

Houston Forensic Science Center, Inc.
(A Component Unit of the City of Houston)

Financial Statements
and Single Audit Reports
for the year ended June 30, 2022

Houston Forensic Science Center, Inc.

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Independent Auditors' Report

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

Report on the Audit of the Financial Statements

Opinions

We have audited the financial statements of the governmental activities and the major fund of Houston Forensic Science Center, Inc., as of and for the years ended June 30, 2022 and 2021, and the related notes to the financial statements, which collectively comprise Houston Forensic Science Center, Inc.'s basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of Houston Forensic Science Center, Inc. as of June 30, 2022 and 2021, and the respective changes in financial position thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

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*. 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 Houston Forensic Science Center, 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 opinions.

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 Houston Forensic Science Center, Inc.'s ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

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 opinions. 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 Houston Forensic Science Center, 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 Houston Forensic Science Center, 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.

Required Supplementary Information

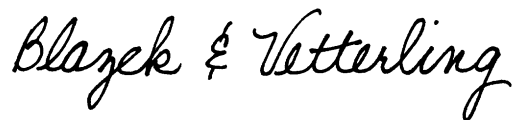
Accounting principles generally accepted in the United States of America require that management's discussion and analysis be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required 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. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplementary information included in schedule of expenditures of federal awards for the year ended June 30, 2022 as required by Title 2 U. S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Report Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 16, 2022 on our consideration of Houston Forensic Science Center, 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 Houston Forensic Science Center, 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 Houston Forensic Science Center, Inc.'s internal control over financial reporting and compliance.

The image shows a handwritten signature in black ink that reads "Blazek & Vetterling". The signature is written in a cursive, flowing style.

September 16, 2022

Houston Forensic Science Center, Inc.
Management's Discussion and Analysis
For the years ended June 30, 2022 and 2021
(unaudited)

The following discussion and analysis of Houston Forensic Science Center, Inc.'s (HFSC) financial performance provides an overview of the financial activities for the years ended June 30, 2022 and 2021. This discussion should be read in conjunction with HFSC's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

Financial highlights for the fiscal year ending June 30, 2022 include:

- HFSC's total net position decreased by \$394,000 with revenue of \$30.7 million and expenses of \$31.1 million.
- \$25.3 million of HFSC's expenses were program expenses incurred in connection with forensic science services.
- HFSC recognized revenue of \$28.5 million in appropriations from the City of Houston (the City) in its statement of activities.
- HFSC entered lease agreements to acquire the use of forensic and office equipment, which added lease and capital assets and lease liabilities of \$211,000.
- HFSC added \$357,000 in capital assets during the year in addition to the lease asset referred to above.
- At the close of the current fiscal year, HFSC's general fund reported a fund balance of \$1,637,000, an increase of \$571,000 in comparison with the prior year. This increase is the result of receiving a \$1.3 million budget increase to increase the resources available to the Crime Scene Unit and Toxicology functions through additional staff and equipment, as well as delays in the anticipated timing of leased equipment purchases for Toxicology and Firearms resulting in lower than budgeted expenses. HFSC also experienced higher than expected employee turnover, resulting in lower than expected salary expense. HFSC also had lower than budgeted general laboratory expenses.

Financial highlights for the fiscal year ending June 30, 2021 include:

- HFSC's total net position decreased by \$801,000 with revenue of \$30.2 million and expenses of \$31.0 million.
- \$25.3 million of HFSC's expenses were program expenses incurred in connection with forensic science services.
- HFSC recognized revenue of \$28.6 million in appropriations from the City in its statement of activities, which included \$1.4 million of appropriations as a beneficiary of the City's CARES grant funds to fund safety and testing expenses incurred due to the novel coronavirus COVID-19 pandemic.
- HFSC entered lease agreements to acquire the use of forensic equipment, which added lease assets and lease liabilities of \$610,000.
- HFSC added \$668,000 in capital assets during the year in addition to the lease asset referred to above.
- At the close of the current fiscal year, HFSC's general fund reported a fund balance of \$1,066,000, an increase of \$531,000 in comparison with the prior year. This increase is the result of receiving a \$1.6 million budget increase to increase the resources available to the Crime Scene Unit and Toxicology functions through additional staff and equipment. Additional staff was onboarded during fiscal year 2021, and therefore, the related full year's salary costs were not experienced and Crime Scene Investigation vehicles ordered earlier in the year were not received by the end of the year because of the national car supply shortage, resulting in lower expenses than budgeted.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to HFSC's basic financial statements. The basic financial statements present combined government-wide and governmental fund financial statements. The notes to the financial statements provide additional information that is essential to a full understanding of the basic financial statements.

Government-wide financial statements reflect an economic resources measurement focus and are prepared using the accrual basis of accounting. The government-wide financial statements are designed to provide readers with a broad overview of HFSC's finances, in a manner similar to a private-sector business. The statement of net position shows the financial position of HFSC at year end by presenting HFSC's assets and liabilities, with net position representing the difference between assets and liabilities. The statement of activities presents information showing changes in HFSC's net position during the year. Changes in net position are reported when an underlying event giving rise to a change occurs, regardless of the timing of related cash flows. Therefore, revenue and expenses are reported in this statement for some items that will not result in cash flows until future fiscal periods.

Governmental fund financial statements reflect a current financial resources measurement focus and are prepared using the modified accrual basis of accounting. Unlike the government-wide financial statements, the governmental fund financial statements present information showing the near-term inflows and outflows of spendable resources and the balances of spendable resources at year end.

HFSC's governmental fund is comprised of its general fund. At June 30, 2022, HFSC's general fund reported a fund balance of \$1,636,648, an increase of \$570,503 from the prior year. This increase is the result of greater funding to support forensic activity of \$1.3 million. Approximately 39% of the fund balance constitutes unassigned fund balance, which is available for spending at HFSC's discretion, with the remainder of the balance representing nonspendable prepaid expenses. At June 30, 2021, HFSC's general fund reported a fund balance of \$1,066,145, an increase of \$531,317 from the prior year. This increase is the result of funding from the City's CARES grant funds to supplement for safety and protection costs incurred from the COVID-19 pandemic in 2020 of \$1.4 million, and greater funding to support forensic activity of \$1.6 million. Approximately 65% of the fund balance constitutes unassigned fund balance, which is available for spending at HFSC's discretion, with the remainder of the balance representing nonspendable prepaid expenses.

Condensed Government-Wide Financial Information and Financial Analysis

	AS OF JUNE 30		
	<u>2022</u>	<u>2021</u>	<u>2020</u>
<i>Condensed Statements of Net Position:</i>			
Current and other assets	\$ 2,567,306	\$ 2,788,404	\$ 2,322,275
Capital assets	<u>31,901,313</u>	<u>33,389,040</u>	<u>34,329,393</u>
Total assets	<u>\$ 34,468,619</u>	<u>\$ 36,177,444</u>	<u>\$ 36,651,668</u>
Noncurrent liabilities	\$ 32,525,917	\$ 33,131,386	\$ 32,904,641
Current liabilities	<u>1,671,914</u>	<u>2,381,304</u>	<u>2,281,710</u>
Total liabilities	<u>\$ 34,197,831</u>	<u>\$ 35,512,690</u>	<u>\$ 35,186,351</u>
Net position:			
Unrestricted	\$ 233,415	\$ (391,790)	\$ (611,914)
Net investments in capital assets	<u>37,373</u>	<u>1,056,544</u>	<u>2,077,231</u>
Total net position	<u>\$ 270,788</u>	<u>\$ 664,754</u>	<u>\$ 1,465,317</u>

Fiscal Year 2022

The assets of HFSC primarily consist of cash, grants receivable from a federal government agency, prepaid expenses and capital assets, which includes leased assets. Liabilities primarily consist of operating expenses, including accrued salaries, compensated absences, and lease liabilities. The decrease in assets at June 30, 2022, as compared to June 30, 2021, primarily is the result of an increase in accumulated depreciation of \$2.0 million due to depreciation and amortization, a decrease in cash of \$843,000 due to a greater amount of prepayments for goods and services shortly before the 2022 fiscal year end; offset by an increase in prepaid expenses relating to software, insurance, and service agreements and an increase in capital asset additions of \$531,000 related to the purchase of leased forensic and office equipment, computer hardware and vehicles. Liabilities decreased primarily due to the timing of payments relating to operations during fiscal year 2022 and principal payments relating to lease liabilities, offset by \$211,000 of additional lease agreements entered into during the fiscal year.

Fiscal Year 2021

The assets of HFSC primarily consist of cash, grants receivable from a federal government agency, prepaid expenses and capital assets, which includes leased assets. Liabilities primarily consist of operating expenses, including accrued salaries, compensated absences, and lease liabilities. The increase in assets at June 30, 2021, as compared to June 30, 2020, primarily is the result of an increase in government grant receivables of \$264,000 due to the timing of payments received and capital asset additions of \$1.3 million related to leased forensic equipment, computer hardware, vehicles and capital improvements offset by depreciation and amortization of \$1.9 million. Liabilities increased primarily due to the related lease liabilities of \$610,000 from the aforementioned leases of forensic equipment, and an increase in compensated absences of \$311,000.

	FOR THE YEAR ENDED JUNE 30		
	<u>2022</u>	<u>2021</u>	<u>2020</u>
<i>Condensed Statements of Activities:</i>			
Expenses:			
Program services	\$ 25,348,822	\$ 25,286,663	\$ 23,286,375
Management and general	4,663,452	4,580,861	5,011,285
Interest expense	<u>1,078,693</u>	<u>1,090,568</u>	<u>1,093,496</u>
Total expenses	<u>31,090,967</u>	<u>30,958,092</u>	<u>29,391,156</u>
Revenue:			
City of Houston – appropriation	27,048,208	25,757,590	24,160,344
City of Houston – facility appropriation	1,460,000	1,460,000	1,133,208
City of Houston – CARES grant		1,358,652	
City of Houston – direct overhead appropriation			326,792
U. S. Department of Justice – government grant revenue	1,946,456	1,673,098	1,555,148
Other revenue	242,337	201,389	281,707
Other loss		<u>(293,200)</u>	<u>(237,214)</u>
Total revenue	<u>30,697,001</u>	<u>30,157,529</u>	<u>27,219,985</u>
CHANGES IN NET POSITION	(393,966)	(800,563)	(2,171,171)
Net position, beginning of year	<u>664,754</u>	<u>1,465,317</u>	<u>3,636,488</u>
Net position, end of year	<u>\$ 270,788</u>	<u>\$ 664,754</u>	<u>\$ 1,465,317</u>

Fiscal Year 2022

The statement of activities reports the expenses and revenue of HFSC and the corresponding effect on net position. The majority of HFSC's revenue is provided from appropriations from the City. The City provides appropriated funds from its general fund and appropriations for facility costs. HFSC also receives federal grant revenue from the U. S. Department of Justice, which is paid on a reimbursement basis.

Appropriation from the City increased \$1.3 million during the year to fund additional forensic activity. Expenses remained fairly consistent from the prior year.

Fiscal Year 2021

The statement of activities reports the expenses and revenue of HFSC and the corresponding effect on net position. The majority of HFSC's revenue is provided from appropriations from the City's budget. The City provides appropriated funds from its general fund and appropriations for facility costs. HFSC also receives federal grant revenue funding from the U. S. Department of Justice, which is paid on a reimbursement basis.

Appropriation from the City increased during the year to fund increased forensic activity of \$1.6 million and from CARES grant funds received by the City in which HFSC was the beneficiary in the amount of \$1.4 million to supplement IT costs to enable employees to work from home. Expenses increased by \$1.6 million primarily as a result of increased computer hardware and software to facilitate secured and remote work environments of \$955,000 and greater salary and related benefit costs of \$794,000 due to added positions to perform increased forensic activity and costs of living increases, offset by no longer utilizing the Houston Police Department's (HPD) facilities in fiscal year 2021, thereby reducing expenses by \$327,000.

CAPITAL ASSETS AND LONG-TERM DEBT

Capital Assets

Fiscal Year 2022

HFSC's investment in capital assets as of June 30, 2022 totals \$31.9 million (net of accumulated depreciation and amortization). This investment in capital assets includes lease assets, scientific forensic equipment, furniture and equipment, leasehold improvements, and vehicles. The decrease in capital assets for the current fiscal year was primarily related to amortization of leased building space and forensic equipment of \$1.3 million and depreciation of capital assets of \$686,000, offset by the acquisition of leased forensic and office equipment of \$211,000 and computer hardware, vehicles, and capital improvements of \$357,000. HFSC entered into a lease agreement during 2019 for the use of building space, which comprises approximately 80% of total assets.

Fiscal Year 2021

HFSC's investment in capital assets as of June 30, 2021 totals \$33.4 million (net of accumulated depreciation and amortization). This investment in capital assets includes lease assets, scientific forensic equipment, furniture and equipment, leasehold improvements, and vehicles. The decrease in capital assets for the current fiscal year was primarily related to amortization of leased building space and forensic equipment of \$1.2 million and depreciation of capital assets of \$678,000, offset by the

acquisition of leased forensic equipment of \$610,000 and computer hardware, vehicles, and capital improvements of \$668,000. HFSC entered into a lease agreement during 2019 for the use of building space, which comprises approximately 79% of total assets.

Long-Term Debt

Fiscal Year 2022

HFSC's lease liability decreased by \$469,000 as a result of HFSC making scheduled principal payments of \$679,000, for the use of building space and forensic lease agreements offset by acquiring the use of leased forensic and office equipment of \$174,000.

See additional information concerning the lease agreement in Note 6 to the financial statements.

Fiscal Year 2021

HFSC's lease liability increased by \$80,000 as a result of HFSC acquiring the use of leased forensic equipment of \$610,000 offset by principal payments made on the aforementioned lease agreement, as well as the lease agreement entered into for the use of building space during fiscal year 2019.

See additional information concerning the lease agreement in Note 6 to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS

HFSC's Board of Directors approves an annual financial budget which serves as the basis for HFSC's allocation of resources.

During the 2023 budget process, the City appropriated revenue for 2023, which is projected to be \$28.5 million, the same amount appropriated for 2022. The City also awarded HFSC \$3 million in CARES Act funds, which is to be realized as allowable costs are incurred.

Contacting Houston Forensic Science Center, Inc.'s Financial Management

The financial report is designed to discuss issues that may be material to the operation of HFSC. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Chief Financial Officer and Treasurer, Houston Forensic Science Center, Inc., 500 Jefferson St., 13th Floor, Houston, Texas, 77002.

Houston Forensic Science Center, Inc.

Governmental Fund Statement of Revenue, Expenditures, and Changes in Fund Balance and Statement of Activities for the year ended June 30, 2022

	GENERAL FUND	ADJUSTMENTS (NOTE 9)	STATEMENT OF ACTIVITIES
EXPENDITURES / EXPENSES:			
Program services	\$ 23,679,319	\$ 1,669,503	\$ 25,348,822
Management and general	4,368,848	294,604	4,663,452
Capital expenditures	531,083	(531,083)	
Debt service principal – lease payments	679,105	(679,105)	
Interest expense	<u>1,078,693</u>	<u> </u>	<u>1,078,693</u>
Total expenditures / expenses	<u>30,337,048</u>	<u>753,919</u>	<u>31,090,967</u>
REVENUE:			
Grant from City of Houston – appropriation	27,048,208		27,048,208
Grant from City of Houston – facility appropriation	1,460,000		1,460,000
U. S. Department of Justice – government grant revenue	1,946,456		1,946,456
Other revenue	<u>242,337</u>		<u>242,337</u>
Total revenue	<u>30,697,001</u>		<u>30,697,001</u>
EXCESS OF REVENUE OVER EXPENDITURES / CHANGES IN NET POSITION	359,953	(753,919)	(393,966)
OTHER FINANCING SOURCES (USES):			
Other financing sources – inception of lease	<u>210,550</u>	<u>(210,550)</u>	
Total other financing sources (uses)	<u>210,550</u>	<u>(210,550)</u>	
CHANGE IN FUND BALANCE / NET POSITION	570,503	(964,469)	(393,966)
Fund balance / net position, beginning of year	<u>1,066,145</u>	<u>(401,391)</u>	<u>664,754</u>
Fund balance / net position, end of year	<u>\$ 1,636,648</u>	<u>\$ (1,365,860)</u>	<u>\$ 270,788</u>

See accompanying notes to financial statements.

Houston Forensic Science Center, Inc.

Governmental Fund Statement of Revenue, Expenditures, and Changes in Fund Balance and Statement of Activities for the year ended June 30, 2021

	GENERAL FUND	ADJUSTMENTS (NOTE 9)	STATEMENT OF ACTIVITIES
EXPENDITURES / EXPENSES:			
Program services	\$ 23,404,353	\$ 1,882,310	\$ 25,286,663
Management and general	4,253,061	327,800	4,580,861
Capital expenditures	1,278,329	(1,278,329)	
Debt service principal – lease payments	526,947	(526,947)	
Interest expense	<u>1,090,568</u>		<u>1,090,568</u>
Total expenditures / expenses	<u>30,553,258</u>	<u>404,834</u>	<u>30,958,092</u>
REVENUE:			
Grant from City of Houston – appropriation	25,757,590		25,757,590
Grant from City of Houston – facility appropriation	1,460,000		1,460,000
Grant from City of Houston – CARES grant	1,358,652		1,358,652
U. S. Department of Justice – government grant revenue	1,673,098		1,673,098
Other revenue	201,389		201,389
Other loss		<u>(293,200)</u>	<u>(293,200)</u>
Total revenue	<u>30,450,729</u>	<u>(293,200)</u>	<u>30,157,529</u>
EXCESS OF REVENUE OVER EXPENDITURES / CHANGES IN NET POSITION	(102,529)	(698,034)	(800,563)
OTHER FINANCING SOURCES (USES):			
Other financing sources – inception of lease	<u>633,846</u>	<u>(633,846)</u>	
Total other financing sources (uses)	<u>633,846</u>	<u>(633,846)</u>	
CHANGE IN FUND BALANCE / NET POSITION	531,317	(1,331,880)	(800,563)
Fund balance / net position, beginning of year	<u>534,828</u>	<u>930,489</u>	<u>1,465,317</u>
Fund balance / net position, end of year	<u>\$ 1,066,145</u>	<u>\$ (401,391)</u>	<u>\$ 664,754</u>

See accompanying notes to financial statements.

Houston Forensic Science Center, Inc.

Notes to Financial Statements for the years ended June 30, 2022 and 2021

NOTE 1 – ORGANIZATION

Organization – Houston Forensic Science Center, Inc. (HFSC), a component unit of the City of Houston (the City), is a local government corporation created to provide independent forensic services to law enforcement agencies, primarily the Houston Police Department (HPD), and other judicial entities. The formation of HFSC was approved by City Council on June 26, 2012.

HFSC's Board of Directors are appointed by the Mayor of the City and approved by City Council. HFSC receives funding primarily from an interlocal agreement with the City in which funding is received subject to the City's approval of HFSC's annual budget. Funding received must be expended in accordance with the annual budget.

Federal income tax status – HFSC is a local government corporation created to accomplish a governmental purpose of the City and is not subject to federal income tax. Contributions to HFSC are deductible under §501(c)(3) of the Internal Revenue Code.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation – These financial statements have been prepared in conformity with the accounting principles and reporting guidelines established by the Governmental Accounting Standards Board (GASB).

Measurement focus and basis of accounting – Measurement focus refers to *what* is being expressed in reporting financial position and performance, that is, *which* resources are being measured. The financial resources measurement focus measures only financial resources while the economic resources measurement focus measures both financial and capital resources. The measurement focus determines *whether* a fund balance sheet or statement of net position reports financial or economic resources. Basis of accounting refers to *when* those resources and commitments and uses of those resources should be recognized. It relates to the timing of the measurements made regardless of the measurement focus applied.

Governmental funds in the fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenue is recognized when it is measurable and available. *Measurable* means the amount of the transaction is known or reasonably estimable. *Available* refers to amounts collected in the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period, generally within 60 days after year end. Expenditures are recognized when the related liability is incurred.

Governmental funds in the government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, revenue is recognized when it is earned and becomes measurable and expenses are recognized in the period incurred.

Cash consists of demand deposits. Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, HFSC will be unable to recover deposits. At June 30, 2022, the carrying amount and the bank balance of HFSC's demand deposit account were \$1,140,948 and \$1,405,492, respectively. Amounts on deposit that are in excess of the Federal Deposit Insurance Corporation limit of \$250,000 are collateralized by a security agreement with the bank.

Fund balance is classified based upon the relative strength of spending constraints placed upon the purposes for which resources can be used, as follows:

- *Nonspendable fund balance* includes amounts that are either not in spendable form or are legally or contractually required to be maintained intact.
- *Restricted fund balance* includes amounts constrained to specific purposes by resource providers, through constitutional provisions, or by enabling legislation.
- *Unassigned fund balance* includes amounts that are available for HFSC's future use for any purpose.

Net position represents the difference between assets and liabilities. HFSC reports categories of net position, as follows:

- *Net investment in capital assets* consists of net capital assets reduced by related outstanding debt.
- *Restricted* is constrained to a particular purpose. Restrictions are imposed by external organizations such as City ordinances or grantors.
- *Unrestricted* is available for general use by HFSC.

Capital assets include lease assets, forensic science equipment, office equipment, vehicles, and leasehold improvements. HFSC capitalizes capital expenditures of \$5,000 or greater with an estimated useful life of more than one year. Purchased capital expenditures are carried at cost. Donated capital assets are recorded at fair value at the date of transfer. Depreciation expense is recognized using the straight-line method over estimated useful lives of 5 to 15 years.

Lease assets and lease liabilities – Lease assets include right-to-use assets from lease agreements that exceed one year. The right-to-use asset value equals the lease liability, which is the present value of future lease payments expected to be made during the lease term, plus any prepayments made for future periods and direct costs necessary to place the asset into service. Lease liabilities are reported based on the present value of future lease payments expected to be made during the lease term and includes fixed payments, variable payments based on rate or index, and other certain payments.

Grants – Under both the modified accrual and the accrual basis of accounting, receivables from grants are recognized, net of uncollectible amounts, when all applicable eligibility requirements are met provided the commitment is verifiable and the resources are measurable and probable of collection. Revenue recognized as receivable in advance of the time period during which eligibility requirements are met or resources are available, is deferred under the modified accrual basis of accounting, but is recognized as revenue under the accrual basis of accounting and reflected as restricted net position when eligibility requirements are met.

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, and the reported revenue, expenditures and expenses and the allocation of expenses among various functions. Actual results could vary from the estimates that were used.

NOTE 3 – ACCOUNTABILITY AND COMPLIANCE

New Accounting Standards

HFSC adopted the following GASB statement during the year ended June 30, 2022:

Statement No. 92, *Omnibus 2020*, is effective for varying periods by topic. The objectives of this statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB statements.

The GASB has issued the following statement which will be effective in future years, as described below. HFSC has not yet determined the impact of implementing this new statement.

Statement No. 96, *Subscription-Based Information Technology Arrangements*, is effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter. This statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset—an intangible asset—and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA.

NOTE 4 – RELATED PARTIES

HFSC is a component unit of the City and receives appropriated funds from the City's general fund, an overhead allocation appropriation representing shared costs for the use of City/HPD facilities, and a facility appropriation to fund costs associated with HFSC's leased office space. HFSC's forensic functions are performed primarily to support HPD.

The City charged HFSC \$516,000 and \$672,000 for services provided to HFSC for fiscal years 2022 and 2021, respectively. The City provided \$1.5 million in facility appropriations representing HFSC's building lease payments in each of the fiscal years 2022 and 2021. In 2021, the City also provided HFSC \$1.4 million of CARES grant funds to supplement support for expenses related to the COVID-19 pandemic. In fiscal years 2022 and 2021, the City appropriated \$27.0 million and \$25.8 million, respectively, for general operations.

NOTE 5 – CAPITAL ASSETS

HFSC’s investment in capital assets consists of the following:

	BALANCE AT JULY 1, 2021	ADDITIONS	COMPLETIONS/ DISPOSITIONS	BALANCE AT JUNE 30, 2022
Lease assets – building	\$31,166,895			\$31,166,895
Lease assets – forensic equipment	1,302,274	\$ 173,687		1,475,961
Scientific forensic equipment	2,399,831	59,575		2,459,406
Furniture and office equipment	1,108,088	38,381		1,146,469
Leasehold improvements	528,439	149,396		677,835
Vehicles	455,765	110,045		565,810
LIMS database	1,672,297			1,672,297
Less accumulated depreciation and amortization	<u>(5,244,549)</u>	<u>(2,018,811)</u>	<u> </u>	<u>(7,263,360)</u>
Capital assets, net of depreciation and amortization	<u>\$33,389,040</u>	<u>\$(1,487,727)</u>	<u>\$ 0</u>	<u>\$31,901,313</u>

	BALANCE AT JULY 1, 2020	ADDITIONS	COMPLETIONS/ DISPOSITIONS	BALANCE AT JUNE 30, 2021
Lease assets – building	\$31,166,895			\$31,166,895
Lease assets – forensic equipment	691,918	\$ 610,356		1,302,274
Scientific forensic equipment	3,178,989	35,236	\$ (814,394)	2,399,831
Furniture and office equipment	873,644	276,885	(42,441)	1,108,088
Leasehold improvements	413,960	152,000	(37,521)	528,439
Vehicles	251,913	203,852		455,765
LIMS database	1,672,297			1,672,297
Less accumulated depreciation and amortization	<u>(3,920,223)</u>	<u>(1,898,917)</u>	<u>574,591</u>	<u>(5,244,549)</u>
Capital assets, net of depreciation and amortization	<u>\$34,329,393</u>	<u>\$(620,588)</u>	<u>\$(319,765)</u>	<u>\$33,389,040</u>

NOTE 6 – LEASES

In May 2022, HFSC entered into a 3-year agreement to lease office equipment. The agreement includes HFSC’s commitment to pay predetermined monthly amounts. HFSC used a discount rate of 2.65% to calculate the reported lease liability, which is its estimated borrowing rate.

In December 2021, HFSC entered into a 5-year agreement to lease forensic equipment. The agreement includes HFSC’s commitment to pay predetermined monthly amounts. HFSC used a discount rate of 2.65% to calculate the reported lease liability, which is its estimated borrowing rate.

In May 2021, HFSC entered into a 3-year agreement to lease forensic equipment. The agreement includes HFSC’s commitment to pay predetermined monthly amounts. HFSC used a discount rate of 0.7% to calculate the reported lease liability, which is its estimated borrowing rate.

In February 2021, HFSC entered into a 5-year agreement to lease forensic equipment. The agreement includes HFSC's commitment to pay predetermined monthly amounts. HFSC used a discount rate of 0.7% to calculate the reported lease liability, which is its estimated borrowing rate.

In December 2019, HFSC entered into a 5-year agreement to lease forensic equipment. The agreement includes HFSC's commitment to pay predetermined monthly amounts. HFSC used a discount rate of 3.5% to calculate the reported lease liability, which is its estimated borrowing rate.

In April 2019, HFSC entered a 30-year lease agreement for the use of building space. The agreement includes HFSC's commitment to pay predetermined monthly rent, as well as operating expenses, which include operating expenses that are within the reasonable control of the landlord and are capped at 7% per annum. Operating expenses include costs and expenses such as repairs, landscaping, and other costs to maintain, manage, and ensure the building with HFSC's share set at 21.62% of the building's total operating expenses. The estimated useful life of the building is 50 years. HFSC used a discount rate of 3.4% to calculate the reported lease liability, which is its estimated borrowing rate.

The following schedule presents future minimum lease payments as of June 30, 2022.

	<u>PRINCIPAL</u>	<u>INTEREST</u>	<u>TOTAL</u>
2023	\$ 741,256	\$ 1,062,006	\$ 1,803,262
2024	735,223	1,041,052	1,776,275
2025	604,350	1,020,576	1,624,926
2026	508,701	1,003,841	1,512,542
2027	474,032	987,871	1,461,903
2028-2032	3,567,903	4,635,212	8,203,115
2033-2037	4,808,235	3,899,187	8,707,422
2038-2042	7,315,189	2,921,937	10,237,126
2043-2047	9,548,597	1,453,381	11,001,978
2048-2050	<u>3,560,454</u>	<u>106,872</u>	<u>3,667,326</u>
Total	<u>\$ 31,863,940</u>	<u>\$ 18,131,935</u>	<u>\$ 49,995,875</u>

NOTE 7 – GOVERNMENT GRANTS

HFSC is party to contracts with a federal governmental agency. Should these contracts not be renewed, a replacement for this source of support may not be forthcoming and related expenses may not be incurred. Funding sources of government grants include amounts from the U. S. Department of Justice totaling approximately \$1,900,000 and \$1,600,000 during fiscal years 2022 and 2021, respectively.

Government grants require fulfillment of certain conditions as set forth in the contracts and are subject to review and audit by the awarding agency. Such reviews and audits could result in the discovery of unallowable activities and unallowable costs. Consequently, the funding source may, at its discretion, request reimbursement for expenses or return of funds as a result of noncompliance by HFSC with the terms of the contracts. Management believes such disallowances, if any, would not be material to HFSC's financial position or changes in net position.

NOTE 8 – EMPLOYEE BENEFIT PLANS

HFSC has both a deferred compensation plan and a defined contribution retirement plan covering substantially all full-time employees. Under the terms of the deferred compensation plan, HFSC matches an amount up to 5% of each participant’s annual salary. Under the terms of the defined contribution retirement plan, HFSC contributes an amount equal to 2% of each participant’s annual salary. HFSC’s contributions to these plans were approximately \$1 million and \$998,000 in 2022 and 2021, respectively.

NOTE 9 – ADJUSTMENTS BETWEEN THE GOVERNMENTAL FUND STATEMENTS AND THE GOVERNMENT-WIDE STATEMENT OF NET POSITION AND STATEMENT OF ACTIVITIES

Total fund balance reported in the governmental fund balance sheet differs from net position reported in the government-wide statement of net position. Differences occur because of the current financial resources focus of the governmental fund statements and the long-term economic focus of the government-wide statement of net position and statement of activities. The provisions of GASB Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*, imposed this change in focus. The adjustments below show the difference between the statements that result from this difference in measurement focus.

Adjustments reported in the statements of net position from the governmental fund balance sheet consist of the following:

	<u>2022</u>	<u>2021</u>
Capital assets, including lease assets used in governmental activities are not current financial resources; therefore, are not reported in the fund financial statements.	\$ 31,901,313	\$ 33,389,040
Long-term liabilities, including lease liabilities, are not due and payable in the current period; therefore, are not reported in the fund financial statements.	(31,863,940)	(32,332,496)
Long-term liabilities, including compensated absences, are not due and payable in the current period; therefore, are not reported in the fund financial statements.	<u>(1,403,233)</u>	<u>(1,457,935)</u>
Net adjustment to fund balance to net position of governmental activities	<u>\$ (1,365,860)</u>	<u>\$ (401,391)</u>

Adjustments reported in the statements of activities from the governmental fund statements of revenue, expenditures, and changes in fund balance consist of the following:

	<u>2022</u>	<u>2021</u>
Governmental funds report outlays for capital assets as expenditures because such outlays use current financial resources. The statements of activities recognizes the cost of outlays allocated over estimated useful lives as depreciation expense.		
Capital outlay	\$ 531,084	\$ 1,278,329
Depreciation expense	(686,287)	(677,740)
Amortization expense	(1,332,524)	(1,221,176)
Governmental funds report resources from long-term debt as current financial resources, while the repayment of the principal of long-term debt consumes current financial resources. This amount is the net effect of this difference in the treatment of long-term debt.	468,554	(106,900)
Expenditures, including compensated absences that are not payable in the current fiscal year, do not require the use of current financial resources; therefore, are not reported as expenditures in the fund financial statements.	54,704	(311,193)
Governmental funds do not recognize losses on disposal of assets because such losses do not impact current financial resources.		
Loss on disposal	<u> </u>	<u>(293,200)</u>
Net adjustment to decrease net changes in fund balance to change in net position of governmental activities	<u>\$ (964,469)</u>	<u>\$ (1,331,880)</u>

Houston Forensic Science Center, Inc.

Schedule of Expenditures of Federal Awards for the year ended June 30, 2022

<u>FEDERAL GRANTOR</u>	<u>Assistance</u>			<u>Award</u>	<u>Allowable</u>	
<u>Pass-through Grantor</u>	<u>Listing</u>			<u>Amount</u>	<u>Federal</u>	
<u>Program Title & Period</u>	<u>Number</u>	<u>Contract Number</u>			<u>Expenditures</u>	<u>Subrecipients</u>
U. S. DEPARTMENT OF JUSTICE						
Direct Funding:						
DNA Backlog Reduction Program						
#1 01/20 – 04/22	16.741	2019-DN-BX-0036		\$1,607,745	\$ 336,767	
#2 10/20 – 09/22	16.741	2020-DN-BX-0096		\$1,728,033	1,550,491	
#3 10/21 – 09/23	16.741	15PBJA21GG03193DNAX		\$1,806,581	<u>59,198</u>	
Subtotal					<u>1,946,456</u>	
Total U. S. Department of Justice					<u>1,946,456</u>	<u> </u>
TOTAL FEDERAL AWARDS					<u>\$ 1,946,456</u>	<u>\$ 0</u>

See accompanying note to schedule of expenditures of federal awards.

Houston Forensic Science Center, Inc.

Note to Schedule of Expenditures of Federal Awards for the year ended June 30, 2022

NOTE 1 – SIGNIFICANT ACCOUNTING POLICY

Basis of presentation – The schedule of expenditures of federal awards (the schedule) 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 expenses include allowable expenses funded by federal grants. Allowable costs are subject to the cost principles of the Uniform Guidance, and include both costs that are capitalized and costs that are recognized as expenses in HFSC's financial statements in conformity with generally accepted accounting principles.

HFSC uses the 10% de minimus rate for indirect costs.

Because the schedule presents only a selected portion of the operations of HFSC, it is not intended to, and does not present the net position or changes in net position of HFSC.

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
Houston Forensic Science Center, Inc.:

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Houston Forensic Science Center, Inc. (HFSC), which comprise the governmental activities and the major fund as of and for the year ended June 30, 2022, and the related notes to the financial statements, and have issued our report thereon dated September 16, 2022.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered HFSC's 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 HFSC's internal control. Accordingly, we do not express an opinion on the effectiveness of HFSC's 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 HFSC's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Blazek & Vetterling

September 16, 2022

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

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

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited Houston Forensic Science Center, Inc.'s (HFSC) compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on each of HFSC's major federal programs for the year ended June 30, 2022. HFSC's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

In our opinion, HFSC complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2022.

Basis for Opinion on Each Major Federal Program

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

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

Auditors' Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on HFSC's 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 HFSC's compliance with the requirements of each major federal program as a whole.

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding HFSC's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of HFSC's 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 HFSC's internal control over compliance. Accordingly, no such opinion is expressed.

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

Report on Internal Control Over Compliance

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

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

identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

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

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

Blazek & Vetterling

September 16, 2022

