

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

**ANNUAL FINANCIAL AND
COMPLIANCE AUDIT REPORTS**

**Years Ended
September 30, 2024 and 2023**

GULF COAST COMMUNITY SERVICES ASSOCIATION, INC.
(A Texas Nonprofit Organization)
SEPTEMBER 30, 2024 and 2023
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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Gulf Coast Community Services Association

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Gulf Coast Community Services Association, Inc. (the "Organization"), a Texas nonprofit organization, which comprise the statements of financial position as of September 30, 2024 and 2023, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Organization as of September 30, 2024 and 2023, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP).

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (U.S. GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (*Government Auditing Standards*). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Organization and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with U.S. GAAP, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern for one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with U.S. GAAS and *Government*



Auditing Standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Organization's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards on page 24, as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"), is presented for purposes of additional analysis and is not a required part of the financial statements of the Organization. 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 U.S. GAAS. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the financial statements as a whole.



McConnell
Jones

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 27, 2025, 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 27, 2025

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

STATEMENTS OF FINANCIAL POSITION
SEPTEMBER 30, 2024 AND 2023

	<u>2024</u>	<u>2023</u>
ASSETS		
CURRENT ASSETS		
Cash	\$ 862,870	\$ 536,275
Grants receivable	1,410,510	1,592,395
Other receivables	497,705	486,382
Inventory	19,665	18,135
Prepaid and other assets	388,358	393,452
Total current assets	<u>3,179,108</u>	<u>3,026,639</u>
NONCURRENT ASSETS		
Property and equipment, net	1,917,052	1,760,691
Right-of-use assets for finance lease	155,499	219,267
Right-of-use assets for operating lease	4,281,349	5,141,621
Total Non-current Assets	<u>6,353,900</u>	<u>7,121,579</u>
TOTAL ASSETS	<u>\$ 9,533,008</u>	<u>\$ 10,148,218</u>
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 896,877	\$ 1,057,358
Salaries and related liabilities payable	780,770	732,539
Unearned revenue	464,698	482,015
Finance lease liabilities - current portion	62,884	61,719
Operating lease liabilities - current portion	803,209	827,231
Total current liabilities	<u>3,008,438</u>	<u>3,160,862</u>
NONCURRENT LIABILITIES		
Finance lease liability - net of current portion	96,856	159,740
Operating lease liability - net of current portion	3,567,785	4,370,994
Total Non-current Liabilities	<u>3,664,641</u>	<u>4,530,734</u>
TOTAL LIABILITIES	<u>6,673,079</u>	<u>7,691,596</u>
NET ASSETS		
Without donor restrictions	<u>2,859,929</u>	<u>2,456,622</u>
TOTAL NET ASSETS	<u>2,859,929</u>	<u>2,456,622</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 9,533,008</u>	<u>\$ 10,148,218</u>

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, 2024 AND 2023

	<u>2024</u>	<u>2023</u>
NET ASSETS WITHOUT DONOR RESTRICTIONS		
Revenues without donor restrictions		
Government grants	\$ 28,627,361	\$ 28,582,888
In-kind contributions	7,018,473	8,872,741
Other revenues	<u>1,005,375</u>	<u>13,194</u>
Total unrestricted revenues	36,651,209	37,468,823
Expenses		
Program expenses:		
Head Start/EHS	29,432,373	30,250,881
Community services block grant	5,819,774	5,896,918
Child and adult care food program	987,440	834,090
Other programs	<u>4,708</u>	<u>4,078</u>
Total program expenses	<u>36,244,295</u>	<u>36,985,967</u>
Supporting services:		
Management and general expense	<u>3,607</u>	<u>5,321</u>
Total expenses	<u>36,247,902</u>	<u>36,991,288</u>
CHANGES IN NET ASSETS	403,307	477,535
NET ASSETS WITHOUT DONOR RESTRICTIONS, BEGINNING OF YEAR	<u>2,456,622</u>	<u>1,979,087</u>
NET ASSETS, END OF YEAR	<u><u>\$ 2,859,929</u></u>	<u><u>\$ 2,456,622</u></u>

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, 2024**

	Program Services					Supporting Services		Total Expenditures
	Head Start/EHS	CSBG	CACFP	Other Programs	Total Program Services	Management and General	Total Support Services	
Salaries and wages	\$ 12,477,277	\$ 1,931,041	\$ -	\$ 1,231	\$ 14,409,549	\$ -	\$ -	\$ 14,409,549
Payroll taxes	949,669	150,208	-	-	1,099,877	-	-	1,099,877
Employee benefits costs	2,511,189	368,798	-	-	2,879,987	-	-	2,879,987
Contract wages	1,953,932	114,441	-	492	2,068,865	-	-	2,068,865
Building occupancy costs	1,093,804	521,693	-	1,530	1,617,027	-	-	1,617,027
Utilities	175,342	41,913	-	-	217,255	-	-	217,255
Telephone	137,157	22,533	-	-	159,690	-	-	159,690
Insurance	143,871	17,413	-	-	161,284	-	-	161,284
Travel	19,222	2,388	-	-	21,610	-	-	21,610
Equipment leasing and repairs	289,157	90,538	-	-	379,695	-	-	379,695
Office supplies	426,869	22,663	-	-	449,532	3,597	3,597	453,129
Vehicle operating and maintenance	16,539	2,225	-	-	18,764	-	-	18,764
Printing, reproduction and publicity	31,760	733	-	-	32,493	-	-	32,493
Seminars and workshops	193	5,280	-	-	5,473	-	-	5,473
Postage	259	441	-	-	700	-	-	700
In-kind contributions	7,018,473	-	-	-	7,018,473	-	-	7,018,473
Professional and legal fees	201,687	195,116	-	-	396,803	-	-	396,803
Classroom supplies	477,076	-	-	-	477,076	-	-	477,076
Food supplies	443,286	-	987,440	-	1,430,726	-	-	1,430,726
Health assessments and evaluations	314,881	-	-	-	314,881	-	-	314,881
Training and technical assistance	330,849	4,179	-	8	335,036	-	-	335,036
Parent activities	23,647	-	-	-	23,647	-	-	23,647
Client direct assistance	-	2,254,631	-	679	2,255,310	-	-	2,255,310
Other expenses	176,168	51,350	-	187	227,705	10	10	227,715
Depreciation and amortization	220,066	22,190	-	581	242,837	-	-	242,837
Total Expenses	\$ 29,432,373	\$ 5,819,774	\$ 987,440	\$ 4,708	\$ 36,244,295	\$ 3,607	\$ 3,607	\$ 36,247,902

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, 2023**

	Program Services					Supporting Services		Total Expenditures
	Head Start/EHS	CSBG	CACFP	Other Programs	Total Program Services	Management and General	Total Support Services	
Salaries and wages	\$ 12,150,114	\$ 1,827,550	\$ -	\$ -	\$ 13,977,664	\$ -	\$ -	\$ 13,977,664
Payroll taxes	940,242	133,914	-	-	1,074,156	-	-	1,074,156
Employee benefits costs	2,082,641	344,785	-	-	2,427,426	-	-	2,427,426
Contract wages	2,354,984	229,218	-	-	2,584,202	-	-	2,584,202
Building occupancy costs	1,210,309	491,268	-	-	1,701,577	-	-	1,701,577
Utilities	143,154	26,430	-	-	169,584	-	-	169,584
Telephone	189,543	22,409	-	-	211,952	-	-	211,952
Insurance	110,254	32,236	-	-	142,490	-	-	142,490
Travel	24,206	59,498	-	-	83,704	-	-	83,704
Equipment leasing and repairs	530,333	141,869	-	-	672,202	-	-	672,202
Office supplies	208,738	13,533	-	-	222,271	4,699	4,699	226,970
Vehicle operating and maintenance	21,529	11,295	-	-	32,824	-	-	32,824
Printing, reproduction and publicity	11,207	3,192	-	-	14,399	-	-	14,399
Seminars and workshops	5,133	31,832	-	-	36,965	-	-	36,965
Postage	2,404	886	-	-	3,290	-	-	3,290
In-kind contributions	8,872,741	-	-	-	8,872,741	-	-	8,872,741
Professional and legal fees	176,378	58,290	-	-	234,668	622	622	235,290
Classroom supplies	113,273	-	-	-	113,273	-	-	113,273
Food supplies	344,755	-	833,371	-	1,178,126	-	-	1,178,126
Health assessments and evaluations	282,238	232	719	934	284,123	-	-	284,123
Training and technical assistance	274,550	1,295	-	-	275,845	-	-	275,845
Parent activities	19,020	-	-	-	19,020	-	-	19,020
Client direct assistance	-	2,444,440	-	-	2,444,440	-	-	2,444,440
Other expenses	15,287	4,728	-	2,563	22,578	-	-	22,578
Depreciation and amortization	167,848	18,018	-	581	186,447	-	-	186,447
Total Expenses	\$ 30,250,881	\$ 5,896,918	\$ 834,090	\$ 4,078	\$ 36,985,967	\$ 5,321	\$ 5,321	\$ 36,991,288

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

GULF COAST COMMUNITY SERVICES ASSOCIATION, INC.
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STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30, 2024 AND 2023

CASH FLOWS FROM OPERATING ACTIVITIES:	<u>2024</u>	<u>2023</u>
Change in net assets	<u>\$ 403,307</u>	<u>\$ 477,535</u>
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	242,837	186,447
Amortization of right of use assets	96,809	110,040
Changes in operating assets and liabilities:		
Decrease/(increase) in grants receivable	181,885	(30,461)
Increase in other receivables	(11,323)	(137,904)
(Increase)/decrease in food inventory	(1,530)	21,333
Decrease in prepaid and other assets	5,094	294,166
Decrease in accounts payable and accrued expenses	(160,483)	(54,582)
Increase in salaries and related payable	48,231	191,946
Decrease in unearned revenue	<u>(17,317)</u>	<u>(118,689)</u>
Total adjustments	<u>384,203</u>	<u>462,296</u>
Net cash provided by operating activities	<u>787,510</u>	<u>939,831</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Decrease in finance lease obligation	<u>(61,719)</u>	<u>(51,244)</u>
Net cash used in financing activities	<u>(61,719)</u>	<u>(51,244)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	<u>(399,196)</u>	<u>(1,030,897)</u>
Net cash used in investing activities	<u>(399,196)</u>	<u>(1,030,897)</u>
NET INCREASE/(DECREASE) IN CASH	326,595	(142,310)
CASH, BEGINNING OF YEAR	<u>536,275</u>	<u>678,585</u>
CASH, END OF YEAR	<u><u>\$ 862,870</u></u>	<u><u>\$ 536,275</u></u>
SUPPLEMENTAL DISCLOSURES FOR CASH FLOW		
Right-of-use asset obtained in exchange for new finance lease obligation	<u>-</u>	<u>272,703</u>
Right-of-use asset for operating lease upon ASC 842 implementation	<u><u>\$ 5,991,443</u></u>	<u><u>\$ 6,136,899</u></u>

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

GULF COAST COMMUNITY SERVICES ASSOCIATION, INC.
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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED SEPTEMBER 30, 2024 AND 2023**

**NOTE 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 (U.S. GAAP).

Financial Statement Presentation

The Organization is required under U.S. 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 \$2,859,929 and \$2,456,622 as of September 30, 2024 and 2023, 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 donor restricted net assets as of September 30, 2024 and 2023.

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.

GULF COAST COMMUNITY SERVICES ASSOCIATION, INC.
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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED SEPTEMBER 30, 2024 AND 2023**

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 with or without donor restriction revenues when received or unconditionally promised by a third party. Revenues from special events are recognized when the events are held. 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 with or without donor restrictions 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 net assets with donor restriction, depending on the nature of the restrictions. When a restriction expires, net assets with donor restriction are reclassified to net assets without donor restriction 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 follows:

	<u>2024</u>	<u>2023</u>
Cash	\$ 862,870	\$ 536,275
Grants receivable	1,410,510	1,592,395
Other receivables	<u>497,705</u>	<u>486,382</u>
Total financial assets available for general expenditures	<u>\$ 2,771,085</u>	<u>\$ 2,615,052</u>

GULF COAST COMMUNITY SERVICES ASSOCIATION, INC.
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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED SEPTEMBER 30, 2024 AND 2023**

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 5, the Organization also has a committed line of credit in the amount of \$500,000, 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, 2024 and 2023, both billed and unbilled, and expected to be received in the subsequent year. Management considers receivables at September 30, 2024 and 2023, to be fully collectible. Accordingly, no allowance for delinquent receivables was made in the accompanying financial statements.

In-Kind Contributions

Donated services are recognized if the services create or enhance nonfinancial assets or require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Organization. Donated items are recognized as income at the fair market value of the items at the date the donation occurred. Volunteers also provided substantial amounts of time to program services that are not recognized as contributions in the financial statements since the recognition criteria were not met. The Organization also receives in-kind rent contributions. See note 8.

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, 2024 and 2023. 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

Inventory consists of food supplies and is stated at the lower of cost or net realizable value. Cost is determined using the First-In, First-Out (FIFO) method. Net realizable value is the estimated selling price in the ordinary course of operations, less reasonably predictable costs of completion and disposal. Inventory is periodically reviewed for spoilage or obsolescence, and adjustments are made as necessary.

GULF COAST COMMUNITY SERVICES ASSOCIATION, INC.
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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED SEPTEMBER 30, 2024 AND 2023**

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. Although the title to facilities acquired with Federal funds vests with the Organization, the federal government has an interest in the property and equipment acquired or upon which major renovations have been undertaken with grant funds for use as a Head Start facility. Facilities acquired with grant funds may not be mortgaged or used as collateral, or sold or otherwise transferred to another party, without the written permission of the appropriate U.S. Department of Health and Human Services official. Additionally, the use of the facility for other than the purpose for which the facility was funded is prohibited without the express written approval of such official.

Right of use Asset and Liability

Right to use leased assets and the related liabilities are recognized at the lease commencement date and represent the Organization's right to use an underlying asset and lease obligations for the lease term. Right-of-use asset (ROU) is recognized at the present value of the lease payments at inception of the lease. For ROU- Finance, amortization is computed using the straight-line method over the shorter of the estimated useful lives of the assets or the period of the related lease. For ROU- Operating, lease expense is recognized on a straight-line basis as rent expense in the statement of activities. The amortization period varies among the leases.

Compensated Absences

Annual vacation time and sick leave are granted to the Organization's employees. Under the Organization's policy, vacation time is earned based on the employees' length of service and four (4) hours are accrued each pay period for sick leave. Any unused vacation time up to a maximum of 80 hours not taken because of business requirements may be carried over to the

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**NOTES TO THE FINANCIAL STATEMENTS
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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 if they provide at least 10 working days advance notice of their resignation, they are not paid for unused sick days upon termination of employment. 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

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

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED SEPTEMBER 30, 2024 AND 2023**

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. The 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

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842). The ASU will require most leases to be recognized on the statements of financial position as lease assets and lease liabilities and will require both quantitative and qualitative disclosures regarding key information about leasing arrangements. The Organization adopted ASU 2016-02 in 2023. The presentation and disclosures of leases have been enhanced in accordance with the standard.

NOTE 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

GULF COAST COMMUNITY SERVICES ASSOCIATION, INC.
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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED SEPTEMBER 30, 2024 AND 2023**

- Community Services Block Grant
- Child and Adult Care Food Program

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

NOTE 3 - PROPERTY AND EQUIPMENT

The following is a summary of property and equipment at September 30, 2024 and 2023:

	<u>2024</u>	<u>2023</u>
Buildings	\$ 1,912,957	\$ 1,928,038
Leasehold improvements	1,389,195	1,331,327
Furniture, fixtures and equipment	1,214,988	1,038,878
Vehicles	206,059	134,993
Software	120,708	120,708
Construction in progress	934,534	825,301
	<u>5,778,441</u>	<u>5,379,245</u>
Less: accumulated depreciation	<u>(3,861,389)</u>	<u>(3,618,554)</u>
Property and equipment, net	<u>\$ 1,917,052</u>	<u>\$ 1,760,691</u>

Depreciation and amortization expense for the years ended September 30, 2024 and 2023, was \$242,837 and \$186,447, respectively.

NOTE 4 - 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, 2024 and 2023, which was subject to custodial credit risk was \$702,719 and \$373,178, 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.

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

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED SEPTEMBER 30, 2024 AND 2023**

For the years ended September 30, 2024 and 2023, the Head Start/Early Head Start program accounted for approximately 62% and 58% of the revenues and support of the Organization, whereas, the Community Services Block Grant program accounted for approximately 14% and 15%, respectively. In addition, the Organization received, directly or indirectly, 75% and 74%, respectively, of its operating revenues for the years ended September 30, 2024 and 2023, from the U.S. Department of Health and Human Services.

NOTE 5 - LINE OF CREDIT

The Organization maintains a revolving line of credit with Wells Fargo Bank, NA, with a maximum borrowing capacity of \$500,000. The line of credit matures on November 1, 2025 and accrues interest at a floating rate equal to the Wells Fargo Prime Rate plus 1.00%, with a minimum floor rate of 5.00%. Interest on borrowed amounts is payable monthly. The line is secured by substantially all of the Organization's assets, including inventory, accounts receivable, and equipment. As of September 30, 2024 and 2023, the applicable interest rate on the line of credit was 9.00% and 9.50%, respectively. No draw-down was made on the line of credit during the years ended September 30, 2024 and 2023.

NOTE 6 - 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, 2024 and 2023, amounted to \$476,243 and \$470,592, respectively.

NOTE 7 - LEASE

Operating Leases

The Organization has three (3) real estate operating leases in Harris County, Texas, for locations used in its program services. Additionally, the Organization has two (2) long-term leases with a private entity, for buildings at Kirby Drive in Houston, Texas, to house its corporate offices and warehouse. The weighted average remaining term for the operating leases is 3.03 years.

GULF COAST COMMUNITY SERVICES ASSOCIATION, INC.
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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED SEPTEMBER 30, 2024 AND 2023

The Organization used the risk-free rate based on the information available at the lease commencement date to determine the present value of lease payments, such risk-free rates were derived by reference to the interest paid on short-term government debt, resulting in the weighted average rate of 1.57% for operating leases.

Future minimum rent obligations under the operating leases as of September 30, 2024, are as follows:

Year ending September 31,	Operating
2025	\$ 840,565
2026	646,304
2027	659,318
2028	673,102
2029	686,273
Thereafter	<u>993,375</u>
Total undiscounted cash flows	4,498,937
Less: present value discount	<u>(127,943)</u>
Total lease liabilities	<u>\$ 4,370,994</u>

Finance Leases

The Organization has several finance leases for office equipment and a forklift during the 2023/24 fiscal year. The weighted average remaining term for the finance leases is 2.63 years and the weighted discount rate for these leases is 2.34%.

Future minimum rent obligations under the finance leases as of September 30, 2024, are as follows:

Year ending September 31,	Finance
2025	\$ 65,829
2026	61,554
2027	26,671
2028	<u>11,298</u>
Total undiscounted cash flows	165,352
Less: present value discount	<u>(5,610)</u>
Total lease liabilities	<u>\$ 159,742</u>

The Organization's total lease expense for both types of leases for the year ended September 30, 2024 and 2023, totaled to \$976,303 and \$1,251,71, respectively.

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

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED SEPTEMBER 30, 2024 AND 2023**

NOTE 8 - IN-KIND CONTRIBUTIONS

For the years ended September 30, 2024 and 2023, contributed nonfinancial assets recognized in the statement of activities as in-kind contributions included the following:

	<u>2024</u>	<u>2023</u>
Services	5,581,184	6,962,825
In-Kind Rent	1,437,289	1,909,916
Total In-Kind Contributions	<u>7,018,473</u>	<u>8,872,741</u>

NOTE 9 - CONTINGENCIES

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 management, such disallowances, if any, would not be significant in relation to the financial statements of the Organization.

The Organization participates in the federally assisted Head Start Grant Program and the Community Services Block Grant Program. As of September 30, 2024 and 2023, the Organization recorded a compensated absence liability in accordance with its personnel policy relating to personnel funded by the Head Start Program and the Community Services Block Grant Program. A corresponding grant receivable was recognized based on allowable costs under 2 CFR §§200.430–431. While reimbursement is anticipated, the receivable remains contingent upon federal approval and compliance with financial management standards.

Recent federal budget proposals have introduced uncertainty regarding the future of the Community Services Block Grant Program and the Head Start program. While no immediate funding changes have been enacted, the Organization continues to monitor developments closely and will reassess its financial position should material changes to program funding occur.

NOTE 10 - SUBSEQUENT EVENTS

Management has evaluated subsequent events through May 27, 2025; 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



**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***

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Gulf Coast Community Services Association, Inc.

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Gulf Coast Community Services Association, Inc. (the "Organization"), which comprise the statements of financial position as of September 30, 2024 and 2023, 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 27, 2025.

Report on 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) as a basis for designing 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 Organization'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 were not identified.

Report on 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, non-compliance with which could have a direct and material effect on the financial statements. 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 27, 2025



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

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Gulf Coast Community Services Association, Inc.

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited the Gulf Coast Community Services Association, Inc.'s (the "Organization") compliance with the types of compliance requirements identified as subject to audit 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, 2024. 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.

In our opinion, the Organization complied, in all material respects, with the 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, 2024.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (U.S. GAAS); the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*); 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). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the Organization and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of the Organization's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules and provisions of contracts or grant agreements applicable to the Organization's federal programs.



Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the Organization's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with U.S. GAAS, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the Organization's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with U.S. GAAS, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the Organization's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the Organization's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances 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 the Organization's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on Internal Control Over Compliance

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, as discussed below, we did identify a deficiency in internal control over compliance that we consider to be a significant deficiency.

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*



McConnell Jones

compliance is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2023-001 to be a significant deficiency.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

Government Auditing Standards requires the auditor to perform limited procedures on the Organization's response to the internal control over compliance findings identified in our audit described in the accompanying schedule of findings and questioned costs. The Organization's response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The Organization is responsible for preparing a corrective action plan to address each audit finding included in our auditor's report. The Organization's corrective action plan was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on it.

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 LLP

Houston, Texas
May 27, 2025

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

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED SEPTEMBER 30, 2024**

Federal Grantor/Pass-Through Grantor/ Assistance Listing Program Title / Program Title	Assistance Listing Number	Federal Agency Identifying Award Number	Pass-Through Agency Identifying Number	Federal Expenditures
U.S. Department of Health and Human Services				
Direct Awards:				
Head Start/ Early Head Start Programs	93.600	06CH010958-05 06CH012604-01		\$ 22,286,624
Head Start/ Early Head Start Programs - American Rescue Plan	93.600	06HE000746-01-01		297,024
Total - Direct Awards				<u>22,583,648</u>
Pass-Through Awards:				
Passed through Texas Department of Housing and Community Affairs				
Community Services Block Grant	93.569		61230003800 61240004138	5,007,472
Community Services Block Grant State Discretionary Funds	93.569		61240004315	1,428
Total - Pass-Through Awards				<u>5,008,900</u>
Total - U.S. Department of Health and Human Services				<u><u>27,592,548</u></u>
 U.S. Department of Agriculture				
Pass-Through Award:				
Passed through Texas Department of Agriculture				
Child and Adult Care Food Program	10.558		NT4XL1YGLGC5	636,207
Total - Pass-Through Awards				<u>636,207</u>
Total - U.S. Department of Agriculture				<u><u>636,207</u></u>
 Total Expenditures of Federal Awards				 <u><u>\$ 28,228,755</u></u>

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, 2024**

NOTE 1 - Basis of Presentation

The accompanying schedule of expenditures of federal awards (the “SEFA”) include federal grant activities of the Gulf Coast Community Services Association, Inc. (the “Organization”) under programs of the federal government for the year ended September 30, 2024. The information in the SEFA 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 SEFA 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.

NOTE 2 - Summary of Significant Accounting Policies

The accompanying Schedule is presented on the accrual basis of accounting, which is described in Note 2 to the financial statements. Such expenditures are recognized following the cost principles contained in Subpart E of the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

NOTE 3 - Indirect Cost Rate

The Organization has elected not to use the 10% de minimis indirect cost rate allowed under the Uniform Guidance.

NOTE 4 - 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.

GULF COAST COMMUNITY SERVICES ASSOCIATION, INC.
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**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2024**

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

93.600

Name of Federal Program

Head Start

- | | |
|--|-----------|
| 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 |

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

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2024**

PART II: FINDINGS - FINANCIAL STATEMENT AUDIT

None noted.

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

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2023**

PART III: FINDINGS - SINGLE AUDIT

None noted.

GULF COAST COMMUNITY SERVICES ASSOCIATION, INC.
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**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS AND CURRENT STATUS
FOR THE YEAR ENDED SEPTEMBER 30, 2024**

ASSISTANCE LISTING 93.569 – COMMUNITY SERVICES BLOCK GRANT

FEDERAL AWARDING AGENCY: U.S. DEPARTMENT OF HEALTH & HUMAN SERVICES

PASS-THROUGH ENTITY: TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS

FEDERAL GRANT AWARD NUMBERS: 2101TXCOSR AND 2201TXCOSR

PASS-THROUGH ENTITY IDENTIFYING NUMBERS: 61220003647 AND 61230003800

FINDING NO. 2023-001: NON-COMPLIANCE WITH SPECIAL TESTS AND PROVISIONS RELATED TO TRI-PARTITE BOARD COMPLIANCE AND SIGNIFICANT DEFICIENCY IN INTERNAL CONTROL OVER NONCOMPLIANCE WITH THE RELEVANT SPECIAL TESTS AND PROVISIONS

Condition: Gulf Coast Community Services Association, Inc. (the “Organization”) currently has nine (9) members on its Board with one (1) vacant seat pending nomination from an elected public official. As such, only two (2) members currently represent elected public officials. The vacant board position has not been filled and has exceeded the length of time the state allows for the seat to remain vacant. Additionally, no appointive public official was nominated to fill this vacant seat.

Recommendation: We recommend that the Organization fill the vacant public sector seat, strengthen monitoring of compliance with corporate bylaws and report such compliance to the Governance & Operations Committee and/or its Board of Directors, at least on an annual basis.

Views of Responsible Officials: Although there were several unforeseen circumstances that adversely impacted the timely filling of the vacancy for the public sector seat, none validate the fact that the Organization did not adhere to the expectations outlines in the corporate bylaws and regulatory provisions. It is important, however, that the Organization is aware of the need for key members of management to work with the Board to develop a plan for board recruitment, development and training.

Finding Status: Based on a recommendation received from the Texas Department of Housing and Community Affairs, the GCCSA Bylaws were amended in November 2024 to include six seats, all of which are currently filled. This guidance was provided in response to the CEO role at the time and the vacancy that existed. This finding was resolved.

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, 2024**

ASSISTANCE LISTING 93.569 – COMMUNITY SERVICES BLOCK GRANT

FEDERAL AWARDING AGENCY: U.S. DEPARTMENT OF HEALTH & HUMAN SERVICES

PASS-THROUGH ENTITY: TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS

FEDERAL GRANT AWARD NUMBERS: 2101TXCOSR AND 2201TXCOSR

PASS-THROUGH ENTITY IDENTIFYING NUMBERS: 61220003647 AND 61230003800

FINDING NO. 2023-002: ALLEGED USE OF FEDERAL FUNDS IN FRAUDULENT MANNER

Condition: On August 11, 2023, the Organization's Chief Executive Officer and Chief Financial Officer received electronic communication from an anonymous email account alleging that the Organization's Interim Assistant Client Services (CS) Manager was engaged in illegal and dishonest activities. Based upon this initial predication, the Organization put together a Fraud Investigative Team who reviewed relevant financial records, studied case file documents, and interviewed CS personnel. The Investigative Team discovered that two (2) employees, the Interim CS Assistant Manager and a Quality Assurance (QA) Specialist, colluded to defraud the Organization of approximately \$56,680, over the course of six (6) months. Their actions consisted of, but was not limited to the formation of fake management companies to receive rental assistance payments from non-existent and former clients; the manipulation of leases and pay statements to secure job placement and Transition Out of Poverty incentives; the circumvention of established procedures and protocols to obtain rental assistance payments for their friends and family members; and the re-creation and dissemination of the Organization's communication notifications to unsuspecting applicants luring them to send their personal information to a fake email address.

Recommendation: We recommend that management monitor results of ongoing investigation with local and federal law enforcement agencies, closely coordinate with TDHCA for additional guidelines, and implement mitigating operating controls to strengthen compliance for adherence with pre-established policies and procedures related to conflict of interest and seek to minimize opportunities for employees to engage in fraudulent activities.

Views of Responsible Officials: The Organization is aware that fraud poses a significant risk to the integrity of the federal programs it administers as well as erodes public trust. In the wake of discovering that GCCSA had been compromised by colluders committing fraud, the Organization is committed to combatting fraud by creating an organizational culture and structure conducive to focusing on the following control activities: data-analytics activities, fraud-awareness initiatives, reporting mechanisms, and employee-integrity activities.

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, 2024**

Finding Status: The Organization is committed to preventing fraud by fostering a culture of strong controls, fraud-awareness initiatives, reporting mechanisms, and employee integrity efforts. To strengthen fraud risk mitigation and ensure effective implementation of programmatic initiatives, the Community Services Department's Operation Guide was updated in collaboration with various departments, with the revisions completed in Spring 2024. Approval authority guidelines were revised to counter previously encountered fraud schemes, incorporating additional oversight roles and requiring in-person identity verification for individuals receiving services.

Efforts to enhance the functionality of client software systems such as NewGen and Fastrack are ongoing to minimize dependency on external documents and implement traceable electronic footprints. Continuous training on fraud prevention has been established to increase employee awareness, reinforcing key antifraud messages. Additionally, a hotline and other reporting options were introduced in May 2024 to ensure stakeholders, including employees, vendors, program beneficiaries, and the public, have access to fraud reporting mechanisms.

Mandatory virtual conflict-of-interest training will be conducted annually at the Agency-wide Professional Development Institute, with a virtual option available for those unable to attend in person. A board-approved policy regarding employees receiving services is set to be completed in the second quarter of 2025. The Conflict-of-Interest Policy in the Employee Handbook will also be revised in alignment with Employee Handbook updates to serve as a comprehensive coaching guide for all employees, from entry-level staff to leadership, with completion expected in the second quarter of 2025. These initiatives underscore the Organization's ongoing commitment to integrity and fraud prevention. This finding was considered partially implemented.