Phoenix Houses of Texas, Inc.

Financial Statements
and Independent Auditors' Report
for the years ended June 30, 2022 and 2021

Phoenix Houses of Texas, Inc.

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Blazek & Vetterling

CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditors' Report

To the Board of Directors of
Phoenix Houses of Texas, Inc.:

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Phoenix Houses of Texas, Inc., which comprise the balance sheets as of June 30, 2022 and 2021, and the related statements of operations and changes in net assets, of functional expenses, and of cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Phoenix Houses of Texas, Inc. as of June 30, 2022 and 2021, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are required to be independent of Phoenix Houses of Texas, Inc. and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Phoenix Houses of Texas, Inc.'s ability to continue as a going concern for one year after the date that the financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

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In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Phoenix Houses of Texas, Inc.'s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Phoenix Houses of Texas, Inc.'s ability to continue as a going concern for a reasonable period of time.

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

Report Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 24, 2023 on our consideration of Phoenix Houses of Texas, Inc.'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 Phoenix Houses of Texas, Inc.'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 Phoenix Houses of Texas, Inc.'s internal control over financial reporting and compliance.

Blazek & Vetterling

January 24, 2023

Phoenix Houses of Texas, Inc.

Balance Sheets as of June 30, 2022 and 2021

	2022	2021
ASSETS		
Current assets:		
Cash	$ 1,359,731	$ 1,457,991
Cash designated for reserve	850,000	500,000
Patient accounts receivable	480,620	609,612
Contributions receivable *(Note 3)*	237,500	575,000
Government grants receivable *(Note 3)*	307,638	346,168
Other assets	13,606	74,337
Prepaid expenses and other assets	98,869	111,165
Total current assets	3,347,964	3,674,273
Prepaid expenses	31,101	31,101
Contributions receivable *(Note 3)*	200,000	400,000
Property and equipment, net *(Note 4)*	2,862,204	3,160,046
TOTAL ASSETS	$ 6,441,269	$ 7,265,420
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued expenses	$ 280,879	$ 331,510
Accrued payroll and related benefits	468,569	504,657
Deferred revenue	103,239	107,131
Refundable advance – Paycheck Protection Program *(Note 2)*		1,015,600
Total liabilities	852,687	1,958,898
Commitments and contingencies *(Notes 4, 9 and 11)*		
Net assets:		
Without donor restrictions *(Note 5)*	4,869,934	4,272,670
With donor restrictions *(Note 6)*	718,648	1,033,852
Total net assets	5,588,582	5,306,522
TOTAL LIABILITIES AND NET ASSETS	$ 6,441,269	$ 7,265,420

See accompanying notes to financial statements.

Phoenix Houses of Texas, Inc.

Statements of Operations and Changes in Net Assets for the years ended June 30, 2022 and 2021

	2022	2021
CHANGES IN NET ASSETS WITHOUT DONOR RESTRICTIONS:		
OPERATING REVENUE, GAINS, AND OTHER SUPPORT:		
Patient service revenue *(Note 7)*	$ 2,772,146	$ 2,532,456
Contributions	208,551	390,193
Contributed nonfinancial assets *(Note 8)*	652,831	475,824
Net assets released from restrictions for operating contributions	991,565	496,558
Net assets released from restrictions for operating government grants	5,562,755	4,711,165
Total operating revenue, gains, and other support	10,187,848	8,606,196
EXPENSES:		
Program services	7,704,525	6,783,415
Management and general	1,535,049	1,756,526
Fundraising	351,010	173,635
Total expenses	9,590,584	8,713,576
(Deficiency) excess of revenue, gains, and other support over expenses and changes in net assets without donor restrictions	597,264	(107,380)
CHANGES IN NET ASSETS WITH DONOR RESTRICTIONS:		
Contributions	676,361	705,410
Government grants *(Note 9)*	5,562,755	4,711,165
Net assets released from restrictions for operating contributions	(991,565)	(496,558)
Net assets released from restrictions for operating government grants	(5,562,755)	(4,711,165)
Changes in net assets with donor restrictions	(315,204)	208,852
CHANGES IN NET ASSETS	282,060	101,472
Net assets, beginning of year	5,306,522	5,205,050
Net assets, end of year	$ 5,588,582	$ 5,306,522

See accompanying notes to financial statements.

Phoenix Houses of Texas, Inc.

Statements of Functional Expenses for the years ended June 30, 2022 and 2021

	PROGRAM SERVICES	MANAGEMENT AND GENERAL	FUNDRAISING	2022 TOTAL EXPENSES
Salaries and employee benefits	$ 4,961,918	$ 955,652	$ 267,266	$ 6,184,836
Professional fees and contracted services	805,535	193,135	27,651	1,026,321
Supplies, equipment and maintenance	629,640	69,863	7,304	706,807
Occupancy	581,222	65,350	16,468	663,040
Depreciation	343,619	69,600	4	413,223
Insurance	242,170	20,695	8,023	270,888
Travel	64,045	50,358	6,027	120,430
Licenses, permits and fees	59,772	6,250		66,022
Other	16,604	104,146	18,267	139,017
Total expenses	$ 7,704,525	$ 1,535,049	$ 351,010	$ 9,590,584

	PROGRAM SERVICES	MANAGEMENT AND GENERAL	FUNDRAISING	2021 TOTAL EXPENSES
Salaries and employee benefits	$ 4,603,223	$ 1,022,965	$ 148,879	$ 5,775,067
Professional fees and contracted services	481,556	279,414	2,633	763,603
Supplies, equipment and maintenance	499,423	83,515	3,510	586,448
Occupancy	553,636	71,829	9,605	635,070
Depreciation	355,860	92,551	42	448,453
Insurance	196,567	62,525	2,817	261,909
Travel	24,164	33,306	753	58,223
Licenses, permits and fees	54,566	16,608		71,174
Other	14,420	93,813	5,396	113,629
Total expenses	$ 6,783,415	$ 1,756,526	$ 173,635	$ 8,713,576

See accompanying notes to financial statements.

Phoenix Houses of Texas, Inc.

Statements of Cash Flows for the years ended June 30, 2022 and 2021

	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in net assets	$ 282,060	$ 101,472
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation	413,223	448,453
Contributions restricted for capital projects		(50,000)
Changes in operating assets and liabilities:		
Patient accounts receivable	128,992	(142,756)
Contributions receivable	537,500	(175,000)
Government grants receivable	38,530	173,445
Prepaid expenses and other assets	73,027	(70,892)
Accounts payable and accrued expenses	(86,719)	(64,370)
Deferred revenue	(3,892)	107,131
Refundable advance – Paycheck Protection Program	(1,015,600)	
Net cash provided by operating activities	367,121	327,483
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(115,381)	(49,350)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from contributions restricted for capital projects		50,000
NET CHANGE IN CASH	251,740	328,133
Cash, beginning of year	1,957,991	1,629,858
Cash, end of year	$ 2,209,731	$ 1,957,991

Reconciliation of cash:		
Cash	$ 1,709,731	$ 1,457,991
Cash designated for reserve	500,000	500,000
Total cash	$ 2,209,731	$ 1,957,991

See accompanying notes to financial statements.

NOTE 1 – ORGANIZATION AND SUMMARY OF ACCOUNTING POLICIES

Organization – Phoenix Houses of Texas, Inc. (Phoenix Houses of Texas) was formed in 1995 to provide compassionate, expert care for individuals, families and communities challenged by substance use disorders and related mental health conditions. Phoenix Houses of Texas is committed to treating the whole person — and their families — with caring, qualified professionals in the fields of psychiatry, medicine, mental health, social work, education, and recovery support. The goal is to address the underlying causes of substance abuse and behavioral patterns to guide patients toward lasting recovery.

Federal income tax status – Phoenix Houses of Texas 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)(iii).

Cash includes demand deposits. Demand deposits exceed the federally insured limit per depositor per institution.

Patient accounts receivable are from patients and third-party payors and are based on amounts that reflect the consideration to which Phoenix Houses of Texas expects to be entitled in exchange for services provided. Phoenix Houses of Texas provides services regardless of the patient's ability to pay, does not require collateral, and does not provide financing. An allowance for uncollectible accounts is established for patient accounts in which there has been an adverse change in the patient's or third-party payors' ability to pay. Accounts are written off after all collection efforts have been exhausted and the account is deemed uncollectible.

Receivables from patients and third-party payors are as follows at June 30:

	2022	2021
Medicaid managed care	64%	37%
Commercial insurance carriers	35%	60%
Self-pay	1%	3%
Total	100%	100%

Contributions and government grants receivable that are expected to be collected within one year are reported at net realizable value. Amounts expected to be collected in future years are discounted, if material, to estimate the present value of their estimated future cash flows. Discounts are computed using risk-free interest rates applicable to the years in which the contributions or government grants are received. Amortization of discounts is included in contributions and government grant revenue.

Property and equipment is reported at cost if purchased or at fair value at the date of gift if donated. Depreciation is calculated using the straight-line method over estimated useful lives of 3 to 7 years for furniture and equipment and 15 to 30 years for buildings and leasehold improvements. Phoenix Houses of Texas capitalizes additions and improvements that have a tangible future economic life and a cost of more than $1,000.

Asset impairment – Phoenix Houses of Texas reviews assets for impairment whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable. Recoverability is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. There were no impairment losses recognized in 2022 or 2021.

Net asset classification – Net assets, revenue, gains, and losses are classified based on the existence or absence of donor-imposed restrictions, as follows:

- *Net assets without donor restrictions* are not subject to donor-imposed restrictions even though their use may be limited in other respects such as by contract or board designation.

- *Net assets with donor restrictions* are subject to donor-imposed restrictions. Restrictions may be temporary in nature, such as those that will be met by the passage of time or use for a purpose specified by the donor, or may be perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Net assets are released from restrictions when the stipulated time has elapsed, or purpose has been fulfilled, or both. Contributions of long-lived assets and of assets restricted for acquisition of long-lived assets are released when those assets are placed in service unless the donor also has placed a time restriction on the use of the long-lived asset, in which case the release occurs over the term of the time restriction.

Patient service revenue recognition – Patient service revenue is recognized as performance obligations are satisfied and are reported at the amount that reflects the consideration Phoenix Houses of Texas expects to receive in exchange for the services provided. These amounts are due from patients and third-party payors and include variable considerations, such as explicit and implicit price concessions. Explicit price concessions include contractual adjustments provided to patients and third-party payors. Implicit price concessions include discounts provided to self-pay, uninsured patients or other payors, adjustments resulting from payment reviews, and adjustments arising from the lack of supporting billing documentation or authorization. These adjustments are estimated based on the most likely amount subject to the terms of the payment agreements with the payors and historical activity. Amounts are generally billed daily at the time of service and are due upon receipt.

Subsequent changes to the estimate of the transaction price are recorded as adjustments to patient service revenue in the period of change. Phoenix Houses of Texas has no material adjustments related to subsequent changes in the estimate of the transaction price for the periods reported.

Phoenix Houses of Texas' services are provided on a daily basis and the type of service provided is determined based on a physician's determination of each patient's specific needs on that given day. Reimbursement rates for residential services are on a per diem basis regardless of the type of service provided or the payor. Reimbursement rates for outpatient services are on an hourly or partial-hourly basis, depending on the service provided. Reimbursement rates for private pay are based on established rates of Phoenix Houses of Texas. Reimbursement rates from government programs are established by the appropriate governmental agency and are standard across all similar treatment providers adjusted for the regional wage index. Reimbursement rates from commercial health insurers are individually negotiated with each payor.

Each level of care represents services provided as a series of either days or hours of patient care and are satisfied over time. Phoenix Houses of Texas recognizes revenue based on the service output method. Phoenix Houses of Texas believes this to be the most faithful depiction of the transfer of control of services as the patient simultaneously receives and consumes the benefits provided by the service. Revenue is recognized on a daily or hourly basis for each patient in accordance with the reimbursement model for each type of service.

Phoenix Houses of Texas provides other ancillary services, such as meals and laundry for residential patients, which are included in the per diem rates and are not treated as separate performance obligations.

Phoenix Houses of Texas has elected the practical expedient to not adjust the promised amount of consideration for the effects of a significant financing component due to expectations that the periods between the time services are provided and the time payment is received will be one year or less. Since performance obligations relate to contracts with a duration of less than one year, Phoenix Houses of Texas has elected to apply the optional exemption and, therefore, is not required to disclose the aggregate amount of the transaction price allocated to performance obligations that are unsatisfied or partially unsatisfied at the end of the reporting period. The unsatisfied or partially unsatisfied performance obligations are generally completed when the patients are discharged, which generally occurs within days or weeks of the end of the reporting period.

Charity care policy – Care is provided to patients regardless of their ability to pay. Phoenix Houses of Texas has established a policy that defines charity services as those services for which no payment is anticipated. In assessing a patient's ability to pay, Phoenix Houses of Texas utilizes generally recognized minimum income guidelines relevant to the community in which the services are provided. No revenue or accounts receivable is recognized for charity care, but the relevant costs and expenses incurred in providing these services are included in operating expenses. The cost of charity care is calculated based on the number of patient days provided for patients determined to qualify for charity care multiplied by the average cost per patient day. The cost of charity care provided was approximately $3.5

million for the year ended June 30, 2022 and approximately $3.2 million for the year ended June 30, 2021. During the years ended June 30, 2022 and 2021, there were $112,432 and $60,674, respectively, of contributions received that were restricted for charity care.

Contributions and government grants are recognized as revenue at fair value when an unconditional commitment is received from the donor. Contributions and government grants received with donor stipulations that limit their use are classified as *with donor restrictions*. Conditional contributions and government grants are subject to one or more barriers that must be overcome before Phoenix Houses of Texas is entitled to receive or retain funding. Conditional contributions and government grants are recognized in the same manner when the conditions have been met. Funding received before conditions are satisfied is reported as refundable advances.

Deficiency of revenue, gains and other support over expenses includes transactions deemed by management to be ongoing, and major or central to the provision of services provided by the organization. Revenue and expenses to provide these services are reported as elements of operating income for the fiscal year end.

Functional allocation of expenses – Expenses are reported by their functional classification. Program services are the direct conduct or supervision of activities that fulfill the purposes for which the organization exists. Fundraising activities include the solicitation of contributions of money, securities, materials, facilities, other assets, and time. Management and general activities are not directly identifiable with specific program or fundraising activities. Expenses that are attributable to more than one activity are allocated among the activities benefitted. Salaries and related costs are allocated on the basis of estimated time and effort expended. Utilities, repairs and maintenance are directly charged by location based on the programs or support services conducted at the location. Technology costs are allocated based on the number of full-time employees in each department.

Estimates – Management must make estimates and assumptions to prepare financial statements in accordance with generally accepted accounting principles. These estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, the amounts of reported revenue and expenses, and the allocation of expenses among various functions. Actual results could vary from the estimates that were used.

Recent financial accounting pronouncement – In February 2016, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) 2016-02, *Leases (Topic 842)*. Under this ASU, a lessee should recognize in the statement of financial position a lease liability and a lease asset representing its right to use the underlying asset for the term of the lease for both finance and operating leases. An entity may make an accounting policy election not to recognize lease assets and lease liabilities for leases with a term of 12 months or less. Recognition, measurement, and presentation of expenses and cash flows arising from a lease by a lessee have not changed significantly. Qualitative and quantitative disclosures are required by lessees to enable users of financial statements to assess the amount, timing and uncertainty of cash flows arising from leases. Phoenix Houses of Texas is required to adopt this ASU for fiscal year 2023. Upon adoption, management expects to recognize lease commitments as both a right of use asset and a lease liability in the balance sheet for commitments that are currently only disclosed in the financial statements.

Adoption of Accounting Standard – ASU 2020-07, *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*, required contributed nonfinancial assets to be presented as a separate line item in the statement of activities, apart from contributions of cash and other financial assets, and requires disclosure about the measurement and use of types of contributed nonfinancial assets. Phoenix Houses of Texas adopted this ASU retrospectively in fiscal year 2022. Adoption did not have any impact on previously reported amounts in the balance sheet or statement of operations and changes in net assets but increased the related disclosure.

NOTE 2 – LIQUIDITY AND AVAILABILITY OF RESOURCES

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use within one year of June 30 comprise the following:

	2022	2021
Financial assets:		
Cash	$ 2,209,731	$ 1,957,991
Patient accounts receivable	480,620	609,612
Contributions and government grants receivable	745,138	1,321,168
Other assets	13,606	74,337
Total financial assets	3,449,095	3,963,108
Less financial assets not available for general expenditure:		
Contributions receivable in 2023 and 2024	(200,000)	(625,000)
Board-designated reserve	(850,000)	(500,000)
Total financial assets available for general expenditure	$ 2,399,095	$ 2,838,108

Phoenix Houses of Texas is substantially supported by patient service revenue, contributions and government grants and regularly monitors liquidity required to meet its operating needs while striving to maximize the investment of available funds. For purposes of analyzing resources available to meet general expenditures over a 12-month period, Phoenix Houses of Texas considers all expenditures related to its ongoing activities of providing evidence-based care to teens, adults, and families, as well as the conduct of services undertaken to support those activities, to be general expenditures.

Phoenix Houses of Texas has designated a portion of its resources without donor restrictions as a board-designated reserve. These funds are held in an interest-bearing money market account, but remain available to be spent with the Board of Directors' approval.

Refundable Advance – Paycheck Protection Program

In 2020, Phoenix Houses of Texas received an unsecured bank loan of $1,015,600 funded through the Small Business Administration's (SBA) Paycheck Protection Program (PPP). Principal and interest may be forgiven, in whole or in part, if the funds are used for the intended purposes. Phoenix Houses of Texas was given notice of full forgiveness in December 2020 and the PPP loan proceeds were recognized as government grant contribution revenue for the year ended June 30, 2021. In January 2021, Phoenix Houses of Texas received a Second Draw PPP loan in the amount of $1,029,085. Phoenix Houses of Texas was given notice of full forgiveness in August 2021 and the PPP loan proceeds were recognized as government grant contribution revenue for the year ended June 30, 2022.

NOTE 3 – CONTRIBUTIONS AND GOVERNMENT GRANTS RECEIVABLE

Contributions and government grants receivable are as follows:

	2022	2021
Contributions receivable – long term	$ 200,000	$ 575,000
Contributions receivable – current	237,500	400,000
Government grants receivable	307,638	346,168
Total contributions and government grants receivable	$ 745,138	$ 1,321,168

Contributions and government grants receivable at June 30, 2022 are expected to be collected as follows:

Receivable within one year	$ 545,138
Receivable in one to five years	200,000
Total contributions and government grants receivable	$ 745,138

Conditional federal grants – A portion of Phoenix Houses of Texas' revenue is derived from federal grants, which are conditioned upon certain performance requirements and/or the incurrence of allowable qualifying expenses. At June 30, 2022, approximately $2,868,000 of federal grants have not been recognized in the accompanying financial statements because the conditions have not been met.

NOTE 4 – PROPERTY AND EQUIPMENT

Property and equipment consists of the following:

	2022	2021
Buildings and leasehold improvements	$ 6,362,910	$ 6,408,204
Furniture and equipment	1,047,498	936,006
Land	428,000	428,000
Property and equipment, at cost	7,838,408	7,772,210
Accumulated depreciation	(4,976,204)	(4,612,164)
Property and equipment, net	$ 2,862,204	$ 3,160,046

In 2001, Phoenix Houses of Texas entered into a lease with the City of Dallas for the land and a building upon which the Feinberg Academy is located. Phoenix Houses of Texas made extensive renovations to the structure in the superseding years. The lease expires on March 31, 2041 and may be extended for one additional period of five years. The lease requires Phoenix Houses of Texas to pay all costs associated with the property, in addition to a base annual rent of one dollar. Approximately $240,000 has been recorded as donated rent and rent expense for the years ended June 30, 2022 and 2021.

NOTE 5 – NET ASSETS WITHOUT DONOR RESTRICTIONS

Net assets without donor restrictions are comprised of the following:

	2022	2021
Property and equipment, net	$ 2,862,204	$ 3,160,046
Undesignated	1,157,730	612,624
Board-designated reserve	850,000	500,000
Total net assets without donor restrictions	$ 4,869,934	$ 4,272,670

The Board of Directors of Phoenix Houses of Texas does not have a specific policy establishing board-designated reserves. However, the Board of Directors may designate excess cash flow for reserves or specific projects, as deemed prudent.

NOTE 6 – NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are restricted as follows:

	2022	2021
Subject to passage of time for future operating periods	$ 616,667	$ 975,000
Subject to expenditure for specified purpose:		
Renovations at Feinberg Academy	45,342	50,000
Feinberg Academy operations	37,000	
Other	19,639	8,852
Total net assets with donor restrictions	$ 718,648	$ 1,033,852

NOTE 7 – PATIENT SERVICE REVENUE

Phoenix Houses of Texas disaggregates revenue from contracts with customers by type of services and payor source as this depicts the nature, amount, timing, uncertainty, and cash flows as affected by economic factors. Revenue from contracts with customers consist of the following for the year ended June 30:

	2022		
	RESIDENT CARE	OUTPATIENT CARE	TOTAL
Medicaid managed care	$ 1,489,904	$ 280,877	$ 1,770,781
Commercial insurance carriers	671,486	301,508	972,994
Self-pay	4,776	23,595	28,371
Total	$ 2,166,166	$ 605,980	$ 2,772,146

	2021		
	RESIDENT CARE	OUTPATIENT CARE	TOTAL
Medicaid managed care	$ 1,428,876	$ 60,574	$ 1,489,450
Commercial insurance carriers	631,154	377,705	1,008,859
Self-pay	(8,637)	42,784	34,147
Total	$ 2,051,393	$ 481,063	$ 2,532,456

NOTE 8 – NONFINANCIAL CONTRIBUTIONS

Phoenix Houses recognized the following nonfinancial contributions:

CONTRIBUTED NONFINANCIAL ASSETS	MONETIZED OR UTILIZED IN PROGRAMS/ACTIVITIES	VALUATION TECHNIQUES AND INPUTS	2022	2021
Teacher services	Utilized in program services	Fair value estimated based upon teacher pay rates in the area.	$206,928	$206,928
Building usage	Utilized in program services	Fair value estimated based upon current space rental rates in areas of service.	269,096	268,896
Program supplies	Utilized in program services	Fair value estimated based on value of supplies in active market.	3,315	
Consulting services	Utilized in program, management and general, and fundraising services	Fair value estimated based on current rates for similar services.	105,965	
Construction services	Utilized in program services for Sports Field	Fair value estimated based on current rates of similar supplies and services.	67,527	
Total contributed nonfinancial assets			$652,831	$475,824

There are not any restrictions on nonfinancial contributions in fiscal year 2022 and 2021.

NOTE 9 – GOVERNMENT AWARDS

Phoenix Houses of Texas is a party to agreements with government agencies. Should these agreements not be renewed, a replacement for this source of support may not be forthcoming and related expenses would not be incurred. Sources of significant government grants recognized include the following:

	2022	2021
Federal government awards:		
U. S. Department of Health and Human Services	$ 3,968,487	$ 2,915,055
U. S. Department of Treasury	1,029,085	1,015,600
U. S. Department of Agriculture	125,834	103,175
Total federal government awards	5,123,406	4,033,830
State government awards:		
Texas Health and Human Services Commission	439,349	677,335
Total government awards	$ 5,562,755	$ 4,711,165

Government awards require fulfillment of certain conditions as set forth in the agreements 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 Phoenix Houses of Texas with the terms of the agreements. Management believes such disallowances, if any, would not be material to Phoenix Houses of Texas' balance sheet or changes in net assets.

NOTE 10 – EMPLOYEE BENEFIT PLAN

Retirement benefits – Through March 2020, Phoenix Houses of Texas was a participating employer in The Phoenix Houses 403(b) Tax-Deferred Annuity Plan (the Plan) to provide retirement benefits to eligible employees. Under the Plan, all employees of Phoenix Houses of Texas became participants in the Plan following the completion of one year of service and were immediately vested. The Plan provided annual safe harbor non-elective contributions to the Plan of 3.5% of eligible compensation and a 50% match on participant contributions (maximum match is 2.5%). Effective April 1, 2020, all employees are eligible to participate in the Plan immediately and also are 100% vested immediately. The employer match is discretionary up to 6% of an employee's compensation. Phoenix Houses of Texas' contributions to the Plan were approximately $80,800 for the year ended June 30, 2022 and $78,700 for the year ended June 30, 2021.

NOTE 11 – COMMITMENTS AND CONTINGENCIES

Insurance – Phoenix Houses of Texas maintains claims-made policies for its malpractice coverage to cover any claims in the ordinary course of business. Primary limits of $1,000,000 per occurrence with an annual aggregate limit of $3,000,000 apply with no deductibles. Claims that are insured under the claims-made policies are covered only if the occurrence is reported prior to expiration of the policy period. In the event the current policies are not renewed or replaced with equivalent insurance coverage, claims based on occurrences during their term, but reported subsequently, will be uninsured. There are claims from unknown incidents that may be asserted arising from services provided. Management does not expect such claims to have a material adverse effect on Phoenix Houses of Texas' financial position.

Lease commitments – Leases that do not meet the criteria for capitalization are classified as operating leases, with related expenses recognized in the period incurred. Phoenix Houses of Texas has entered into leases for office space, vehicles, and equipment for terms extending through 2026. Future minimum lease payments on the facility, vehicles, and equipment leases at June 30, 2022 are payable as follows:

2023	$ 163,949
2024	115,040
2025	64,944
2026	65,214
Total	$ 409,147

Additionally, Phoenix Houses of Texas has leases for certain facilities that may be terminated with minimal notice. Total rental expenses for all operating leases, including those requiring minimal notice, was approximately $207,000 for the year ended June 30, 2022.

NOTE 12 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through January 24, 2023, which is the date that the financial statements were available for issuance. As a result of this evaluation, no events were identified that are required to be disclosed or would have a material impact on reported net assets or changes in net assets.