GULF COAST COMMUNITY SERVICES ASSOCIATION, INC.

(A Texas Nonprofit Organization)

ANNUAL FINANCIAL AND COMPLIANCE AUDIT REPORTS

YEARS ENDED SEPTEMBER 30, 2020 AND 2019

GULFCOAST COMMUNITY SERVICES ASSOCIATION, INC.
(A Texas Nonprofit Organization)

SEPTEMBER 30, 2020 AND 2019

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McCONNELL & JONES LLP
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S 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, 2020 and 2019, 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.

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 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 Organization'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.

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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 Organization as of September 30, 2020 and 2019, 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 Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 11, 2021, 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

Houston, Texas
June 11, 2021

GULF COAST COMMUNITY SERVICES ASSOCIATION, INC.
(A Texas Nonprofit Organization)

STATEMENTS OF FINANCIAL POSITION
SEPTEMBER 30, 2020 AND 2019

	2020	2019
ASSETS		
CURRENT ASSETS		
Cash	$ 759,095	$ 872,985
Grants receivable	1,499,079	807,728
Other receivables	1,470,847	919,642
Inventory	50,883	46,420
Prepaid and other assets	896,983	418,838
Total current assets	4,676,887	3,065,613
NONCURRENT ASSETS		
Property and equipment, net	616,282	826,750
Total noncurrent assets	616,282	826,750
TOTAL ASSETS	$ 5,293,169	$ 3,892,363
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	$ 1,336,106	$ 747,836
Salaries and related liabilities payable	1,171,610	910,212
Unearned revenue	1,737,746	693,824
Deferred rent payable - current portion	6,270	25,080
Deferred lease incentive - current portion	30,611	122,443
Total current liabilities	4,282,343	2,499,395
NONCURRENT LIABILITIES		
Deferred rent payable	-	6,271
Deferred lease incentive	-	30,611
Total noncurrent liabilities	-	36,882
TOTAL LIABILITIES	4,282,343	2,536,277
NET ASSETS		
Without donor restrictions	1,010,826	1,356,086
TOTAL NET ASSETS	1,010,826	1,356,086
TOTAL LIABILITIES AND NET ASSETS	$ 5,293,169	$ 3,892,363

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

GULF COAST COMMUNITY SERVICES ASSOCIATION, INC.
(A Texas Nonprofit Organization)

STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED SEPTEMBER 30, 2020 AND 2019

	2020	2019
NET ASSETS WITHOUT DONOR RESTRICTIONS		
Revenues without donor restrictions		
Government grants	$ 24,337,649	$ 23,617,940
In-kind contributions	5,228,989	5,552,166
Other revenues	49,999	27,828
Total unrestricted revenues	29,616,637	29,197,934
Net assets released from restrictions	-	1,347
Total unrestricted revenues and other support	29,616,637	29,199,281
Expenses		
Program expenses	29,959,197	29,332,481
Management and general expense	2,700	4,861
Total expenses	29,961,897	29,337,342
DECREASE IN NET ASSETS WITHOUT DONOR RESTRICTIONS	(345,260)	(138,061)
ASSETS WITH DONOR RESTRICTIONS		
Net assets released from restrictions	-	(1,347)
DECREASE IN NET ASSETS WITH DONOR RESTRICTIONS	-	(1,347)
CHANGES IN NET ASSETS	(345,260)	(139,408)
NET ASSETS WITHOUT DONOR RESTRICTIONS, BEGINNING OF YEAR	1,356,086	1,494,147
ASSETS WITH DONOR RESTRICTIONS, BEGINNING OF YEAR	-	1,347
NET ASSETS, END OF YEAR	$ 1,010,826	$ 1,356,086

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

GULF COAST COMMUNITY SERVICES ASSOCIATION, INC.
(A Texas Nonprofit Organization)

STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED SEPTEMBER 30, 2020

	Program Services					Supporting Services		
	Head Start/EHS	CSBG	CACFP	Other Programs	Total Program Services	Management and General	Total Support Services	Total Expenditures
Salaries and wages	$ 10,500,009	$ 1,923,734	$ -	$ 237	$ 12,423,980	$ -	$ -	$ 12,423,980
Payroll taxes	794,616	148,722	-	-	943,338	-	-	943,338
Employee benefits costs	2,282,623	291,572	-	564	2,574,759	-	-	2,574,759
Contract wages	652,855	649,753	-	-	1,302,608	-	-	1,302,608
Building occupancy costs	727,123	425,789	-	-	1,152,912	-	-	1,152,912
Utilities	116,480	30,042	-	-	146,522	-	-	146,522
Telephone	160,536	39,276	-	-	199,812	-	-	199,812
Insurance	79,969	27,247	-	-	107,216	-	-	107,216
Travel	11,845	1,963	-	-	13,808	-	-	13,808
Equipment leasing and repairs	421,445	132,772	-	-	554,217	-	-	554,217
Office supplies	1,082,179	182,248	-	-	1,264,427	-	-	1,264,427
Vehicle operating and maintenance	15,834	18,424	-	-	34,258	-	-	34,258
Printing, reproduction and publicity	96,466	4,191	-	-	100,657	-	-	100,657
Seminars and workshops	-	15,090	-	-	15,090	-	-	15,090
Postage	2,048	2,108	-	-	4,156	-	-	4,156
In-kind contributions	5,228,989	-	-	-	5,228,989	-	-	5,228,989
Professional and legal fees	109,583	40,260	-	-	149,843	-	-	149,843
Classroom supplies	465,590	4,455	-	1,687	471,732	-	-	471,732
Food supplies	101,530	-	611,171	-	712,701	2,700	2,700	715,401
Health assessments and evaluations	162,592	-	-	-	162,592	-	-	162,592
Training and technical assistance	82,843	970	-	-	83,813	-	-	83,813
Parent activities	37,996	-	-	-	37,996	-	-	37,996
Client direct assistance	-	1,957,514	-	-	1,957,514	-	-	1,957,514
Other expenses	1,833	27,649	-	1,003	30,485	-	-	30,485
Depreciation and amortization	254,994	28,389	-	2,389	285,772	-	-	285,772
Total Expenses	$ 23,389,978	$ 5,952,168	$ 611,171	$ 5,880	$ 29,959,197	$ 2,700	$ 2,700	$ 29,961,897

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

GULF COAST COMMUNITY SERVICES ASSOCIATION, INC.
(A Texas Nonprofit Organization)

STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED SEPTEMBER 30, 2019

	Program Services					Supporting Services		
	Head Start/EHS	CSBG	CACFP	Other Programs	Total Program Services	Management and General	Total Support Services	Total Expenditures
Salaries and wages	$ 10,447,916	$ 1,773,684	$ -	$ -	$ 12,221,600	$ -	$ -	$ 12,221,600
Payroll taxes	772,740	129,842	-	338	902,920	-	-	902,920
Employee benefits costs	2,369,742	285,696	-	-	2,655,438	-	-	2,655,438
Contract wages	1,021,824	126,784	-	-	1,148,608	-	-	1,148,608
Building occupancy costs	750,000	397,197	-	-	1,147,197	-	-	1,147,197
Utilities	127,954	25,621	-	-	153,575	-	-	153,575
Telephone	170,054	32,688	-	-	202,742	-	-	202,742
Insurance	76,533	26,570	-	-	103,103	-	-	103,103
Travel	28,132	2,844	-	-	30,976	-	-	30,976
Equipment leasing and repairs	206,340	87,661	-	-	294,001	-	-	294,001
Office supplies	349,119	18,411	-	-	367,530	329	329	367,859
Vehicle operating and maintenance	12,051	9,117	-	-	21,168	-	-	21,168
Printing, reproduction and publicity	25,373	3,494	-	25	28,892	-	-	28,892
Seminars and workshops	14,396	49,779	-	-	64,175	-	-	64,175
Postage	1,083	1,172	-	-	2,255	-	-	2,255
In-kind contributions	5,552,165	-	-	-	5,552,165	-	-	5,552,165
Professional and legal fees	131,774	35,593	-	-	167,367	150	150	167,517
Classroom supplies	226,315	-	-	1,183	227,498	-	-	227,498
Food supplies	97,902	-	1,055,420	-	1,153,322	4,382	4,382	1,157,704
Health assessments and evaluations	138,717	-	-	-	138,717	-	-	138,717
Training and technical assistance	214,792	-	-	-	214,792	-	-	214,792
Parent activities	44,380	76	-	-	44,456	-	-	44,456
Client direct assistance	-	2,121,273	-	44,938	2,166,211	-	-	2,166,211
Other expenses	3,615	18,570	-	1,576	23,761	-	-	23,761
Depreciation and amortization	258,880	38,166	-	2,966	300,012	-	-	300,012
Total Expenses	$ 23,041,797	$ 5,184,238	$ 1,055,420	$ 51,026	$ 29,332,481	$ 4,861	$ 4,861	$ 29,337,342

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

GULF COAST COMMUNITY SERVICES ASSOCIATION, INC.
(A Texas Nonprofit Organization)

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30, 2020 AND 2019

CASH FLOWS FROM OPERATING ACTIVITIES:	2020	2019
Change in net assets	$ (345,260)	$ (139,408)
Adjustments to reconcile change in net assets		
to net cash (used in)/provided by operating activities:		
Depreciation	285,772	300,012
Amortization of deferred lease incentive and rent payable	(147,524)	(147,522)
Changes in operating assets and liabilities:		
Increase in grants receivable	(691,351)	(323,803)
(Increase)/decrease in other receivables	(551,205)	91,577
(Increase)/decrease in food inventory	(4,463)	7,942
Increase in prepaid and other assets	(478,145)	(19,931)
Increase in accounts payable and accrued expenses	588,270	464,261
Increase in salaries and related payable	261,398	68,309
Increase/(decrease) in unearned revenue	1,043,922	(17,449)
Total adjustments	306,674	423,396
Net cash (used in)/provided by operating activities	(38,586)	283,988
CASH FLOWS USED IN INVESTING ACTIVITIES:		
Purchases of property and equipment	(75,304)	(128,067)
Net cash used in investing activities	(75,304)	(128,067)
NET (DECREASE)/INCREASE IN CASH	(113,890)	155,921
CASH, BEGINNING OF YEAR	872,985	717,064
CASH, END OF YEAR	$ 759,095	$ 872,985

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED SEPTEMBER 30, 2020 AND 2019

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 Programs 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 presented in accordance with Financial Accounting Standards Board's (FASB) Accounting Standards Codification (ASC) Topic 958-205, Financial Statements of Not-for-Profit Organizations. Under FASB ASC Topic 958-205, the Organization is required to report information regarding its financial position and activities according to two classes of net assets as follows:

Net Assets without donor restrictions – These are resources that are not subject to donor-imposed stipulations and can be used for the general operations of the Organization. The Organization had net assets without donor restrictions of $1,010,826 and $1,356,086 as of September 30, 2020 and 2019, respectively.

Net Assets with donor restrictions – 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. Other donor restrictions are perpetual in nature, where the donor has stipulated the funds be maintained in perpetuity. The Organization did not have any temporary or perpetual restrictions as of September 30, 2020 and 2019.

When both restricted and unrestricted resources are available for use, it is the Organization's policy to use resources with donor restrictions first, then resources without donor restrictions 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.

Liquidity and Availability of Financial Assets

Financial assets available for general expenditures, that is, without donor or other restrictions limiting their use, within one year of the balance sheet date are as follow:

	2020	2019
Cash	$ 759,095	$ 872,985
Grants receivable	1,499,079	807,728
Other receivables	1,470,847	919,642
Total financial assets available for general expenditures	$ 3,729,021	$ 2,600,355

As part of the Organization's liquidity management, the Organization structures its financial assets to be available as its general expenditures, liabilities, and other obligations come due. As more fully described in Note 6, the Organization also has a committed line of credit in the amount of $100,000, which it could draw upon in the event of an unanticipated liquidity need.

Receivables

Receivables represent reimbursements that were pending from funding sources for program expenses incurred as of September 30, 2020 and 2019, both billed and unbilled, and expected to be received in the subsequent year. Management considers receivables at September 30, 2020 and 2019 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 lessors 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 fair 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, 2020 and 2019. 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 average cost 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.

The expenses that are allocated include the following:

Expense	Method of Allocation
Salaries and wages	Time and effort-labor allocation
Payroll taxes	Time and effort-labor allocation
Employee benefits costs	Time and effort-labor allocation
Contract wages	Time and effort-labor allocation
Building occupancy costs	Cost allocation based on square footage utilized
Utilities	Cost allocation- shared space, direct costs-unshared space
Telephone	Cost allocation- shared space, direct costs-unshared space
Insurance	Cost allocation- shared space, direct costs-unshared space
Travel	Direct costs
Equipment leasing and repairs	Cost allocation- shared expense, direct costs-unshared expense
Office supplies	Cost allocation- shared expense, direct costs-unshared expense
Vehicle operating and maintenance	Direct costs
Printing, reproduction and publicity	Direct costs
Seminars and workshops	Direct costs
Postage	Direct costs
In-kind contributions	Direct costs
Professional and legal fees	Direct costs
Classroom supplies	Direct costs
Food supplies	Direct costs
Health assessments and evaluations	Direct costs
Training and technical assistance	Direct costs
Parent activities	Direct costs
Client direct assistance	Direct costs
Other expenses	Direct costs
Depreciation and amortization	Direct costs

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.

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 Adopted

In August 2016, the FASB issued ASU 2016-15 – Statement of Cash Flows (Topic 230): *Classification of Certain Cash Receipts and Cash Payments*, which clarified guidance on certain cash flow classification issues. The Organization adopted ASU 2016-15 in 2020. The adoption resulted in no impact to the financial statements.

In November 2016, the FASB issued ASU 2016-18 – Statement of Cash Flows (Topic 230): *Restricted Cash*, which requires amounts generally described as restricted cash and restricted cash equivalents be included with cash and cash equivalents when reconciling the beginning-of- period and end-of-period total amounts shown on the statement of cash flows. The Organization adopted ASU 2016-18 in 2020. The adoption resulted in no impact to the financial statements.

Recent Accounting Pronouncements Not Yet Adopted

In February 2016, the FASB issued Accounting Standards Update (ASU) 2016-02 – *Leases* (Topic 842), which supersedes existing guidance on leases and amends and supersedes a number of other paragraphs throughout the FASB ASC. This update will be effective for the Organization's 2023 annual financial statements. Management is currently evaluating the impact this update will have on their financial statements.

In June 2018, the FASB issued ASU 2018-08 – Not-for-Profit Entities (Topic 958): *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The amendments require all entities, both donors and recipients, to evaluate whether the resource provider is receiving commensurate value in a transfer of assets transaction and whether contributions are conditional or unconditional. This update will be effective for the Organization's 2021 annual financial statements. No additional disclosures will be required under this standard. Management is currently evaluating the impact this change will have on its financial statements.

In September 2020, the FASB issued ASU 2020-07 - Not-for-Profit Entities (Topic 958): *Presentations and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets.* The amendments require that an NFP present contributed nonfinancial assets as a separate line item in the statement of activities, apart from contributions of cash and other financial assets. This update will be effective for the Organization's 2022 annual financial statements. Management is currently evaluating the impact this change will have on its 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. PROPERTY AND EQUIPMENT

The following is a summary of property and equipment at September 30, 2020 and 2019:

	2020	2019
Buildings	$ 1,737,082	$ 1,721,582
Leasehold improvements	1,253,519	1,253,519
Furniture, fixtures and equipment	949,078	921,496
Vehicles	143,815	119,198
Software	264,820	264,820
Construction in progress	7,600	-
	4,355,914	4,280,615
Less: accumulated depreciation and amortization	(3,739,632)	(3,453,865)
Property and equipment, net	$ 616,282	$ 826,750

Depreciation and amortization expense for the years ended September 30, 2020 and 2019 was $285,772 and $300,012 respectively.

4. DEFERRED RENT PAYABLE AND LEASE INCENTIVE

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, 2020 and 2019 was $6,270 and $31,350, respectively.

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 a reduction of rental expenses on a straight-line basis over the term of the lease agreement. The unamortized incentive as of September 30, 2020 and 2019 was $30,611 and $153,055, respectively.

5. CONCENTRATION OF CREDIT AND BUSINESS RISKS

Custodial credit risk is the risk that, in the event of the failure of a depository financial institution, the Organization will not be able to recover its deposits. Although the Organization does not have a formal deposit policy, it maintains deposits at federally insured banks and strives to minimize its exposure to custodial credit risks by maintaining deposits at institutions with demonstrated financial strength. Bank balances are insured by the Federal Deposit Insurance Corporation up to $250,000 per bank. The total cash maintained by the Organization in the bank as of September 30, 2020 and 2019 which was subject to custodial credit risk was $734,825 and $947,317, respectively. Management believes that this credit risk exposure was mitigated by the financial strength of the banking institution in which the deposits were held. In addition, Management monitors cash balances on a daily basis as a part of the Organization's cash management practices.

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

For the years ended September 30, 2020 and 2019, the Head Start/Early Head Start program accounted for approximately 59% and 60% of the revenues and support of the Organization, whereas, the Community Services Block Grant program accounted for approximately 21% and 18%, respectively. In addition, the Organization received, directly or indirectly, 81% and 78%, respectively, of its operating revenues for the years ended September 30, 2020 and 2019, from the U.S. Department of Health and Human Services.

6. LINE OF CREDIT

The Organization maintains 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 was made on the line of credit during the years ended September 30, 2020 and 2019.

7. RETIREMENT PLAN

The Organization sponsors 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 for the years ended September 30, 2020 and 2019 amounted to $424,104 and $370,896, respectively.

8. COMMITMENTS

The Organization leases its facilities under operating leases expiring in various years through fiscal year 2021. Future minimum lease payments on non-cancellable lease commitments are as follows:

Year Ending September 30	Amount
2021	$ 571,858
2022	798,595
2023	671,167
2024	689,303
2025	633,627
2026 and thereafter	3,838,765
Total	$ 7,203,315

Rent expense for the years ended September 30, 2020 and 2019 was $904,883 and $885,687, respectively.

9. CONTINGENCIES

From time to time, the Organization may be 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.

10. RISKS AND UNCERTAINTIES

On March 11, 2020, the World Health Organization classified the global coronavirus outbreak (COVID-19) as a pandemic, triggering significant negative impact on the global economy. Management assessed the effect of COVID-19 and has determined that the effect of COVID-19 is not expected to be significant, and that it will not create a substantial doubt about the Organization's ability to continue as a going concern. The full impact of the COVID-19 outbreak continues to evolve as of the date of this report.

11. SUBSEQUENT EVENTS

Management has evaluated subsequent events through June 11, 2021; 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 AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Directors of
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 statement of financial position as of September 30, 2020, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated June 11, 2021.

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

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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

Houston, Texas
June 11, 2021

MJ
McCONNELL & JONES LLP
CERTIFIED PUBLIC ACCOUNTANTS

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

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 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, 2020. The Organization's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of 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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the 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.

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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, 2020.

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 the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the 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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

McConnell & Jones

Houston, Texas
June 11, 2021

GULF COAST COMMUNITY SERVICES ASSOCIATION, INC.
(A Texas Nonprofit Organization)

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED SEPTEMBER 30, 2020

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-01095801 06CH-01095802	$ 17,336,781
Head Start / Early Head Start Programs (CARES Act)	93.600	06CH-01095802C3	292,153
Total Direct Agency Funded Programs			17,628,934
Pass-Through Program:			
Pass-Through Texas Department of Housing and Community Affairs			
Community Services Block Grant	93.569	61190003052	5,090,950
Community Services Block Grant (CARES Act)	93.569	61200003345	1,031,216
Community Services Block Grant (CARES Act)	93.569	61190003244	252,630
Total Pass-Through Program			6,374,796
Total U.S. Department of Health and Human Services			24,003,730
U.S. Department of Agriculture			
Pass-Through Program:			
Pass-Through Texas Department of Agriculture			
Child and Adult Care Food Program	10.558	02448	473,628
Total U.S. Department of Agriculture			473,628
Total Expenditures of Federal Awards			$ 24,477,358

See notes to the schedule of expenditures of federal awards.

GULF COAST COMMUNITY SERVICES ASSOCIATION, INC.
(A Texas Nonprofit Organization)

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED SEPTEMBER 30, 2020

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, 2020. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). 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 the Uniform Guidance wherein certain types of expenditures are not allowable or are limited as to reimbursement.

3. Indirect Cost Rate

The Organization did not elect to use the 10% de minimis indirect cost rate as allowed under the Uniform Guidance.

4. 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.

5. 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, 2020:

		Amount
Total expenditures per the statement of activities		$ 29,961,897
Add:	Non-federal expenditures	30,222
Less:	Donated materials, services, and facilities	(5,228,989)
	Depreciation	(285,772)
Total expenditures per the schedule of expenditures of federal awards		$ 24,477,358

GULF COAST COMMUNITY SERVICES ASSOCIATION, INC.
(A Texas Nonprofit Organization)

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2020

PART 1 – SUMMARY OF AUDITOR'S RESULTS

Financial Statement Section

1. Type of auditor's report issued:	Unmodified
2. Internal control over financial reporting:	
a) Material weaknesses 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 weaknesses identified?	No
b) Significant deficiencies identified that are not considered to be material weaknesses?	No
2. Type of auditor's report issued on compliance for major programs:	Unmodified
3. Any audit findings disclosed, which are required to be reported in accordance with 2 CFR Section 200.516(a)?	No

4. Identification of major programs:

Federal CFDA Number	Name of Federal Program
93.569	Community Services Block Grant

5. Dollar threshold used to distinguish between Type A and Type B programs:	$750,000
6. Auditee qualified as low-risk auditee under 2 CFR Section 200.520?	Yes

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2020

PART II: FINDINGS - FINANCIAL STATEMENT AUDIT

None noted

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

None noted.

GULF COAST COMMUNITY SERVICES ASSOCIATION, INC.
(A Texas Nonprofit Corporation)

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS AND CURRENT STATUS
FOR THE YEAR ENDED SEPTEMBER 30, 2020

There were no audit findings reported in the Schedule of Findings and Questioned Costs for the year ended September 30, 2019.