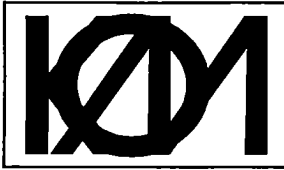


**FAMILY SERVICE CENTER OF
GALVESTON COUNTY, TEXAS
FINANCIAL STATEMENTS
AUGUST 31, 2023**

FAMILY SERVICE CENTER OF GALVESTON COUNTY, TEXAS

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Katherine Overbeck Maxwell, PLLC
Certified Public Accountant

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Family Service Center of Galveston, Texas

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of Family Service Center of Galveston County, Texas, (a nonprofit organization), which comprise the statement of financial position as of August 31, 2023, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the financial statements present fairly, in all material respects, the financial position Family Service Center of Galveston County, Texas as of August 31, 2023, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 Family Service Center of Galveston County, Texas 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 opinions.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, 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 Family Service Center of Galveston County, Texas' ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards 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 generally accepted auditing standards 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 Family Service Center of Galveston County, Texas' 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 Family Service Center of Galveston County, Texas' 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, 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 auditing standards generally accepted in the United States of America. 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 September 23, 2024, on our consideration of Family Service Center of Galveston County, Texas' 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 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 Family Service Center of Galveston County, Texas' 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 Family Service Center of Galveston County, Texas' internal control over financial reporting and compliance.


Katherine Overbeck Maxwell, CPA, PLLC

Galveston, Texas
September 23, 2024

Family Service Center of Galveston County, Texas
Statement of Financial Position
August 31, 2023

	2023	2022
Assets		
Current Assets		
Cash and Cash Equivalents	\$ 1,995,855	\$ 2,275,583
Investments	1,757,523	1,698,632
Promises to Give, Net	670,160	969,958
Grants and Accounts Receivable	15,149	8,267
Prepaid Expenses	21,344	30,334
Total Current Assets	4,460,031	4,982,774
Property and Equipment, Net	249,913	259,179
ROU Assets-Operating Leases	404,363	413,669
Other Assets		
Security Deposits	6,500	6,500
Total Assets	\$ 5,120,807	\$ 5,662,122
Liabilities and Net Assets		
Current Liabilities		
Accounts Payable	\$ 4,429	\$ 3,905
Accrued Expenses	220,519	144,983
Operating Lease Liability	404,363	413,669
Total Current Liabilities	629,311	562,557
Net Assets		
Without Donor Restrictions	3,947,198	4,118,061
Without Donor Restrictions- Board Designated	45,200	45,200
With Donor Restrictions	499,098	936,304
Total Net Assets	4,491,496	5,099,565
Total Liabilities and Net Assets	\$ 5,120,807	\$ 5,662,122

The accompanying notes are an integral part of these financial statements

Family Service Center of Galveston County, Texas
Statement of Activities
For the Year Ended August 31, 2023

	2023		2022	
	Without Donor Restrictions	With Donor Restrictions	Total	Total
Public Support and Revenue				
Public Support				
Government Grants				
Federal	\$ 467,373	\$ -	\$ 467,373	\$ 456,512
State	1,318,966		1,318,966	1,305,496
County	405,578		405,578	382,464
Other Grants and Contributions	702,345	196,250	898,595	1,669,243
Special Events- Gross	280,633	-	280,633	327,447
Less cost of Direct Benefit	(45,392)	-	(45,392)	(47,310)
Net Special Event	235,241	-	235,241	280,137
Total Public Support	3,129,504	196,250	3,325,753	4,093,852
Revenue				
Program Service Fees	42,120	-	42,120	54,075
Interest Income	-	-	-	-
Investment Return (Net)	58,892	-	58,892	(235,278)
Other Income	12,382	-	12,382	24,034
Total Revenue	113,394	-	113,394	(157,169)
Net Assets Released from Restriction	633,456	(633,456)	-	-
Total Public Support and Revenue	\$ 3,876,354	\$ (437,206)	\$ 3,439,147	\$ 3,936,683
Expenses				
Program Services				
Individual and Family/Service to at Risk				
Youth (STAR)	\$ 287,474	\$ -	\$ 287,474	\$ 272,799
Victim Support Services	608,632	-	608,632	572,975
Service to At Risk Youth (STAR)	896,298	-	896,298	652,050
Juvenile Justice Program	289,740	-	289,740	258,560
Causeway Galveston	366,321	-	366,321	376,754
Prevention Services	683,906	-	683,906	717,908
JJP Oasis Program	179,223	-	179,223	176,808
CSS Program	239,381	-	239,381	191,411
Total Program Services	3,550,975	-	3,550,975	3,219,265
Supporting Services				
Management and General	463,344	-	463,344	236,162
Fundraising	32,897	-	32,897	26,701
Total Support Services	496,241	-	496,241	262,863
Total Expenses	4,047,216	-	4,047,216	3,482,128
Change in Net Assets	(170,863)	(437,206)	(608,069)	454,556
Net Assets Beginning of Year	4,163,261	936,304	5,099,565	4,645,009
Net Assets, End of Year	\$ 3,992,398	\$ 499,098	\$ 4,491,496	\$ 5,099,565

The accompanying notes are an integral part of these financial statements

Family Service Center of Galveston County, Texas
Statement of Functional Expenses
For the Year Ended August 31, 2023

	Program Services										Support Services			Total Expenses 2022	Total Expenses 2023
	Individual & Family Support	Victim Services I & II	Juvenile Justice Program	FAYS	Causeway Galveston	Prevention Services	JJP Oasis Program	CSS Program	Total Program Services	Management and General	Fund Raising	Total Support Services			
Salaries	\$ 213,183	\$ 453,126	\$ 227,302	\$ 614,819	\$ 296,688	\$ 462,663	\$ 128,691	\$ 178,875	\$ 2,575,347	\$ 241,821	\$ -	\$ 241,821	\$ 2,817,168	\$ 2,230,115	
Payroll taxes	18,051	29,203	17,485	51,091	22,478	33,264	9,600	13,430	194,602	17,117	-	17,117	2,117,719	1,682,279	
Employee Benefits	17,642	37,272	13,589	61,900	12,126	54,819	19,555	23,414	240,317	27,983	-	27,983	268,300	235,317	
Total Salaries and Related Expenses	248,876	519,601	258,376	727,810	331,292	550,746	157,846	215,719	3,010,266	286,921	-	286,921	3,297,187	2,633,711	
Depreciation	-	-	-	-	-	-	-	-	-	9,267	-	9,267	9,267	10,295	
Bank Fees	-	-	-	-	-	-	-	-	-	1,419	-	1,419	2,692	2,037	
Insurance	1,767	3,788	2,273	6,567	3,031	4,574	1,011	1,260	24,271	1,010	1,273	2,281	25,281	22,779	
Occupancy	16,726	42,772	3,215	40,654	8,322	10,056	9,738	3,277	127,280	26,432	-	26,432	153,712	150,742	
Office Expense	5,068	9,392	5,386	19,393	7,270	13,884	2,523	3,052	31,433	3,433	34	3,467	97,425	102,927	
Postage and Shipping	30	65	39	113	52	78	17	22	416	168	-	168	584	1,199	
Central Expenses	-	147	-	142	-	18,480	-	-	18,779	-	-	-	18,779	27,001	
Printing & Publications	277	861	434	2,280	481	1,454	154	325	6,236	2,089	-	2,089	8,325	10,870	
Equipment Rental and Maintenance	815	1,796	1,051	3,026	1,414	2,148	481	589	11,321	470	-	470	11,791	9,600	
Dues & Subscriptions	117	479	475	958	93	315	62	133	1,732	701	-	701	2,433	2,863	
Telephones & Communications	1,112	2,339	1,432	4,728	1,924	2,820	652	802	15,407	1,150	-	1,150	16,557	17,697	
Conferences & Conventions	-	20	-	7,693	800	5,754	225	1,589	16,061	38,340	-	38,340	54,401	35,852	
Contract Services	3,485	10,164	6,215	35,099	5,464	46,351	1,248	6,980	114,996	27,508	680	28,188	143,194	225,900	
Professional Fees	5,897	12,836	7,890	35,378	10,059	15,877	3,452	4,211	95,948	27,239	20	27,259	123,107	120,894	
Travel	1,446	1,891	1,529	5,230	1,378	1,915	1,241	739	13,267	713	-	713	13,980	7,654	
Staff Recruitment	229	354	1,102	5,243	1,486	5,102	508	619	11,427	729	-	729	12,156	28,606	
Internet	854	1,897	-	3,168	-	4,102	-	-	13,736	642	-	642	14,378	12,471	
Bad Debts	-	-	-	-	-	-	-	-	-	-	-	-	-	24,303	
Fundraising Expense	-	-	123	-	778	-	65	-	-	-	30,880	30,880	30,880	25,774	
Parking	785	920	-	1,100	-	140	-	84	-	2,528	-	2,528	6,503	6,481	
Utilities	-	-	-	-	-	-	-	-	-	4,585	-	4,585	4,585	4,358	
Miscellaneous	-	-	-	-	-	-	-	-	-	-	-	-	-	185	
Total Expenses	\$ 287,474	\$ 608,632	\$ 289,740	\$ 896,298	\$ 366,321	\$ 693,906	\$ 179,223	\$ 239,348	\$ 3,550,975	\$ 463,344	\$ 32,887	\$ 496,231	\$ 4,047,216	\$ 3,482,128	

The accompanying notes are an integral part of these financial statements

Family Service Center of Galveston County, Texas
Statement of Cash Flows
For the Year Ended August 31, 2023

	2023	2022
Cash Flows from Operating Activities		
Change in net assets	\$ (608,069)	\$ 454,556
Adjustments to Reconcile Net Assets to Net Cash Provided (Used) in Operating Activities:		
Depreciation	9,267	10,285
Unrealized (gains)/losses	5,043	320,834
Realized (gains)/losses	-	-
(Increase) Decrease in Promises to Give	291,386	(166,173)
(Increase) Decrease in Grants and Accounts Receivable	1,530	8,413
(Increase) Decrease in Prepaid Expenses	8,990	2,111
Increase (Decrease) in Accounts Payable	525	(1,082)
Increase (Decrease) in Accrued Expenses	75,536	3,733
Increase (Decrease) in Notes Payable	-	-
	(215,792)	632,677
Net Cash Provided (Used) By Operating Activities		
Cash Flows from Investing Activities		
Purchase of Property and Equipment	-	-
Purchase of mutual funds	(63,935)	(85,557)
	(63,935)	(85,557)
Net Cash Provided (Used) By Investing Activities		
Net Increase (Decrease) in Cash	(279,727)	547,120
Cash and Cash Equivalents at Beginning of Year	2,275,583	1,728,463
Cash and Temporary Cash Investments at End of Year	\$ 1,995,855	\$ 2,275,583
Supplementary Data:		
Interest Paid	\$ -	\$ 185
Income Taxes	\$ -	\$ -

The notes are an integral part of these financial statements

Family Service Center of Galveston County, Texas
Notes to the Financial Statements
August 31, 2023

NOTE 1- NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES

Nature Activities

Family Service Center of Galveston County, Texas (FSC) is a private not-for-profit agency dedicated to enhancing the potential for growth of individuals and families. FSC strives to help people pursue healthy, independent, and fulfilling lives through the provision of counseling, education and related social services.

FSC is committed to the creation and support of policies and programs consistent with its purposes that seek to improve the quality of life in the community and to cooperate with other agencies and organizations similarly engaged.

Family Service Center of Galveston County, Texas is committed to building bridges between individuals, families, agencies, and communities.

To this end, FSC has been providing professional counseling and related social services since 1914. Counseling and related social services are provided by licensed medical health professionals with masters and doctoral degrees offering assistance to individuals and families under stress in accordance with the standards set by the Council on Accreditation of Services for Families and Children, Inc. As a recipient of United Way funds, FSC is able to offer fees adjusted according to the client's income, so no one is refused services because of inability to pay. FSC has several sources of revenue; client fees, insurance, and United Way. FSC's primary source of income is from contributions and grants from individuals, foundations, and local and federal governments.

FSC's Programs are summarized in the following categories:

- The Individual and Family Program provides counseling services to adults, children, families and couples. The therapist and client work together to address the client's goals from a strengths-based perspective. This program is fully funded by client fees, insurance and the United Way.
- The Prevention and Early Intervention Program, including FAYS (Family and Youth Success), previously the STAR program, offers counseling and prevention services for youth under age 18 and their families, seeking to reduce the mental health factors that contribute to low school attainment by enhancing family, community and school support, as well as increase social emotional learning. Services include school-based counseling, family counseling, increased community collaboration, and parent education. Services are available at FSC offices, schools and community-based settings. Prevention services are free to families in Galveston, Liberty and Chambers Counties. FAYS services are covered by the Texas Department of Family and Protective Services. Funding for these services is also supported by the Kempner Foundation, the Moody Permanent Endowment Fund, the John P. McGovern Foundation, the Mildred Yount Manion Charitable Foundation, United Way Galveston County-Mainland, and Valero.

During 2022-23 fiscal year, FAYS counselors served 576 registered clients and provided 6,560 hours of direct service.

Family Service Center of Galveston County, Texas
Notes to the Financial Statements
August 31, 2023

NOTE 1- NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- The Juvenile Justice Program provides on-site counseling and related social services to youth in detention and/or on probation at the Juvenile Justice Center. Through collaboration, youth and their counselor identify goals to enhance healthy choices. Services include group, individual and family counseling. This program is fully supported by Galveston County's Juvenile Justice Department.

- The Oasis Program offers intensive therapeutic services to youth who have engaged in inappropriate, illegal and/or dangerous sexual behavior. As an alternative to detention, this program allows youth to remain with their families during a structured treatment program. A dual emphasis on helping the youth/family and ensuring the safety of the community are equally balanced. This program is funded in part by Galveston County's Juvenile Justice Department.

- The Community Support Services Program increases access to counseling and related resources by providing these services to persons of all ages in community-based settings. Currently Family Service Center is providing services to clients at St. Vincent's House in Galveston. Funding for this program was provided by the Episcopal Health Foundation for services at St. Vincent's House and Free Clinic.

- The Victim Support Services Program provides counseling services to victims of crime. The goal of this program is to reduce the traumatic impact of criminal acts on victims of abuse and crime, to enhance their coping skills, and to promote comprehensive victim restoration. Funding for this program was provided by the Criminal Justice Division, Office of the Governor.

During the 2022-23 fiscal year, victim services counselors provided 4,109 hours of service to 294 victims of crime and their families.

Basis of Accounting

The financial statements of FSC have been prepared on the accrual basis of accounting and accordingly reflect all significant receivables, payables, and other liabilities.

Basis of Presentation

FSC reports information regarding its financial position and activities according to two classes of net assets that are based upon the existence or absence of restrictions on use that are placed by its donors: net assets without donor restrictions and net assets with donor restrictions. Net assets without donor restrictions are resources available to support operations and not subject to donor restrictions. The only limits on the use of net assets without donor restrictions are the broad limits resulting from the nature of the Organization, the environment in which it operates, the purposes specified in its corporate documents and its application for tax-exempt status, and any limits resulting from contractual agreements with creditors and others that are entered into in the course of its operations.

Family Service Center of Galveston County, Texas
Notes to the Financial Statements
August 31, 2023

NOTE 1- NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Presentation (Continued)

The governing board has designated, from net assets without donor restrictions, net assets for an operating reserve.

Net assets with donor restrictions are resources that are subject to donor-imposed restrictions. Some restrictions are temporary in nature, such as those that are restricted by a donor for use for a specific purpose or in a specific future period. Other restrictions may be perpetual in nature; such as those that are restricted by a donor that the resources be maintained in perpetuity.

FSC's unspent contributions are reported in net assets with donor contributions if the donor limited their use, as are promised contributions that are not yet due. Contributions of property and equipment or cash restricted to acquisition of property and equipment are reported as net assets with donor restrictions if the donor has restricted the use of the property or equipment to a particular program. These restrictions expire when the assets are placed in service.

When a donor's restriction is satisfied, either by using the resources in the manner specified by the donor or by the passage of time, the expiration of the restriction is reported in the financial statements by reclassifying the net assets from net assets with donor restrictions to net assets without donor restrictions.

Cash and Cash Equivalents

For purposes of the statements of financial position and cash flows, FSC considers all highly liquid investments with an initial maturity of three months or less to be cash equivalent.

Promises to Give

Conditional promises to give are not recognized in the financial statements until the conditions are substantially met or explicitly waived by the donor. Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in more than one year are recorded at fair value, which is measured as the present-value of their future cash flows. The discounts on those amounts are computed using risk-adjusted interest rates applicable to the years in which the promises are received. Amortization of the discounts is included in contribution revenue. In the absence of donor stipulations to the contrary, promises with payments due in future periods are restricted to use after the due date. Promises that remain uncollected more than one year after their due dates are written off unless the donors indicate that payment is merely postponed.

Grants Receivable

Grants receivable represent consideration from state and local government agencies, of which FSC has an unconditional right to receive. Grants receivable is stated at the amount management expects to be collected from the outstanding balance. As of August 31, 2023, management has determined, based on historical experience, that all amounts are fully collectible and no allowance for doubtful accounts is necessary.

Family Service Center of Galveston County, Texas
Notes to the Financial Statements
August 31, 2023

NOTE 1- NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments

Investments are reported at fair value. Net investment return consists of interest and dividends, realized and unrealized gains and losses, net of external and direct internal investment expenses.

Property and Equipment

Property and equipment are stated at cost or fair value at date of donation. Depreciation is provided using the straight-line method over the estimated useful lives of the assets as follows:

Buildings	35 years
Furniture and Equipment	5-7 years

FSC has the policy that assets purchased equal to or greater than \$5,000 are required to be capitalized and depreciated. Property purchased with federal funds also has the \$5,000 capitalization threshold, unless computer or other electronic equipment are purchased, which has a \$500 capitalization requirement. Maintenance and repairs that do not improve or extend the useful lives of the respective assets are expensed currently.

Property and equipment are reviewed for impairment if the use of the asset significantly changes or another indicator of possible impairment is noted. If the carrying amount for the asset is not recoverable, the value is written down to the asset's fair value.

Donated Assets

Donated investments and other noncash donations are recorded as contributions at their fair values at the date of donation.

Donated Property and Equipment

Donations of property and equipment are recorded as contributions at fair value at the date of donation. Such donations are reported as increases in net assets without donor restrictions unless the donor has restricted the donated asset to a specific purpose.

Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted contributions. Absent donor stipulations regarding how long those donated assets must be maintained, FSC reports expirations of donor restrictions when the donated or acquired assets are placed in service. FSC reclassifies net assets with donor restrictions to net assets without donor restrictions at that time.

Use of Estimates

Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. On an ongoing basis, management evaluates the estimates and assumptions based on new information. Management

Family Service Center of Galveston County, Texas
Notes to the Financial Statements
August 31, 2023

NOTE 1- NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Use of Estimates (Continued)

believes that the estimates and assumptions are reasonable in the circumstances; however, actual results could differ from those estimates.

Functional allocation of expenses

Expenses are reported by their functional classification as program services or supporting activities. Program services are the direct conduct or supervision of activities that fulfill the purposes for which FSC exists. Fundraising activities include the solicitation of contributions of money, securities, materials, facilities, other assets, and time. Management and general activities are not directly identifiable with specific program or fundraising activities. Expenses that are attributable to more than one program or supporting activity are allocated among the activities benefitted. Salaries and related costs are allocated on the basis of estimated time and effort expended. Depreciation and occupancy costs are allocated based on usage of related facilities.

Income Taxes

FSC is a nonprofit corporation that is exempt from federal income taxes under Section 501(c)(3) of the U.S. Internal Revenue Code ("Code") and comparable State law, and contributions to it are tax deductible within the limitations prescribed by the Code. FSC did not conduct any unrelated business activities in the current fiscal year. Therefore, FSC has made no provision for federal income taxes in the accompanying financial statements.

FSC may recognize the tax benefit from a tax position only if it is more likely than not that the tax position will be sustained on examination by taxing authorities based on the technical merits of the position. Examples of tax positions include the tax-exempt status of FSC and various positions related to the potential sources of unrelated business taxable income (UBIT). FSC has analyzed its tax positions taken for filings with the Internal Revenue Service and the state of Texas.

FSC believes that its income tax filing positions will be sustained upon examination and does not anticipate any adjustments that would result in a material adverse effect on FSC's financial condition, results of operation, or cash flows.

Revenue Recognition

Revenue and Revenue Recognition

Revenue is recognized when earned. A portion of FSC's revenue is derived from cost-reimbursable federal and state contracts and grants, which are conditioned upon certain performance requirements and/ or the incurrence of allowable qualifying expenses. Amounts received are recognized as revenue when FSC has incurred expenditures in compliance with specific contract or grant provisions. Amounts received prior to incurring qualifying expenditures are reported as refundable advances in the statement of financial position. FSC did not receive any cost-reimbursable grants that have not been recognized at August 31, 2023 because qualifying expenditures have not yet been incurred, thus no refundable advance is recognized in the statement of financial position.

Family Service Center of Galveston County, Texas
Notes to the Financial Statements
August 31, 2023

NOTE 1- NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue Recognition (Continued)

Contributions are recognized when cash, or other assets, an unconditional promise to give, or notification of a beneficial interest is received. Conditional promises to give are not recognized until the conditions on which they depend have been substantially met or the donor has explicitly released the restriction.

Revenue with and without Donor Restrictions

Contributions that are restricted by the donor are reported as increases in net assets without donor restrictions 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. Contributions of property and equipment are reported as net assets with donor restrictions if the donor restricted the use of the property or equipment to a particular program, as are contributions of cash restricted for the purchase of property and equipment. Otherwise, donor restrictions on contributions of property and equipment or assets restricted for purchase of property and equipment are considered to expire when the assets are placed in service. All other donor-restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the Statement of Activities as net assets released from restrictions.

Advertising

Advertising costs are expensed as incurred. Advertising expenses for the year ended August 31, 2023 and 2022 was \$575 and \$1,547, respectively.

Compensated Absences

FSC has elected to accrue compensated absences. The maximum amount of annual leave that can be accrued for any employee is no more than 160 hours. The obligated vacation amount accrued as of August 31, 2023 and 2022 was \$56,748 and \$39,917, respectively.

NOTE 2 - CONCENTRATIONS OF CREDIT RISK

Financial instruments that potentially subject FSC to credit risk consist primarily of cash and investments. All of a depositor's accounts at an insured depository institution, including all non-interest-bearing transaction accounts, will be insured by the Federal Deposit Insurance Corporation (FDIC) up to the standard maximum deposit insurance amount (\$250,000), for each deposit insurance ownership category. Additionally, cash and securities held by a customer at a Security Investor Protection Corporation (SIPC) member brokerage firm are protected up to \$500,000, which includes a \$250,000 limit for cash.

FSC maintains its cash balance in one financial institution. This balance is insured by the FDIC up to \$250,000. As of August 31, 2023, FSC had \$1,745,855 that was not covered by FDIC insurance. FSC has not experienced any losses in such accounts and believes the risk of future loss is mitigated by monitoring the balances and the financial institutions where cash is deposited.

FSC's investments amount to \$1,757,523 at August 31, 2023, and consists of cash, fixed income securities, and equity investments which are held at a brokerage firm. The investments are insured

Family Service Center of Galveston County, Texas
Notes to the Financial Statements
August 31, 2023

NOTE 2 - CONCENTRATIONS OF CREDIT RISK (CONTINUED)

under the SIPC limit of up to \$500,000. However, these investments are exposed to several risks, such as interest rates, market, and credit risk. Due to the level of risk associated with certain investment securities, it is least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in FSC's financial statements.

NOTE 3 – PROMISES TO GIVE

	2023	2022
Restricted for use	\$ 670,160	\$ 974,803
Receivable in less than one year	587,796	729,159
Receivable in one to five years	82,364	245,644
Receivable in more than five years	-	-
Total unconditional promise to give	670,160	974,803
Less discounts to net present value	-	(4,845)
Less allowance for uncollectible promises to give	-	-
Net unconditional promises to give	\$ 670,160	\$ 969,958

Promises to give receivable in more than one year are discounted at 0% and 1% in 2023 and 2022, respectively.

NOTE 4 - INVESTMENTS AND FAIR VALUE MEASUREMENTS

Fair Value of Financial Instruments

Accounting principles generally accepted in the United States of America establish a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements).

The three levels of the fair value hierarchy are described below:

- (i) Level 1-Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that FSC has the ability to access.
- (ii) Level 2-Inputs to the valuation methodology include:
 - quoted prices for similar assets or liabilities in active markets;
 - quoted prices for identical or similar assets or liabilities in inactive markets;
 - inputs other than quoted prices that are observable for the asset or liability;
 - inputs that are derived principally from or corroborated by observable market data by correlation or by other means.

Level 3-Inputs to the valuation methodology are unobservable and significant to the fair value measurement. The asset or liability's fair value measurement level within the fair

Family Service Center of Galveston County, Texas
Notes to the Financial Statements
August 31, 2023

NOTE 4 - INVESTMENTS AND FAIR VALUE MEASUREMENTS (CONTINUED)

Fair Value of Financial Instruments (Continued)

value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Assets measure at fair value at August 31, 2023 are as follows:

Investments	Level 1	Level 2	Level 3	Total
Cash & Equivalents:				
Invesco Premier US Government Money Portfolio	\$ 262,883	\$ -	\$ -	\$ 262,883
Fixed Income Funds:				
BlackRock High Yield Bond Portfolio	25,566	-	-	25,566
Columbia Convertible Securities Fund	148,570	-	-	148,570
Eaton Vance Floating-Rate Advantage	21,723	-	-	21,723
Frost Total Return Bond Fund	141,428	-	-	141,428
Guggenheim Total Return Bond Fund	291,178	-	-	291,178
Loomis Sayles Limited Term Gov't and Agency Fund	270,136	-	-	270,136
Metropolitan West Floating Income Fund	95,913	-	-	95,913
Total Fixed Income Funds	994,514	-	-	994,514
Equity Funds:				
ClearBridge Slect Fund	45,681	-	-	45,681
Diamond Hill Small Mid Cap Fund	21,233	-	-	21,233
TIAA-CREF Real Estate Securities Fund	44,445	-	-	44,445
T Rowe Price Large-Cap Growth Fund	27,626	-	-	27,626
Fidelity Low-Priced Stock Fund	27,383	-	-	27,383
Vanguard Equity Income Fund	55,089	-	-	55,089
Vanguard Large-Cap Index Fund	16,521	-	-	16,521
Vanguard Mid-Cap Index Fund	11,989	-	-	11,989
Vanguard Small-Cap Index Fund	11,989	-	-	11,989
Vanguard US Growth Fund	40,058	-	-	40,058
Voya Small Cap Growth Fund	44,311	-	-	44,311
William Blair Small Cap Value Fund	45,241	-	-	45,241
Total Equity Funds	391,566	-	-	391,566
International Equity Funds:				
Goldman Sachs Emerging Mrkts Equity Insights Fund	49,322	-	-	49,322
Vanguard International Growth Fund	61,238	-	-	61,238
Total International Equity Funds	110,561	-	-	110,561
Total Investment Value	\$ 1,759,523	\$ -	\$ -	\$ 1,759,523

Family Service Center of Galveston County, Texas
Notes to the Financial Statements
August 31, 2023

NOTE 4 - INVESTMENTS AND FAIR VALUE MEASUREMENTS (CONTINUED)

Assets measure at fair value at August 31, 2022 are as follows:

Investments	Level 1	Level 2	Level 3	Total
Cash & Equivalents:				
Premier US Government Money Portfolio	\$ 246,349	\$ -	\$ -	\$ 246,349
Fixed Income Funds:				
BlackRock High Yield Bond Portfolio	23,475	-	-	23,475
Columbia Convertible Securities Fund	135,268	-	-	135,268
Eaton Vance Floating-Rate Advantage	20,244	-	-	20,244
PGIM Total Return Bond fund	131,643	-	-	131,643
Guggenheim Total Return Bond Fund	293,889	-	-	293,889
Loomis Sayles Limited Term Gov't and Agency Fund	274,693	-	-	274,693
Metropolitan West Floating Income Fund	96,423	-	-	96,423
Total Fixed Income Funds	975,636	-	-	975,636
Equity Funds:				
ClearBridge Slect Fund	42,595	-	-	42,595
Diamond Hill Small Mid Cap Fund	20,442	-	-	20,442
TIAA-CREF Real Estate Securities Fund	44,372	-	-	44,372
T Rowe Price Institutional Large-Cap	25,916	-	-	25,916
Fidelity Low-Priced Stock Fund	23,966	-	-	23,966
Vanguard Equity Income Fund	54,986	-	-	54,986
Vanguard Large-Cap Index Fund	15,339	-	-	15,339
Vanguard Mid-Cap Index Fund	11,427	-	-	11,427
Vanguard Small-Cap Index Fund	11,312	-	-	11,312
Vanguard US Growth Fund	37,215	-	-	37,215
Voya Small Cap Growth Fund	41,699	-	-	41,699
William Blair Small Cap Value Fund	40,423	-	-	40,423
Total Equity Funds	369,692	-	-	369,692
International Equity Funds:				
T Rowe Price Institutional Emerging Markets Equity Funds	48,645	-	-	48,645
Vanguard International Growth Fund	58,309	-	-	58,309
Total International Equity Funds	106,954	-	-	106,954
Total Investment Value	\$ 1,698,632	\$ -	\$ -	\$ 1,698,632

Family Service Center of Galveston County, Texas
Notes to the Financial Statements
August 31, 2023

NOTE 4 - INVESTMENTS AND FAIR VALUE MEASUREMENTS (CONTINUED)

Following is a description of the valuation methodologies used for assets measured at fair value, on a recurring basis. There have been no changes to the methodologies used at August 31, 2023.

- Cash equivalents - the carrying amount reported in the statements of financial position approximates fair value because of the short maturity of those instruments.
- Money market funds - are valued at their fair value at the end of the year.
- Real Estate Investment Trusts (REITS) - are valued at the closing price reported on the active-market on which the individual securities are traded.

These valuation methods may produce a fair value that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while FSC believes their valuation methods are appropriate, the use of different methods or assumptions could result in a different fair value measurement at the reporting date.

Investments are exposed to various risks such as interest rate, market, and credit risks. Because of these risks, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the statement of financial position and statement of activities.

The following schedule summarizes the investment return in the Statement of Activities for the years ended August 31, 2023 and 2022, net of investment management fees:

	2023	2022
Dividends	\$ 76,218	\$ 98,554
Interest		
Net realized gains(losses)	(45,984)	4,174
Net unrealized gains(losses)	40,941	(325,007)
Investment management fees	(12,283)	(12,998)
Total investment return, net	\$ 58,892	\$ (235,278)

NOTE 5 – PROPERTY AND EQUIPMENT

As of August 31, 2023 and 2022, property and equipment consist of the following:

	2023	2022
Land	\$ 139,320	\$ 139,320
Building	117,910	117,910
Furniture and Fixtures	47,809	47,809
Subtotal Property and Equipment	305,039	305,039
Less: Accumulated Depreciation	(55,126)	(45,860)
Total Property and Equipment, Net	\$ 249,913	\$ 259,179

Family Service Center of Galveston County, Texas
Notes to the Financial Statements
August 31, 2023

NOTE 5 – PROPERTY AND EQUIPMENT (CONTINUED)

Depreciation expense charged to operations for the year-ended August 31, 2023 and 2022 was \$9,267 and \$10,285, respectively.

FSC received a property gift from the Mary Moody Northern Endowment Fund with an appraised value of \$257,230 in July 2018. The property is located at 2902 Broadway St., Galveston, Texas and FSC's administration moved to the building in September 2018. It was donated to support the mission of FSC and is to be used solely as office and/or counseling and meeting space for the promotion of mental health and well-being of individuals and families through counseling, education, and prevention services, unless the Endowment consents in writing to another use.

In the event that FSC no longer wishes to use the property in furtherance of its mission, or ceases to use the property in a manner agreed upon, title to the property will automatically revert back to the endowment.

NOTE 6 – BOARD DESIGNATED NET ASSETS

The Board authorized that a portion of unrestricted assets be allocated to an unrestricted Board Designated Account to self-insure in case of loss due to a storm. An inventory of assets held at the Dickinson location and their replacement cost was used to arrive at the allocation amount. Currently, \$45,200 has been allocated to the account in order to replace all assets at this location in the event of a major storm.

NOTE 7 – NET ASSETS WITHOUT DONOR RESTRICTIONS

	<u>2023</u>	<u>2022</u>
Undesignated	\$ 3,947,198	\$ 4,118,061
Board-designated for Operating Reserve	<u>45,200</u>	<u>45,200</u>
Total net assets without donor restrictions	<u>\$ 3,992,398</u>	<u>\$ 4,163,261</u>

Family Service Center of Galveston County, Texas
Notes to the Financial Statements
August 31, 2023

NOTE 8 – NET ASSETS WITH DONOR RESTRICTIONS

Donor restricted net assets are restricted for the following purposes as of August 31, 2023:

Subject to expenditure for specific purpose:

Galveston Community of Care	58,855
Individual and Family Counseling	-
Integrated Mental/Behavioral Health Services	273,673
Victim Support Services	34,206
Mental Health Component of St. Vincent's Free Clinic	-
Total	366,734

Subject to passage of time:

Individual and Family Counseling	50,000
Galveston Community of Care	82,364
Total	132,364

Total net assets with donor restrictions	499,098
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Donor restricted net assets are restricted for the following purposes as of August 31, 2022:

Subject to expenditure for specific purpose:

Galveston Community of Care	52,605
Individual and Family Counseling	-
Integrated Mental/Behavioral Health Services	476,550
Prevention and Early Intervention Program for Youth	-
Mental Health Component of St. Vincent's Free Clinic	36,505
Total	565,660

Subject to passage of time:

Individual and Family Counseling	125,000
Galveston Community of Care	245,644
Total	370,644

Total net assets with donor restrictions	936,304
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NOTE 9 – NET ASSETS RELEASED FROM RESTRICTIONS

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors.

Family Service Center of Galveston County, Texas
Notes to the Financial Statements
August 31, 2023

NOTE 9 – NET ASSETS RELEASED FROM RESTRICTIONS (CONTINUED)

The following amounts were released from restrictions for the year ended August 31, 2023:

Expiration of time restrictions:	
Satisfaction of purpose restrictions:	
Toward increased access to quality trauma informed mental health services	-
Mental Health Components of St. Vincent's free Clinic	36,505
Integrated Mental/Behavioral Health Services	202,877
Program- Needs of At-Risk Youth of Galveston County	-
Galveston Community of Care	163,280
Individual and Family Counseling Program	175,000
Preventative Services- Recovery	20,000
Victim Support Services	35,794
Total for satisfaction of purpose restriction	<u>633,456</u>
Total net assets released from restrictions	<u>633,456</u>

The following amounts were released from restrictions for the year ended August 31, 2022:

Expiration of time restrictions:	
Satisfaction of purpose restrictions:	
Toward increased access to quality trauma informed mental health services	-
Mental Health Components of St. Vincent's free Clinic	5,422
Prevention and Early Intervention Programs for Youth	-
RACE Parenting Initiative	45,000
Relief & Rebuilding efforts for the Victims of Hurricane Harvey	-
Integrated Mental/Behavioral Health Services	185,990
Program- Needs of At-Risk Youth of Galveston County	-
Galveston Community of Care	160,628
Individual and Family Counseling Program	88,247
Other	-
Total for satisfaction of purpose restriction	<u>485,287</u>
Total net assets released from restrictions	<u>485,287</u>

NOTE 10 – EMPLOYEE BENEFITS

Pension Plan - On January 1, 1993 FSC adopted a 403(b)-retirement plan. FSC contributes 3% of each eligible participant's salaries to the plan. FSC contributes for participants after one year of service and the employee will be one-hundred percent (100%) vested upon completion of three years of service. Pension costs for the year ended August 31, 2023 and 2022 amounted to \$70,166 and \$83,752, respectively.

Family Service Center of Galveston County, Texas
Notes to the Financial Statements
August 31, 2023

NOTE 10 – EMPLOYEE BENEFITS (CONTINUED)

Medical Insurance - Employees are eligible for health insurance the first month after 30 days of employment and must work 30 or more hours per week. Employees are required to pay a proportional share of the insurance and if the family is covered, the premium for family members. Medical insurance costs for the year ended August 31, 2023 and 2022 amounted to \$145,092 and \$125,144, respectively.

Dental & Vision Insurance – Employees are eligible for health insurance the first month after 30 days of employment and must work 30 or more hours per week. Employees are required to pay a proportional share of the insurance and if the family is covered, the premium for family members. Dental/Vision insurance costs for the year ended August 31, 2023 and 2022 was \$6,904 and \$1,912, respectively.

Life Insurance - Employees are eligible the first of the month following the hire date and work 30 or more hours per week. Coverage amounts to one year's wages. Life insurance costs for the year ended August 31, 2023 and 2022 amounted to \$19,328 and \$20,169, respectively.

Long-Term Disability - Employees are eligible after one year of service and work 30 or more hours per week. Long-term disability commences six months after the employee is off due to disability and covers salary for 6 months and is then reduced. Long-term disability costs for the year ended August 31, 2023 and 2022 amounted to \$5,366 and \$6,540, respectively.

NOTE 11 – LEASE COMMITMENTS

FSC leases office space under a noncancellable lease agreement dated September 1, 2020, that expires on August 31, 2025. The lease agreement terms are monthly rental payments of \$3,480 with annual rate increases. On June 1, 2021, FSC entered into a non-cancellable agreement for additional space that expires on May 31, 2025. The lease agreement terms are monthly rental payments of \$1,073 with annual rate increases. These periodic base rate increases are reflected in the future minimum lease payments below.

FSC leases another office space under a 5-year non-cancellable lease agreement starting September 1, 2021 and expires on August 31, 2026. The terms of the lease agreement include a rental payment of \$5,500 per month.

FSC leases another office space under a 2-year non-cancellable lease agreement starting May 1, 2022 and expires on April 30, 2024. The terms of the lease agreement include a rental payment of \$397 per month.

Furthermore, FSC leases office equipment under a non-cancelable lease agreement with monthly payments of \$537 that expire on August 31, 2025.

The ROU assets and lease liabilities, all of which arise from operating leases, were calculated based on the present value of future lease payments over the lease terms. To determine a reasonable incremental borrowing rate, FSC used the Federal Reserve lending program for small and mid-sized nonprofit businesses as a guidance to estimate a reasonable borrowing rate. Specifically, the Nonprofit Organization New Loan Facility suggest an adjustable rate of LIBOR (1 or 3 month) plus 3%.

Family Service Center of Galveston County, Texas
Notes to the Financial Statements
August 31, 2023

NOTE 11 – LEASE COMMITMENTS (CONTINUED)

Lease Cost

	2023	2022
Operating Lease Cost	\$ 127,989	\$ 121,896

Cash Flow Items

	2023	2022
Cash paid for amounts included in the measurement of lease liabilities	\$ 116,535	108,524
Right-of-use assets obtained in exchange for lease liabilities	\$ 520,898	\$ 522,193

Future minimum payments under operating lease as of August 31, 2023 are as follows:

2024	163,421
2025	158,607
2026	101,400
Total	423,428
Present value discount at approximately 0.3%	(19,065)
Present value of lease liabilities	404,363

NOTE 12 - CONCENTRATIONS

FSC is dependent on several sources of support and revenue. For the year ended August 31, 2023, approximately \$2,175,014, or sixty-seven (71%) of FSC's revenue came from four grantors. In addition, approximately \$544,612, or seventy-nine (79%) of FSC's promise-to-give came from four grantors. A significant reduction in any of these individual grants, if this were to occur, would have an adverse impact on FSC's programs and activities.

Additionally, FSC conducts its operations solely in the greater Houston/Galveston area, and therefore, is subject to risks from changes in local economic conditions. A downturn in the local economy could cause a decrease in contributions concurrently with an increase in community need for FSC's services.

Family Service Center of Galveston County, Texas
Notes to the Financial Statements
August 31, 2023

NOTE 13 – CONTINGENCIES

FSC's programs are supported through federal, state, and local grant programs that are governed by various rules and regulations. Expenses charged to the grant programs are subject to audit and adjustments by the grantor agencies; therefore, to the extent that FSC has not complied with the rules and regulations governing the grants, refunds of any money received may be required. In the opinion of management, there are no contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provisions have been made in the accompanying financial statements for such contingencies.

NOTE 14 – LIQUIDITY AND AVAILABILITY

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position comprise the following:

	2023	2022
Cash and cash equivalents	\$ 1,995,855	\$ 2,275,583
Promises to give, net of discount	670,160	969,958
Grants & Accounts Receivable	15,149	8,267
Investments	1,757,523	1,698,632
Total financial assets	4,438,687	4,952,440
Less: Financial assets not available for general expenditures:		
<i>Restricted for specific purposes and passage of time</i>	(499,098)	(936,304)
<i>Board-designated reserve fund</i>	(45,200)	(45,200)
 Financial assets available to meet cash needs for general expenditures within one year	\$ 3,894,389	\$ 3,970,936

For purposes of analyzing resources available to meet general expenditures over a 12-month period, FSC considers all expenditures related to its ongoing program activities, as well as the conduct of services undertaken to support those activities, to be general expenditures.

FSC is substantially supported by contributions and service provider contracts, and regularly monitors liquidity required to meet its operating needs while striving to maximize the investment of available funds. As part of the organization's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations become due. FSC has an operating reserve policy to designate a minimum of three months of average recurring operating costs. Although FSC does not intend to spend from the operating reserve fund, amounts could be made available, if necessary.

Family Service Center of Galveston County, Texas
Notes to the Financial Statements
August 31, 2023

NOTE 15- ACCOUNTING PRONOUNCEMENTS ADOPTED

On August 18, 2016, FASB issued Accounting Standards Update 2016-14, *Not-for-Profit Entities (Topic 958)-Presentation of Financial Statements of Not-for-Profit Entities*. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. FSC has implemented ASU 2016-14 at fiscal year ended August 31, 2019.

In June 2018, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The amendments in this ASU clarify and improve current guidance about whether a transfer of assets (or the reduction, settlement, or cancellation of liabilities) is a contribution or an exchange transaction and provide additional guidance on determining whether a contribution is conditional or unconditional. This ASU could impact the timing of revenue recognition and the financial statement disclosures related to such transactions. The amendment was adopted and applied on a modified prospective basis as of September 1, 2019. There was no material impact to the financial statements as a result of adoption. Accordingly, no adjustment to opening net assets was recorded.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*. This ASU requires that a lease liability and related right-of-use-asset representing the lessee's right to use or control the asset be recorded on the statement of financial position upon the commencement of all leases except for short-term leases. For leases with a lease term of 12 months or less, a practical expedient is available whereby a lessee may elect, by class of underlying asset, not to recognize a right-of-use asset or lease liability. A lessee making this accounting policy election would recognize lease expense over the term of the lease, generally in a straight-line pattern. In June 2020, FASB issued ASU 2020-05, *Revenue from Contracts with Customers (Topic 606) and Leases (Topic 842): Effective Dates for Certain Entities* that allows entities to elect to postpone adoption until fiscal years beginning after December 15, 2021. Both amendments were adopted and applied on a modified prospective basis as of September 1, 2021. There was no material impact to the financial statements as a result of both adoptions. Accordingly, no adjustment to opening net assets were recorded.

NOTE 16 – PRIOR-PERIOD INFORMATION

The financial statements include certain prior-year summarized comparative information in total. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States. Accordingly, such information should be read in conjunction with FSC's financial statements for the year ended August 31, 2022, from which the summarized information was derived.

Family Service Center of Galveston County, Texas
Notes to the Financial Statements
August 31, 2023

NOTE 17 - SUBSEQUENT EVENTS

In preparing these financial statements, FSC has evaluated events and transactions for potential recognition or disclosure through September 23, 2024, the date the financial statements were available to be issued.

**Family Service Center of Galveston County, Texas
Statement of Expenditures of Federal Awards
For the Fiscal Year Ended August 31, 2023**

<u>Federal Grantor/Pass-through Grantor/Program Title</u>	<u>Federal ALN Number</u>	<u>Pass-through Entity ID Number</u>	<u>Federal Expenditures</u>
U.S. Department of Justice			
Passed Through Texas Office of the Governor - Criminal Justice Division Victims of Crime Act Formula Grant Program	16.575	2580308	\$ 108,797.58
Total U.S. Department of Justice			<u>108,797.58</u>
U.S. Department of Treasury			
Passed Through Texas Office of the Governor VC Coronavirus State Recovery Fund	21.027	2580309	358,575.42
Total U.S. Department of Treasury			<u>358,575.42</u>
U.S. Department of Health and Human Services			
Passed Through Texas Department of Family and Protective Services Family and Youth Success (FAYS) (Formerly known as STAR)	93.556	24555413	330,137.46
Innovation	93.590	24555413	112,500.01
PEI Fatherhood EFFECT (PE) Program	93.590	HHS000364300005	170,827.50
Total ALN 93.590			<u>283,327.51</u>
Total U.S. Department of Health and Human Services			<u>613,464.97</u>
Total Expenditures of Federal Awards			<u><u>\$1,080,837.97</u></u>
		Pass-through Entity ID Number	State Expenditures
State Grantor/Pass-through Grantor/Program Title			
Texas Department of Family and Protective Services Family and Youth Success (FAYS)		24555413	\$ 700,737.80
Total Expenditures of State Awards			<u>\$ 700,737.80</u>
Total Expenditures of Federal and State Expenditures			<u><u>\$1,781,575.77</u></u>

Family Service Center of Galveston County, Texas
Notes to the Schedule of Expenditures of Federal and State Awards
August 31, 2023

NOTE 1 – BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal and state awards (SEFA) includes the federal and state grant activity of Family Service Center of Galveston County, Texas under programs of the federal government for the year ended August 31, 2023. The information in this schedule is presented in accordance with the 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). Because the schedule presents only a selection portion of the operations of Family Service Center of Galveston County, Texas, it is not intended to and does not present the financial position, changes in net assets, or cash flows of Family Service Center of Galveston County, Texas.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Family Service Center of Galveston County, Texas has elected not to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

Family Service Center of Galveston County, Texas has not contracted or made awards to any subrecipients.



Katherine Overbeck Maxwell, PLLC
Certified Public Accountant

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

To the Board of Board of Directors of
Family Service Center of Galveston County, Texas

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 Family Service Center of Galveston County, Texas (a nonprofit organization), which comprise the statement of financial position as of August 31, 2023, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated September 23, 2024.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Family Service Center of Galveston County, Texas' 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 Family Service Center of Galveston County, Texas' internal control. Accordingly, we do not express an opinion on the effectiveness of Family Service Center of Galveston County, Texas' internal control.

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

Our consideration of the 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 or significant deficiencies may exist that were not identified..

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether Family Service Center of Galveston County, Texas' financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the 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

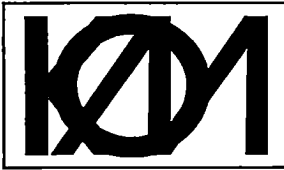
The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the organization's internal control or on compliance. This report is an integral part of an audit performed 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.

A handwritten signature in black ink that reads "Katherine Overbeck Maxwell, CPA, PLLC". The signature is written in a cursive, flowing style.

Katherine Overbeck Maxwell, CPA, PLLC

Galveston, Texas

September 23, 2024



Katherine Overbeck Maxwell, PLLC
Certified Public Accountant

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

To the Board of Directors of
Family Service Center of Galveston County, Texas

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited Family Service Center of Galveston County, Texas' 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 Family Service Center of Galveston County, Texas' major federal programs for the year ended August 31, 2023. Family Service Center of Galveston County, Texas' 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, Family Service Center of Galveston County, Texas 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, 2023.

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; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). 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 Family Service Center of Galveston County, Texas 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 Family Service Center of Galveston County, Texas' compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to Family Service Center of Galveston County, Texas' 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 Family Service Center of Galveston County, Texas' 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 generally accepted auditing standards, *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 Family Service Center of Galveston County, Texas' compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with generally accepted auditing standards, *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 ABC 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 Family Service Center of Galveston County, Texas' 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 Family Service Center of Galveston County, Texas' internal control over compliance. Accordingly, no such opinion is expressed.

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

Other Matters

The results of our auditing procedures disclosed instances of noncompliance which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as items 2023-01, 2023-02, 2023-03 and 2022-01. Our opinion on each major federal program is not modified with respect to these matters.

Government Auditing Standards requires the auditor to perform limited procedures on Family Service Center of Galveston County, Texas' response to the noncompliance findings identified in our compliance audit described in the accompanying schedule of findings and questioned costs. Family Service Center of Galveston County, Texas' response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control over Compliance

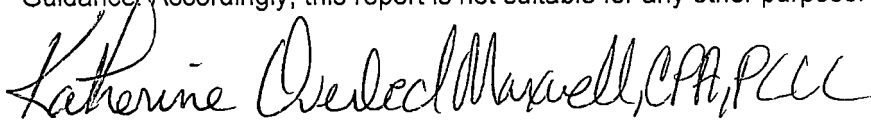
A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement 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. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2023-01, 2023-02 and , 2023-03 to be significant deficiencies.

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. However, as

discussed above, we did identify deficiencies in internal control over compliance that we consider to be a significant deficiencies.

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.

A handwritten signature in black ink that reads "Katherine Overbeck Maxwell, CPA, PLLC". The signature is written in a cursive style with a large initial 'K'.

Katherine Overbeck Maxwell, CPA, PLLC

Galveston, Texas

September 23, 2024

**Family Service Center of Galveston County, Texas
 Schedule of Findings and Questioned Costs
 Year Ended August 31, 2023**

Section I - Summary of Auditor's Reports

Financial Statement

Type of Auditor's Report Issued: Unmodified

Internal Control over Financial Reporting:
 Material Weakness Identified _____ Yes X No

Significant Deficiencies Identified that are
 Not Considered to be Material Weaknesses _____ Yes X No

Noncompliance Material to Financial
 Statement Noted _____ Yes X No

Federal Awards

Internal Control over Major Program:
 Material Weakness Identified _____ Yes X No

Significant Deficiencies Identified that are
 not Considered to be Material Weaknesses X Yes _____ No

Type of Auditor's Report Issued on Compliance
 for Major Programs Unmodified

Any Audit Findings Disclosed that are
 Required to be Reported in Accordance
 with 2 CFR 200.516(a) _____ Yes X No

Identification of Major Programs:

ALN Number	Name of Federal Program or Cluster
21.027	VC Coronavirus State Recovery Fund
93.556	Family and Youth Success (FAYS)

Dollar Threshold Used to Distinguish Between
 Type A and Type B Programs: \$ 750,000

Auditee Qualified as Low-Risk Auditee? _____ Yes X No

**Family Service Center of Galveston County, Texas
Schedule of Findings and Questioned Costs
Year Ended August 31, 2023**

Section II Financial Statement Findings

None

Section III Federal Award Findings and Questioned Costs

2023-01: Failure to Report Correct ALN Numbers on the SEFA

Type of Finding: Significant Internal Control over Compliance

Compliance Requirement: Reporting

Criteria: The organization is required to accurately report all federal expenditures

Condition: The SEFA failed to report the correct Assistance Listing Numbers (ALN) for certain programs

Cause: The organization failed to update the Assistance Listing Numbers (ALN) on the SEFA for two-long term programs that receive federal grants via a state pass-through entity. The ALN numbers for these programs changed during the fiscal year, but this change was not reflected on the SEFA

Effect: The Failure to update ALN numbers signifies non-compliance with federal reporting standards which require accurate and current ALN reporting. Incorrect ALNs may lead to the misidentification of the federal programs and agencies involved, complicating accountability and oversight

Repeat Finding: No

Recommendation: We recommend that the Organization implement a systematic review process for the SEFA preparation to confirm that all ALN reporting is accurate and updated.

Views of Responsible Officials: Management agrees with the finding.

2023-02

**CFDA 21.027 VC Coronavirus State Recovery Fund
U.S Department of Treasury
Passed through from Texas Office of the Governor**

Type of Finding: Significant Internal Control over Compliance

Compliance Requirement: Allowable Costs

Criteria: The organization is to bill the contracted rate for each service performed during the period.

Condition: The January 2023 FAYS Purchased Expenditure Report overstated the cost of Billing for Parent Skills Training Sessions. An error in the billing spreadsheet allowed the \$70 Unit rate per session to be billed even though no sessions were performed during the period. This resulted in an overpayment of \$70.

Family Service Center of Galveston County, Texas
Schedule of Findings and Questioned Costs
Year Ended August 31, 2023

Cause: Procedures are in place for supervisory approval of documentation of session visits and other expenditures before submitting the purchase voucher, though the certifying representative reviewed the supporting documentation and signed the voucher, the discrepancy was not discovered.

Effect: The fees for the additional sessions are not allowed

Context: All 12 months of Purchased Expenditure Reports were reconciled to the underlying sessions as reported by client management system. All other reports match without exception.

Repeat Finding: Yes

Recommendation: We recommend that the Organization thoroughly test all calculations

Views of Responsible Officials: Management agrees with the finding. Procedures were implemented after this date as a result of the last audit. No additional errors were noted after implementing.

2023-03

CFDA 93.556 Family and Youth Success (FAYS) (Formerly known as STAR)
U.S. Department of Health and Human Services
Passed through from Texas Department of Family and Protective Services

Type of Finding: Significant Internal Control over Compliance

Compliance Requirement: Allowable Costs

Criteria: The organization requires timesheets to be signed both by the employee and the supervisor

Condition: There have been instances where timesheets, used to allocate employee time to specific federal programs, were not signed by either the employee or the supervisor. This omission compromises the integrity of time allocation and compliance with federal requirements

Cause: Procedures are in place for supervisory approval of documentation of session visits and other expenditures before submitting the purchase voucher, though the certifying representative reviewed the supporting documentation and signed the voucher, the discrepancy was not discovered.

Effect: Unsigned timesheets can lead to inaccurate allocation of labor costs to federal programs

Context: 105 timesheets were tested. 11 were found to having missing signatures

Repeat Finding: No

Recommendation: We recommend that the Organization review timesheets for proper signatures prior to processing payroll.

Views of Responsible Officials: Management agrees with the finding.

**Family Service Center of Galveston County, Texas
Schedule of Findings and Questioned Costs
Year Ended August 31, 2023**

Section IV Schedule of Prior Year Audit Findings

2022-01

Condition: The May, June, July and August 2022 FAYS Purchased Expenditure Report overstated the cost of Billing for Individual Sessions. An error in the billing spreadsheet allowed the \$111 unit rate per session to be billed even though no sessions were performed during the period. This error resulted in an overpayment of \$444.

Recommendation: We recommend that the Organization thoroughly test all calculations in forms to verify the accuracy. Lock formulas feature should be utilized in excel based forms to ensure that formulas are not inadvertently changed.

Current Status: Changes were implemented to the billing process after the last audit to prevent these errors. There have been no further instances after the new procedures have been implemented.

Section III Federal Findings and Questioned Costs

2023-01

ALN (CFDA) 16.575 U.S. Department of Justice, Texas Office of the Governor-Criminal Justice Division Victims of Crime Act Formula Grant Program
ALN (CFDA) 21.027 U.S. Department of Treasury-VC Coronavirus State Recovery Fund

ALN (CFDA) 93.556 Family and Youth Success (FAYS) (Formerly known as STAR)
U.S. Department of Health and Human Services
Passed through from Texas Department of Family and Protective Services.
ALN (CFDA) 93.590 Family and Youth Success (FAYS) (Formerly known as STAR)
U.S. Department of Health and Human Services
Passed through from Texas Department of Family and Protective Services.

Year Finding Occurred: 2023

Finding Summary: Internal Control over preparation of SEFA. The ALN (CFDA) numbers were not updated for VOCA and FAYS program. The correct ALN numbers are important as they drive the compliance requirements and indicate the Federal agency that provided the funds.

Responsible Individuals: Maryanne Termini, Chief Financial Officer; Jared Williams, Chief Executive Officer

Corrective Action Plan: Family Service Center recognizes the important of a complete and accurate SEFA. Family Service Center will thoroughly review all federal and state award contracts to insure accurate and correct CFDA numbers are recorded properly on the SEFA.

Anticipated Completion Date: Completed

2023-02

ALN (CFDA) 93.556 Family and Youth Success (FAYS) (Formerly known as STAR)
U.S. Department of Health and Human Services
Passed through from Texas Department of Family and Protective Services.
ALN (CFDA) 93.590 Family and Youth Success (FAYS) (Formerly known as STAR)
U.S. Department of Health and Human Services
Passed through from Texas Department of Family and Protective Services.

Year Finding Occurred: 2023

Finding Summary: The January 2023 FAYS Purchased Expenditure Report has an error in the calculation that results in a \$70 overpayment. On the form under Parenting Skills Training although no sessions were indicated as being performed \$70 was listed in the amount column and included in the

FSC Corrective Action Plan

amount billed. A similar finding was made in the previous audit. I believe this error occurred before the new procedures were implemented.

Responsible Individuals: Maryanne Termini, Chief Financial Officer; Yenys Juarez, FAYS Program Director, Chief Clinical Officer; Jared Williams, Chief Executive Officer

Corrective Action Plan: Family Service Center will thoroughly test all calculations in forms to verify the accuracy. Lock formulas feature will be utilized in excel based forms to ensure the formulas are not inadvertently changed.

Anticipated Completion Date: Completed

2023-03

ALN (CFDA) 16.575 U.S. Department of Justice, Texas Office of the Governor-Criminal Justice Division Victims of Crime Act Formula Grant Program
ALN (CFDA) 21.027 U.S. Department of Treasury-VC Coronavirus State Recovery Fund

Year Finding Occurred: 2023

Finding Summary: The signatures of both the employee and supervisor are required on the timesheets to support the allocation of the employee's time to various programs. We tested 105 timesheets and found 11 instances where a signature was missing.

Responsible Individuals: Maryanne Termini, Chief Financial Officer; Kelli Toler, VOCA Program Director; Jared Williams, Chief Executive Officer

Corrective Action Plan: Family Service Center recognizes the important of signed and approved timesheets. Family Service Center has upgraded the agency payroll system which includes submitting and approving timesheets electronically. This will mitigate missing signatures for approval on timesheets by employees and supervisor.

Anticipated Completion Date: Completed