Community Family Centers, Inc.

Financial Statements and Supplementary Information

For the Year Ended December 31, 2018

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Community Family Centers, Inc.
Houston, Texas

Report on the Financial Statements

We have audited the accompanying financial statements of Community Family Centers, Inc. (a nonprofit organization), which comprise the statement of financial position as of December 31, 2018, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from 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.

To the Board of Directors of
Community Family Centers, Inc.
Re: Independent Auditors' Report

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Community Family Centers, Inc. as of December 31, 2018, 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.

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 auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 11, 2019, on our consideration of Community Family Centers, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulation, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Community Family Centers, Inc.'s internal control over financial reporting and compliance.

Briggs & Veselka Co.

Briggs & Veselka Co.
The Woodlands, Texas

May 11, 2019

COMMUNITY FAMILY CENTERS, INC.
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2018

ASSETS	
Current assets	
Cash and cash equivalents	$ 198,993
Grants receivable	231,759
Pledges receivable, current portion, net	152,544
Other receivables	18,604
Prepaid expenses	13,972
Total current assets	615,872
Pledges receivable, less current portion	169,620
Property and equipment, net	4,429,368
Restricted cash	1,954
Security deposit	1,600
TOTAL ASSETS	$ 5,218,414
LIABILITIES AND NET ASSETS	
Current liabilities	
Accounts payable and accrued liabilities	$ 37,832
Payroll and related liabilities	24,030
Note payable, current portion	60,794
Total current liabilities	122,656
Note payable, long-term portion	261,602
Total liabilities	384,258
Net assets	
Without donor restrictions	4,614,198
With donor restrictions	219,958
Total net assets	4,834,156
TOTAL LIABILITIES AND NET ASSETS	$ 5,218,414

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

COMMUNITY FAMILY CENTERS, INC.
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2018

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues and reclassifications			
Federal grants	$ 1,134,863	$ 80,085	$ 1,214,948
United Way allocation	6,182	570,340	576,522
Corporate and other contributions	324,349	50,000	374,349
Contributed food and materials	2,833,667	-	2,833,667
Special events	110,454	-	110,454
Program service fees	120,620	-	120,620
Other income	79,035	-	79,035
Net assets released from restrictions	975,359	(975,359)	-
Total revenues and reclassifications	5,584,529	(274,934)	5,309,595
Expenses			
Program services			
Early childhood education	461,946	-	461,946
Family support services	3,409,740	-	3,409,740
Adult education	701,764	-	701,764
Youth services	802,954	-	802,954
Total program services	5,376,404	-	5,376,404
Supporting services			
Management and general	144,860	-	144,860
Fundraising	151,580	-	151,580
Total supporting services	296,440	-	296,440
Total expenses	5,672,844	-	5,672,844
Change in net assets	(88,315)	(274,934)	(363,249)
Net assets, beginning of year	4,702,513	494,892	5,197,405
NET ASSETS, END OF YEAR	$ 4,614,198	$ 219,958	$ 4,834,156

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

COMMUNITY FAMILY CENTERS, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2018

	Program Services					Supporting Services			
	Early Childhood Education	Family Support Services	Adult Education	Youth Services	Total Program Services	Management and General	Fundraising	Total Supporting Services	Total Expenses
Compensation and related expenses									
Salaries	$ 288,949	$ 203,159	$ 482,677	$ 447,715	$ 1,422,500	$ 100,290	$ 105,813	$ 206,103	$ 1,628,603
Employee benefits	24,724	21,212	43,065	44,320	133,321	6,374	4,935	11,309	144,630
Payroll taxes	26,475	18,118	41,450	39,941	125,984	9,012	8,771	17,783	143,767
Total compensation and related expenses	340,148	242,489	567,192	531,976	1,681,805	115,676	119,519	235,195	1,917,000
Bank and other fees	4,725	1,862	9,042	5,742	21,371	2,740	5,178	7,918	29,289
Communication	1,734	1,229	2,889	10,683	16,535	-	-	-	16,535
Contract services	16,242	11,920	31,243	25,452	84,857	-	-	-	84,857
Contributed food and materials	-	2,833,667	-	-	2,833,667	-	-	-	2,833,667
Depreciation	33,194	11,241	23,144	95,742	163,321	-	-	-	163,321
Direct assistance	25,496	287,698	-	38,448	351,642	-	-	-	351,642
Facilities and equipment	9,664	3,726	10,852	23,375	47,617	10,780	-	10,780	58,397
Insurance	7,682	5,466	12,844	12,362	38,354	-	-	-	38,354
Interest	-	-	-	-	-	10,739	-	10,739	10,739
Postage and shipping	121	100	218	206	645	-	916	916	1,561
Special events	-	-	-	-	-	-	17,551	17,551	17,551
Supplies	9,353	4,199	21,370	12,282	47,204	39	490	529	47,733
Travel and meetings	4,527	135	8,720	13,637	27,019	4,678	450	5,128	32,147
Utilities	8,741	5,967	13,887	32,856	61,451	-	-	-	61,451
Other	319	41	363	193	916	208	7,476	7,684	8,600
	121,798	3,167,251	134,572	270,978	3,694,599	29,184	32,061	61,245	3,755,844
TOTAL EXPENSES	$ 461,946	$ 3,409,740	$ 701,764	$ 802,954	$ 5,376,404	$ 144,860	$ 151,580	$ 296,440	$ 5,672,844

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

COMMUNITY FAMILY CENTERS, INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2018

Cash flows from operating activities	
Change in net assets	$ (363,249)
Adjustment to reconcile change in net assets to net cash from operating activities:	
Depreciation	163,321
Bad debt expense	6,820
Change in operating assets and liabilities:	
Grants receivable	(79,942)
Pledges receivable	1,692
Other receivables	(7,312)
Prepaid expenses	1,645
Accounts payable and accrued liabilities	7,586
Payroll and related liabilities	(71,088)
Net cash from operating activities	(340,527)
Cash flows from financing activities	
Payments of note payable	(58,861)
Net cash from financing activities	(58,861)
Net change in cash and cash equivalents	(399,388)
Cash and cash equivalents, beginning of year	598,381
Cash and cash equivalents, end of year	$ 198,993
Supplemental disclosure of cash flow information:	
Interest paid	$ 10,739

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

NOTE 1 – NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Community Family Centers, Inc. (CFC), formerly called Chicano Family Center, is a Texas nonprofit corporation formed in 1972 to offer a wide range of social services to help families address their basic needs as they move towards self-sufficiency and economic advancement. The vision of CFC is to strengthen families and enrich the quality of life in the community by providing a safe and nurturing environment for children to excel, youth to succeed, and adults to learn. For over 45 years, CFC has created measurable change within the neighborhoods surrounding Houston's impoverished East End by enhancing community partnerships, promoting cultural understanding and empowering citizens. CFC is a member agency of the United Way of Greater Houston (UWGH).

CFC's programs and services are funded by government grants and contributions from UWGH, individuals, corporations and private foundations.

CFC's programs and services are as follows:

Early Childhood Education Program – This program is funded by the Child Care Council of Greater Houston, UWGH, Collaborative for Children, and Leaders in Education. It prepares preschool children from ages three to six for academic success by providing Montessori based early education and training opportunities for parents to enhance their roles as primary educators for their children.

Family Support Services – This program, which is funded by UWGH and the Federal Emergency Food and Shelter Program, provides comprehensive services within the agency's continuum of care. The services provided include:

- **Information Dissemination** – On education, legal, social economic, governmental, personal health, and public health issues, as well as the translation and completion of assistance forms.

- **Intake and Referral Services** – To a CFC program, another United Way agency, government department, or community-based social service agency, depending on the most appropriate way to resolve identified needs.

- **Food Pantry** – Providing one of the largest and most active food pantries in Houston. The pantry serves up to 4,000 families monthly, based on need of service. In 2018, the pantry distributed over 1.9 million pounds of food through a partnership with the Houston Food Bank. The food pantry combines emergency food distribution with nutritional education.

- **Health Screening and Immunizations** – By community partners, such as vision screenings provided by the University of Texas Eye Institute, dental screenings, well child care, and immunizations provided by the Harris County Hospital District's "Trouble Shooter" Mobil Unit.

Adult Education Program – This is a year-round program funded by the United States Department of Education's Adult Education – Basic Grant for States as passed through from the Texas Workforce Commission and the Houston Community College. It provides comprehensive courses for participants above 18 years old to gain the skills and education necessary to achieve self-sufficiency and a higher standard of living. Courses offered include English as a Second Language (Levels I-IV), Adult Basic Education, General Equivalency Diploma (GED), Computer Skills Training and Workforce Training, offered at two locations, (CFC's main office and a leased facility in Southwest Houston). CFC utilizes a curriculum designed by the Texas Educational Agency and promoted by the National Institute for Literacy.

Classes are taught by degreed instructors who use a holistic approach to immerse students in the English language. The curriculum is coupled with a functional, real-life approach so that students can quickly learn new skills and practice their new-found knowledge at home, at work, and in the community.

Youth Services – This program is primarily funded by U.S. Department of Human and Health Services federal grants as passed through the Texas Department of Health and Human Services. The Youth Services Program includes the following components:

- **Substance Abuse Prevention Program** – This program provides universal drug education and life skills courses as well as prevention and intervention counseling to at-risk youth. CFC offers a substance abuse education curriculum to all students, K-12th grade, at Austin High School, South Mayd Elementary and Marshall Middle School, as well as more intensive counseling to students at 14 different schools in the East End. Summer programs include a day camp to teach students about substance abuse prevention, life skills group sessions, HIV/AIDS classes, recreational activities, and educational field trips.

- **Out-of-School and Summer Program** – This program addresses the lack of positive after school and summer activities in the East End. The program components include: academics, enrichment, skill building, and community involvement through sports, arts and crafts, creative writing and homework assistance.

- **Count Down to College Program** – This program identifies and recruits high school students who require assistance with educational and career goals. Summer tours to local and other Texas universities are arranged to engage youth in college exposure. Activities are supervised by college tour guides and provide exposure to college life, including admissions, school departments, financial aid, campus life, and dorms. Students are also engaged in PSAT/ACT mock testing during the summer.

Basis of Presentation – The financial statements of CFC have been prepared in accordance with generally accepted accounting principles in the United States of America (U.S. GAAP), which require CFC to report information regarding its financial position and activities according to the following net asset classifications:

- **Net assets without donor restrictions –** Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of CFC. These net assets may be used at the discretion of CFC's management and the Board of Directors.

- **Net assets with donor restrictions –** Net assets subject to stipulations imposed by donors, and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of CFC or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.

Donor-restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the statement of activities.

Cash and Cash Equivalents – CFC considers all cash and highly liquid short-term investments with original maturities of 90 days or less to be cash and cash equivalents. The carrying amounts reported in the accompanying statement of financial position for cash approximate their fair value.

Restricted cash includes funds to be used for specified purposes and restrictions that limit the purpose for which the funds can be used. Restricted cash as of December 31, 2018 was $1,954.

Revenue Recognition – Federal and other grants are recognized when earned, which is generally when costs are incurred for cost reimbursement contracts or when service has been delivered in the case of fee-for-service contracts. Grants from federal and other government sources are reported as revenues without restrictions if they are used within the contract period.

Contributions and unconditional promises to give are recognized as revenues in the period they are received. CFC receives significant contributions with donor restrictions to be used in accordance with the associated purpose restrictions and are not recognized until the conditions on which they depend are substantially met. Contributions that are restricted by the donor may be reported as increases in revenues without restrictions if the restrictions are satisfied in the same fiscal year the contributions are recognized. All other donor-restricted contributions are reported as increases in net assets with restrictions depending on the nature of the restrictions. When a restriction expires, net assets with restrictions are reclassified to net assets without restrictions and reported in the statement of activities as net assets released from restrictions.

Other income is recognized as revenue when actually received.

Grants, Pledges, and Other Receivables – Grants receivable represent invoices or billings to grant awarding agencies for which payments were not received at the end of the fiscal year. Pledges receivable represent amounts due from donors. A significant portion of pledges receivable as of the end of each fiscal year represents funding committed from UWGH for the first quarter of the following fiscal year. The carrying amount of these receivables reported in the statement of financial position approximates fair value.

CFC provides for losses on grants, pledges, and other receivables using the allowance method. The allowance for uncollectible pledges is regularly evaluated by management and is based on management's past experience with grantors or donors and its consideration of how the prevailing economic circumstances may affect the ability of the grantors or donors to give. Grants, pledges, and other receivables are considered impaired if full payments are not received in accordance with contractual terms. At December 31, 2018, management has provided an allowance for uncollectible pledges and considers all grants and other receivables to be fully collectible.

Property and Equipment – All acquisitions of individual property and equipment in excess of $1,000 and all expenditures for repairs, maintenance, or improvements that significantly prolong the useful lives of the assets are capitalized. Purchases of property and equipment are recorded at cost. Donated property and equipment are recorded as support at fair value at date of donation. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Property and equipment donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire or maintain property and equipment are recorded as restricted contributions. Absent donor stipulations regarding how long those donated assets must be maintained, CFC reports expirations of donor restrictions when the donated or acquired property and equipment are placed in service as instructed by the donor and reclassifies temporarily restricted net assets to unrestricted net assets.

Property and equipment are depreciated using the straight-line method over the estimated useful lives of the assets as follows:

Assets	Estimated Useful Lives
Building and building improvements	10 - 39 years
Equipment and furniture	3 - 13 years
Vehicles	5 years

Upon retirement or sale of any property or equipment, the cost and accumulated depreciation of the asset are removed from the accounts. Any gain or loss resulting from such retirement or sale is reflected in the statement of activities. Routine maintenance and repairs are charged to expense as incurred.

Contributed Services – CFC recognizes contributed services at their estimated fair value if the services received (a) create or enhance long-lived assets or (b) require specialized skills, are provided by individuals processing those skills, and would typically need to be purchased if not provided by donation.

CFC receives a substantial amount of contributed services from volunteers for management and program support. No amounts for contributed services related to management and program support have been reflected in the accompanying financial statements because they did not meet the criteria for recognition under the Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) *Not-for-Profit Entities (Topic 958)*.

Contributed Food and Materials – Contributed food and materials represent food and materials received from the Houston Food Bank and other donors and are reflected in the statement of activities at their estimated fair values when received. Food and materials received during 2018 are valued at $2,833,667.

Functional Allocation of Expenses – The costs of providing the various programs and activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs which cannot directly be charged to specific programs and activities are allocated based on direct salaries charged to each department in accordance with the most current cost allocation plan.

Use of Estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

Income Taxes – CFC is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and has been classified by the Internal Revenue Service as a publicly supported organization. No provision for income tax has been recorded for 2018, because CFC did not have taxable unrelated business income. Management believes that CFC has properly maintained its tax-exempt status and classified its revenue as exempt in the accompanying statement of activities. In addition, management believes that CFC did not have an uncertain tax position as of and for 2018.

Compensable Absences – Employees are entitled to annual vacation from the first day of employment. Employees are allowed to carry 40 hours of accrued vacation from one calendar year to another. Accrued vacation is paid to terminated employees who have worked for six months or more with CFC. Total accrued vacation recorded in the financial statements for 2018 was $27,654. Full-time employees are entitled to six days of sick leave in a calendar year while part-time employees are entitled to three days. Employees can carry three days of unused sick leave to the following year. Accrued sick days are not paid on termination of employment.

Adopted ASU Presentation for Not-for-Profit Entities – In August 2016, the FASB issued ASU No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. These amendments change presentation and disclosure requirements for not-for-profit (NFP) entities to provide more relevant information about their resources (and the changes in those resources) to donors, grantors, creditors, and other users.

These include qualitative and quantitative requirements in the following areas: net asset classes; investment return; expenses; liquidity and availability of resources; and presentation of operating cash flows. The amendments are effective for NFP organizations for annual financial statements issued for fiscal years beginning after December 15, 2017. CFC has currently adopted this presentation on its financial statements and related disclosures.

NOTE 2 – RECENT ACCOUNTING PRONOUNCEMENTS

In May 2014, the FASB issued ASU No. 2014-09, *Revenue From Contracts With Customers (Topic 606)*, establishing a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. This update provides a five-step analysis in determining when and how revenue is recognized. The new model will require revenue recognition to depict the transfer of promised goods or services to customers in an amount that reflects the consideration a company expects to receive in exchange for those goods or services and will supersede most of the existing revenue recognition guidance, including industry-specific guidance. This guidance is effective for annual reporting periods beginning after December 15, 2018, for nonpublic entities.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*. The ASU will require most leases to be recognized on the statement of financial position as lease assets and lease liabilities and will require both quantitative and qualitative disclosures regarding key information about leasing arrangements. Lessor accounting is largely unchanged. The guidance is effective for fiscal years beginning after December 15, 2019, for nonpublic entities. The standard may be early adopted and requires a modified retrospective transition approach to apply.

In August 2016, the FASB issued ASU No. 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments*. This update provides guidance on how to record eight specific cash flow issues, and how the predominant principle should be applied when cash receipts and cash payments have more than one class of cash flows. This standard is effective for fiscal years beginning after December 15, 2018 and interim periods beginning after December 15, 2019, for nonpublic entities, with early adoption permitted. Adoption will be applied retrospectively to all periods presented.

In November 2016, the FASB issued ASU No. 2016-18, *Statement of Cash Flows (Topic 230) – Restricted Cash*, which requires entities to show the changes in the total of cash, cash equivalents, restricted cash and restricted cash equivalents in the statement of cash flows. As a result, entities will no longer present transfers between cash and cash equivalents and restricted cash and restricted cash equivalents in the statement of cash flows. For nonpublic entities, the amendments are effective for annual periods beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019. Early adoption permitted.

In June 2018, the FASB issued ASU No. 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. These amendments clarify and improve the scope and accounting guidance around contributions of cash and other assets received and made by NFP's and business enterprises. The ASU clarifies and improves current guidance about whether a transfer of assets, or the reduction, settlement, or cancellations of liabilities, is a contribution or an exchange transaction. It provides criteria for determining whether the resource provider is receiving commensurate value in return for the resources transferred which, depending on the outcome, determines whether CFC follows contribution guidance or exchange transaction guidance in the revenue recognition and other applicable standards.

It also provides a more robust framework for determining whether a contribution is conditional or unconditional, and for distinguishing a donor-imposed condition from a donor-imposed restriction. This is important because such classification affects the timing of contribution revenue and expense recognition. With some exceptions, the guidance is effective for annual periods beginning after December 15, 2018 or December 15, 2019 if the NFP is a resource recipient or a resource provider, respectively. Early adoption is permitted.

CFC is currently evaluating the impact these pronouncements will have on its financial statements and related disclosures.

NOTE 3 – 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 date, comprise the following:

Cash and cash equivalents	$ 198,993
Grants receivable	231,759
Pledges receivable, net	152,544
Other receivables	18,604
Total	$ 601,900

Per policy, CFC strives to maintain liquid financial assets sufficient to cover 90 days of operating expenses. To achieve this target, CFC forecasts its future cash flows and monitors liquidity on a monthly basis as well as manages liquidity as follows:

- Operating within a prudent range of financial soundness and stability;
- Maintaining adequate liquid assets to fund near-term operating needs; and
- Maintaining sufficient reserves to provide reasonable assurance that long-term obligations will be discharged.

NOTE 4 – JP MCGOVERN COMMUNITY SPORTS AND RECREATION CENTER

On September 15, 2006, CFC received a grant of $500,000 from the city of Houston (the “City”) to partly finance the construction of JP McGovern Community Sports and Recreation Center (the “Center”). The grant was increased to $1,270,000 on May 18, 2009. The grant has a restricted use period (grant period) of 10 years effective from April 15, 2013.

During the grant period, CFC is required to: strictly use the Center as a gymnasium; comply with the rules and regulations of the U.S. Department of Housing and Urban Development; ensure that at least 51% of persons using the Center are from low and moderate income families; obtain written approval from the City Director of Housing and Community Development prior to selling, transferring or assigning its interest in the Center; return proceeds from sale of the Center to the City; and maintain proper and sufficient records of grant expenditures and related activities and keep such records for at least five years after the end of the grant period. CFC is accountable to the City for any net program income generated or derived directly or indirectly from activities conducted pursuant to the grant agreement. CFC is liable to return the grant to the City if it violates the terms of the grant during the grant period.

NOTE 5 – PLEDGES RECEIVABLE

Pledges receivable consisted of the following at December 31, 2018:

Less than one year	$ 175,834
One to five years	169,620
Over five years	-
Total pledges receivable	345,454
Less: allowance for uncollectible pledges	(23,290)
Total pledges receivable, net	$ 322,164

NOTE 6 – PROPERTY AND EQUIPMENT

Property and equipment as of December 31, 2018 is summarized as follows:

Land	$ 467,312
Buildings and building improvements	5,542,424
Equipment and furniture	256,883
Vehicles	92,282
	6,358,901
Less: accumulated depreciation	(1,929,533)
Total property and equipment, net	$ 4,429,368

Depreciation expense for 2018 amounted to $163,321.

NOTE 7 – NOTE PAYABLE

On April 10, 2012, CFC obtained a five-year term loan of $588,000 from a bank at a fixed interest rate of 5.44% per annum that was secured by the JP McGovern Community Sports and Recreation Center. In January 2017, the loan was terminated and was refinanced with a new seven-year term loan of $440,000 from another bank. This new loan has a fixed interest rate of 3.19% per annum and is secured by the same aforementioned property. The loan matures on January 9, 2024.

Future principal and interest payments on the loan are as follows:

For the Year Ending December 31,	Principal	Interest	Total
2019	$ 60,794	$ 9,530	$ 70,324
2020	62,766	7,557	70,323
2021	64,850	5,474	70,324
2022	66,978	3,345	70,323
2023 and thereafter	67,008	1,147	68,155
Total note payable	$ 322,396	$ 27,053	$ 349,449

NOTE 8 – NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are available for use by programs specified by donors. Net assets released from donor restrictions for 2018 are attributable to expenses incurred in connection with these specific programs.

Net assets with donor restrictions released from restrictions and reclassified to net assets without donor restrictions during 2018 are as follows:

Capital campaign	$ 605
Federal grants	49,477
United Way of Greater Houston	600,081
Corporate and foundation contributions	324,049
Other	1,147
Total	$ 975,359

Net assets with donor restrictions as of December 31, 2018 are as follows:

Federal grants	$ 30,608
United Way of Greater Houston	139,350
Corporate and foundation contributions	50,000
Total	$ 219,958

NOTE 9 – RISK AND UNCERTAINTIES

CFC maintained cash balances with a financial institution considered by management as credit-worthy and strong, which may occasionally exceed limits insured by the Federal Deposit Insurance Corporation (FDIC). As of December 31, 2018, CFC had no balances in money market and other accounts with the bank which were not insured by FDIC or otherwise secured.

NOTE 10 – CONCENTRATION OF REVENUE

Approximately 72% of CFC's revenues from grants and other cash revenue sources for 2018, came from federal sources, and UWGH. Loss of funds from these sources would have a material impact on the future operations of CFC.

NOTE 11 – OPERATING LEASE COMMITMENTS

CFC leases certain office equipment under a noncancelable operating lease agreement that expired in June 2018, and a new lease was signed in August 2018.

The following is a schedule by years of future minimum payments under the lease at December 31, 2018:

For the Year Ending December 31,	Amount
2019	$ 3,404
2020	3,404
2021	3,404
2022	3,404
2023	3,120
Total	$ 16,736

NOTE 12 – SUBSEQUENT EVENTS

CFC has evaluated events through May 11, 2019, the date which the financial statements were available to be issued.

Briggs & Veselka Co.
A PROFESSIONAL CORPORATION
Certified Public Accountants and Business Advisors

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*

To the Board of Directors of
Community Family Centers, Inc.
Houston, 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 Community Family Centers, Inc. (a nonprofit organization), which comprise the statement of financial position as of December 31, 2018, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated May 11, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Community Family Centers, Inc.'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 Community Family Centers, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of Community Family Centers, Inc.'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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

To the Board of Directors of
Community Family Centers, Inc.
Re: Independent Auditors' Report on Internal Control

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Community Family Centers, Inc.'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 entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Community Family Centers, Inc.'s internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Briggs & Veselka Co.

Briggs & Veselka Co.
The Woodlands, Texas

May 11, 2019

Briggs & Veselka Co.
A PROFESSIONAL CORPORATION
Certified Public Accountants and Business Advisors

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

To the Board of Directors of
Community Family Centers, Inc.
Houston, Texas

Report on Compliance for Each Major Federal Program

We have audited Community Family Centers, Inc.'s compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Community Family Centers, Inc.'s major federal programs for the year ended December 31, 2018. Community Family Centers, Inc.'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 Community Family Centers, Inc.'s major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Community Family Centers, Inc.'s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe 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 Community Family Centers, Inc.'s compliance.

To the Board of Directors of
Community Family Centers, Inc.
Re: Independent Auditors' Report on Compliance

Opinion on Each Major Federal Program

In our opinion, Community Family Centers, Inc. 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 December 31, 2018.

Report on Internal Control Over Compliance

Management of Community Family Centers, Inc. is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referenced to above. In planning and performing our audit of compliance, we considered Community Family Centers, Inc.'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 Community Family Centers, Inc.'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 combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Briggs & Veselka Co.

Briggs & Veselka Co.
The Woodlands, Texas

May 11, 2019

SUPPLEMENTARY INFORMATION

COMMUNITY FAMILY CENTERS, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2018

Federal Grantor/Pass Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Total Federal Expenditures
CDBG – Entitlement Grants Cluster			
U.S. Department of Housing and Urban Development			
Passed Through Child Care Council of Greater Houston			
Community Development Block Grants/Entitlement Grants	14.218	CDBG CC 2018-2019	$ 67,730
Community Development Block Grants/Entitlement Grants	14.218	CDBG CC 2017-2018	16,630
Total U.S. Department of Housing and Urban Development			84,360
Total CDBG – Entitlement Grants Cluster			84,360
Food Distribution Cluster			
U.S. Department of Agriculture			
Passed Through Texas Department of Agriculture			
Passed Through Houston Food Bank			
Emergency Food Assistance Program (Food Commodities)	10.569	10007	482,068
Total U.S. Department of Agriculture			482,068
Total Food Distribution Cluster			482,068
Other Programs			
U.S. Department of Agriculture			
Passed Through Texas Department of Agriculture			
Child and Adult Care Food Program	10.558	02117	25,886
Total U.S. Department of Agriculture			25,886
U.S. Department of Education			
Passed Through Texas Workforce Commission and Houston Community College			
Adult Education – Basic Grants to States	84.002	HCL 2017-2018	106,537
Adult Education – Basic Grants to States	84.002	HGAC 2018-2019	8,542
Adult Education – Basic Grants to States	84.002	HCC 2017-2018	212,635
Adult Education – Basic Grants to States	84.002	HCC 2018-2019	159,772
Total U.S. Department of Education			487,486
U.S. Department of Health and Human Services			
Passed Through Texas Health and Human Services			
Block Grants for Prevention and Treatment of Substance Abuse	93.959	2016-048106-003-YPI	124,711
Block Grants for Prevention and Treatment of Substance Abuse	93.959	2016-048106-004-YPI	48,721
Block Grants for Prevention and Treatment of Substance Abuse	93.959	2016-048053-003-YPU	228,139
Block Grants for Prevention and Treatment of Substance Abuse	93.959	2016-048053-004-YPU	97,444
Total U.S. Department of Health and Human Services			499,015
U.S. Department of Homeland Security			
Passed Through EFSP Coalition for the Homeless			
Emergency Food and Shelter National Board Program	97.024	Phase 35	49,477
Total U.S. Department of Homeland Security			49,477
Total Other Programs			1,061,864
Total Expenditure of Federal Awards			$ 1,628,292

See accompanying notes to the schedule of expenditures of federal awards.

NOTE 1 – THE ORGANIZATION

Community Family Centers, Inc. (CFC) receives federal grants to carry out its programs and services for low-income families in the East End of Houston and its surrounding communities.

NOTE 2 – BASIS OF PRESENTATION

The schedule of expenditures of federal awards (the "Schedule") includes the federal grant activities of CFC. Expenditures reported in the Schedule are reported on the accrual basis of accounting. Because the Schedule presents only a selected portion of CFC's operations, it is not intended to and does not present its financial position, changes in net assets or cash flows for 2018.

NOTE 3 – NONCASH ASSISTANCE

Amounts reported in the accompanying Schedule for the Emergency Food Assistance Program represent noncash assistance in the form of food commodities.

NOTE 4 – INDIRECT COST

Expenditures included in the Schedule represent both direct costs and indirect costs. Instead of using the 10% de minimus indirect cost rate allowed under the Uniform Guidance, CFC's indirect costs are based on an indirect cost allocation plan that has been agreed upon and approved by the applicable grantor.

NOTE 5 – RELATIONSHIP OF THE SCHEDULE TO FINANCIAL REPORTS SUBMITTED TO GRANT AWARDING AGENCIES

Expenditures included in the Schedule may differ from amounts reflected in the financial reports submitted to grant awarding agencies for the following reasons:

- Expenses accrued at the end of CFC's fiscal year may not be included in the financial reports submitted to grant awarding agencies until after year-end;
- Program matching costs that are reported in the financial reports submitted to awarding agencies are not included in the amounts reported in the Schedule; and
- Differences may exist between grant periods and CFC's accounting period.

NOTE 6 – CONTINGENCIES

Grants require the fulfillment of certain conditions set forth in grant agreements and are regularly monitored and reviewed by the grantors. Failure to satisfy the requirements of contact agreements could result in disallowed costs and return of funds to grantors. Management believes that CFC is in substantial compliance with grant provisions and requirements and that disallowed costs, if any, will not be significant to affect the amounts and disclosures in the financial statements.

SECTION I – SUMMARY OF AUDITORS' RESULTS

Financial statements

Type of auditors' report issued:	Unmodified
Internal control over financial reporting:	
Material weakness(es) identified?	No
Significant deficiencies identified that are not considered to be material weakness(es)?	No
Noncompliance material to financial statements noted?	No

Federal awards

Internal control over major programs:	
Material weakness(es) identified?	No
Significant deficiencies identified that are not considered to be material weakness(es)?	No
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:

Award Type	Federal CFDA Number	Name of Federal Program or Cluster
Federal	10.569	Emergency Food Assistance Program (Food Commodities)

Dollar threshold used to distinguish between Type A and Type B Programs:

Federal awards	$ 750,000
Auditee qualified as low-risk auditee?	Yes

SECTION II – FINANCIAL STATEMENT FINDINGS

No matters were reported

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No matters were reported

COMMUNITY FAMILY CENTERS, INC.
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2018

No matters were reported.