

**Career and Recovery
Resources, Inc.**

**FINANCIAL STATEMENTS AND
SINGLE AUDIT REPORTS**

June 30, 2018 and 2017



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Career and Recovery Resources, Inc.
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June 30, 2018 and 2017

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Career and Recovery Resources, Inc.
Houston, Texas

Report on the Financial Statements

We have audited the financial statements of Career and Recovery Resources, Inc. (the "Agency"), which comprise the statements of financial position as of June 30, 2018 and 2017, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Agency's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Agency's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Career and Recovery Resources, Inc., as of June 30, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 24, 2018, on our consideration of the Agency'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 the Agency'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 the Agency's internal control over financial reporting and compliance.

Carly Riggs & Ingram, L.L.C.

Houston, Texas
October 24, 2018

Career and Recovery Resources, Inc.
Statements of Financial Position

<i>June 30,</i>	2018	2017
Assets		
Current assets		
Cash and cash equivalents	\$ 1,362,241	\$ 2,205,357
Certificates of deposit	122,380	122,366
Grants receivable	341,714	285,883
Accounts receivable	4,155	6,145
Contributions receivable	473,364	551,778
Prepaid expenses	44,537	51,046
Total current assets	2,348,391	3,222,575
Property and equipment, net	3,681,423	1,931,055
Other assets		
Long-term portion of contributions receivable restricted to investment in capital projects	-	9,029
Deposits	18,148	16,400
Total other assets	18,148	25,429
Total assets	\$ 6,047,962	\$ 5,179,059
Liabilities and net assets		
Current liabilities		
Accounts payable	\$ 48,843	\$ 20,121
Accrued expenses	139,433	189,695
Total liabilities	188,276	209,816
Commitments and contingencies		
Net assets		
Unrestricted		
Designated	16,883	742,294
Undesignated	5,492,124	3,721,621
Total unrestricted net assets	5,509,007	4,463,915
Temporarily restricted	350,679	505,328
Total net assets	5,859,686	4,969,243
Total liabilities and net assets	\$ 6,047,962	\$ 5,179,059

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

Career and Recovery Resources, Inc.
Statements of Activities

For the years ended June 30,

	2018			2017		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Support and revenue						
Contributions	\$ 385,630	\$ 1,029,223	\$ 1,414,853	\$ 287,338	\$ 1,206,293	\$ 1,493,631
Capital campaign contributions	-	1,005,175	1,005,175	-	5,552	5,552
Government fees and grants	2,618,883	-	2,618,883	2,422,092	-	2,422,092
Program service fees	37,823	-	37,823	26,746	-	26,746
Miscellaneous income	1,420	-	1,420	1,023	-	1,023
Net assets released from restrictions						
Expiration of timing restrictions	806,358	(806,358)	-	960,377	(960,377)	-
Satisfaction of donor restrictions	1,382,689	(1,382,689)	-	403,295	(403,295)	-
Total support and revenue	5,232,803	(154,649)	5,078,154	4,100,871	(151,827)	3,949,044
Expenses						
Employment related services	1,706,769	-	1,706,769	1,453,764	-	1,453,764
Drug and alcohol abuse	1,566,486	-	1,566,486	1,517,644	-	1,517,644
Management and general	781,371	-	781,371	774,541	-	774,541
Development	133,085	-	133,085	113,554	-	113,554
Total expenses	4,187,711	-	4,187,711	3,859,503	-	3,859,503
Changes in net assets	1,045,092	(154,649)	890,443	241,368	(151,827)	89,541
Net assets at beginning of year	4,463,915	505,328	4,969,243	4,222,547	657,155	4,879,702
Net assets at end of year	\$ 5,509,007	\$ 350,679	\$ 5,859,686	\$ 4,463,915	\$ 505,328	\$ 4,969,243

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

Career and Recovery Resources, Inc.
Statement of Functional Expenses

	Program Services			Supporting Services			
	Employment Related Services	Drug and Alcohol Abuse	Total	Management and General	Development	Total	Total
<i>For the year ended June 30, 2018</i>							
Salaries	\$ 623,477	\$ 1,032,250	\$ 1,655,727	\$ 496,664	\$ 46,864	\$ 543,528	\$ 2,199,255
Fringe benefits	126,154	231,387	357,541	116,963	12,404	129,367	486,908
Total salaries and fringe benefits	749,631	1,263,637	2,013,268	613,627	59,268	672,895	2,686,163
Occupancy	81,729	133,867	215,596	38,752	-	38,752	254,348
Professional fees	90,936	55,840	146,776	109,927	-	109,927	256,703
Supplies	17,987	12,006	29,993	18,738	-	18,738	48,731
Conferences	2,519	5,289	7,808	3,615	-	3,615	11,423
Equipment rental/maintenance	730	12,993	13,723	94,022	-	94,022	107,745
Telephone	23,041	13,102	36,143	5,930	193	6,123	42,266
Insurance	-	-	-	52,021	-	52,021	52,021
Printing	3,086	2,316	5,402	4,464	-	4,464	9,866
Depreciation	-	-	-	49,400	-	49,400	49,400
Miscellaneous	4,743	150	4,893	16,535	68,336	84,871	89,764
Assistance to individuals	533,640	10,135	543,775	-	-	-	543,775
Postage	2,439	2,198	4,637	2,015	3,435	5,450	10,087
Travel	15,064	4,092	19,156	6,178	85	6,263	25,419
Management allocations	181,224	50,861	232,085	(233,853)	1,768	(232,085)	-
Total functional expenses	\$ 1,706,769	\$ 1,566,486	\$ 3,273,255	\$ 781,371	\$ 133,085	\$ 914,456	\$ 4,187,711

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

Career and Recovery Resources, Inc.
Statement of Functional Expenses

<i>For the year ended June 30, 2017</i>	Program Services			Supporting Services			
	Employment Related Services	Drug and Alcohol Abuse	Total	Management and General	Development	Total	Total
Salaries	\$ 645,833	\$ 1,007,288	\$ 1,653,121	\$ 512,702	\$ 36,439	\$ 549,141	\$ 2,202,262
Fringe benefits	118,434	197,900	316,334	98,982	10,178	109,160	425,494
Total salaries and fringe benefits	764,267	1,205,188	1,969,455	611,684	46,617	658,301	2,627,756
Occupancy	96,862	119,031	215,893	57,144	902	58,046	273,939
Professional fees	97,860	38,126	135,986	134,607	-	134,607	270,593
Supplies	11,899	35,477	47,376	15,437	244	15,681	63,057
Conferences	12,578	5,422	18,000	5,507	-	5,507	23,507
Equipment rental/maintenance	-	15,000	15,000	70,051	-	70,051	85,051
Telephone	20,510	13,570	34,080	8,093	258	8,351	42,431
Insurance	-	-	-	52,497	-	52,497	52,497
Printing	4,159	2,474	6,633	6,111	-	6,111	12,744
Depreciation	845	1,875	2,720	28,974	93	29,067	31,787
Miscellaneous	30	1,701	1,731	7,077	63,036	70,113	71,844
Assistance to individuals	246,388	9,536	255,924	-	-	-	255,924
Postage	1,709	2,046	3,755	1,983	-	1,983	5,738
Travel	23,260	10,502	33,762	8,861	12	8,873	42,635
Management allocations	173,397	57,696	231,093	(233,485)	2,392	(231,093)	-
Total functional expenses	\$ 1,453,764	\$ 1,517,644	\$ 2,971,408	\$ 774,541	\$ 113,554	\$ 888,095	\$ 3,859,503

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

Career and Recovery Resources, Inc.
Statements of Cash Flows

<i>For the years ended June 30,</i>	2018	2017
Operating activities		
Changes in net assets	\$ 890,443	\$ 89,541
Adjustments to reconcile changes in net assets to net cash (used in) provided by operating activities		
Depreciation	49,400	31,787
Contributions restricted to capital projects	(1,005,175)	(5,552)
Bad debt expense	6,826	-
Changes in operating assets and liabilities		
Grants receivable	(55,831)	136,079
Accounts receivable	1,990	(30)
Contributions receivable	71,588	90
Prepaid expenses	6,509	(3,900)
Deposits	(1,748)	-
Accounts payable	28,722	(2,158)
Accrued expenses	(50,262)	30,893
Net cash (used in) provided by operating activities	(57,538)	276,750
Investing activities		
Reinvestment of interest income	(14)	(158)
Purchase of certificate of deposit	-	(10,000)
Purchases of property and equipment	(1,799,768)	(955,762)
Net cash used in investing activities	(1,799,782)	(965,920)
Financing activities		
Proceeds from contributions restricted to capital projects	1,014,204	55,552
Net change in cash and cash equivalents	(843,116)	(633,618)
Cash and cash equivalents at beginning of year	2,205,357	2,838,975
Cash and cash equivalents at end of year	\$ 1,362,241	\$ 2,205,357

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

Career and Recovery Resources, Inc. Notes to Financial Statements

NOTE 1: ORGANIZATION

Career and Recovery Resources, Inc. (the "Agency"), a Texas not-for-profit corporation established in 1945, provides a range of professional services to help people establish career goals, learn job search and vocational skills, obtain and keep jobs, and maintain lives free of drugs and alcohol. In addition, the Agency meets employers' needs with specialized services designed to reduce hiring costs and assist in outplacement counseling.

The Agency's primary funding sources are:

- The United Way of the Texas Gulf Coast
- U.S. Department of Health and Human Services
- U.S. Department of Housing and Urban Development
- U.S. Department of Labor
- U.S. Department of Veteran Affairs
- Texas Department of State Health Services
- City of Houston
- Houston-Galveston Area Council
- Texas Department of Criminal Justice Administrative Office of U.S. Courts
- Texas Department of Assistive and Rehabilitative Services
- Harris County Courts and Probation Office

The Agency's services include:

Employment Related Services

- Job Placement Services - teaches skills that give job-seekers a competitive edge in today's market. Resources include a comprehensive job bank, resource center and assistance to employers with staffing needs. The Waller County office offers hands-on computer training and English as a second language (ESL) classes.
- Employment Services for the Disabled - specialized job placement assistance for disabled persons with funding from the U.S. Department of Education and the Texas Department of Assistive and Rehabilitative Services.
- Career Development Services- helps individuals explore interests and abilities, research occupational choices, sharpen job search skills, and overcome barriers to success.
- Deaf Services- specialized services for people who are deaf/hard of hearing, including literacy education (providing basic math, reading and writing skills), computer skills and job placement services.

Career and Recovery Resources, Inc. Notes to Financial Statements

NOTE 1: ORGANIZATION (Continued)

- Skilled and Professional Services - helps degreed professionals or persons with substantive skills to assist them in defining a clear career path and obtain guidance to effective resume preparation, salary and benefit negotiating techniques and more.
- Supportive Services for Veteran Families – strives to prevent homelessness and enhance the housing stability of very low-income veteran families.

Drug and Alcohol Abuse Services

Substance Abuse Treatment, Prevention and Information - The Alternative Program helps men and women learn to lead productive lives without abusing drugs or alcohol. Services include outpatient supportive/intensive counseling, drug and alcohol education, and HIV testing and education. The Substance Abuse Prevention Program provides information, training and education on the dangers of drug abuse. The project is targeted to high risk children and youth.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The Agency's financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. The Agency is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. Accordingly, net assets of the Agency and changes therein are classified and reported as follows:

- Unrestricted - Net assets that are not subject to donor-imposed stipulations and that may be designated for specific purpose by action of the Board of Directors.
- Temporarily restricted- Net assets subject to donor-imposed stipulations that may or will be met either by actions of the Agency and/or passage of time. This classification includes contributions and unconditional promises to give for which the ultimate purpose of the proceeds is to be used for a specific purpose or time period.
- Permanently restricted - Net assets subject to donor-imposed stipulations that must be maintained in perpetuity by the Agency. The Agency has no permanently restricted net assets.

Cash and Cash Equivalents

The Agency considers all highly liquid investments with original maturities of three months or less at date of purchase to be cash equivalents.

As of June 30, 2018 and 2017, designated cash of \$16,883 and \$742,294, respectively, relates to the capital campaign, which is included in cash and cash equivalents.



Career and Recovery Resources, Inc.
Notes to Financial Statements

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Certificates of Deposit

The Agency's certificates of deposit have original maturities of six months.

Grants Receivable

Grants receivable consist of private and government grants and are considered to be fully collectible; accordingly, no allowance for doubtful accounts has been established. If amounts become uncollectible, they will be charged to operations when the determination is made.

Contributions and Accounts Receivable

Contributions are recorded as revenue in the year they are received unless they contain a conditional promise to give. Contributions are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions. Contributions receivable that are expected to be collected within one year are recorded at net realizable value. Amounts that are expected to be collected in future years are discounted to estimate the present value of future cash flows, if material. Management of the Agency considers the contributions and accounts receivable to be fully collectible; accordingly, no allowance for doubtful accounts has been recorded. If amounts become uncollectible, they will be charged to operations when that determination is made.

Support that is restricted by the donor is reported as an increase in temporarily restricted or permanently restricted net assets in the reporting period in which the support is recognized. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions.

Government Grants

Support funded by grants is recognized as the Agency performs the contracted services or incurs outlays eligible for reimbursement under the grant agreements. Grant activities and outlays are subject to audit and acceptance by the granting agency and, as a result of such audit, adjustments could be required.



Career and Recovery Resources, Inc.
Notes to Financial Statements

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property and Equipment

Expenditures for property, equipment, and improvements are capitalized at cost. Equipment expenditures of \$500 or less are charged to expense. Ordinary repairs and maintenance are charged to expense when incurred. Donated assets are capitalized, and recorded as support, at their fair market value at the date of receipt. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use, and contributions of cash that must be used to acquire property and equipment, are reported as restricted support. Absent donor stipulations regarding how long those donated assets must be maintained, the Agency reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Agency reclassifies temporarily restricted net assets to unrestricted net assets when the restrictions are met. Depreciation is computed using the straight-line method over the estimated useful lives of the related assets, which range from three to forty years.

Equipment purchases made from temporarily restricted net assets, where the Agency does not have title to the equipment and is legally obligated to return it to the funding source at the end of the grant or contract period, are accounted for as expenses and as net assets released from restrictions at the time of acquisition.

Impairment of Long-Lived Assets

The Agency's long-lived assets are evaluated for impairment in accordance with generally accepted accounting principles which requires that long-lived assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable based on expected undiscounted cash flows attributable to that asset. This review requires significant judgments both in assessing events and circumstances as well as estimating future cash flows. Should events indicate that any of the assets are impaired, the amount of such impairment will be measured as the difference between the carrying value and the fair value of the impaired asset and the impairment will be recorded in earnings during the period of such impairment. No impairment of long-lived assets was noted for the years ended June 30, 2018 and 2017.

Advertising Costs

Advertising costs are expensed as they are incurred. The Agency expended \$4,793 and \$130 for advertising for the years ended June 30, 2018 and 2017, respectively.

Fundraising Activities

The Agency incurred expenses totaling \$70,711 and \$63,036 for the years ended June 30, 2018 and 2017, respectively, related to fundraising.



Career and Recovery Resources, Inc. Notes to Financial Statements

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Functional Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statements of activities. Expenses which are directly associated with a particular program are charged to that program. Expenses that cannot be directly identified with a specific program are charged to the various programs based upon salaries, square footage, or other reasonable methods for allocating multiple program expenditures.

Fair Value Considerations

The Agency uses fair value to measure financial and certain nonmonetary financial assets and liabilities. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability. The Agency's financial instruments (primarily cash and cash equivalents, certificates of deposit, receivables, and payables) are carried in the accompanying financial statements at amounts, which reasonably approximate fair value.

Income Taxes

The Agency is exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code (Code). In addition, the Agency has been determined by the Internal Revenue Service not to be a private foundation within the meaning of Section 509(a) of the Code. The Agency is subject to income tax on unrelated business income. No unrelated business income tax was paid in 2018 and 2017.

The Agency accounts for uncertain tax positions, when it is more likely than not, that such an asset or a liability will be realized. As of June 30, 2018 and 2017, management believes there were no uncertain tax positions.

Use of Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amount of assets and liabilities, the disclosure of contingent assets and liabilities, the amounts of reported revenues and expenses, and the allocation of expenses among various functions. Actual results could vary from the estimates that were used.

Subsequent Events

In September 2018, the Agency was notified by the U.S. Department of Veteran Affairs that they are not renewing the Supportive Services for Veteran Families (SSVF) grant for 2018-19. SSVF grant revenues amounted to \$996,926 for the year ended June 30, 2018.



Career and Recovery Resources, Inc.
Notes to Financial Statements

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

In August 2018, the Agency was notified of a \$750,000 grant from The American Red Cross, the purpose of which is to provide repair or rebuilding of major housing to assist in Hurricane Harvey relief assistance. The grant period runs from September 1, 2018 through August 31, 2019.

The Agency has evaluated subsequent events through the date the financial statements were available for issuance on October 24, 2018. No matters were identified affecting the accompanying financial statements or related disclosures, except as noted above.

Recent Financial Accounting Pronouncement

In August 2016, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) 2016-14, Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities. Under this ASU, net assets will be presented in two classes: net assets with donor restrictions and net assets without donor restrictions. Underwater endowments will be included in net assets with donor restrictions and new or enhanced disclosures regarding the composition of net assets will be required. Disclosures regarding liquidity and availability of resources for general operating expenditures within one year of the date of the statement of financial position must also be presented. The ASU requires expenses to be presented by both nature and function, and investment return will be presented net of investment expenses. Absent specific donor stipulations, the Agency will use the placed-in-service approach for reporting expirations of restrictions on long-lived assets. The ASU is effective for fiscal periods beginning after December 15, 2017, but early adoption is permitted. Adoption of this ASU will impact the presentation and disclosures of the Agency's financial statements. As of June 30, 2018 and 2017, the Agency did not early adopt this standard.

NOTE 3: CONCENTRATION OF CREDIT RISK

The Agency received 82% and 79% of its support and revenue during 2018 and 2017, respectively, from five and four organizations, respectively. A significant decline in contribution revenue and governmental support could have an adverse impact on the Agency's future operating results. At June 30, 2018 and 2017, amounts due from four and three donors, respectively accounted for 83% and 79%, respectively, of the Agency's receivables.

The Agency maintains cash accounts at various banks, which at times, may exceed the Federal Deposit Insurance Corporation's limit. The Agency has not experienced any losses from maintaining cash accounts in excess of the federally insured limit. Management reviews the credit ratings of the financial institutions with which it conducts business on an annual basis and believes any credit risk is low due to the overall financial strength of the financial institutions.

Career and Recovery Resources, Inc.
Notes to Financial Statements

NOTE 4: CERTIFICATES OF DEPOSIT

Certificates of deposit consist of the following:

<i>June 30,</i>	2018	2017
Certificate of deposit, interest rate 0.25% and .10%, respectively, maturing February 24, 2019 and March 2, 2018, respectively	\$ 10,135	\$ 10,121
Certificate of deposit, interest rate 0.25% and .10%, respectively, maturing November 4, 2018 and November 4, 2017, respectively	102,245	102,245
Certificate of deposit, interest rate 0.10%, maturing October 27, 2018 and January 27, 2018, respectively	10,000	10,000
	\$ 122,380	\$ 122,366

NOTE 5: CONTRIBUTIONS RECEIVABLE

Contributions receivable consist of the following:

<i>June 30,</i>	2018	2017
United Way	\$ 320,814	\$ 462,005
Barrier Breaker	149,300	24,316
Other	3,250	65,457
Total contributions receivable, exclusive of capital campaign receivables	473,364	551,778
Capital campaign	-	9,029
	\$ 473,364	\$ 560,807

Career and Recovery Resources, Inc.
Notes to Financial Statements

NOTE 6: PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

<i>June 30,</i>	2018	2017
Land	\$ 678,438	\$ 678,438
Building	3,401,478	733,226
Construction in progress	-	954,204
Furniture and equipment	87,275	327,858
	4,167,191	2,693,726
Accumulated depreciation	(485,768)	(762,671)
	\$ 3,681,423	\$ 1,931,055

Depreciation expense totaled \$49,400 and \$31,787 for the years ended June 30, 2018 and 2017, respectively.

Fully depreciated property and equipment retired from operations in 2018 totaled \$326,303.

NOTE 7: COMPENSATED ABSENCES

The Agency provides vacation and sick leave benefits to its employees. The cost of vacation benefits is recorded when such benefits are earned, as these are payable upon termination. The cost of sick leave benefits, which are not payable upon employee termination, is recorded when such benefits are taken. Accrued vacation benefits approximated \$104,000 and \$109,000, as of June 30, 2018 and 2017, respectively.

NOTE 8: EMPLOYEE RETIREMENT PLAN

The Agency has a profit sharing plan and an annual discretionary distribution is made by the Agency. The Agency's contributions totaled \$45,000 and \$16,541, for the years ended June 30, 2018 and 2017, respectively, which are included as fringe benefits in the accompanying statements of functional expenses.

Career and Recovery Resources, Inc.
Notes to Financial Statements

NOTE 9: LINES OF CREDIT

At July 1, 2016, the Agency had a \$300,000 bank line of credit which was secured by the Agency's property. Amounts borrowed under this agreement bore interest at the bank's prime rate as published in the Wall Street Journal and was scheduled to mature in September 2017. The Agency terminated this line of credit facility in April 2017 and secured a construction line of credit facility with another bank.

The construction line of credit facility allowed for borrowings up to a maximum of \$1,000,000 through October 1, 2018 (conversion date), through which date the Agency will make interest only payments on the drawings. A principal payment in the amount of \$200,000 was due and payable beginning on the first payment date following the conversion date. The unpaid principal balance on the drawings was then to be amortized to determine the principal payment amount which would fully repay the principal balance in substantially equal yearly installments by April 1, 2022, the maturity date. Interest on the drawings were variable as defined in the loan agreement. The construction line of credit was secured by a lien on the construction project financed through this facility and all assets to be used in connection with the project. There were also reporting requirements associated with the line with which the Agency was in compliance at June 30, 2017.

During the year ended June 30, 2018, the Agency fully utilized the construction line of credit and made various payments throughout the year with a final payment on February 27, 2018, at which time the line was closed and the lien released. At June 30, 2017, there were no borrowings on the construction line of credit.

NOTE 10: IN-KIND CONTRIBUTIONS

The Agency uses donated space for office use in Waller County, Texas where program services are provided. This space is accounted for as an in-kind contribution, based on the fair value of rentals provided by the donor which totaled \$8,694 and \$15,674 in 2018 and 2017, respectively. These amounts are reflected in the accompanying financial statements for the years ended June 30, 2018 and 2017 as contributions revenue, with a corresponding rent expense recorded to occupancy expenses.

NOTE 11: OPERATING LEASES

The Agency leases facilities and equipment under operating leases expiring through fiscal year 2023. During the years ended June 30, 2018 and 2017, rent incurred for leased facilities and equipment amounted to \$107,575 and \$113,902, respectively. Future minimum lease payments under non-cancellable operating leases are as follows:

<i>Year ending June 30,</i>	
2019	\$ 119,555
2020	102,871
2021	32,961
2022	11,139
2023	10,101
	\$ 276,627

Career and Recovery Resources, Inc.
Notes to Financial Statements

NOTE 12: DESIGNATED UNRESTRICTED NET ASSETS

During the years ended June 30, 2018 and 2017, the Agency's Board of Directors designated \$16,883 and \$742,294, respectively, as a capital campaign reserve.

NOTE 13: TEMPORARILY RESTRICTED NET ASSETS

At June 30, temporarily restricted net assets are available for the following purposes or periods:

<i>June 30,</i>	2018	2017
Employment related services	\$ 20,897	\$ 26,786
Equipment maintenance	3,968	27,735
Alternative services	-	31,708
Caroline operating expense fund	5,000	5,000
For periods after June 30	320,814	414,099
	\$ 350,679	\$ 505,328

NOTE 14: NET ASSETS RELEASED FROM RESTRICTIONS

Net assets were released from restrictions by incurring expenses satisfying the restricted purposes specified by the donor as follows:

<i>For the years ended June 30,</i>	2018	2017
Employment and training programs	\$ 377,514	\$ 284,600
Capital campaign	1,005,175	118,695
Timing restrictions	806,358	960,377
	\$ 2,189,047	\$ 1,363,672

NOTE 15: COMMITMENTS AND CONTINGENCIES

Grant Assistance

The Agency receives significant financial assistance from federal, state and local government agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreement and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits would become a liability of the Agency. However, in the opinion of management, any potential disallowed claims, if any, would not have a material effect on the Agency's financial statements.



**Career and Recovery Resources, Inc.
Notes to Financial Statements**

NOTE 16: CONDITIONAL PROMISES TO GIVE

During 2016, the Agency received a conditional promise to give of \$1,000,000, which was to be used to retire the borrowings on the construction line of credit (Note 9). Since the promise to give was contingent upon drawings on the construction line of credit and no draws on the line were made during the year ended June 30, 2017, it was not recorded as a contribution revenue in 2017. The condition was met during the year ended June 30, 2018 and the revenue was recorded accordingly in 2018. Proceeds from this promise were used to retire the construction line of credit (Note 9).



SINGLE AUDIT REPORTS

Career and Recovery Resources, Inc.
Schedule of Expenditures of Federal Awards
For the year ended June 30, 2018

Federal Grantor/Pass-Through Grantor/Program Title	CFDA Number	Pass-through Grantor/Contract Number	Program or Award Amount	2018 Expenditures	Expenditures to Subrecipients
U.S. Department of Veteran Affairs					
Direct Program					
VA Supportive Services for Veteran Families	64.033	12-TX-076	894,363	\$ 700,125	\$ -
VA Supportive Services for Veteran Families / Hurricane Harvey Assistance	64.033	12-TX-076	99,862	81,737	-
VA Supportive Services for Veteran Families	64.033	12-TX-076	898,256	215,064	-
Total U.S. Department of Veteran Affairs				996,926	-
U.S. Department of Health and Human Services					
Pass-through programs					
Texas Department of State Health Services					
Block Grants for Prevention and Treatment of Substance Abuse	93.959	2016-048507-003	191,995	134,489	-
Block Grants for Prevention and Treatment of Substance Abuse	93.959	2016-048507	191,995	18,302	-
Block Grants for Prevention and Treatment of Substance Abuse	93.959	2016-048568-003	639,634	571,379	-
Block Grants for Prevention and Treatment of Substance Abuse	93.959	2016-048568	639,634	85,524	-
Total U.S. Department of Health and Human Services				809,694	-
Total Expenditures of Federal Awards				\$ 1,806,620	\$ -

See independent auditors' report and accompanying notes to Schedule of Expenditures of Federal Awards.

Career and Recovery Resources, Inc.
Notes to Schedule of Expenditures of Federal Awards

NOTE 1: BASIS OF PRESENTATION OF SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

The accompanying schedule of expenditures of federal awards presents the activity of all federal award programs of Career and Recovery Resources, Inc. (the Agency) during the year ended June 30, 2018. The Agency's accounting policies and procedures are defined in Note 2 to the basic financial statements. All federal awards received directly from Federal agencies, as well as awards passed through other government agencies, have been included in the accompanying schedule of expenditures of federal awards.

NOTE 2: BASIS OF ACCOUNTING

The accompanying schedule of expenditures of federal awards has been prepared using the accrual method of accounting whereby grant revenues are recognized as expenditures are incurred. Separate accounts are maintained for the different awards to aid in the observance of limitations and restrictions imposed by the funding agencies. The information in this schedule is presented in accordance with the 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).

NOTE 3: RECONCILIATION TO FINANCIAL STATEMENTS

The following reconciles the accompanying schedule of expenditures of Federal awards to government fees and grants as reported in the financial statements of the Agency:

<i>For the year ended June 30,</i>	2018
Total expenditures of federal awards per accompanying schedule	\$ 1,806,620
Other federal and state vendor contracts	812,263
Total government fees and grants per Statements of Activities	\$ 2,618,883

NOTE 4: INSURANCE COVERAGE

During the year ended June 30, 2018, the Agency maintained the following types of insurance:

- Commercial general liability including professional liability and property coverage includes \$1,000,000 million each occurrence, \$3,000,000 general aggregate.
- Automobile liability- \$1,000,000 combined single limit.
- Umbrella liability coverage includes \$3,000,000 each occurrence, \$3,000,000 aggregate.
- Directors and officer liability (including fiduciary and employment practices)-\$2,000,000 aggregate.
- Professional liability includes \$1,000,000 each occurrence, \$3,000,000 aggregate.
- Workers compensation coverage includes \$1,000,000 for each accident.



**Career and Recovery Resources, Inc.
Notes to Schedule of Expenditures of Federal Awards**

NOTE 5: NONCASH ASSISTANCE

The Agency did not receive any federal noncash assistance for the year ended June 30, 2018.

NOTE 6: INDIRECT COST

The Agency has not elected to use the 10% de minimis indirect cost rate for the year ended June 30, 2018.

NOTE 7: LOANS AND LOAN GURANTEES

The Agency did not have any loans or loan guarantee programs required to be reported on the schedule for the year ended June 30, 2018.



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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
Career and Recovery Resources, Inc.
Houston, Texas

We have audited, in accordance with the 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 Career and Recovery Resources, Inc. (the "Agency"), which comprise the statement of financial position as of June 30, 2018, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 24, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Agency's internal control over financial reporting (internal control) to determine the 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 the Agency's internal control. Accordingly, we do not express an opinion on the effectiveness of the Agency'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 Agency'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 the 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. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Agency'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 determination of financial statement amounts. 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 Association'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 Agency's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Carly Riggs & Ingram, L.L.C.

Houston, Texas
October 24, 2018



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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

To the Board of Directors
Career and Recovery Resources, Inc.
Houston, Texas

Report on Compliance for Each Major Federal Program

We have audited Career and Recovery Resources, Inc. (the "Agency") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Agency's major federal programs for the year ended June 30, 2018. The Agency's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the Agency's major federal programs based on our audit of the types of compliance requirements referred to above. 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). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Agency's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Agency's compliance.

Opinion on Each Major Federal Program

In our opinion, the Agency complied, in all material respects, with the types of 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, 2018.

Report on Internal Control Over Compliance

Management of the Agency is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Agency's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program 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 internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Agency's 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 first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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.

Carly Riggs & Ingram, L.L.C.

Houston, Texas
October 24, 2018

**Career and Recovery Resources, Inc.
Schedule of Findings and Questioned Costs
For the year ended June 30, 2018**

SECTION I: SUMMARY OF AUDITORS' RESULTS

2018 Financial Statements

Type of auditors' report issued:	Unmodified
Internal control over financial reporting:	
<ul style="list-style-type: none"> • Material weakness(es) identified? _____ yes <u> X </u> no • Significant deficiencies identified? _____ yes <u> X </u> none reported 	
Noncompliance material to financial statements noted?	_____ yes <u> X </u> no

2018 Federal Awards

Internal control over major programs:	
<ul style="list-style-type: none"> • Material weakness (es) identified? _____ yes <u> X </u> no • Significant deficiencies identified? _____ yes <u> X </u> none reported 	
Type of auditors' report issued on compliance for major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with the Uniform Guidance?	_____ yes <u> X </u> no

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program</u>
64.033	VA Supportive Services for Veteran Families
64.033	VA Supportive Services for Veteran Families / Hurricane Harvey Assistance

Career and Recovery Resources, Inc.
Schedule of Findings and Questioned Costs (Continued)
For the year ended June 30, 2018

SECTION I: SUMMARY OF AUDITORS' RESULTS (Continued)

Dollar threshold used to distinguish between
Type A and type B programs:

Federal \$750,000

Auditee qualified as low-risk auditee?

Federal yes no

SECTION II: FINANCIAL STATEMENT FINDINGS

None for the year ended June 30, 2018.

SECTION III: FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None for the year ended June 30, 2018.

SCHEDULE IV: SCHEDULE OF PRIOR YEAR FINDINGS

None for the year ended June 30, 2017.