GULF COAST COMMUNITY SERVICES ASSOCIATION, INC.

(A Texas Nonprofit Organization)

ANNUAL FINANCIAL AND COMPLIANCE AUDIT REPORTS

Years Ended
September 30, 2022 and 2021

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

SEPTEMBER 30, 2022 and 2021

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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, 2022 and 2021, 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, 2022 and 2021, 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.

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.

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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 23, 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

McConnell Jones

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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 15, 2023, 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
May 15, 2023

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

STATEMENTS OF FINANCIAL POSITION
SEPTEMBER 30, 2022 AND 2021

	2022	2021
ASSETS		
CURRENT ASSETS		
Cash	$ 678,585	$ 725,950
Grants receivable	1,169,127	536,743
Other receivables	741,285	1,289,776
Inventory	39,468	19,139
Prepaid and other assets	687,618	1,201,668
Total current assets	3,316,083	3,773,276
NONCURRENT ASSETS		
Property and equipment, net	916,241	684,336
Total noncurrent assets	916,241	684,336
TOTAL ASSETS	$ 4,232,324	$ 4,457,612
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	$ 1,111,940	$ 1,109,466
Salaries and related liabilities payable	540,593	1,178,301
Unearned revenue	600,704	677,313
Total current liabilities	2,253,237	2,965,080
TOTAL LIABILITIES	2,253,237	2,965,080
NET ASSETS		
Without donor restrictions	1,979,087	1,492,532
TOTAL NET ASSETS	1,979,087	1,492,532
TOTAL LIABILITIES AND NET ASSETS	$ 4,232,324	$ 4,457,612

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, 2022 AND 2021

	2022	2021
NET ASSETS WITHOUT DONOR RESTRICTIONS		
Revenues without donor restrictions		
Government grants	$ 26,922,951	$ 33,795,724
In-kind contributions	7,204,798	7,171,036
Other revenues	188,971	28,852
Total unrestricted revenues	34,316,720	40,995,612
Expenses		
Program expenses	33,815,046	40,499,902
Management and general expense	15,119	14,004
Total expenses	33,830,165	40,513,906
CHANGES IN NET ASSETS	486,555	481,706
NET ASSETS WITHOUT DONOR RESTRICTIONS, BEGINNING OF YEAR	1,492,532	1,010,826
NET ASSETS, END OF YEAR	$ 1,979,087	$ 1,492,532

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, 2022

	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	$ 11,161,476	$ 1,846,706	$ -	$ -	$ 13,008,182	$ -	$ -	$ 13,008,182
Payroll taxes	856,689	133,851	-	-	990,540	-	-	990,540
Employee benefits costs	2,208,855	367,708	-	942	2,577,505	-	-	2,577,505
Contract wages	2,193,945	446,456	-	-	2,640,401	-	-	2,640,401
Building occupancy costs	1,290,342	397,587	-	-	1,687,929	-	-	1,687,929
Utilities	133,037	28,134	-	-	161,171	-	-	161,171
Telephone	179,263	24,700	-	-	203,963	-	-	203,963
Insurance	97,539	34,383	-	-	131,922	-	-	131,922
Travel	19,269	159	-	-	19,428	-	-	19,428
Equipment leasing and repairs	498,059	106,713	-	500	605,272	-	-	605,272
Office supplies	155,869	128,501	-	-	284,370	11,995	11,995	296,365
Vehicle operating and maintenance	21,881	5,585	-	5	27,471	-	-	27,471
Printing, reproduction and publicity	162,497	1,991	-	-	164,488	-	-	164,488
Seminars and workshops	2,070	118,411	-	500	120,981	-	-	120,981
Postage	270	103	-	-	373	-	-	373
In-kind contributions	7,200,979	3,819	-	-	7,204,798	-	-	7,204,798
Professional and legal fees	256,019	38,521	-	-	294,540	161	161	294,701
Classroom supplies	556,920	-	-	-	556,920	-	-	556,920
Food supplies	50,215	-	718,465	-	768,680	2,963	2,963	771,643
Health assessments and evaluations	272,123	-	1,135	1,500	274,758	-	-	274,758
Training and technical assistance	302,157	4,171	-	-	306,328	-	-	306,328
Parent activities	11,555	-	-	-	11,555	-	-	11,555
Client direct assistance	-	1,625,909	-	-	1,625,909	-	-	1,625,909
Other expenses	524	18,887	-	-	19,411	-	-	19,411
Depreciation and amortization	117,756	9,814	-	581	128,151	-	-	128,151
Total Expenses	$ 27,749,309	$ 5,342,109	$ 719,600	$ 4,028	$ 33,815,046	$ 15,119	$ 15,119	$ 33,830,165

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, 2021

	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	$ 10,315,674	$ 1,859,900	$ -	$ 4,980	$ 12,180,554	$ -	$ -	$ 12,180,554
Payroll taxes	761,339	136,443	-	1	897,783	-	-	897,783
Employee benefits costs	2,340,781	377,562	-	-	2,718,343	-	-	2,718,343
Contract wages	1,387,920	1,488,395	-	-	2,876,315	-	-	2,876,315
Building occupancy costs	1,242,866	364,620	-	6,761	1,614,247	-	-	1,614,247
Utilities	128,792	24,605	-	-	153,397	-	-	153,397
Telephone	162,175	35,882	-	-	198,057	-	-	198,057
Insurance	93,017	26,342	-	-	119,359	-	-	119,359
Travel	12,684	104	-	-	12,788	-	-	12,788
Equipment leasing and repairs	451,053	150,960	-	-	602,013	-	-	602,013
Office supplies	193,256	62,306	-	-	255,562	11,062	11,062	266,624
Vehicle operating and maintenance	24,607	1,687	-	-	26,294	-	-	26,294
Printing, reproduction and publicity	234,668	8,236	-	1,204	244,108	-	-	244,108
Seminars and workshops	-	20,325	-	-	20,325	-	-	20,325
Postage	1,552	1,283	-	-	2,835	-	-	2,835
In-kind contributions	7,171,037	-	-	-	7,171,037	-	-	7,171,037
Professional and legal fees	423,904	122,336	-	-	546,240	105	105	546,345
Classroom supplies	1,534,512	395	-	-	1,534,907	-	-	1,534,907
Food supplies	39,192	-	541,678	-	580,870	2,837	2,837	583,707
Health assessments and evaluations	253,699	-	-	-	253,699	-	-	253,699
Training and technical assistance	162,332	135	-	-	162,467	-	-	162,467
Parent activities	7,720	-	-	-	7,720	-	-	7,720
Client direct assistance	-	8,034,980	-	3,573	8,038,553	-	-	8,038,553
Other expenses	423	103,030	-	96	103,549	-	-	103,549
Depreciation and amortization	168,221	9,975	-	684	178,880	-	-	178,880
Total Expenses	$ 27,111,424	$ 12,829,501	$ 541,678	$ 17,299	$ 40,499,902	$ 14,004	$ 14,004	$ 40,513,906

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, 2022 AND 2021

CASH FLOWS FROM OPERATING ACTIVITIES:	**2022**	**2021**
Change in net assets	$ 486,555	$ 481,706
Adjustments to reconcile change in net assets		
to net cash provided by operating activities:		
Depreciation	128,151	178,880
Amortization of deferred lease incentive and rent payable	-	(36,881)
Changes in operating assets and liabilities:		
(Increase)/decrease in grants receivable	(632,384)	962,336
Decrease in other receivables	548,491	181,071
(Increase)/decrease in food inventory	(20,329)	31,744
Decrease/(increase) in prepaid and other assets	514,050	(304,685)
Decrease in accounts payable and accrued expenses	2,474	(226,640)
(Decrease)/increase in salaries and related payable	(637,708)	6,691
Decrease in unearned revenue	(76,609)	(1,060,433)
Total adjustments	(173,864)	(267,917)
Net cash provided by operating activities	312,691	213,789
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(360,056)	(246,934)
Net cash used in investing activities	(360,056)	(246,934)
NET DECREASE IN CASH	(47,365)	(33,145)
CASH, BEGINNING OF YEAR	725,950	759,095
CASH, END OF YEAR	$ 678,585	$ 725,950

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED SEPTEMBER 30, 2022 AND 2021

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 $1,979,087 and $1,492,532 as of September 30, 2022 and 2021, 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 had net assets with donor restrictions of $0 and $0 as of September 30, 2022 and 2021, respectively.

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 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. 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 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:

	2022	**2021**
Cash	$ 678,585	$ 725,950
Grants receivable	1,169,127	536,743
Other receivables	741,285	1,289,776
Total financial assets available for general expenditures	$ 2,588,997	$ 2,552,469

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, 2022 and 2021, both billed and unbilled, and expected to be received in the subsequent year. Management considers receivables at September 30, 2022 and 2021 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 an independent school district 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, 2022 and 2021. 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. 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.

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 several 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 the Organization's financial statements.

2. PROGRAMS AND SUPPORTING SERVICES

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

- Head Start Program/Early Head Start Program
- Community Services Block Grant

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

3. PROPERTY AND EQUIPMENT

The following is a summary of property and equipment at September 30, 2022 and 2021:

	2022	2021
Buildings	$ 1,811,399	$ 1,778,441
Leasehold improvements	1,331,327	1,253,518
Furniture, fixtures and equipment	788,383	734,430
Vehicles	185,237	185,237
Software	93,114	93,114
Construction in progress	214,496	29,175
	4,423,956	4,073,915
Less: accumulated depreciation and amortization	(3,507,715)	(3,389,579)
Property and equipment, net	$ 916,241	$ 684,336

Depreciation and amortization expense for the years ended September 30, 2022 and 2021 was $128,151 and $178,888, respectively.

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, 2022 and 2021, which was subject to custodial credit risk was $597,478 and $594,853, 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, 2022 and 2021, the Head Start/Early Head Start program accounted for approximately 61% and 51% of the revenues and support of the Organization, whereas, the Community Services Block Grant program accounted for approximately 16% and 31%, respectively. In addition, the Organization received, directly or indirectly, 77% and 81%, respectively, of its operating revenues for the years ended September 30, 2022 and 2021, from the U.S. Department of Health and Human Services.

5. 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, 2022 and 2021.

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, 2022 and 2021 amounted to $463,044 and $463,446, respectively.

7. COMMITMENTS

The Organization leases its facilities under operating leases expiring in various years through fiscal year 2022. Future minimum lease payments on non-cancellable lease commitments are as follows:

Year ending September 30,	Amount
2023	$ 953,198
2024	875,400
2025	840,565
2026	646,304
2027	659,318
2028 and thereafter	2,469,216
Total	$ 6,444,001

Rent expense for the years ended September 30, 2022 and 2021 was $1,131,042 and $914,167, respectively.

8. 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.

9. SUBSEQUENT EVENTS

The Organization increased its line of credit with a local financial institution from $100,000 to $500,000.

Management has evaluated subsequent events through May 15, 2023; 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

McConnell
Jones

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, 2022 and 2021, 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 15, 2023.

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.

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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

Houston, Texas
May 15, 2023

McConnell
Jones

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, 2022. 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, 2022.

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.

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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 for 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.

McConnell Jones

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

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

Our consideration of internal control over compliance was for the limited purpose described in the 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. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

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.

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
May 15, 2023

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

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED SEPTEMBER 30, 2022

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 *Head Start / Early Head Start*	93.600	06CH-010958-03 06CH-010958-04		$ 19,911,452
COVID-19 – Head Start *COVID (P.L. 116-260)*	93.600	06HE000746-01-00		266,532
COVID-19 – Head Start *American Rescue Plan*	93.600	06HE000746-01-01		691,783
Total - Direct Awards				20,869,767
Pass-Through Awards:				
Passed through Texas Department of Housing and Community Affairs				
Community Services Block Grant	93.569	2101TXCOSR 2201TXCOSR	61200003455 61200003647 61210003345	5,123,810
COVID-19 - Community Services Block Grant	93.569	2101TXCOSR	61910003714 61910003735	221,322
Total - Pass-Through Awards				5,345,132
Total - U.S. Department of Health and Human Services				26,214,899
U.S. Department of Agriculture				
Pass-Through Award:				
Passed through Texas Department of Agriculture				
Child and Adult Care Food Program	10.558		02448	565,846
Total - Pass-Through Awards				565,846
Total - U.S. Department of Agriculture				565,846
Total Expenditures of Federal Awards				$ 26,780,745

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, 2022

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, 2022. 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.

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.

3. INDIRECT COST RATE

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

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.

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, 2022:

	Amount
Total expenditures per the statement of activities	$ 33,830,165
Add: Expenditures reported in prior year's schedule of expenditures of federal awards	283,529
Less: Donated materials, services, and facilities	(7,204,798)
Depreciation	(128,151)
Total expenditures per the schedule of expenditures of federal awards	$ 26,780,745

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

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2022

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
93.600	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

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2022

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, 2022

There were no audit findings reported in the Schedule of Findings and Questioned Costs for the year ended September 30, 2021.