

Houston Forensic Science Center, Inc.

Financial Statements
And Independent Auditor's Report
For the Year ended June 30, 2014



Houston Forensic Science Center, Inc.

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June 30, 2014

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Independent Auditor's Report

To the Board of Directors of
Houston Forensic Science Center, Inc.

We have audited the accompanying financial statements of Houston Forensic Science Center, Inc. as of and for the year ended June 30, 2014, which comprise the statement of net position and statement of activities of the government activities; the balance sheet and the statement of revenues, expenditures and changes in fund balance of the associated fund information; and the related notes to the financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the government activities of Houston Forensic Science Center, Inc. as of June 30, 2014, and the changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

As described in Note 1, management has omitted the management's discussion and analysis and budgetary comparison information that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Ralph and Ralph, P.C.

Houston, Texas
September 30, 2014

Houston Forensic Science Center, Inc.

Governmental Funds Balance Sheet and Statement of Net Position
June 30, 2014

	Balance Sheet- Government Funds	Adjustments from Fund Accounting	Statement of Net Position- Government Activities
Assets			
Cash and cash equivalents	\$ 3,103,454	\$ -	\$ 3,103,454
Capital assets, net of accumulated depreciation	-	1,697,136	1,697,136
Total assets	<u>\$ 3,103,454</u>	<u>1,697,136</u>	<u>4,800,590</u>
Liabilities			
Accrued liabilities, payroll	\$ 30,726	\$ -	\$ 30,726
Accrued liabilities, other	2,236,116	-	2,236,116
Deferred revenue, SAFE funds	36,477	-	36,477
Total liabilities	<u>2,303,319</u>	<u>-</u>	<u>2,303,319</u>
Net Position/ Fund Balance			
Unrestricted	763,658	-	763,658
Temporarily restricted	36,477	-	36,477
Net investment in capital assets	-	1,697,136	1,697,136
Total net position	<u>800,135</u>	<u>1,697,136</u>	<u>2,497,271</u>
Total liabilities and net position	<u>\$ 3,103,454</u>	<u>\$ 1,697,136</u>	<u>\$ 4,800,590</u>

The accompanying notes are an integral part of the financial statements.

Houston Forensic Science Center, Inc.

Governmental Fund Revenues, Expenditures and Changes in Fund Balance
and Statement of Activities
For the Year Ended June 30, 2014

	Statement of Revenues, Expenditures and Changes in Fund Balance	Adjustments from Fund Accounting	Statement of Activities- Government Activities
Expenses/ expenditures			
Personnel:			
Salary and taxes, civilian	\$ 469,918	\$ -	\$ 469,918
Employee benefits and fringe	110,485	-	110,485
Total personnel	<u>580,403</u>	<u>-</u>	<u>580,403</u>
Supplies:			
General laboratory	160,755	-	160,755
Medical and surgical	779	-	779
Weapons and munitions	5,077	-	5,077
Computer and office	48,763	-	48,763
Other	11,703	-	11,703
Total supplies	<u>227,077</u>	<u>-</u>	<u>227,077</u>
Services:			
Management consulting	171,029	-	171,029
Contract services	75,874	-	75,874
Accounting and audit	26,583	-	26,583
Insurance	42,017	-	42,017
Technology	124,260	-	124,260
Recruiting and relocation	118,921	-	118,921
Professional education	56,908	-	56,908
Equipment	23,174	-	23,174
Other	59,340	-	59,340
Total services	<u>698,106</u>	<u>-</u>	<u>698,106</u>
Non-capital expenditures			
Furniture and fixtures	41,123	-	41,123
Computer equipment	41,696	-	41,696
Total non-capital expenditures	<u>82,819</u>	<u>-</u>	<u>82,819</u>

The accompanying notes are an integral part of the financial statements.

Houston Forensic Science Center, Inc.

Governmental Fund Revenues, Expenditures and Changes in Fund Balance
and Statement of Activities (Continued)
For the Year Ended June 30, 2014

	Statement of Revenues, Expenditures and Changes in Fund Balance	Adjustments from Fund Accounting	Statement of Activities- Government Activities
Capital expenditures			
Independent network and lab instrumentation	1,750,071	(1,750,071)	-
Total capital expenditures	1,750,071	(1,750,071)	-
Depreciation expense	-	52,935	52,935
City of Houston and HPD reimbursement			
City of Houston, direct overhead	1,460,000	-	1,460,000
HPD reimbursed expenses	16,014,781	-	16,014,781
Total reimbursement	17,474,781	-	17,474,781
Total expenditures/ expenses	\$ 20,813,257	\$ (1,697,136)	\$ 19,116,121
Revenues, general fund:			
City of Houston appropriations	\$ 18,220,171	\$ -	\$ 18,220,171
City of Houston appropriations, overhead	1,460,000	-	1,460,000
City of Houston, SAFE funds	36,477	-	36,477
Interest income	4,043	-	4,043
Total revenues	\$ 19,720,691	\$ -	\$ 19,720,691
Receipt of capital assets	1,443,893	-	1,443,893
Excess of revenues over expenditures and change in net position	351,327	1,697,136	2,048,463
Fund balance/net position, beginning of year	448,808	-	448,808
Fund balance/net position, end of year	\$ 800,135	\$ 1,697,136	\$ 2,497,271

The accompanying notes are an integral part of the financial statements.

Houston Forensic Science Center, Inc.

Notes to the Basic Financial Statements
June 30, 2014

Note 1 – Summary of Significant Accounting Policies

The financial statements of Houston Forensic Science Center, Inc. (HFSC) have been prepared in accordance with generally accepted accounting principles in the United States of America (“GAAP”) applicable to state and local governments. The Government Accounting Standards Board (“GASB”) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The significant accounting and reporting policies and practices used by HFSC are described below.

Reporting Entity

HFSC is a local government corporation (LGC), created to provide independent forensic services to the Houston Police Department (HPD), other law enforcement organizations and others engaged in the justice system. HFSC was incorporated on June 26, 2012 in the State of Texas, under the provisions of Chapter 431, Subchapter D, of the Texas Transportation Code. HFSC is governed by a nine member board of directors, appointed by the mayor of the City of Houston (the City). In addition, there is a non-voting attorney ex-officio who is employed by the City.

Related Organizations

For accounting purposes, HFSC is a component unit of the City. For the year ended June 30, 2014, all support received as appropriated funds were from the City’s General Fund. All forensic services were performed to support the City’s functions. As HPD is also a related organization, transactions with HPD are shown separately on the accompanying financial statements.

Basis of Presentation

Government-wide financial statements and fund financial statements are presented in combined statements for HFSC, as all of HFSC’s operations for the fiscal year presented are categorized as government activities and in the governmental fund. The reconciling items between the accrual based government-wide statements and the fund accounting government fund financial statements are presented in the adjustment column and described further in Note 2.

The management’s discussion and analysis and budgetary comparison information, considered by the Governmental Accounting Standards Board to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context, have been omitted. For the year ended June 30, 2014, management determined that this supplemental information was not necessary, as the financial statements present the first year of operations and present straightforward and focused activities. Further, HFSC activities will be included as a component unit in the City financial statements.

Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus refers to the type of resources being measured such as current financial resources or economic resources. The basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

Houston Forensic Science Center, Inc.

Notes to the Basic Financial Statements
June 30, 2014

Note 1 – Summary of Significant Accounting Policies (Continued)

Measurement Focus and Basis of Accounting (Continued)

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the time of related cash flows. Appropriations of City funds are recognized as revenue in the fiscal year for which they are budgeted.

Government fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. For this purpose, the Center considers revenues to be available if they are collected within 60 days of the current fiscal period. Expenditures are recorded when a liability is incurred, as under accrual accounting. General capital asset acquisitions are reported as expenditures.

Assets, Liabilities, and Net Position/ Fund Balance

Cash and cash equivalents – Cash and cash equivalents are considered to be cash on hand and demand deposits.

Capital assets – Capital assets include equipment used by HFSC in the various disciplines of forensic services performed. Capital assets purchased are carried at cost. Capital assets received in a nonreciprocal transaction are recorded at the recorded value of the transferring entity.

The capitalization threshold for capital assets is \$5,000. Capital assets are depreciated on a straight-line basis over seven to 15 years in accordance with the City's policy on "Fixed Asset Classification and Useful Life", Section 4 of the "Fixed Asset Accounting and Management Procedures Manual".

Net Position/ Fund Balance

The net position/fund balance at June 30, 2014, includes restricted or assigned components. SAFE funds, which are restricted to the use of processing sexual assault kits, were transferred from HPD to HFSC in the amount of \$36,477. The statement of net position presents the net position balance to reflect the investment in capital assets.

Revenues and Expenditures/ Expenses

HFSC is supported through appropriations of funds from the City. At the beginning of the fiscal year ended June 30, 2014, two separate budget appropriations were created. One was appropriated funds for HFSC, which were transferred to HFSC in December 2013, as part of a Memorandum of Understanding No. 2 between the City and HFSC. The other appropriated funds for the Crime Lab and Identification Divisions (Divisions), under the management of HPD at that time, were established and maintained by the City in a segregated fund, Fund 2213. Divisions' expenditures from Fund 2213 for payroll, supplies, services, non-capital and capital were managed and tracked by HPD until the administration and management of the Divisions were transferred to HFSC on April 3, 2014 (the Management Date). On April 9, 2014, the residual Fund 2213 funds appropriated for the fiscal year for the Divisions were also transferred to HFSC. Prior to the Management Date, HPD's Fund 2213 expenditures were submitted to the City for reimbursement from the set aside appropriations for the Divisions. Since the Management Date, forensic work is performed by the City classified and civilian staff in these Divisions under the supervision of HFSC. HPD invoices HFSC monthly for expenditures incurred for these Divisions.

Houston Forensic Science Center, Inc.

Notes to the Basic Financial Statements
June 30, 2014

Note 1 – Summary of Significant Accounting Policies (Continued)

Transfer of Capital Assets

Prior to the formation of HFSC, forensic services were performed within the operations of HPD. As such, HPD acquired capital assets used in the performance of these services. During the year ended June 30, 2014, HPD transferred the non-grant assets used in the forensic services to HFSC in a non-reciprocal transaction. These assets were recorded at the net carrying value of HPD as the transferring entity and are included in the capital assets balance on the statement of net position.

Note 2 – Explanation of the Differences Between the of Government –Wide and Fund Financial Statements

The statement of net position and governmental funds balance sheet on page 3 shows the adjustment of \$1,697,136. Capital assets used in government activities are not financial resources and, therefore are not reported in the fund financial statements. The adjustment of the net carrying value of capital assets increases the fund balance amount to arrive at the net position amount presented on the government-wide statement.

The statement of activities and governmental fund statement of revenues, expenditures and changes in fund balance on pages 4 and 5 shows a net adjustment of \$1,697,136 to the net position/fund balance, end of year. Fund accounting statements report capital outlays as expenditures. However, in the statement of activities, the cost of these assets is capitalized and expenses allocated over the useful lives as depreciation expense. The details of the \$1,697,136 difference are as follows:

Capital outlay	(\$1,750,071)
Depreciation expense	\$52,935
Net adjustment to decrease net changes in fund balance to change in net position	<u>(\$1,697,136)</u>

Note 3 – Cash Deposits with Financial Institutions

HFSC maintains its cash in a bank deposit account, which at times, may exceed federally insured limits of \$250,000. At June 30, 2014, HFSC had excess deposits in the amount of approximately \$6,000,000.

Note 4 – Capital Assets

Capital assets at June 30, 2014 (solely comprised of assets for governmental activities) were all acquired during the year ended June 30, 2014, and consisted of transferred assets and purchased assets. Lab instrumentation assets of \$1,443,893, which were acquired through a non-reciprocal transfer from HPD, were recorded at the net carrying value of the transferring entity. HFSC purchased capital assets in the amount of \$306,178, which are recorded at acquisition cost. Depreciation expense for the year ended June 30, 2014, totaled \$52,935.

Note 5 – Subsequent Events

In preparing the financial statements, the HFSC has evaluated the events and transactions for potential recognition or disclosure through September 30, 2014, the date that the financial statements were available to be issued.