

**The Council on Recovery and
The Foundation for The Council on Recovery**

Consolidated Financial Statements
and Independent Auditors' Report
for the years ended August 31, 2023 and 2022

The Council on Recovery and The Foundation for The Council on Recovery

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Independent Auditors' Report

To the Board of Trustees of
The Council on Recovery:

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of The Council on Recovery and The Foundation for The Council on Recovery (collectively the Consolidated Entities), which comprise the consolidated statements of financial position as of August 31, 2023 and 2022, and the related consolidated statements of activities, of functional expenses, and of cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Consolidated Entities as of August 31, 2023 and 2022, and the changes in their net assets and their 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 the Consolidated Entities 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. The financial statements of The Foundation for The Council on Recovery were not audited in accordance with *Government Auditing Standards*.

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 the Consolidated Entities' 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.

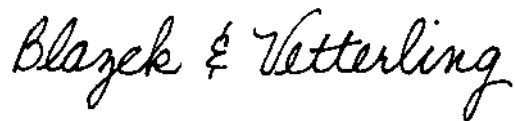
In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- 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 the Consolidated Entities' 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 the Consolidated Entities' ability to continue as a going concern for a reasonable period of time.

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

Report Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 26, 2024 on our consideration of the Consolidated Entities' 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 the Consolidated Entities' 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 the Consolidated Entities' internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Blazek & Vetterling". The script is cursive and fluid, with the ampersand being particularly stylized.

January 26, 2024

The Council on Recovery and The Foundation for The Council on Recovery

Consolidated Statements of Financial Position as of August 31, 2023 and 2022

	<u>2023</u>	<u>2022</u>
ASSETS		
Cash	\$ 118,728	\$ 4,825,870
Program service fees and other receivables, net	85,218	81,951
Prepaid expenses and other assets	196,478	115,132
Contributions receivable, net (<i>Note 3</i>)	1,187,710	883,277
Investments (<i>Note 4</i>)	3,332,266	
Property and equipment, net (<i>Note 5</i>)	<u>8,629,704</u>	<u>8,934,234</u>
TOTAL ASSETS	<u>\$ 13,550,104</u>	<u>\$ 14,840,464</u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued expenses	\$ 325,700	\$ 506,572
Deferred revenue:		
Special events	300,167	237,002
Program service fees	<u>159,042</u>	<u>114,351</u>
Total liabilities	<u>784,909</u>	<u>857,925</u>
Net assets:		
Without donor restrictions	10,812,611	11,727,953
With donor restrictions (<i>Note 6</i>)	<u>1,952,584</u>	<u>2,254,586</u>
Total net assets	<u>12,765,195</u>	<u>13,982,539</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 13,550,104</u>	<u>\$ 14,840,464</u>

See accompanying notes to consolidated financial statements.

The Council on Recovery and The Foundation for The Council on Recovery

Consolidated Statement of Activities for the year ended August 31, 2023

	WITHOUT DONOR RESTRICTIONS	WITH DONOR RESTRICTIONS	TOTAL
REVENUE:			
Contributions:			
Government grants (Note 7)		\$ 3,604,052	\$ 3,604,052
United Way		555,419	555,419
Other contributions	\$ 791,938	810,136	1,602,074
Special events	901,007		901,007
Cost of direct donor benefits at special events	(96,390)		(96,390)
Fees and program revenue:			
Program service fees, net	613,804		613,804
Government contracts (Note 7)	50,374		50,374
Net investment return	74,588		74,588
Other income	116,056		116,056
Total revenue	2,451,377	4,969,607	7,420,984
Net assets released from restrictions:			
Expenditures for program purposes	5,271,609	(5,271,609)	
Total	7,722,986	(302,002)	7,420,984
EXPENSES:			
Program services:			
Treatment and recovery services	3,527,170		3,527,170
Risk reduction services	2,677,337		2,677,337
Total program services	6,204,507		6,204,507
Supporting services:			
Management and general	1,523,360		1,523,360
Fundraising	910,461		910,461
Total supporting services	2,433,821		2,433,821
Total expenses	8,638,328		8,638,328
CHANGES IN NET ASSETS	(915,342)	(302,002)	(1,217,344)
Net assets, beginning of year	11,727,953	2,254,586	13,982,539
Net assets, end of year	\$ 10,812,611	\$ 1,952,584	\$ 12,765,195

See accompanying notes to consolidated financial statements.

The Council on Recovery and The Foundation for The Council on Recovery

Consolidated Statement of Activities for the year ended August 31, 2022

	WITHOUT DONOR RESTRICTIONS	WITH DONOR RESTRICTIONS	TOTAL
REVENUE:			
Contributions:			
Government grants (Note 7)		\$ 3,111,684	\$ 3,111,684
United Way		604,808	604,808
Other contributions	\$ 770,246	2,702,234	3,472,480
Special events	996,232		996,232
Cost of direct donor benefits at special events	(89,001)		(89,001)
Fees and program revenue:			
Program service fees, net	782,889		782,889
Government contracts (Note 7)	625,299		625,299
Other income	96,277		96,277
Total revenue	3,181,942	6,418,726	9,600,668
Net assets released from restrictions:			
Expenditures for program purposes	4,962,865	(4,962,865)	
Total	8,144,807	1,455,861	9,600,668
EXPENSES:			
Program services:			
Treatment and recovery services	3,244,747		3,244,747
Risk reduction services	2,953,556		2,953,556
Total program services	6,198,303		6,198,303
Supporting services:			
Management and general	1,349,018		1,349,018
Fundraising	1,002,790		1,002,790
Total supporting services	2,351,808		2,351,808
Total expenses	8,550,111		8,550,111
CHANGES IN NET ASSETS	(405,304)	1,455,861	1,050,557
Net assets, beginning of year	12,133,257	798,725	12,931,982
Net assets, end of year	\$ 11,727,953	\$ 2,254,586	\$ 13,982,539

See accompanying notes to consolidated financial statements.

The Council on Recovery and The Foundation for The Council on Recovery

Consolidated Statement of Functional Expenses for the year ended August 31, 2023

	PROGRAM SERVICES		SUPPORTING SERVICES		
	TREATMENT AND RECOVERY SERVICES	RISK REDUCTION SERVICES	MANAGEMENT AND GENERAL	FUNDRAISING	TOTAL
Salaries	\$ 2,223,010	\$ 1,550,853	\$ 691,585	\$ 434,202	\$ 4,899,650
Benefits and payroll taxes	<u>527,952</u>	<u>365,658</u>	<u>176,532</u>	<u>87,201</u>	<u>1,157,343</u>
Total salaries and related expenses	2,750,962	1,916,511	868,117	521,403	6,056,993
Professional fees	113,066	66,101	328,958	150,446	658,571
Occupancy	166,963	188,014	41,279	14,011	410,267
Depreciation	157,296	213,893	27,207	11,427	409,823
Supplies	63,491	62,843	41,948	71,000	239,282
Participant activities and incentives	101,951	37,625			139,576
Software licensing and maintenance	42,284	32,235	33,928	21,583	130,030
Communications	56,681	36,852	20,387	9,781	123,701
Equipment rental and maintenance	13,480	18,161	80,243	1,932	113,816
Insurance	30,795	22,004	23,719	5,068	81,586
Travel	15,064	21,639	7,946	2,575	47,224
Promotions and advertising		26,529	10,575	290	37,394
Training – conferences and workshops	10,446	6,050	6,077	1,412	23,985
Credit card processing fees			17,972		17,972
Other	<u>4,691</u>	<u>28,880</u>	<u>15,004</u>	<u>99,533</u>	<u>148,108</u>
Total expenses	<u>\$ 3,527,170</u>	<u>\$ 2,677,337</u>	<u>\$ 1,523,360</u>	<u>\$ 910,461</u>	8,638,328
Cost of direct donor benefits at special events					<u>96,390</u>
Total					<u>\$ 8,734,718</u>

See accompanying notes to consolidated financial statements.

The Council on Recovery and The Foundation for The Council on Recovery

Consolidated Statement of Functional Expenses for the year ended August 31, 2022

	PROGRAM SERVICES		SUPPORTING SERVICES		
	TREATMENT AND RECOVERY SERVICES	RISK REDUCTION SERVICES	MANAGEMENT AND GENERAL	FUNDRAISING	TOTAL
Salaries	\$ 2,009,559	\$ 1,780,505	\$ 766,999	\$ 496,085	\$ 5,053,148
Benefits and payroll taxes	<u>462,965</u>	<u>411,476</u>	<u>169,585</u>	<u>107,459</u>	<u>1,151,485</u>
Total salaries and related expenses	2,472,524	2,191,981	936,584	603,544	6,204,633
Professional fees	126,934	47,576	209,429	182,170	566,109
Occupancy	113,621	194,888	27,099	11,201	346,809
Depreciation	146,235	207,582	23,115	10,577	387,509
Supplies	99,015	72,293	18,698	48,466	238,472
Participant activities and incentives	139,398	62,240			201,638
Software licensing and maintenance	40,044	41,936	31,514	17,209	130,703
Communications	47,401	38,797	13,959	10,001	110,158
Equipment rental and maintenance	14,301	23,530	2,884	2,199	42,914
Insurance	25,063	22,304	20,779	5,784	73,930
Travel	6,446	14,305	5,543	6,224	32,518
Promotions and advertising	2,358	7,308	12,887	750	23,303
Training – conferences and workshops	4,172	4,435	13,038	98	21,743
Credit card processing fees			19,022		19,022
Other	<u>7,235</u>	<u>24,381</u>	<u>14,467</u>	<u>104,567</u>	<u>150,650</u>
Total expenses	<u>\$ 3,244,747</u>	<u>\$ 2,953,556</u>	<u>\$ 1,349,018</u>	<u>\$ 1,002,790</u>	8,550,111
Cost of direct donor benefits at special events					<u>89,001</u>
Total					<u>\$ 8,639,112</u>

See accompanying notes to consolidated financial statements.

The Council on Recovery and The Foundation for The Council on Recovery

Consolidated Statements of Cash Flows for the years ended August 31, 2023 and 2022

	<u>2023</u>	<u>2022</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in net assets	\$ (1,217,344)	\$ 1,050,557
Adjustments to reconcile changes in net assets to net cash provided (used) by operating activities:		
Depreciation	409,823	387,509
Net realized and unrealized gain on investments	(961)	
Changes in operating assets and liabilities:		
Program service fees and other receivables	(3,267)	68,033
Prepaid expenses and other assets	(81,346)	21,990
Contributions receivable	(304,433)	151,803
Accounts payable and accrued expenses	(180,872)	146,657
Deferred revenue	<u>107,856</u>	<u>(141,285)</u>
Net cash provided (used) by operating activities	<u>(1,270,544)</u>	<u>1,685,264</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of investments	(2,892,620)	
Proceeds from sale of investments	1,544,097	
Net change in money market mutual funds held as investments	(1,982,782)	
Purchases of property and equipment	<u>(105,293)</u>	<u>(91,085)</u>
Net cash used by investing activities	<u>(3,436,598)</u>	<u>(91,085)</u>
NET CHANGE IN CASH	(4,707,142)	1,594,179
Cash, beginning of year	<u>4,825,870</u>	<u>3,231,691</u>
Cash, end of year	<u>\$ 118,728</u>	<u>\$ 4,825,870</u>

See accompanying notes to consolidated financial statements.

The Council on Recovery and The Foundation for The Council on Recovery

Notes to Consolidated Financial Statements for the years ended August 31, 2023 and 2022

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization – The Council on Recovery (The Council) is a Texas nonprofit corporation located in Houston, Texas. Since its founding in 1946, The Council has been at the forefront of helping individuals and families whose lives have been impacted by alcoholism, drug addiction, and co-occurring mental health disorders. The Council's mission is to keep the community healthy, productive and safe by providing services and information to all who are impacted by alcohol, drugs and related issues. The Council's programs are operated primarily in the greater Houston area.

The Foundation for The Council on Recovery (the Foundation), a financially-interrelated organization, is a nonprofit corporation founded in 1986 to support The Council in fulfilling its mission. The Board of Trustees of the Foundation is appointed by the Board of Trustees of The Council.

Basis of consolidation – These financial statements include the assets, liabilities, net assets, and activities of The Council and the Foundation (collectively the Consolidated Entities). Balances and transactions between the Consolidated Entities have been eliminated in consolidation.

Program services – The Council provides services in approximately 43 different locations in the greater Houston area through the following programs:

Treatment and recovery services: The Council provides screening and referral services to adolescents, adults and older adults along the harmful use, addiction and recovery continuum. The screening identifies the individual's level of care needed. When the individual needs residential treatment, referrals and linkages are made for the client to appropriate treatment programs. Individual, family and group therapy and/or Intensive Outpatient Treatment, as well as aftercare services are offered to those who are returning from residential treatment or to those whose use does not need a residential level of care. Additionally, The Council provides recovery support through specially designed education, social and supportive meetings and events.

Risk reduction services: The Council provides education, counseling and case management services to children, adolescents, adults, older adults and professionals along the no-use, experimental use, occasional use and mild harmful use spectrum. The Council teaches prevention education classes, provides enrichment activities and facilitates evidence-based curriculums in local elementary, middle and high schools. The Council also offers mindful choices classes to adolescents and their parents to help reduce high risk behaviors and school dropout rates. Older adults and their care providers are educated about the increased risk of alcohol and drug abuse due to the potential need for addictive pain medications and a lack of understanding of the effects of alcohol on the body as they age and the potential risks of combining alcohol with prescribed medications. Pregnant and post-partum women receive education about the impact of substances on their unborn or newborn child, as well as parenting education that assists them in parenting a new baby who may have been substance exposed or is being raised in a home where someone uses substances. These women also receive case management services to assist them in locating resources and enrolling in essential services. Professionals are educated during workshops and lectures about addiction issues, other compulsive behaviors, co-occurring mental health disorders, as well as the challenges and successful approaches to treatment and recovery.

Federal income tax status – The Consolidated Entities are exempt from federal income tax under §501(c)(3) of the Internal Revenue Code. The Council is classified as a public charity under §509(a)(1) and §170(b)(1)(A)(vi). The Foundation is classified as a Type I supporting organization under §509(a)(3).

Program service fees receivable are uncollateralized client obligations from clients and third-party payors and are net of allowances for contractual adjustments and of uncollectible accounts of approximately \$2,400 and \$171,000 at August 31, 2023 and 2022, respectively. There is no policy to charge interest on past due accounts. In evaluating the collectability of client accounts receivable, management evaluates its history and identifies trends for

each of its major payor sources of revenue to estimate the appropriate allowance for uncollectible accounts and provision for uncollectible accounts. It is possible that management's estimate regarding the collectability of these balances will change in the near term resulting in a change in the carrying value of client accounts receivable.

Contributions receivable that are expected to be collected within one year are reported at net realizable value. Amounts expected to be collected in more than one year are discounted, if material, to estimate the present value of future cash flows. Discounts are computed using risk-free interest rates applicable to the years in which the promises are received. An allowance for uncollectible contributions receivable is provided when it is believed balances may not be collected in full. Contributions receivable balances are written off against the allowance when management determines a contribution receivable will not be collected.

Investments are reported at fair value. Net investment return consists of interest and dividends, realized and unrealized gains and losses, net of external and direct internal investment management and custodial expenses.

Property and equipment with a cost of more than \$5,000 are reported at cost if purchased or at fair value at the date of gift if donated. Depreciation is provided on a straight-line basis over estimated useful lives of 20 to 40 years for buildings and improvements and 3 to 10 years for furniture and equipment.

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 are recognized at fair value when an unconditional commitment is received from the donor. Contributions received with donor stipulations that limit their use are classified as *with donor restrictions*. Conditional contributions are subject to one or more barriers that must be overcome before The Council is entitled to receive or retain funding. Conditional contributions are recognized as revenue at fair value when the conditions have been met.

Program service fees are derived from providing alcohol and substance abuse counseling services to individuals. Performance obligations are recognized at the point in time when the services are provided at the estimated net realizable amounts from individuals, third-party payors and others. Amounts reimbursed for services rendered to clients covered under Medicare and other third-party payor programs are generally at amounts different than the established billing rates. Differences between the established rates and amounts reimbursed are recognized as contractual adjustments during the period in which the related services are provided. Fees are charged to self-pay individuals on a sliding-scale basis. Program service fees are presented net of contractual and sliding-scale fee adjustments of approximately \$481,000 and \$557,000 for the years ended August 31, 2023 and 2022, respectively. Payments received before the performance obligations are satisfied are reported as deferred revenue. At August 31, 2023, 2022 and 2021, accounts receivable from program service fees were \$71,767, \$13,933 and \$98,818, respectively. At August 31, 2023, 2022 and 2021, deferred revenue from program service fees were \$159,042, \$114,351 and \$95,363, respectively. The Council has no contract assets at August 31, 2023, 2022 or 2021.

Government contract revenue – The Council has agreements with The Harris Center for Mental Health and IDD and Harris County to provide comprehensive alcohol and substance abuse assessment, referral, education, case management, crisis intervention and counseling services to youth involved in the juvenile justice system with emerging and recurring alcohol and substance abuse problems. Revenue is recognized over time as performance obligations are met using the input method based on the labor hours expended and third-party costs incurred. At August 31, 2023, 2022 and 2021, accounts receivable from government contract revenue were \$0, \$55,410 and \$41,293, respectively. The Council has no contract assets or liabilities from government contract revenue at August 31, 2023, 2022 or 2021.

Special events revenue is the total amount paid by sponsors and attendees of an event and includes elements of both contributions and exchange transactions. Special events revenue is recognized when the event occurs. Conditional contributions received for future events are reported in the statement of financial position as deferred revenue. Cost of direct donor benefits represent the cost of goods and services provided to attendees of special events.

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 employees' time and effort expended. Occupancy, insurance and depreciation are allocated based upon square footage of space devoted to the specific program or activity.

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 reported as 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 August 31 comprise the following:

	<u>2023</u>	<u>2022</u>
Financial assets:		
Cash and cash equivalents	\$ 118,728	\$ 4,825,870
Program service fees and other receivables, net	85,218	81,951
Contributions receivable, net	1,187,710	883,277
Investments	<u>3,332,266</u>	<u> </u>
Total financial assets	4,723,922	5,791,098
Less financial assets not available for general expenditure:		
Restricted by donors for use in future periods or for future projects	<u>(1,337,200)</u>	<u>(1,521,200)</u>
Total financial assets available for general expenditure	<u>\$ 3,386,722</u>	<u>\$ 4,269,898</u>

For purposes of analyzing resources available to meet general expenditures over a 12-month period, The Council considers all expenditures related to its ongoing program activities, as well as the conduct of services undertaken to support those activities, to be general expenditures. The Council is substantially supported by contributions, government grants and contracts, and program service fee income and regularly monitors the liquidity required to meet its operating needs. The Council has a policy to structure its financial assets to be available as its general expenditures and liabilities become due. The Council has a \$750,000 line of credit available that expires in April 2024. At August 31, 2023 and 2022, no balance was outstanding on this line of credit.

NOTE 3 – CONTRIBUTIONS RECEIVABLE

Contributions receivable consist of the following:

	<u>2023</u>	<u>2022</u>
Government funded grants	\$ 606,187	\$ 251,149
United Way	321,489	306,495
Other	<u>265,909</u>	<u>354,101</u>
Total contributions receivable	1,193,585	911,745
Allowance for uncollectible accounts	<u>(5,875)</u>	<u>(28,468)</u>
Contributions receivable, net	<u>\$ 1,187,710</u>	<u>\$ 883,277</u>

At August 31, 2023, all contributions receivable are expected to be collected within one year.

At August 31, 2023, The Council has a conditional contribution of approximately \$500,000 from United Way. This commitment is conditioned upon United Way's 2024 campaign results. The contributions will be recognized as contribution revenue when the conditions are met.

At August 31, 2023, The Council has approximately \$6.5 million of government funded conditional contributions. The contributions will be recognized as revenue when the conditions, which include incurring allowable expenses, are met. In addition, The Council has filed with the U. S. government to receive Employee Retention Credits (ERC) under the Coronavirus Aid, Relief, and Economic Security Act in the amount of approximately \$1.2 million. This federal grant is considered conditional by management because they have not received notification that the application of the credits have been approved and, therefore, these amounts have not been recognized in 2023.

NOTE 4 – INVESTMENTS AND FAIR VALUE MEASUREMENTS

Generally accepted accounting principles require that certain assets and liabilities be reported at fair value and establish a hierarchy that prioritizes inputs used to measure fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The three levels of the fair value hierarchy are as follows:

- *Level 1* – Inputs are unadjusted quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the reporting date.
- *Level 2* – Inputs are other than quoted prices included in Level 1, which are either directly observable or can be derived from or corroborated by observable market data at the reporting date.
- *Level 3* – Inputs are not observable and are based on the reporting entity's assumptions about the inputs market participants would use in pricing the asset or liability.

Assets measured at fair value at August 31, 2023 are as follows:

	<u>LEVEL 1</u>	<u>LEVEL 2</u>	<u>LEVEL 3</u>	<u>TOTAL</u>
Money market mutual funds	\$ 1,982,782			\$ 1,982,782
Common stock:				
Technology	168,479			168,479
Healthcare	99,228			99,228
Financial services	96,362			96,362
Industrials	95,735			95,735
Consumer cyclical	65,500			65,500
Consumer defensive	37,889			37,889
Basic materials	34,695			34,695
Energy	30,100			30,100
Other	57,689			57,689
Corporate bonds		\$ 460,907		460,907
U. S. Treasury notes	150,992			150,992
Government agency securities		<u>51,908</u>		<u>51,908</u>
Total assets measured at fair value	<u>\$ 2,819,451</u>	<u>\$ 512,815</u>	<u>\$ 0</u>	<u>\$ 3,332,266</u>

Valuation methods used for assets measured at fair value are as follows:

- *Mutual funds* are valued at the reported net asset value.
- *Common stock* and *U. S. Treasury notes* are valued using prices obtained from active market maker and inter-dealer brokers on a daily basis.
- *Corporate bonds* and *Government agency securities* are valued using prices and other relevant information generated by market transactions involving identical or comparable assets.

These valuation methods may produce a fair value that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while The Council believes its valuation methods are appropriate, the use of different methods or assumptions could result in a different fair value measurement at the reporting date.

Investments are exposed to various risks such as interest rate, market and credit risks. Because of these risks, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the statement of financial position and statement of activities.

NOTE 5 – PROPERTY AND EQUIPMENT

Property and equipment consists of the following:

	<u>2023</u>	<u>2022</u>
Land	\$ 728,359	\$ 728,359
Buildings and improvements	13,645,946	13,598,475
Furniture and equipment	<u>980,352</u>	<u>948,490</u>
Total property and equipment, at cost	15,354,657	15,275,324
Accumulated depreciation	<u>(6,724,953)</u>	<u>(6,341,090)</u>
Property and equipment, net	<u>\$ 8,629,704</u>	<u>\$ 8,934,234</u>

NOTE 6 – NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are restricted as follows:

	<u>2023</u>	<u>2022</u>
Subject to expenditure for specified purpose:		
Treatment and recovery services	\$ 1,514,934	\$ 1,808,812
Risk reduction services	246,678	204,241
Capital improvements	20,000	75,000
Other	<u>170,972</u>	<u>166,533</u>
Total net assets with donor restrictions	<u>\$ 1,952,584</u>	<u>\$ 2,254,586</u>

NOTE 7 – GOVERNMENT GRANTS AND CONTRACTS

The Council is the recipient of government grants and contracts from federal and state agencies and through local nonprofit agencies. Should these grants and contracts not be renewed, a replacement for this source of support may not be forthcoming and related expenses would not be incurred. Government grants and contracts recognized are as follows:

	<u>2023</u>	<u>2022</u>
Government grants:		
Federal grants:		
U. S. Department of Health and Human Services	\$ 2,056,360	\$ 2,896,866
U. S. Department of the Treasury	705,591	
State grants – Texas Health and Human Services Commission	<u>842,101</u>	<u>214,818</u>
Total government grants	<u>3,604,052</u>	<u>3,111,684</u>
Other government funded contracts:		
Harris County	14,190	98,420
The Harris Center for Mental Health and IDD		508,489
Other	<u>36,184</u>	<u>18,390</u>
Total government contracts	<u>50,374</u>	<u>625,299</u>
Total government grants and contracts	<u>\$ 3,654,426</u>	<u>\$ 3,736,983</u>

Pass-through grants from federal, state, and local government funding sources require fulfillment of certain conditions as set forth in the grant contracts 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 The Council with the terms of the contracts. Management believes such disallowances, if any, would not be material to The Council's financial position or changes in net assets.

NOTE 8 – EMPLOYEE BENEFIT PLAN

The Council provides a §403(b) defined contribution retirement plan. Employees may elect to participate in the §403(b) plan at the time of hire or at the beginning of any subsequent calendar quarter, if eligible. The Council makes a matching contribution equal to 100% of the employee's contribution up to a maximum of 4% of compensation. Contributions to the §403(b) plan totaled approximately \$124,000 and \$122,000 for the years ended August 31, 2023 and 2022, respectively.

NOTE 9 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through January 26, 2024, which is the date that the financial statements were available for issuance. As a result of this evaluation, no events were identified that are required to be disclosed or would have a material impact on reported net assets or changes in net assets.