Family Service Center of Galveston County, Texas

Financial Statements for the Fiscal Year Ended August 31, 2019

Tipton & Company
Certified Public Accountants

Table of Contents

Tipton & Company
Certified Public Accountants

13831 Northwest Frwy
Ste. 350B
Houston, Texas 77040
www.nonprofitacctg.com

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Family Service Center of Galveston County, Texas
Galveston, Texas

Report on the Financial Statements

We have audited the accompanying financial statements of Family Service Center of Galveston County, Texas (a nonprofit organization), which comprise the statement of financial position as of August 31, 2019, and the related statements of activities, functional expenses and cash flows for the year 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit 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 auditor's 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 entity'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 entity'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 Family Service Center of Galveston County, Texas as of August 31, 2019, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of a Matter

Certain errors resulting in an understatement of previously reported promises to give receivable and contribution revenue in fiscal-year 2018 and overstating contribution revenue in the fiscal-year 2019 were discovered in the current year. An adjustment of $262,901 was made during 2019 to reduce contribution revenue as of the beginning of the year, and accordingly, a corresponding entry was made to increase previously reported net assets. (*See Note 17)* Our opinion is not modified with respect to this matter.

On August 18, 2016, FASB issued Accounting Standards Update 2016-14, *Not-for-Profit Entities (Topic 958)—Presentation of Financial Statements of Not-for-Profit Entities*. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. The Center has implemented ASU 2016-14 and has adjusted the presentation in these financial statements accordingly. (*See Note 15)*

Other Matters

Other Information

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* 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 August 21, 2020, on our consideration of Family Service Center of Galveston County, Texas' 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 Family Service Center of Galveston County, Texas' 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 Family Service Center of Galveston County, Texas' internal control over financial reporting and compliance.

Tipton & Company

Tipton & Company
Certified Public Accountants
Houston, Texas

August 21, 2020

Family Service Center of Galveston County, Texas

Statement of Financial Position

As of August 31, 2019		
Assets		
Cash and cash equivalents	$	1,469,566
Promises to give, net of discount of $98,659		1,387,190
Grants receivable		35,491
Investments		329,163
Prepaid expenses		19,659
Property and equipment, net of accumulated depreciation of $14,963		270,720
Security deposits		6,500
Total Assets	$	3,518,289
Liabilities and Net Assets		
Liabilities		
Accounts payable	$	3,031
Accrued expenses		82,910
Total Liabilities		85,941
Net Assets		
Without donor restrictions		1,708,829
Without donor restrictions - board designated		45,200
With Donor Restrictions		1,678,319
Total Net Assets		3,432,348
Total Liabilities and Net Assets	$	3,518,289

Family Service Center of Galveston County, Texas

Statement of Activities

For the Year ended August 31, 2019	Without Donor Restrictions	With Donor Restrictions	Total
Public Support and Revenues			
Government grants:			
Federal	$ 1,285,605	$ -	$ 1,285,605
State	288,747	-	288,747
County	3,600	-	3,600
Grants and contributions	133,303	2,248,002	2,381,305
Client Fees	75,124	-	75,124
Special events	84,738	-	84,738
Direct donor benefit costs from special event	(20,566)	-	(20,566)
Investment income	3,476	-	3,476
Other income	6,950	-	6,950
Net assets released from restrictions	1,260,711	(1,260,711)	-
Total Revenue and Support	3,121,688	987,291	4,108,979
Expenses:			
Program Services:			
Individual and Family	267,634	-	267,634
Victim Support Services	488,055	-	488,055
VOCA	116,082	-	116,082
STAR	659,018	-	659,018
Galveston Programs	65,153	-	65,153
Juvenille Justice Program	146,772	-	146,772
Prevention Services	458,610	-	458,610
JJP Oasis Services	146,264	-	146,264
CSS	127,693	-	127,693
Total Program Services	2,475,281	-	2,475,281
Supporting Services:			
Management and general	136,743	-	136,743
Fundraising	14,049	-	14,049
Total Supporting Services	150,792	-	150,792
Total Expenses	2,626,073	-	2,626,073
Change in Net Assets	495,615	987,291	1,482,906
Net Assets, Beginning of Year, as previously stated	995,513	691,028	1,686,541
Prior period adjustment	262,901	-	262,901
Net Assets, Beginning of Year, as restated	1,258,414	691,028	1,949,442
Net Assets, End of Year	$ 1,754,029	$ 1,678,319	$ 3,432,348

Family Service Center of Galveston County, Texas

Statement of Functional Expenses

For the Year ended August 31, 2019	Program Services: Individual & Family	Program Services: Victim Support Services	Program Services: VOCA	Program Services: STAR	Program Services: Galveston Programs	Program Services: Juvenille Justice Program	Program Services: Prevention Services	Program Services: JJP Oasis Program	Program Services: CSS	Program Services: Total Program Services	Supporting Services: Management and General	Supporting Services: Fundraising	Supporting Services: Total Supporting Services	Total
Salaries and Related Expenses														
Salaries	$ 193,756	$ 310,308	$ 88,665	$ 475,452	$ 28,072	$ 109,696	$ 334,095	$ 105,520	$ 94,406	$ 1,739,970	$ 60,071	$ -	$ 60,071	$ 1,800,041
Employee benefits	23,608	37,810	10,803	57,932	3,420	13,366	40,708	12,857	11,503	212,007	7,319	-	7,319	219,326
Payroll taxes	14,768	24,576	6,784	33,018	10,494	8,699	23,358	8,119	6,883	136,699	7,701	-	7,701	144,400
Total Salaries and Related Expenses	232,132	372,694	106,252	566,402	41,986	131,761	398,161	126,496	112,792	2,088,676	75,091	-	75,091	2,163,767
Other Expenses														
Advertising	156	24	316	333	137	96	308	74	70	1,514	92	500	592	2,106
Bad debt	-	-	-	-	-	-	-	-	-	-	15,640	-	15,640	15,640
Conferences and meetings	2,510	966	416	7,833	2,006	357	2,372	211	206	16,877	3,065	-	3,065	19,942
Contract services	122	22,895	1,639	7,759	2,659	75	2,652	137	54	37,992	29	-	29	38,021
Depreciation expense	-	-	-	-	-	-	-	-	-	-	8,135	-	8,135	8,135
Dues and subscriptions	211	20	224	211	62	63	529	44	43	1,407	422	-	422	1,829
Equipment, repairs and maintenance	1,731	3,570	425	3,879	1,292	1,104	3,427	852	820	17,100	18,254	-	18,254	35,354
Fundraising expense	-	-	-	-	-	-	-	-	-	-	-	5,292	5,292	5,292
Insurance expense	1,993	4,300	-	4,221	1,775	1,223	3,906	947	888	19,253	861	-	861	20,114
Internet	785	1,652	84	1,678	689	484	1,538	374	351	7,635	261	-	261	7,896
Investment and bank fees	-	-	-	-	-	-	-	-	-	-	2,176	287	2,463	2,463
Miscellaneous	68	-	146	143	60	42	133	32	30	654	16	-	16	670
Office expense	2,765	4,920	245	5,486	2,210	1,406	9,852	1,230	1,022	29,136	2,431	134	2,565	31,701
Postage and shipping	64	48	91	136	57	39	172	31	29	667	97	2,539	2,636	3,303
Printing	387	1,453	62	1,416	394	233	1,178	155	171	5,449	84	5,180	5,264	10,713
Professional fees	5,589	25,428	5,232	13,280	4,109	3,456	12,406	2,672	5,516	77,688	2,904	-	2,904	80,592
Rent	14,536	40,013	-	29,386	494	3,865	10,901	10,094	3,789	113,078	5,339	98	5,437	118,515
Staff recruitment	27	6	59	59	415	520	452	14	14	1,566	6	-	6	1,572
Supplies	1,174	4,116	158	5,409	4,264	861	3,459	588	523	20,552	508	-	508	21,060
Telephone	1,905	2,047	-	5,832	805	567	4,230	439	412	16,237	295	-	295	16,532
Travel expense	1,096	3,801	-	4,739	1,404	385	2,178	1,692	792	16,087	947	19	966	17,053
Utilities	383	102	733	816	335	235	756	182	171	3,713	90	-	90	3,803
Total Other Expenses	35,502	115,361	9,830	92,616	23,167	15,011	60,449	19,768	14,901	386,605	61,652	14,049	75,701	462,306
Total Expenses	$ 267,634	$ 488,055	$ 116,082	$ 659,018	$ 65,153	$ 146,772	$ 458,610	$ 146,264	$ 127,693	$ 2,475,281	$ 136,743	$ 14,049	$ 150,792	$ 2,626,073

Year Ended August 31, 2019	
Cash Flows From Operating Activities	
Change in net assets	$ 1,482,906
Adjustments to reconcile change in net assets to net cash used from operating activities:	
Depreciation	8,135
Realized gain/(loss) on investments, net of fees	(3,891)
Unrealized gain/(loss) on investments	9,892
Changes in assets and liabilities:	
Promises to give receivable	(789,235)
Grants receivable	(35,491)
Prepaid expenses	(6,849)
Accounts payable	(1,952)
Accrued expenses	21,434
Total Adjustments	(797,957)
Net Change in Operating Activities	684,949
Cash Flows From Investing Activities	
Dividends and interest reinvested	(8,568)
Net Change in Investing Activities	(8,568)
Net Change in Cash and Cash Equivalents	676,381
Cash and Cash Equivalents, beginning of year	793,185
Cash and Cash Equivalents, end of year	$ 1,469,566

NOTE 1 – NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

Family Service Center of Galveston County, Texas (the Center) is a private not-for-profit agency dedicated to enhancing the potential for growth of individuals and families. The Center strives to help people pursue healthy, independent, and fulfilling lives through the provision of counseling, education and related social services.

The Center is committed to the creation and support of policies and programs consistent with its purposes that seek to improve the quality of life in the community and to cooperate with other agencies and organizations similarly engaged.

Family Service Center of Galveston County, Texas is committed to building bridges between individuals, families, agencies, and communities.

To this end, the Center has been providing professional counseling and related social services since 1914. Counseling and related social services are provided by licensed medical health professionals with masters and doctoral degrees offering assistance to individuals and families under stress in accordance with the standards set by the Council on Accreditation of Services for Families and Children, Inc. As a recipient of United Way funds, the Center is able to offer fees adjusted according to the client's income, so no one is refused services because of inability to pay. The Center has several sources of revenue; client fees, insurance, and United Way. The Center's primary source of income is from contributions and grants from individuals, foundations, and local and federal governments.

The Center's Programs are summarized in the following categories:

- The *Individual and Family Program* provides counseling services to adults, children, families and couples. The therapist and client work together to address the client's goals from a strengths-based perspective. This program is fully funded by client fees, insurance and the United Way.

- The *Prevention and Early Intervention Program*, including STAR (Services To At-Risk Youth) offers counseling and prevention services for youth under age 18 and their families, seeking to reduce the mental health factors that contribute to low school attainment by enhancing family, community and school support, as well as increase social emotional learning. Services include school-based counseling, family counseling, increased community collaboration, and parent education. Services are available at FSC offices, schools and community-based settings. Prevention services are free to families in Galveston, Liberty and Chambers Counties. STAR services are covered by the Texas Department of Family and Protective Services. Funding for these services are also supported by the Kempner Foundation, the Moody Permanent Endowment Fund, the John P. McGovern Foundation, the Mildred Yount Manion Charitable Foundation, United Way Galveston County Mainland, and Valero.

- During 2018-2019, the Center's Parent Educators provided Incredible Years parenting workshops; parents and caregivers attended one of 12 Incredible Years workshops (one workshop has 10 sessions).

- The *Juvenile Justice Program* provides on-site counseling and related social services to youth in detention and/or on probation at the Juvenile Justice Center. Through collaboration, youth and their counselor identify goals to enhance healthy choices. Services include group, individual and family counseling. This program is fully supported by Galveston County's Juvenile Justice Department.

- The *Oasis Program* offers intensive therapeutic services to youth who have engaged in inappropriate, illegal and/or dangerous sexual behavior. As an alternative to detention, this program allows youth to remain with their families during a structured treatment program. A dual emphasis on helping the youth/family and ensuring the safety of the community are equally balanced. This program is funded in part by Galveston County's Juvenile Justice Department.

- The *Community Support Services Program* increases access to counseling and related resources by providing these services to persons of all ages in community-based settings. Currently Family Service Center is providing services to clients at St. Vincent's House in Galveston. Funding for this program was provided by the Episcopal Health Foundation for services at St. Vincent's House and Free Clinic.

- The *Victim Support Services Program* provides counseling services to victims of crime. The goal of this program is to reduce the traumatic impact of criminal acts on victims of abuse and crime, to enhance their coping skills, and to promote comprehensive victim restoration. Funding for this program was provided by the Criminal Justice Division, Office of the Governor.

During the 2018-2019 fiscal year, victim services counselors provided 4,126 hours of service to 522 victims of crime and their families.

Basis of Accounting

The financial statements of the Center have been prepared on the accrual basis of accounting and accordingly reflect all significant receivables, payables, and other liabilities.

Basis of Presentation

The Center reports information regarding its financial position and activities according to two classes of net assets that are based upon the existence or absence of restrictions on use that are placed by its donors: net assets without donor restrictions and net assets with donor restrictions.

Net assets without donor restrictions are resources available to support operations and not subject to donor restrictions. The only limits on the use of net assets without donor restrictions are the broad limits resulting from the nature of the Organization, the environment in which it operates, the purposes specified in it corporate documents and its application for tax-exempt status, and any limits resulting from contractual agreements with creditors and others that are entered into in the course of its operations. The governing board has designated, from net assets without donor restrictions, net assets for an operating reserve.

Net assets with donor restrictions are resources that are subject to donor-imposed restrictions. Some restrictions are temporary in nature, such as those that are restricted by a donor for use for a particular purpose or in a particular future period. Other restrictions may be perpetual in nature; such as those that are restricted by a donor that the resources be maintained in perpetuity.

The Center's unspent contributions are reported in net assets with donor contributions if the donor limited their use, as are promised contributions that are not yet due. Contributions of property and equipment or cash restricted to acquisition of property and equipment are reported as net assets with donor restrictions if the donor has restricted the use of the property or equipment to a particular program. These restrictions expire when the assets are placed in service.

When a donor's restriction is satisfied, either by using the resources in the manner specified by the donor or by the passage of time, the expiration of the restriction is reported in the financial statements by reclassifying the net assets from net assets with donor restrictions to net assets without donor restrictions.

Cash and Cash Equivalents

For purposes of the Statements of Cash Flows, the Center considers all highly liquid investments with an initial maturity of three months or less to be cash equivalents.

Promises to Give

Conditional promises to give are not recognized in the financial statements until the conditions are substantially met or explicitly waived by the donor. Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in more than one year are recorded at fair value, which is measured as the present value of their future cash flows. The discounts on those amounts are computed using risk-adjusted interest rates applicable to the years in which the promises are received. Amortization of the discounts is included in contribution revenue. In the absence of donor stipulations to the contrary, promises with payments due in future periods are restricted to use after the due date. Promises that remain uncollected more than one year after their due dates are written off unless the donors indicate that payment is merely postponed.

Grants Receivable

Grants receivable represent consideration from state and local government agencies, of which the Center has an unconditional right to receive. Grants receivable are stated at the amount management expects to be collected from the outstanding balance. As of August 31, 2019, management has determined, based on historical experience, that all amounts are fully collectible and no allowance for doubtful accounts is necessary.

Investments

Investments are reported at fair value. Net investment return consists of interest and dividends, realized and unrealized gains and losses, net of external and direct internal investment expenses.

Property and Equipment

Property and equipment are stated at cost or fair value at date of donation. Depreciation is provided using the straight-line method over the estimated useful lives of the assets as follows:

Buildings	35 years
Furniture and equipment	5 - 7 years

The Center has the policy that assets purchased equal to or greater than $5,000 are required to be capitalized and depreciated. Property purchased with federal funds also has the $5,000 capitalization threshold, unless computer or other electronic equipment are purchased, which has a $500 capitalization requirement. Maintenance and repairs that do not improve or extend the useful lives of the respective assets are expensed currently.

Property and equipment are reviewed for impairment if the use of the asset significantly changes or another indicator of possible impairment is noted. If the carrying amount for the asset is not recoverable, the value is written down to the asset's fair value.

Donated Assets

Donated investments and other noncash donations are recorded as contributions at their fair values at the date of donation.

Donated Property and Equipment

Donations of property and equipment are recorded as contributions at fair value at the date of donation. Such donations are reported as increases in net assets without donor restrictions 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 contributions. Absent donor stipulations regarding how long those donated assets must be maintained, the Center reports expirations of donor restrictions when the donated or acquired assets are placed in service. The Center reclassifies net assets with donor restrictions to net assets without donor restrictions at that time.

Donated Services

Donated services are recognized as contributions if the services (a) create or enhance nonfinancial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Center. Additionally, the Center may receive donated professional services and donated time to help with the clerical and office work which do not meet the criteria for recognition in the Center's financial statements.

Use of Estimates

Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. On an ongoing basis, management evaluates the estimates and assumptions based on new information. Management believes that the estimates and assumptions are reasonable in the circumstances; however, actual results could differ from those estimates.

Functional allocation of expenses

Expenses are reported by their functional classification as program services or supporting activities. Program services are the direct conduct or supervision of activities that fulfill the purposes for which the Center exists. Fundraising activities include the solicitation of contributions of money, securities, materials, facilities, other assets, and time. Management and general activities are not directly identifiable with specific program or fundraising activities. Expenses that are attributable to more than one program or supporting activity are allocated among the activities benefitted. Salaries and related costs are allocated on the basis of estimated time and effort expended. Depreciation and occupancy costs are allocated based on usage of related facilities.

Income Taxes

The Center is a nonprofit corporation that is exempt from federal income taxes under Section 501(c)(3) of the U.S. Internal Revenue Code (“Code”) and comparable State law, and contributions to it are tax deductible within the limitations prescribed by the Code. The Center did not conduct any unrelated business activities in the current fiscal year. Therefore, the Center has made no provision for federal income taxes in the accompanying financial statements.

The Center may recognize the tax benefit from a tax position only if it is more likely than not that the tax position will be sustained on examination by taxing authorities based on the technical merits of the position. Examples of tax positions include the tax-exempt status of the Center and various positions related to the potential sources of unrelated business taxable income (UBIT). The Center has analyzed its tax positions taken for filings with the Internal Revenue Service and the state of Texas.

The Center believes that its income tax filing positions will be sustained upon examination and does not anticipate any adjustments that would result in a material adverse effect on the Center's financial condition, results of operations, or cash flows.

Revenue Recognition

Revenue and Revenue Recognition
Revenue is recognized when earned. Program service fees and payments under cost-reimbursable contracts received in advance are deferred to the applicable period in which the related services are performed, or expenditures are incurred, respectively. Contributions are recognized when cash, or other assets, an unconditional promise to give, or notification of a beneficial interest is received. Conditional promises to give are not recognized until the conditions on which they depend have been substantially met or the donor has explicitly released the restriction.

Revenue with and without Donor Restrictions
Contributions that are restricted by the donor are reported as increases in net assets without donor restrictions if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the revenue is recognized. Contributions of property and equipment are reported as net assets with donor restrictions if the donor restricted the use of the property or equipment to a particular program, as are contributions of cash restricted to the purchase of property and equipment. Otherwise, donor restrictions on contributions of property and equipment or assets restricted for purchase of property and equipment are considered to expire when the assets are placed in service. All other donor-restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the Statement of Activities as net assets released from restrictions.

Advertising

Advertising costs are expensed as incurred. Advertising expenses for the year ended August 31, 2019 were $2,106.

Compensated Absences

The Center has elected to accrue compensated absences. The maximum amount of annual leave that can be accrued for any employee is no more than 160 hours. The obligated vacation amount accrued as of August 31, 2019 was $39,002.

NOTE 2 – CONCENTRATIONS OF CREDIT RISK

Financial instruments that potentially subject the Center to credit risk consist primarily of cash and investments. All of a depositor's accounts at an insured depository institution, including all non-interest bearing transaction accounts, will be insured by the Federal Deposit Insurance Corporation (FDIC) up to the standard maximum deposit insurance amount ($250,000), for each deposit insurance ownership category. Additionally, cash and securities held by a customer at a Security Investor Protection Corporation (SIPC) member brokerage firm are protected up to $500,000, which includes a $250,000 limit for cash.

The Center maintains its cash balance in one financial institution. This balance is insured by the FDIC up to $250,000. As of August 31, 2019, the Center had $1,233,090 that was not covered by FDIC insurance. The Center has not experienced any losses in such accounts and believes the risk of future loss is mitigated by monitoring the balances and the financial institutions where cash is deposited.

The Center's investments amount to $329,163 at August 31,2019, and consist of cash, fixed income securities, and equity investments which are held at a brokerage firm.

The investments are fully insured under the SIPC limit as of August 31, 2019. However, these investments are exposed to several risks, such as interest rates, market, and credit risk.

Due to the level of risk associated with certain investment securities, it is least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the Center's financial statements.

NOTE 3 – PROMISES TO GIVE

Unconditional promises to give at August 31, 2019, are as follows:

Restricted for use in fiscal-year 2020	$1,485,849
	1,485,849
Receivable in less than one year	999,864
Receivable in one to five years	485,985
Receivable in more than five years	-
Total unconditional promises to give	1,485,849
Less discounts to net present value	(98,659)
Less allowance for uncollectible promises to give	-
Net unconditional promises to give at August 31, 2019	$1,387,190

Promises to give receivable in more than one year are discounted at 4.75%.

NOTE 4 – INVESTMENTS AND FAIR VALUE MEASUREMENTS

Fair Value of Financial Instruments

Accounting principles generally accepted in the United States of America establish a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements).

The three levels of the fair value hierarchy are described below:

(i) Level 1—Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Center has the ability to access.

(ii) Level 2—Inputs to the valuation methodology include:

- quoted prices for similar assets or liabilities in active markets;
- quoted prices for identical or similar assets or liabilities in inactive markets;
- inputs other than quoted prices that are observable for the asset or liability;
- inputs that are derived principally from or corroborated by observable market data by correlation or by other means.

(iii) Level 3—Inputs to the valuation methodology are unobservable and significant to the fair value measurement. The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Assets measured at fair value at August 31, 2019 are as follows:

Investments	**Level 1**	**Level 2**	**Level 3**
Cash & Equivalents:			
Premier US Government Money Portfolio	$12,337	$-	$-
Fixed Income Funds:			
American Beacon Garcia Hamilton Quality Bond Fund	30,286	-	-
BlackRock High Yield Bond Portfolio	21,447	-	-
Eaton Vance Floating-Rate Advantaged Fund	18,166	-	-
Invesco Convertible Securities Fund	23,262	-	-
PIMCO Income Fund	29,384	-	-
Equity Funds:			
Diamond Hill Small Mid Cap Fund	17,318	-	-
Invesco Real Estate Fund	17,176	-	-
JPMorgan Value Advantage Fund	24,270	-	-
MFS New Discovery Value Fund	14,305	-	-
TCM Small Cap Growth Fund	13,131	-	-
T Rowe Price Institutional Large-Cap Growth Fund	22,523	-	-
Vanguard Large-Cap Index Fund	12,829	-	-
Vanguard Mid-Cap Index Fund	10,055	-	-
Vanguard Small-Cap Index Fund	9,580	-	-
William Blair Small-Mid Cap Growth Fund	16,788	-	-
International Equity Funds:			
T Rowe Price Institutional Emerging Markets Equity Fund	18,769	-	-
Vanguard International Growth Fund	17,537	-	-
Totals	$329,163	$-	$-

Following is a description of the valuation methodologies used for assets measured at fair value, on a recurring basis. There have been no changes to the methodologies used at August 31, 2019.

- Cash equivalents – the carrying amount reported in the statements of financial position approximates fair value because of the short maturity of those instruments.
- Money market funds – are valued at their fair value at the end of the year.
- Real Estate Investment Trusts (REITS) – are valued at the closing price reported on the active market on which the individual securities are traded.

These valuation methods may produce a fair value that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Center believes their valuation methods are appropriate, the use of different methods or assumptions could result in a different fair value measurement at the reporting date.

Investments are exposed to various risks such as interest rate, market, and credit risks. Because of these risks, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the statement of financial position and statement of activities.

NOTE 5 – PROPERTY AND EQUIPMENT

As of August 31, 2019, property and equipment consisted of the following:

Land	$139,320
Building	117,910
Furniture and fixtures	28,454
Subtotal property and equipment	285,684
Less: accumulated depreciation	(14,964)
Total property and equipment, net	$270,720

Depreciation expense charged to operations for the year ended August 31, 2019 was $8,135.

The Center received a property gift from the Mary Moody Northern Endowment Fund with an appraised value of $257,230 in July 2018. The property is located at 2902 Broadway St., Galveston, Texas and the Center's administration moved to the building in September 2018. It was donated to support the mission of the Center and is to be used solely as office and/or counseling and meeting space for the promotion of mental health and well-being of individuals and families through counseling, education, and prevention services, unless the Endowment consents in writing to another use. In the event that the Center no longer wishes to use the property in furtherance of its mission, or ceases to use the property in a manner agreed upon, title to the property will automatically revert back to the endowment.

NOTE 6 – BOARD DESIGNATED NET ASSETS

The Board authorized that a portion of unrestricted assets be allocated to an unrestricted Board Designated Account to self-insure in case of loss due to a storm. An inventory of assets held at the Dickinson location and their replacement cost was used to arrive at the allocation amount. Currently, $45,200 has been allocated to the account in order to replace all assets at this location in the event of a major storm.

NOTE 7 – NET ASSETS WITHOUT DONOR RESTRICTIONS

Net assets without donor restrictions consist of the following as of August 31, 2019:

Undesignated	1,708,829
Board-designated for Operating Reserve	45,200
Total net assets without donor restrictions	$1,754,029

NOTE 8 – NET ASSETS WITH DONOR RESTRICTIONS

Donor restricted net assets are restricted for the following purposes as of August 31, 2019:

Subject to expenditure for specified purpose	
Galveston Communities of Care	$115,184
Integrated Mental/Behavioral Health Services	80,856
Prevention and Early Intervention Programs for Youth	11,250
Mental Health Component of St. Vincent's Free Clinic	70,000
Toward increased access to quality Trauma informed mental health services	35,000
Total subject to expenditure for specified purpose	312,290
Subject to the passage of time:	
United Way allocations for subsequent periods	185,988
Galveston Communities of Care	646,421
Mental and Behavioral Health Services	93,674
Integrated Mental/Behavioral Health Services	169,098
Relief & Rebuilding efforts for the Victims of Hurricane Harvey	239,181
RACE Parenting Initiative	31,667
Total subject to the passage of time	1,366,029
Total net assets with donor restrictions	$1,678,319

NOTE 9 – NET ASSETS RELEASED FROM RESTRICTIONS

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors.

The following amounts were released from restrictions for the year ended August 31, 2019:

Expiration of time restrictions:	$-
Satisfaction of purpose restrictions:	
Toward increased access to quality Trauma informed mental health services	25,000
Mental Health Component of St. Vincent's Free Clinic	202,500
Prevention and Early Intervention Programs for Youth	11,250
RACE Parenting Initiative	58,333
Relief & Rebuilding efforts for the Victims of Hurricane Harvey	350,447
Integrated Mental/Behavioral Health Services	270,210
Program - Needs of At-Risk-Youth of Galveston County	8,333
Galveston Communities of Care	38,395
Individual and Family Counseling program	20,000
Other	276,243
Total Net Assets Released from Restrictions	$1,260,711

NOTE 10 – EMPLOYEE BENEFITS

Pension Plan - On January 1, 1993 The Center adopted a 403(b) retirement plan. The Center contributes 3% of each eligible participant's salaries to the plan. The Center contributes for participants after one year of service and the employee will be one-hundred percent (100%) vested upon completion of three years of service. Pension costs for the year ended August 31, 2019 amounted to $32,770.

Medical Insurance - Employees are eligible for health insurance the first month after 30 days of employment and must work 30 or more hours per week. Employees are required to pay a proportional share of the insurance and if the family is covered, the premium for family members. Medical insurance costs for the year ended August 31, 2019 amounted to $155,138.

Life Insurance - Employees are eligible the first of the month following the hire date and work 30 or more hours per week. Coverage amounts to one year's wages. Life insurance costs for the year ended August 31, 2019 amounted to $10,230.

Long-Term Disability - Employees are eligible after one year of service and work 30 or more hours per week. Long-term disability commences six months after the employee is off due to disability and covers salary for 6 months and is then reduced. Long-term disability costs for the year ended August 31, 2019 amounted to $6,549.

NOTE 11 – LEASE COMMITMENTS

The Center leases office space under a non-cancelable operating lease agreement dated September 1, 2018 that expires on August 31, 2020. The lease agreement terms are monthly rental payments of $5,151, with annual rate increases. These periodic base rate increases are reflected in the future minimum lease payments below. In addition, the Center leases another office space under a non-cancellable lease agreement dated September 1, 2016 that expires on August 31, 2021. The lease agreement terms are monthly rental payments of $4,150. On January 1, 2018, this agreement was amended to include additional office space with payments of $575 a month, expiring August 31, 2021. In addition, the Center leases office equipment under a non-cancelable lease agreement with monthly payments of $509 that expire on June 13, 2021.

Future minimum lease payments under operating leases that have remaining terms in excess of one year as of August 31, 2019 are as follows:

2020	$125,745
2021	61,788
Thereafter	-
Total	$187,533

Total rent expense for the year ended August 31, 2019 amounted to $118,515.

NOTE 12 – CONCENTRATIONS

The Center is dependent on several sources of support and revenue. For the year ended August 31, 2019, approximately $2,511,000, or sixty-one percent (61%), of the Center's revenue came from four grantors. In addition, approximately $316,000, or ninety-two percent (92%) of the Center’s promises to give came from four grantors. A significant reduction in any of these individual grants, if this were to occur, would have an adverse impact on the Center’s programs and activities.

Additionally, the Center conducts its operations solely in the greater Houston/Galveston area, and therefore, is subject to risks from changes in local economic conditions. A downturn in the local economy could cause a decrease in contributions concurrently with an increase in community need for the Center’s services.

NOTE 13 – CONTINGENCIES

The Center’s programs are supported through federal, state, and local grant programs that are governed by various rules and regulations.

Expenses charged to the grant programs are subject to audit and adjustments by the grantor agencies; therefore, to the extent that the Center has not complied with the rules and regulations governing the grants, refunds of any money received may be required. In the opinion of management, there are no contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provisions have been made in the accompanying financial statements for such contingencies.

NOTE 14 – LIQUIDITY AND AVAILABILITY

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of August 31, 2019 comprise the following:

Financial assets at August 31, 2019	
Cash and cash equivalents	$1,469,566
Promises to give, net of discount	1,387,190
Grants receivable	35,491
Investments	329,163
Total financial assets	3,221,410
Less financial assets not available for general expenditure:	
Board-designated reserve fund	(45,200)
Financial assets available to meet cash needs for general expenditures within one year	$3,176,210

For purposes of analyzing resources available to meet general expenditures over a 12-month period, the Center considers all expenditures related to its ongoing program activities, as well as the conduct of services undertaken to support those activities, to be general expenditures.

The Center is substantially supported by contributions and service provider contracts, and regularly monitors liquidity required to meet its operating needs while striving to maximize the investment of available funds. As part of the organization's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations become due. The Center has an operating reserve policy to designate a minimum of three months of average recurring operating costs. Although the Center does not intend to spend from the operating reserve fund, amounts could be made available, if necessary.

NOTE 15 – ADOPTION OF ACCOUNTING STANDARDS UPDATE 2016-14

On August 18, 2016, FASB issued Accounting Standards Update 2016-14, *Not-for-Profit Entities (Topic 958)—Presentation of Financial Statements of Not-for-Profit Entities*. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. The Center has implemented ASU 2016-14 and has adjusted the presentation in these financial statements accordingly.

NOTE 16 – NEW ACCOUNTING PRONOUNCEMENTS

In June 2018, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The amendments in this ASU clarify and improve current guidance about whether a transfer of assets (or the reduction, settlement, or cancellation of liabilities) is a contribution or an exchange transaction and provide additional guidance on determining whether a contribution is conditional or unconditional. This ASU could impact the timing of revenue recognition and the financial statement disclosures related to such transactions. The Center is required to apply the amendments in its fiscal year 2020 financial statements. The amendments should be applied on a modified prospective basis, but retrospective application also is permitted. Management has not determined the effect of adoption of the ASU will have on the financial statements.

NOTE 17 – ERROR CORRECTIONS

Certain errors resulting in an understatement of previously reported promises to give receivable and contribution revenue in fiscal-year 2018 and overstating contribution revenue in the fiscal-year 2019 were discovered in the current year. An adjustment of $262,901 was made during 2019 to reduce contribution revenue as of the beginning of the year, and accordingly, a corresponding entry was made to increase previously reported net assets.

These corrections resulted in the following restatement in the statement of financial position for August 31, 2019:

	Net Assets Without Donor Restrictions	Net Assets with Donor Restrictions	Total Net Assets
Balance, August 31, 2018 as previously stated	$995,513	$691,028	$1,686,541
Record the value of promise to give	262,901	-	262,901
Balance, August 31, 2018 as restated	$1,258,414	$691,028	$1,949,442

NOTE 18 – SUBSEQUENT EVENTS

In preparing these financial statements, the Center has evaluated events and transactions for potential recognition or disclosure through August 21, 2020, the date the financial statements were available to be issued. The Center has determined that no change to the financial statements for the year ended August 31, 2019 is deemed necessary as a result of this evaluation.

In early 2020, the Center was directly impacted by the coronavirus outbreak (COVID-19). On January 31, 2020, U.S. Health and Human Services Secretary declared a public health emergency for the United States. Texas Governor Greg Abbott declared a state of disaster on March 13 and the Texas Department of State Health Services declared a public health disaster six days later for the first time since 1901. Counties, cities, and other local jurisdictions began implementing stay-at-home and shelter-in-place orders as the virus spread throughout March. The state government began directing the closure of some businesses beginning on March 19 and a statewide stay-at-home order went into effect on March 26 amid other restrictions on activities and businesses. In response to the Governor’s order, in March 2020, the Center closed its offices and implemented virtual technology to work from home and carry on its programs.

SUPPLEMENTAL INFORMATION

Tipton & Company
Certified Public Accountants

13831 Northwest Frwy
Ste. 350B
Houston, Texas 77040
www.nonprofitacctg.com

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Directors of
Family Service Center of Galveston County, Texas
Galveston, 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 Family Service Center of Galveston County, Texas (a nonprofit organization), which comprise the statement of financial position as of August 31, 2019, 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 August 21, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Family Service Center of Galveston County, Texas' 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 Family Service Center of Galveston County, Texas' internal control. Accordingly, we do not express an opinion on the effectiveness of Family Service Center of Galveston County, Texas' internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as items 2019-01, 2019-02 and 2019-03 that we consider to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Family Service Center of Galveston County, Texas' 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*.

Family Service Center of Galveston County, Texas' Response to Findings
Family Service Center of Galveston County, Texas' response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Family Service Center of Galveston County, Texas' response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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 organization'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 organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Tipton & Company

Tipton & Company
Certified Public Accountants
Houston, Texas

August 21, 2020

Tipton & Company
Certified Public Accountants

13831 Northwest Frwy
Ste. 350B
Houston, Texas 77040
www.nonprofitacctg.com

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

To the Board of Directors of
Family Service Center of Galveston County, Texas
Galveston, Texas

Report on Compliance for Each Major Federal Program

We have audited Family Service Center of Galveston County, Texas compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Family Service Center of Galveston County, Texas major federal programs for the year ended August 31, 2019. Family Service Center of Galveston County, Texas major federal programs are identified in the summary of auditor's 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.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Family Service Center of Galveston County, Texas 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 Family Service Center of Galveston County, Texas 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 Family Service Center of Galveston County, Texas compliance.

Opinion on Each Major Federal Program

In our opinion, Family Service Center of Galveston County, Texas 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 August 31, 2019.

Report on Internal Control Over Compliance

Management of Family Service Center of Galveston County, Texas 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 Family Service Center of Galveston County, Texas 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 Family Service Center of Galveston County, Texas 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.

Tipton & Company

Tipton & Company
Certified Public Accountants
Houston, Texas

August 21, 2020

Federal Grantor/ Pass-through Grantor/ Program Title	Federal CFDA Number	Pass-through Entity Identifying Number	Federal Expenditures
U.S. Department of Justice			
Texas Office of the Governer - Criminal Justice Division			
Victims of Crime Act Formula Grant Program	16.575	2580306	$ 415,862
Victims of Crime Act Formula Grant Program	16.575	2580305	54,942
Total Passed Through Texas Office of the Governer - Criminal Justice Division			470,804
Department of Family and Protective Services			
Texas Department of Family and Protective Services			
Services to At-Risk Youth (STAR) Program	93.556	24555413	814,801
Total Passed Through Texas Deparment and Protective Services			814,801
Total Expenditures of Federal Awards			$ 1,285,605

NOTE 1 – BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (SEFA) includes the federal grant activity of Family Service of Galveston County, Texas under programs of the federal government for the year ended August 31, 2019. 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).

Section I – Summary of Auditors' Results

FINANCIAL STATEMENTS

Type of auditors' report issued	Unmodified
Internal control over financial reporting:	
Material weaknesses identified	None
Significant deficiency identified not considered to be material weaknesses	Yes
Noncompliance material to financial statements noted:	None

FEDERAL AWARDS

Internal control over major programs:	
Material weaknesses identified	None
Significant deficiency identified not considered to be material weaknesses	None
Type of auditors' report issued on compliance for major programs	Unmodified
Any audit findings disclosed that are required to be reported in accordance with Uniform Guidance 2 CFR 200.516	None

Identification of major programs:

Name of Federal Program	CFDA Number
Promoting Safe and Stable Families Program	93.556

Dollar threshold used to distinguish between Type A and Type B Programs	$750,000
Auditee qualified as low-risk auditee?	No

Section II – Financial Statement Findings

Finding 2019-01 **Recording Prior Year Audit Adjustments**

Significant Deficiency

Criteria: In order to maintain complete and accurate financial statements, all adjustments proposed by the auditor should be recorded. During the audit, we recorded the prior year audit adjustments of $248,360.

Condition: The Center does not have the internal controls to make sure all adjustments proposed by the auditor are recorded.

Cause: The Center has limited staff and staff who lack the qualifications and training to fulfill their assigned functions to record the Center's financial transactions and prepare financial statements in accordance with GAAP.

Effect: The financial statements are misstated.

Recommendation: We recommend the Center train existing staff on the principles of nonprofit accounting and preparing financial statements in accordance with generally accepted accounting principles (GAAP). In addition, engaging an outside firm to perform the accounting functions of the Center.

Views of Responsible Officials: Management agrees with the finding.

Finding 2019-02 **Revenue Recognition - Promises to Give**

Significant Deficiency

Criteria: Financial Accounting Standards (FASB) Topic 958, *Not for Profit Entities* provides criteria outlining the accounting treatment of contributions received and stipulates that an unconditional promise to give should be recorded as revenue at the time the nonprofit receives notification of the promise.

Condition: The Center does not have the internal controls to make sure all promises to give are recorded in accordance with FASB Topic 958, Not for Profit Entities. During our audit, we recorded promises to give of $1,470,385.

Cause: The Center has limited staff and staff who lack the qualifications and training to fulfill their assigned functions to record the Center's promises to give transactions and prepare financial statements in accordance with GAAP.

Effect: Revenue and the financial statements are misstated.

Recommendation: We recommend the Center train existing staff on the principles of nonprofit accounting, recognizing promises to give as revenue, and preparing financial statements in accordance with generally accepted accounting principles (GAAP). In addition, engaging an outside firm to perform the accounting functions of the Center.

Views of Responsible Officials: Management agrees with the finding.

Finding 2019-03 **Reconciliations of Significant Accounts**

Significant Deficiency

Criteria: Subsidiary ledgers should be reconciled to the general ledger accounts in a timely and accurate manner.

Condition: The Center does not have the internal controls to make sure the subsidiary ledgers are reconciled with the significant general ledger accounts. During our audit, we noted the accounts receivable, fixed assets, and accrual accounts did not agree with the general ledger and were not reconciled as well. To adjust these accounts on the general ledger, we recorded several adjustments amounting to $118,692.

Cause: The Center has limited staff and staff who lack the qualifications and training to fulfill their assigned functions to reconcile the subsidiary ledgers to the general ledger and prepare financial statements in accordance with GAAP.

Effect: The various general ledger account balances are incorrect and the financial statements are misstated.

Recommendation: We recommend the Center train existing staff on the principles of nonprofit accounting, reconciling subsidiary accounts to the general ledger accounts, and preparing financial statements in accordance with generally accepted accounting principles (GAAP). In addition, engaging an outside firm to perform the accounting functions of the Center.

Views of Responsible Officials: Management agrees with the finding.

Section III – Federal Award Findings and Questioned Costs

None Noted

Section IV – Summary of Prior Year Audit Findings – Financial Statement Audit

None Noted

In an effort to improve the fiscal integrity of our agency, the staff and Board of Directors at Family Service Center within the past fiscal year have identified several areas to improve and enhance our internal controls. This has included securing additional training for our staff in Nonprofit Finance; reviewing, revising, and developing new Fiscal Policies and Procedures; and securing a new auditing firm with expertise in nonprofit finance for our audit even after having no audit findings in the past two fiscal years. Our corrective action plan to address the findings identified in this year's audit is below.

Finding 2019-01 Recording Prior Year Audit Adjustments

Initial Year Finding Occurred: 2019

Finding Summary: Adjustments proposed in the amount of $248,360 by our auditor during our last audit were not recorded resulting in material misstatement of our financials. Internal controls are needed to ensure that adjustments made by the auditor are recorded.

Responsible Individuals: JB Schmidt, contract CPA; Maryanne Termini, Director of Finance and Administration; Mike Roberson, Director of Quality Assurance; Julie Purser, Executive Director; Board of Directors

Corrective Action Plan: Family Service Center of Galveston County plans on addressing this finding by continual staff and board training on nonprofit accounting and preparation of financials utilizing GAAP. Family Service Center has begun this process by having our Director of Finance and Administration trained in nonprofit finance and will continue this process of having additional identified staff trained in nonprofit finance. We plan to secure Board leadership with background in nonprofit accounting and are planning annual trainings for Board Leadership on Financial oversight. Internal controls will also be developed to ensure that adjustments made by the auditor are made by our contract CPA in a timely fashion, reviewed by our Director of Finance and Administration with oversight by our Director of Quality Assurance, and demonstrated in our financials for Board oversight and review. This will be formalized in revisions to the Audit and Tax Compliance Policy.

Anticipated Completion Date: Ongoing

Finding 2019-02 Revenue Recognition-Promises to Give

Initial Year Finding Occurred: 2019

Finding Summary: Unconditional promises to give were not recorded as revenue at the time Family Service Center received notification of the promise in accordance with FASB topic 958, resulting in revenue and financial statements being misstated.

Responsible Individuals: JB Schmidt, contract CPA; Maryanne Termini, Director of Finance and Administration; Mike Roberson, Director of Quality Assurance;

Karen McWhorter, Director of Development; Julie Purser, Executive Director; Board of Directors

Corrective Action Plan: Family Service Center of Galveston County plans on addressing this finding by continual staff and board training on nonprofit accounting specifically around revenue recognition. Family Service Center has begun this process by having our Director of Finance and Administration trained in nonprofit finance and will continue this process of having additional identified staff trained in nonprofit finance specifically around revenue recognition. Internal controls will also be developed to ensure that revenues are recognized appropriately. This will include:

- Development of detailed revenue recognition procedures to assist our Director of Development in getting information to Finance so that revenues are recognized appropriately and in a timely fashion;
- Oversight of documented revenue by our external CPA on a monthly basis; and
- Creation of revenue dashboard for Board of Directors review to ensure that revenues are recognized in accordance with FASB topic 958.
- Make changes to the procedures listed in the Revenue Recognition Policy to reflect updated practices.

Anticipated Completion Date: Ongoing

Finding 2019-03 Reconciliations of Significant Accounts

Initial Year Finding Occurred: 2019

Finding Summary: Accounts receivable, fixed assets, and accrual accounts did not agree with the general ledger resulting in accounting adjustments in the amount of $118,692 and misstatements of our financials.

Responsible Individuals: JB Schmidt, contract CPA; Maryanne Termini, Director of Finance and Administration; Mike Roberson, Director of Quality Assurance; Julie Purser, Executive Director; Board of Directors

Corrective Action Plan: Family Service Center of Galveston County plans on addressing this finding by continual staff and board training on nonprofit accounting specifically around reconciliation of significant accounts. Family Service Center has begun this process by having our Director of Finance and Administration trained in nonprofit finance and will continue this process of having additional identified staff trained in nonprofit finance specifically around reconciliation of significant accounts. Internal controls will also be developed to ensure that subsidiary ledgers are reconciled to the general ledger accounts in an accurate and timely manner. This will include:

- Development of procedures for ensuring reconciliation of significant accounts;

- Monthly review of the general ledger and subsidiary accounts by the Director of Finance and Administration with our external CPA specifically in areas of accounts receivable, fixed assets and accrual accounts with oversight from the Director of Quality Assurance to ensure that account balances are correct; and
- Creation of dashboard for Board of Directors review to ensure that significant accounts are reconciled in a timely and accurate fashion.

Anticipated Completion Date: Ongoing