

**Communities in Schools of
Southeast Harris County, Inc.**

**Financial Statements
And Uniform Guidance Reports**

August 31, 2019

Communities in Schools of Southeast Harris County, Inc.

August 31, 2019

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Communities in Schools of Southeast Harris County, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of Communities in Schools of Southeast Harris County, Inc. (the "Organization"), which comprise the statements of financial position as of August 31, 2019 and 2018, and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Organization as of August 31, 2019 and 2018, and the changes in its net assets and cash flows for the years then ended, in accordance with U.S. generally accepted accounting principles.

Other Matters

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 8, 2020, on our consideration of the Organization's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely 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 the effectiveness of the Organization's 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.

Pamell Kern Forster of Teyre, P.C.

September 8, 2020

Communities in Schools of Southeast Harris County, Inc.

Statements of Financial Position

| | August 31, | |
|---|-------------------|-------------------|
| | 2019 | 2018 |
| Assets | | |
| Cash and cash equivalents | \$ 509,968 | \$ 558,400 |
| Contract receivables | 240,127 | 269,651 |
| Accounts receivable - affiliate | 47,268 | 69,593 |
| Unconditional promises to give | 98,489 | - |
| Prepaid expenses and other current assets | 22,019 | 7,008 |
| Investments at fair value | <u>14,956</u> | <u>14,956</u> |
| Total assets | <u>\$ 932,827</u> | <u>\$ 919,608</u> |
| Liabilities and Net Assets | | |
| Liabilities | | |
| Trade accounts payable | \$ 5,127 | \$ 2,182 |
| Accounts payable - affiliate | 170,692 | 146,326 |
| Accrued expenses | <u>67,075</u> | <u>28,813</u> |
| Total liabilities | <u>242,894</u> | <u>177,321</u> |
| Commitments and contingencies | | |
| Net assets | | |
| Without donor restrictions | 675,883 | 742,287 |
| With donor restrictions | <u>14,050</u> | <u>-</u> |
| Total net assets | <u>689,933</u> | <u>742,287</u> |
| Total liabilities and net assets | <u>\$ 932,827</u> | <u>\$ 919,608</u> |

See accompanying notes to financial statements.

Communities in Schools of Southeast Harris County, Inc.

Statement of Activities

Year Ended August 31, 2019

| | <u>Without Donor Restrictions</u> | <u>With Donor Restrictions</u> | <u>Total</u> |
|---------------------------------------|---------------------------------------|------------------------------------|-------------------|
| Revenue and support | | | |
| Service contract income | \$ 4,232,493 | \$ - | \$ 4,232,493 |
| Contributions | 180,829 | 14,050 | 194,879 |
| Fundraising income | 37,172 | - | 37,172 |
| Other income | 3,802 | - | 3,802 |
| Net assets released from restrictions | <u>-</u> | <u>-</u> | <u>-</u> |
| Total revenue and support | <u>4,454,296</u> | <u>14,050</u> | <u>4,468,346</u> |
| Expenses | | | |
| Program services | 4,136,052 | - | 4,136,052 |
| General and administrative | 336,832 | - | 336,832 |
| Fundraising | <u>47,816</u> | <u>-</u> | <u>47,816</u> |
| Total expenses | <u>4,520,700</u> | <u>-</u> | <u>4,520,700</u> |
| Changes in net assets | (66,404) | 14,050 | (52,354) |
| Net assets, beginning of year | <u>742,287</u> | <u>-</u> | <u>742,287</u> |
| Net assets, end of year | <u>\$ 675,883</u> | <u>\$ 14,050</u> | <u>\$ 689,933</u> |

See accompanying notes to financial statements.

Communities in Schools of Southeast Harris County, Inc.

Statement of Activities

Year Ended August 31, 2018

| | <u>Without Donor Restrictions</u> | <u>With Donor Restrictions</u> | <u>Total</u> |
|-------------------------------|---------------------------------------|------------------------------------|-------------------|
| Revenue and support | | | |
| Service contract income | \$ 4,345,610 | \$ - | \$ 4,345,610 |
| Contributions | 184,049 | - | 184,049 |
| Fundraising income | 52,293 | - | 52,293 |
| Other income | <u>2,339</u> | <u>-</u> | <u>2,339</u> |
| Total revenue and support | <u>4,584,291</u> | <u>-</u> | <u>4,584,291</u> |
| Expenses | | | |
| Program services | 4,139,636 | - | 4,139,636 |
| General and administrative | 386,152 | - | 386,152 |
| Fundraising | <u>38,306</u> | <u>-</u> | <u>38,306</u> |
| Total expenses | <u>4,564,094</u> | <u>-</u> | <u>4,564,094</u> |
| Changes in net assets | 20,197 | - | 20,197 |
| Net assets, beginning of year | <u>722,090</u> | <u>-</u> | <u>722,090</u> |
| Net assets, end of year | <u>\$ 742,287</u> | <u>\$ -</u> | <u>\$ 742,287</u> |

See accompanying notes to financial statements.

Communities in Schools of Southeast Harris County, Inc.

Statement of Functional Expenses

Year Ended August 31, 2019

| | <u>Supporting Activities</u> | | | <u>Total</u> |
|-------------------------------------|------------------------------|---------------------------------------|--------------------|---------------------|
| | <u>Program Services</u> | <u>General and Administrative</u> | <u>Fundraising</u> | |
| Salaries | \$ 3,248,340 | \$ 183,484 | \$ 29,912 | \$ 3,461,736 |
| Employee benefits | 450,466 | 38,422 | 4,054 | 492,942 |
| Advertising | 1,020 | - | - | 1,020 |
| Participant tutors and facilitators | 20,369 | - | - | 20,369 |
| Travel and transportation | 51,823 | 8,300 | - | 60,123 |
| Material and supplies | 110,176 | 7,149 | 1,113 | 118,438 |
| Equipment | 7,013 | 132 | - | 7,145 |
| Enrichment | 39,856 | - | - | 39,856 |
| Insurance | - | 4,475 | - | 4,475 |
| Communications | 23,202 | 2,755 | - | 25,957 |
| Occupancy | 90,324 | 18,223 | - | 108,547 |
| Training and incentives | 1,990 | 9,298 | - | 11,288 |
| Student needs | 9,567 | - | - | 9,567 |
| Professional fees | 78,701 | 52,614 | - | 131,315 |
| Other | 3,205 | 11,980 | 12,737 | 27,922 |
| Total functional expenses | <u>\$ 4,136,052</u> | <u>\$ 336,832</u> | <u>\$ 47,816</u> | <u>\$ 4,520,700</u> |

See accompanying notes to financial statements.

Communities in Schools of Southeast Harris County, Inc.

Statement of Functional Expenses

Year Ended August 31, 2018

| | <u>Supporting Activities</u> | | | <u>Total</u> |
|-------------------------------------|------------------------------|---------------------------------------|--------------------|---------------------|
| | <u>Program Services</u> | <u>General and Administrative</u> | <u>Fundraising</u> | |
| Salaries | \$ 3,215,103 | \$ 240,374 | \$ 31,823 | \$ 3,487,300 |
| Employee benefits | 403,739 | 21,468 | 4,321 | 429,528 |
| Advertising | - | 2,072 | - | 2,072 |
| Participant tutors and facilitators | 31,473 | - | - | 31,473 |
| Travel and transportation | 51,651 | 15,815 | - | 67,466 |
| Material and supplies | 145,605 | 12,731 | - | 158,336 |
| Equipment | 16,527 | 3,526 | - | 20,053 |
| Enrichment | 56,661 | 1,355 | - | 58,016 |
| Communications | 19,929 | 4,158 | - | 24,087 |
| Occupancy | 85,645 | 19,518 | - | 105,163 |
| Training and incentives | 1,761 | 17,840 | - | 19,601 |
| Student needs | 37,117 | - | - | 37,117 |
| Professional fees | 21,757 | 28,143 | - | 49,900 |
| Other | 52,668 | 19,152 | 2,162 | 73,982 |
| Total functional expenses | <u>\$ 4,139,636</u> | <u>\$ 386,152</u> | <u>\$ 38,306</u> | <u>\$ 4,564,094</u> |

See accompanying notes to financial statements.

Communities in Schools of Southeast Harris County, Inc.

Statements of Cash Flows

| | Year Ended August 31, | |
|--|-----------------------|-------------------|
| | 2019 | 2018 |
| Cash flows from operating activities | | |
| Change in net assets | \$ (52,354) | \$ 20,197 |
| Adjustments to reconcile change in net assets to cash flows used in operating activities | | |
| Unrealized loss on investment | - | 1,987 |
| Change in assets and liabilities | | |
| Contract receivables | 29,524 | (106,039) |
| Accounts receivable - affiliate | 22,325 | (65,010) |
| Unconditional promises to give | (98,489) | - |
| Prepaid expenses and other current assets | (15,011) | (2,980) |
| Trade accounts payable | 2,945 | (3,939) |
| Accounts payable - affiliate | 24,366 | 76,030 |
| Accrued expenses | 38,262 | 14,477 |
| Net cash used in operating activities | <u>(48,432)</u> | <u>(65,277)</u> |
| Net decrease in cash and cash equivalents | (48,432) | (65,277) |
| Cash and cash equivalents at beginning of year | <u>558,400</u> | <u>623,677</u> |
| Cash and cash equivalents at end of year | <u>\$ 509,968</u> | <u>\$ 558,400</u> |

See accompanying notes to financial statements.

Communities in Schools of Southeast Harris County, Inc.

Notes to Financial Statements

August 31, 2019 and 2018

Note 1 - Nature of Operations and Basis of PresentationOrganization

Communities in Schools of Southeast Harris County, Inc. (the "Organization") is a nonprofit, tax exempt corporation, incorporated in December 1987, to connect needed community resources with schools to help young people learn, stay in school, and successfully prepare for life. Services are provided through after school programs, training programs, and community-based partnerships. The Organization operates in southeast Harris County, Texas.

The Organization and a sister organization, Communities in Schools of Brazoria County, Inc. ("CIS-BC"), have entered into a joint venture agreement for the purpose of the development and implementation of a centralized management team to oversee the operations and services provided by the Organization and CIS-BC. Each organization has its own governing board and expects to develop and receive the benefits of reduced operating cost and greater efficiency through the use of a centralized management team, as well as increasing the number of participants in its programs.

Basis of presentation

The Organization's financial statements have been prepared on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles ("U.S. GAAP"). The Organization is required to report information regarding its financial position and activities according to two classes of net assets. Accordingly, net assets of the Organization and changes therein are classified and reported as follows:

Net assets without donor restrictions - represent expendable funds available for operations which are not otherwise limited by donor restrictions.

Net assets with donor restrictions - consist of contributed funds subject to donor or grantor-imposed restrictions related to a specific purpose or requiring a specific passage of time before the funds can be spent and can also include funds subject to irrevocable donor restriction requiring the assets to be maintained in perpetuity for the purpose of generating investment income to fund current operations. Donor restricted net assets at August 31, 2019 are for future periods. The Organization has no temporarily restricted net assets at August 31, 2018.

Use of estimates

In preparing the financial statements in conformity with U.S. GAAP, management is required to make estimates and assumptions that affect the 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. Actual results could differ from those estimates.

Communities in Schools of Southeast Harris County, Inc.

Notes to Financial Statements

August 31, 2019 and 2018

Note 2 - Summary of Significant Accounting PoliciesFair value measurements

The Organization uses a three-tiered hierarchy for fair value measurements that draws distinction between market participant assumptions based on (i) observable inputs such as quoted prices in active markets (Level 1), (ii) inputs other than quoted prices in active markets that are observable either directly or indirectly (Level 2), and (iii) unobservable inputs reflecting the Organization's own assumptions about the inputs used to determine fair value (Level 3). Level 1 provides the most reliable measure of fair value, where Level 3 generally requires significant judgment. The fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. The Organization determines the most appropriate valuation technique to use, given the instrument being measured and availability of sufficient inputs.

Investments at fair value

The Organization's investments at fair value consist of common stock of a publicly traded company and are considered available for sale. The investments are reported at fair value using quoted prices in active markets (Level 1). Net unrealized gains or losses are reported in other income in the statements of activities.

Revenue recognition

The Organization records contract revenues at the time qualified participant expense is incurred. Amounts received under service contracts that will be expended in the next fiscal year in accordance with the contract period are recorded as deferred revenue.

Contributions and unconditional promises to give

Contributions are recognized when the donor makes a promise to give to the Organization that is, in substance, unconditional. Contributions that are restricted by the donor for future periods or a specific purpose are reported as increases in net assets with donor restrictions depending on the nature of the restriction. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions. Donor restricted contributions in which the restrictions are met in the same year as received are recorded as without donor restricted contributions in the accompanying statements of activities.

Unconditional promises to give that are expected to be collected within one year are recorded at their realizable value. Unconditional promises to give that are expected to be collected after one year or more are recorded at the present value of estimated future cash flows. The discounts on those amounts are computed using a risk-free interest rate applicable to the year in which the promise is received. Amortization of the discount is included as contribution revenue. Conditional promises to give are not included as support until the conditions are substantially met. All unconditional promises to give are due within one year at August 31, 2019 and 2018.

Communities in Schools of Southeast Harris County, Inc.

Notes to Financial Statements

August 31, 2019 and 2018

Note 2 - Summary of Significant Accounting Policies (Continued)Contributions and unconditional promises to give (continued)

The Organization reports gifts of property and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained; the Organization reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

Donated materials

Donated noncash assets are recorded as contributions at their fair values at the date of donation. The Organization receives donated facilities and supplies by various individuals and organizations.

Financial instruments, credit risk, and concentration of credit risk

Financial instruments that subject the Organization to concentrations of credit risk consist principally of cash and cash equivalents and receivables. The Organization places its cash with financial institutions it believes to be creditworthy. Deposits may exceed Federal deposit insurance provided on such deposits; however, these deposits typically may be redeemed upon demand and therefore, bear minimal risk. In monitoring this credit risk, the Organization periodically evaluates the stability of the financial institution.

Cash and cash equivalents

The Organization considers all unrestricted, highly-liquid investments with a maturity of three months or less at the time of purchase to be cash equivalents.

Contract receivables

Contract receivables consist of grants and are considered to be fully collectible at August 31, 2019 and 2018; accordingly, no allowance for doubtful accounts is required. If amounts become uncollectible, they will be charged to operations when the determination is made. Credit risk for contract receivables is limited due to the credit worthiness of the funding agencies.

Property and equipment

Purchased property and equipment are recorded at cost. Donated property and equipment are recorded at fair value at the date of donation. Routine maintenance, repair, renewal and replacement costs are charged against operations in the year incurred. Upon retirement or disposal of assets, the cost and related accumulated depreciation are removed from the accounts and the gain or loss, if any, is included in the results of operations. Expenditures, which materially increase values or extend useful lives of property and equipment, are capitalized. Buildings and equipment are depreciated using the straight-line method based on the estimated useful lives of the assets.

Communities in Schools of Southeast Harris County, Inc.

Notes to Financial Statements

August 31, 2019 and 2018

Note 2 - Summary of Significant Accounting Policies (Continued)Functional expenses

The Organization allocates expenses on a functional basis among the various programs and supporting activities. Expenses that can be identified with a specific program or supporting activity are allocated directly according to their natural expenditure classification. Other expenses that are common to several functions are allocated to the various programs based upon hours worked, square footage, number of program staff or other reasonable methods for allocating the Organization's multiple functional expenditures.

Income taxes

The Organization is a not-for-profit organization that is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. However, the Organization is subject to taxes on unrelated business income. No unrelated business income tax was due in 2019 and 2018.

The Organization believes that all significant tax positions utilized will more likely than not be sustained upon examination. Penalties and interest, if any, would be accrued as incurred and would be classified as general and administrative expense in the statements of activities.

Recently adopted accounting pronouncements

In August 2016, the FASB issued an accounting standards update ("ASU") for not-for-profit entities. The ASU was issued to provide more clarity about a not-for-profit entity's liquidity, financial performance, and cash flows. The ASU includes many provisions, including the requirement of additional disclosures regarding the liquidity of the organization, a presentation of expenses by function and natural classification, and presentation of two net asset classes instead of three. The amendments in this guidance are effective for fiscal years beginning after December 15, 2017. The Organization implemented the ASU during the year ended August 31, 2019, and determined no reclassifications or restatements were necessary. Additional disclosures were included in the notes to the financial statements to implement the standard.

Recent accounting pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued guidance intended to change the criteria for recognition of revenue. The new guidance establishes a single revenue recognition model for all contracts with customers, eliminates industry specific requirements and expands disclosure requirements. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To achieve this core principle, an entity should apply the following five steps: (1) identify contracts with customers, (2) identify the performance obligations in the contracts, (3) determine the transaction price, (4) allocate the transaction price to the performance obligation in the contract, and (5) recognize revenue as the entity satisfies performance obligations. The guidance is effective for annual reporting periods beginning after December 15, 2019, with early adoption permitted. The Organization is currently evaluating the impact of this guidance and its impact on the financial statements.

Communities in Schools of Southeast Harris County, Inc.

Notes to Financial Statements

August 31, 2019 and 2018

Note 2 - Summary of Significant Accounting Policies (Continued)Recent accounting pronouncements (continued)

In February 2016, the FASB issued guidance requiring lessees to recognize a lease liability and a right-of-use asset for all leases. Lessor accounting will remain largely unchanged except for changes related to costs that qualify as initial direct costs. The guidance will also require new qualitative and quantitative disclosures to help financial statement users better understand the timing, amount and uncertainty of cash flows arising from leases. This guidance is effective for annual reporting periods beginning after December 15, 2021, with early adoption permitted. The Organization is currently evaluating the impact of this guidance and its impact on the financial statements.

In August 2018, the FASB issued an ASU for not-for-profit entities. The ASU will assist not-for-profit entities in evaluating whether transactions should be accounted for as contributions or as exchange transactions and whether a contribution is conditional. The amendments in this ASU require that an entity determine whether a contribution is conditional based on whether an agreement includes a barrier that must be overcome and either a right of return of assets transferred or a right of release of a promisor's obligation to transfer assets. The amendments in this guidance are effective for fiscal years beginning after December 15, 2018. Early adoption is permitted. The Organization is still evaluating the impact that the ASU will have on its financial statements and related disclosures and has not yet adopted the standard.

Note 3 - Investments at Fair Value

The original cost of the Organization's investments, inclusive of reinvested returns, along with unrealized gains, losses, and fair value as of August 31, 2019 and 2018 is as follows:

| <u>Investment</u> | <u>Cost</u> | <u>Unrealized Gains</u> | <u>Unrealized Losses</u> | <u>Fair Value</u> |
|-------------------|-------------|-----------------------------|------------------------------|-------------------|
| Common stock | \$ 9,406 | \$ 5,550 | \$ - | \$ 14,956 |

Note 4 - Related Party Transactions

The Organization and CIS-BC share certain costs, including employee benefits, in connection with the joint venture agreement described in Note 1. CIS-BC owed the Organization \$47,268 and \$69,593 at August 31, 2019 and 2018, respectively, which is included in accounts receivable – affiliate in the accompanying statements of financial position. The Organization owes CIS-BC \$170,692 and \$146,326 at August 31, 2019 and 2018, respectively, which is included in accounts payable – affiliate in the accompanying statements of financial position.

Note 5 - Retirement Plan

In conjunction with CIS-BC and the joint venture agreement, the Organization has adopted a defined contribution 401(k) plan for all eligible employees. The Organization provides a matching contribution equal to the employees' contributions up to a maximum of three percent of eligible compensation for the year. The Organization's contributions to the plan totaled \$21,188 and \$65,683 for the years ended August 31, 2019 and 2018, respectively.

Communities in Schools of Southeast Harris County, Inc.

Notes to Financial Statements

August 31, 2019 and 2018

Note 5 - Retirement Plan (Continued)

In conjunction with CIS-BC and the joint venture agreement, the Organization also maintained a 457 plan for employees not eligible for the 401(k) plan until August 31, 2018. The Organization provided a matching contribution equal to three percent of the employees' eligible compensation. The Organization's contribution to the plan was \$1,280 for the year ended August 31, 2018.

Note 6 - Commitments and ContingenciesOperating leases

The Organization and CIS-BC lease office space under operating leases expiring through July 2022, with future commitments as follows:

| Year Ended August 31, | | |
|--------------------------|----|----------------|
| 2020 | \$ | 94,503 |
| 2021 | | 94,503 |
| 2022 | | <u>86,628</u> |
| Total | \$ | <u>275,634</u> |

Rent expense is allocated between the Organization and CIS-BC based on the number of employees utilizing the office space from each organization. The Organization's rent expense amounted to \$40,418 and \$44,129 during the years ended August 31, 2019 and 2018, respectively.

Litigation

In the normal course of business, the Organization is subject to various claims, legal actions, and disputes. The Organization provides for losses, if any, in the year in which they can be reasonably estimated. In the Organization's opinion, there are currently no such matters outstanding that would have a material effect on the accompanying financial statements.

Grant assistance

The Organization receives significant financial assistance from federal, state and local government agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreement and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits become a liability of the Organization. However, in the opinion of management, any potential disallowed claims, if any, would not have a material effect on the Organization's financial statements.

Communities in Schools of Southeast Harris County, Inc.

Notes to Financial Statements

August 31, 2019 and 2018

Note 7 - Liquidity and Availability of Resources

The Organization's financial assets that are available for general expenditure within one year at August 31, 2019 is as follows:

| | | |
|---------------------------------|----|----------------|
| Cash and cash equivalents | \$ | 509,968 |
| Contract receivables | | 240,127 |
| Accounts receivable - affiliate | | 47,268 |
| Unconditional promises to give | | <u>98,489</u> |
| | \$ | <u>895,852</u> |

The Organization's financial assets available within one year of the statement of financial position date to meet cash needs for general expenditures consist substantially of cash, contracts receivable, accounts receivable – affiliate, and unconditional promises to give. The receivables are expected to be collected within one year. Net assets with donor restrictions are considered available for use for general expenditure as they are expected to be utilized in the Organization's significant programs during the next twelve months. The Organization maintains sufficient resources to meet those responsibilities to its donors, maintains adequate liquid assets to fund near-term operating needs, and maintains sufficient reserves to provide reasonable assurance that any long-term obligations will be discharged.

Note 8 - Subsequent Events

As a result of the spread of COVID-19 coronavirus, economic uncertainties and stay at home orders have arisen that have the potential to negatively impact the operations of the Organization. However, the financial impact and duration cannot be reasonably estimated at this time.

In April 2020, the Company applied for and received a \$222,000 loan issued pursuant to the Paycheck Protection Program under the CARES Act. The loan bears interest at 1% and has required principal and interest payments commencing in the fourth quarter of 2020 with a maturity date of April 2022. The loan proceeds are eligible to be fully forgiven under the CARES Act, if expended to fund permitted expenses.

The Organization has evaluated subsequent events through September 8, 2020, which is the date that the financial statements were available to be issued and has determined that there are no other subsequent events to be reported.

UNIFORM GUIDANCE REPORTS AND SCHEDULES

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

Board of Directors
Communities in Schools of Southeast Harris County, Inc.

We have audited, in accordance with U.S. generally accepted auditing standards 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 Communities in Schools of Southeast Harris County, Inc. (the "Organization"), which comprise the statement of financial position as of August 31, 2019, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to financial statements, and have issued our report thereon dated September 8, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Organization's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the 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 and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs as item 2019-01 that we consider to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Pamell Kern Forster of Texas, P.C.

September 8, 2020

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

Board of Directors
Communities in Schools of Southeast Harris County, Inc.

Report on Compliance for Each Major Program

We have audited Communities in Schools of Southeast Harris County, Inc.'s (the "Organization") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Organization's major federal programs for the year ended August 31, 2019. The Organization's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the Organization's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; *Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"). Those standards, the Uniform Guidance, require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on major federal programs occurred. An audit includes examining, on a test basis, evidence about the Organization's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Organization's compliance.

Opinion on Each Major Federal Program

In our opinion, the Organization complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended August 31, 2019.

Report on Internal Control Over Compliance

Management of the Organization is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Organization's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over compliance.

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

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

Purpose of This Report

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.

Pamell Kern Forster of Texas, P.C.

September 8, 2020

Communities in Schools of Southeast Harris County, Inc.

Schedule of Findings and Questioned Costs

Year Ended August 31, 2019

Summary of Auditors' Results***Financial Statements***

Type of auditors' report issued: **Unmodified**
 Internal control over financial reporting:
 Material weaknesses identified? **No**
 Significant deficiencies identified not considered to be a material weakness? **Yes**
 Noncompliance material to the financial statements noted? **No**

Federal Awards

Internal control over major program:
 Material weaknesses identified? **No**
 Significant deficiencies identified not considered to be a material weakness? **None reported**
 Type of auditors' report issued on compliance for major programs: **Unmodified**
 Any audit findings disclosed that are required to be reported in accordance with 2 CFR section 200.516(a)? **No**

Major Program:

Federal Major Program:
 U.S. Department of Education 21st Century Community Learning Centers - CFDA No. 84.287C

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

Auditee qualified as a low-risk auditee? **No**

Findings – Financial Statements Audit**2019-01 – Account Reconciliations**

Significant Deficiency

Criteria: Accounting records should be reviewed and all accounts are required to be reconciled at year-end to ensure proper amounts are reported in the financial statements.

Condition: The Organization lacks the controls to properly reconcile all of their accounts.

Effect: Cash, certain accruals and revenue required adjustments at year-end as amounts were not properly reconciled. In addition, balances shown as due to an affiliate and from an affiliate had not been reconciled at year-end.

Cause: There are not sufficient controls in place or operating effectively to ensure year-end reconciliations are complete and accurate.

Identification of a repeat finding: This is a repeat finding from a previous audit.

Recommendation: We recommend the Organization develop internal control policies and procedures to ensure all accounts are reconciled timely and accurately.

Views of the responsible officials and planned corrective actions: The Organization agrees with this finding. Please refer to the corrective action plan.

Findings and Questioned Costs – Major Federal Award Program Audit

Year ended August 31, 2019: None

Communities in Schools of Southeast Harris County, Inc.

Schedule of Expenditures of Federal Awards

Year Ended August 31, 2019

| Federal Grantor/Pass-through Grantor/Program or Cluster Title | Federal CFDA Number | Contract or Pass- through Grantor's I.D. Number | Current Year Expenditures |
|--|---------------------------|---|------------------------------|
| U.S. Department of Education | | | |
| <i>Passed through Texas Education Agency</i> | | | |
| 21st Century Community Learning Centers | 84.287C | 196950247110005 | \$ 1,611,543 |
| Total U.S. Department of Education | | | <u>1,611,543</u> |
| U.S. Department of Health and Human Services | | | |
| <i>Passed through Texas Education Agency</i> | | | |
| Temporary Assistance for Needy Families | 93.558 | 193630027120025 | 142,762 |
| Total U.S. Department of Health and Human Services | | | <u>142,762</u> |
| U.S. Office of Justice Programs | | | |
| <i>Passed through the Office of the Governor</i> | | | |
| Victims of Crime Act | 16.575 | 3368702 | 482,677 |
| Total U.S. Office of Justice Programs | | | <u>482,677</u> |
| U.S. Department of Housing and Urban Development | | | |
| <i>Passed through Harris County, Texas</i> | | | |
| Community Block Development Grant | 14.218 | B-19-UC-48-0002; 2019-0007 | 35,115 |
| Total U.S. Department of Housing and Urban Development | | | <u>35,115</u> |
| Total Expenditures of Federal Awards | | | <u>\$ 2,272,097</u> |

See accompanying notes to schedule of expenditures of federal awards and independent auditors' report.

Communities in Schools of Southeast Harris County, Inc.

Notes to the Schedule of Expenditures of Federal Awards

August 31, 2019

Note 1 - Basis of Presentation

The accompanying schedule of expenditures of federal awards ("SEFA") includes the federal grant activity of Communities in Schools of Southeast Harris County, Inc. (the "Organization") and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with 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"). Therefore, some amounts presented in the schedule may differ from amounts presented in or used in the preparation of the financial statements.

Note 2 - Summary of Significant Accounting Policies

Expenditures reported on the SEFA are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles as found in the Uniform Guidance for federal awards. The Organization has elected not to use the 10% de minimus indirect cost rate allowed under the Uniform Guidance.

Note 3 - Relationship to Financial Reports Submitted to Grantor Agencies

Amounts reflected in the financial reports filed with grantor agencies for the programs and the supplementary schedules may not agree because of accruals included in the next report filed with the agencies, matching requirements not included in the SEFA and different program year ends.



Communities in Schools, Southeast Harris County, Inc.

CORRECTIVE ACTION PLAN RESPONSE

For the Year Ended August 31, 2019

Finding 2018-01 Account Reconciliations

It was recommended that the organization develop internal control policies and procedures to ensure all accounts are reconciled timely and accurately.

The organization's management team consisting of the CFO and CEO have made steady improvement on the oversight and review surrounding the monthly close procedures which encompass all monthly entries as well as year end close activities. There were changes made in the staffing of the accounting department along with great strides in organization and assignment of duties. The financial policies were reviewed and updated. The CFO and CEO continue to improve upon the accounting departments' procedures.

Responsible Officer: Beth Evans, Chief Financial Officer

Completion Date: August 1, 2020

A handwritten signature in black ink, appearing to read "Beth Evans", positioned above a horizontal line.

Beth Evans, CFO

Communities in Schools of Southeast Harris County, Inc.

Schedule of Prior Year Audit Findings

Year Ended August 31, 2019

2018-01 – Account Reconciliations

Recommendation: We recommend the organization develop internal control policies and procedures to ensure all accounts are reconciled timely and accurately.

Corrective Actions: Before closing the books each month, the management team consisting of the CFO and Executive Director will verify that all three accounting staff have completed their monthly checklists which encompass all monthly entries. The CFO and ED will also trace said monthly entries into the journal where applicable to insure accuracy and completion.

Responsible Officer: Beth Evans, Chief Financial Officer

Completion Date: April 1, 2019

Managements' 2019 follow-up response: It was recommended that the organization develop internal control policies and procedures to ensure all accounts are reconciled timely and accurately. The organization's management team consisting of the CFO and CEO now verify that all three accounting staff have completed their monthly close procedures which encompass all monthly entries. The CFO and CEO trace said monthly entries into the journal where applicable to insure accuracy and completion. The management team is continuing to develop and implement additional controls procedures to identify and correct errors on a timely basis.