GULF COAST COMMUNITY SERVICES ASSOCIATION

(A Texas Nonprofit Organization)

ANNUAL FINANCIAL AND COMPLIANCE AUDIT REPORTS

YEARS ENDED SEPTEMBER 30, 2013 AND 2012

GULF COAST COMMUNITY SERVICES ASSOCIATION
(A Texas Nonprofit Organization)

SEPTEMBER 30, 2013 AND 2012

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MJ McConnell & Jones LLP
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Gulf Coast Community Services Association

Report on the Financial Statements

We have audited the accompanying financial statements of Gulf Coast Community Services Association (the "Organization"), a Texas nonprofit organization, which comprise the statements of financial position as of September 30, 2013 and 2012, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Organization as of September 30, 2013 and 2012, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

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, as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, 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 May 17, 2014, on our consideration of the Organization'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 Organization's internal control over financial reporting and compliance.

McConnell & Jones LLP

Houston, Texas
May 17, 2014

GULF COAST COMMUNITY SERVICES ASSOCIATION
(A Texas Nonprofit Organization)

STATEMENTS OF FINANCIAL POSITION
SEPTEMBER 30, 2013 AND 2012

	2013	2012
ASSETS		
CURRENT ASSETS		
Cash	$ 1,941,184	$ 2,091,020
Grants receivable	1,142,339	596,999
Other receivables	29,285	383,228
Compensated absences receivable	305,970	294,461
Food inventory	80,466	126,005
Prepaid and other assets	73,142	85,816
Total current assets	3,572,386	3,577,529
NONCURRENT ASSETS		
Property and equipment, net	2,582,733	2,863,778
Total noncurrent assets	2,582,733	2,863,778
TOTAL ASSETS	$ 6,155,119	$ 6,441,307
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	$ 574,691	$ 496,508
Salaries and related liabilities payable	386,391	377,300
Compensated absences	305,970	294,461
Unearned revenue	600,364	570,565
Deferred rent payable– current portion	25,080	25,080
Deferred lease incentive - current portion	122,444	122,444
Total current liabilities	2,014,940	1,886,358
NONCURRENT LIABILITIES		
Deferred rent payable	156,749	181,829
Deferred lease incentive	765,273	887,718
Total noncurrent liabilities	922,022	1,069,547
TOTAL LIABILITIES	2,936,962	2,955,905
NET ASSETS		
Unrestricted	2,606,962	2,584,151
Temporarily restricted	611,195	901,251
TOTAL NET ASSETS	3,218,157	3,485,402
TOTAL LIABILITIES AND NET ASSETS	$ 6,155,119	$ 6,441,307

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

GULF COAST COMMUNITY SERVICES ASSOCIATION
(A Texas Nonprofit Organization)

STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED SEPTEMBER 30, 2013 AND 2012

	2013	2012
UNRESTRICTED NET ASSETS		
Unrestricted revenues and support		
Government grants	$ 24,096,727	$ 22,181,534
In-kind contributions	4,637,659	4,851,563
Other revenues	43,224	111,963
Total unrestricted revenues	28,777,610	27,145,060
Net assets released from restrictions	290,056	24,017
Total unrestricted revenues and other support	29,067,666	27,169,077
Expenses		
Program expenses	28,978,996	27,346,498
Management and general expenses	65,859	44,850
Total expenses	29,044,855	27,391,348
INCREASE/(DECREASE) IN UNRESTRICTED NET ASSETS	22,811	(222,271)
TEMPORARILY RESTRICTED NET ASSETS		
Contribution	-	925,268
Net assets released from restrictions	(290,056)	(24,017)
(DECREASE)/INCREASE IN TEMPORARILY RESTRICTED NET ASSETS	(290,056)	901,251
CHANGES IN NET ASSETS	(267,245)	678,980
UNRESTRICTED NET ASSETS, BEGINNING OF YEAR	2,584,151	2,806,422
TEMPORARILY RESTRICTED NET ASSETS, BEGINNING OF YEAR	901,251	-
NET ASSETS, END OF YEAR	$ 3,218,157	$ 3,485,402

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

GULF COAST COMMUNITY SERVICES ASSOCIATION
(A Texas Nonprofit Organization)

STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED SEPTEMBER 30, 2013

	Direct Expenses	Indirect Expenses (Allocated)	Total Program Expenses	Management & General Expenses	Total Expenses
Salaries and wages	$ 8,348,231	$2,396,066	$10,744,297	$ -	$10,744,297
Payroll taxes	653,705	173,490	827,195	-	827,195
Employee benefits costs	2,094,740	418,992	2,513,732	-	2,513,732
Contract wages	1,093,262	62,894	1,156,156	-	1,156,156
Building occupancy costs	1,202,697	94,518	1,297,215	25,562	1,322,777
Utilities	162,552	9,029	171,581	-	171,581
Telephone	122,447	130,045	252,492	-	252,492
Insurance	39,433	64,627	104,060	-	104,060
Travel	31,092	1,741	32,833	-	32,833
Equipment leasing and repairs	224,775	31,784	256,559	-	256,559
Office supplies	281,433	35,088	316,521	689	317,210
Data processing	1,954	-	1,954	-	1,954
Expendable equipment	23,380	-	23,380	4,350	27,730
Vehicle operating and maintenance	46,323	419	46,742	-	46,742
Printing, reproduction and publicity	195,986	2,756	198,742	5,029	203,771
Seminars and workshops	212,516	42,483	254,999	-	254,999
Postage	5,592	703	6,295	-	6,295
In-kind contributions	4,633,894	3,766	4,637,660	-	4,637,660
Professional and legal fees	42,379	128,123	170,502	2,537	173,039
Classroom supplies	299,599	-	299,599	-	299,599
Food supplies	1,152,289	867	1,153,156	11,599	1,164,755
Health assessments and evaluations	217,235	53	217,288	-	217,288
Training and technical assistance	219,722	30,064	249,786	-	249,786
Parent activities	131,491	-	131,491	-	131,491
Client direct assistance	3,493,404	-	3,493,404	-	3,493,404
Other expenses	46	7,576	7,622	16,093	23,715
Depreciation and amortization	-	413,735	413,735	-	413,735
Total expenses	$ 24,930,177	$ 4,048,819	$28,978,996	$ 65,859	$29,044,855

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

GULF COAST COMMUNITY SERVICES ASSOCIATION
(A Texas Nonprofit Organization)

STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED SEPTEMBER 30, 2012

	Direct Expenses	Indirect Expenses (Allocated)	Total Program Expenses	Management & General Expenses	Total Expenses
Salaries and wages	$8,497,525	$2,435,767	$10,933,292	$ -	$ 10,933,292
Payroll taxes	691,015	176,128	867,143	1,924	869,067
Employee benefits costs	1,962,498	425,907	2,388,405	-	2,388,405
Contract wages	644,327	66,198	710,525	-	710,525
Building occupancy costs	1,385,678	126,715	1,512,393	13,886	1,526,279
Utilities	182,084	11,426	193,510	113	193,623
Telephone	87,447	156,869	244,316	-	244,316
Insurance	43,396	62,095	105,491	-	105,491
Travel	31,760	721	32,481	-	32,481
Equipment leasing and repairs	205,387	45,724	251,111	-	251,111
Office supplies	237,241	10,347	247,588	-	247,588
Data processing	1,317	177	1,494	-	1,494
Expendable equipment	16,392	-	16,392	2,700	19,092
Vehicle operating and maintenance	48,828	1,929	50,757	-	50,757
Printing, reproduction and publicity	67,980	4,459	72,439	8,425	80,864
Seminars and workshops	99,386	18,829	118,215	-	118,215
Postage	4,402	972	5,374	-	5,374
In-kind contributions	4,851,564	-	4,851,564	-	4,851,564
Professional and legal fees	52,999	69,937	122,936	-	122,936
Classroom supplies	307,210	-	307,210	-	307,210
Food supplies	992,267	2,276	994,543	9,609	1,004,152
Health assessments and evaluations	222,305	-	222,305	-	222,305
Training and technical assistance	182,113	23,820	205,933	900	206,833
Parent activities	83,697	-	83,697	-	83,697
Client direct assistance	2,417,767	-	2,417,767	-	2,417,767
Other expenses	23,477	1,661	25,138	7,293	32,431
Depreciation and amortization	-	364,479	364,479	-	364,479
Total expenses	$23,340,062	$4,006,436	$27,346,498	$ 44,850	$ 27,391,348

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

GULF COAST COMMUNITY SERVICES ASSOCIATION
(A Texas Nonprofit Organization)

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30, 2013 AND 2012

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	$ (267,245)	$ 678,980
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	413,735	364,479
Changes in operating assets and liabilities:		
(Increase)/decrease in grants receivable	(570,420)	129,938
Decrease/(increase) in other receivables	353,943	(73,546)
Decrease/(increase) in food inventory	45,539	(30,522)
Decrease in other assets	12,674	32,883
Increase in accounts payable and accrued expenses	78,183	216,322
Increase/(decrease) in salaries and related liabilities payable	9,091	(144,276)
Increase in unearned revenue	29,799	78,932
Total adjustments	372,544	574,210
Net cash provided by operating activities	105,299	1,253,190
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of fixed assets	(255,135)	(378,166)
Net cash used in investing activities	(255,135)	(378,166)
NET (DECREASE)/INCREASE IN CASH	(149,836)	875,024
CASH, BEGINNING OF YEAR	2,091,020	1,215,996
CASH, END OF YEAR	$ 1,941,184	$ 2,091,020

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

1. NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Business

Gulf Coast Community Services Association (the "Organization") is a Texas nonprofit organization established and incorporated on June 19, 1968 to identify, analyze and work to alleviate poverty and to eliminate its causative factors by partnering with eligible families to provide comprehensive quality programs and services. The Organization operates several programs and services to promote self-sufficiency targeted at low income families and individuals. These programs and services are primarily funded by Community Services Block Grant and other federal, state and local grants. The Organization also administers Head Start and Early Head Start Program in the southeast sector of Harris County, Texas.

Basis of Accounting

The financial statements of the Organization have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP).

Financial Statement Presentation

The Organization is required under GAAP to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets, as defined below:

Unrestricted net assets – These are resources that are not subject to donor-imposed stipulations and can be used for the general operations of the Organization.

Temporarily restricted net assets – These are resources that are subject to donor-imposed stipulations that may be met, either by actions of the Organization and/or the passage of time. The Organization had temporarily restricted net assets of $611,195 and $901,251 as of September 30, 2013 and 2012, respectively.

Permanently restricted net assets – These are resources that are subject to donor restrictions requiring that the principal be held in perpetuity and any income thereon be used by the Organization. The Organization did not have any permanently restricted net assets as of September 30, 2013 and 2012.

The Organization is also required under GAAP to present statements of activities, functional expenses and cash flows.

When both restricted and unrestricted resources are available for use, it is the Organization's policy to use restricted resources first, then unrestricted resources as they are needed.

Revenue Recognition

Generally, grants are recognized as revenues when earned. Grants that operate on a reimbursement basis are recognized on the accrual basis as revenues only to the extent of disbursements that are allowable for reimbursement. Revenues from contributions, donations and other sources are recognized as unrestricted or temporarily restricted revenues when received or unconditionally promised by a third party. Revenues from special events are recognized when the events are held. Interest income is recognized when earned based on the passage of time. Program income and other income are recognized when received. Conditional promises by third parties to give cash or other assets to the Organization are not recognized until the cash or other assets are received.

Contributions

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions. Contributions that are restricted by the donor are reported as increases in unrestricted net assets 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. All other donor-restricted contributions are reported as increases in temporarily restricted net assets, depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets upon satisfaction of the time or purpose restrictions and reported in the statement of activities as net assets released from restrictions.

Receivables

Receivables represent reimbursements that were pending from funding sources for program expenses incurred as of September 30, 2013 and 2012, both billed and unbilled, and expected to be received in the subsequent year. Management considers receivables at September 30, 2013 and 2012 to be fully collectible. Accordingly, no allowance for delinquent receivables was made in the accompanying financial statements.

Donated Services, Materials and Facilities

The Organization's Head Start centers are leased from vendors at below market rental rates. The Organization also collaborates with several independent school districts to provide the Organization with teachers and other resources at those centers at little or no cost to the Organization. Donated services, materials and facilities received by the Organization are recorded at their estimated values.

Cash and Cash Equivalents

The Organization considers all monies in banks and highly liquid investments with maturity of three months or less from date of purchase to be cash equivalents. The carrying value of cash approximates fair value because of the short maturities of those financial instruments. The Organization had no cash equivalents at September 30, 2013 and 2012. Additionally, separate bank accounts were maintained to comply with the requirements of certain grantors.

Unearned Revenues

Grants received in advance that relate to the period after year-end are reported as unearned revenues in the statements of financial position.

Food Inventories

Food inventory is stated at the lower of cost or market determined by the first-in, first-out method.

Property and Equipment

Property and equipment are recorded at cost or, if donated to the Organization, at their estimated fair value at the date of donation. Such donations are recorded as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Assets donated to the Organization with explicit restrictions regarding their use, and contributions of cash that must be used to acquire or maintain property and equipment are recorded as restricted contributions. Presently, the Organization does not have any assets which have donor-imposed restrictions.

The Organization’s policy is to capitalize all expenditures for property, furniture and fixtures, and office and computer equipment in excess of $5,000 per unit. Property and equipment are depreciated using the straight-line method over their estimated useful lives ranging from 5 to 30 years. Amortization of leasehold improvements is provided on the straight-line method over the remaining term of the lease or the useful life of the improvement, whichever is shorter. Maintenance and repair costs are charged to operations when incurred. Major improvements and renewals of property and equipment are capitalized.

Substantially, all property and equipment presented in the accompanying statements of financial position were purchased with federal funds.

Compensated Absences

Annual vacation time and sick leave are granted to the Organization's employees. Under the Organization's policy, vacation time and sick leave are earned based on the employees' length of service. Any unused vacation time up to a maximum of 40 hours not taken because of business requirements, may be carried over to the following calendar year. Sick leave may be accumulated from one calendar year to another up to a maximum of 480 hours. While employees are paid for earned but unused vacation time upon termination of employment with the Organization, they are not paid for unused sick days. Therefore, no accrual for unused sick days is recorded in the accompanying financial statements.

Functional Allocation of Expenses

The costs of providing various programs and other activities of the Organization have been summarized on a functional basis in the statements of activities and in the statements of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited in accordance with the Organization's cost allocation plan. Management and general expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of the Organization.

Income Taxes

The Organization is a nonprofit organization that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code (the "Code") and did not conduct any unrelated business activities. Therefore, the Organization has made no provision for federal income tax in the accompanying financial statements. In addition, the Organization qualifies for the charitable contribution deduction under Section 170(b)(1)(A)(vi) and has been classified as an organization that is not a private foundation under Section 509(a)(1) of the Code.

The Organization 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, disclosure, and transition. Management of the Organization 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. The Organization's Federal income tax returns for the year 2010 through 2012 are subject to examination by the Internal Revenue Services, generally for three years after they were filed.

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 certain estimates and assumptions that affect certain reported amounts of assets and liabilities and 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. Accordingly, actual results could differ from those estimates. Significant estimates included in the financial statements relate primarily to the useful lives applied in asset depreciation, estimates of the values of in-kind contributions and services, and functional allocations of expenses.

New Accounting Pronouncements

In October 2012, the FASB issued Accounting Standards Update (ASU) 2012-05 – Statement of Cash Flows (Topic 230), *Not-for-Profit Entities: Classification of the Sale Proceeds of Donated Financial Assets in the Statement of Cash Flows*, which requires a not-for-profit entity to classify cash receipts from the sale of donated financial assets consistently with cash donations received in the statement of cash flows if those cash receipts were from the sale of donated assets that upon receipt were directed without any limitations for sale imposed by the not-for-profit entity and were converted nearly immediately into cash. This update will be effective for the Organization's 2014 annual financial statements. Management does not anticipate that this update will significantly affect the Organization's financial statements

2. PROGRAMS AND SUPPORTING SERVICES

The costs of providing the various programs and other activities of the Organization are shown in the accompanying statements of functional expenses. The following major programs and supporting services are included in the accompanying financial statements:

- Head Start Program, Early Head Start Program,
- Community Services Block Grant.

Management and general activities consist of those functions that are necessary to coordinate the Organization's daily operations, programs and services.

3. UTILITY ASSISTANCE PROGRAM

The Organization administers a utility assistance program for low-income consumers with funds provided in 2012 by CenterPoint Energy Electric, LLC. Available funds under this program are $611,195 and $901,251 as of September 30, 2013 and 2012, respectively, and are reported as temporarily restricted net assets in the statements of financial position.

4. PROPERTY AND EQUIPMENT

The following is a summary of property and equipment at September 30, 2013 and 2012:

	2013	2012
Buildings	$ 1,721,582	$ 1,721,582
Leasehold improvements	1,224,438	1,224,438
Furniture, fixtures and equipment	1,167,088	1,096,981
Vehicles	308,518	308,518
Software	231,919	231,919
	4,653,545	4,583,438
Less: Accumulated depreciation and amortization	(2,070,812)	(1,719,660)
Property and equipment, net	$ 2,582,733	$ 2,863,778

Depreciation and amortization expense for the years ended September 30, 2013 and 2012 was $413,735 and $364,479, respectively.

5. DEFERRED RENT PAYABLE

In November 2010, the Organization entered into a 10-year lease arrangement for its new corporate office. As part of the incentive towards the signing of the lease contract, the landlord offered the Organization a 6-month free rent (rent holiday). Total minimum lease payment under the lease agreement is recognized on a straight-line basis over the lease term. Accrued rent expense as of September 30, 2013 and 2012 was $181,829 and $206,909, respectively.

6. DEFERRED LEASE INCENTIVE

As described in Note 5, in November 2010, the Organization entered into a new 10- year lease agreement for its corporate office. Under the terms of the lease agreement, as an additional incentive towards the signing of the lease contract, the landlord agreed to perform certain leasehold improvements amounting to $1,224,438 on the building. This incentive is recognized as reduction of rental expenses on a straight-line basis over the term of the lease agreement. Unamortized incentive as of September 30, 2013 and 2012 was $887,718 and $1,010,162, respectively.

7. CONCENTRATION OF CREDIT RISKS

The Organization has financial instruments consisting of cash in federally insured financial institutions. The Organization requires the financial institutions to provide collateral for amounts exceeding the federal depository insurance coverage. Collateral generally comprises money market investment securities and are held by a third-party financial institution in the Organization's name. The Organization's cash was not exposed to unsecured credit risks as of September 30, 2013 and 2012.

Credit risk associated with grants receivable is considered minimal due to the credit worthiness of the awarding federal and state agencies.

8. LINE OF CREDIT

The Organization has secured a line of credit with a local financial institution in the amount of $100,000. The purpose of the line of credit is to support daily operations of the Organization. No draw-down has been made on the line of credit during the years ended September 30, 2013 and 2012.

9. RETIREMENT PLAN

The Organization sponsored the Gulf Coast Community Services Association 401(k) Plan (the "Plan"). Each year, participants may contribute up to 100% of pretax annual compensation, as defined in the Plan. The Organization makes a matching contribution of 100% of the first 1% an eligible participant contributes to the Plan after completing one year of eligible service. Additional profit sharing amounts of up to 3% of annual compensation of qualified employees may be contributed at the option of the Organization's board of directors. Employees are eligible to participate in the Plan after completion of 1,000 hours of service within one year of service. Participants are vested immediately in their contributions plus actual earnings thereon. Vesting in the Organization's contribution portion of their accounts is based on years of vesting service in accordance with the schedule provided in the Plan document.

The Organization's contributions to the Plan, as applicable, for the years ended September 30, 2013 and 2012 amounted to $356,396 and $359,046, respectively.

10. COMMITMENTS

The Organization leases its facilities under operating leases expiring in various years through fiscal year 2020. Future minimum lease payments on non-cancellable lease commitments are as follows:

	Year ending September 30,	Amount
	2014	$ 818,282
	2015	722,486
	2016	544,823
	2017	501,596
	2018	501,596
	Thereafter	1,044,992
Total		$ 4,133,775

Rent expense for the years ended September 30, 2013 and 2012 was $926,951 and $950,338, respectively.

11. CONTINGENCIES

From time to time, the Organization is a defendant in legal proceedings related to its operations. In the best judgment of the Organization's management, and after consultation with its legal counsel, the outcome of any present legal proceedings will not have a material adverse effect on the accompanying financial statements.

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

12. CONCENTRATION

For the years ended September 30, 2013 and 2012, the Head Start/Early Head Start program accounted for approximately 74% and 70% and the Community Services Block Grant program accounted for approximately 21% and 21% of the revenues and support of the Organization, respectively. In addition, the Organization received, directly or indirectly, 95% and 91% of its operating revenues for the years ended September 30, 2013 and 2012, respectively, from the U.S. Department of Health and Human Services.

13. SUBSEQUENT EVENTS

Management has evaluated subsequent events through May 17, 2014; the date the financial statements were available to be issued. No change to the financial statements is deemed necessary as a result of this evaluation.

SINGLE AUDIT SECTION

MJ
McCONNELL & JONES LLP
CERTIFIED PUBLIC ACCOUNTANTS

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

To the Board of Directors of
Gulf Coast Community Services Association

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 Gulf Coast Community Services Association (the "Organization"), a nonprofit organization, which comprise the statements of financial position as of September 30, 2013 and 2012, and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements, and have issued our report thereon dated May 17, 2014**.**

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Organization'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 Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

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

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

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we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization'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 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.

McConnell & Jones LLP

Houston, Texas
May 17, 2014

MJ McCONNELL & JONES LLP
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

To the Board of Directors of
Gulf Coast Community Services Association

Report on Compliance for Each Major Federal Program

We have audited Gulf Coast Community Services Association's (the "Organization") compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Organization's major federal programs for the year ended September 30, 2013. The Organization's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the Organization'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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 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 Organization'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 Organization's compliance.

MJ

Opinion on Each Major Federal Program

In our opinion, the Organization 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 September 30, 2013.

Report on Internal Control over Compliance

Management of the Organization 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 Organization'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 OMB Circular A-133, 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 Organization's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

McConnell & Jones LLP

Houston, Texas
May 17, 2014

GULF COAST COMMUNITY SERVICES ASSOCIATION
(A Texas Nonprofit Organization)

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED SEPTEMBER 30, 2013

Federal Grantor/Pass-Through Grantor/ Program Title	CFDA Number	Agency or Pass-Through Number	Federal Expenditures
U.S. Department of Health and Human Services			
Direct Agency Funded Programs:			
Head Start / Early Head Start Programs	93.600	06CH-5061	$ 16,808,057
Assets for Independence Demonstration Program	93.602	90EI0458	22,014
Total Direct Agency Funded Programs			16,830,071
Pass-Through Programs:			
Pass-Through Texas Department of Housing and Community Affairs			
Community Services Block Grant	93.569	61100000865	5,747,141
Total Pass-Through Programs			5,747,141
Total U.S. Department of Health and Human Services			22,577,212
U.S. Department of Treasury			
Pass-Through Program:			
Pass-Through Texas Department of Housing and Community Affairs			
National Foreclosure and Mitigation Services	21.000	PL110-289.95x1350	14,008
Total U.S. Department of Treasury			14,008
U.S. Department of Education			
Pass-Through Program:			
Pass-Through Houston Community College			
Adult Education – Basic Grants to States	84.002	N/A	60,368
Total U.S. Department of Education			60,368
U.S. Department of Agriculture			
Pass-Through Program:			
Pass-Through Texas Department of Agriculture			
Child and Adult Care Food Program	10.558	75G4007	744,300
Total U.S. Department of Agriculture			744,300
Total Expenditures of Federal Awards			$ 23,395,888

See notes to the schedule of expenditures of federal awards.

GULF COAST COMMUNITY SERVICES ASSOCIATION
(A Texas Nonprofit Organization)

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED SEPTEMBER 30, 2013

1. Basis of Presentation

The accompanying schedule of expenditures of federal awards (the "Schedule") includes federal grant activities of the Gulf Coast Community Services Association (the "Organization") under programs of the federal government for the year ended September 30, 2013. The information in this schedule is presented in accordance with the requirements of U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations.* Because the Schedule presents only a selected portion of the operations of the Organization, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the Organization.

2. Summary of Significant Accounting Policies

Expenditures reported on the Schedule are presented on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-122, *Cost Principles for Non-Profit Organizations,* wherein certain types of expenditures are not allowable or are limited as to reimbursement.

3. Commitments and Contingencies

Federal grants received by the Organization are subject to review and audit by grantor agencies. The Organization's management believes that the results of such audits will not have a material effect on the Schedule.

4. Reconciliation to Financial Statements:

The following reconciles federal award expenditures as included in the Schedule to the expenditures reported in the financial statements of the Organization for the year ended September 31, 2013:

	Amount
Total expenditures per the statement of activities	$29,044,855
Less: Non-federal expenditures	(4,980,097)
Capital assets acquisition	(255,135)
Depreciation and amortization	(413,735)
Total expenditures per the Schedule of Expenditures of federal awards	$23,395,888

GULF COAST COMMUNITY SERVICES ASSOCIATION
(A Texas Nonprofit Organization)

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2013

PART 1 – SUMMARY OF AUDITORS' RESULTS

Financial Statement Section

1. Type of auditors' report issued:	Unmodified
2. Internal control over financial reporting:	
a) Material weakness identified?	No
b) Significant deficiencies identified that are not considered to be material weaknesses?	No
c) Noncompliance material to financial statements noted?	No

Federal Awards Section

1. Internal control over major programs:	
a) Material weakness identified?	No
b) Significant deficiencies identified that are not considered to be material weaknesses?	No
2. Type of auditors' report issued on compliance for major programs:	Unmodified
3. Any audit findings disclosed, which are required to be reported in accordance with section 510(a) of Circular A-133?	No

4. Identification of major programs:

Federal CFDA Number	Name of Federal Program
93.569	Community Services Block Grant
10.558	Child and Adult Care Food Program

5. Dollar threshold used to distinguish between Type A and Type B programs:	$701,877
6. Auditee qualified as low-risk auditee under OMB Circular A-133, Section 530?	Yes

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2013

PART II: FINDINGS - FINANCIAL STATEMENT AUDIT

None reported.

PART III: FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAMS

None reported.

GULF COAST COMMUNITY SERVICES ASSOCIATION
(A Texas Nonprofit Corporation)

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS AND CURRENT STATUS
FOR THE YEAR ENDED SEPTEMBER 30, 2013

There were no prior year audit findings to report on.