

Phoenix Houses of Texas, Inc.

Financial Statements
and Independent Auditors' Report
for the years ended June 30, 2025 and 2024

Phoenix Houses of Texas, Inc.

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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, 2025 and 2024, and the related statements of activities, 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, 2025 and 2024, 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.

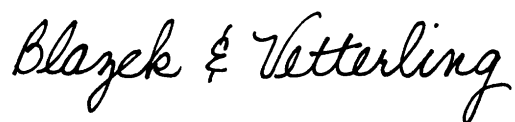
In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- 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 November 6, 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.



November 6, 2025

Phoenix Houses of Texas, Inc.

Balance Sheets as of June 30, 2025 and 2024

	<u>2025</u>	<u>2024</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 5,124,431	\$ 343,276
Contributions receivable (Note 3)	237,500	
Government grants receivable (Note 3)	251,037	464,267
Prepaid expenses and other assets	9,045	
Property sale receivable (Note 10)	<u> </u>	<u>4,477,282</u>
Total current assets	5,622,013	5,284,825
Contributions receivable, net (Note 3)	557,238	
Operating lease right-of-use assets (Note 4)	286,700	86,125
Property and equipment, net (Note 5)	<u>643,938</u>	<u>759,105</u>
TOTAL ASSETS	<u>\$ 7,109,889</u>	<u>\$ 6,130,055</u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued expenses	\$ 56,243	\$ 36,312
Accrued payroll and related benefits	91,278	125,412
Lease liabilities (Note 4)	<u>286,700</u>	<u>86,125</u>
Total liabilities	<u>434,221</u>	<u>247,849</u>
Commitments and contingencies (Note 7)		
Net assets:		
Without donor restrictions	5,847,692	5,877,771
With donor restrictions (Note 9)	<u>827,976</u>	<u>4,435</u>
Total net assets	<u>6,675,668</u>	<u>5,882,206</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 7,109,889</u>	<u>\$ 6,130,055</u>

See accompanying notes to financial statements.

Phoenix Houses of Texas, Inc.

Statements of Activities for the years ended June 30, 2025 and 2024

	<u>2025</u>	<u>2024</u>
CHANGES IN NET ASSETS WITHOUT DONOR RESTRICTIONS:		
REVENUE AND RELEASES:		
Contributions	\$ 536,309	\$ 509,552
Contributed nonfinancial assets <i>(Note 6)</i>	373,934	367,833
Gain on sale of property <i>(Note 10)</i>		3,157,955
Other income	187,884	143,334
Net assets released from restrictions for operating contributions	214,146	341,615
Net assets released from restrictions for operating government grants	<u>2,496,452</u>	<u>2,758,034</u>
Total revenue and releases	<u>3,808,725</u>	<u>7,278,323</u>
EXPENSES:		
Program services	2,592,674	3,738,368
Management and general	1,070,949	1,391,346
Fundraising	<u>175,181</u>	<u>201,841</u>
Total expenses	<u>3,838,804</u>	<u>5,331,555</u>
Changes in net assets without donor restrictions	<u>(30,079)</u>	<u>1,946,768</u>
CHANGES IN NET ASSETS WITH DONOR RESTRICTIONS:		
REVENUE AND RELEASES:		
Contributions	1,037,687	10,000
Government grants <i>(Note 7)</i>	2,496,452	2,758,034
Net assets released from restrictions for operating contributions	(214,146)	(341,615)
Net assets released from restrictions for operating government grants	<u>(2,496,452)</u>	<u>(2,758,034)</u>
Changes in net assets with donor restrictions	<u>823,541</u>	<u>(331,615)</u>
CHANGES IN NET ASSETS	793,462	1,615,153
Net assets, beginning of year	<u>5,882,206</u>	<u>4,267,053</u>
Net assets, end of year	<u>\$ 6,675,668</u>	<u>\$ 5,882,206</u>

See accompanying notes to financial statements.

Phoenix Houses of Texas, Inc.

Statements of Functional Expenses for the years ended June 30, 2025 and 2024

	PROGRAM SERVICES	MANAGEMENT AND GENERAL	FUNDRAISING	2025 TOTAL EXPENSES
Salaries and employee benefits	\$ 1,631,598	\$ 575,603	\$ 131,385	\$ 2,338,586
Occupancy	426,214	59,381	3,023	488,618
Professional fees and contracted services	197,900	110,245	7,048	315,193
Supplies, equipment and maintenance	150,326	47,788	14,747	212,861
Depreciation		185,594	120	185,714
Insurance	108,218	15,723	2,973	126,914
Travel	59,111	14,363	14,202	87,676
Licenses, permits and fees	1,872	10,198		12,070
Other	<u>17,435</u>	<u>52,054</u>	<u>1,683</u>	<u>71,172</u>
Total expenses	<u>\$ 2,592,674</u>	<u>\$ 1,070,949</u>	<u>\$ 175,181</u>	<u>\$ 3,838,804</u>

	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
Supplies, equipment and maintenance	256,046	64,360	5,929	326,335
Depreciation	354,888	41,896	120	396,904
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	<u>46,394</u>	<u>94,181</u>	<u>43,488</u>	<u>184,063</u>
Total expenses	<u>\$ 3,738,368</u>	<u>\$ 1,391,346</u>	<u>\$ 201,841</u>	<u>\$ 5,331,555</u>

See accompanying notes to financial statements.

Phoenix Houses of Texas, Inc.

Statements of Cash Flows for the years ended June 30, 2025 and 2024

	<u>2025</u>	<u>2024</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in net assets	\$ 793,462	\$ 1,615,153
Adjustments to reconcile changes in net assets to net cash provided (used) by operating activities:		
Depreciation	185,715	396,904
Amortization of operating lease right-of-use assets		137,112
Gain on sale of property		(3,157,955)
Changes in operating assets and liabilities:		
Patient accounts receivable		527,053
Contributions receivable	(794,738)	237,500
Government grants receivable	213,230	(184,127)
Prepaid expenses and other assets	(8,245)	66,485
Accounts payable and accrued expenses	(14,365)	(426,234)
Deferred revenue	162	(407)
Other receivables	(800)	
Operating lease liabilities		<u>(141,776)</u>
Net cash provided (used) by operating activities	<u>374,421</u>	<u>(930,292)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from property sale	4,477,282	50,000
Purchases of property and equipment	<u>(70,548)</u>	<u>(902)</u>
Net cash provided by investing activities	<u>4,406,734</u>	<u>49,098</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	4,781,155	(881,194)
Cash and cash equivalents, beginning of year	<u>343,276</u>	<u>1,224,470</u>
Cash and cash equivalents, end of year	<u>\$ 5,124,431</u>	<u>\$ 343,276</u>
<i>Supplemental cash flow disclosure:</i>		
Operating lease right-of-use asset acquired in exchange for lease liability	\$200,575	

See accompanying notes to financial statements.

Phoenix Houses of Texas, Inc.

Notes to Financial Statements for the years ended June 30, 2025 and 2024

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.

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).

Cash and cash equivalents include bank deposits and U. S. Government/Agency money market mutual funds. At June 30, 2025 and 2024, the money market mutual funds totaled \$4,956,146 and \$0, respectively. Money market mutual funds are reported at net asset value, a Level 1 inputs based on unadjusted quoted prices in active markets that is accessible at the organization's reporting date.

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.

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 2025 or 2024.

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.

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.

For the year ended June 30, 2025, approximately \$1,000,000 of restricted and unrestricted contribution revenue was recognized related to a five-year donor commitment with the first payment of \$200,000 received in 2025.

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:

	<u>2025</u>	<u>2024</u>
Financial assets:		
Cash	\$ 5,124,431	\$ 343,276
Contributions and government grants receivable	1,045,775	464,267
Other receivables	800	
Property sale receivable	<u> </u>	<u>4,477,282</u>
Total financial assets	6,171,006	5,284,825
Less financial assets not available for general expenditure:		
Board-designated reserve	(4,477,282)	(4,477,282)
Donor-restricted for future restricted use or passage of time	<u>(600,000)</u>	<u> </u>
Total financial assets available for general expenditure	<u>\$ 1,093,724</u>	<u>\$ 807,543</u>

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 a U. S. Government/Agency money market mutual fund, but remain available to be spent with the Board of Directors' approval. The Board of Directors has 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 – CONTRIBUTIONS AND GOVERNMENT GRANTS RECEIVABLE

Contributions and government grants receivable are as follows:

	<u>2025</u>	<u>2024</u>
Government grants receivable	\$ 251,037	\$ 464,267
Contributions receivable	837,500	
Unamortized discount at 3.8%	<u>(42,762)</u>	<u> </u>
Contributions and government grants receivable, net	<u>\$ 1,045,775</u>	<u>\$ 464,267</u>

At June 30, 2025, payments are expected to be collected as follows:

Receivable in less than one year	\$ 488,537
Receivable in one to four years	<u>600,000</u>
Total contributions receivable and government grants receivable	<u>\$ 1,088,537</u>

At June 30, 2025, contributions and government grant receivables are from three donors.

NOTE 4 – 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 2025 and 2024, total lease costs were \$83,393 and \$217,928, respectively.

During the year ended June 30, 2025, cash paid for amounts included in the measurement of operating lease liabilities was \$76,340. During the year ended June 30, 2024, cash paid for amounts included in the measurement of operating lease liabilities was \$247,167.

As of June 30, 2025, the weighted-average remaining lease term for all operating leases is 50 months. The weighted-average discount rate associated with operating leases as of June 30, 2025 is 6.14%.

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%.

Cash flows related to operating leases as of June 30, 2025 with terms exceeding one year are as follows:

2026	\$ 74,030
2027	76,121
2028	78,099
2029	76,909
2030	<u>10,314</u>
Total undiscounted cash flows	315,473
Less discount to present value	<u>(28,773)</u>
Total discount present value of lease liabilities	<u>\$ 286,700</u>

NOTE 5 – PROPERTY AND EQUIPMENT

Property and equipment consists of the following:

	<u>2025</u>	<u>2024</u>
Buildings and leasehold improvements	\$ 2,934,735	\$ 2,934,735
Furniture and equipment	<u>683,561</u>	<u>613,013</u>
Property and equipment, at cost	3,618,296	3,547,748
Accumulated depreciation	<u>(2,974,358)</u>	<u>(2,788,643)</u>
Property and equipment, net	<u>\$ 643,938</u>	<u>\$ 759,105</u>

NOTE 6 – NONFINANCIAL CONTRIBUTIONS

PHT recognized the following nonfinancial contributions:

CONTRIBUTED NONFINANCIAL ASSETS	MONETIZED OR UTILIZED IN PROGRAMS/ACTIVITIES	VALUATION TECHNIQUES AND INPUTS	<u>2025</u>	<u>2024</u>
Building usage	Utilized in program services	Fair value estimated based upon space rental rates in areas of service.	\$288,444	\$272,146
Program supplies	Utilized in program services	Fair value estimated based on value of supplies in active market.	72,162	54,381
Catering services	Utilized in management and general services	Fair value estimated based on rates for similar services.	13,328	
Teacher services	Utilized in program services	Fair value estimated based upon similar teacher pay rates.		41,306
Total contributed nonfinancial assets			<u>\$373,934</u>	<u>\$367,833</u>

There are no restrictions on nonfinancial contributions in fiscal years 2025 and 2024.

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:

	<u>2025</u>	<u>2024</u>
Federal government awards:		
U. S. Department of Health and Human Services	\$ 2,064,811	\$ 2,027,430
U. S. Department of Agriculture	<u> </u>	<u>13,238</u>
Total federal government grants	<u>2,064,811</u>	<u>2,040,668</u>
State government awards:		
Texas Health and Human Services Commission	<u>431,641</u>	<u>717,366</u>
Total government grants	<u>\$ 2,496,452</u>	<u>\$ 2,758,034</u>

At June 30, 2025, PHT have been awarded approximately \$14 million of conditional contributions from the Texas Health and Human Services Commission which have not been recognized in the accompanying financial statements because the conditions have not been met. PHT will recognize these grants as qualifying grant expenditures are incurred and/or matching requirements are met monthly through the term of the grant award period ending August 31, 2029.

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 \$36,593 for the year ended June 30, 2025 and \$47,033 for the year ended June 30, 2024.

The Plan was amended effective January 1, 2025 to provide for an eligible automatic contribution arrangement as further described in Amendment I and the related Summary of Material Modifications document. Management has determined that third party advisors engaged to support plan education, services and record keeping failed to properly implement the changes to the Plan on the effective date. Management is in discussion with the advisors to determine and implement appropriate corrective actions. Based on these discussions, management does not anticipate the corrective actions to have a material effect on the financial position of PHT.

NOTE 9 – NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are restricted as follows:

	<u>2025</u>	<u>2024</u>
Subject to expenditure for specified purpose:		
Prevention	\$ 37,500	
Project Empathy	16,811	
Family Fund	16,427	
Other	<u> </u>	\$ 4,434
Total subject to expenditure for specified purpose	70,738	4,434
Subject to passage of time:		
Contributions receivable that are not restricted by donors, but which are unavailable for expenditures until due	<u>757,238</u>	<u> </u>
Total net assets with donor restrictions	<u>\$ 827,976</u>	<u>\$ 4,434</u>

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. 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 fiscal year 2025. Accordingly, the organization recorded a receivable for the net sale proceeds as of June 30, 2024.

NOTE 11 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through November 6, 2025, which is the date 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 the reported net assets or changes in net assets.

Phoenix Houses of Texas, Inc.

Compliance Reporting
for the year ended June 30, 2025

Phoenix Houses of Texas, Inc.

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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 the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Phoenix Houses of Texas, Inc. (Phoenix Houses of Texas), which comprise the statement of financial position as of June 30, 2025 and the related statements of activities, 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 November 6, 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified a deficiency in internal control, described in the accompanying schedule of findings and questioned costs as item #2025-001 that we consider to be a material weakness.

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*.

Phoenix Houses of Texas' Response to Finding

Government Auditing Standards requires the auditor to perform limited procedures on Phoenix Houses of Texas' response to the finding identified in our audit and described in the accompanying schedule of findings and questioned costs. Phoenix Houses of Texas' response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

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 Phoenix Houses of Texas' internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Phoenix Houses of Texas' internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Blazek & Vetterling

November 6, 2025

**Independent Auditors' Report on Compliance for the Major Federal Program;
Report on Internal Control Over Compliance; and Report on Schedule of
Expenditures of Federal Awards Required by the Uniform Guidance**

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

Report on Compliance for the Major Federal Program

Opinion on the Major Federal Program

We have audited Phoenix Houses of Texas, Inc.'s (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 Phoenix Houses of Texas' major federal program for the year ended June 30, 2025. Phoenix Houses of Texas' major federal program is 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 its major federal program for the year ended June 30, 2025.

Basis for Opinion on the 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 the 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 program.

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 the 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.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance which is required to be reported in accordance with the Uniform Guidance and which is described in the accompanying schedule of findings and questioned costs as item #2025-002. Our opinion on each major federal program is not modified with respect to these matters.

Government Auditing Standards requires the auditor to perform limited procedures on Phoenix Houses of Texas' response to the noncompliance findings identified in our audit described in the accompanying schedule of findings and questioned costs. Phoenix Houses of Texas' response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, as discussed below, we did identify a deficiency in internal control over compliance that we consider to be a significant deficiency.

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. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item #2025-002 to be a significant deficiency.

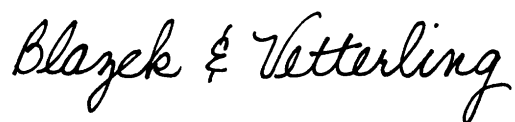
Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

Government Auditing Standards requires the auditor to perform limited procedures on Phoenix Houses of Texas' response to the internal control over compliance finding identified in our audit described in the accompanying schedule of findings and questioned costs. Phoenix Houses of Texas' response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of Phoenix Houses of Texas as of and for the year ended June 30, 2025, and have issued our report thereon dated November 6, 2025, which contained an unmodified opinion on those financial statements. 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 is presented for purposes of additional analysis as required by the Uniform Guidance 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.



December 16, 2025

Phoenix Houses of Texas, Inc.

Schedule of Expenditures of Federal Awards for the year ended June 30, 2025

<u>FEDERAL GRANTOR</u> <u>Pass-through Grantor</u> <u>Program Title & Period</u>	<u>Assistance</u> <u>Listing</u> <u>Number</u>	<u>Pass-through</u> <u>Grantor</u> <u>Number</u>	<u>Federal</u> <u>Expenditures</u>
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			
#1 Houston Youth Prevention – Selective 09/01/23 – 08/31/24	93.959	HHS000539700235 SA/YPS	\$ 25,907
#2 Houston Youth Prevention – Universal 09/01/23 – 08/31/24	93.959	HHS000539700235 SA/YPU	16,918
#3 Houston Youth Prevention – Indicated 09/01/23 – 08/31/24	93.959	HHS000539700235 SA/YPI	29,879
#4 Houston Community Coalition Partnership 09/01/23 – 08/31/24	93.959	HHS000539700235 SA/CCP	7,860
#5 Houston Community Coalition Partnership – COVID-19 09/01/23 – 08/31/24	93.959	HHS000539700235 SA/CCP-COV	18,089
#6 Dallas Youth Prevention – Selective 09/01/23 – 08/31/24	93.959	HHS000539700232 SA/YPS	25,168
#7 Austin Youth Prevention – Selective 09/01/23 – 08/31/24	93.959	HHS000539700236 SA/YPS	11,506
#8 Austin Youth Prevention – Universal 09/01/23 – 08/31/24	93.959	HHS000539700236 SA/YPU	11,249
#9 Dallas – Region 3 – Youth Prevention Selective (YPS) 09/01/24 – 08/31/25	93.959	HHS001344700035 SA/YPS	87,400
#10 Dallas – Region 3 – Youth Prevention Indicated (YPI) 09/01/24 – 08/31/25	93.959	HHS001344700035 SA/YPI	81,959
#11 Dallas – Region 3 – Youth Prevention Universal (YPU) 09/01/24 – 08/31/25	93.959	HHS001344700035 SA/YPU	124,964
#12 Houston – Region 6 – Youth Prevention Universal (YPU) 09/01/24 – 08/31/25	93.959	HHS001344700036 SA/YPU	305,884
#13 Austin – Region 7 – Youth Prevention Universal (YPU) 09/01/24 – 08/31/25	93.959	HHS001344700037 SA/YPU	182,964
#14 Houston – Region 6 – Prevention Resource Center (PRC) 09/01/24 – 08/31/25	93.959	HHS001344700036 SA/PRC	296,250
#15 Austin – Region 7 – Youth Prevention Selective (YPS) 09/01/24 – 08/31/25	93.959	HHS001344700037 SA/YPS	213,971
#16 Houston – Region 6 – Youth Prevention Indicated (YPI) 09/01/24 – 08/31/25	93.959	HHS001344700036 SA/YPI	175,206

(continued)

Phoenix Houses of Texas, Inc.

Schedule of Expenditures of Federal Awards for the year ended June 30, 2025 *(continued)*

<u>FEDERAL GRANTOR</u>	Assistance	Pass-through	Federal
<u>Pass-through Grantor</u>	Listing	Grantor	Expenditures
<u>Program Title & Period</u>	<u>Number</u>	<u>Number</u>	
U. S. DEPARTMENT OF HEALTH AND HUMAN SERVICES: <i>(continued)</i>			
Passed through Texas Health and Human Services Commission:			
Block Grants for Prevention and Treatment of Substance Abuse			
#17 Austin – Region 7 – Youth Prevention Indicated (YPI)			
09/01/24 – 08/31/25	93.959	HHS001344700037 SA/YPI	139,846
#18 Houston – Region 6 – Youth Prevention Selective (YPS)			
09/01/24 – 08/31/25	93.959	HHS001344700036 SA/YPS	<u>309,791</u>
Total U. S. Department of Health and Human Services			<u>2,064,811</u>
TOTAL FEDERAL AWARDS			<u>\$ 2,064,811</u>

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, 2025

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.

Condition and context: Phoenix Houses of Texas received a \$200,000 donor contribution in February 2025 which is the first of 5 payments totaling \$1 million. Contribution revenue of \$200,000 was recognized in the financial statements and the remaining \$800,000 commitment was reflected as deferred revenue. This treatment did not comply with GAAP reporting requirements and audit adjustments were required to properly state contributions revenue restricted for time and purpose in the proper period.

Cause and effect: Failure to establish and maintain an adequate system of internal control over financial reporting for contributions adversely affects Phoenix Houses of Texas' ability to prepare financial statements in accordance with GAAP and may result in financial statement misstatements.

Recommendation: Implement policies and procedures for the recognition of contribution revenue for time and purpose restricted contributions to ensure that all transactions are properly recorded in accordance with GAAP.

Views of responsible officials and planned corrective actions: Management agrees with the finding. See Corrective Action Plan.

Section III – Federal Award Finding and Questioned Costs

Finding #2025-002 – Significant Deficiency and Other Noncompliance – Reporting

Applicable federal program:

U. S. Department of Health and Human Services
Assistance Listing #93.959
Passed through Texas Health and Human Services Commission
All contracts
Contract years: 09/01/23 – 08/31/24 and 09/01/24 – 08/31/25

Criteria: Management is responsible for establishing internal controls for contract compliance for reporting in accordance with the Uniform Guidance and requirements in the pass-thru agency grant contract.

Condition and context: In our testing of a sample of monthly billings and quarterly reports from throughout the fiscal year, we noted that reports were not being submitted within the required timelines for several reporting periods. Management communicated their delays to Texas Health and Human Services Commission (THHS), and their plan to rectify the delays. Phoenix Houses of Texas were able to file all delayed quarterly reports and monthly billings prior to June 30, 2025. THHS has approved all the delayed monthly billings and quarterly reports.

Cause and effect: Phoenix Houses was awarded a new 5-year grant agreement in July 2024 with an effective date of September 1, 2024 from the Texas Health and Human Services Commission to support prevention programming in Dallas, Austin, and Houston. The discontinuation of residential treatment services and exclusive focus on new prevention service grants necessitated organizational restructuring and related changes in personnel. The accounting system also required updates to enable proper budgeting, accounting and reporting for the new grants. Late reporting may result in delayed management decision-making, potential non-compliance with THHS reporting timelines and impacts on grant reimbursement collections.

Recommendation: Re-emphasize internal procedures for timely grant billing and reporting to comply with grant contracts.

Views of responsible officials and planned corrective actions: Management agrees with the finding. See Corrective Action Plan.

CORRECTIVE ACTION PLAN

December 16, 2025

U. S. DEPARTMENT OF HEALTH AND HUMAN SERVICES

Phoenix Houses of Texas respectfully submits the following Corrective Action Plan for the year ended June 30, 2025. The audit was performed by: Blazek & Vetterling, 2900 Wesleyan, Suite 200, Houston, Texas, 77027.

The findings from the June 30, 2025 schedule of findings and questioned costs are discussed below. The findings are numbered consistently with the numbers assigned in the schedule.

FINDINGS – FINANCIAL STATEMENT

Finding #2025-001 – Material Weakness – Contributions Recognition

Condition and context: Phoenix Houses of Texas received a \$200,000 donor contribution in February 2025 which is the first of 5 payments totaling \$1 million. Contribution revenue of \$200,000 was recognized in the financial statements and the remaining \$800,000 commitment was reflected as deferred revenue. This treatment did not comply with GAAP reporting requirements and audit adjustments were required to properly state contributions revenue restricted for time and purpose in the proper period.

Recommendation: Implement policies and procedures for the recognition of contribution revenue for the time and purpose restricted contributions in accordance with GAAP.

Planned corrective action: Finance and development staff have established procedures to review all donor communications to ensure proper revenue recognition in accordance with GAAP.

Responsible officer: Drew Dutton, CEO and Anunoy Mou, Finance Director

Estimated completion date: Completed.

FINDINGS – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Finding #2025-002 – Significant Deficiency and Other Noncompliance – Reporting

Applicable federal program:

U. S. Department of Health and Human Services
Assistance Listing #93.959
Passed through Texas Health and Human Services Commission
All contracts
Contract years: 09/01/23 – 08/31/24 and 09/01/24 – 08/31/25

Condition and context: In our testing of a sample of monthly billings and quarterly reports from throughout the fiscal year, we noted that reports were not being submitted within the required timelines for several reporting periods. Management communicated their delays to Texas Health and Human Services Commission (THHS), and their plan to rectify the delays. Phoenix Houses of Texas were able to file all delayed quarterly reports and monthly billings prior to June 30, 2025. THHS has approved all the delayed monthly billings and quarterly reports.

Recommendation: Re-emphasize internal controls over timely grant billing and reporting to comply with grant contracts.

Planned corrective action: All outstanding billings were subsequently submitted and billings are now current and submitted in accordance with required timelines. Corrective actions implemented include updates to Finance Department policies and procedures to formalize month-end closing and billing timelines and to strengthen oversight and monitoring controls. These changes ensure that billing and reporting are performed on a timely and ongoing basis.

Responsible officer: Drew Dutton, CEO and Anunoy Mou, Finance Director

Estimated completion date: Completed September 2025.

If the U. S. Department of Health and Human Services has questions regarding this plan, please call Anunoy Mou at (214) 999-1044.

Sincerely,



Anunoy Mou
Finance Director