

**GALVESTON COUNTY COMMUNITY
ACTION COUNCIL, INC.**

**FINANCIAL STATEMENTS
AND INDEPENDENT AUDITORS' REPORTS**

FISCAL YEARS ENDED NOVEMBER 30, 2019 AND 2018



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GALVESTON COUNTY COMMUNITY ACTION COUNCIL, INC.

FISCAL YEARS ENDED NOVEMBER 30, 2019 AND 2018

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INDEPENDENT AUDITORS' REPORT

The Board of Directors of
Galveston County Community Action Council, Inc.

We have audited the accompanying financial statements of Galveston County Community Action Council, Inc. (the "Council") a Texas nonprofit organization, which comprise the statements of financial position as of November 30, 2019 and 2018, and the related statements of activities, statements of functional expenses, and statements of cash flows for the fiscal 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.

Auditor's 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 auditors consider 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 the Galveston County Community Action Council, Inc. as of November 30, 2019 and 2018, and the changes in its net assets and its cash flows for the fiscal years then ended, in accordance with accounting principles generally accepted in the United States of America.

October 7, 2020

To the Board of Directors of
Galveston County Community Action Council, Inc.

We have audited the financial statements of Galveston County Community Action Council, Inc. (the "Council") for the fiscal year ended November 30, 2019 and have issued our report thereon dated October 7, 2020. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, *Government Auditing Standards* and the federal Uniform Guidance, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our engagement letter dated May 7, 2020. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices:

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Council are described in Note 3 to the financial statements. No new accounting policies were adopted by the Council and the application of existing policies was not changed during the fiscal year ended November 30, 2019. We noted no transactions entered into by the Council during the fiscal year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper accounting period.

Financial Statement Disclosures:

The disclosures in the financial statements appear neutral, consistent, and clear. The formulation of financial statements' disclosures has taken into consideration the requirements of accounting principles generally accepted for nonprofit organizations in the United States of America.

As described in Note 3 to the financial statements, in the fiscal year ended November 30, 2019, the Council adopted Financial Accounting Standards Board's Accounting Standards Update ("ASU") No. 2016-14, *Presentation of Financial Statements for Nonprofit Entities*, which revises the nonprofit entities' financial reporting model. Among other provisions, ASU No. 2016-14 requires enhanced disclosures around the nature and amounts of any net asset restrictions (including donor or contract imposed restrictions, and internally imposed restrictions also known as board-designated net assets), as well as enhanced disclosures regarding the methods of classifying and allocating expenses to the Council's program and supporting functions. The new standard also requires disclosures about how the Council manages its liquidity. The financial statements have included all required disclosures for all years presented

Accounting Estimates:

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The significant estimates affecting the financial statements include (a) the useful lives assumed for the Council's property and equipment for the purpose of depreciating and amortization; and (b) the functional allocation of certain expenses between program services and supporting services. We evaluated the key factors and assumptions used to develop the basis of functional allocations of expenses in determining that it is reasonable in relation to the financial statements taken as a whole.

Difficulties Encountered in Performing the Audit:

Nothing to report.

Corrected and Uncorrected Misstatements:

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management.

Nothing to report.

Disagreements with Management:

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report.

Nothing to report.

Management Representations:

We have requested certain representations from management, which are included in the management representation letter dated October 7, 2020. A copy of the management representation letter is available with management for your review.

Management Consultations with Other Independent Accountants:

Nothing to report.

Other Information in Documents Containing Audited Financial Statements:

With respect to the schedule of expenditures of federal awards (the "Schedule"), we made certain inquiries of management and evaluated the form, content, and methods of preparing the Schedule to determine that the information in the Schedule complies with U.S. generally accepted accounting principles and Section §200.508, *Auditee Responsibilities*, of Title 2 U.S. Code of Federal Regulations

Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (the "Uniform Guidance"), and that the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the Schedule to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

This information is intended solely for the use of the Board of Directors and management of Galveston County Community Action Council, Inc., and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Bankole, Okoye & Associates PC

Bankole, Okoye & Associates PC
Houston, Texas

INDEPENDENT AUDITORS' REPORT, *CONTINUATION*

OTHER MATTERS

Other Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards on page 20, 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 fiscal year 2019 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 fiscal year 2019 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 7, 2020, presented on pages 23 through 24, on our consideration of the Council'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 Council's internal control over financial reporting and compliance.

Bankole, Okoye & Associates PC

Bankole, Okoye & Associates PC
Houston, Texas
October 7, 2020

Financial Statements

GALVESTON COUNTY COMMUNITY ACTION COUNCIL, INC.

STATEMENTS OF FINANCIAL POSITION NOVEMBER 30, 2019 AND 2018

	2019	2018
ASSETS		
<i><u>Current Assets:</u></i>		
Cash	\$ 16,167	\$ 66,835
Receivables, net - Note 4	474,822	886,449
Prepaid expenses	2,734	3,363
Other assets	5,550	5,550
Total Current Assets	499,273	962,197
<i><u>Non-Current Assets:</u></i>		
Property and equipment, net - Note 5	158,141	247,297
TOTAL ASSETS	<u>\$ 657,414</u>	<u>\$ 1,209,494</u>
LIABILITIES AND NET ASSETS		
<i>LIABILITIES</i>		
<i><u>Current Liabilities:</u></i>		
Accounts payable	\$ 235,713	\$ 370,225
Accrued liabilities	167,921	186,262
Other payables	1,979	11,738
Unearned receipts	-	17,293
Total Current Liabilities	405,613	585,518
TOTAL LIABILITIES	405,613	585,518
<i>NET ASSETS</i>		
Without Donor Restrictions	215,583	587,697
With Donor Restrictions - Note 8	36,218	36,279
TOTAL NET ASSETS	251,801	623,976
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 657,414</u>	<u>\$ 1,209,494</u>

The accompanying notes are an integral part of this financial statement.

GALVESTON COUNTY COMMUNITY ACTION COUNCIL, INC.

STATEMENT OF ACTIVITIES

FISCAL YEAR ENDED NOVEMBER 30, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
REVENUES			
Revenues from federal grant programs	\$ 4,886,542	\$ -	\$ 4,886,542
Revenues from other program sources	-	14,603	14,603
In-kind revenues	571,518	-	571,518
Other income	186	-	186
Net assets released from restrictions:			
Restrictions satisfied by payments	14,664	(14,664)	-
TOTAL REVENUES	5,472,910	(61)	5,472,849
EXPENSES			
Program Services Expenses:			
Early childhood	3,682,148	-	3,682,148
Energy assistance	1,225,620	-	1,225,620
Community services	310,510	-	310,510
Total program services expenses	5,218,278	-	5,218,278
Management and general expenses	626,746	-	626,746
TOTAL EXPENSES	5,845,024	-	5,845,024
CHANGE IN NET ASSETS	(372,114)	(61)	(372,175)
NET ASSETS, BEGINNING OF YEAR	587,697	36,279	623,976
NET ASSETS, END OF YEAR	\$ 215,583	\$ 36,218	\$ 251,801

The accompanying notes are an integral part of this financial statement.

GALVESTON COUNTY COMMUNITY ACTION COUNCIL, INC.

STATEMENT OF ACTIVITIES

FISCAL YEAR ENDED NOVEMBER 30, 2018

	Without Donor Restrictions	With Donor Restrictions	Total
REVENUES			
Revenues from federal grant programs	\$ 6,565,004	\$ -	\$ 6,565,004
Revenues from other program sources	30,908	15,747	46,655
In-kind revenues	748,772	-	748,772
Other income	144	-	144
Net assets released from restrictions:			
Restrictions satisfied by payments	9,185	(9,185)	-
TOTAL REVENUES	7,354,013	6,562	7,360,575
EXPENSES			
Program Services Expenses:			
Early childhood	3,608,510	-	3,608,510
Energy assistance	2,473,332	-	2,473,332
Community services	616,548	-	616,548
Housing	28,894	-	28,894
Total program services expenses	6,727,284	-	6,727,284
Management and general expenses	857,415	-	857,415
TOTAL EXPENSES	7,584,699	-	7,584,699
CHANGE IN NET ASSETS	(230,686)	6,562	(224,124)
NET ASSETS, BEGINNING OF YEAR	818,383	29,717	848,100
NET ASSETS, END OF YEAR	\$ 587,697	\$ 36,279	\$ 623,976

The accompanying notes are an integral part of this financial statement.

GALVESTON COUNTY COMMUNITY ACTION COUNCIL, INC.

STATEMENT OF FUNCTIONAL EXPENSES FISCAL YEAR ENDED NOVEMBER 30, 2019

	Program Services					Management and General	Total Expenses
	Early Childhood	Energy Assistance	Community Service	Total Program Services			
Salaries	\$ 1,688,960	\$ 233,012	\$ 136,112	\$ 2,058,084	\$ 352,735	\$ 2,410,818	
Payroll Taxes	128,365	17,430	9,895	155,690	26,984	182,674	
Unemployment Insurance	47,787	5,457	3,359	56,603	5,241	61,843	
Workers Compensation	20,252	522	340	21,114	1,240	22,354	
Health & Dental Insurance	217,470	38,343	20,066	275,879	33,406	309,285	
403(b) Thrift Plan	11,902	-	-	11,902	1,550	13,452	
Travel	8,771	3,522	5,020	17,313	1,458	18,770	
Vehicle Expense	12,199	116	4,031	16,346	5,854	22,200	
Equipment	17,237	-	-	17,237	-	17,237	
Equipment Rental & Maintenance	12,887	7,778	6,433	27,098	6,551	33,649	
Supplies	92,581	8,402	6,186	107,170	17,974	125,144	
Food	130,223	120	180	130,523	27	130,550	
Contract Costs (Includes inkind expenses of \$132,112)	257,325	7,706	6,921	271,952	47,017	318,969	
Occupancy (Includes inkind expenses of \$436,910)	906,433	67,721	63,348	1,037,502	55,331	1,092,833	
Other	6,563	695	911	8,169	44,098	52,267	
Printing & Publications	160	383	164	707	115	822	
Training	24,847	889	983	26,719	6,083	32,802	
License & Fees	19,409	8,476	6,664	34,549	15,614	50,163	
Postage & Shipping	1,402	247	248	1,897	3,109	5,006	
Direct Client Services	-	823,343	31,797	855,140	(109)	855,031	
Depreciation	77,375	1,459	7,852	86,685	2,469	89,154	
Total	\$ 3,682,148	\$ 1,225,620	\$ 310,510	\$ 5,218,278	\$ 626,746	\$ 5,845,024	

The accompanying notes are an integral part of this financial statement.

GALVESTON COUNTY COMMUNITY ACTION COUNCIL, INC.

STATEMENT OF FUNCTIONAL EXPENSES
FISCAL YEAR ENDED NOVEMBER 30, 2018

	Program Services					Total Program Services	Management and General	Total Expenses
	Early Childhood	Energy Assistance	Housing	Community Service				
Salaries	\$ 1,564,858	\$ 138,472	\$ 18,895	\$ 230,122	\$ 1,952,347	\$ 554,047	\$ 2,506,394	
Payroll Taxes	114,031	10,046	1,377	16,793	142,247	41,070	183,317	
Unemployment Insurance	51,116	3,881	629	8,059	63,685	8,813	72,498	
Workers Compensation	10,683	137	72	506	11,398	1,043	12,441	
Health and Dental Insurance	227,263	26,477	4,117	39,006	296,863	53,930	350,793	
403(b) Thrift Plan	12,233	-	171	-	12,404	2,201	14,605	
Travel	6,259	2,359	373	1,419	10,410	14,736	25,146	
Vehicle Expense	21,979	-	-	6,154	28,133	5,597	33,730	
Equipment	3,363	1,170	40	807	5,380	1,298	6,678	
Equipment Rental and Maintenance	9,662	4,980	19	3,477	18,138	8,358	26,496	
Supplies	50,966	12,612	37	8,754	72,369	8,281	80,650	
Food	150,872	264	-	1,476	152,612	-	152,612	
Contract Costs (Includes inkind expenses of \$285,467)	361,249	1,703	66	53,777	416,795	43,996	460,791	
Occupancy (Includes inkind expenses of \$463,305)	896,778	69,771	1,719	50,326	1,018,594	89,868	1,108,462	
Printing and Subscriptions	284	823	-	1,807	2,914	1,446	4,360	
Training	31,879	240	1,285	160	33,564	2,122	35,686	
License and Fees	15,698	15,337	94	1,787	32,916	12,060	44,976	
Postage and Shipping	499	809	-	539	1,847	1,002	2,849	
Direct Client Services	1,463	2,183,643	-	184,578	2,369,684	140	2,369,824	
Depreciation	77,375	608	-	7,001	84,984	7,407	92,391	
Total	\$ 3,608,510	\$ 2,473,332	\$ 28,894	\$ 616,548	\$ 6,727,284	\$ 857,415	\$ 7,584,699	

The accompanying notes are an integral part of this financial statement.

GALVESTON COUNTY COMMUNITY ACTION COUNCIL, INC.

STATEMENTS OF CASH FLOWS

FISCAL YEARS ENDED NOVEMBER 30, 2019 AND 2018

	<u>2019</u>	<u>2018</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	<u>\$ (372,175)</u>	<u>\$ (224,124)</u>
Adjustments to reconcile change in net assets to net cash (used in)/provided by operating activities:		
Depreciation	89,154	92,391
Changes in operating assets and liabilities:		
Receivables	411,627	187,151
Prepaid expenses	629	(3,363)
Accounts payable	(134,512)	(81,136)
Accrued liabilities	(18,341)	38,379
Other payables	(9,757)	11,738
Unearned receipts	<u>(17,293)</u>	<u>12,500</u>
Total adjustments	<u>321,507</u>	<u>257,660</u>
Net cash (used in)/provided by operating activities	<u>(50,668)</u>	<u>33,536</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	<u>-</u>	<u>(8,752)</u>
Net cash used in investing activities	<u>-</u>	<u>(8,752)</u>
NET (DECREASE)/INCREASE IN CASH	(50,668)	24,784
CASH, BEGINNING OF FISCAL YEAR	<u>66,835</u>	<u>42,051</u>
CASH, END OF FISCAL YEAR	<u><u>\$ 16,167</u></u>	<u><u>\$ 66,835</u></u>

The accompanying notes are an integral part of this financial statement.

GALVESTON COUNTY COMMUNITY ACTION COUNCIL, INC.

NOTES TO THE FINANCIAL STATEMENTS

FISCAL YEARS ENDED NOVEMBER 30, 2019 AND 2018

1. ORGANIZATION AND PURPOSE

Galveston County Community Action Council, Inc. (the "Council") was incorporated as a not-for-profit Council on December 15, 1965, under the laws of the State of Texas. The mission of the Council is to meet the needs of low-income families throughout the four county service areas of Galveston, Fort Bend, Wharton, and Brazoria, to enhance the quality of their lives by eliminating poverty and promoting self-sufficiency, pursuant to the Economic Opportunity Act of 1964. The Council also operates the Galveston County Head Start Program.

The Council provides services to stimulate a better focusing of all available local, state, federal and private resources upon the goal of enabling low income families and individuals to attain the skills, knowledge, motivations and to secure the opportunities needed for them to become self-sufficient.

The Council is presently supported primarily through federal, state and local grants, and donations from corporations and foundations.

2. PROGRAMS OF THE COUNCIL

The Council administered the following major programs to meet the needs of the areas it serves:

Head Start/Early Childhood Development

Head Start is a federally funded program for preschool children from low-income families. The Council's Head Start program has been serving children ages 3-5 years old for over 30 years in Galveston County. With full day services for working parents, there are centers located in the cities of Galveston and Texas City, Texas. Head Start is concerned with all areas of a child's development (social, emotional, cognitive, and physical), and seeks to assist children in preparing for kindergarten, with a focus on early literacy. Accordingly, the Council's Head Start program is designed to promote school readiness in young children from low-income families. This educational initiative is also designed to support the mental, social, and emotional development of pre-school aged children. At least ten (10) percent of the funded slots are available for children with disabilities. The Head Start program also provides nutrition and transportation services to the children. The Head Start Program participates in the Child and Adult care Food Program (CACFP), to meet the meal pattern requirements.

Comprehensive Energy Assistance Program

The Comprehensive Energy Assistance Program (CEAP) is a federally-funded utility assistance program. CEAP is designed to assist low-income households in meeting their immediate energy needs and to encourage consumers to control energy costs for years to come through energy education. Through this initiative, the Council assists families having incomes at or below 150% of the federal poverty income guidelines by reducing their heating and cooling costs and addressing health and safety issues in their homes through energy-efficiency measures.

Community Services Block Grant (Community Services)

Community services programs strive to reduce poverty and empower low-income families to become self-sufficient. Services provided to eligible families include employment assistance, budget counseling,

GALVESTON COUNTY COMMUNITY ACTION COUNCIL, INC.

NOTES TO THE FINANCIAL STATEMENTS

FISCAL YEARS ENDED NOVEMBER 30, 2019 AND 2018

energy conservation training, rental assistance, utilities assistance, information and referral, and case management.

Crime Victims Services

The Council provides comprehensive services to victims of family and sexual violence including crisis intervention, counseling, case management, assistance with legal matters, and shelter from an abusive situation.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The financial statements of the Council have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted for nonprofit organizations in the United States of America. Under the accrual method, revenues are recorded in the period earned and when the amount and timing of the revenue can be reasonably determined. Expenses and asset additions are recognized at the time a liability arises which is normally at the time title passes to, or a service is received by, the Council.

The Financial Accounting Standards Board ("FASB") is the designated organization for establishing standards of financial accounting that govern the preparation of financial reports by nongovernmental entities, including nonprofit organizations, in the United States of America.

Financial Statement Presentation

The Council prepares its financial statements in accordance with the requirements of FASB's Accounting Standards Codification ("ASC") Topic 958-205, *Financial Statements of Nonprofit Organizations*, as amended by ASU No. 2016-14. Accordingly, the Council reports information regarding its financial position and activities according to the following two classes of net assets:

- *Net Assets without Donor/Contractual Restrictions* – These are resources that are not subject to stipulations imposed by the donors or other external sources, which can be used for the general operations of the Council. This class of net assets could also be designated by the board of directors or by other internal instruments such as bylaws, for specified purposes.
- *Net Assets with Donor/Contractual Restrictions* – These are resources that are subject to stipulations imposed by the donors or other external sources, which may or will be met, either by actions of the Council and/or the passage of time. This class of net assets also includes any resources that are subject to donor restrictions requiring that the principal be held in perpetuity and any income thereon may be used by the Council.

The Council is also required under FASB ASC Topic 958-205, as amended, to present, a statement of cash flows.

GALVESTON COUNTY COMMUNITY ACTION COUNCIL, INC.

NOTES TO THE FINANCIAL STATEMENTS

FISCAL YEARS ENDED NOVEMBER 30, 2019 AND 2018

Change in Accounting Principle

In August 2016, the FASB issued Accounting Standards Update (“ASU”) No. 2016-14, *Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements for Not-for-Profit Entities*. The update addresses the complexity and understandability of net assets classifications; deficiencies in information about liquidity and availability of resources; and the lack of consistency in the type of information provided about expenses and investment returns. Among other provisions, ASU No. 2016-14 requires enhanced disclosures around the nature and amount of net asset restrictions (including donor or contract imposed restrictions and internally imposed restrictions also known as board-designated net assets); how the organization manages its liquidity; the methods used to allocate expenses to benefitted program and support functions; and an analysis of expense amounts by both their natural and functional classifications. ASU No. 2016-14 became effective for the Council’s fiscal year 2019 financial statements. The Council has implemented ASU No. 2016-14, and has adjusted the presentation in these financial statements accordingly. As permitted by the new standard, ASU has been applied retrospectively to all periods presented. The implementation has no impact on previously reported net assets.

Revenue Recognition

Generally, the Council recognizes governmental grants as revenues when the grants are earned. Grants that operate on a reimbursement basis are recognized on the accrual basis as revenues only to the extent of disbursements and commitments that are allowable for reimbursement.

Revenues from contributions, donations and other sources are recognized when received or unconditionally promised by a third party. Program income and other income are recognized when received. Conditional promises by third parties to give cash or other assets to the Council are not recognized until the cash or other assets are received or the condition is substantially met, whichever is earlier.

The Council follows the provisions of FASB ASC Topic 958-605, *Accounting for Contributions Received and Contributions Made*, whereby contributions received are recorded as increases in unrestricted, temporarily restricted, or permanently restricted net assets depending upon the existence and/or nature of any donor restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. When both restricted and unrestricted resources are available for use, it is the Council’s policy to use restricted resources first, then unrestricted resources as they are needed.

Gifts of land, buildings, and equipment are presented as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Council reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service. Donated property are recorded at their estimated fair value at the time the donation was received.

GALVESTON COUNTY COMMUNITY ACTION COUNCIL, INC.

NOTES TO THE FINANCIAL STATEMENTS

FISCAL YEARS ENDED NOVEMBER 30, 2019 AND 2018

Contributed services which increase non-financial assets such as property or inventory, as well as services contributed by individuals with specialized skills which would have otherwise been purchased, are reported as unrestricted support. Other contributed services that enhance the Council's programs, but are not so essential that they would otherwise be purchased, are not recorded as support for financial statement purposes.

Management's Judgment and Use of Estimates

The preparation of 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 following aspects of the financial statements:

- the reported amounts of assets and liabilities,
- the disclosure of contingent assets and liabilities at the date of the financial statements, and
- the reported amounts of revenues and expenses during the reporting period.

Significant estimates included in the accompanying financial statements relate to (a) the useful lives applied in the calculation of depreciation on property and equipment, and (b) the bases used for allocating expenses, where applicable, to program and supporting activities in the statement of functional expenses. Actual results could differ from the estimates.

Donated Goods and Services

The Council receives donated goods and services as part of its programs. In accordance with FASB ASC Topic 958-605, *Non-for-Profit Entities - Accounting for Contributions Received and Contributions Made*, donated materials and services for which the Council made no payment or compensation are recognized as in-kind contributions and contra in-kind expenses at their estimated fair value at the date of receipt. However, donated services could be recognized only if the services received (a) create or enhance nonfinancial assets or (b) require specialized skills, are performed by individuals possessing those skills, and would typically need to be purchased if not provided by donation.

The Council received donated goods that were valued and recorded in the fiscal years ended November 30, 2019 and 2018. These values have been included in in-kind revenues and expenses in the statements of activities and functional expenses.

The Council received many hours of donated services from volunteers helping with the Council's administrative and program activities. For the fiscal years ended November 30, 2019 and 2018, the Council recorded volunteer hours and services that totaled \$218,994 and \$285,467, respectively, which were not included in the statements of activities and functional expenses because they did not meet the criteria for recognition and inclusion in accordance with accounting principles generally accepted for nonprofit organizations in the United States of America.

Donated Facilities

The Council uses certain facilities for its Head Start centers for which the Council pays less than market rates because the landlord intentionally discounted the rents to provide in-kind support to the program. The Council has accounted for such contributions in the financial statements. For the fiscal years ended

GALVESTON COUNTY COMMUNITY ACTION COUNCIL, INC.

NOTES TO THE FINANCIAL STATEMENTS

FISCAL YEARS ENDED NOVEMBER 30, 2019 AND 2018

November 30, 2019 and 2018, the Council has recorded donated facilities, which are included in in-kind revenues and expenses in the statements of activities and functional expenses.

Cash and Cash Equivalents

Cash and cash equivalents include all monies in banks and investments that are available for current use with maturity dates of less than three months from the date of acquisition. The Council's policy is to report cash and cash equivalents at their carrying value since the carrying value approximates their fair value because of the short maturities of those financial instruments. The Council's total cash balance was \$16,167 and \$66,835 at November 30, 2019 and 2018, respectively. There were no cash equivalents as of November 30, 2019 or 2018.

Property and Equipment

The Council's policy is to capitalize all expenditures exceeding \$5,000 for each unit of equipment, furniture and fixtures, real property, and leasehold improvements at cost (whether purchased or donated). Such items acquired under grants from Federal and state sources are considered to be owned by the Council while used in the programs for which they are purchased or in programs authorized in the future. However, the funding source has a reversionary interest in the property.

Property and equipment are depreciated and amortized using the straight-line method based on their estimated useful lives as follows:

<u>Property and Equipment</u>	<u>Estimated Useful Life</u>
Equipment	3-7 years
Vehicles	5 years
Buildings and Improvements	15-40 years
Leasehold Improvements	Lease term

Maintenance and repairs are charged to operations when incurred. Major improvements and renewals that extend the life of the property or equipment are capitalized.

Income Taxes

The Council is a nonprofit organization as described in Section 501(c)(3) of the Internal Revenue Code (the "Code"), and is not subject to income taxes under section 501(a) of the Code. The Council did not conduct any unrelated business activities. Therefore, the Council has made no allowance for federal income tax in the accompanying financial statements.

The Council applies the provisions of FASB ASC Topic 740, *Income Taxes*, which prescribes a recognition threshold and measurement attribute for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FASB ASC Topic 740 also provides guidance on de-recognition, classification, interest and penalties, accounting in interim periods, disclosures and transition. The Council believes that it has appropriate support for any tax positions taken, and as such, does not have any uncertain tax positions that are material to the financial statements.

GALVESTON COUNTY COMMUNITY ACTION COUNCIL, INC.

NOTES TO THE FINANCIAL STATEMENTS

FISCAL YEARS ENDED NOVEMBER 30, 2019 AND 2018

The Council files Form 990, *Return of Organization Exempt from Income Tax*, in the United States federal jurisdiction within the United States. The Federal income tax returns of the Council for 2017 through 2015 will remain subject to examination by the Internal Revenue Service, generally for three years after they were filed.

Recently Issued Accounting Pronouncements

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. This guidance outlines a single, comprehensive model for accounting for revenues from contracts with customers, including grantors. This ASU will be effective for the Council's fiscal year 2020 financial statements. The Council is currently evaluating the effect, if any, of this pronouncement on its financial statements.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*. This Update requires a lessee of property under an operating lease agreement, such as but not limited to leases of an office or storage space, to recognize in the statement of financial position (a) a liability to make lease payments (the lease liability) and (b) a right-of-use "asset" representing its right to use the underlying asset for the lease term. The implementation of this new standard, which will become effective for the Council's fiscal year 2021 financial statements, would result in the following new accounting requirements:

- Initial measurement, and inclusion in the statement of financial position, of the right-of-use asset and the corresponding lease liability at the present value of the lease future payments based on the term of the lease;
- Recognition of a single lease cost, calculated so that the cost of the lease is allocated over the lease term on a generally straight-line basis; and
- Classification of all cash payments for operating leases within the operating activities section in the statement of cash flows.

The Council is currently evaluating the effect of the adoption of ASU No. 2016-02 on its financial statements.

In June 2018, the FASB issued ASU No. 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope of Accounting Guidance for Contributions Received and Contributions Made*. This ASU is intended to distinguish a donor-imposed condition from a donor-imposed restriction. The new standard also provides a framework for determining whether a transaction should be accounted for as a contribution or as an exchange transaction. ASU No. 2018-08 will become effective for the Council's fiscal year 2020 financial statements. The Council is currently evaluating the effect, if any, of this pronouncement on its financial statements.

Reclassifications of Prior Year Account Balances

Certain balances of the fiscal year 2018 financial statements have been reclassified to conform to the fiscal year 2019 financial statements presentation.

GALVESTON COUNTY COMMUNITY ACTION COUNCIL, INC.

NOTES TO THE FINANCIAL STATEMENTS

FISCAL YEARS ENDED NOVEMBER 30, 2019 AND 2018

4. RECEIVABLES

Receivables represent mostly billed reimbursable expenses, which are receivable primarily from U.S. Department of Health and Human Services and the Texas Department of Housing and Community Affairs as the federal grantor or pass-through agency. The Council considers all the receivables to be fully collectible. Accordingly, no allowance for doubtful accounts is deemed necessary. Receivables at November 30, 2019 and 2018 were related to the following programs:

	2019	2018
Head Start	\$ 216,592	\$ 179,648
Child and Adult Care Food Program (CACFP)	48,281	62,153
Low Income Home Energy Assistance Program (CEAP)	177,289	562,092
Community Service Block Grant (CSBG)	32,660	62,054
Section 8	-	20,496
Receivables, Net	<u>\$ 474,822</u>	<u>\$ 886,443</u>

5. PROPERTY AND EQUIPMENT

Total depreciation and amortization expense for the fiscal years ended November 30, 2019 and 2018, was \$89,154 and \$92,391, respectively.

The following are the property and equipment activity for the fiscal year ended November 30, 2019:

	Balance 12/1/2018	Additions	Retirements	Balance 11/30/2019
<i>Non-Depreciable:</i>				
Land	\$ 25,000	\$ -	\$ -	\$ 25,000
<i>Depreciated or Amortized:</i>				
Equipment	154,028	-	-	154,028
Software	8,750	-	-	8,750
Buildings and Leasehold Improvements	51,375	-	-	51,375
Vehicles	514,321	-	-	514,321
Total at Cost	<u>753,474</u>	<u>-</u>	<u>-</u>	<u>753,474</u>
<i>Accumulated Depreciation and Amortization</i>				
Equipment	(59,298)	(30,806)	-	(90,104)
Software	(1,215)	(2,917)	-	(4,132)
Buildings and Leasehold Improvements	(25,687)	(10,275)	-	(35,962)
Vehicles	(419,977)	(45,158)	-	(465,135)
Total Accumulated Depreciation and Amortization	<u>(506,177)</u>	<u>(89,156)</u>	<u>-</u>	<u>(595,333)</u>
Property and Equipment, Net	<u>\$ 247,297</u>	<u>\$ (89,156)</u>	<u>\$ -</u>	<u>\$ 158,141</u>

GALVESTON COUNTY COMMUNITY ACTION COUNCIL, INC.

NOTES TO THE FINANCIAL STATEMENTS

FISCAL YEARS ENDED NOVEMBER 30, 2019 AND 2018

The following are the property and equipment activity for the fiscal year ended November 30, 2018:

	Balance 12/1/2017	Additions	Retirements	Balance 11/30/2018
<i>Non-Depreciable:</i>				
Land	\$ 25,000	\$ -	\$ -	\$ 25,000
<i>Depreciated or Amortized:</i>				
Equipment	154,028	-	-	154,028
Software	-	8,750	-	8,750
Buildings and Leasehold Improvements	51,375	-	-	51,375
Vehicles	514,321	-	-	514,321
Total	744,724	8,750	-	753,474
<i>Accumulated Depreciation and Amortization</i>				
Equipment	(28,493)	(30,806)	-	(59,298)
Software	-	(1,215)	-	(1,215)
Buildings and Leasehold Improvements	(15,412)	(10,275)	-	(25,687)
Vehicles	(369,882)	(50,095)	-	(419,977)
Total Accumulated Depreciation and Amortization	(413,787)	(92,391)	-	(506,177)
Property and Equipment, Net	\$ 330,937	\$ (83,641)	\$ -	\$ 247,297

6. COMPENSABLE ABSENCES

The Council accounts for compensable absences (accrued vacation) in accordance with FASB ASC Topic 710-10- 50-1, *Accounting for Compensated Absences*. A liability for compensable absences attributable to services already rendered by employees and not contingent on a specific event that is outside the control of the employer and employee is accrued as employees earn the rights to the benefits. The Council's policy is to accrue vacation for each full-time employee, excluding Head Start employees but including Head Start Director and Secretary, at various rates from a minimum of two weeks per year to a maximum of six weeks per year, depending on the number of year the employee has spent with the Council regardless of the qualifying employee's job title. Unused vacation hours cannot be carried forward beyond one year. Upon termination employees are entitled for a cash payment for any unused vacation time which they are qualified to take in their current anniversary year based on the vacation carryover policy. Employees are not compensated for unused sick leave. Included in accrued liabilities as of November 30, 2019 and 2018, is an amount of \$22,905 and \$21,959, respectively, for compensable absences.

7. EMPLOYEE RETIREMENT PLAN

The Council participates in a 403(b) defined contribution retirement plan (the Plan). Employees are eligible to contribute to the Plan on their dates of hire. Employees and employer contributions are fully vested at all times. The Council contributed \$13,452 and \$14,609 to the Plan for the fiscal years ended November 30, 2019 and 2018, respectively.

GALVESTON COUNTY COMMUNITY ACTION COUNCIL, INC.

NOTES TO THE FINANCIAL STATEMENTS FISCAL YEARS ENDED NOVEMBER 30, 2019 AND 2018

8. NET ASSETS

Net Assets Without Donor-Restrictions

The Council had net assets without donor-restrictions of \$215,583 and \$587,697 as of November 30, 2019 and 2018, respectively, which were available to support the programs and activities of the Council.

Net Assets With Donor-Restrictions

Net assets with donor-restrictions were \$36,218 and \$36,279 as of November 30, 2019 and 2018, respectively. Donor-restricted net assets are available for program activities and relate to the following funding sources:

	2019	2018
Reliant CNP Program	\$ 13,288	\$ 13,778
NTN	8,702	10,795
WCEC-Utilities	4,239	3,239
Tri Eagle Energy	2,208	2,208
United Way	2,150	2,150
Galveston County Funds	2,421	-
Nueces Electric Coop	1,538	1,414
Head Start Donations	-	1,023
CPL Neighbor to Neighbor	922	922
Breeze Energy	750	750
Total Net Assets with Donor-Restrictions	<u>\$ 36,218</u>	<u>\$ 36,279</u>

9. LEASE COMMITMENTS

The Council has entered into several non-cancelable operating leases for facilities that expire at various times through April 2022. Total rent expense for the fiscal years ended November 30, 2019 and 2018 was \$526,224 and \$527,642, respectively. Based on the terms of the operating lease agreements, the following is a schedule of the minimum annual lease payments for the remaining terms of the leases:

<u>Fiscal Year Ending November 30,</u>	<u>Amount</u>
2020	\$ 343,161
2021	87,768
2022	36,570
Thereafter	-
Total	<u>\$ 423,999</u>

GALVESTON COUNTY COMMUNITY ACTION COUNCIL, INC.

NOTES TO THE FINANCIAL STATEMENTS

FISCAL YEARS ENDED NOVEMBER 30, 2019 AND 2018

The Council has also entered into a number of month to month operating leases for office equipment and storage space. Total payments for the year ended November 30, 2019 and 2018, were \$33,649 and \$26,497, respectively. There are no future minimum lease amounts.

10. IN-KIND CONTRIBUTIONS

Under the grant agreements, the Council (grantee) receives a percentage of total estimated project funds from the Federal government. The balance (the “match”) of the project funds is contributed to the Council from non-Federal sources, including in-kind contributions of services or property from the community or non-Federal governmental organizations. Presently, the Head Start program is the only program requiring and receiving in-kind match. The in-kind items donated to the Council are valued according to the grant guidelines. The following in-kind contributions that met the criteria for recognition under the accounting principles generally accepted in the United States of America, have been recognized in the Head Start program:

	2019	2018
Donated Space	\$ 436,910	\$ 463,305
Donated Goods and Services	134,608	285,467
	<u>\$ 571,518</u>	<u>\$ 748,772</u>

11. STATEMENT OF FUNCTIONAL EXPENSES AND METHODS USED FOR ALLOCATING EXPENSES TO THE BENEFITTED PROGRAM AND SUPPORT FUNCTIONS

In accordance with FASB ASC Topic 958-720-45-2, *Functional Classification of Expenses*, the costs of providing various programs and other activities of the Council have been summarized on a functional basis (i.e., expenses have been grouped according to the purpose for which they were incurred) in the statements of activities and in the statements of functional expenses. The primary functional classifications of the Council’s uses of resources are *program services* expenses, *management and general* expenses, and *fundraising* expenses. *Fundraising* and *management and general* activities are considered the supporting activities – i.e., activities performed to support the Council’s program activities. Management and general expenses include those expenses that are not directly identifiable with the core function but provide for the overall support and direction of the Council. The Council did not incur fundraising expenses during the fiscal years ended November 30, 2019 and 2018.

Expenses that can be directly identified with a specific program or support service are classified directly to that program or service and are not allocated to other programs and services. However, expenses that are attributable to more than one program or service have been allocated among the programs and support services benefitted. The allocated major expenses include the following:

- Salaries, payroll taxes, and employee benefits including health insurance for the personnel that work for multiple programs or support services, their costs are allocated based on estimates of the personnel’s time and effort for each program or service.
- Other allocable expenses are allocated to programs and support services based on the Council’s cost allocation policy.

GALVESTON COUNTY COMMUNITY ACTION COUNCIL, INC.

NOTES TO THE FINANCIAL STATEMENTS

FISCAL YEARS ENDED NOVEMBER 30, 2019 AND 2018

12. LIQUIDITY MANAGEMENT

The Council had \$49,158 and \$348,780 of financial assets available within one year of the 2019 and 2018 balance sheet dates, respectively, to meet cash needs for general expenditures, consisting of the following:

	2019	2018
Cash	\$ 16,167	\$ 66,835
Receivables, net	474,822	886,449
Total financial assets at fiscal year-end	490,989	953,284
Less: Financial assets not available for general expenditures within one year, due to obligations tied to:		
Accounts payable	(235,713)	(370,225)
Accrued expenses	(167,921)	(186,262)
Other payables	(1,979)	(11,738)
Restrictions imposed by contractual agreements	(36,218)	(36,279)
Financial assets available to meet cash needs for general expenditures within one year	\$ 49,158	\$ 348,780

Receivables represent mostly billed reimbursable expenses, which are receivable primarily from U.S. Department of Health and Human Services and the Texas Department of Housing and Community Affairs as the federal grantor or pass-through agency, and therefore are not subject to externally imposed purpose or time restrictions. The Council reasonably estimates its cash needs on monthly, half yearly, and annual bases and is able to structure its financial assets to maintain liquid financial assets sufficient to cover 30-90 days of general expenditures and other obligations.

13. CONTINGENCIES

The Council receives grants from federal and state and other funding sources, which may be subject to review and audit by the awarding agencies. If such reviews and audits result in the discovery of unallowable activities and unallowable costs, any of the funding sources may, at its discretion, request reimbursement for expenses or return of funds, or both, as a result of non-compliance by the Council with the terms of the grants/contracts. In the opinion of the Council's management, such disallowances, if any, would not be significant in relation to the financial statements of the Council.

14. SUBSEQUENT EVENTS

The Council's Head Start federal award was canceled effective July 31, 2020.

Management has evaluated subsequent events through October 7, 2020. This was the date the financial statements were available to be issued. No changes were made, or are necessary to be made, to the financial statements, as a result of this evaluation.

Supplementary Information

GALVESTON COUNTY COMMUNITY ACTION COUNCIL, INC.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FISCAL YEAR ENDED NOVEMBER 30, 2019

<u>Federal Grantor/ Pass-Through Grantor/ Program Title</u>	<u>Pass-Through Entity Identifying Number</u>	<u>CFDA Number</u>	<u>Federal Expenditures</u>
U. S. Department of Health and Human Services			
<i>Direct Program:</i>			
Head Start Program	N/A	93.600 (M)	\$ 2,983,226
<i>Pass-Through:</i>			
<i>Texas Department of Housing & Community Affairs</i>			
Community Services Block Grant	61190003050	93.569	266,075
Community Services Block Grant	61180002858	93.569	194,633
		Total for 93.569 (M)	<u>460,708</u>
Low-Income Home Energy Assistance Program	58190002989	93.568	516,367
Low-Income Home Energy Assistance Program	58180002789	93.568	712,277
		Total for 93.568 (M)	<u>1,228,644</u>
Total U.S. Department of Health and Human Services			<u>4,672,578</u>
U. S. Department of Agriculture			
<i>Pass-Through:</i>			
<i>State of Texas Department of Agriculture</i>			
Child and Adult Care Food Program	2392	10.558	<u>266,443</u>
Total U.S. Department of Agriculture			<u>266,443</u>
Total Federal Financial Assistance			<u>\$ 4,939,021</u>

(M) = Major Program

GALVESTON COUNTY COMMUNITY ACTION COUNCIL, INC.

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FISCAL YEAR ENDED NOVEMBER 30, 2019

Note 1 - The Organization

The Galveston County Community Action Council, Inc. (the "Council") receives federal grants to meet the needs of low-income families throughout the four county service areas of Galveston, Fort Bend, Wharton, and Brazoria, to enhance the quality of their lives by eliminating poverty and promoting self-sufficiency, pursuant to the Economic Opportunity Act of 1964; as well as to operate the Galveston County Head Start Program.

Note 2 - Basis of Presentation

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal award activities of the Council under programs of the federal government for the fiscal year ended November 30, 2019. The information in the 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* ("federal Uniform Guidance"). Because the Schedule presents only a selected portion of the Council's operations, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the Council.

Note 3 - Summary of Significant Accounting Policies

In accordance with U.S. generally accepted accounting principles, the Council accounts for all awards under federal programs on an accrual basis of accounting. Accordingly, expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the federal Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Federal grant funds are considered to be earned to the extent of qualifying expenditures made under the provisions of the grants. When such funds are advanced to the Council, they are recorded as deferred revenues until earned. Otherwise, federal grant funds are received on a reimbursement basis from the respective federal program agencies or pass-through entities.

Note 4 - Indirect Cost Rate

The Council did not elect to use the 10% de minimis cost rate.

Note 5 - Program Income

The Council did not generate program income. Accordingly, no program income was used to reduce the amount of federal funds expended in providing the programs. Similarly, program expenditures funded in cash or kind to meet the Council's matching contributions, where applicable, to grant budgets have not been included in the amounts reported on the Schedule.

Note 6 - Relationship of the Schedule to Financial Reports Submitted to Grant Awarding Agencies

Expenditures included on the Schedule may differ from amounts reflected in the financial reports submitted to grant awarding agencies and pass-through entities because of the following reasons:

- Expenses accrued at the end of the Council's fiscal year may not have been included in the financial reports submitted to grant awarding agencies until after fiscal year-end;
- Program matching costs that are reported in the financial reports submitted to awarding agencies are not included in the amounts reported on the Schedule; and
- Differences may exist between grant periods and the Council's accounting period.

Note 7 - Contingencies

Federal grants require the fulfillment of certain conditions set forth in grant agreements, and may be regularly monitored and reviewed by grantors, both during and after the programs. Failure to satisfy the requirements of contract agreements could result in disallowed costs and return of funds to grantors. Management believes that the Council is in substantial compliance with grant provisions and requirements and that disallowed costs, if any, will not be significant to affect the amounts and disclosures in the Council's financial statements.

Single Audit Section

**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**

The Board of Directors of
Galveston County Community Action Council, Inc.

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 the Galveston County Community Action Council, Inc. (the "Council"), which comprise the statement of financial position as of November 30, 2019, and the related statement of activities, statement of functional expenses, and statement of cash flows for the fiscal year then ended, and the related notes to the financial statements, and have issued our report thereon dated May 7, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Council'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 Council's internal control. Accordingly, we do not express an opinion on the effectiveness of the Council'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 Council's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

**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,
CONTINUATION**

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Council'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 Council'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 Council's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Bankole, Okoye & Associates PC

Bankole, Okoye & Associates PC
Houston, Texas
October 7, 2020

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

To the Board of Directors of
Galveston County Community Action Council, Inc.

Report on Compliance for Each Major Federal Program

We have audited Galveston County Community Action Council, Inc.'s (the "Council") 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 Council's major federal programs for the fiscal year ended November 30, 2019. The Council's major federal programs are identified on page 28 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.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Council'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* (the federal "Uniform Guidance"). Those standards and the federal 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 Council'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 Council's compliance.

Opinion on Each Major Federal Program

In our opinion, the Council 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 fiscal year ended November 30, 2019.

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

Report on Internal Control over Compliance

Management of the Council 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 Council'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 federal 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 Council'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.

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 federal Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Bankole, Okoye & Associates PC

Bankole, Okoye & Associates PC
Houston, Texas
October 7, 2020

GALVESTON COUNTY COMMUNITY ACTION COUNCIL, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FISCAL YEAR ENDED NOVEMBER 30, 2019

PART 1: SUMMARY OF AUDITORS' RESULTS

Financial Statements Section:

1. The opinion expressed in the independent auditors' report was:

☒ Unmodified ☐ Modified ☐ Adverse ☐ Disclaimed

2. The independent auditors' report on internal control over financial reporting described:

Material weakness(es) identified? ☐ Yes ☒ No

Significant deficiency(ies) identified? ☐ Yes ☒ No

Noncompliance considered material to financial statements? ☐ Yes ☒ No

Federal Awards Section:

3. The independent auditors' report on internal control over compliance with requirements applicable to major federal awards programs described:

Material weakness(es) identified? ☐ Yes ☒ No

Significant deficiency(ies) identified? ☐ Yes ☒ No

4. The opinion expressed in the independent auditors' report on compliance with requirements applicable to major federal awards was:

☒ Unmodified ☐ Modified ☐ Adverse ☐ Disclaimed

5. Any audit findings disclosed that are required to be reported in accordance with Section §200.516 of the Uniform Guidance? ☐ Yes ☒ No

6. IDENTIFICATION OF MAJOR PROGRAMS:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
93.568	Low-Income Home Energy Assistance Program
93.569	Community Services Block Grant
93.600	Head Start

7. Dollar threshold used to distinguish between Type A and Type B programs: \$750,000.

8. Auditee qualified as low-risk auditee as defined in Section §200.520 of the federal Uniform Guidance? ☐ Yes ☒ No

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FISCAL YEAR ENDED NOVEMBER 30, 2019

PART 2: FINANCIAL STATEMENT FINDING SECTION

This section identifies material weaknesses, significant deficiencies, fraud, illegal acts, violation of provisions of contracts and grant agreements, and abuse related to the financial statements for which *Government Auditing Standards* require reporting in a federal Uniform Guidance audit.

No matters were reported.

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PART 3: FEDERAL AWARD FINDINGS AND QUESTIONED COSTS SECTION

This section identifies the audit findings required to be reported by Section §200.516, *Audit Findings*, of the federal Uniform Guidance, such as material instances of noncompliance, including questioned costs, and material weaknesses or significant deficiencies in internal control over compliance for federal grant programs, as well as any abuse findings involving federal awards that are material to a major program.

No matters were reported.

Galveston County Community Action Council, Inc.

Joe Compian
Board President

Robert M. Quintero
Interim Executive Director

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SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS AND CURRENT STATUS:

This section identifies prior audit findings and provides information on the current status of the corrective action plan previously provided by management.

Audit Finding Reference No. 2018-001: Late Submission of Audit Report to the FAC.

U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES:

Low-Income Home Energy Assistance Program.....	CFDA 93.568
Community Services Block Grant	CFDA 93.569
Head Start	CFDA 93.600

	Questioned Costs
<u>Criteria:</u> Section §200.512 of the Uniform Guidance, <i>Report Submission</i> , requires that the audit must be completed and the data collection form and audit reporting package must be submitted to the Federal Audit Clearinghouse (FAC) within the earlier of 30 calendar days after receipt of the auditor's report(s), or nine months after the end of the audit period.	
<u>Condition:</u> The Council's data collection form and audit reporting package for the fiscal year ended November 30, 2018, were not submitted in a timely manner to the FAC. The Uniform Guidance required that the submittal be made by or before August 31, 2019.	None
<u>Cause:</u> It appears that the Council experienced last minute resignation of its audit firm, resulting in the late completion of its financial and compliance audits.	
<u>Effect:</u> Non-compliance with a compliance requirement that is considered to be direct and material to the Council's federal award program.	None
<u>Recommendation:</u> The Council should establish processes and controls, including planning in advance for audit reports' and related submittals, in order to enhance the overall operational efficiency in the accounting and financial reporting functions and ensure compliance with the financial report. submission requirements.	
<u>Views of Responsible Officials and Planned Corrective Actions:</u> <i>The CFO and the Executive Director will be responsible for ensuring the timely selection of an audit firm and execution of the audit contract to provide adequate time for the firm to conduct the audit.</i>	
<u>Current Status of the Proposed Corrective Actions:</u> The corrective action has been implemented. This case is considered cured.	

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SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS AND CURRENT STATUS, CONT'D:

Audit Finding Reference No. 2018-002: Eligibility Documentations – (Repeat Finding. Previously 2017-003)

U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES:

Low-Income Home Energy Assistance Program..... CFDA 93.568

Community Services Block Grant CFDA 93.569

	Questioned Costs
<p><u>Criteria:</u> LIHEAP and CSBG statutes establish client eligibility criteria as well as requirements to verify clients' income as part of the eligibility criteria. Accordingly, federal regulations require the Council to maintain records sufficient to document client eligibility and need for receiving benefits under these program.</p>	
<p><u>Condition:</u> LIHEAP – Out of 45 unduplicated samples of clients, the folders for 4 clients, in which eligibility information was maintained, were not located. In addition, in 5 out of 46 cases examined, the Council did not accurately determine the clients' total family income, even though those clients would still have qualified for benefits even if their family incomes were correctly calculated. CSBG - Out of 25 unduplicated samples of clients, the folders for 7 clients, in which eligibility information was maintained, were not located. In addition, in 1 out of 25 cases examined, the Council did not accurately calculate the client's total family income.</p>	None
<p><u>Cause:</u> It appears that the system used by the Council to file, retrieve, and return client folders, may need to be improved upon. In addition, some case workers did not always review the documentation of clients' income eligibility status for correctness before approving the clients to receive benefits.</p>	
<p><u>Effect:</u> Non-compliance with the programs' compliance requirement for proper documentations of eligibility determinations.</p>	None
<p><u>Recommendations:</u> The Council should improve the clients' folders maintenance and control system. The Council should also implement more in-house trainings of LIHEAP and CSBG case workers, as well as increase the supervisory review of client eligibility determination.</p>	
<p><u>Views of Responsible Officials and Planned Corrective Actions:</u> A new filing and tracking system has been implemented to ensure client files retrieved from the filing locations are returned to their filing positions in a timely manner. A new income determination review process has been implemented in December 2018.</p>	
<p><u>Current Status of the Proposed Corrective Actions:</u> The corrective action has been implemented. This finding is considered cured.</p>	

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SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS AND CURRENT STATUS, CONT'D:

Audit Finding Reference No. 2018-003: Special Tests and Provisions – Fiscal Oversight.

U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES:
Head Start - CFDA 93.600

	Questioned Costs
<p><u>Criteria:</u> Federal statutes (in 42 USC 9837(d)(2)(A) and (E)), and the Uniform Guidance's provisions for the administration of the Head Start program require a non-federal grantee to share accurate and regular financial information with the governing body and the policy council, including monthly financial statements, including credit card expenditures and the financial audit. The regulations (in 42 USC 9839(a)(2)(A), (B), and (D)) also require the non-federal grantee to make available to the public its audited financial statements and other financial information including an explanation of budgetary expenditures and proposed budget for the fiscal year.</p>	
<p><u>Condition:</u> For most of the fiscal year ended November 30, 2018, the Council did not share monthly financial statements with the governing body and the policy council. In addition, the Council's recent annual financial statements and annual budgetary and expenditure information are not published on its website or in other public domains.</p>	None
<p><u>Cause:</u> Frequent turnovers of key personnel and absence of consistent strong leadership presence within the fiscal functions.</p>	
<p><u>Effect:</u> To the extent that monthly financial information was not available, the governing body was limited in its ability to fully exercise its fiscal responsibility for both the Council and the Head Start program.</p>	None
<p><u>Recommendation:</u> The Council should establish processes and controls to ensure that monthly financial statements are prepared in a timely manner and are shared with the governing body and the policy council in their monthly meetings. In addition, the Council should publish its audited financial statements and other required financial information on its website or other public domains.</p>	
<p><u>Views of Responsible Officials and Planned Corrective Actions:</u> <i>The Council has implemented procedures and controls to ensure that the Board receives financial information, including budget to actual comparison, on a monthly basis. The new CFO is responsible to ensure that monthly financial reports are completed, reviewed and included in the information package provided to the governing body and the policy council in their monthly meetings, as well as for publishing financials on the Council's website.</i></p>	
<p><u>Current Status of the Proposed Corrective Actions:</u> The corrective action has been implemented. This finding is considered cured.</p>	