Phoenix Houses of Texas, Inc.

Financial Statements
and Single Audit Reports
for the year ended June 30, 2024

Phoenix Houses of Texas, Inc.

Table of Contents

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, 2024 and 2023, 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, 2024 and 2023, and the results of its operations, 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.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplementary information included in the schedule of expenditures of federal awards for the year ended June 30, 2024 as required by Title 2 U. S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Report Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 26, 2025 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

March 26, 2025

Phoenix Houses of Texas, Inc.

Balance Sheets as of June 30, 2024 and 2023

	2024	2023
ASSETS		
Current assets:		
Cash	$ 343,276	$ 1,224,470
Government grants receivable	464,267	280,140
Patient accounts receivable, net		527,053
Property sale receivable *(Note 10)*	4,477,282	
Contributions receivable		237,500
Prepaid expenses and other assets		35,384
Total current assets	5,284,825	2,304,547
Prepaid expenses		31,101
Right-of-use assets *(Note 3)*	86,125	223,237
Property and equipment, net *(Note 4)*	759,105	2,524,434
TOTAL ASSETS	$ 6,130,055	$ 5,083,319
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued expenses	$ 36,312	$ 198,800
Accrued payroll and related benefits	125,412	389,565
Lease liabilities *(Note 3)*	86,125	227,901
Total liabilities	247,849	816,266
Commitments and contingencies *(Note 9)*		
Net assets:		
Without donor restrictions	5,877,771	3,931,003
With donor restrictions	4,435	336,050
Total net assets	5,882,206	4,267,053
TOTAL LIABILITIES AND NET ASSETS	$ 6,130,055	$ 5,083,319

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, 2024 and 2023

	2024	2023
CHANGES IN NET ASSETS WITHOUT DONOR RESTRICTIONS:		
OPERATING REVENUE, GAINS, AND OTHER SUPPORT:		
Patient service revenue *(Note 5)*		$ 2,167,213
Contributions	$ 509,552	1,086,971
Contributed nonfinancial assets *(Note 6)*	367,833	706,232
Other income	143,334	57,653
Net assets released from restrictions for operating contributions	341,615	845,019
Net assets released from restrictions for operating government grants	2,758,034	4,249,015
Total operating revenue, gains, and other support	4,120,368	9,112,103
EXPENSES:		
Program services	3,738,368	7,871,511
Management and general	1,391,346	1,794,565
Fundraising	201,841	384,958
Total expenses	5,331,555	10,051,034
Deficiency of revenue, gains, and other support over expenses and changes in net assets without donor restrictions	(1,211,187)	(938,931)
CHANGES IN NET ASSETS WITH DONOR RESTRICTIONS:		
Contributions	10,000	462,421
Government grants *(Note 7)*	2,758,034	4,249,015
Net assets released from restrictions for operating contributions	(341,615)	(845,019)
Net assets released from restrictions for operating government grants	(2,758,034)	(4,249,015)
Changes in net assets with donor restrictions	(331,615)	(382,598)
Gain on sale of property *(Note 10)*	3,157,955	
CHANGES IN NET ASSETS	1,615,153	(1,321,529)
Net assets, beginning of year	4,267,053	5,588,582
Net assets, end of year	$ 5,882,206	$ 4,267,053

See accompanying notes to financial statements.

Phoenix Houses of Texas, Inc.

Statements of Functional Expenses for the years ended June 30, 2024 and 2023

	PROGRAM SERVICES	MANAGEMENT AND GENERAL	FUNDRAISING	2024 TOTAL EXPENSES
Salaries and employee benefits	$ 2,095,669	$ 751,212	$ 123,436	$ 2,970,317
Occupancy	501,485	108,038	16,314	625,837
Professional fees and contracted services	268,619	209,897	10,674	489,190
Depreciation	354,888	41,896	120	396,904
Supplies, equipment and maintenance	256,046	64,360	5,929	326,335
Insurance	160,887	63,947	1,699	226,533
Travel	36,603	24,704	181	61,488
Licenses, permits and fees	17,777	33,111		50,888
Other	46,394	94,181	43,488	184,063
Total expenses	$ 3,738,368	$ 1,391,346	$ 201,841	$ 5,331,555

	PROGRAM SERVICES	MANAGEMENT AND GENERAL	FUNDRAISING	2023 TOTAL EXPENSES
Salaries and employee benefits	$ 4,926,638	$ 1,274,344	$ 276,890	$ 6,477,872
Occupancy	616,374	73,831	19,489	709,694
Professional fees and contracted services	1,007,545	132,305	28,803	1,168,653
Depreciation	366,182	55,326	68	421,576
Supplies, equipment and maintenance	551,924	62,224	5,876	620,024
Insurance	262,041	21,133	8,522	291,696
Travel	64,828	68,960	17,519	151,307
Licenses, permits and fees	61,365	6,041		67,406
Other	14,614	100,401	27,791	142,806
Total expenses	$ 7,871,511	$ 1,794,565	$ 384,958	$ 10,051,034

See accompanying notes to financial statements.

Phoenix Houses of Texas, Inc.

Statements of Cash Flows for the years ended June 30, 2024 and 2023

	2024	2023
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in net assets	$ 1,615,153	$ (1,321,529)
Adjustments to reconcile changes in net assets to net cash used by operating activities:		
Depreciation	396,904	421,576
Gain on sale of property	(3,157,955)	
Changes in operating assets and liabilities:		
Patient accounts receivable	527,053	(46,433)
Contributions receivable	237,500	200,000
Government grants receivable	(184,127)	27,498
Prepaid expenses and other assets	66,485	77,091
Accounts payable and accrued expenses	(426,234)	(161,490)
Deferred revenue	(407)	(102,832)
Operating lease assets and liabilities	(4,664)	4,664
Net cash used by operating activities	(930,292)	(901,455)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from property sale	50,000	
Purchases of property and equipment	(902)	(83,806)
Net cash provided (used) by investing activities	49,098	(83,806)
NET CHANGE IN CASH	(881,194)	(985,261)
Cash, beginning of year	1,224,470	2,209,731
Cash, end of year	$ 343,276	$ 1,224,470

See accompanying notes to financial statements.

NOTE 1 – ORGANIZATION AND SUMMARY OF ACCOUNTING POLICIES

Phoenix Houses of Texas, Inc. (PHT) was created in 1995 to provide compassionate care for individuals and families challenged by substance abuse. PHT is dedicated to helping youth, families, and communities challenged by substance use disorders and related mental health conditions by promoting health and well-being. PHT meets our people where they are by providing school and community-based substance use prevention and mental health promotion and support for youth in grades Pre-K through 12, family members, and community members in Houston, Austin, and Dallas. PHT passionately believes that effective prevention nurtures individuals to thrive, living meaningful lives in sobriety and fully participating in their families, jobs, community, economy, and society.

For over 28 years, PHT has offered a continuum of care to under-served communities, spanning early prevention to intensive residential treatment, serving primarily underserved communities and, never turning anyone away regardless of ability to pay. PHT acknowledges that the most pressing need and the most effective opportunity to decrease health disparities is through "positive prevention." Therefore in August 2023, PHT pivoted its efforts to focus entirely on our substance use prevention and mental health education services, aiming to proactively combat these issues before they start by improving the mental health and well-being of underserved youth and communities. In September 2023, PHT ceased in-patient and out-patient treatment services, upon closing the Dallas residential treatment programs.

Federal income tax status – PHT 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).

Patient accounts receivable are from patients and third-party payors and are based on amounts that reflect the consideration to which PHT expects to be entitled in exchange for services provided. PHT 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. The allowance for uncollectible accounts at June 30, 2023 was approximately $288,000.

Receivables from patients and third-party payors at June 30, 2023:

Medicaid managed care	63%
Commercial insurance carriers	37%
Total	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 contribution and government grant revenue. All government grants receivable are due to be paid within one year at June 30, 2024.

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. PHT capitalizes additions and improvements that have a tangible future economic life and a cost of more than $1,000.

Asset impairment – PHT 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 2024 or 2023.

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.

At June 30, 2024 and 2023, *net assets with donor restrictions* were subject to passage of time restrictions.

Patient service revenue recognition – Patient service revenue is recognized as performance obligations are satisfied and are reported at the amount that reflects the consideration PHT 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.

PHT 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, PHT 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. PHT 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, PHT 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 $0 for the year ended June 30, 2024 and approximately $4 million for the year ended June 30, 2023. During the years ended June 30, 2024 and 2023, there were approximately $0 and $105,000, 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 PHT 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.

A portion of PHT’s revenue is derived from federal grants, which are conditioned upon certain performance requirements and/or the incurrence of allowable qualifying expenses. At June 30, 2024, approximately $389,000 of federal grants have not been recognized in the accompanying financial statements because the conditions have not been met.

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.

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:

	2024	2023
Financial assets:		
Cash	$ 343,276	$ 1,224,470
Patient accounts receivable		527,053
Property sale receivable	4,477,282	
Contributions and government grants receivable	464,267	517,640
Other assets		13,615
Total financial assets	5,284,825	2,282,778
Less financial assets not available for general expenditure:		
Board-designated reserve	(4,477,282)	(500,000)
Total financial assets available for general expenditure	$ 807,543	$ 1,782,778

PHT 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, PHT 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.

PHT has historically designated a portion of its resources without donor restrictions as a board-designated reserve. These funds are held in an interest-bearing U.S. Government/Agency money market fund but, remain available to be spent with the Board of Directors' approval. In anticipation of the property sale closing, in February 2024 the Board of Directors modified the designated reserve to be an amount equal to the sale net proceeds and, further authorized the release of funds from the reserve as needed to maintain an operating account balance of $300,000 as authorized by the Finance Committee of the Board of Directors.

NOTE 3 – OPERATING LEASES

PHT leases office space and equipment under non-cancelable operating leases. Right-of-use assets are recognized at the present value of the lease payments at the inception of the lease adjusted, as appropriate, for certain other payments and allowances related to obtaining the lease and placing the asset in service. Operating leases reported as right-of-use assets are amortized so that lease costs remain constant over the lease term.

During 2024 and 2023, total lease costs were $217,928 and $167,794, respectively.

During the year ended June 30, 2024, cash paid for amounts included in the measurement of operating lease liabilities was $247,167. During the year ended June 30, 2023, cash paid for amounts included in the measurement of operating lease liabilities was $171,280.

As of June 30, 2024, the weighted-average remaining lease term for all operating leases is 26 months. The weighted-average discount rate associated with operating leases as of June 30, 2024 is 4.5%.

As of June 30, 2023, the weighted-average remaining lease term for all operating leases is 15 months. The weighted-average discount rate associated with operating leases as of June 30, 2023 is 4.6%.

Cash flows related to operating leases as of June 30, 2024 with terms exceeding one year are as follows:

2025	$ 49,531
2026	18,900
2027	18,900
2028	3,150
Total undiscounted cash flows	90,481
Less discount to present value	(4,356)
Total discount present value of lease liabilities	$ 86,125

NOTE 4 – PROPERTY AND EQUIPMENT

Property and equipment consists of the following:

	2024	2023
Buildings and leasehold improvements	$ 2,934,735	$ 6,389,412
Furniture and equipment	613,013	1,104,803
Land		428,000
Property and equipment, at cost	3,547,748	7,922,215
Accumulated depreciation	(2,788,643)	(5,397,781)
Property and equipment, net	$ 759,105	$ 2,524,434

NOTE 5 – PATIENT SERVICE REVENUE

PHT 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. As described in Note 1, PHT discontinued all inpatient and outpatient services in 2024. Revenue from contracts with customers consist of the following for the year ended June 30, 2023:

	RESIDENT CARE	OUTPATIENT CARE	TOTAL
Medicaid managed care	$ 1,131,159	$ 108,027	$ 1,239,186
Commercial insurance carriers	635,518	244,992	880,510
Self-pay	38,262	9,255	47,517
Total	$ 1,804,939	$ 362,274	$ 2,167,213

NOTE 6 – NONFINANCIAL CONTRIBUTIONS

PHT recognized the following nonfinancial contributions:

CONTRIBUTED NONFINANCIAL ASSETS	MONETIZED OR UTILIZED IN PROGRAMS/ACTIVITIES	VALUATION TECHNIQUES AND INPUTS	2024	2023
Building usage	Utilized in program services	Fair value estimated based upon current space rental rates in areas of service.	$272,146	$268,896
Program supplies	Utilized in program services	Fair value estimated based on value of supplies in active market.	54,381	13,321
Teacher services	Utilized in program services	Fair value estimated based upon teacher pay rates in the area.	41,306	393,294
Consulting services	Utilized in program, management and general, and fundraising services	Fair value estimated based on current rates for similar services.		30,721
Total contributed nonfinancial assets			$367,833	$706,232

There are not any restrictions on nonfinancial contributions in fiscal years 2024 and 2023.

NOTE 7 – GOVERNMENT AWARDS

PHT 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:

	2024	2023
Federal government awards:		
U. S. Department of Health and Human Services	$ 2,027,430	$ 3,203,008
U. S. Department of Agriculture	13,238	95,480
U. S. Small Business Administration		79,494
Total federal government awards	2,040,668	3,377,982
State government awards:		
Texas Health and Human Services Commission	717,366	871,033
Total government awards	$ 2,758,034	$ 4,249,015

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 PHT with the terms of the agreements. Management believes such disallowances, if any, would not be material to PHT's balance sheet or changes in net assets.

NOTE 8 – EMPLOYEE BENEFIT PLAN

PHT is an employer and Plan Sponsor of the Phoenix Houses of Texas 403(b) Retirement Plan (the Plan) that provides retirement benefits to eligible employees. All eligible employees may participate in the Plan on their date of hire. Employee elective deferrals are 100% vested immediately. Employer matching contributions are subject to the following vesting schedule: 0% vesting for less than 2 years of service and 100% vesting for 2 years or more of service. The employer match is discretionary, up to 6% of an employee's compensation. PHT's contributions to the Plan were $47,033 for the year ended June 30, 2024, and $108,578 for the year ended June 30, 2023.

NOTE 9 – COMMITMENTS AND CONTINGENCIES

PHT 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 PHT's financial position.

NOTE 10 – SALE OF PROPERTY

During the year ended June 30, 2024, PHT completed the sale of the Austin Academy property. The property sale closed before year end, with gross sale proceeds of approximately $4,530,000 after deducting selling expenses, including closing costs. The transaction generated a net gain of approximately $3,150,000, which is reported as other income in the Statement of Activities. The property's total net book value was $1,368,000 at the time of sale. Although the sale closed before year end, the cash proceeds were not received until subsequent to year end. Accordingly, the organization recorded an accounts receivable for the net sale proceeds as of the balance sheet date.

NOTE 11 – SUBSEQUENT EVENTS

Subsequent to June 30, 2024, PHT was awarded new 5-year grant agreements from the Texas Health and Human Services Commission to support prevention programming in Dallas, Austin, and Houston. These grants, which begin on September 1, 2024, have a total estimated value of approximately $17.5 million over five years, or $3.5 million annually. The funding will enhance and sustain prevention services across the organization's major Texas service areas through fiscal year 2029.

Management has evaluated subsequent events through March 26, 2025, which is the date the financial statements were available for issuance. No other events were identified that require disclosure or would have a material impact on the reported net assets or changes in net assets.

Phoenix Houses of Texas, Inc.

Schedule of Expenditures of Federal Awards for the year ended June 30, 2024

FEDERAL GRANTOR Pass-through Grantor Program Title & Period	Assistance Listing Number	Pass-through Grantor Number	Federal Expenditures
U. S. DEPARTMENT OF AGRICULTURE			
Passed through Texas Department of Agriculture:			
#1 School Breakfast Program			
07/01/23 – 06/30/24	10.553	N/A	$ 6,619
#2 National School Lunch Program			
07/01/23 – 06/30/24	10.555	N/A	6,619
Total U. S. Department of Agriculture – Child Nutrition Cluster			13,238
U. S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Passed through Texas Health and Human Services Commission:			
Block Grants for Prevention and Treatment of Substance Abuse			
#3 Houston Youth Prevention – Selective			
09/01/22 – 08/31/23	93.959	HHS000539700235 SA/YPS	57,538
09/01/23 – 08/31/24	93.959	HHS000539700235 SA/YPS	261,286
#4 Austin Youth Prevention – Selective			
09/01/22 – 08/31/23	93.959	HHS000539700236 SA/YPS	26,417
09/01/23 – 08/31/24	93.959	HHS000539700236 SA/YPS	148,494
#5 Houston Youth Prevention – Universal			
09/01/22 – 08/31/23	93.959	HHS000539700235 SA/YPU	31,437
09/01/23 – 08/31/24	93.959	HHS000539700235 SA/YPU	220,082
#6 Austin Youth Prevention – Universal			
09/01/23 – 08/31/24	93.959	HHS000539700236 SA/YPU	166,501
#7 Houston Community Coalition Partnership			
09/01/22 – 08/31/23	93.959	HHS000539700235 SA/CCP	5,542
09/01/23 – 08/31/24	93.959	HHS000539700235 SA/CCP	96,000
#8 Houston Youth Prevention – Indicated			
09/01/22 – 08/31/23	93.959	HHS000077600059	65,844
09/01/23 – 08/31/24	93.959	HHS000077600059	288,000
#9 Houston Treatment Services – Youth			
09/01/22 – 08/31/23	93.959	HHS000663700276	8,943
09/01/23 – 08/31/24	93.959	HHS000663700276	2,674
#10 Austin Treatment Services – Youth			
09/01/22 – 08/31/23	93.959	HHS000663700277	75,088
09/01/23 – 08/31/24	93.959	HHS000663700277	4,102
#11 Dallas Treatment Services – Youth			
09/01/22 – 08/31/23	93.959	HHS000663700275	104,618
09/01/23 – 08/31/24	93.959	HHS000663700275	38,332
#12 San Antonio Treatment Services – Youth			
09/01/22 – 08/31/23	93.959	HHS000663700278	23,615
09/01/23 – 08/31/24	93.959	HHS000663700278	5,656

(continued)

Phoenix Houses of Texas, Inc.

Schedule of Expenditures of Federal Awards for the year ended June 30, 2024 *(continued)*

FEDERAL GRANTOR Pass-through Grantor Program Title & Period	Assistance Listing Number	Pass-through Grantor Number	Federal Expenditures
U. S. DEPARTMENT OF HEALTH AND HUMAN SERVICES: *(continued)*			
Passed through Texas Health and Human Services Commission:			
Block Grants for Prevention and Treatment of Substance Abuse			
#13 Houston Community Coalition Partnership – COVID			
09/01/22 – 08/31/23	93.959	HHS000539700235 SA/CCP-COV	27,288
09/01/23 – 08/31/24	93.959	HHS000539700235 SA/CCP-COV	84,394
#14 Dallas Youth Prevention – Selective			
09/01/22 – 08/31/23	93.959	HHS000539700232 SA/YPS	7,874
09/01/23 – 08/31/24	93.959	HHS000539700232 SA/YPS	172,332
Passed through North Texas Behavioral Health Authority:			
Block Grants for Prevention and Treatment of Substance Abuse			
#15 Dallas Treatment Services – Youth NTBHA			
09/01/22 – 08/31/23	93.959	HHS000779800001	89,406
09/01/23 – 08/31/24	93.959	HHS000779800001	14,778
#16 Dallas Treatment Services – COPSD – Youth			
09/01/22 – 08/31/23	93.959	HHS000779800004	1,139
09/01/23 – 08/31/24	93.959	HHS000779800004	50
Total U. S. Department of Health and Human Services and Assistance Listing #93.959			2,027,430
TOTAL FEDERAL AWARDS			$ 2,040,668

See accompanying note to schedule of expenditures of federal awards.

Phoenix Houses of Texas, Inc.

Note to Schedule of Expenditures of Federal Awards for the year ended June 30, 2024

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation – The schedule of expenditures of federal awards is prepared on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Title 2 U. S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Federal expenditures include allowable costs funded by federal grants. Allowable costs are subject to the cost principles of the Uniform Guidance and include costs that are recognized as expenses in Phoenix Houses of Texas' financial statements in conformity with generally accepted accounting principles. Phoenix Houses of Texas has not elected to use the 10% de minimis cost rate for indirect costs, but uses its approved indirect cost rate from the U. S. Department of Health and Human Services. Phoenix Houses of Texas does not have any subrecipients.

Because the schedule presents only a selected portion of the operations of Phoenix Houses of Texas, it is not intended to and does not present the financial position, changes in net assets, or cash flows of Phoenix Houses of Texas.

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
Phoenix Houses of Texas, Inc.:

We have audited, 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, the financial statements of Phoenix Houses of Texas, Inc. (Phoenix Houses of Texas), which comprise the balance sheet as of June 30, 2024 and the related statements of operations and changes in net assets, of functional expenses, and of cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated March 26, 2025.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Phoenix Houses of Texas' internal control over financial reporting (internal control) as a basis for designing 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 Phoenix Houses of Texas' internal control. Accordingly, we do not express an opinion on the effectiveness of Phoenix Houses of Texas' 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether Phoenix Houses of Texas' 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 financial statements. 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards.*

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 the entity'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

March 26, 2025

2900 Weslayan, Suite 200 Houston, Texas 77027-5132 (713) 439-5757 Fax (713) 439-5758

Independent Auditors' Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance Required by the Uniform Guidance

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

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited Phoenix Houses of Texas, Inc. (Phoenix Houses of Texas) compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on each of Phoenix Houses of Texas' major federal programs for the year ended June 30, 2024. Phoenix Houses of Texas' major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

In our opinion, Phoenix Houses of Texas complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2024.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the *Auditors' Responsibilities for the Audit of Compliance* section of our report.

We are required to be independent of Phoenix Houses of Texas and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of Phoenix Houses of Texas' compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules and provisions of contracts or grant agreements applicable to Phoenix Houses of Texas' federal programs.

Auditors' Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on Phoenix Houses of Texas' compliance based on our audit. 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, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about Phoenix Houses of Texas' compliance with the requirements of each major federal program as a whole.

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, 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 Phoenix Houses of Texas' compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of Phoenix Houses of Texas' internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of Phoenix Houses of Texas' internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on Internal Control Over Compliance

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the *Auditors' Responsibilities for the Audit of Compliance* section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Blazek & Vetterling

March 26, 2025

Phoenix Houses of Texas, Inc.

Schedule of Findings and Questioned Costs for the year ended June 30, 2024

Section I – Summary of Auditors' Results

Financial Statements

Type of auditors' report issued: ☒ unmodified ☐ qualified ☐ adverse ☐ disclaimer

Internal control over financial reporting:

- Material weakness(es) identified? ☐ yes ☒ no
- Significant deficiency(ies) identified that are not considered to be material weakness(es)? ☐ yes ☒ none reported

Noncompliance material to the financial statements noted? ☐ yes ☒ no

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? ☐ yes ☒ no
- Significant deficiency(ies) identified that are not considered to be material weakness(es)? ☐ yes ☒ none reported

Type of auditors' report issued on compliance for major programs: ☒ unmodified ☐ qualified ☐ adverse ☐ disclaimer

Any audit findings disclosed that are required to be reported in accordance with 2 CFR §200.516(a)? ☐ yes ☒ no

Identification of major programs:

Assistance Listing Number(s)	Name of Federal Program or Cluster
93.959	Block Grants for Prevention and Treatment of Substance Abuse

Dollar threshold used to distinguish between Type A and Type B federal programs: $750,000

Auditee qualified as a low-risk auditee? ☐ yes ☒ no

Section II – Financial Statement Findings

There were no findings related to the financial statements which are required to be reported in accordance with *Government Auditing Standards*.

Section III – Federal Findings and Questioned Costs

There were no findings for federal awards required to be reported in accordance with 2 CFR §200.516(a).

Summary of Schedule of Prior Audit Findings

The following audit findings for the year ended June 30, 2023, are required to be reported in accordance with 2 CFR §200.511.

Finding #2023-001 – Significant Deficiency

Applicable federal program:

U. S. Department of Health and Human Services
Assistance Listing #93.959
Passed through Texas Department of Health and Human Services
Contract #'s: HHS000663700275, HHS000663700276, HHS000663700277, HHS000663700278, HHS000779800001, HHS000779800004
Contract years: 09/21 – 08/22; 09/22 – 08/23

Applicable state program:

Texas Department of Health and Human Services
Contract #: HHS000779800001
Contract year: 09/21 – 08/22

Condition and context: During our testing of 40 payroll transactions, we noted instances where the shift differential was not properly calculated and allocated to the grant departments.

Recommendation: Emphasize adherence to established policies and procedures to ensure payroll, including allocations methodology, are properly followed and reviewed.

Planned corrective action: Management has emphasized to HR that adherence to established policies and procedures for reviewing the payroll calculations of the 3rd party payroll vendor must be strictly followed. This finding for shift differential was limited to a very small number of residential treatment employees at one location that worked during overnight hours for 2 pay periods. Changes to shift differential are rare and are not needed in the cost reimbursement business model that took effect on October 1, 2023. In the future, management will ensure that closer coordination and testing is done with the 3rd party payroll vendor to ensure that all payroll changes are calculated correctly during the correct pay period.

Management's 2024 follow-up response: Corrective Action Plan completed.

Finding #2023-002 – Material Weakness and Other Noncompliance

Applicable federal program:

U. S. Department of Health and Human Services
Assistance Listing #93.959
Passed through Texas Department of Health and Human Services
Contract #'s: HHS000663700277 and HHS000663700278
Contract years: 09/21 – 08/22; 09/22 – 08/23

Applicable state program:

Texas Department of Health and Human Services
Contract #'s: HHS000663700277 and HHS000663700278
Contract year: 09/21 – 08/22

Condition and context: During our testing of 40 clients for proper eligibility, three clients had documented income verification that did not meet the income guidelines specified under the grant. Despite this, services were provided to these clients, and the costs were billed to the grant. Furthermore, one client out of the 40 tested did not have proper documentation to support the financial eligibility determination, and there was no attestation statement from the client explaining the inability to provide the necessary information.

Recommendation: Provide additional staff training to ensure internal control procedures over client eligibility and required documentation are followed.

Planned corrective action: Client eligibility and documentation requirements do not pertain to cost reimbursement grants; these regulations exclusively apply to fee-for-service grants. The fee-for-service grant programs concluded on September 30, 2023. Consequently, starting from October 1, 2023, the business model shifted to cost reimbursement only. As a result, no corrective actions are needed for fee-for-service grants.

Management's 2024 follow-up response: Fee-for-service grants not renewed as of October 1, 2023, corrective actions complete.