

**Career and Recovery
Resources, Inc.**

**FINANCIAL STATEMENTS AND
SINGLE AUDIT REPORTS**

June 30, 2017 and 2016



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Career and Recovery Resources, Inc.
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June 30, 2017 and 2016

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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, 2017 and 2016, 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, 2017 and 2016, 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 26, 2017, 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 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 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 26, 2017

Career and Recovery Resources, Inc.
Statements of Financial Position

<i>June 30,</i>	2017	2016
Assets		
Current assets		
Cash and cash equivalents	\$ 2,205,357	\$ 2,838,975
Certificates of deposit	122,366	112,208
Grants receivable	285,883	421,962
Accounts receivable	6,145	6,115
Contributions receivable	551,778	551,868
Current portion of contributions receivable restricted to investment in capital projects	-	50,000
Prepaid expenses	51,046	47,146
Total current assets	3,222,575	4,028,274
Property and equipment, net	1,931,055	1,007,080
Other assets		
Long-term portion of contributions receivable restricted to investment in capital projects	9,029	9,029
Deposits	16,400	16,400
Total other assets	25,429	25,429
Total assets	\$ 5,179,059	\$ 5,060,783
Liabilities and net assets		
Current liabilities		
Accounts payable	\$ 20,121	\$ 22,279
Accrued expenses	189,695	158,802
Total liabilities	209,816	181,081
Commitments and contingencies		
Net assets		
Unrestricted		
Designated	742,294	1,610,863
Undesignated	3,721,621	2,611,684
	4,463,915	4,222,547
Temporarily restricted	505,328	657,155
Total net assets	4,969,243	4,879,702
Total liabilities and net assets	\$ 5,179,059	\$ 5,060,783

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,

	2017			2016		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Support and revenue						
Contributions	\$ 287,338	\$ 1,206,293	\$ 1,493,631	\$ 260,635	\$ 1,275,954	\$ 1,536,589
Capital campaign contributions	-	5,552	5,552	-	106,492	106,492
Government fees and grants	2,422,092	-	2,422,092	2,565,484	-	2,565,484
Program service fees	26,746	-	26,746	30,594	-	30,594
Miscellaneous income	1,023	-	1,023	578	-	578
Net assets released from restrictions						
Expiration of timing restrictions	960,377	(960,377)	-	1,101,229	(1,101,229)	-
Satisfaction of program restrictions	403,295	(403,295)	-	191,623	(191,623)	-
Total support and revenue	4,100,871	(151,827)	3,949,044	4,150,143	89,594	4,239,737
Expenses						
Employment related services	1,453,764	-	1,453,764	1,878,182	-	1,878,182
Drug and alcohol abuse	1,517,644	-	1,517,644	1,388,617	-	1,388,617
Management and general	774,541	-	774,541	755,140	-	755,140
Development	113,554	-	113,554	110,722	-	110,722
Total expenses	3,859,503	-	3,859,503	4,132,661	-	4,132,661
Changes in net assets	241,368	(151,827)	89,541	17,482	89,594	107,076
Net assets at beginning of year	4,222,547	657,155	4,879,702	4,205,065	567,561	4,772,626
Net assets at end of year	\$ 4,463,915	\$ 505,328	\$ 4,969,243	\$ 4,222,547	\$ 657,155	\$ 4,879,702

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, 2017</i>							
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.
Statement of Functional Expenses

<i>For the year ended June 30, 2016</i>	Program Services			Supporting Services			
	Employment Related Services	Drug and Alcohol Abuse	Total	Management and General	Development	Total	Total
Salaries	\$ 866,484	\$ 916,981	\$ 1,783,465	\$ 542,515	\$ 37,577	\$ 580,092	\$ 2,363,557
Fringe benefits	193,651	179,717	373,368	119,597	7,971	127,568	500,936
Total salaries and fringe benefits	1,060,135	1,096,698	2,156,833	662,112	45,548	707,660	2,864,493
Occupancy	134,689	119,788	254,477	79,186	2,085	81,271	335,748
Professional fees	102,644	36,336	138,980	112,111	10,235	122,346	261,326
Supplies	25,141	33,396	58,537	10,639	203	10,842	69,379
Conferences	11,868	4,017	15,885	4,838	-	4,838	20,723
Equipment rental / maintenance	3,529	45	3,574	63,537	-	63,537	67,111
Telephone	20,364	13,838	34,202	7,666	285	7,951	42,153
Insurance	-	-	-	52,439	-	52,439	52,439
Printing	5,677	2,363	8,040	9,207	263	9,470	17,510
Depreciation	3,192	4,585	7,777	18,623	222	18,845	26,622
Miscellaneous	3,300	676	3,976	6,767	49,453	56,220	60,196
Assistance to individuals	257,748	10,474	268,222	2,484	-	2,484	270,706
Postage	781	1,954	2,735	3,492	-	3,492	6,227
Travel	24,495	5,304	29,799	8,229	-	8,229	38,028
Management allocations	224,619	59,143	283,762	(286,190)	2,428	(283,762)	-
Total functional expenses	\$ 1,878,182	\$ 1,388,617	\$ 3,266,799	\$ 755,140	\$ 110,722	\$ 865,862	\$ 4,132,661

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>	2017	2016
Operating activities		
Changes in net assets	\$ 89,541	\$ 107,076
Adjustments to reconcile changes in net assets to net cash provided by (used in) operating activities		
Depreciation	31,787	26,622
Contributions restricted to capital projects	(5,552)	(106,492)
Changes in operating assets and liabilities		
Grants receivable	136,079	(189,069)
Accounts receivable	(30)	(640)
Contributions receivable	90	76,497
Prepaid expenses	(3,900)	(2,300)
Accounts payable	(2,158)	(14,225)
Accrued expenses	30,893	(4,817)
Net cash provided by (used in) operating activities	276,750	(107,348)
Investing activities		
Reinvestment of interest income	(158)	(60)
Purchase of certificate of deposit	(10,000)	-
Purchases of property and equipment	(955,762)	-
Net cash used in investing activities	(965,920)	(60)
Financing activities		
Proceeds from contributions restricted to capital projects	55,552	56,492
Net change in cash and cash equivalents	(633,618)	(50,916)
Cash and cash equivalents at beginning of year	2,838,975	2,889,891
Cash and cash equivalents at end of year	\$ 2,205,357	\$ 2,838,975

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.
- Homeless Veterans’ Reintegration Program – collaborates with many veterans – serving organizations to ensure that homeless veterans receive all possible assistance in re-entering the workforce and community life in general.

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.



Career and Recovery Resources, Inc.
Notes to Financial Statements

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, 2017 and 2016, restricted cash of \$742,294 and \$1,610,863, respectively, relates to the capital campaign, which is included in cash and cash equivalents.

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. The long-term portion of the capital campaign pledges of \$9,029 will be collected over the next 5 years.

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, 2017 and 2016.

Advertising Costs

Advertising costs are expensed as they are incurred. The Agency expended \$130 and \$3,245 for advertising for the years ended June 30, 2017 and 2016, respectively.

Fundraising Activities

The Agency incurred expenses totaling \$63,036 and \$49,759 for the years ended June 30, 2017 and 2016, 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 2017 and 2016.

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, 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

The Agency has evaluated subsequent events through the date the financial statements were available for issuance on October 26, 2017. No matters were identified affecting the accompanying financial statements or related disclosures other than disclosed in Note 9.



Career and Recovery Resources, Inc.
Notes to Financial Statements

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, 2017, the Agency did not early adopt this standard.

NOTE 3: CONCENTRATION OF CREDIT RISK

The Agency received 79% and 74% of its support and revenue during 2017 and 2016, respectively, from four organizations. A significant decline in contribution revenue and governmental support could have an adverse impact on the Agency's future operating results. At June 30, 2017 and 2016, amounts due from three donors accounted for 79% and 74%, 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>	2017	2016
Certificate of deposit, interest rate 0.10%, maturing March 2, 2018 and March 6, 2017, respectively	\$ 10,121	\$ 10,116
Certificate of deposit, interest rate 0.10%, maturing November 4, 2017 and May 4, 2017, respectively	102,245	102,092
Certificate of deposit, interest rate 1%, maturing January 27, 2018	10,000	-
	\$ 122,366	\$ 112,208

NOTE 5: CONTRIBUTIONS RECEIVABLE

Contributions receivable consist of the following:

<i>June 30,</i>	2017	2016
United Way	\$ 462,005	\$ 492,779
Barrier Breaker	24,316	21,250
Other	65,457	37,839
Total contributions receivable, exclusive of capital campaign receivables	551,778	551,868
Capital campaign	9,029	59,029
	\$ 560,807	\$ 610,897

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>	2017	2016
Land	\$ 678,438	\$ 678,438
Building	733,226	733,226
Construction in progress	954,204	-
Furniture and equipment	327,858	326,300
	2,693,726	1,737,964
Accumulated depreciation	(762,671)	(730,884)
	\$ 1,931,055	\$ 1,007,080

Depreciation expense totaled \$31,787 and \$26,622 for the years ended June 30, 2017 and 2016, respectively.

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 \$109,000 as of June 30, 2017 and 2016.

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 \$16,541 and \$30,000 for the years ended June 30, 2017 and 2016, 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

The Agency had a \$300,000 bank line of credit at the end of 2016 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 allows 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 shall be due and payable beginning on the first payment date following the conversion date. The unpaid principal balance on the drawings will then 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 is variable as defined in the loan agreement. The construction line of credit is secured by a lien on the construction project financed through this facility (Note 15) and all assets to be used in connection with the project. There are also reporting requirements associated with the line with which the Agency was in compliance at June 30, 2017.

At June 30, 2017 and 2016, there were no borrowings on the respective lines of credit. Subsequent to year end, the Agency made a first draw of \$92,291 on the construction line of credit in September 2017.

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 \$15,674 and \$34,786 in 2017 and 2016, respectively. These amounts are reflected in the accompanying financial statements for the years ended June 30, 2017 and 2016 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 2021. During the years ended June 30, 2017 and 2016, rent incurred for leased facilities and equipment amounted to \$113,902 and \$137,346, respectively. Future minimum lease payments under non-cancellable operating leases are as follows:

<i>Year ending June 30,</i>	
2018	\$ 81,873
2019	74,508
2020	57,726
2021	10,348
	\$ 224,455

Career and Recovery Resources, Inc.
Notes to Financial Statements

NOTE 12: DESIGNATED UNRESTRICTED NET ASSETS

During the years ended June 30, 2017 and 2016, the Agency's Board of Directors designated \$742,294 and \$1,610,863, 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>	2017	2016
Employment related services	\$ 26,786	\$ 61,079
Equipment maintenance	27,735	-
Alternative services	31,708	33,059
Caroline operating expense fund	5,000	5,000
Capital campaign	-	113,143
For periods after June 30	414,099	444,874
	\$ 505,328	\$ 657,155

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>	2017	2016
Employment and training programs	\$ 284,600	\$ 182,062
Capital campaign	118,695	9,561
Timing restrictions	960,377	1,101,229
	\$ 1,363,672	\$ 1,292,852



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

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.

Capital campaign commitments

On August 1, 2016, the Agency entered into a contractual agreement with a vendor for construction of the new employment and technology building. For the year ended June 30, 2017, amounts expended on construction totaled \$954,204 and are included as construction in progress under property and equipment, net in the accompanying statements of financial position. Commitments of the Agency under the remaining contract at June 30, 2017 totaled \$1,556,167 which will be paid with funds raised under the capital campaign and the construction line of credit (Note 9).

NOTE 16: CONDITIONAL PROMISES TO GIVE

During 2016, the Agency received conditional promise to give of \$1,000,000 which will be used to retire the borrowings on the construction line of credit (Note 9). Since the promise to give is contingent upon drawings on the construction line of credit, they are not recorded as contribution revenue until the draws are made. For the years ended June 30, 2017 and 2016, the Agency did not draw down on the construction line of credit.



SINGLE AUDIT REPORTS

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

Federal Grantor/Pass-Through Grantor/Program Title	CFDA Number	Pass-through Grantor/Contract Number	Program or Award Amount	2017 Expenditures
U.S. Department of Veteran Affairs				
Direct Program				
Supportive Services for Veteran Families	64.033	12-TX-076	898,256	\$ 666,680
Supportive Services for Veteran Families	64.033	12-TX-076	768,521	215,307
Total U.S. Department of Veteran Affairs				881,987
U.S. Department of Health and Human Services				
Pass-through programs				
Texas Department of State Health Services				
Women's Block Grant for Prevention and Treatment of Substance Abuse	93.959	2016-048507	191,955	139,833
Women's Block Grant for Prevention and Treatment of Substance Abuse	93.959	2016-048507	93,450	15,692
Block Grant for Prevention and Treatment of Substance Abuse	93.959	2016-048568	639,634	499,257
Block Grant for Prevention and Treatment of Substance Abuse	93.959	2016-048568	579,634	45,856
Total U.S. Department of Health and Human Services				700,638
Total Expenditures of Federal Awards				\$ 1,582,625

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, 2017. 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). The Agency has elected not to use the 10 percent de minimus indirect cost rate as allowed under the 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>	2017
Total expenditures of federal awards per accompanying schedule	\$ 1,582,625
Other federal and state vendor contracts	839,467
Total government fees and grants per Statements of Activities	\$ 2,422,092

NOTE 4: INSURANCE COVERAGE

During the year ended June 30, 2017, 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 employment practices) coverage includes \$1,000,000 each occurrence, \$3,000,000 aggregate.
- Professional liability includes \$1,000,000 each occurrence, \$3,000,000 aggregate.
- Workers compensation coverage includes \$1,000,000 for each accident.



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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, 2017, 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 26, 2017.

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.

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 26, 2017



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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, 2017. 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, 2017.

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 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 26, 2017

**Career and Recovery Resources, Inc.
Schedule of Findings and Questioned Costs**

SECTION I: SUMMARY OF AUDITORS' RESULTS

2017 Financial Statements

Type of auditors' report issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? _____ yes X no
- Significant deficiencies identified? _____ yes X none reported

Noncompliance material to financial statements noted? _____ yes X no

2017 Federal Awards

Internal control over major programs:

- Material weakness (es) identified? _____ yes X no
- Significant deficiencies identified? _____ yes X 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 X no

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program</u>
93.959	Block Grant for Prevention and Treatment of Substance Abuse
93.959	Women's Block Grant for Prevention and Treatment of Substance Abuse

Career and Recovery Resources, Inc.
Schedule of Findings and Questioned Costs (Continued)

SECTION I: SUMMARY OF AUDITORS' RESULTS (Continued)

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

Federal	\$750,000
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Auditee qualified as low-risk auditee?

Federal	<u> X </u>	yes	<u> </u>	no
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SECTION II: FINANCIAL STATEMENT FINDINGS

None for the year ended June 30, 2017.

SECTION III: FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None for the year ended June 30, 2017.

SCHEDULE IV: SCHEDULE OF PRIOR YEAR FINDINGS

None for the year ended June 30, 2016.