

**Houston Recovery Center, LGC**  
**(A Component Unit of the City of Houston)**

Financial Statements  
and Independent Auditors' Report  
for the years ended June 30, 2018 and 2017

# Houston Recovery Center, LGC

## Table of Contents

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|                                                                                                                                                | Page |
|------------------------------------------------------------------------------------------------------------------------------------------------|------|
| <b>Independent Auditors' Report</b>                                                                                                            | 1    |
| <b>Management's Discussion and Analysis (unaudited)</b>                                                                                        | 3    |
| <b>Audited Financial Statements:</b>                                                                                                           |      |
| Governmental Fund Balance Sheet and Statement of Net Position as of June 30, 2018                                                              | 6    |
| Governmental Fund Balance Sheet and Statement of Net Position as of June 30, 2017                                                              | 7    |
| Governmental Fund Statement of Revenue, Expenditures, and Changes in Fund Balance and Statement of Activities for the year ended June 30, 2018 | 8    |
| Governmental Fund Statement of Revenue, Expenditures, and Changes in Fund Balance and Statement of Activities for the year ended June 30, 2017 | 9    |
| Notes to Financial Statements for the years ended June 30, 2018 and 2017                                                                       | 10   |

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## Independent Auditors' Report

To the Board of Directors of  
Houston Recovery Center, LGC:

We have audited the accompanying financial statements of the governmental activities of Houston Recovery Center, LGC (a component unit of the City of Houston), as of and for the years ended June 30, 2018 and 2017 and the related notes to the financial statements, which comprise Houston Recovery Center, LGC's basic financial statements as listed in the table of contents.

### *Management's Responsibility for the Financial Statements*

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

### *Auditors' Responsibility*

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

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

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

### *Opinion*

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities of Houston Recovery Center, LGC, as of June 30, 2018 and 2017, and the changes in its financial position for the years then ended in accordance with accounting principles generally accepted in the United States of America.

***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 3-5 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Blazek & Vetterling*

September 20, 2018

**Houston Recovery Center, LGC**  
**Management's Discussion and Analysis**  
**For the years ended June 30, 2018 and 2017**  
**(unaudited)**

The following discussion and analysis of Houston Recovery Center, LGC's (Houston Recovery Center) financial performance provides an overview of the financial activities for the years ended June 30, 2018 and 2017. This discussion should be read in conjunction with Houston Recovery Center's financial statements, which follow this section.

**Financial Highlights**

Financial highlights for the fiscal year ended June 30, 2018 include:

- The assets of Houston Recovery Center exceeded its liabilities by \$984 thousand on the governmental fund and government-wide financial statements.
- Houston Recovery Center's total fund balance increased and total net position increased by \$290 thousand during the year.
- \$2.4 million of Houston Recovery Center's expenses were program expenses in connection with its sobriety center.
- Houston Recovery Center recognized revenue of \$2.7 million in grants from the City of Houston (the City) and \$304 thousand in grants from other local governments in its statement of activities.

Financial highlights for the fiscal year ended June 30, 2017 include:

- The assets of Houston Recovery Center exceeded its liabilities by \$694 thousand on the governmental fund and government-wide financial statements.
- Houston Recovery Center's total fund balance increased by \$10 thousand and total net position decreased by \$444 thousand during the year.
- \$2.5 million of Houston Recovery Center's expenses were program expenses in connection with its sobriety center.
- Houston Recovery Center recognized revenue of \$2.1 million in grants from the City and \$172 thousand in grants from other local governments in its statement of activities.

**Overview of the Financial Statements**

This discussion and analysis is intended to serve as an introduction to Houston Recovery Center's basic financial statements. The basic financial statements present combined government-wide and governmental fund financial statements. The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the basic financial statements.

*Government-wide financial statements* reflect an economic resources measurement focus and are prepared using the accrual basis of accounting. The government-wide financial statements are designed to provide readers with a broad overview of Houston Recovery Center's finances, in a manner similar to a private-sector business.

The statement of net position shows the financial position of Houston Recovery Center at year end by presenting Houston Recovery Center's assets and liabilities, with net position representing the difference between assets and liabilities. The statement of activities presents information showing changes in Houston Recovery Center's net position during the year. Changes in net position are reported when an underlying event giving rise to a change occurs, regardless of the timing of related cash flows. Therefore, revenue and expenses are reported in this statement for some items that will not result in cash flows until future fiscal periods.

**Governmental fund financial statements** reflect a current financial resources measurement focus and are prepared using the modified accrual basis of accounting. Unlike the government-wide financial statements, the governmental fund financial statements present information showing the near-term inflows and outflows of spendable resources and the balances of spendable resources at year end. At June 30, 2017, there is a difference between the government-wide financial statements and the government fund financial statements of \$453,333. The difference arose in fiscal year 2016 when Houston Recovery Center recognized a grant for which it was eligible in the government-wide financial statements. The grant was not available within 60 days of June 30, 2016, and therefore was not recognized in the government fund financial statements until fiscal year 2017. There are no differences between the government-wide and governmental fund financial statements in fiscal year 2018.

**Condensed Government-Wide Financial Information and Financial Analysis**

|                                              | AS OF JUNE 30       |                   |                     |
|----------------------------------------------|---------------------|-------------------|---------------------|
|                                              | <u>2018</u>         | <u>2017</u>       | <u>2016</u>         |
| <i>Condensed Statements of Net Position:</i> |                     |                   |                     |
| Total assets                                 | <u>\$ 1,148,973</u> | <u>\$ 743,816</u> | <u>\$ 1,208,694</u> |
| Total liabilities                            | <u>\$ 165,209</u>   | <u>\$ 49,604</u>  | <u>\$ 70,877</u>    |
| Total net position                           | <u>\$ 983,764</u>   | <u>\$ 694,212</u> | <u>\$ 1,137,817</u> |

The assets of Houston Recovery Center consist primarily of cash and government grant receivables. Liabilities consist primarily of operating expenses, including accrued salaries. The increase in assets at June 30, 2018, as compared to June 30, 2017, is the result of the variations in the amount and timing of recognition of governmental funding.

The decrease in assets at June 30, 2017, as compared to June 30, 2016, is the result of the costs incurred in Houston Recovery Center expanding its programs and variations and the amount and timing of recognition of governmental funding.

|                                                   | <u>FOR THE YEAR ENDED JUNE 30</u> |                   |                     |
|---------------------------------------------------|-----------------------------------|-------------------|---------------------|
|                                                   | <u>2018</u>                       | <u>2017</u>       | <u>2016</u>         |
| <i>Condensed Statements of Activities:</i>        |                                   |                   |                     |
| Expenses:                                         |                                   |                   |                     |
| Program services                                  | \$ 2,416,413                      | \$ 2,498,960      | \$ 2,333,994        |
| Management and general                            | 276,686                           | 245,640           | 202,960             |
| Fundraising                                       | <u>50,181</u>                     | <u>25,000</u>     | <u>          </u>   |
| Total expenses                                    | <u>2,743,280</u>                  | <u>2,769,600</u>  | <u>2,536,954</u>    |
| Revenue:                                          |                                   |                   |                     |
| Grant from City of Houston – interlocal agreement | 1,706,625                         | 1,712,056         | 1,712,056           |
| Grant from City of Houston – 1115 Waiver Program  |                                   |                   |                     |
| Funds (HDHHS) – performance-based                 | 959,999                           | 426,666           | 773,333             |
| Other government grants                           | 304,359                           | 172,117           |                     |
| Contributions                                     | 51,146                            | 8,349             | 12,362              |
| Other income                                      | <u>10,703</u>                     | <u>6,807</u>      | <u>3,548</u>        |
| Total revenue                                     | <u>3,032,832</u>                  | <u>2,325,995</u>  | <u>2,501,299</u>    |
| CHANGES IN NET POSITION                           | 289,552                           | (443,605)         | (35,655)            |
| Net position, beginning of year                   | <u>694,212</u>                    | <u>1,137,817</u>  | <u>1,173,472</u>    |
| Net position, end of year                         | <u>\$ 983,764</u>                 | <u>\$ 694,212</u> | <u>\$ 1,137,817</u> |

The statements of activities show the expenses and revenue of Houston Recovery Center and the corresponding effect on net position. The majority of Houston Recovery Center’s revenue is provided by grants from the City. Expenses remained consistent between the years ended June 30, 2018 and 2017, while revenue increased from the prior year due to greater revenue from the City and other government grants in response to continued growth of Houston Recovery Center’s programs.

The increase in expenses for the year ended June 30, 2017, compared to June 30, 2016, was due to the continued growth of Houston Recovery Center’s program, while revenue from the City decreased from the year ended June 30, 2016.

### **Contacting Houston Recovery Center’s Financial Management**

The financial report is designed to discuss issues that may be material to the operation of Houston Recovery Center. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Executive Director, Houston Recovery Center, LGC, 150 North Chenevert Street, Suite 100, Houston, Texas 77002.

# Houston Recovery Center, LGC

## Governmental Fund Balance Sheet and Statement of Net Position as of June 30, 2018

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|                                       | GENERAL<br>FUND     | ADJUSTMENTS<br>(NOTE 4) | STATEMENT<br>OF<br>NET POSITION |
|---------------------------------------|---------------------|-------------------------|---------------------------------|
| ASSETS                                |                     |                         |                                 |
| Cash                                  | \$ 951,138          |                         | \$ 951,138                      |
| Government grant receivable           | 128,104             |                         | 128,104                         |
| Other assets                          | <u>69,731</u>       | <u>          </u>       | <u>69,731</u>                   |
| TOTAL ASSETS                          | <u>\$ 1,148,973</u> | <u>\$ 0</u>             | <u>\$ 1,148,973</u>             |
| LIABILITIES                           |                     |                         |                                 |
| Accounts payable and accrued expenses | \$ 112,377          |                         | \$ 112,377                      |
| Deferred revenue                      | <u>52,832</u>       | <u>          </u>       | <u>52,832</u>                   |
| TOTAL LIABILITIES                     | <u>165,209</u>      | <u>\$ 0</u>             | <u>\$ 165,209</u>               |
| FUND BALANCE / NET POSITION           |                     |                         |                                 |
| Unassigned / unrestricted             | <u>983,764</u>      | <u>\$ 0</u>             | <u>\$ 983,764</u>               |
| TOTAL LIABILITIES AND FUND BALANCE    | <u>\$ 1,148,973</u> |                         |                                 |
| TOTAL NET POSITION                    |                     |                         | <u>\$ 983,764</u>               |

*See accompanying notes to financial statements.*

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# Houston Recovery Center, LGC

## Governmental Fund Balance Sheet and Statement of Net Position as of June 30, 2017

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|                                       | GENERAL<br>FUND   | ADJUSTMENTS<br>(NOTE 4)     | STATEMENT<br>OF<br>NET POSITION |
|---------------------------------------|-------------------|-----------------------------|---------------------------------|
| ASSETS                                |                   |                             |                                 |
| Cash                                  | \$ 596,234        |                             | \$ 596,234                      |
| Government grant receivable           | 91,053            |                             | 91,053                          |
| Other assets                          | <u>56,529</u>     | <u>                    </u> | <u>56,529</u>                   |
| TOTAL ASSETS                          | <u>\$ 743,816</u> | <u>\$ 0</u>                 | <u>\$ 743,816</u>               |
| LIABILITIES                           |                   |                             |                                 |
| Accounts payable and accrued expenses | \$ 49,604         | <u>                    </u> | \$ 49,604                       |
| TOTAL LIABILITIES                     | <u>49,604</u>     | <u>\$ 0</u>                 | <u>\$ 49,604</u>                |
| FUND BALANCE / NET POSITION           |                   |                             |                                 |
| Unassigned / unrestricted             | <u>694,212</u>    | <u>\$ 0</u>                 | <u>\$ 694,212</u>               |
| TOTAL LIABILITIES AND FUND BALANCE    | <u>\$ 743,816</u> |                             |                                 |
| TOTAL NET POSITION                    |                   |                             | <u>\$ 694,212</u>               |

*See accompanying notes to financial statements.*

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## Houston Recovery Center, LGC

### Governmental Fund Statement of Revenue, Expenditures, and Changes in Fund Balance and Statement of Activities for the year ended June 30, 2018

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|                                                                  | GENERAL<br>FUND   | ADJUSTMENTS<br>(NOTE 4) | STATEMENT<br>OF<br>ACTIVITIES |
|------------------------------------------------------------------|-------------------|-------------------------|-------------------------------|
| EXPENDITURES / EXPENSES:                                         |                   |                         |                               |
| Program services                                                 | \$ 2,416,413      |                         | \$ 2,416,413                  |
| Management and general                                           | 276,686           |                         | 276,686                       |
| Fundraising                                                      | <u>50,181</u>     |                         | <u>50,181</u>                 |
| Total expenditures / expenses                                    | <u>2,743,280</u>  |                         | <u>2,743,280</u>              |
| REVENUE:                                                         |                   |                         |                               |
| Grant from City of Houston – interlocal agreement                | 1,706,625         |                         | 1,706,625                     |
| Grant from City of Houston – 1115 Waiver Program                 |                   |                         |                               |
| Funds (HDHHS) – performance-based                                | 959,999           |                         | 959,999                       |
| Other government grants                                          | 304,359           |                         | 304,359                       |
| Contributions                                                    | 51,146            |                         | 51,146                        |
| Other income                                                     | <u>10,703</u>     |                         | <u>10,703</u>                 |
| Total revenue                                                    | <u>3,032,832</u>  |                         | <u>3,032,832</u>              |
| EXCESS OF REVENUE OVER EXPENDITURES /<br>CHANGES IN NET POSITION | 289,552           |                         | 289,552                       |
| Fund balance / net position, beginning of year                   | <u>694,212</u>    | _____                   | <u>694,212</u>                |
| Fund balance / net position, end of year                         | <u>\$ 983,764</u> | <u>\$ 0</u>             | <u>\$ 983,764</u>             |

*See accompanying notes to financial statements.*

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## Houston Recovery Center, LGC

### Governmental Fund Statement of Revenue, Expenditures, and Changes in Fund Balance and Statement of Activities for the year ended June 30, 2017

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|                                                                  | GENERAL<br>FUND   | ADJUSTMENTS<br>(NOTE 4) | STATEMENT<br>OF<br>ACTIVITIES |
|------------------------------------------------------------------|-------------------|-------------------------|-------------------------------|
| EXPENDITURES / EXPENSES:                                         |                   |                         |                               |
| Program services                                                 | \$ 2,498,960      |                         | \$ 2,498,960                  |
| Management and general                                           | 245,640           |                         | 245,640                       |
| Fundraising                                                      | <u>25,000</u>     |                         | <u>25,000</u>                 |
| Total expenditures / expenses                                    | <u>2,769,600</u>  |                         | <u>2,769,600</u>              |
| REVENUE:                                                         |                   |                         |                               |
| Grant from City of Houston – interlocal agreement                | 1,712,056         |                         | 1,712,056                     |
| Grant from City of Houston – 1115 Waiver Program                 |                   |                         |                               |
| Funds (HDHHS) – performance-based                                | 879,999           | \$ (453,333)            | 426,666                       |
| Other government grants                                          | 172,117           |                         | 172,117                       |
| Contributions                                                    | 8,349             |                         | 8,349                         |
| Other income                                                     | <u>6,807</u>      |                         | <u>6,807</u>                  |
| Total revenue                                                    | <u>2,779,328</u>  | <u>(453,333)</u>        | <u>2,325,995</u>              |
| EXCESS OF REVENUE OVER EXPENDITURES /<br>CHANGES IN NET POSITION | 9,728             | (453,333)               | (443,605)                     |
| Fund balance / net position, beginning of year                   | <u>684,484</u>    | <u>453,333</u>          | <u>1,137,817</u>              |
| Fund balance / net position, end of year                         | <u>\$ 694,212</u> | <u>\$ 0</u>             | <u>\$ 694,212</u>             |

*See accompanying notes to financial statements.*

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## Houston Recovery Center, LGC

Notes to Financial Statements for the years ended June 30, 2018 and 2017

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### NOTE 1 – ORGANIZATION

Organization – Houston Recovery Center, LGC (Houston Recovery Center), a component unit of the City of Houston (the City), is a Texas local government corporation. The City created Houston Recovery Center to accomplish the City’s purpose of staffing, managing, and operating a sobering center for the treatment and management of persons under the influence of alcohol and other drugs and to provide those persons with information on and referrals to community-based outpatient services for the purposes of preservation of law enforcement, judicial, and medical resources in the city limits and its extra-territorial jurisdiction. Houston Recovery Center’s formation was approved by the City Council on May 16, 2012, and began operations on April 10, 2013.

Houston Recovery Center’s Board of Directors are appointed by the Mayor of the City and approved by City Council. Houston Recovery Center receives funding from an interlocal agreement with the City in which funding is received subject to the City’s approval of Houston Recovery Center’s annual budget. Funding received must be expended by Houston Recovery Center in accordance with the annual budget. Houston Recovery Center also receives funding from the Houston Department of Health and Human Services (HDHHS) pursuant to a performance-based contract in which certain metrics and milestones are required to be met before funding is received.

Federal income tax status – Houston Recovery 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)(1) and §170(b)(1)(A)(vi).

### NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation – These financial statements have been prepared in conformity with the accounting principles and reporting guidelines established by the Governmental Accounting Standards Board (GASB).

Measurement focus and basis of accounting – Measurement focus refers to *what* is being expressed in reporting financial position and performance, that is, *which* resources are being measured. The financial resources measurement focus measures only financial resources while the economic resources measurement focus measures both financial and capital resources. The measurement focus determines *whether* a fund balance sheet or statement of net position reports financial or economic resources. Basis of accounting refers to *when* those resources and commitments and uses of those resources should be recognized. It relates to the timing of the measurements made regardless of the measurement focus applied.

Governmental funds in the governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenue is recognized when it is measurable and available. *Measurable* means the amount of the transaction is known or reasonably estimable. *Available* refers to amounts collected in the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period, generally within 60 days after year end. Expenditures are recognized when the related liability is incurred. The *General Fund* is used to account for all revenues and expenses

applicable to the general operations of Houston Recovery Center that are not required, either legally or by governmental accounting standards, to be accounted for in another fund.

Governmental funds in the government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, revenue is recognized when it is earned and becomes measurable and expenses are recognized in the period incurred. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the donor have been met.

Cash consists of demand deposits. Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, Houston Recovery Center will be unable to recover deposits. At June 30, 2018, the carrying amount and the bank balance of Houston Recovery Center's demand deposits were \$951,138 and \$1,001,244, respectively. Amounts on deposit that are in excess of the Federal Deposit Insurance Corporation limit of \$250,000 are collateralized by a security agreement with the bank.

Fund balance is classified based on the relative strength of spending constraints placed upon the purposes for which resources can be used. Restricted fund balance can only be used for purposes specified by resource providers. Unassigned fund balance is available for Houston Recovery Center's future use for any purpose. When both restricted and unassigned fund balances are available for use, it is Houston Recovery Center's policy to use the restricted fund balance first.

Net position represents the difference between assets and liabilities. Restricted net position can only be used for purposes specified by resource providers. Unrestricted net position is available for general use.

Grants – Under the accrual basis of accounting, receivables and revenues from grants are recognized, net of uncollectible amounts, when all applicable eligibility requirements, including acceptance and approval of performance requirements from funding sources, are met provided the commitment is verifiable and the resources are measurable and probable of collection. Under the modified basis of accounting, grant receivables and revenues are recognized in the period in which all applicable eligibility requirements have been met and the resources are available and measurable. Funds received in advance of eligibility requirements being met are deferred on both the accrual and modified basis of accounting.

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, and the reported revenue, expenditures and expenses and the allocation of expenses among various functions. Actual results could vary from the estimates that were used.

### **NOTE 3 – NEW ACCOUNTING STANDARDS**

GASB has issued Statement No. 87, *Leases*, which is effective for Houston Recovery for fiscal year 2021. The statement requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under the statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. Houston Recovery Center has not yet determined the impact of implementing this new statement.

**NOTE 4 – ADJUSTMENTS BETWEEN THE GOVERNMENTAL FUND STATEMENTS AND THE GOVERNMENT-WIDE STATEMENT OF NET POSITION AND STATEMENT OF ACTIVITIES**

Timing differences in recognition of revenue from grants from the City occur because of differences between the long-term economic focus of the government-wide statement of net position and statement of activities and the current financial resources focus of the governmental fund statements. The adjustment columns reconcile these timing differences. Governmental funds recognize grant revenue that is available to pay current resources; government-wide statements recognize revenue when all eligibility requirements imposed by the donor have been met. At June 30, 2017, there is a difference between the government-wide financial statements and the government fund financial statements of \$453,333. The difference arose in fiscal year 2016 when Houston Recovery Center recognized a grant for which it was eligible in the government-wide financial statements. The grant was not available within 60 days of June 30, 2016, and therefore was not recognized in the government fund financial statements until fiscal year 2017. There are no differences between the government-wide and governmental fund financial statements in fiscal year 2018.

**NOTE 5 – COMMITMENTS AND CONTINGENCIES**

*Lease commitments* – Houston Recovery Center entered into a partial assignment and assumption of a noncancelable operating lease agreement with the City in which the City grants Houston Recovery Center the use of certain building space. The agreement includes Houston Recovery Center’s commitment to pay predetermined monthly rent as well as operating expenses, which are determined annually based on the prior year’s operating expense. Related occupancy expense of \$164,316 and \$164,392 was recognized during 2018 and 2017, respectively. Future minimum lease payments at June 30, 2018 are due as follows:

|       |                   |
|-------|-------------------|
| 2019  | \$ 90,900         |
| 2020  | 90,900            |
| 2021  | 90,900            |
| 2022  | <u>90,900</u>     |
| Total | <u>\$ 363,600</u> |

*Contingencies* – The grant from HDHHS requires fulfillment of certain metrics and milestones as set forth in the agreement in order for funding to be received. The original grant award was \$2,933,332 beginning in December 2013 for one year, automatically renewing for three successive one-year terms. The award was amended on September 28, 2017 to add an additional 4 years up to \$799,999 each year dependent on achieving certain milestones and metrics. Approximately \$3.7 million has been recognized as revenue as of June 30, 2018 under this award. HDHHS reserves the right to review Houston Recovery Center’s records and documentation and if deemed insufficient or inadequate to support eligible expenditures, Houston Recovery Center is responsible for reimbursement of funds. Management believes such disallowances, if any, would not be material to Houston Recovery Center’s net position or changes in net position.