

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

Financial Statements
and Independent Auditors' Report
for the year ended June 30, 2014

Houston Recovery Center, LGC

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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 year ended June 30, 2014 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform our audit 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, 2014, and the changes in its financial position for the year 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

October 27, 2014

**Houston Recovery Center, LGC
Management's Discussion and Analysis
For the year ended June 30, 2014
(unaudited)**

The following discussion and analysis of Houston Recovery Center, LGC's financial performance provides an overview of the financial activities for the year ended June 30, 2014. 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 ending June 30, 2014 include:

- The assets of Houston Recovery Center exceeded its liabilities by \$696 thousand and \$869 thousand on the governmental fund and government-wide financial statements, respectively.
- Houston Recovery Center's total fund balance increased by \$330 thousand and total net position increased by \$610 thousand during the year.
- \$1.7 million of Houston Recovery Center's expenses were program expenses in connection with its sobriety center.
- Houston Recovery Center recognized revenue of \$2.5 million in grants received from the City of Houston (the City) 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. During 2014, there was a difference between the government-wide financial statements and the governmental fund financial statements as a result of the receivable balance of \$280,000 being included in the Statement of Net Position and not on the General Fund as the amount was not available within 60 days as of June 30, 2014 in accordance with Houston Recovery Center's accounting policy. This also resulted in a difference between the total net position and total fund balance of \$280,000.

Condensed Government-Wide Financial Information and Financial Analysis

	AS OF JUNE 30	
	<u>2014</u>	<u>2013</u>
		(UNAUDITED)
<i>Condensed Statements of Net Position:</i>		
Total assets	\$ 976,324	\$ 262,553
Total liabilities	\$ 107,773	\$ 4,444
Net position:		
Unrestricted	\$ 868,551	\$ 258,109
Total net position	\$ 868,551	\$ 258,109

The assets of Houston Recovery Center consist primarily of cash and a grant receivable from the Houston Department of Health and Human Services (HDDHHS). Liabilities consist primarily of operating expenses, including accrued salaries. The increases in assets and liabilities at June 30, 2014 as compared to June 30, 2013 is the result of Houston Recovery Center receiving more funding from the City than it had yet expended in its activities.

	FOR THE YEAR ENDED JUNE 30, 2014	
	<u>2014</u>	<u>2013</u>
		(UNAUDITED)
<i>Condensed Statements of Activities:</i>		
EXPENSES:		
Program services	\$ 1,672,942	\$ 320,151
Management and general	178,421	34,972
Total expenses	<u>1,851,363</u>	<u>355,123</u>
REVENUE:		
Grant from City of Houston – interlocal agreement	1,646,949	613,179
Grant from City of Houston – 1115 Waiver Program		
Funds (HDDHHS) – performance based	813,333	
Interest income	<u>1,523</u>	<u>53</u>
Total revenue	<u>2,461,805</u>	<u>613,232</u>
CHANGE IN NET POSITION	610,442	258,109
Net position, beginning of year	<u>258,109</u>	<u>0</u>
Net position, end of year	<u>\$ 868,551</u>	<u>\$ 258,109</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 from grants from the City. One of Houston Recovery Center's grants from the City involves an interlocal agreement under which Houston Recovery Center manages and operates a sobering center. Revenue from this grant increased because Houston Recovery Center operated for a full year in 2014 versus a partial year in 2013. Revenue increased as a result of Houston Recovery Center entering into a performance-based agreement with HDHHS in fiscal year 2014.

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 Executive Director, Houston Recovery Center, LGC, 150 North Chenevert St., Suite 100, Houston, TX 77002.

Houston Recovery Center, LGC

Governmental Fund Balance Sheet and Statement of Net Position as of June 30, 2014

	GENERAL FUND	ADJUSTMENTS (NOTE 3)	STATEMENT OF NET POSITION
ASSETS			
Current assets:			
Cash	\$ 690,195		\$ 690,195
Grant receivable from City of Houston		\$ 280,000	280,000
Other assets	<u>6,129</u>	<u></u>	<u>6,129</u>
TOTAL ASSETS	<u>\$ 696,324</u>	<u>\$ 280,000</u>	<u>\$ 976,324</u>
LIABILITIES			
Current liabilities:			
Accounts payable and accrued expenses	<u>\$ 107,773</u>		<u>\$ 107,773</u>
TOTAL LIABILITIES	<u>107,773</u>		<u>\$ 107,773</u>
FUND BALANCE AND NET POSITION			
Unassigned / unrestricted	<u>588,551</u>	<u>\$ 280,000</u>	<u>\$ 868,551</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 696,324</u>		
TOTAL NET POSITION			<u>\$ 868,551</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, 2014

	GENERAL FUND	ADJUSTMENTS (NOTE 3)	STATEMENT OF ACTIVITIES
EXPENDITURES AND EXPENSES:			
Program services	\$ 1,672,942		\$ 1,672,942
Management and general	<u>178,421</u>		<u>178,421</u>
Total expenditures and expenses	<u>1,851,363</u>		<u>1,851,363</u>
REVENUE:			
Grant from City of Houston – interlocal agreement	1,646,949		1,646,949
Grant from City of Houston – 1115 Waiver Program			
Funds (HDHHS) – performance based	533,333	\$ 280,000	813,333
Interest income	<u>1,523</u>		<u>1,523</u>
Total revenue	<u>2,181,805</u>	<u>280,000</u>	<u>2,461,805</u>
EXCESS OF REVENUE OVER EXPENDITURES / CHANGE IN NET POSITION	330,442	280,000	610,442
Fund balance and net position, beginning of year	<u>258,109</u>		<u>258,109</u>
Fund balance and net position, end of year	<u>\$ 588,551</u>	<u>\$ 280,000</u>	<u>\$ 868,551</u>

See accompanying notes to financial statements.

Houston Recovery Center, LGC

Notes to Financial Statements for the year ended June 30, 2014

NOTE 1 – ORGANIZATION

Organization – Houston Recovery Center, LGC, 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 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 primarily 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) and will be required to file annual federal information returns that are subject to routine examination; however, there are no examinations for any tax periods currently in progress.

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 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.

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.

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, 2014, the carrying amount and the bank balance of Houston Recovery Center's demand deposits were \$690,195 and \$706,825, 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 both the modified accrual and the accrual basis of accounting, receivables from grants are recognized, net of uncollectible amounts, when all applicable eligibility requirements are met provided the commitment is verifiable and the resources are measurable and probable of collection. Revenue recognized as receivable in advance of the time period during which eligibility requirements are met or resources are available, is deferred under the modified accrual basis of accounting, but is recognized as revenue under the accrual basis of accounting and reflected as restricted net position when eligibility requirements are met.

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

Total fund balance differs from net assets. 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 Board of Director's governmental fund statements. The provisions of GASB Statement No. 34, *Basic Financial Statements – And Management's Discussion and Analysis – For State and Local Governments*, imposed this change in focus. The adjustments show the difference between the statements that result from this timing difference.

NOTE 4 – 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 prior year's operating expense. Related occupancy expense of approximately \$169,098 was recognized during 2014. Future minimum lease payments at June 30, 2014 are due as follows:

2015	\$ 90,900
2016	90,900
2017	90,900
2018	90,900
2019	90,900
Thereafter through 2022	<u>272,700</u>
Total	<u>\$ 727,200</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 total grant award is \$2,933,332 beginning in December 2013 for one year, automatically renewing for three-successive one-year terms. 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 financial position or changes in activity.
