

**Houston Recovery Center, L.G.C.  
(A Component Unit of the City of Houston)**

**Financial Statements  
and Independent Auditor's Report  
for the years ended June 30, 2019 and 2018**

**Blazek & Vetterling**

CERTIFIED PUBLIC ACCOUNTANTS

# Houston Recovery Center, LLC

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# Blazek & Vetterling

Chartered Accountants

## Independent Auditors' Report

To the Board of Directors of  
Houston Recovery Center, LLC

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and the major fund of Houston Recovery Center, LLC (a component unit of the City of Houston), as of and for the years ended June 30, 2019 and 2018 and the related notes to the financial statements, which collectively comprise Houston Recovery Center, LLC'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. Our audit for the year ended June 30, 2019 was also conducted under the generally applicable ss of financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. These 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 auditor's 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 entities and the municipal of Houston Recovery Center, LLC, as of June 30, 2019 and 2018, 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 4-5 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.

### *Report Required by Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 16, 2019 on our consideration of Houston Recovery Center, LLC'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 Houston Recovery Center, LLC's internal control over financial reporting or on compliance. That report is an integral part of our audit performed in accordance with *Government Auditing Standards* in considering Houston Recovery Center, LLC's internal control over financial reporting and compliance.

*Blazek & Tetterling*

September 16, 2019

**Houston Recovery Center, LLC**  
**Management's Discussion and Analysis**  
**For the years ended June 30, 2019 and 2018**  
**(unaudited)**

The following discussion and analysis of Houston Recovery Center, LLC's (Houston Recovery Center) financial performance provides an overview of the financial activities for the years ended June 30, 2019 and 2018. 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, 2019 include:

- Houston Recovery Center's total net position increased by \$502 thousand.
- \$1.1 million of Houston Recovery Center's expenses were program expenses in connection with its sobriety-center and two new programs, opioid response and HIV/AIDS-C prevention.
- Houston Recovery Center recognized revenue of \$2.4 million in grants from the City of Houston (the City), \$602 thousand in federal grants through the State of Texas, and \$591 thousand in grants from other local governments in its statement of activities.

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

- Houston Recovery Center's total net position increased by \$390 thousand.
- \$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 and \$104 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, revenues 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.

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

	2019	AS OF JUNE 30 2018	2017
<i>Condensed Statements of Net Position:</i>			
Total assets	\$ 1,884,128	\$ 1,118,973	\$ 743,816
Total liabilities	\$ 395,289	\$ 163,109	\$ 119,600
Total net position	\$ 1,486,199	\$ 983,364	\$ 694,216

The assets of Houston Recovery Center consist primarily of cash and government grant receivables. Liabilities consist primarily of accrued operating expenses, including accrued salaries, deferred revenue and refundable advances. The increase in assets at June 30, 2019, as compared to June 30, 2018, is the result of the increases in the amount and timing of recognition of governmental funding, as well as a contribution receivable of \$100,000 at June 30, 2019. The increase in liabilities at June 30, 2019, as compared to June 30, 2018, is due primarily to the recording of a \$138,000 refundable advance from the Texas Health and Human Services Commission (the Commission) at June 30, 2019, due to reimbursement by the Commission of expenditures later determined to not be allowable under the terms of the grant award that ended April 30, 2019.

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.

	FOR THE YEAR ENDED JUNE 30		
	2019	2018	2017
<i>Condensed Statements of Activities:</i>			
<b>Expenses:</b>			
Program services	\$ 3,032,727	\$ 3,416,613	\$ 2,498,960
Management and general	999,414	276,636	243,640
Fundraising	60,597	50,151	25,630
Total expenses	<u>4,092,738</u>	<u>3,743,400</u>	<u>2,768,230</u>
<b>Revenue:</b>			
Grant from City of Houston - Interlocal agreement	1,666,624	1,706,673	1,112,656
Grant from City of Houston - 1115 Waiver Program			
Funds (HDF-115) - performance-based	799,999	939,999	416,656
Federal grants	672,359		
Other government grants	591,028	304,339	102,117
Contributions	297,425	51,146	8,349
Other income	9,698	110,903	6,897
Total revenue	4,017,133	3,032,852	2,326,665
CHANGES IN NET POSITION	502,375	289,552	(441,665)
Net position, beginning of year	<u>983,364</u>	<u>694,216</u>	<u>1,137,817</u>
Net position, end of year	\$ 1,486,139	\$ 983,364	\$ 694,216

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, from federal and state agencies, and from local governmental agencies and management districts. Both revenues and expenses increased substantially between the years ended June 30, 2019 and 2018 due primarily to two new government grants funding two new Houston Recovery Center programs (opioid response and HIV/Hep-C prevention), which resulted in an increase of \$662,000 in total expenses and revenue. Contribution revenue also increased \$216,000 between the years ended June 30, 2019 and 2018.

Expenses remained consistent between the years ended June 30, 2018 and 2017, while fiscal year 2018 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.

#### **Contracting 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 Director, Houston Recovery Center, LLC, 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, 2019

	GENERAL FUND	ADJUSTMENTS (Increases)	STATEMENT OF NET POSITION
<b>ASSETS</b>			
Cash	\$ 131,902		\$ 131,902
Governmental grant receivables	258,437		258,437
Contributions receivable	100,000		100,000
Prepaid expenses and other assets	79,505		79,505
Capital assets, net of depreciation (Note 5)		\$ 124,784	124,784
<b>TOTAL ASSETS</b>	<b>\$ 589,644</b>	<b>\$ 124,784</b>	<b>\$ 714,428</b>
<b>LIABILITIES</b>			
Accounts payable and accrued expenses	\$ 94,216		\$ 94,216
Payroll liabilities	118,839		118,839
Deferred revenue	47,441		47,441
Retainable advance	137,291		137,291
<b>TOTAL LIABILITIES</b>	<b>398,289</b>	<b>\$ 0</b>	<b>\$ 398,289</b>
<b>FUND BALANCE / NET POSITION</b>			
Nonexpendable prepaid expenses and other assets	79,505	\$ (79,505)	
Unassigned / unrestricted	1,282,355	(1,282,055)	
<b>TOTAL FUND BALANCE</b>	<b>1,361,355</b>	<b>(1,361,355)</b>	
<b>TOTAL LIABILITIES AND FUND BALANCE</b>	<b>\$ 1,759,644</b>		
Included in capital assets		124,784	\$ 124,784
Unrestricted		1,361,355	1,361,355
<b>TOTAL NET POSITION</b>		<b>\$ 1,486,139</b>	<b>\$ 1,486,139</b>

See accompanying notes to financial statements



# Houston Recovery Center, LLC

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

	GENERAL FUND	ADVERSEMENTS (2018-19)	STATEMENT OF NET POSITION
<b>ASSETS</b>			
Cash	\$ 951,138		\$ 951,138
Government grant receivable	128,104		128,104
Prepaid expenses and other assets	47,500		47,500
Capital assets, net of appreciation (Note 5)		\$ 22,231	22,231
<b>TOTAL ASSETS</b>	<b>\$ 1,126,742</b>	<b>\$ 22,231</b>	<b>\$ 1,148,973</b>
<b>LIABILITIES</b>			
Accounts payable and accrued expenses	\$ 50,127		\$ 50,127
Payroll liabilities	67,250		67,250
Deferred revenue	52,852		52,852
<b>TOTAL LIABILITIES</b>	<b>\$ 169,209</b>	<b>\$ 0</b>	<b>\$ 169,209</b>
<b>FUND BALANCE / NET POSITION</b>			
Nonspendable (prepaid expenses and other assets)	47,500	\$ (47,500)	
Unassigned / unrestricted	\$14,033	(14,033)	
<b>TOTAL FUND BALANCE</b>	<b>\$61,533</b>	<b>(61,533)</b>	
<b>TOTAL LIABILITIES AND FUND BALANCE</b>	<b>\$ 106,742</b>		
Invested in capital assets		22,231	\$ 22,231
Unrestricted		961,533	961,533
<b>TOTAL NET POSITION</b>		<b>\$ 983,764</b>	<b>\$ 983,764</b>

See accompanying notes to financial statements.

## Houston Recovery Center, LLC

Governmental Fund Statement of Revenue, Expenditure, and Changes in Fund Balance and Statement of Activities for the year ended June 30, 2019

	GENERAL FUND	BUSINESS ENTERPRISE	STATEMENT OF ACTIVITIES
<b>EXPENDITURES / EXPENSES:</b>			
Program services	\$ 3,047,393	9,12,334	\$ 3,054,727
Management and general	397,533	1,881	399,414
Fundraising	60,433	142	60,575
Capital expenditures	116,909	(106,909)	-
Total expenditures / expenses	<u>3,612,310</u>	<u>(107,582)</u>	<u>3,504,728</u>
<b>REVENUE:</b>			
Grant from City of Houston – interlocal agreement	1,616,624		1,616,624
Grant from City of Houston – 1115 Wulver Program Fees (CITRHS) – performance-based	799,999		799,999
Federal grants	672,359		672,359
Other government grants	591,025		591,025
Contributions	297,425		297,425
Other income	9,695		9,695
Total revenue	<u>4,017,133</u>		<u>4,017,133</u>
<b>EXCESS OF REVENUE OVER EXPENDITURES / CHANGES IN NET POSITION</b>	<b>398,823</b>	<b>(107,582)</b>	<b>502,335</b>
Fund balance / net position, beginning of year	<u>981,533</u>	<u>22,211</u>	<u>983,764</u>
Fund balance / net position, end of year	<u>\$ 1,380,356</u>	<u>\$ 114,629</u>	<u>\$ 1,494,985</u>

See accompanying notes to financial statements.

## 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

	GENERAL FUND	ALL OTHER FUNDS (NONE)	REVENUE OF ACTIVITIES
<b>EXPENDITURES / EXPENSES:</b>			
Program services	\$ 2,411,740	\$ 4,693	\$ 2,416,433
Management and general	276,687	619	276,686
Fundraising	50,181		50,181
Capital expenditures	27,341	127,543	
Total expenditures / expenses	<u>2,765,949</u>	<u>(22,281)</u>	<u>2,743,680</u>
<b>REVENUE:</b>			
Grant from City of Houston - interlocal agreement	1,706,625		1,706,625
Grant from City of Houston - Title Waiver Program			
Funds (MIDLHIS) - performance based	959,999		959,999
Other government grants	304,789		304,789
Contributions	51,146		51,146
Other income	10,793		10,793
Total revenue	<u>3,032,832</u>		<u>3,032,832</u>
EXCESS OF REVENUE OVER EXPENDITURES / CHANGES IN NET POSITION	267,321	22,281	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>961,533</u>	\$ <u>22,281</u>	\$ <u>983,761</u>

See accompanying notes to financial statements.

## Houston Recovery Center, L.G.C.

Notes to Financial Statements for the years ended June 30, 2019 and 2018

### NOTE 1 - ORGANIZATION

Organization - Houston Recovery Center, L.G.C. (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 aid and to act on behalf of the City to accomplish a governmental purpose of the City, namely, 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 these 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 14, 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 a significant amount of 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 under this agreement must be expended by Houston Recovery Center in accordance with the annual budget. Houston Recovery Center also receives federal, state, and local funding through state and local governments and management districts.

Federal income tax status - Houston Recovery Center is a local government corporation created to accomplish a governmental purpose of the City and is not subject to federal income tax. Contributions to Houston Recovery Center are deductible under §501(c)(3) of the Internal Revenue Code.

### 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 accounting 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* these resources and expenditures and assets of those resources should be recognized. It refers 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 collectible 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, revenues are recognized when they are 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, 2019, the carrying amount and the bank balance of Houston Recovery Center's demand deposits were \$1,321,982 and \$1,375,433, 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.

Liabilities - 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 Center 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**

Total fund balance reported in the governmental fund balance sheet differs from net position reported in the government-wide statement of net position. Differences occur because of the current financial resources focus of the governmental fund statements and the long-term economic focus of the government wide statement of net position and statement of activities. The provisions of GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis for State and Local Governments*, impose this change in focus. The adjustments show the difference between the statements that result from this difference in measurement focus.

Adjustments of \$124,764 and \$22,231 relating to capital assets are reported in the statements of net position for the years ended 2019 and 2018, which differ from the respective governmental fund balance sheets. Capital assets used in governmental activities are not current financial resources, and therefore, are not reported in the fund financial statements.

Adjustments from the governmental fund statements of revenues, expenditures, and changes in fund balance to the statement of activities consist of \$152,552 and \$22,231 for the years ended 2019 and 2018. The adjustments consist of capital outlays which are reported in the governmental funds as expenditures because such outlays use current financial resources. The statements of activities recognize the costs of outlays allocated over estimated useful lives as depreciation expense.

The Governmental Fund Balance Sheet as of June 30, 2018, the Governmental Fund Statement of Revenue, Expenditures, and Changes in Fund Balance as of June 30, 2018, and beginning net assets as of July 1, 2018, have been restated to properly reflect treatment of capital assets.

**NOTE 5 - CAPITAL ASSETS**

Capital assets are comprised of the following:

	2019	2018
Furniture, fixtures and equipment	\$ 62,183	\$ 37,507
Vehicles	92,584	_____
Total depreciable property, at cost	154,767	37,507
Accumulated depreciation	(29,613)	(15,276)
Total capital assets	<u>\$ 124,764</u>	\$ 22,231

**NOTE 6 - COMMITMENTS AND CONTINGENCIES**

*Lease commitments* - Elwood Recovery Center entered into a partial assignment and assumption of a noncancelable operating lease agreement with the City in which the City grants Elwood Recovery Center the use of certain building space. The agreement includes Elwood Recovery Center's commitment to pay preferential monthly rent as well as operating expenses, which are determined

annually based on the prior year's operating expenses. In addition, in 2019, Houston Recovery Center entered into a one-year operating lease for additional office space. Related occupancy expense of \$285,178 and \$161,316 was recognized during 2019 and 2018, respectively, under these two leases. Future minimum lease payments at June 30, 2019 are due as follows:

2020	\$ 111,258
2021	91,080
2022	91,080
2023	91,080
Total	\$ 384,498

*Subsequent commitments* In July 2019, Houston Recovery Center entered into a three-year operating lease for office space. The total commitment under this lease is \$308,880 over three years.

*Contingency* Houston Recovery Center receives grants from federal, state, and local funding sources that 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 Houston Recovery Center with the terms of the contracts. Management believes such disallowances, if any, would not be material to Houston Recovery Center's net position or changes in net position.

# Blazek & Vetterling

CHARTERED PUBLIC ACCOUNTANTS

## 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  
Houston Recovery Center, LLC:

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 Houston Recovery Center, LLC (Houston Recovery Center), which comprise the statement of net position as of June 30, 2019 and the related statement of activities for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated September 16, 2019.

### *Internal Control Over Financial Reporting*

In planning and performing our audit of the financial statements, we considered Houston Recovery Center's internal control over financial reporting (internal control) to determine the 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 Houston Recovery Center's internal control. Accordingly, we do not express an opinion on the effectiveness of the Houston Recovery 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 have not been identified. We did identify a deficiency in internal control, described in the accompanying schedule of findings and responses as finding #2019-001, that we consider to be a material weakness.

### *Compliance and Other Matters*

As part of obtaining reasonable assurance about whether Houston Recovery 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 determination of financial statement amounts. 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 an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is in the accompanying schedule of findings and responses as finding #2019-001.

#### *Houston Recovery Center's Response to Finding*

Houston Recovery Center's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. Houston Recovery Center's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

#### *Purpose of this Report*

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

*Blazek & Vetterling*

September 16, 2019

## Houston Recovery Center, LLC

Schedule of Findings and Responses for the year ended June 30, 2019

### Financial Statement Findings

#### Finding #2019-001 Material Weakness in Financial Reporting and Allowable Costs Noncompliance

*Criteria:* Management is responsible for establishing and maintaining an effective system of internal control over financial reporting in order to prepare financial statements in accordance with generally accepted accounting principles (GAAP), and in accordance with provisions of contracts and grant agreements. Without an effective system of controls, errors in financial reporting could occur and not be identified and corrected.

*Condition and context:* Audit adjustments were required to reduce federal revenue and federal expenses by \$187,791 as a result of expenses being accrued prior to receipt of goods or services as of June 30, 2019. Receipt of the goods or services is required for expense recognition in GAAP-basis financial statements and is required for such expenditures to be allowable under the terms of the grant agreement. A refundable advance has been recorded that will either be returned to the grantor or used for future qualifying program expenditures.

*Cause:* Due to a lack of understanding of GAAP and allowable cost compliance requirements, expenses which were initially approved in grant budgets were recorded in order to commit grant funds before an April 30, 2019 spending deadline.

*Effect:* Failure to have an effective system of internal control over financial reporting and compliance resulted in an overstatement of grant expenses and revenue.

*Recommendation:* Implement policies and procedures to ensure that all expenditures have been properly recorded in accordance with GAAP and the provisions of contracts and grant agreements.

*Management's response and corrective action plan:* Management will identify continuing education opportunities for generally accepted accounting principles and Uniform Guidance and will strengthen training requirements for all staff members responsible for enforcing federal grant compliance and financial statement preparation.

*Responsible official:* Leonard Kincaid, Executive Director

*Estimated completion date:* March 31, 2020