

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, 2023

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, 2023, and the related notes to the financial statements, and have issued our report thereon dated September 14, 2023.

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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We identified a deficiency in internal control, described in the accompanying schedule of findings and questioned costs as item #2023-001 that we consider to be a significant deficiency.

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 14, 2023

**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, 2023. 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, 2023.

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 14, 2023

Houston Forensic Science Center, Inc.

Table of Contents

	Page
Independent Auditors' Report	1
Management's Discussion and Analysis (unaudited)	4
Basic Financial Statements:	
Governmental Fund Balance Sheet and Statement of Net Position as of June 30, 2023	9
Governmental Fund Balance Sheet and Statement of Net Position as of June 30, 2022	10
Governmental Fund Statement of Revenue, Expenditures, and Changes in Fund Balance and Statement of Activities for the year ended June 30, 2023	11
Governmental Fund Statement of Revenue, Expenditures, and Changes in Fund Balance and Statement of Activities for the year ended June 30, 2022	12
Notes to Financial Statements for the years ended June 30, 2023 and 2022	13
Supplementary Information:	
Schedule of Expenditures of Federal Awards for the year ended June 30, 2023	19
Note to Schedule of Expenditures of Federal Awards for the year ended June 30, 2023	20
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 <i>Government Auditing Standards</i>	21
Independent Auditors' Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance Required by the Uniform Guidance	23
Schedule of Findings and Questioned Costs for the year ended June 30, 2023	26

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, 2023 and 2022, 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, 2023 and 2022, 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*, 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 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

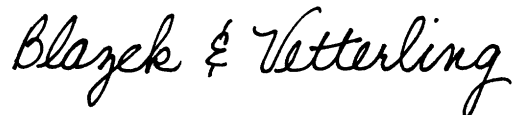
Accounting principles generally accepted in the United States of America require that management's discussion and analysis be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required 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 opinions on the financial statements that collectively comprise Houston Forensic Science Center, Inc.'s basic financial statements. The accompanying supplementary information included in schedule of expenditures of federal awards for the year ended June 30, 2023 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 14, 2023 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.



September 14, 2023

Houston Forensic Science Center, Inc.
Management's Discussion and Analysis
For the years ended June 30, 2023 and 2022
(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, 2023 and 2022. 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, 2023 include:

- HFSC's total net position increased by \$1.2 million with revenue of \$32.1 million and expenses of \$30.9 million.
- \$25.6 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 was awarded a \$4.95 million American Rescue Plan Act (ARPA) grant as a subrecipient from the City for the purpose of providing public safety in enhancing HFSC's services and recognized revenue of \$1.4 million related to reimbursable expenses per the grant agreement.
- HFSC entered lease agreements to acquire the use of forensic and office equipment, which added lease and capital assets and lease liabilities of \$460,000.
- HFSC added \$311,000 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 \$3,769,000, an increase of \$2.1 million in comparison with the prior year. This increase is due to 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, 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 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 \$174,000.
- 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.

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, 2023, HFSC's general fund reported a fund balance of \$3,768,762, an increase of \$2,132,114 from the prior year. This increase is the result of lower salary related expenses of \$245,000 and lower lab supplies of \$151,000. Approximately 71% 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, 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.

Condensed Government-Wide Financial Information and Financial Analysis

	AS OF JUNE 30		
	<u>2023</u>	<u>2022</u>	<u>2021</u>
<i>Condensed Statements of Net Position:</i>			
Current and other assets	\$ 4,945,725	\$ 2,567,306	\$ 2,788,404
Capital assets	<u>30,595,639</u>	<u>31,901,313</u>	<u>33,389,040</u>
Total assets	<u>\$ 35,541,364</u>	<u>\$ 34,468,619</u>	<u>\$ 36,177,444</u>
Noncurrent liabilities	\$ 32,098,762	\$ 32,525,917	\$ 33,131,386
Current liabilities	<u>2,018,246</u>	<u>1,671,914</u>	<u>2,381,304</u>
Total liabilities	<u>\$ 34,117,008</u>	<u>\$ 34,197,831</u>	<u>\$ 35,512,690</u>
Net position:			
Unrestricted	\$ 2,409,371	\$ 233,415	\$ (391,790)
Net investments in capital assets	<u>(985,015)</u>	<u>37,373</u>	<u>1,056,544</u>
Total net position	<u>\$ 1,424,356</u>	<u>\$ 270,788</u>	<u>\$ 664,754</u>

Fiscal Year 2023

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, 2023, as compared to June 30, 2022, primarily is the result of an increase in cash of \$1.6 million due to lower salary related expenses than budgeted, an increase of government grant receivables of \$600,000 due to the CARES Act grant agreement entered into during fiscal year 2023 and acquisition of leased forensic equipment of \$460,000, offset by accumulated depreciation of \$2.1 million due to depreciation and amortization. Liabilities were fairly consistent from prior year as the decrease in the principal payments of \$741,000 were made during fiscal year 2023 offset by an increase in the lease liability of \$460,000 due to the acquisition of leased forensic equipment.

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.

	FOR THE YEAR ENDED JUNE 30		
	<u>2023</u>	<u>2022</u>	<u>2021</u>
<i>Condensed Statements of Activities:</i>			
Expenses:			
Program services	\$ 25,590,225	\$ 25,348,822	\$ 25,286,663
Management and general	4,291,454	4,663,452	4,580,861
Interest expense	1,061,830	1,078,693	1,090,568
Total expenses	<u>30,943,509</u>	<u>31,090,967</u>	<u>30,958,092</u>
Revenue:			
City of Houston – appropriation	27,048,208	27,048,208	25,757,590
City of Houston – facility appropriation	1,460,000	1,460,000	1,460,000
City of Houston – CARES grant	1,391,270		1,358,652
U. S. Department of Justice – government grant revenue	1,971,026	1,946,456	1,673,098
Other revenue	226,573	242,337	201,389
Other loss			(293,200)
Total revenue	<u>32,097,077</u>	<u>30,697,001</u>	<u>30,157,529</u>
CHANGES IN NET POSITION	1,153,568	(393,966)	(800,563)
Net position, beginning of year	<u>270,788</u>	<u>664,754</u>	<u>1,465,317</u>
Net position, end of year	<u>\$ 1,424,356</u>	<u>\$ 270,788</u>	<u>\$ 664,754</u>

Fiscal Year 2023

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.

HFSC recognized ARPA grant revenue of \$1.4 million from the City as a subrecipient for the purpose of providing public safety in enhancing HFSC's services.

Expenses decreased slightly by \$147,000 from the prior year due to employee turnover and unfilled positions.

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.

CAPITAL ASSETS AND LONG-TERM DEBT

Capital Assets

Fiscal Year 2023

HFSC's investment in capital assets as of June 30, 2023 totals \$30.6 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 \$1.4 million and depreciation of capital assets of \$674,000, offset by the acquisition of leased forensic equipment of \$460,000 and scientific forensic equipment, vehicles, and leasehold improvements of \$311,000. HFSC entered into a lease agreement during 2019 for the use of building space, which comprises approximately 87% of total 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.

Long-Term Debt

Fiscal Year 2023

HFSC's lease liability decreased by \$284,000 as a result of HFSC making scheduled principal payments of \$741,000, for the use of building space and forensic lease agreements offset by acquiring the use of leased forensic equipment of \$460,000.

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

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.

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 2024 budget process, the City appropriated revenue for 2024, which is projected to be \$29 million. HFSC also projects utilizing \$1.7 million of the \$4.95 million remaining in ARPA grant funds during fiscal year 2024.

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 Balance Sheet and Statement of Net Position as of June 30, 2023

	GENERAL FUND	ADJUSTMENTS <i>(NOTE 9)</i>	STATEMENT OF NET POSITION
ASSETS			
Current assets:			
Cash	\$ 2,773,358		\$ 2,773,358
Government grants receivable	1,085,442		1,085,442
Prepaid expenses and other assets	1,086,925		1,086,925
Noncurrent assets:			
Capital assets, net of depreciation and amortization <i>(Note 5)</i>	<u> </u>	\$ 30,595,639	<u>30,595,639</u>
TOTAL ASSETS	<u>\$ 4,945,725</u>	<u>\$ 30,595,639</u>	<u>\$ 35,541,364</u>
LIABILITIES			
Current liabilities:			
Accounts payable and accrued expenses	\$ 1,176,963		\$ 1,176,963
Lease liability, current portion <i>(Note 6)</i>		\$ 841,283	841,283
Noncurrent liabilities:			
Compensated absences		1,359,391	1,359,391
Lease liability, long-term portion <i>(Note 6)</i>		<u>30,739,371</u>	<u>30,739,371</u>
TOTAL LIABILITIES	<u>1,176,963</u>	<u>\$ 32,940,045</u>	<u>\$ 34,117,008</u>
FUND BALANCE			
Nonspendable prepaid expenses	1,075,825		
Unassigned	<u>2,692,937</u>		
TOTAL FUND BALANCE	<u>3,768,762</u>		
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 4,945,725</u>		
NET POSITION			
Unrestricted		\$ (1,359,391)	\$ 2,409,371
Invested in capital assets, net of related debt		<u>(985,015)</u>	<u>(985,015)</u>
TOTAL NET POSITION		<u>\$ (2,344,406)</u>	<u>\$ 1,424,356</u>

See accompanying notes to financial statements.

Houston Forensic Science Center, Inc.

Governmental Fund Balance Sheet and Statement of Net Position as of June 30, 2022

	GENERAL FUND	ADJUSTMENTS (NOTE 9)	STATEMENT OF NET POSITION
ASSETS			
Current assets:			
Cash	\$ 1,140,948		\$ 1,140,948
Government grants receivable	423,823		423,823
Prepaid expenses and other assets	1,002,535		1,002,535
Noncurrent assets:			
Capital assets, net of depreciation and amortization (Note 5)	_____	\$ 31,901,313	31,901,313
TOTAL ASSETS	\$ 2,567,306	\$ 31,901,313	\$ 34,468,619
LIABILITIES			
Current liabilities:			
Accounts payable and accrued expenses	\$ 930,658		\$ 930,658
Lease liability, current portion (Note 6)		\$ 741,256	741,256
Noncurrent liabilities:			
Compensated absences		1,403,233	1,403,233
Lease liability, long-term portion (Note 6)	_____	31,122,684	31,122,684
TOTAL LIABILITIES	930,658	\$ 33,267,173	\$ 34,197,831
FUND BALANCE			
Nonspendable prepaid expenses	998,635		
Unassigned	638,013		
TOTAL FUND BALANCE	1,636,648		
TOTAL LIABILITIES AND FUND BALANCE	\$ 2,567,306		
NET POSITION			
Unrestricted		\$ (1,403,233)	\$ 233,415
Invested in capital assets, net of related debt		37,373	37,373
TOTAL NET POSITION		\$ (1,365,860)	\$ 270,788

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, 2023

	GENERAL FUND	ADJUSTMENTS (NOTE 9)	STATEMENT OF ACTIVITIES
EXPENDITURES / EXPENSES:			
Program services	\$ 23,850,004	\$ 1,740,221	\$ 25,590,225
Management and general	4,011,161	280,293	4,291,454
Capital expenditures	770,947	(770,947)	
Debt service principal – lease payments	761,134	(761,134)	
Interest expense	<u>1,061,830</u>		<u>1,061,830</u>
Total expenditures / expenses	<u>30,455,076</u>	<u>488,433</u>	<u>30,943,509</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
Grant from City of Houston – CARES grant	1,391,270		1,391,270
U. S. Department of Justice – government grant revenue	1,971,026		1,971,026
Other revenue	<u>226,573</u>		<u>226,573</u>
Total revenue	<u>32,097,077</u>		<u>32,097,077</u>
EXCESS OF REVENUE OVER EXPENDITURES / CHANGES IN NET POSITION	1,642,001	(488,433)	1,153,568
OTHER FINANCING SOURCES (USES):			
Other financing sources – inception of lease	<u>490,113</u>	<u>(490,113)</u>	
Total other financing sources (uses)	<u>490,113</u>	<u>(490,113)</u>	
CHANGE IN FUND BALANCE / NET POSITION	2,132,114	(978,546)	1,153,568
Fund balance / net position, beginning of year	<u>1,636,648</u>	<u>(1,365,860)</u>	<u>270,788</u>
Fund balance / net position, end of year	<u>\$ 3,768,762</u>	<u>\$ (2,344,406)</u>	<u>\$ 1,424,356</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, 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.

Notes to Financial Statements for the years ended June 30, 2023 and 2022

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, 2023, the carrying amount and the bank balance of HFSC's demand deposit account were \$2,773,358 and

\$2,877,713, 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 30 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

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

Statement No. 100, *Accounting for Changes and Error Corrections*, is effective for fiscal years beginning after June 15, 2023, and all reporting periods thereafter. This statement enhances accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent, and comparable information for making decisions or assessing accountability.

Statement No. 101, *Compensated Absences*, is effective for fiscal years beginning after December 15, 2023, and all reporting periods thereafter. This statement updates the recognition and measurement guidance for compensated absences.

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 \$319,000 and \$516,000 for services provided to HFSC for fiscal years 2023 and 2022, respectively. The City provided \$1.5 million in facility appropriations representing HFSC’s building lease payments in each of the fiscal years 2023 and 2022. 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 2023 and 2022, the City appropriated \$27.0 million, for each year respectively, for general operations.

NOTE 5 – CAPITAL ASSETS

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

	BALANCE AT <u>JULY 1, 2022</u>	<u>ADDITIONS</u>	COMPLETIONS/ <u>DISPOSITIONS</u>	BALANCE AT <u>JUNE 30, 2023</u>
Lease assets:				
Building	\$ 31,166,895			\$ 31,166,895
Forensic equipment	<u>1,475,961</u>	\$ 459,570		<u>1,935,531</u>
Lease assets, at cost	32,642,856	459,570		33,102,426
Accumulated amortization	<u>(4,020,935)</u>	<u>(1,394,911)</u>		<u>(5,415,846)</u>
Total lease assets, net	<u>28,621,921</u>	<u>(935,341)</u>		<u>27,686,580</u>
Other capital assets:				
Scientific forensic equipment	2,459,406	81,694		2,541,100
Furniture and office equipment	1,146,469	37,188		1,183,657
Leasehold improvements	677,835	9,050		686,885
Vehicles	565,810	182,252	\$ (38,011)	710,051
LIMS database	1,672,297			1,672,297
Construction in progress	<u> </u>	<u>1,194</u>	<u> </u>	<u>1,194</u>
Other capital assets, at cost	6,521,817	311,378	(38,011)	6,795,184
Less accumulated depreciation	<u>(3,242,425)</u>	<u>(673,752)</u>	<u>30,052</u>	<u>(3,886,125)</u>
Other capital assets, net	<u>3,279,392</u>	<u>(362,374)</u>	<u>(7,959)</u>	<u>2,909,059</u>
Capital assets, net of depreciation and amortization	<u>\$ 31,901,313</u>	<u>\$ (1,297,715)</u>	<u>\$ (7,959)</u>	<u>\$ 30,595,639</u>

	<u>BALANCE AT JULY 1, 2021</u>	<u>ADDITIONS</u>	<u>COMPLETIONS/ DISPOSITIONS</u>	<u>BALANCE AT JUNE 30, 2022</u>
Lease assets:				
Building	\$ 31,166,895			\$ 31,166,895
Forensic equipment	<u>1,302,274</u>	<u>\$ 173,687</u>		<u>1,475,961</u>
Lease assets, at cost	32,469,169	173,687		32,642,856
Accumulated amortization	<u>(2,688,411)</u>	<u>(1,332,524)</u>		<u>(4,020,935)</u>
Total lease assets, net	<u>29,780,758</u>	<u>(1,158,837)</u>		<u>28,621,921</u>
Other capital assets:				
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	<u>1,672,297</u>			<u>1,672,297</u>
Other capital assets, at cost	6,164,420	357,397		6,521,817
Less accumulated depreciation	<u>(2,556,138)</u>	<u>(686,287)</u>		<u>(3,242,425)</u>
Other capital assets, net	<u>3,608,282</u>	<u>(328,890)</u>		<u>3,279,392</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>

NOTE 6 – LEASES

In May 2023, 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 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. 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, 2023.

	<u>PRINCIPAL</u>	<u>INTEREST</u>	<u>TOTAL</u>
2024	\$ 841,283	\$ 1,041,052	\$ 1,882,335
2025	694,132	1,020,576	1,714,708
2026	600,892	1,003,841	1,604,733
2027	571,257	987,871	1,559,128
2028	539,631	972,786	1,512,417
2029-2033	3,998,465	4,507,234	8,505,699
2034-2038	4,974,287	3,733,135	8,707,422
2039-2043	8,033,949	2,662,089	10,696,038
2044-2048	9,878,356	1,123,622	11,001,978
2049-2051	<u>1,448,402</u>	<u>18,528</u>	<u>1,466,930</u>
Total	<u>\$ 31,580,654</u>	<u>\$ 17,070,734</u>	<u>\$ 48,651,388</u>

NOTE 7 – GOVERNMENT GRANTS

HFSC is party to contracts with federal governmental agencies and the City. 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 \$2,000,000 and \$1,900,000 during fiscal years 2023 and 2022, respectively, and \$1,400,000 from the Department of the Treasury in fiscal year 2023.

Government grants require fulfillment of certain conditions as set forth in the 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 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 in 2023 and 2022.

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>2023</u>	<u>2022</u>
Capital assets, including lease assets used in governmental activities are not current financial resources; therefore, are not reported in the fund financial statements.	\$ 30,595,639	\$ 31,901,313
Long-term liabilities, including lease liabilities, are not due and payable in the current period; therefore, are not reported in the fund financial statements.	(31,580,654)	(31,863,940)
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>(1,359,391)</u>	<u>(1,403,233)</u>
Net adjustment to fund balance to net position of governmental activities	<u>\$ (2,344,406)</u>	<u>\$ (1,365,860)</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>2023</u>	<u>2022</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 overestimated useful lives as depreciation expense.		
Capital outlay	\$ 770,947	\$ 531,084
Depreciation expense	(673,752)	(686,287)
Amortization expense	(1,394,911)	(1,332,524)
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.	273,051	468,554
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.	<u>46,119</u>	<u>54,704</u>
Net adjustment to decrease net changes in fund balance to change in net position of governmental activities	<u>\$ (978,546)</u>	<u>\$ (964,469)</u>

Houston Forensic Science Center, Inc.

Schedule of Expenditures of Federal Awards for the year ended June 30, 2023

<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>Subrecipients</u>
<u>Program Title & Period</u>	<u>Number</u>	<u>Contract Number</u>			<u>Expenditures</u>	
U. S. DEPARTMENT OF JUSTICE						
Direct Funding:						
DNA Backlog Reduction Program						
#1 10/20 – 09/22	16.741	2020-DN-BX-0096		\$1,728,033	\$ 93,164	
#2 10/21 – 09/23	16.741	15PBJA21GG03193DNAX		\$1,806,581	1,396,978	
#3 10/22 – 09/24	16.741	15PBJA22GG01692DNAX		\$2,427,393	<u>480,884</u>	
Subtotal					<u>1,971,026</u>	
Total U. S. Department of Justice					<u>1,971,026</u>	
DEPARTMENT OF THE TREASURY						
Passed through City of Houston:						
COVID-19 – Coronavirus State and Local Fiscal Recovery Funds						
ARPA – Staff Training, Overtime and Toxicology						
#4 08/22 – 05/24	21.027	N/A		\$4,950,000	<u>1,391,270</u>	
Total Department of the Treasury					<u>1,391,270</u>	
TOTAL FEDERAL AWARDS					<u>\$ 3,362,296</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, 2023

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES

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 the U. S. Department of the Treasury guidelines, 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.

Condition and context: As a result of the audit, it was determined that 2 out of 50 non-payroll disbursements tested were recorded in the improper period. Expenses totaling approximately \$19,000 related to fiscal year 2022 were recorded in fiscal year 2023.

Cause: HFSC's control procedures designed to ensure proper cut-off of disbursement transactions were not sufficient to ensure that all outstanding liabilities were accrued.

Effect: Failure to adequately establish and maintain a system of internal control over the financial reporting of disbursements adversely affects HFSC's ability to prepare financial statements in accordance with generally accepted accounting principles (GAAP).

Recommendation: Strengthen procedures to consistently accrue disbursements in accordance with GAAP.

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

Section III – Federal Award Findings and Questioned Costs

There were no findings for federal awards required to be reported in accordance with 2 CFR §200.516(a).



HOUSTON FORENSIC
SCIENCE CENTER
500 Jefferson Street, 13th Floor
Houston, Texas 77002
(713) 929-6760

CORRECTIVE ACTION PLAN

September 14, 2023

DEPARTMENT OF THE TREASURY

Houston Forensic Science Center, Inc. respectfully submits the following corrective action plan for the year ended June 30, 2023. The audit was performed by: Blazek & Vetterling, 2900 Wesleyan, Suite 200, Houston, Texas, 77027.

The finding from the June 30, 2023 schedule of findings and questioned costs is discussed below.

FINDINGS – FINANCIAL STATEMENT FINDINGS

Finding #2023-001 – Significant Deficiency

Recommendation: Strengthen procedures to consistently accrue disbursements in accordance with GAAP.

Views of responsible officials and planned corrective actions: Management has immediately implemented the following procedures:

- During the months of May through July following year end, instructions will be provided to all HFSC employees responsible for purchasing goods and services reminding them to forward all invoices to the accounting and finance department.
- HFSC will send notices to vendors to submit invoices for all goods and services provided but not yet invoiced to HFSC's accounting and finance department by the first week of July following year end.
- HFSC will send notices to all vendors requiring invoices to be sent directly to the Accounts Payable email address.

Responsible officer: David Leach CPA, CIA, Chief Financial Officer and Treasurer

Estimated completion date: Immediately

If the DEPARTMENT OF THE TREASURY has questions regarding this plan, please call David Leach, CPA, CIA at (832) 993-1928.

Sincerely,

David Leach
David Leach
Chief Financial Officer and Treasurer

Digitally signed by David
Leach
Date: 2023.09.26 06:05:37
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