

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

Financial Statements  
and Independent Auditors' Report  
for the years ended June 30, 2020 and 2019

# Houston Recovery Center, LGC

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## Independent Auditors' Report

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

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and the major fund of Houston Recovery Center, LGC (a component unit of the City of Houston), as of and for the years ended June 30, 2020 and 2019 and the related notes to the financial statements, which collectively 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 opinions 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 and the major fund of Houston Recovery Center, LGC, as of June 30, 2020 and 2019, 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.

### **Report Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated September 25, 2020 on our consideration of Houston Recovery Center, LGC'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, LGC'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 Houston Recovery Center, LGC's internal control over financial reporting and compliance.

The image shows a handwritten signature in cursive script that reads "Blazek & Vetterling". The signature is written in black ink and is positioned above the date.

September 25, 2020

**Houston Recovery Center, LGC**  
**Management's Discussion and Analysis**  
**For the years ended June 30, 2020 and 2019**  
**(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, 2020 and 2019. 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, 2020 include:

- Houston Recovery Center's total net position decreased by \$440 thousand.
- Expenditures under Houston Recovery Center's two federally-funded programs were approximately \$1.5 million, exceeding the \$750,000 threshold for requiring a single audit.
- Houston Recovery Center recognized revenue of \$1.65 million in a grant from the City of Houston (the City), \$1.5 million in federal grants through the State of Texas, and \$637 thousand in grants from other local governments in its statement of activities.

Financial highlights for the fiscal year ended June 30, 2019 include:

- Houston Recovery Center's total net position increased by \$502 thousand.
- \$3.1 million of Houston Recovery Center's expenses were program expenses in connection with its sobriety center and two new programs, opioid response and HIV/HEP-C prevention.
- Houston Recovery Center recognized revenue of \$2.4 million in grants from the City, \$672 thousand in federal grants through the State of Texas, and \$591 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.

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

	AS OF JUNE 30		
	<u>2020</u>	<u>2019</u>	<u>2018</u>
<i>Condensed Statements of Net Position:</i>			
Total assets	\$ 1,339,164	\$ 1,884,428	\$ 1,148,973
Total liabilities	\$ 292,104	\$ 398,289	\$ 165,209
Total net position	\$ 1,047,060	\$ 1,486,139	\$ 983,764

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 decrease in assets at June 30, 2020, as compared to June 30, 2019, is the result of a \$473,000 net loss and resulting decrease in the cash balance, and a \$100,000 decrease in contributions receivable. The decrease in liabilities at June 30, 2020, as compared to June 30, 2019, is due primarily to the return of a \$138,000 refundable advance to the Texas Health and Human Services Commission (the Commission).

The increase in assets at June 30, 2019, as compared to June 30, 2018, is the result of 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 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.

	FOR THE YEAR ENDED JUNE 30		
	<u>2020</u>	<u>2019</u>	<u>2018</u>
<i>Condensed Statements of Activities:</i>			
Expenses:			
Program services	\$ 3,714,973	\$ 3,054,727	\$ 2,416,413
Management and general	564,652	399,434	276,686
Fundraising	146,997	60,597	50,181
Total expenses	<u>4,426,622</u>	<u>3,514,758</u>	<u>2,743,280</u>
Revenue:			
Grant from City of Houston – interlocal agreement	1,646,624	1,646,624	1,706,625
Grant from City of Houston – 1115 Waiver Program			
Funds (HDHHS) – performance-based		799,999	959,999
Federal grants	1,509,879	672,359	
Other government grants	637,078	591,028	304,359
Contributions	161,546	297,425	51,146
Other income	32,416	9,698	10,703
Total revenue	<u>3,987,543</u>	<u>4,017,133</u>	<u>3,032,832</u>
CHANGES IN NET POSITION	(439,079)	502,375	289,552
Net position, beginning of year	<u>1,486,139</u>	<u>983,764</u>	<u>694,212</u>
Net position, end of year	<u>\$ 1,047,060</u>	<u>\$ 1,486,139</u>	<u>\$ 983,764</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, from federal and state agencies, and from local governmental agencies and management districts. Expenses increased substantially between the years ended June 30, 2020 and 2019 due primarily to increased activity under three government grants funding two Houston Recovery Center programs (opioid response and HIV/HEP-C prevention), which resulted in an increase of \$804,000 in related expenses. Revenues under these grants also increased by \$804,000, but these increases were offset by decreases of \$800,000 in the 1115 Waiver Program Funds grant through the City, which ended in February 2019.

Revenues were fairly consistent between the years ended June 30, 2020 and 2019 after having increased significantly from the June 30, 2018 year as a result of expanded programs. Expenses increased each year from June 30, 2018 through June 30, 2020 as the expanded programs grew.

### **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 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, 2020

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	GENERAL FUND	ADJUSTMENTS (NOTE 4)	STATEMENT OF NET POSITION
ASSETS			
Cash	\$ 772,639		\$ 772,639
Government grant receivable	353,533		353,533
Prepaid expenses and other assets	88,309	\$ 8,580	96,889
Capital assets, net of depreciation (Note 5)	<u>                    </u>	<u>116,103</u>	<u>116,103</u>
TOTAL ASSETS	<u>\$ 1,214,481</u>	<u>\$ 124,683</u>	<u>\$ 1,339,164</u>
LIABILITIES			
Accounts payable and accrued expenses	\$ 168,809		\$ 168,809
Payroll liabilities	<u>123,295</u>	<u>                    </u>	<u>123,295</u>
TOTAL LIABILITIES	<u>292,104</u>	<u>\$ 0</u>	<u>\$ 292,104</u>
FUND BALANCE / NET POSITION			
Nonspendable – prepaid expenses and other assets	88,309	\$ (88,309)	
Restricted for specific programs	16,600	(16,600)	
Unassigned	<u>817,468</u>	<u>(817,468)</u>	
TOTAL FUND BALANCE	<u>922,377</u>	<u>(922,377)</u>	
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 1,214,481</u>		
Net investment in capital assets		116,103	\$ 116,103
Restricted for specific programs		16,600	16,600
Unrestricted		<u>914,357</u>	<u>914,357</u>
TOTAL NET POSITION		<u>\$ 124,683</u>	<u>\$ 1,047,060</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, 2019

	GENERAL FUND	ADJUSTMENTS (NOTE 4)	STATEMENT OF NET POSITION
ASSETS			
Cash	\$ 1,321,902		\$ 1,321,902
Government grant receivable	258,437		258,437
Contributions receivable	100,000		100,000
Prepaid expenses and other assets	79,305		79,305
Capital assets, net of depreciation (Note 5)	<u>                    </u>	\$ 124,784	<u>124,784</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 1,759,644</u></b>	<b><u>\$ 124,784</u></b>	<b><u>\$ 1,884,428</u></b>
LIABILITIES			
Accounts payable and accrued expenses	\$ 94,216		\$ 94,216
Payroll liabilities	118,839		118,839
Deferred revenue	47,443		47,443
Refundable advance	<u>137,791</u>	<u>                    </u>	<u>137,791</u>
<b>TOTAL LIABILITIES</b>	<b><u>398,289</u></b>	<b><u>\$ 0</u></b>	<b><u>\$ 398,289</u></b>
FUND BALANCE / NET POSITION			
Nonspendable – prepaid expenses and other assets	79,305	\$ (79,305)	
Unassigned	<u>1,282,050</u>	<u>(1,282,050)</u>	
<b>TOTAL FUND BALANCE</b>	<b><u>1,361,355</u></b>	<b><u>(1,361,355)</u></b>	
<b>TOTAL LIABILITIES AND FUND BALANCE</b>	<b><u>\$ 1,759,644</u></b>		
Net investment in capital assets		124,784	\$ 124,784
Unrestricted		<u>1,361,355</u>	<u>1,361,355</u>
<b>TOTAL NET POSITION</b>		<b><u>\$ 124,784</u></b>	<b><u>\$ 1,486,139</u></b>

*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, 2020

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	GENERAL FUND	ADJUSTMENTS (NOTE 4)	STATEMENT OF ACTIVITIES
EXPENDITURES / EXPENSES:			
Program services	\$ 3,691,733	\$ 23,240	\$ 3,714,973
Management and general	560,864	3,788	564,652
Fundraising	145,868	1,129	146,997
Deposit on long-term lease	8,580	(8,580)	
Capital expenditures	<u>19,476</u>	<u>(19,476)</u>	
Total expenditures / expenses	<u>4,426,521</u>	<u>101</u>	<u>4,426,622</u>
REVENUE:			
Grant from City of Houston – interlocal agreement	1,646,624		1,646,624
Federal grants	1,509,879		1,509,879
Other government grants	637,078		637,078
Contributions	161,546		161,546
Other income	<u>32,416</u>		<u>32,416</u>
Total revenue	<u>3,987,543</u>		<u>3,987,543</u>
EXCESS OF REVENUE OVER EXPENDITURES / CHANGES IN NET POSITION	(438,978)	(101)	(439,079)
Fund balance / net position, beginning of year	<u>1,361,355</u>	<u>124,784</u>	<u>1,486,139</u>
Fund balance / net position, end of year	<u>\$ 922,377</u>	<u>\$ 124,683</u>	<u>\$ 1,047,060</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, 2019

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	GENERAL FUND	ADJUSTMENTS (NOTE 4)	STATEMENT OF ACTIVITIES
EXPENDITURES / EXPENSES:			
Program services	\$ 3,042,393	\$ 12,334	\$ 3,054,727
Management and general	397,553	1,881	399,434
Fundraising	60,455	142	60,597
Capital expenditures	<u>116,910</u>	<u>(116,910)</u>	<u>                    </u>
Total expenditures / expenses	<u>3,617,311</u>	<u>(102,553)</u>	<u>3,514,758</u>
REVENUE:			
Grant from City of Houston – interlocal agreement	1,646,624		1,646,624
Grant from City of Houston – 1115 Waiver Program			
Funds (HDHHS) – performance-based	799,999		799,999
Federal grants	672,359		672,359
Other government grants	591,028		591,028
Contributions	297,425		297,425
Other income	<u>9,698</u>		<u>9,698</u>
Total revenue	<u>4,017,133</u>		<u>4,017,133</u>
EXCESS OF REVENUE OVER EXPENDITURES / CHANGES IN NET POSITION	399,822	102,553	502,375
Fund balance / net position, beginning of year	<u>961,533</u>	<u>22,231</u>	<u>983,764</u>
Fund balance / net position, end of year	<u>\$ 1,361,355</u>	<u>\$ 124,784</u>	<u>\$ 1,486,139</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, 2020 and 2019

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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 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 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 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 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, 2020, the carrying amount and the bank balance of Houston Recovery Center's demand deposits were \$772,639 and \$796,703, 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. Nonspendable fund balance includes amounts that are not in spendable form. 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. The net investment in capital assets component of net position consists of capital assets, net of accumulated depreciation, and debt attributable to the acquisition, construction, or improvement of those assets, if any. 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 STANDARD**

GASB has issued Statement No. 87, *Leases*, which is effective for Houston Recovery Center for fiscal year 2022. 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 \$124,683 and \$124,784, primarily relating to capital asset transactions and depreciation, are reported in the statements of net position for the years ended June 30, 2020 and 2019, which differ from the respective governmental fund balance sheets. Capital assets and deposits on long-term leases 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 revenue, expenditures, and changes in fund balance to the statement of activities consist of \$101 and \$102,553 for the years ended June 30, 2020 and 2019. The adjustments consist of capital outlays and deposits on long-term leases which are reported in the governmental funds as expenditures because such outlays use current financial resources. The statements of activities recognize the costs of capital outlays allocated over estimated useful lives as depreciation expense.

**NOTE 5 – CAPITAL ASSETS**

A summary of the activity related to capital assets for the year ended June 30, 2020 is as follows:

	BEGINNING <u>BALANCE</u>	<u>ADDITIONS</u>	<u>DISPOSALS</u>	ENDING <u>BALANCE</u>
Depreciable capital assets:				
Leasehold improvement		\$ 4,337		\$ 4,337
Furniture, fixtures, and equipment	\$ 62,183	15,139		77,322
Vehicles	92,234			92,234
	<u>154,417</u>	<u>19,476</u>		<u>173,893</u>
Depreciable capital assets, at cost				
Accumulated depreciation:				
Leasehold improvement		1,843		1,843
Furniture, fixtures, and equipment	27,319	16,798		44,117
Vehicles	2,314	9,516		11,830
	<u>29,633</u>	<u>28,157</u>		<u>57,790</u>
Total accumulated depreciation				
Capital assets, net of depreciation	<u>\$ 124,784</u>	<u>\$ (8,681)</u>	<u>\$ 0</u>	<u>\$ 116,103</u>

**NOTE 6 – 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. In addition, in 2020, Houston Recovery Center entered into a three-year operating lease for additional office space.

Related occupancy expense of \$272,422 and \$205,128 was recognized during 2020 and 2019, respectively, under these leases. Future minimum lease payments at June 30, 2020 are due as follows:

2021	\$ 282,222
2022	270,664
2023	<u>18,205</u>
Total	<u>\$ 571,091</u>

*Contingencies* – 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 Houston Recovery Center’s net position or changes in net position.

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