Phoenix Houses of Texas, Inc.

Financial Statements
and Independent Auditors' Report
for the years ended June 30, 2026 and 2025

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, 2026 and 2025, 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, 2026 and 2025, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore, is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and

Government Auditing Standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

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 October 16, 2026 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

October 16, 2026

Phoenix Houses of Texas, Inc.

Balance Sheets as of June 30, 2026 and 2025

	2026	2025
ASSETS		
Current assets:		
Cash and cash equivalents	$ 5,061,180	$ 5,124,431
Contributions receivable *(Note 3)*	200,000	237,500
Government grants receivable *(Note 3)*	898,921	251,037
Prepaid expenses and other assets	53,482	9,045
Total current assets	6,213,583	5,622,013
Contributions receivable, net *(Note 3)*	378,413	557,238
Operating lease right-of-use assets *(Note 4)*	216,783	286,700
Property and equipment, net *(Note 5)*	461,185	643,938
TOTAL ASSETS	$ 7,269,964	$ 7,109,889
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued expenses	$ 68,129	$ 56,243
Accrued payroll and related benefits	99,830	91,278
Lease liabilities *(Note 4)*	221,666	286,700
Total liabilities	389,625	434,221
Commitments and contingencies *(Note 7)*		
Net assets:		
Without donor restrictions	6,280,905	5,847,692
With donor restrictions *(Note 9)*	599,434	827,976
Total net assets	6,880,339	6,675,668
TOTAL LIABILITIES AND NET ASSETS	$ 7,269,964	$ 7,109,889

See accompanying notes to financial statements.

Phoenix Houses of Texas, Inc.

Statements of Activities for the years ended June 30, 2026 and 2025

	2026	2025
CHANGES IN NET ASSETS WITHOUT DONOR RESTRICTIONS:		
REVENUE AND RELEASES:		
Contributions	$ 256,435	$ 536,309
Contributed nonfinancial assets *(Note 6)*	438,947	373,934
Other income	188,303	187,884
Net assets released from restrictions for operating contributions	511,014	214,146
Net assets released from restrictions for operating government grants	3,287,130	2,496,452
Total revenue and releases	4,681,829	3,808,725
EXPENSES:		
Program services	2,859,464	2,592,674
Management and general	1,187,580	1,070,949
Fundraising	201,572	175,181
Total expenses	4,248,616	3,838,804
Changes in net assets without donor restrictions	433,213	(30,079)
CHANGES IN NET ASSETS WITH DONOR RESTRICTIONS:		
REVENUE AND RELEASES:		
Contributions	282,472	1,037,687
Government grants *(Note 7)*	3,287,130	2,496,452
Net assets released from restrictions for operating contributions	(511,014)	(214,146)
Net assets released from restrictions for operating government grants	(3,287,130)	(2,496,452)
Changes in net assets with donor restrictions	(228,542)	823,541
CHANGES IN NET ASSETS	204,671	793,462
Net assets, beginning of year	6,675,668	5,882,206
Net assets, end of year	$ 6,880,339	$ 6,675,668

See accompanying notes to financial statements.

Phoenix Houses of Texas, Inc.

Statements of Functional Expenses for the years ended June 30, 2026 and 2025

	PROGRAM SERVICES	MANAGEMENT AND GENERAL	FUNDRAISING	2026 TOTAL EXPENSES
Salaries and employee benefits	$ 1,887,584	$ 724,754	$ 151,326	$ 2,763,664
Occupancy	402,739	51,791	4,906	459,436
Professional fees and contract services	183,710	84,683	17,195	285,588
Supplies, equipment and maintenance	191,892	44,412	7,792	244,096
Depreciation		182,025	728	182,753
Insurance	98,459	11,275	5,254	114,988
Travel	52,336	17,619	2,844	72,799
Licenses, permits and fees	2,751	17,810		20,561
Other	39,993	53,211	11,527	104,731
Total expenses	$ 2,859,464	$ 1,187,580	$ 201,572	$ 4,248,616

	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 contract 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	17,435	52,054	1,683	71,172
Total expenses	$ 2,592,674	$ 1,070,949	$ 175,181	$ 3,838,804

See accompanying notes to financial statements.

Phoenix Houses of Texas, Inc.

Statements of Cash Flows for the years ended June 30, 2026 and 2025

	2026	2025
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in net assets	$ 204,671	$ 793,462
Adjustments to reconcile changes in net assets to net cash provided (used) by operating activities:		
Depreciation	182,753	185,715
Amortization of operating lease right-of-use assets	69,917	
Changes in operating assets and liabilities:		
Contributions receivable	216,325	(794,738)
Government grants receivable	(647,884)	213,230
Prepaid expenses and other assets	(44,437)	(9,045)
Accounts payable and accrued expenses	20,438	(14,203)
Operating lease liabilities	(65,034)	
Net cash provided (used) by operating activities	(63,251)	374,421
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from property sale		4,477,282
Purchases of property and equipment		(70,548)
Net cash provided by investing activities		4,406,734
NET CHANGE IN CASH AND CASH EQUIVALENTS	(63,251)	4,781,155
Cash and cash equivalents, beginning of year	5,124,431	343,276
Cash and cash equivalents, end of year	$ 5,061,180	$ 5,124,431
Supplemental cash flow disclosure:		
Operating lease right-of-use asset acquired in exchange for lease liability		$200,575

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.

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)(vi).

Cash and cash equivalents include bank deposits and U. S. Government/Agency money market mutual funds. At June 30, 2026 and 2025, the money market mutual funds totaled $4,859,436 and $4,956,146, respectively. Money market mutual funds are reported at net asset value, as 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.

Operating lease right-of-use assets are recognized at the present value of the lease payments at 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. Leased assets and liabilities for terms of 12 months or less are recognized as the expense is incurred.

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.

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 2026 and 2025.

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.

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:

	2026	2025
Financial assets:		
Cash	$ 5,061,180	$ 5,124,431
Contributions and government grants receivable	1,477,334	1,045,775
Other receivables	10,000	800
Total financial assets	6,548,514	6,171,006
Less financial assets not available for general expenditure:		
Board-designated reserve	(4,500,000)	(4,477,282)
Donor-restricted for future restricted use or passage of time	(378,413)	(557,238)
Total financial assets available for general expenditure	$ 1,670,101	$ 1,136,486

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 U. S. Government/Agency money market mutual funds, 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:

	2026	2025
Government grants receivable	$ 898,921	$ 251,037
Contributions receivable	600,000	837,500
Unamortized discount at 3.8%	(21,587)	(42,762)
Contributions and government grants receivable, net	$ 1,477,334	$ 1,045,775

At June 30, 2026, payments are expected to be collected as follows:

Receivable in less than one year	$ 1,098,921
Receivable in one to four years	400,000
Total contributions receivable and government grants receivable	$ 1,498,921

At June 30, 2026, contributions and government grant receivables are from four donors.

NOTE 4 – OPERATING LEASES

PHT leases office space and equipment under non-cancelable operating leases. During 2026 and 2025, total lease costs were $76,775 and $83,393, respectively.

During the year ended June 30, 2026 and 2025, cash paid for amounts included in the measurement of operating lease liabilities was approximately $74,000 and $76,000, respectively.

The weighted-average remaining lease term for all operating leases are as follows:

	2026	2025
Weighted-average remaining lease term	37 months	50 months
Weighted-average discount rate	4.24%	6.14%

Cash flows related to operating leases as of June 30, 2026 with terms exceeding one year are as follows:

2027	$ 76,121
2028	78,099
2029	76,909
2030	10,314
Total undiscounted cash flows	241,443
Less discount to present value	(19,777)
Total discount present value of lease liabilities	$ 221,666

NOTE 5 – PROPERTY AND EQUIPMENT

Property and equipment consists of the following:

	2026	2025
Buildings and leasehold improvements	$ 2,934,735	$ 2,934,735
Furniture and equipment	683,561	683,561
Property and equipment, at cost	3,618,296	3,618,296
Accumulated depreciation	(3,157,111)	(2,974,358)
Property and equipment, net	$ 461,185	$ 643,938

NOTE 6 – NONFINANCIAL CONTRIBUTIONS

PHT recognized the following nonfinancial contributions:

CONTRIBUTED NONFINANCIAL ASSETS	MONETIZED OR UTILIZED IN PROGRAMS/ACTIVITIES	VALUATION TECHNIQUES AND INPUTS	2026	2025
Building usage	Utilized in program services	Fair value estimated based upon space rental rates in areas of service.	$288,444	$288,444
Program supplies	Utilized in program services	Fair value estimated based on value of supplies in active market.	150,503	72,162
Catering services	Utilized in management and general services	Fair value estimated based on rates for similar services.		13,328
Total contributed nonfinancial assets			$438,947	$373,934

There are no restrictions on nonfinancial contributions in fiscal years 2026 and 2025.

NOTE 7 – GOVERNMENT GRANTS

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:

	2026	2025
Federal government grants:		
U. S. Department of Health and Human Services:		
Passed through Texas Health and Human Services Commission	$ 2,407,271	$ 2,064,811
Passed though Dallas County Health and Human Services	25,000	
U. S. Department of Treasury – passed through City of Dallas	80,677	
Total federal government grants	2,512,948	2,064,811
State government grants:		
Texas Health and Human Services Commission	730,168	431,641
Texas Opioid Abatement Fund Council	44,014	
Total state government grants	774,182	431,641
Total government grants	$ 3,287,130	$ 2,496,452

At June 30, 2026, PHT has been awarded approximately $10.6 million of conditional contributions from government agencies 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.

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 $81,181 for the year ended June 30, 2026 and $36,593 for the year ended June 30, 2025.

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 determined that third-party advisors engaged to support plan education, services and record keeping failed to timely implement the changes to the Plan. Corrective action has been taken and is reflected in the financial statements as of June 30, 2026.

NOTE 9 – NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are restricted as follows:

	2026	2025
Subject to expenditure for specified purpose:		
Project Empathy	$ 10,000	$ 16,811
Family Fund	6,021	16,427
Prevention	5,000	37,500
Total subject to expenditure for specified purpose	21,021	70,738
Subject to passage of time:		
Contributions receivable that are not restricted by donors, but which are unavailable for expenditures until due	578,413	757,238
Total net assets with donor restrictions	$ 599,434	$ 827,976

NOTE 10 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through October 16, 2026, 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 reported net assets or changes in net assets.

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, 2026 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 October 16, 2026.

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 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

October 16, 2026