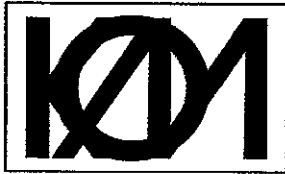


**FAMILY SERVICE CENTER OF
GALVESTON COUNTY, TEXAS
FINANCIAL STATEMENTS
AUGUST 31, 2011
(WITH COMPARATIVE TOTALS AS OF AUGUST 31, 2010)**

**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
Family Service Center of Galveston County, Texas
Galveston, Texas

We have audited the accompanying statement of financial position of Family Service Center of Galveston County, Texas (a nonprofit organization) as of August 31, 2011 and the related statements of activities and changes in net assets, functional expense, and cash flows for the year then ended. These financial statements are the responsibility of Family Service Center of Galveston County, Texas' management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from Family Service Center of Galveston County, Texas' 2010 financial statements and in our report dated, May 20, 2011, we expressed an unqualified opinion on those financial statements.

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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Family Service Center of Galveston County, Texas as of August 31, 2011, and the activities and changes in net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 11, 2012 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 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic 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 basic 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 basic financial statements taken as a whole.


Katherine Overbeck Maxwell, CPA, PLLC
Galveston, Texas
May 11, 2012

Family Service Center of Galveston County, Texas
Statement of Financial Position
August 31, 2011
(With Comparative Totals as of August 31, 2010)

	August 31, 2011		August 31, 2010	
	Unrestricted	Temporarily Restricted	Unrestricted	Temporarily Restricted
Assets				
Current Assets				
Cash and Temporary Cash Investments (Note 3)	\$ 366,485.62	\$	\$ 199,185.98	\$ 199,185.98
Grants and Accounts Receivable Net (Note 4, 12, 13)	149,761.92	149,761.92	144,601.50	144,601.50
United Way Funding Allocation (Note 5)	0.00	0.00	46,602.95	46,602.95
Prepaid Expenses (Note 6)	5,039.95	5,039.95	4,980.08	4,980.08
Total Current Assets	371,525.57	149,761.92	395,370.51	395,370.51
Property and Equipment (Note 7)	8,895.39	8,895.39	105,277.32	105,277.32
Other Assets				
Security Deposits (Note 8)	6,500.00	6,500.00	3,000.00	3,000.00
Total Assets	\$ 386,920.96	\$ 149,761.92	\$ 503,647.83	\$ 503,647.83

The notes are an integral part of the financial statements

Family Service Center of Galveston County, Texas
Statement of Financial Position (Continued)
August 31, 2011
(With Comparative Totals as of August 31, 2010)

	August 31, 2011		August 31, 2010	
	Unrestricted	Temporarily Restricted	Unrestricted	Temporarily Restricted
Liabilities and Net Assets		Total		Total
Current Liabilities				
Accounts Payable	\$ 4,088.46	\$ 4,088.46	\$ 10,629.64	\$ 10,629.64
Unallocated Grant	4,166.65	4,166.65	37,500.00	37,500.00
Line of Credit		0.00	50,000.00	50,000.00
Current Portion - Note Payable (Note 9)		0.00	4,194.59	4,194.59
Total Current Liabilities	8,255.11	8,255.11	102,324.23	102,324.23
Long-term Liabilities				
Note Payable Net of Current Portion (Note 9)		0.00	19,638.54	19,638.54
Total Liabilities	8,255.11	8,255.11	121,962.77	121,962.77
Net Assets	378,665.85	528,427.77	381,685.06	381,685.06
Total Liabilities and Net Assets	\$ 386,920.96	\$ 536,682.88	\$ 503,647.83	\$ 503,647.83

The notes are an integral part of the financial statements
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Family Service Center of Galveston County, Texas
Statement of Activities and Change in Net Assets
For the Year Ended August 31, 2011
(With Comparative Totals for the Year Ended August 31, 2010)

	August 31, 2011			August 31, 2010		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Public Support and Revenue						
Public Support						
Grants and Financial Awards - State Agencies	\$	482,223.17	482,223.17	\$	955,413.56	955,413.56
Grants and Financial Awards - County		257,077.00	257,077.00		262,618.88	262,618.88
Other Grants	65,777.66	353,829.68	419,607.34		102,500.00	102,500.00
Contributions:		0.00	0.00		4,095.38	4,095.38
United Way Allocations		100,331.71	100,331.71		114,337.18	114,337.18
Monetary		4,503.00	4,503.00		0.00	0.00
Gain on Sale of Assets	58,246.08		58,246.08		0.00	0.00
Special Events, Net of \$2,000.00 and \$15,755.04, Respectively	83,371.00		83,371.00		46,575.21	46,575.21
Total Public Support	207,394.74	1,197,964.56	1,405,359.30	267,507.77	1,218,032.44	1,485,540.21
Revenue						
Program Service Fees (Note 4)	149,680.83		149,680.83	200,544.51		200,544.51
Investment Income	406.16		406.16	777.88		777.88
Miscellaneous	3,644.80		3,644.80	327.45		327.45
Total Revenue	153,731.79	0.00	153,731.79	201,649.84	0.00	201,649.84
Net Assets Released from Restriction	(306,971.22)	306,971.22	0.00	1,218,032.44	(1,218,032.44)	0.00
Total Public Support and Revenue	\$ 54,155.31	\$ 1,504,935.78	\$ 1,559,091.09	\$ 1,687,190.05	\$ 0.00	\$ 1,687,190.05

The notes are an integral part of the financial statements

Family Service Center of Galveston County, Texas
Statement of Activities and Change in Net Assets (Continued)
For the Year Ended August 31, 2011
(With Comparative Totals for the Year Ended August 31, 2010)

	August 31, 2011			August 31, 2010		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Expenses						
Program Services						
Individual and Family Counseling	\$	298,377.17	298,377.17	\$	294,427.55	294,427.55
Service to At Risk Youth (STAR)		346,056.34	346,056.34		382,085.19	382,085.19
Juvenile Justice Program		130,890.59	130,890.59		135,769.06	135,769.06
YRP		195,749.30	195,749.30		27.57	27.57
Oasis Program		120,625.83	120,625.83		161,759.67	161,759.67
SSBG Counselors W/O		246,316.04	246,316.04		442,464.90	442,464.90
SSBG Wellness		7,705.39	7,705.39		108,823.29	108,823.29
Teen Health		0.00	0.00		172.60	172.60
Housing Authority		9,453.20	9,453.20		45,029.41	45,029.41
Total Program Services	0.00	1,355,173.86	1,355,173.86	1,570,559.24	0.00	1,570,559.24
Supporting Services						
Management and General	40,013.39		40,013.39	64,645.92		64,645.92
Fundraising	17,161.13		17,161.13	943.48		943.48
Total Support Services	57,174.52	0.00	57,174.52	65,589.40	0.00	65,589.40
Total Expenses	57,174.52	1,355,173.86	1,412,348.38	1,636,148.64	0.00	1,636,148.64
Change in Net Assets	(3,019.21)	149,761.92	146,742.71	51,041.41		51,041.41
Prior Period Correction				0.00		0.00
Net Assets Beginning of Year	381,685.06		381,685.06	330,643.65		330,643.65
Net Assets, End of Year	\$ 378,665.85	\$ 149,761.92	\$ 528,427.77	\$ 381,685.06	\$ 0.00	\$ 381,685.06

The notes are an integral part of the financial statements

Family Service Center of Galveston County, Texas
Statement of Cash Flows
For the Year Ended August 31, 2011
(With Comparative Totals for the Year Ended August 31, 2010)

	2011	2010
Cash Flows from Operating Activities		
Increase (Decrease) in Net Assets	\$ 146,742.71	\$ 51,041.41
Adjustments to Reconcile Net Assets to Net Cash Provided (Used) in Operating Activities:		
Depreciation	3,089.00	7,909.70
(Increase) Decrease in Accounts Receivable	41,442.53	(73,923.46)
(Increase) Decrease in Prepaid Expenses	(59.87)	(582.68)
(Increase) Decrease in Security Deposits	(3,500.00)	0.00
Increase (Decrease) in Accounts Payable	(10,735.77)	7,121.17
Increase (Decrease) in Other Accrued Expenses	(33,333.35)	37,500.00
	143,645.25	29,066.14
Net Cash Provided (Used) By Operating Activities		
Cash Flows from Investing Activities		
Purchase of Property and Equipment	97,487.38	(11,617.00)
	97,487.38	(11,617.00)
Net Cash Provided (Used) By Investing Activities		
Cash Flows from Financing Activities		
Increase (Decrease) in Line of Credit	(50,000.00)	50,000.00
Mortgage Payments	(23,832.99)	(5,189.51)
	(73,832.99)	44,810.49
Net Cash Provided (Used) by Financing Activities		
Net Increase (Decrease) in Cash	167,299.64	62,259.63
Cash and Temporary Cash Investments at Beginning of Year	199,185.98	136,926.35
Cash and Temporary Cash Investments at End of Year	\$ 366,485.62	\$ 199,185.98
Supplementary Data:		
Interest Paid	\$ 1,181.89	\$ 1,913.62
Income Taxes	0.00	0.00

The notes are an integral part of the financial statements

Family Service Center of Galveston County, Texas
Statement of Functional Expenses
For the Year Ended August 31, 2011
(With Comparative Totals for the Year Ended August 31, 2010)

	Program Services								Support Services			Total Expenses 2011	Total Expenses 2010	
	Individual & Family Counseling	Service to At Risk Youth	Juvenile Justice Program	JJP Oasls Program	SSBG Counselors W/O	SSBG Wellness	YRP & Teen Health	Housing Authority	Total Program Services	Management and General	Fund Raising			Total Support Services
Salaries	\$ 214,784.51	\$ 218,148.88	\$ 101,658.91	\$ 85,256.55	\$ 112,075.21	4,168.87	\$ 123,505.80	\$ 8,175.37	\$ 857,772.90	\$ 15,270.83	\$	\$ 15,270.83	\$ 883,043.53	\$ 1,025,347.04
Payroll Taxes	17,145.57	19,149.93	8,531.84	6,080.33	8,533.56	0.00	11,804.95	580.30	71,925.45	1,590.43		1,590.43	73,516.91	85,825.08
Employee Benefits (Note 10)	31,871.52	32,155.28	9,691.33	13,153.31	10,807.25	1,526.52	16,956.78	530.04	116,504.04	3,908.10		3,908.10	120,412.14	121,608.51
Total Salaries and Related Expenses	263,801.60	269,454.10	119,882.08	104,500.19	131,516.02	5,695.19	152,268.53	9,285.71	1,056,203.42	20,769.16	0.00	20,769.16	1,076,972.58	1,232,778.93
Depreciation (Note 7)									0.00	3,089.00		3,089.00	3,089.00	7,909.70
Investment and Bank Fees	17.00				0.00				17.00	1,102.98		1,102.98	1,119.98	514.81
Insurance	3,305.42	4,476.78	1,770.77	1,285.14	0.00	0.00	2,100.35		12,938.12	149.16		149.16	13,087.28	14,794.07
Occupancy	12,305.42	28,839.80	1,542.07	1,623.67	7,892.73	0.00	13,035.75		85,239.44	5,090.87		5,090.87	70,330.31	78,683.30
Supplies	0.00	2,274.99	0.00	0.00	0.00	0.00		0.00	2,274.99	0.00	15,679.01	15,679.01	17,954.00	7,392.57
Office Expense	581.45	4,776.79	671.41	278.59	16,301.65	0.00	3,090.03	0.00	25,897.92	1,283.27	176.20	1,459.47	27,157.39	46,468.77
Postage and Shipping	196.44	431.45	104.92	76.58	94.20	0.00	343.70		1,247.29	169.68	553.60	723.28	1,970.57	1,586.01
Client Expenses	0.00	508.52			17,436.30		11,940.10		29,884.92				29,884.92	0.00
Printing & Publications	730.00	0.00	0.00	255.67	790.08	0.00	1,517.86	0.00	3,293.41	146.55	714.38	860.93	4,154.34	8,402.18
Equipment Rental and Maintenance	2,881.98	3,382.88	1,545.34	1,325.28	1,502.84	12.70	2,468.31		13,120.13	2,022.83		2,022.83	15,142.96	7,578.55
Organizational Memberships	121.90	0.00	0.00	0.00	0.00	0.00			121.90	0.00		0.00	121.90	1,878.00
Telephone Communication	2,614.28	7,741.41	1,161.31	849.82	7,283.46	3.50	2,290.00	109.99	22,073.75	704.19		704.19	22,777.94	22,801.92
Conferences & Conventions	450.34	4,490.87	345.60	928.25	1,569.95	194.00	1,611.40		9,590.21	1,433.55	37.94	1,471.49	11,061.70	17,261.44
Client Transportation/Fees	252.20								252.20			0.00	252.20	0.00
Professional Fees	4,209.85	17,513.87	3,259.92	4,656.92	60,072.45	1,800.00	3,327.43		94,840.27	2,394.95		2,394.95	97,235.23	119,727.51
Line of Credit Expense	1,181.89				0.00				1,181.89	0.00		0.00	1,181.89	1,913.62
Travel	1,925.63	440.27	567.17	2,220.17	1,798.55	0.00	1,735.04	57.50	8,764.33	1,657.21		1,657.21	10,421.54	23,050.68
Staff Recruitment	68.56				0.00				68.56	0.00		0.00	68.56	1,108.68
Bad Debts	3,953.74			2,423.26					6,377.00	0.00		0.00	6,377.00	42,317.70
Entertainment									0.00	0.00		0.00	0.00	180.00
Miscellaneous	0.00	1,726.01		204.29	57.8				1,987.11			0.00	1,987.11	0.00
Total Expenses	\$ 298,377.17	\$ 346,056.34	\$ 130,850.59	\$ 120,625.83	\$ 246,316.04	\$ 7,705.39	\$ 195,749.30	\$ 9,453.20	\$ 1,365,173.86	\$ 40,013.39	\$ 17,161.13	\$ 57,174.52	\$ 1,412,348.38	\$ 1,636,148.84

The notes are an integral part of the financial statements
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Family Service Center of Galveston County, Texas
Notes to the Financial Statements
August 31, 2011

Note 1: Organization

Mission:

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

The Center 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, The Center 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, The Center is able to offer fees adjusted according to the client's income, so no one is refused services because of inability to pay.

Family Service Center of Galveston County, Texas is exempt from Federal Income Taxes under 501(c)(3) of the Internal Revenue Code. The Center has no unrelated business income.

Note 2: Summary of Significant Accounting Policies

The Center's financial statements have been prepared on the accrual basis of accounting which is in accordance with generally accepted accounting principles (GAAP), and accordingly reflect all significant receivables, payables, and other liabilities. Temporarily restricted funds have been established to account for those resources available for use, but expendable only for the specific purpose or time frame specified by the donor. Temporarily restricted resources expended during the current year are released from restriction and are reflected in the unrestricted expenditures.

Family Service Center of Galveston County, Texas
Notes to the Financial Statements
August 31, 2011

Note 2: Summary of Significant Accounting Policies (Continued)

Basis of Presentation

Financial statement presentation follows the recommendation of the FASB ASC 958-205 (formally SFAS No. 117) and is in conformity with accounting principles generally accepted in the United States of America for not-for-profit organizations. The Center is required to report information regarding financial position and activities according to three classes of net assets: unrestricted, temporarily restricted and permanently restricted. No permanently restricted net assets were held during the years then ended, and accordingly, these financial statements do not reflect any activity related to permanently restricted net assets.

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, cash in banks and a cash management account. At year-end and throughout the year, The Center's cash balances were deposited in one bank and with Merrill Lynch. Cash in banks is insured by the Federal Deposit Insurance Corporation and insured to a maximum of \$250,000 per institution. At no time during the year under audit did cash in banks exceed the insured amount. Deposits with Merrill Lynch are not insured by the Federal Deposit Insurance Corporation.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management's estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported revenues and expenses during the reporting period. Actual results could vary from the estimates and assumptions that were used.

Support and Expenses

Contributions received are reported as an increase in net assets. The Center reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets, or if they are designated as support for future periods. Donations and grants internally restricted by the Board of Directors are accounted for as being designated in the current unrestricted fund.

Family Service Center of Galveston County, Texas
Notes to the Financial Statements
August 31, 2011

Note 2: Summary of Significant Accounting Policies (Continued)

Donated Services, Goods and Facilities

Donated property, marketable securities and other non-cash donations are recorded as contributions at the date of donation.

Donated services are recognized as contributions in accordance with FASB ASC 958-905 (formally SFAS 116, paragraph 9), Accounting for Contributions Received and Contributions Made, if the services (a) create or enhance non-financial assets, or (b) require specialized skills, and would otherwise be purchased by The Center. Many volunteers provide services throughout the year that are not recognized as contributions in the financial statements, because the recognition criteria under FASB ASC 958-905 (formally SFAS 116) were not met. It is impracticable to determine the fair market value of all donated services by volunteers of The Center beyond those required to be recognized as income.

Land, Building and Equipment

Buildings and equipment are stated at cost less accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. Land is not depreciated. The Center has the policy that assets purchased equal to or greater than \$5,000 will be required to be capitalized and depreciated. Where federal grant funds are used, the amount is also \$5,000 unless computer and other electronic equipment is purchased, in which case the amount for capitalization is equal to or greater than \$500.

Compensated Absences

The Center does not accrue compensated absences, as the amount cannot be reasonably ascertained. Management is of the opinion the amount would not be material.

Note 3: Cash and Temporary Cash Investments

Cash and temporary cash investments at August 31, 2011 and 2010 are composed of the following:

**Family Service Center of Galveston County, Texas
Notes to the Financial Statements
August 31, 2011**

Note 3: Cash and Temporary Cash Investments (Continued)

Cash and Cash Equivalents	<u>2011</u>	<u>2010</u>
Cash Moody National Bank Checking	\$ 155,044.99	\$ 120,370.16
Cash on Hand	<u>132,749.94</u>	<u>0.00</u>
Total Cash	<u>287,794.93</u>	<u>120,370.16</u>
Temporary Cash Investments		
CD Moody National Bank	20,000.00	20,000.00
CD Moody National Bank	30,000.00	30,000.00
Merrill Lynch	<u>28,690.69</u>	<u>28,815.82</u>
Total Temporary Cash Investments	<u>78,690.69</u>	<u>78,815.82</u>
Total	\$ <u>366,485.62</u>	\$ <u>199,185.98</u>

Note 4: Grants Receivable and Program Service Fees Receivable

Grants receivable consist of the federal and state grants passed through the Texas Department of Protective and Regulatory Services and the State of Texas Criminal Justice Division. These grants require the funds to be disbursed for the authorized program and are then reimbursed based on requests submitted to the grantor agencies. Grants receivable is recorded when the funds are expended and request for reimbursement is forwarded to the agencies.

Program service fees are billed for services rendered to clients of organizations contracting for such service. The Center accounts for service fees in the period the services are rendered. Management estimates the amounts that are uncollectible and an entry is made to reserve for bad debts.

Family Service Center of Galveston County, Texas
Notes to the Financial Statements
August 31, 2011

Note 4: Grants Receivable and Program Service Fees Receivable (Continued)

Following is a tabulation of accounts receivable:

Grants and Program Service Fees Receivable	<u>8/31/2011</u>	<u>8/31/2010</u>
Grants Receivable	\$ <u>93,937.26</u>	\$ <u>111,878.13</u>
Program Service Fees Receivable	115,368.44	85,890.15
Less Reserve for Bad Debts	<u>(59,543.78)</u>	<u>(53,166.78)</u>
Net Program Service Fees Receivable	<u>55,824.66</u>	<u>32,723.37</u>
Total	\$ <u>149,761.92</u>	\$ <u>144,601.50</u>

Note 5: United Way Allocations

The Center operates in areas serviced by United Way organizations. The Center receives designated amounts contributed by these organizations and from the allocations of general contributions. Revenue is recognized in the year the allocation is granted to The Center. Following are the amounts receivable from uncollected allocations at August 31, 2011 and 2010.

	<u>8/31/2011</u>	<u>8/31/2010</u>
United Way Funding Allocations	\$ <u>0.00</u>	\$ <u>46,602.95</u>

Note 6: Prepaid Expenses

Prepaid expenses at August 31, 2011 and 2010 are composed of the following:

	<u>8/31/2011</u>	<u>8/31/2010</u>
Prepaid Insurance	\$ <u>5,039.95</u>	\$ <u>4,980.08</u>

Family Service Center of Galveston County, Texas
Notes to the Financial Statements
August 31, 2011

Note 7: Property and Equipment

The Center has the policy that assets purchased equal to or greater than \$5,000 or more are required to be capitalized and depreciated. Property purchased with Federal Funds also has the \$5,000 amount unless computer and other electronic equipment are purchased, which has a \$500 capitalization requirement. Property purchased that is capitalized is carried at cost. Donations of property that exceed the policy are capitalized at fair market value at the time of the donation. Depreciation is computed over the estimated useful lives of the assets using the straight line method of depreciation. Buildings and structural components are depreciated over 35 years, electronic equipment is depreciated over 5 years and other assets are depreciated over 7 years. Land is not depreciated.

Property and equipment consists of the following:

	<u>8/31/2011</u>	<u>8/31/2010</u>
Buildings	\$ 0.00	\$ 126,521.85
Equipment	55,665.39	60,665.08
Land	<u>0.00</u>	<u>2,000.00</u>
Total Property and Equipment	55,665.39	189,186.93
Less Depreciation Provision	<u>46,770.00</u>	<u>75,999.91</u>
Net Property and Equipment	\$ <u>8,895.39</u>	\$ <u>113,187.02</u>

Note 8: Security Deposits

The Center has security deposits on spaces rented for office space. The security deposits for the years ended August 31, 2011 and 2010, amounted to \$6,500 and \$3,000, respectively.

Note 9: Notes Payable

The Center negotiated a line of credit with Moody National Bank to be available for working capital. Security for any working capital loan is the two certificates of deposit at Moody National Bank in the total amount of \$50,000.00. At August 31, 2010 there was \$50,000 advanced on the line of credit. During fiscal year August 31, 2011, there was no additional advance on the line of credit. The balance due on the line of credit at August 31, 2011 was zero.

Family Service Center of Galveston County, Texas
Notes to the Financial Statements
August 31, 2011

Note 9: Notes Payable (Continued)

On January 14, 2000 The Center purchased Unit 13 Building C, Appomattox Square Office Park in Texas City, Texas for \$119,752.10. The loan was refinanced on September 25, 2005 for \$45,832.14 with interest at 7% per annum. Monthly payments of \$576.82 which began October 25, 2005 are due until the note is paid or subsequently refinanced. The building was sold on August 29, 2011 with the gross sale price of \$151,592.39. Expense of the sale and basis was \$93,346.31 resulting in a gain of \$58,246.08.

Note 10: Employee Benefits

Pension Plan

On January 1, 1993 The Center adopted a 403(b) retirement plan. The Center contributes 3% of each eligible participant's salaries to the plan. The Center contributes for participants after one year of service and the employee will be 100 percent vested upon completion of three years of service. Pension costs for the year ended August 31, 2011 amounted to \$8,938.25 and \$3,610.95 for 2010.

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, 2011 amounted to \$97,235.00 and \$99,629.98 for 2010.

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, 2011 amounted to \$5,072.03 and \$5,548.54 for 2010.

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, 2011 amounted to \$2,551.59 and \$2,871.34 for 2010.

Family Service Center of Galveston County, Texas
Notes to the Financial Statements
August 31, 2011

Note 11: Functional Expenses

The Center allocates its expenses on a functional basis among its various programs including support services. Expenses that are directly for specific programs are charged against such programs. Other expenses such as management and supporting services are allocated to the various programs on an allocation plan developed by The Center.

Note 12: Contingencies

The Center receives significant financial assistance from governmental agencies in the form of grants and other awards. Disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreement. These programs are also subject to audit by the granting agency. Any disallowance of claims resulting from such audits is required to be repaid to the grantor agency. However, management is of the opinion any such disallowance of claims would not have a material effect on the overall financial condition of The Center.

Note 13: Concentration of Credit Risk

The Center depends heavily on federal grants and pass-through grants from the state of Texas. These grants are generally renewable on an annual basis.

The Center is located in an area that is subject to severe weather at times that may cause temporary interruption of services. Management is of the opinion that any temporary interruption would not materially affect The Center and its activities.

Note 14: Litigation

Management of The Center is not aware of any potential or threatened litigation that may affect the operations of the entity.

Note 15: Subsequent Events

Management has evaluated subsequent events through May 11, 2012, the date the financial statements were available to be issued.

**FAMILY SERVICE CENTER OF GALVESTON COUNTY, TEXAS
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 FOR THE YEAR ENDED AUGUST 31, 2011**

	Federal CFDA Number		Federal (Direct and Pass-Through) Expenditures
U.S. Department of Health and Human Services			
Administration for Children and Families			
Pass-Through the Texas Department of Family and Protective Services			
Promoting Safe and Stable Families	93.556	\$	535,805
Social Services Block Grants	93.667		254,021

Notes to the Expenditure of Federal Awards is an Integral Part of this Statement

**FAMILY SERVICE CENTER OF GALVESTON COUNTY, TEXAS
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED AUGUST 31, 2011**

Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the grant activity of Family Service Center of Galveston County, Texas and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the general purpose financial statements.

**FAMILY SERVICE CENTER OF GALVESTON COUNTY, TEXAS
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED AUGUST 31, 2011**

<u>Finding/Recommendation</u>	<u>Current Status</u>	<u>Management's Explanation If not Implemented</u>
This is the second single audit for the Center, no prior findings		



Katherine Overbeck Maxwell, PLLC
Certified Public Accountant

**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
Family Service Center of Galveston County, Texas
Galveston, Texas

We have audited the financial statements of Family Service Center of Galveston County, Texas as of and for the year ended August 31, 2011, and have issued our report thereon dated May 20, 2012. 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 the *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Family Service Center of Galveston County, Texas' internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over financial reporting.

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.

Our consideration of internal control over financial reporting 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 financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Family Services of Galveston County, Texas'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*.

We noted certain matters that we reported to management of Family Services of Galveston County, Texas in a separate letter dated May 11, 2012.

This report is intended solely for the information and use of management, board of directors, and others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Katherine Overbeck Maxwell, CPA, PLLC

Galveston, Texas
May 11, 2012



Katherine Overbeck Maxwell, PLLC
Certified Public Accountant

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

**TO THE BOARD OF DIRECTORS
FAMILY SERVICE CENTER OF GALVESTON COUNTY, TEXAS
GALVESTON, TEXAS**

Compliance

We have audited Family Service Center of Galveston County, Texas' compliance with the types of compliance requirements described in the *OMB Circular A-133 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, 2011. 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. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Family Service Center of Galveston County, Texas' management. Our responsibility is to express an opinion on Family Service Center of Galveston County, Texas' compliance based on our audit.

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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 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 Family Service Center of Galveston County, Texas' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Family Service Center of Galveston County, Texas' compliance with those requirements.

In our opinion, Family Service Center of Galveston County, Texas complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended August 31, 2011.

Internal Control Over Compliance

Management of Family Service of Galveston County, Texas is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Family Service Center of Galveston County, Texas' internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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 Family Service Center of Galveston County, Texas' 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.

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 deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, the Board of Directors, others within the entity, Department of Health and Human Services and The Texas Department of Family and Human Services, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Katherine Overbeck Maxwell, CPA, PLLC

Galveston, Texas
May 11, 2012

**FAMILY SERVICE CENTER OF GALVESTON COUNTY, TEXAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED AUGUST 31, 2011**

Section 1 – Summary of Auditor’s Results

Financial Statement

Type of auditor’s report issued: Unqualified

Internal control over financial reporting:
Material weakness identified Yes No

Significant deficiencies identified that are not considered to be material weaknesses Yes None reported

Noncompliance material to financial statement noted Yes No

Federal Awards

Internal control over major program:
Material weakness identified Yes No

Significant deficiencies identified that are not considered to be material weaknesses Yes None reported

Type of auditor’s report issued on compliance for major programs Unqualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133 Yes No

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
93.667	Department of Health and Human Services
93.556	Texas Department of Family and Protective Services

Dollar threshold used to distinguish between Type A and Type B programs: \$300,000

Auditee qualified as low-risk auditee? Yes No

**FAMILY SERVICE CENTER OF GALVESTON COUNTY, TEXAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONT.)
FOR THE YEAR ENDED AUGUST 31, 2011**

Section II Financial Statement Findings

None

Section III Federal Award Findings and Questioned Costs

None