ 2,487,373</u>	<u>\$ 10,224,372</u>

See accompanying notes to financial statements.

the Montrose Center (Parent-Only)

Statement of Functional Expenses for the year ended August 31, 2024

	CASE MANAGEMENT	CHEMICAL DEPENDENCY	LIFE	ANTI- VIOLENCE	YOUTH	COMMUNITY CENTER SERVICES	HIV/AIDS	SENIOR	MANAGEMENT AND GENERAL	FUNDRAISING	TOTAL EXPENSES
Salaries	\$ 2,004,634	\$ 736,539	\$ 829,686	\$ 417,478	\$ 199,435	\$ 193,204	\$ 205,788	\$ 83,788	\$ 239,011	\$ 495,774	\$ 5,405,337
Client assistance	2,617,658	338		200,937	128,375	29,528		9,289			2,986,125
Occupancy	234,277	84,151	62,395	48,241	26,539	21,875	22,726	9,751	55,537	21,520	587,012
Employee benefits	157,878	82,352	59,193	42,908	13,236	15,824	21,366	14,946	2,543	49,450	459,696
Payroll taxes	156,054	57,726	55,815	33,311	15,893	15,104	15,987	6,671	18,157	38,867	413,585
Contract services	48,615	155,885	12,477	9,584	5,430	66,288	6,644	3,521	86,888	3,341	398,673
Supplies	37,840	21,089	13,350	6,757	32,218	3,011	3,646	7,366	5,445	101,435	232,157
Bad debt		2,986	9,317	2,700			1,963	1,612	147,433		166,011
In-kind professional services		24,988	24,988	24,988			24,988	11,043			110,995
Local travel	27,811	20,230	123	1,474	3,564	2,162	17	198	855	1,759	58,193
Telephone	13,189	14,697	3,637	3,546	2,184	1,202	1,253	7,330	426	1,163	48,627
Depreciation	11,509	2,741	2,533	1,900	1,001	783	785	456	357	1,324	23,389
Professional development	2,257	4,082	7,722	1,726	1,376	25	2,724	76	255	1,910	22,153
Printing	2,419	1,240	213	120	233	129	16	7,804	448	409	13,031
Equipment rental and purchases	3,977	1,430	1,526	809	442	367	385	559		363	9,858
Postage	1,674	616	398	323	162	1,120	142	80	84	138	4,737
Other	10,620	8,301	13,088	10,672	19,589	5,217	3,873	6,086	18,463	54,099	150,008
Total expenses	<u>\$ 5,330,412</u>	<u>\$1,219,391</u>	<u>\$1,096,461</u>	<u>\$ 807,474</u>	<u>\$ 449,677</u>	<u>\$ 355,839</u>	<u>\$ 312,303</u>	<u>\$ 170,576</u>	<u>\$ 575,902</u>	<u>\$ 771,552</u>	<u>\$11,089,587</u>
Grant reimbursed management expenses by program	\$107,460	\$23,562	\$12,877	\$21,834	\$8,648	\$4,956	\$6,106	\$10,164			

See accompanying notes to financial statements.

the Montrose Center (Parent-Only)

Statement of Cash Flows for the year ended August 31, 2024

CASH FLOWS FROM OPERATING ACTIVITIES:

Changes in net assets	\$ (53,980)
Adjustments to reconcile changes in net assets to net cash used by operating activities:	
Depreciation	23,389
Amortization of right-of-use asset	451,334
Changes in operating assets and liabilities:	
Receivables	(392,151)
Prepaid expenses and other assets	(27,777)
Accounts payable and accrued expenses	(220,449)
Refundable advance – special event	90,150
Lease liabilities	<u>(449,210)</u>
Net cash used by operating activities	<u>(578,694)</u>
NET CHANGE IN CASH	(578,694)
Cash, beginning of year	<u>1,873,050</u>
Cash, end of year	<u>\$ 1,294,356</u>

See accompanying notes to financial statements.

the Montrose Center (Parent-Only)

Notes to Financial Statements for the year ended August 31, 2024

NOTE 1 – ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Organization – the Montrose Center (the 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 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 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.

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.

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.

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

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

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

Community Center Services include educational programs that provide current and accessible information on HIV, sexually transmitted infections, chemical dependency, hepatitis and tuberculosis, and offer seminars on issues such as homophobia, heterosexism and cultural sensitivity. the Center also provides anti-violence education. The programs provide education and training not only to LGBT individuals, but to the greater Houston metropolitan area as a whole. These services are provided in prisons, half-way houses, inpatient and outpatient recovery centers, schools, social organizations, businesses and corporations, community and neighborhood groups, to health care and legal professionals, churches and families. Community center programs also include women’s services, which includes AssistHers, Lesbian Health Initiative, and Kindred Spirits. AssistHers provides a network of support to lesbian women struggling with debilitating or life-threatening illnesses in order for them to live as normally as possible, educates lesbian women and others about important health issues and eradicates discrimination and breaks down barriers which lesbians face when accessing health and social service systems. Lesbian Health Initiative works to illuminate and eliminate barriers to accessing health care for lesbians and trans men through advocacy, professional and community education and case management. Kindred Spirits is an annual celebration dance supporting women and their friends.

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

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

Federal income tax status – the 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).

Basis of presentation – The consolidated financial statements of the Center, which are not presented here, are the general-purpose financial statements of the Center. These parent-only financial statements include only the assets, liabilities, net assets, and activities of the Center and do not include the assets, liabilities, net assets or activities of 2222 Cleburne, GP (GP) and 2222 Cleburne, LP (the Partnership). Balances and transactions between the Center, the GP and the Partnership have not been eliminated in these parent-only financial statements. These parent-only financial statements are not a substitute for the consolidated financial statements.

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 Center provides an allowance for contributions receivable when it believes balances may not be collected in full. the 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. Contributions receivable at August 31, 2024 are all due within one year.

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 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.

As of August 31, 2024, the Center has approximately \$6,800,000 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.

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 Center has no contract assets or deferred revenue from client fees at August 31, 2024 or 2023.

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.

NOTE 2 – RESTATEMENT OF BEGINNING NET ASSETS

Prior to Accounting Standards Update (ASU) 2018-08, Not-For-Profit Entities (Topic 958): *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, conditions related to conditional contributions were considered satisfied and revenue was recognized when the likelihood of not meeting the conditions was remote. The Center recognized revenue for refundable government loans as they assessed the likelihood of not meeting the conditions, primarily continuing to operate the property as an affordable housing facility for a stated period, was remote. ASU 2018-08 removed the probability assessment, and refundable government loans received after adoption of ASU 2018-08 beginning on January 1, 2019 should have been recognized as a deferred payment (forgivable) loan rather than grant revenue. In accordance with this change, beginning net assets without donor restrictions at August 31, 2023 were decreased by \$5.6 million and deferred payment loans increased by \$5.6 million, to correctly reflect the adoption of the ASU (See Deferred Payment Loans in Note 5).

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, 2024 are as follows:

Financial assets:

Cash	\$ 1,294,356
Government grants and other contributions receivable	2,785,218
Client fees receivable, net	67,719
Other receivables	78,599
Due from partnership	695,454
Developer fee receivable	1,098,927
Partnership loan receivable	<u>9,871,928</u>

Total financial assets	15,892,201
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Less:

Donor-restricted net assets not expected to be satisfied in coming year	(703,421)
Due from partnership	(695,454)
Developer fee receivable	(1,098,927)
Partnership loan receivable	(9,871,928)
Funds held for others	<u>(47,613)</u>

Total financial assets available for general expenditure	<u>\$ 3,474,858</u>
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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. 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 – LAW HARRINGTON SENIOR LIVING CENTER

the Center is the sole member of 2222 Cleburne, GP (GP), a Texas limited liability corporation. GP is the general partner of 2222 Cleburne, LP (the Partnership), a domestic limited partnership formed to develop a 112-unit affordable senior housing project, 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 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. The financial activity of the GP and Partnership are not included in these financial statements.

Due from Partnership

The Partnership agreement was signed on June 20, 2019. This agreement includes a resident service fee to be paid annually to the Center at a rate of \$20 per unit beginning when the 112 units are put into service. This amount increases by 3% per year. Currently there is approximately \$112,000 of this fee included in due from Partnership. The remainder due from the Partnership are amounts advanced by the Center for operating expenses of the Partnership.

Developer Fee Receivable

the Center is a co-developer of the Living Center and entered into a developer agreement with Covenant Community Capital (co-developer) and the Partnership. Under this agreement, the Center would receive \$1,135,567 in developer fees. At August 31, 2024, the Partnership liability to the Center is \$1,098,927.

Partnership Loan Receivable (Sponsor Loans)

In connection with the Partnership agreement, the Center and the Partnership, entered into a sponsor loan agreement to lend \$5,100,000 of funds provided by the City of Houston to the Center to develop multi-family affordable housing. The agreement will mature 30 years after the completion of the affordable housing project. The note does not bear interest. No payment of principal shall be payable except in the case of default as defined by the Partnership agreement.

On June 20, 2019, the Center and the Partnership signed a loan agreement for the Center to loan the Partnership up to \$3,650,000. These funds were derived from private contributions donated to the Center for this project. Unpaid principal shall bear interest at the rate of 4.5%. The terms are that the note and unpaid interest are due 30 years after the completion of the affordable housing project. Interest receivable of approximately \$622,000 is included with the principal.

On May 27, 2021, the Center and the Partnership entered into a loan agreement for the Center to loan the Partnership \$500,000 that the Center received from the Federal Home Loan Bank of Atlanta to fund the construction of the Living Center Project. The note does not bear interest and is due in 30 years after the completion of the affordable housing project.

If the Center operates the property for low-income housing for a total period of 30 years (2049) it will be granted an absolute and exclusive 18 month right of first refusal to purchase the Project at the end of the Tax Credit Compliance Period, for the price to equal the sum of (a) all outstanding Limited Partnership debt, including Limited Partner loans, (b) any state, local or federal taxes projected to be imposed upon the Limited Partner as a result of the sale, and (c) any unpaid portion of any Credit Adjuster payments due and owing to the Limited Partner. No disposition fee will be charged upon a disposition via right of first refusal.

Deferred Payment Loans

In 2019, the Center entered into a \$5,100,000 deferred payment (forgivable) loan agreement with the City to provide local government funding for a loan to be made by the Center to the Partnership to fund a portion of the construction costs for the Living Center. Under the terms of the agreement, the loan will be forgiven 30 years after completion of the facility (in 2049), provided the Partnership complies with the provisions of the agreement and the compliance requirements of the Partnership agreement. Under this agreement, no interest is due except in cases of default. The forgivable loan from the City is secured by a security interest in all the rights and interests in the Center's collateral note with the Partnership and by a lien against the property.

In 2021, the Center received a \$500,000 deferred payment (forgivable) loan from the Federal Home Loan Bank of Dallas to fund a portion of the construction costs for the Living Center. Under the terms of the agreement, principal will be forgiven 30 years after completion of the facility (in 2049), provided the Partnership continues to comply with the terms of the partnership agreement. The note is secured by a deed of trust. At August 31, 2023, the outstanding forgivable loan balance was \$500,000. There is net interest due on the forgivable loan.

Interest expense is not imputed for no interest and below market interest notes affected by tax attributes on legal restrictions prescribed by a government agency.

NOTE 5 – COMMITMENTS AND CONTINGENCIES

The Partnership was funded from federal low-income housing tax credits (HTC) that are contingent on its ability to maintain compliance with §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 the Partnership has been funded through governmental grants or deferred payment (forgivable) loans totaling \$5,600,000. 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 Center would be responsible for refunding all or a portion of these proceeds to the government.

NOTE 6 – 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, 2030. 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 2030. At August 31, 2024 and 2023, the Center had receivables from the Endowment in the amounts of \$78,999.

NOTE 7 – OPERATING LEASE

The Center leases office space under a non-cancelable operating lease with the Endowment. 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.

During 2024, the lease cost associated with operating leases was \$569,172. Cash paid for amounts included in the measurement of operating lease liability for the year ended August 31, 2024 was \$567,048.

The weighted-average term and discount rates for the operating leases outstanding at August 31, 2024 are as follows:

Weighted-average remaining lease term	51 months
Weighted-average discount rate	4.79%

Undiscounted cash flows related to operating leases as of August 31, 2024 are as follows:

2025	\$ 567,048
2026	567,048
2027	567,048
2028	567,048
2029	<u>189,016</u>
Total undiscounted cash flows	2,457,208
Less discount to present value	<u>(231,522)</u>
Total discount to present value of lease liabilities	<u>\$ 2,225,686</u>

NOTE 8 – NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions at August 31, 2024 are restricted as follows:

Subject to expenditure for specified purpose:	
Hatch Youth program	\$ 586,607
Homelessness prevention – youth rapid rehousing	415,998
Disaster relief	354,038
United Way allocation	316,406
Safe Zones program	282,666
Transgender Wellness program	215,997
Electronic medical records	172,511
Senior services	76,667
COVID Relief	28,323
Other	<u>38,160</u>
Total net assets with donor restrictions	<u>\$ 2,487,373</u>

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 at August 31, 2024 include the following:

Federal grants:

U. S. Department of Health and Human Services	\$ 3,159,380
U. S. Department of Housing and Urban Development	2,536,367
U. S. Department of the Treasury	307,976
U. S. Department of Justice	<u>236,875</u>
Total federal grants	<u>6,240,598</u>

State grants:

Texas Department of State Health Services	530,849
Texas Office of the Attorney General	106,247
Texas Health and Human Services Commission	<u>36,898</u>
Total state grants	<u>673,994</u>

Total government grants	<u>\$ 6,914,592</u>
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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, 2024:

Professional counselors (program)	\$ 110,993
Special event items (direct donor benefits)	41,607
Program food supplies	27,308
Other items utilized in programs	<u>121,156</u>
Total contributed nonfinancial assets	<u>\$ 301,064</u>

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 – 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 \$54,000 to this plan in 2024.

NOTE 12 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through February 18, 2025, 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 (Parent-Only)

Schedule of Expenditures of Federal Awards for the year ended August 31, 2024

<u>GRANTOR</u>		<u>Assistance</u>					<u>Other</u>
<u>Pass-through Grantor</u>		<u>Listing</u>	<u>Grant</u>	<u>Award</u>		<u>Federal</u>	<u>Allowable</u>
<u>Program Title & Period</u>		<u>Number</u>	<u>Number</u>	<u>Amount</u>	<u>Revenue</u>	<u>Expenses</u>	<u>Expenses</u>
U. S. DEPARTMENT OF HEALTH AND HUMAN SERVICES							
Passed through City of Houston Department of Health and Human Services Area Agency on Aging:							
Special Programs for the Aging, Title III, Part B							
Grants for Supportive Services and Senior Centers (Aging Cluster)							
#1	10/01/22 – 09/30/23	93.044	4600015192	\$15,000	\$ 144	\$ 144	\$ 386
#2	10/01/23 – 09/30/24	93.044	4600015192	\$6,480	<u>4,320</u>	<u>4,320</u>	<u>1,503</u>
					<u>4,464</u>	<u>4,464</u>	<u>1,889</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	10/01/22 – 09/30/23	93.045	3618	\$20,727	1,556	1,556	4,162
#4	10/01/23 – 09/30/24	93.045	3618	\$17,625	<u>22,727</u>	<u>22,727</u>	<u>46,219</u>
					<u>24,283</u>	<u>24,283</u>	<u>50,381</u>
Passed through The Center for Success and Independence:							
Affordable Care Act (ACA) Personal Responsibility Education Program							
#5	10/01/22 – 09/30/23	93.092	N/A	\$240,878	<u>7,774</u>	<u>7,758</u>	
					<u>7,774</u>	<u>7,758</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							
#6	08/01/23 – 07/31/24	93.153	24TMC00RWD	\$25,618	24,147	24,147	
#7	08/01/24 – 07/31/25	93.153	25TMC00RWD	\$25,618	<u>2,123</u>	<u>2,123</u>	
					<u>26,270</u>	<u>26,270</u>	
Passed through Texas Health and Human Services Commission:							
Social Services Block Grant							
#8	09/01/23 – 08/31/24	93.667	HHS000380000064	\$4,105	2,656	2,656	
Family Violence Prevention and Services/Domestic Violence Shelter and Supportive Services							
#9	09/01/23 – 08/31/24	93.671	HHS000380000064	\$29,348	18,989	18,989	
Family Violence Prevention and Services/Domestic Violence Shelter and Supportive Services							
American Rescue Plan (ARP)							
#10	09/01/23 – 08/31/24	93.671	HHS000380000064	\$7,543	13,301	13,301	
Family Violence Prevention and Services/Domestic Violence Shelter and Supportive Services							
ARP COVID-19 Testing							
#11	09/01/23 – 08/31/24	93.671	HHS000380000064	\$19,356	30,993	30,993	
Temporary Assistance for Needy Families							
#12	09/01/23 – 08/31/24	93.558	HHS000380000064	\$68,136	72,336	72,336	
Block Grants for Prevention and Treatment of Substance Abuse							
Recovery Support Services							
#13	09/01/23 – 08/31/24	93.959	HHS000130500013	\$172,671	110,000	110,000	
Block Grants for Prevention and Treatment of Substance Abuse							
Substance Abuse Treatment							
#14	09/01/23 – 10/31/24	93.959	HHS000663700051	\$3,750	716	1,498	
#15	11/01/23 – 08/31/24	93.959	HHS000663700051	\$11,250	<u>944</u>	<u>883</u>	
					<u>249,935</u>	<u>250,656</u>	

(continued)

the Montrose Center (Parent-Only)

Schedule of Expenditures of Federal Awards for the year ended August 31, 2024

(continued)

<u>GRANTOR</u>	<u>Assistance</u>						
<u>Pass-through Grantor</u>	<u>Listing</u>	<u>Grant</u>	<u>Award</u>		<u>Federal</u>	<u>Other</u>	
<u>Program Title & Period</u>	<u>Number</u>	<u>Number</u>	<u>Amount</u>	<u>Revenue</u>	<u>Expenses</u>	<u>Allowable</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							
#16 09/01/23 – 08/31/24	93.959	HHS001196700002	\$19,785	<u>10,386</u>	<u>10,386</u>		
Passed through Baylor College of Medicine:							
PPHF Geriatric Education Centers							
Geriatrics Workforce Enhancement Program							
#17 07/01/19 – 06/30/24	93.969	U1QHP330680100	\$25,480	<u>5,734</u>	<u>5,734</u>		
Direct Federal Funding:							
Substance Abuse and Mental Health Services Projects of Regional and National Significance							
Sexual Health In Recovery							
#18 09/30/22 – 09/29/23	93.243	5H79T1082483-04	\$500,000	472,662	472,662		
#19 09/30/23 – 09/29/24	93.243	5H79T1082483-05	\$500,000	43,425	43,425		
HIV Field Navigation							
#20 08/31/23 – 08/30/24	93.243	6H79SP082234-01	\$200,000	<u>183,769</u>	<u>183,769</u>		
				<u>699,856</u>	<u>699,856</u>		
Direct Federal Funding:							
Mental and Behavioral Health Education and Training Grants							
Behavioral Health Workforce Education and Training Program							
#21 09/01/23 – 08/31/43	93.732	5M01HP42445-02	\$496,550	<u>210,695</u>	<u>210,695</u>		
Passed through The University of Texas Health Science Center at Houston:							
Opioid STR							
#22 09/01/23 – 08/31/24	93.788	HHS000563200001	\$105,796	<u>81,797</u>	<u>81,797</u>		
Passed through The University of Texas Health Science Center at San Antonio:							
Opioid STR							
#23 09/01/23 – 08/31/24	93.788	HHS001054500001	\$106,500	<u>102,808</u>	<u>102,808</u>		
Passed through Harris County:							
HIV Emergency Relief Project Grants							
Emergency Financial Assistance							
#24 03/01/23 – 02/29/24	93.914	23GEN0417	\$1,564,717	474,899	474,899	104,750	
#25 03/01/24 – 02/29/25	93.914	24GEN0702	\$1,021,445	348,027	348,027	64,875	
HIV Emergency Relief Project Grants							
Case Management							
#26 03/01/23 – 02/29/24	93.914	23GEN0373	\$389,940	152,911	152,911	8,518	
#27 03/01/24 – 02/29/25	93.914	24GEN0701	\$265,313	136,756	136,756	23,869	
HIV Emergency Relief Project Grants							
Substance Abuse							
#28 03/01/23 – 02/29/24	93.914	23GEN0374	\$25,000	12,881	12,881	6,512	
#29 03/01/23 – 02/29/24	93.914	24GEN0700	\$25,000	<u>9,278</u>	<u>9,278</u>	<u>8,146</u>	
				<u>1,134,752</u>	<u>1,134,752</u>	<u>216,670</u>	

(continued)

the Montrose Center (Parent-Only)

Schedule of Expenditures of Federal Awards for the year ended August 31, 2024

(continued)

<u>GRANTOR</u>	<u>Assistance</u>	<u>Grant</u>	<u>Award</u>	<u>Revenue</u>	<u>Federal</u>	<u>Other</u>
<u>Pass-through Grantor</u>	<u>Listing</u>	<u>Number</u>	<u>Amount</u>		<u>Expenses</u>	<u>Allowable</u>
<u>Program Title & Period</u>	<u>Number</u>	<u>Number</u>	<u>Amount</u>		<u>Expenses</u>	<u>Expenses</u>

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

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	04/01/23 – 03/31/24	93.939	6NU65PS923748	\$400,000	154,445	154,445
#31	04/01/24 – 03/31/25	93.939	6NU65PS923748	\$400,000	<u>75,652</u>	<u>75,652</u>
					<u>230,097</u>	<u>230,097</u>

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

HIV Prevention Activities Health Department Based						
City – Community PROMISE						
#32	07/01/23 – 12/31/23	93.940	4600015911	\$60,060	34,202	34,202
#33	01/01/24 – 06/30/24	93.940	4600015911	\$60,060	52,033	52,033
#34	07/01/24 – 07/31/24	93.940	4600015911	\$10,010	<u>16,946</u>	<u>16,946</u>
					<u>103,181</u>	<u>103,181</u>

Passed through Texas Department of State Health Services:

HIV Care Formula Grants						
HIV/MAI HIV – Minority AIDS Initiative						
#35	04/01/23 – 03/31/24	93.917	HHS000689400002	\$316,343	154,544	154,544
#36	04/01/24 – 03/31/25	93.917	HHS000689400002	\$316,343	<u>112,804</u>	<u>112,804</u>
					<u>267,348</u>	<u>267,348</u>

Total U. S. Department of Health and Human Services					<u>3,159,380</u>	<u>3,160,085</u>	<u>268,940</u>
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U. S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

Passed through City of Houston Housing and Community Development Department:

Housing Opportunities for Persons with AIDS						
#37	07/01/23 – 06/30/24	14.241	4600017788	\$2,461,386	1,719,940	1,719,940
Housing Opportunities for Persons with AIDS						
#38	07/01/24 – 06/30/25	14.241	4600017788	\$2,523,830	<u>359,215</u>	<u>359,215</u>
					<u>2,079,155</u>	<u>2,079,155</u>

Passed through Houston Housing Authority:

Continuum of Care Program						
Rapid Rehousing and Transition Age Youth Case Management Services						
#39	12/01/22 – 11/30/23	14.267	TX0428L6E001803	\$169,000	<u>18,825</u>	<u>18,825</u>

(continued)

the Montrose Center (Parent-Only)

Schedule of Expenditures of Federal Awards for the year ended August 31, 2024

(continued)

<u>GRANTOR</u>		<u>Assistance</u>					<u>Other</u>
<u>Pass-through Grantor</u>		<u>Listing</u>	<u>Grant</u>	<u>Award</u>		<u>Federal</u>	<u>Allowable</u>
<u>Program Title & Period</u>		<u>Number</u>	<u>Number</u>	<u>Amount</u>	<u>Revenue</u>	<u>Expenses</u>	<u>Expenses</u>
U. S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT (continued)							
Direct Federal Funding:							
Continuum of Care Program							
Permanent Housing Program							
#40	10/01/22 – 09/30/23	14.267	TX0171L6E002114	\$177,118	1,694	1,694	
#41	10/01/23 – 09/30/24	14.267	TX0171L6E002215	\$177,118	<u>159,572</u>	<u>159,572</u>	
					<u>161,266</u>	<u>161,266</u>	
Passed through The Way Home:							
Continuum of Care Program							
Youth Homeless Demonstration Program							
#42	11/01/22 – 10/31/24	14.267	TX0652Y6E002000	\$472,011	<u>164,510</u>	<u>164,510</u>	
Passed through Coalition for the Homeless:							
Continuum of Care Program							
Youth Homeless Demonstration Program							
#43	11/01/22 – 10/31/24	14.267	TX0652Y6E002000	\$514,083	<u>112,611</u>	<u>112,611</u>	
Total U. S. Department of Housing and Urban Development					<u>2,536,367</u>	<u>2,536,367</u>	
U. S. DEPARTMENT OF THE TREASURY							
Passed through Harris County:							
COVID-19 – Coronavirus State and Local Fiscal Recovery Funds							
#44	01/31/23 – 01/30/25	21.027	23GEN0159	\$501,550	286,401	286,401	1,984
#45	03/14/23 – 03/13/25	21.027	N/A	\$77,500	<u>21,575</u>	<u>20,780</u>	
Total U. S. Department of the Treasury					<u>307,976</u>	<u>307,181</u>	<u>1,984</u>
U. S. DEPARTMENT OF JUSTICE							
Passed through Texas Office of the Governor, Criminal Justice Division:							
Violence Against Women Formula Grants							
#46	10/01/22 – 12/31/23	16.588	16934-17	\$265,672	89,148	89,148	
#47	10/01/23 – 09/30/24	16.588	16934-18	\$250,529	<u>147,727</u>	<u>147,727</u>	
Total U. S. Department of Justice					<u>236,875</u>	<u>236,875</u>	
TOTAL FEDERAL AWARDS					<u>\$6,240,598</u>	<u>\$6,240,508</u>	<u>\$ 270,924</u>

(continued)

the Montrose Center (Parent-Only)

Schedule of Expenditures of Federal Awards for the year ended August 31, 2024

(continued)

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>
14.241	Housing Opportunities for Persons with AIDS	\$ 2,079,155
14.267	Continuum of Care Program	457,212
16.588	Violence Against Women Formula Grants	236,875
21.027	COVID-19 Coronavirus State and Local Fiscal Recovery Funds	307,181
93.044, 93.045	Aging Cluster	28,747
93.092	Affordable Care Act (ACA) Personal Responsibility Education Program	7,758
93.153	Coordinated Services and Access to Research for Women, Infants, Children and Youth	26,270
93.243	Substance Abuse and Mental Health Services Projects of Regional and National Significance	699,856
93.558	Temporary Assistance for Needy Families	72,336
93.667	Social Services Block Grant	2,656
93.671	Family Violence Prevention and Services	63,283
93.732	Mental and Behavioral Health Education and Training Grants	210,695
93.788	Opioid STR	184,605
93.914	HIV Emergency Relief Project Grants	1,134,752
93.917	HIV Care Formula Grants	267,348
93.939	HIV Prevention Activities Non-Governmental Organization Based	230,097
93.940	HIV Prevention Activities Health Department Based	103,181
93.959	Block Grants for Prevention and Treatment of Substance Abuse	122,767
93.969	PPHF Geriatric Education Centers	<u>5,734</u>
Total		<u>\$ 6,240,508</u>

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

the Montrose Center (Parent-Only)

Note to Schedule of Expenditures of Federal Awards for the year ended August 31, 2024

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation – The schedules of expenditures of federal 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 expenses include allowable expenses funded by federal grants. All allowable costs are subject to the cost principles of the Uniform Guidance, 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, 2024 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 February 18, 2025.

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.

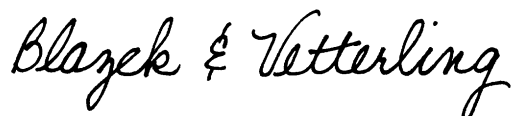
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies 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 deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as item #2024-001 and #2024-002 that we consider to be significant deficiencies.

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.



February 18, 2025

**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 (the Center) 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 Center's major federal programs for the year ended August 31, 2024. the 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 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, 2024.

Basis for Opinion on Each Major and Major State 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 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 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 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 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 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 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 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 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.

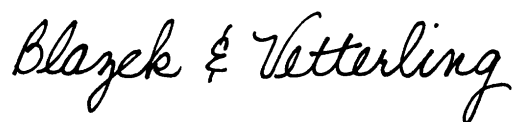
Report on Internal Control Over Compliance

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.



February 18, 2025

the Montrose Center (Parent-Only)

Schedule of Findings and Questioned Costs for the year ended August 31, 2024

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)? ☐ 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

21.027

COVID-19 Coronavirus State and Local Fiscal Recovery Funds

93.914

HIV Emergency Relief Project Grants

Dollar threshold used to distinguish between Type A and Type B Federal programs:

\$750,000

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

Section II – Financial Statement Findings

Finding #2024-001 – Significant Deficiency

Criteria: The management of the Center is responsible for establishing a system of internal control over financial reporting for client fees to ensure they are reported in accordance with generally accepted accounting principles.

Condition and context: the Center's system of internal control over client fee receivables is not sufficient to ensure that all receivables are reconciled to the billing subledgers and analyzed to support the necessary allowance for uncollectible accounts.

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

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

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

Finding #2024-002 – Significant Deficiency (repeat finding #2023-001)

Criteria: The management of the Center is responsible for establishing a system of internal control over financial reporting for contributions receivable and the related revenues.

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. Adjustments were recorded to contributions receivables and certain contributions were noted that should have been recorded in the previous year.

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 for contributions 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).



the
Montrose
Center

CORRECTIVE ACTION PLAN

February 18, 2025

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, 2024 schedule of findings and questioned costs are discussed below. The findings are numbered consistently with the numbers assigned in the schedule.

FINANCIAL STATEMENT AND FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Finding #2024-001 – Significant Deficiency

Condition and context: the Center's system of internal control over client fee receivables is not sufficient to ensure that all receivables are reconciled to the billing subledger and analyzed to support the necessary allowance for uncollectible accounts.

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

Planned corrective action: Develop and implement a standardized monthly reconciliation template between client fees receivable and the client billing subledgers, which includes total fees billed for the month and all payments made on the previous months' detail billing subledger.

Responsible officer: Amir Yunus, Chief Financial Officer, Gary Powers, Finance Director and Lacey Martin, Revenue Cycle Specialist

Estimated completion date: February 28, 2025

Finding #2024-002 – Significant Deficiency (repeat finding #2023-001)

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. Adjustments were recorded to contributions receivables and certain contributions were noted that should have been recorded in the previous year.

Recommendation: Implement procedures to reconcile the donor database for contributions 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: Management is working to reconfigure the system reporting in the donor database in order to track contributions receivable and facilitate timely reporting to the Finance Department. Additionally, procedures will be implemented to reconcile the donor database and the general ledger on a monthly basis.

Responsible officer: Amir Yunus, Chief Financial Officer and Kelly Nicholls, Chief Development Officer (joint responsibility)

Estimated completion date: March 15, 2025

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

Sincerely,

Avery Belyeu

Avery Belyeu, Chief Executive Officer



Summary Schedule of Prior Audit Findings

The following audit finding for the year ended August 31, 2023 is required to be reported in accordance with 2 CFR §200.511.

Finding #2023-001 – Significant Deficiency

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.

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.

Planned corrective action: the Center 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.

Management’s 2024 follow-up response: the Center will prioritize implementing policies and procedures in response to this repeat finding.