

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

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

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, 2025	8
Governmental Fund Statement of Revenue, Expenditures, and Changes in Fund Balance and Statement of Activities for the year ended June 30, 2025	9
Notes to Financial Statements for the year ended June 30, 2025	10
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>	17

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 year ended June 30, 2025, 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, 2025, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit 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 audit. 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.

Report Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 18, 2025 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.

Blazek & Vetterling

September 18, 2025

Houston Forensic Science Center, Inc.
Management's Discussion and Analysis
For the year ended June 30, 2025
(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 year ended June 30, 2025. This discussion should be read in conjunction with HFSC's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

Financial highlights for the fiscal year ended June 30, 2025 include:

- HFSC expanded its lease at 500 Jefferson Street by 20,020 sq. ft. or 24%, resulting from its expanded responsibilities for the Property Room. This resulted in a \$7.3 million right-of-use lease asset which was financed by a lease liability and increased operating expenses \$98,000 in 2025.
- HFSC entered into a subscription agreement for forensic software, which added a right-of-use subscription asset of \$709,000 which was financed by a subscription liability.
- HFSC added \$10.4 million of additional building lease, scientific forensic equipment, furniture and office equipment and leasehold improvements to capital assets during the year, including the lease and software subscription agreement right-to-use assets referred to above.
- HFSC's total net position decreased by \$2.2 million with revenue of \$35.7 million and expenses of \$37.9 million.
- \$31.3 million of HFSC's expenses were program expenses incurred in connection with forensic science services.
- HFSC recognized revenue of \$32.1 million in appropriations from the City of Houston (the City).
- HFSC is a subrecipient of the American Rescue Plan Act (ARPA) grant from the City and recognized revenue of \$1.4 million related to reimbursable expenses per the grant agreement for the purpose of providing public safety in enhancing HFSC's services.
- At the close of the current fiscal year, HFSC's net position reflected a deficit of \$892,000, a decrease of \$2.2 million of which \$1.5 million was the result of GASB Statement No. 101's requirement to record an accrual for compensated absences which previously was not required (see Note 3 to the financial statements for further information.) The general fund reported a fund balance of \$2.4 million, a decrease of \$2.1 million. The decrease was driven by an increase in wages and associated benefits resulting from additional personnel devoted to fulfilling HFSC's mission.

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 flow 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.

Condensed Government-Wide Financial Information and Financial Analysis

	AS OF JUNE 30	
	<u>2025</u>	<u>2024</u>
<i>Condensed Statements of Net Position:</i>		
Current assets	\$ 3,799,511	\$ 6,258,266
Capital assets	<u>38,276,827</u>	<u>30,764,353</u>
Total assets	<u>\$ 42,076,338</u>	<u>\$ 37,022,619</u>
Current liabilities	\$ 2,260,093	\$ 2,627,244
Noncurrent liabilities	<u>40,708,599</u>	<u>31,947,666</u>
Total liabilities	<u>\$ 42,968,692</u>	<u>\$ 34,574,910</u>
Net position:		
Net investment in capital assets	\$ (287,945)	\$ (678,352)
Unrestricted	<u>(604,409)</u>	<u>3,126,061</u>
Total net position	<u>\$ (892,354)</u>	<u>\$ 2,447,709</u>

Fiscal Year 2025

The assets of HFSC primarily consist of cash, grants receivable from a federal government agency, prepaid expenses and capital assets, which includes right-of-use lease assets and subscription agreements. Liabilities primarily consist of operating expenses, including accrued salaries, compensated absences, and lease liabilities. The increase in total assets at June 30, 2025 of \$5.0 million, as compared to June 30, 2024, is primarily the result of an increase in capital assets of \$7.5 million (see Note 5 to the financial statements for details). This was offset by decreases in total current assets of \$2.5 million of which \$1.6 million resulted from a lower grant revenue receivable.

Capital assets increased from prior year due primarily to additions of \$7.3 million for the building lease, for right-to-use assets and \$0.8 million in scientific equipment. Amortization and depreciation increased by \$0.5 million for the year along with \$1.3 million in disposals.

Liabilities increased by \$8.4 million primarily from a new lease for office space of \$7.2 million and recognition of compensated absences of \$1.5 million required by GASB 101. All other changes resulting from the reduction of existing liabilities were offset by the addition of new capitalized equipment leases.

	<u>FOR THE YEAR ENDED JUNE 30</u>	
	<u>2025</u>	<u>2024</u>
<i>Condensed Statements of Activities:</i>		
Expenses:		
Program services	\$ 31,332,549	\$ 29,029,786
Management and general	5,484,916	4,334,163
Interest expense	<u>1,099,392</u>	<u>1,052,745</u>
Total expenses	<u>37,916,857</u>	<u>34,416,694</u>
Revenue:		
City of Houston appropriations	32,122,949	29,108,208
Federal grants	3,042,866	5,779,338
Other revenue	<u>525,614</u>	<u>552,501</u>
Total revenue	<u>35,691,429</u>	<u>35,440,047</u>
CHANGE IN NET POSITION	(2,225,428)	1,023,353
Net position, beginning of year as originally reported	2,447,702	1,424,356
Adoption of GASB Statement No. 101	<u>(1,114,628)</u>	<u> </u>
Net position, end of year	<u>\$ (892,354)</u>	<u>\$ 2,447,709</u>

Fiscal Year 2025

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 (\$0.9 million less than 2024) from the City as a subrecipient for the purpose of providing public safety in enhancing HFSC's services. HFSC received an additional \$2.0 million from the City for additional resources in FBIO towards removal of the backlog and an additional \$1.0 million for taking on the operations of the property room. Although HFSC received \$1.6 million in federal grants, this was \$1.8 million less than in 2024.

Expenses related to grant spending decreased by \$1.8 million, however there was a total increase in spending of \$3.0 million from prior year due to employee raises, positions being filled in fiscal year 2025, new positions in FBIO that were part of the increased budget specifically for that purpose. Other increases in spending in outsourcing and training in multiple departments were offset by decreased funding from federal grants in the period versus 2024. Long-term debt and interest payments also increased as new leases were entered into for the building and lab equipment.

CAPITAL ASSETS AND LONG-TERM DEBT

Capital Assets

Fiscal Year 2025

HFSC's investment in capital assets as of June 30, 2025 totals \$38.3 million (net of accumulated depreciation and amortization). This investment in capital assets includes right-of-use lease assets and subscription agreements, scientific forensic equipment, furniture and equipment, leasehold improvements, and vehicles. The increase in capital assets for the current fiscal year was primarily related to a right-to-use assets for the building and forensic equipment of \$7.3 million and \$0.7 million respectively. Right-to-use subscriptions and right-to-use forensic scientific equipment increased by \$0.8 million and \$0.7 million, respectively. These additions were offset by \$2.9 million in depreciation and amortization. HFSC entered into a lease agreement during 2019 and 2025 for the use of building space, which comprises approximately 76% of total capital assets.

Long-Term Debt

Fiscal Year 2025

HSFC's long-term liabilities increased by \$8.4 million because of new leases for office space and forensic science equipment. GASB 101 resulted in \$1.5 million liability in 2025 while net subscription liabilities decreased by \$140,000. See additional information concerning the lease agreement in Note 6 to the financial statements.

General Fund Budgetary Analysis

HFSC is required to submit an annual budget to the City Finance Director which has been approved by HFSC's Board of Directors. HFSC's budget is incorporated into the City's overall budget and is not separately approved. Therefore, no analysis is provided here.

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, 2025

	GENERAL FUND	ADJUSTMENTS (NOTE 4)	STATEMENT OF NET POSITION
ASSETS			
Current assets:			
Cash	\$ 2,058,078		\$ 2,058,078
Government grants receivable	549,027		549,027
Prepaid expenses and other assets	<u>1,192,406</u>		<u>1,192,406</u>
Total current assets	3,799,511		3,799,511
Capital assets, net (Note 5)	<u> </u>	\$ 38,276,827	<u>38,276,827</u>
TOTAL ASSETS	<u>\$ 3,799,511</u>	<u>\$ 38,276,827</u>	<u>\$ 42,076,338</u>
LIABILITIES			
Current liabilities:			
Accounts payable and accrued expenses	\$ 1,384,932		\$ 1,384,932
Current portion of long-term debt (Note 6):			
Leases	<u> </u>	\$ 875,161	<u>875,161</u>
Total current liabilities	1,384,932	875,161	2,260,093
Noncurrent portion of compensated absences		3,018,988	3,018,988
Noncurrent portion of long-term debt (Note 6):			
Leases		37,123,450	37,123,450
Subscription-based information technology	<u> </u>	<u>566,161</u>	<u>566,161</u>
TOTAL LIABILITIES	<u>1,384,932</u>	<u>\$ 41,583,760</u>	<u>\$ 42,968,692</u>
FUND BALANCE			
Nonspendable prepaid expenses	1,183,706		
Unassigned	<u>1,230,873</u>		
TOTAL FUND BALANCE	<u>2,414,579</u>		
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 3,799,511</u>		
NET POSITION			
Net investment in capital assets		\$ (287,945)	\$ (287,945)
Unrestricted		<u>(3,018,988)</u>	<u>(604,409)</u>
TOTAL NET POSITION		<u>\$ (3,306,933)</u>	<u>\$ (892,354)</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, 2025

	GENERAL FUND	ADJUSTMENTS (NOTE 4)	STATEMENT OF ACTIVITIES
EXPENDITURES / EXPENSES:			
Program services	\$ 28,477,942	\$ 2,854,607	\$ 31,332,549
Management and general	4,971,445	513,471	5,484,916
Capital expenditures	10,367,081	(10,367,081)	
Long-term debt principal payments	1,641,211	(1,641,211)	
Interest expense	<u>1,099,392</u>		<u>1,099,392</u>
Total expenditures / expenses	<u>46,557,071</u>	<u>(8,640,214)</u>	<u>37,916,857</u>
REVENUE:			
City of Houston – appropriations	32,122,949		32,122,949
Federal grants:			
Passed through City of Houston	1,371,934		1,371,934
Other	1,670,932		1,670,932
Interest income	476,720		476,720
Other revenue	<u>48,894</u>		<u>48,894</u>
Total revenue	<u>35,691,429</u>		<u>35,691,429</u>
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENDITURES / CHANGES IN NET POSITION	<u>(10,865,642)</u>	<u>8,640,214</u>	<u>(2,225,428)</u>
OTHER FINANCING SOURCES (USES):			
Capital assets financed by long-term debt:			
Leases	8,054,759	(8,054,759)	
Subscription-based information technology	<u>708,520</u>	<u>(708,520)</u>	
Total other financing sources (uses)	<u>8,763,279</u>	<u>(8,763,279)</u>	
CHANGE IN FUND BALANCE / NET POSITION	(2,102,363)	(123,065)	(2,225,428)
Fund balance / net position, beginning of year (Note 3)	<u>4,516,942</u>	<u>(3,183,868)</u>	<u>1,333,074</u>
Fund balance / net position, end of year	<u>\$ 2,414,579</u>	<u>\$ (3,306,933)</u>	<u>\$ (892,354)</u>

See accompanying notes to financial statements.

Houston Forensic Science Center, Inc.

Notes to Financial Statements for the year ended June 30, 2025

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. In April 2024, the City approved HFSC to begin the process of taking over management of the HPD Property Room division.

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, 2025, the carrying amount and the bank balance of HFSC's demand deposit account was \$2,058,078. Amounts on deposit in excess of the Federal Deposit Insurance Corporation limit of \$250,000 are collateralized by a security agreement with the bank.

Fund balance represents the difference between general fund assets and liabilities and 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.
- *Unassigned fund balance* includes amounts that are available for HFSC's future use for any purpose.

Net position represents the difference between government-wide assets and liabilities and is reported in the following categories:

- *Net investment in capital assets* consists of net capital assets reduced by related outstanding debt.
- *Unrestricted* is available for general use by HFSC.

Capital assets – Long-lived assets with a cost in excess of \$5,000 and an estimated useful life of more than one year are capitalized in the government-wide financial statements. Purchased assets are reported at cost. Donated assets are reported at fair value at the date of donation. Lease right-of-use assets represent the right to use another entity's nonfinancial asset for a period of time. Subscription right-of-use assets represent the right to use another entity's information technology software, alone or in combination with tangible capital assets for a period of time. Lease and subscription right-of-use assets are reported at the net present value of total payments due over the term of the agreement discounted using the incremental borrowing rate at the beginning of the term.

Depreciation of long-lived assets is recognized using the straight-line method over estimated useful lives of 5 to 30 years when a capital asset is placed in service. Amortization of right-of-use assets is recognized using the straight-line method over the shorter of the estimated useful life of the asset or the term of the agreement. The cost of maintenance and repairs that do not significantly add to the utility of an asset, or materially extend its useful life, are expensed as incurred. Leases and subscriptions for a term of less than one year are expensed based on the payment provisions.

Compensated absences – Compensated absences are recognized as expenses and as liabilities in the government-wide financial statements to the extent they are attributable to employees' services already provided and are more likely than not to be used for future time off or otherwise paid in cash or settled through noncash means.

The Vacation Leave Bank (VLB) allows employees an opportunity to continue pay during vacation or other approved time off requested by the employee. The Sick Leave Bank (SLB) provides paid time off caused by personal illness or injury, or the illness or injury of an immediate family member. VLB and SLB benefits apply to full-time employees. VLB and SLB hours accrue each pay period for use by the employee during their employment. Unused VLB is paid to departed employees based on pay rate at time of departure while accrued SLB is forfeited by departing employees.

Lease and subscription liabilities are reported at the net present value of remaining payments over the term of the agreement discounted using the incremental borrowing rate at the beginning of the term.

Grant revenue – Under both the modified accrual and the accrual basis of accounting, revenue from grants is 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 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 – RECENT GASB ACCOUNTING STATEMENTS

HFSC implemented the following GASB statements during the fiscal year ended June 30, 2025:

GASB Statement No. 101, *Compensated Absences*, requires that liabilities for compensated absences be recognized for leave that has not been used and for leave that has been used but not yet paid in cash or settled through noncash means. A liability should be recognized for leave that has not been used if the leave is attributable to services already rendered, the leave accumulates, and the leave is more likely than not to be used for time off or otherwise paid in cash or settled through noncash means. This statement also requires that a liability for specific types of compensated absences not be recognized until the leave is used. Implementation of this statement decreased previously reported net position at June 30, 2024 by \$1.1 million and increased expenses by \$379 thousand during fiscal year 2025.

GASB Statement No. 102, *Certain Risk Disclosures*, provides users of government financial statements with essential information about risks related to a government’s current vulnerabilities due to certain concentrations and certain constraints common in the governmental environment. Implementation of this statement had no significant impact on the financial statements for fiscal year 2025.

The GASB has issued the following statements which will be effective in future years. HFSC is currently evaluating the potential impact implementation of these statements will have on the financial statements:

In April 2024, the GASB issued Statement No. 103, *Financial Reporting Model Improvements*, to improve key components of the financial reporting model to enhance its effectiveness in providing information that is essential for decision making and assessing a government’s accountability. The improvements target established accounting and financial reporting requirements for management’s discussion and analysis; unusual or infrequent items; presentation of the proprietary fund statement of revenues, expenses, and changes in fund net position; major component unit information; and budgetary comparison information. The requirements of this Statement are effective for fiscal years beginning after June 15, 2025, and all reporting periods thereafter.

In September 2024, the GASB issued Statement No. 104, *Disclosure of Certain Capital Assets*. This Statement requires certain types of capital assets to be disclosed separately and requires additional disclosures for capital assets held for sale. The requirements of this Statement are effective for fiscal years beginning after June 15, 2025, and all reporting periods thereafter.

NOTE 4 – GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENT ADJUSTMENTS

Adjustments between the government-wide and fund financial statements occur because of the difference in measurement focus between the two bases of accounting. The government-wide financial statements reflect a long-term economic focus while the fund financial statements focus on current financial resources. The adjustments below explain the difference between the financial statements that result from the difference in measurement focus.

Adjustments between the government-wide statement of net position and the governmental fund balance sheet at June 30, 2025 are as follows:

Capital assets used in governmental activities do not represent current financial resources and therefore are not reported in the fund financial statements.	\$ 38,276,827
Liabilities which are not due and payable in the current period do not use current financial resources and are not reported in the fund financial statements.	<u>(41,583,760)</u>
Net difference between fund balance and net position	<u>\$ (3,306,933)</u>

Adjustments between the government-wide statement of activities and the governmental fund statements of revenue, expenditures, and changes in fund balance for the year ended June 30, 2025 are as follows:

Governmental funds report outlays for capital assets as expenditures because such outlays use current financial resources while the government-wide financial statements report those as economic resources and recognize depreciation and amortization expense over their estimated useful lives.	
Capital expenditures reported in fund financial statements	\$ 10,367,081
Depreciation and amortization expense reported in government-wide financial statements	(2,854,607)
Government funds report debt financing which provides current resources as inflows and debt principal payments which use current financial resources as expenditures while the government-wide financial statements report long-term debt as liabilities.	
Long-term debt issued	(8,763,279)
Long-term debt principal repayments	1,641,211
Government funds report expenditures when they are expected to be liquidated using current financial resources while the government-wide financial statements report expenses when the liability is incurred.	
Compensated absences not expected to be paid with current financial resources	<u>(513,471)</u>
Net difference between changes in fund balance and change in net position	<u>\$ (123,065)</u>

NOTE 5 – CAPITAL ASSETS

The following summarizes changes in HFSC’s capital assets during the year ended June 30, 2025:

	BALANCE AT JULY 1, 2024	TRANSFERS AND ADDITIONS	DISPOSALS AND RETIREMENTS	BALANCE AT JUNE 30, 2025
Capital assets not being depreciated:				
Construction in progress	\$ 467,535	\$ (149,163)		\$ 318,372
Capital assets being depreciated or amortized:				
Right-of-use building lease	31,166,895	7,281,324		38,448,219
Right-of-use forensic equipment lease	1,935,531	773,434	\$ (1,008,128)	1,700,837
Right-of-use subscription asset	853,881	708,520		1,562,401
Scientific forensic equipment	3,204,508	1,012,472	(102,418)	4,114,562
Furniture and office equipment	1,404,942	509,578	(180,000)	1,734,520
Leasehold improvements	720,587	135,277		855,864
Vehicles	710,051	95,639		805,690
LIMS database	1,672,297			1,672,297
Total	41,668,692	10,516,244	(1,290,546)	50,894,390
Accumulated depreciation and amortization:				
Right-of-use building lease	(5,541,913)	(1,114,962)		(6,656,875)
Right-of-use forensic equipment lease	(1,319,266)	(337,048)	1,008,128	(648,186)
Right-of-use subscription asset	(213,470)	(449,643)		(663,113)
Scientific forensic equipment	(723,526)	(414,874)	102,418	(1,035,982)
Furniture and office equipment	(903,028)	(126,727)	180,000	(849,755)
Leasehold improvements	(1,073,783)	(60,682)		(1,134,465)
Vehicles	(342,086)	(111,710)		(453,796)
LIMS database	(1,254,802)	(238,961)		(1,493,763)
Total	(11,371,874)	(2,854,607)	1,290,546	(12,935,935)
Capital assets, net	\$ 30,764,353	\$ 7,512,474	\$ 0	\$ 38,276,827

NOTE 6 – LONG-TERM LIABILITIES

The following summarizes changes in HFSC’s long-term liabilities during the year ended June 30, 2025:

	BALANCE JUNE 30, 2024	INCREASES	DECREASES	BALANCE JUNE 30, 2025	PAYABLE WITHIN ONE YEAR
Compensated absences *	\$ 2,505,517	\$ 513,471		\$ 3,018,988	
Subscription liabilities	705,700	708,520	\$ (848,059)	566,161	
Lease liabilities	30,737,005	8,054,759	(793,153)	37,998,611	\$ 875,161
Total	\$ 33,948,222	\$ 9,276,750	\$ (1,641,212)	\$ 41,583,760	\$ 875,161

* Compensated absences at June 30, 2025 have been restated due to implementation of GASB Statement No. 101. The change in the liability for compensated absences is presented net.

Leases

HFSC recognized expenses of approximately \$966,000 during 2025 for variable lease payments not included in the measurement of the lease liabilities.

In June 2025, HFSC entered into a 5-year agreement to lease office equipment. The agreement includes HFSC's commitment to pay predetermined monthly amounts. HFSC used a discount rate of 3.185% to calculate the reported lease liability, which is its estimated borrowing rate.

In May 2025, 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 3.185% to calculate the reported lease liability, which is its estimated borrowing rate.

In May 2024, HFSC amended the building space lease agreement to include the use of additional space to commence in April 2025 and will end at the original building space lease termination of April 2049. The estimated net present value of future cash flows is \$7.3 million using a discount rate of 3.4% based on its estimated borrowing rate.

In November 2024, 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 3.185% to calculate the reported lease liability, which is its estimated borrowing rate.

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 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 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 lease agreement includes variable lease payments representing common area maintenance that are not included in the lease liability because they are not fixed in substance.

Future lease payments as of June 30, 2025 are due as follows:

	<u>PRINCIPAL</u>	<u>INTEREST</u>	<u>TOTAL</u>
2026	\$ 875,161	\$ 1,274,394	\$ 2,149,555
2027	1,420,786	1,268,818	2,689,604
2028	793,889	1,219,428	2,013,317
2029	852,161	1,193,982	2,046,143
2030	1,117,699	1,159,472	2,277,171
2031-2035	5,585,075	5,242,465	10,827,540
2036-2040	7,397,275	4,192,697	11,589,972
2041-2045	11,098,799	2,587,861	13,686,660
2046-2049	<u>9,423,927</u>	<u>612,954</u>	<u>10,036,881</u>
Total	<u>\$ 38,564,772</u>	<u>\$ 18,752,071</u>	<u>\$ 57,316,843</u>

HFSC’s building space lease agreement has been amended to include additional space. The addition is expected to become effective in October 2025 and will end in April 2049. The estimated net present value of future lease payments is \$7.1 million discounted using HFSC’s borrowing rate of 3.4%. A right-of-use asset and lease liability will be recognized for the additional space when the lease becomes effective.

Subscription-based information technology arrangements

HFSC has a four-year software subscription arrangement for forensic hardware with payments due annually. The agreement is recognized as a subscription-based information technology arrangement (SBITA) and included as a right-of-use subscription asset with the present value of future payments recognized as a subscription liability. HFSC used a 3.4% discount rate based on its estimated borrowing rate.

In August 2024, HFSC entered into a 3-year SBITA to lease forensic software. The agreement includes HFSC’s commitment to pay predetermined monthly amounts. HFSC used a discount rate of 3.64% to calculate the reported lease liability, which is its estimated borrowing rate.

Future subscription payments as of June 30, 2025 are due as follows:

	<u>PRINCIPAL</u>	<u>INTEREST</u>	<u>TOTAL</u>
2027	<u>\$ 566,161</u>	<u>\$ 21,968</u>	<u>\$ 588,129</u>

NOTE 7 – GOVERNMENT GRANTS

HFSC is party to contracts with federal government agencies and with 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. 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 \$1.2 million in 2025.

**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, 2025, and the related notes to the financial statements, and have issued our report thereon dated September 18, 2025.

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 18, 2025