

Audited Financial Statements

**IT'S TIME TEXAS, Inc.**

*For the Years Ended December 31, 2016 and 2015  
With Report of Independent Auditors*

**IT'S TIME TEXAS, Inc.**

**Audited Financial Statements**

*For the Years Ended December 31, 2016 and 2015*

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# Reynolds & Franke, PC

CERTIFIED PUBLIC ACCOUNTANTS

## Report of Independent Auditors

To the Board of Directors of  
IT'S TIME TEXAS, Inc.  
Austin, Texas

### Report on the Financial Statements

We have audited the accompanying financial statements of IT'S TIME TEXAS, Inc. ("ITT") (a nonprofit organization), which comprise the statements of financial position as of December 31, 2016 and 2015, and the related statements of activities, functional expenses, and cash flows for the years 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 audits. We conducted our audits 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 audits 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 auditors consider internal control relevant to ITT'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 ITT's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of IT'S TIME TEXAS, Inc. as of December 31, 2016 and 2015, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Other Information*

Our audits were 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* (CFR) 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 September 25, 2017, on our consideration of IT'S TIME TEXAS, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering IT'S TIME TEXAS, Inc.'s internal control over financial reporting and compliance.

Austin, Texas  
September 25, 2017

A handwritten signature in black ink that reads "Reynolds & Franke, PC". The signature is fluid and cursive, with "Reynolds" on the first line and "& Franke, PC" on the second line.

## **Audited Financial Statements**

**IT'S TIME TEXAS, Inc.**

**Statements of Financial Position**

*December 31, 2016 and 2015*

	<b>2016</b>	<b>2015</b>
<b>Assets</b>		
Cash and cash equivalents	\$ 2,140,274	\$ 2,025,152
Restricted cash	<u>591,463</u>	357,683
Accounts receivable	<u>40,920</u>	39,287
Grants/pledges receivable	<u>187,908</u>	156,651
Restricted grants/pledges receivable	<u>250,000</u>	
Prepaid expenses	<u>9,480</u>	10,119
Total current assets	<u>3,220,045</u>	2,588,892
Property and equipment, net	<u>43,789</u>	59,674
Security deposits	<u>22,028</u>	22,028
Total assets	<u><b>\$ 3,285,862</b></u>	<u><b>\$ 2,670,594</b></u>
<b>Liabilities and Net Assets</b>		
Accounts payable	\$ 28,205	\$ 5,726
Other accrued liabilities	<u>2,317</u>	<u>4,230</u>
Total current liabilities	<u>30,522</u>	9,956
Funds held on behalf of others	<u>81,921</u>	
Total liabilities	<u><b>112,443</b></u>	9,956
Net assets:		
Unrestricted	<u>2,331,956</u>	2,302,955
Temporarily restricted	<u>841,463</u>	357,683
Total net assets	<u><b>3,173,419</b></u>	2,660,638
Total liabilities and net assets	<u><b>\$ 3,285,862</b></u>	<u><b>\$ 2,670,594</b></u>

*See accompanying notes to the financial statements.*

IT'S TIME TEXAS, Inc.

Statement of Activities

*For the Year Ended December 31, 2016*

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Support and reclassifications:			
Grants & contributions received	\$ 24,321	\$ 2,344,257	\$ 2,368,578
Program service fees	<u>289,147</u>		<u>289,147</u>
Other income	<u>466</u>		<u>466</u>
Total support	<u>313,934</u>	<u>2,344,257</u>	<u>2,658,191</u>
Net assets released from restrictions	<u>1,860,477</u>	<u>(1,860,477)</u>	
Total support and reclassifications	<u><u>2,174,411</u></u>	<u><u>483,780</u></u>	<u><u>2,658,191</u></u>
Expenses:			
Program services	1,855,744		1,855,744
Fundraising	<u>85,235</u>		<u>85,235</u>
Management and general	<u>204,431</u>		<u>204,431</u>
Total expenses	<u><u>2,145,410</u></u>		<u><u>2,145,410</u></u>
Total change in net assets	<u><u>29,001</u></u>	<u><u>483,780</u></u>	<u><u>512,781</u></u>
Net assets:			
Beginning of year	<u><u>2,302,955</u></u>	<u><u>357,683</u></u>	<u><u>2,660,638</u></u>
Net assets, end of year	<u><u>\$ 2,331,956</u></u>	<u><u>\$ 841,463</u></u>	<u><u>\$ 3,173,419</u></u>

*See accompanying notes to the financial statements.*

**IT'S TIME TEXAS, Inc.**

**Statement of Activities**

*For the Year Ended December 31, 2015*

	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Total</b>
Support and reclassifications:			
Grants & contributions received	\$ 19,994	\$ 2,331,698	\$ 2,351,692
Program service fees	354,812		354,812
Other income	689		689
Total support	<u>375,495</u>	<u>2,331,698</u>	<u>2,707,193</u>
Net assets released from restrictions	2,557,032	(2,557,032)	
Total support and reclassifications	<u>2,932,527</u>	<u>(225,334)</u>	<u>2,707,193</u>
Expenses:			
Program services	1,978,833		1,978,833
Fundraising	43,874		43,874
Management and general	170,441		170,441
Total expenses	<u>2,193,148</u>		<u>2,193,148</u>
Total change in net assets	739,379	(225,334)	514,045
Net assets:			
Beginning of year	<u>1,563,576</u>	<u>583,017</u>	<u>2,146,593</u>
Net assets, end of year	<u>\$ 2,302,955</u>	<u>\$ 357,683</u>	<u>\$ 2,660,638</u>

*See accompanying notes to the financial statements"*

IT'S TIME TEXAS, Inc.

Statement of Functional Expenses

*For the Year Ended December 31, 2016*

	<b>Program Services</b>	<b>Fundraising</b>	<b>Management &amp; General</b>	<b>Total</b>
Employee compensation, benefits, & payroll taxes	\$ <b>896,142</b>	\$ <b>55,319</b>	\$ <b>135,299</b>	\$ <b>1,086,760</b>
Non-employee services	<b>565,823</b>	<b>12,903</b>	<b>19,685</b>	<b>598,411</b>
Accounting			<b>15,070</b>	<b>15,070</b>
Occupancy	<b>120,626</b>	<b>7,355</b>	<b>19,124</b>	<b>147,105</b>
Information technology	<b>41,477</b>	<b>4,148</b>	<b>461</b>	<b>46,086</b>
Marketing	<b>24,659</b>	<b>1,298</b>		<b>25,957</b>
Miscellaneous	<b>4,919</b>	<b>300</b>	<b>656</b>	<b>5,875</b>
Dues & subscriptions	<b>11,491</b>	<b>638</b>	<b>638</b>	<b>12,767</b>
Scholarships & awards	<b>23,147</b>			<b>23,147</b>
Equipment & supplies expense	<b>118,715</b>	<b>2,251</b>	<b>5,952</b>	<b>126,918</b>
Insurance	<b>11,559</b>	<b>705</b>	<b>1,832</b>	<b>14,096</b>
Travel, lodging, & meals	<b>23,048</b>		<b>4,285</b>	<b>27,333</b>
Depreciation	<b>14,138</b>	<b>318</b>	<b>1,429</b>	<b>15,885</b>
Total expenses	<b>\$ 1,855,744</b>	<b>\$ 85,235</b>	<b>\$ 204,431</b>	<b>\$ 2,145,410</b>
<b>Percentage of total expenses</b>	<b>86%</b>	<b>4%</b>	<b>10%</b>	<b>100%</b>

*See accompanying notes to the financial statements.*

**IT'S TIME TEXAS, Inc.**

**Statement of Functional Expenses**

*For the Year Ended December 31, 2015*

	<b>Program Services</b>	<b>Fundraising</b>	<b>Management &amp; General</b>	<b>Total</b>
Employee compensation, benefits, & payroll taxes	\$ 853,883	\$ 37,610	\$ 72,951	\$ 964,444
Non-employee services	685,149	1,780	41,250	728,179
Accounting			15,660	15,660
Occupancy	110,111	2,447	9,788	122,346
Information technology	7,607	169	676	8,452
Miscellaneous	14,783	329	1,311	16,423
Dues & subscriptions	46,525	233	8,340	55,098
Scholarships & awards	23,487			23,487
Printing & reproduction	17,996	400	1,600	19,996
Equipment & supplies expense	122,175		13,575	135,750
Insurance	7,383		1,512	8,895
Meetings & tradeshows	49,109			49,109
Travel, lodging, & meals	26,969	599	2,397	29,965
Depreciation	13,656	307	1,381	15,344
Total expenses	\$ 1,978,833	\$ 43,874	\$ 170,441	\$ 2,193,148
<b>Percentage of total expenses</b>	<b>90%</b>	<b>2%</b>	<b>8%</b>	<b>100%</b>

*See accompanying notes to the financial statements.*

**IT'S TIME TEXAS, Inc.**

**Statements of Cash Flows**

*For the Years Ended December 31, 2016 and 2015*

	<b>2016</b>	<b>2015</b>
<b>Cash flows from operating activities:</b>		
Change in net assets	\$ <b>512,781</b>	\$ 514,045
Adjustments to reconcile change in net assets to net cash flows from operating activities:		
Depreciation	<b>15,885</b>	15,344
Changes in operating assets and liabilities:		
(Increase) decrease in restricted cash	<b>(233,780)</b>	123,126
(Increase) decrease in restricted grants/pledges receivables	<b>(250,000)</b>	102,208
Increase in accounts receivable	<b>(1,633)</b>	(29,631)
(Increase) decrease in grants/pledges receivable	<b>(31,257)</b>	485,670
Decrease in security deposits		5,138
Decrease in prepaid expenses	<b>639</b>	27,775
Increase (decrease) in accounts payable	<b>22,479</b>	(14,640)
Decrease in other accrued liabilities	<b>(1,913)</b>	(2,858)
Decrease in unearned grant revenue		(25,548)
Increase in funds held on behalf of others	<b>81,921</b>	
Net cash provided by operating activities	<b>115,122</b>	1,200,629
<b>Cash flows from investing activities:</b>		
Purchases of property and equipment		(34,812)
Net cash used in investing activities		<b>(34,812)</b>
Change in cash and cash equivalents	<b>115,122</b>	1,165,817
Cash and cash equivalents, beginning of year	<b>2,025,152</b>	859,335
Cash and cash equivalents, end of year	<b>\$ 2,140,274</b>	\$ 2,025,152

*See accompanying notes to the financial statements.*

# IT'S TIME TEXAS, Inc.

## Notes to Financial Statements

*For the Years Ended December 31, 2016 and 2015*

### **Note 1- Purpose of Organization**

IT'S TIME TEXAS, Inc. ("ITT") is a statewide nonprofit organization that is leading the charge for a healthier Texas. ITT's award-winning, evidence-informed programs and services empower Texans to lead healthier lives, build healthier communities, and contribute to a healthier state. ITT will impact the health of more than 1 million Texans in over 500 communities across the state. ITT's primary sources of income are grants and contributions received.

### **Note 2- Summary of Significant Accounting Policies**

#### **Basis of Accounting**

The financial statements of ITT are prepared using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Under the accrual basis, revenues are recognized in the accounting period in which they are earned and become measurable. Expenses are recorded in the accounting period incurred.

#### **Basis of Presentation**

Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Financial statement presentation follows the recommendations of Financial Accounting Standards Board Accounting Standards Codification ("FASB ASC") topic 958, *Not-for-Profit Entities*. Accordingly, net assets of ITT and changes therein are classified and reported as follows:

Unrestricted net assets - These types of net assets are not subject to donor-imposed stipulations. This also includes Board-designated net assets for specific purposes, since these restrictions may be reversed by the Board at any time in the future.

Temporarily restricted net assets - These types of net assets are subject to donor-imposed stipulations, which limit their use by ITT to a specific purpose and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions.

Permanently restricted net assets - These types of net assets are subject to donor-imposed stipulations, which require them to be maintained permanently by ITT. Generally, the donors of these assets permit ITT to use all or part of the income earned on any related investments for general or specific use. ITT did not have any permanently restricted net assets as of December 31, 2016 and 2015.

# IT'S TIME TEXAS, Inc.

## Notes to Financial Statements (continued)

*For the Years Ended December 31, 2016 and 2015*

### **Note 2 - Summary of Significant Accounting Policies (continued)**

#### **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 estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

#### **Cash Equivalents**

ITT considers all liquid investments with a maturity of three months or less when purchased to be cash equivalents.

#### **Accounts Receivable**

Accounts receivable are stated at the amount ITT expects to collect from outstanding balances. ITT has not set up an allowance for uncollectible receivables at December 31, 2016 and 2015, because management believes the receivables are collectible and write-offs are historically unusual and small.

#### **Grants/Pledges Receivable**

Unconditional promises to give are recognized as contribution revenue in the period in which they are received. Promises to give are recorded at net realizable value if expected to be collected in one year and at fair value if expected to be collected in more than one year. Conditional promises to give are recognized when the conditions on which they depend are substantially met.

#### **Property and Equipment**

Property and equipment are reported at cost. ITT capitalizes assets with a cost/fair value of \$1,000 or more. Donated fixed assets are recorded at estimated fair value of the date of receipt. Depreciation expense is computed on a straight-line basis using a useful life appropriate for the asset class. Upon the sale or retirement of depreciable assets, the related cost and accumulated depreciation or amortization are removed from the accounts. Any gain or loss on the sale or retirement is recognized in current operations.

# IT'S TIME TEXAS, Inc.

## Notes to Financial Statements (continued)

*For the Years Ended December 31, 2016 and 2015*

### **Note 2- Summary of Significant Accounting Policies (continued)**

#### **Income Taxes**

IT'S TIME TEXAS, Inc. is a non-profit corporation exempt from federal income taxes under Internal Revenue Code Section 501(c)(3), except to the extent of unrelated business income, if any.

The most significant tax positions of ITT are its assertion that it is exempt from income taxes and its determination of whether any amounts are subject to unrelated business income tax (UBIT). Management has determined ITT had no activities subject to UBIT during the years ended December 31, 2016 and 2015. All significant tax positions have been considered by management and it has determined that it is more likely than not that all tax positions would be sustained upon examination by taxing authorities.

ITT is required to file the Form 990 (Return of Organization Exempt from Income Tax), which is subject to examination by the Internal Revenue Service (IRS) up to three years from the later of the original due date of the tax return or the date the tax return was filed. The Forms 990 for 2015, 2014, and 2013, are open to examination by the IRS as of December 31, 2016.

#### **Contributions**

In accordance with FASB ASC 958, ITT reports gifts of cash and other assets as restricted net assets, if they are received with donor stipulations that limit the use of the donated assets. When donor restrictions expire, that is, when a stipulated time restriction ends or restricted purpose is accomplished, the related temporarily restricted net assets are reclassified to unrestricted net assets. This is reported in the statements of activities as net assets released from restrictions.

#### **Program Service Fees**

ITT receives revenues for program services performed at locality school districts. Program service fees are accrued when the services have been performed and all significant services and obligations related to the fee have been resolved. The service fees receivable as of December 31, 2016 and 2015 were believed to be collectible in their totality. Accordingly, there is no allowance for doubtful accounts.

**IT'S TIME TEXAS, Inc.**

**Notes to Financial Statements (continued)**

*For the Years Ended December 31, 2016 and 2015*

**Note 2 - Summary of Significant Accounting Policies (continued)**

**Functional Allocation of Expenses**

The costs of providing the various promotional programs and other activities of ITT have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated among program services, fundraising, and management and general. Overhead costs have been allocated based on allocations estimated by management. Management and general expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of ITT.

**Fair Value of Financial Instruments**

ITT follows FASB ASC 820, *Fair Value Measurements and Disclosures*, which relates to ITT's financial assets and liabilities carried at fair value and ITT's fair value disclosures related to financial assets and liabilities. FASB ASC 820 defines fair value, expands related disclosure requirements and specifies a hierarchy of valuation techniques based on the nature of the inputs used to develop the fair value measures. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

There are three levels of inputs to fair value measurements - Level 1, meaning the use of quoted prices for identical instruments in active markets; Level 2, meaning the use of quoted prices for similar instruments in active markets or quoted prices for identical or similar instruments in markets that are not active or are directly or indirectly observable; and Level 3, meaning the use of unobservable inputs.

ITT's financial instruments consist principally of cash and cash equivalents, accounts receivable, grants/pledges receivable, restricted cash, restricted grants/pledges receivables, accounts payable, other accrued liabilities, and funds held on behalf of others. ITT believes all of the financial instruments' recorded values approximate current market values.

**Reclassifications**

Certain 2015 audited amounts have been reclassified in order to confirm with the 2016 audited financial statement presentation.

**Date of Management's Review**

These financial statements considered subsequent events through September 25, 2017, the date the financial statements were available to be issued.

**IT'S TIME TEXAS, Inc.**

**Notes to Financial Statements (continued)**

*For the Years Ended December 31, 2016 and 2015*

**Note 3-Property and Equipment**

At December 31, 2016 and 2015, property and equipment consists of the following:

	<b>2016</b>	<b>2015</b>
Furniture, fixtures and equipment	\$ 52,778	\$ 52,778
Computers and software	24,944	24,944
Building improvements	15,626	15,626
Website	<u>16,875</u>	<u>16,875</u>
Total cost	<u>110,223</u>	<u>110,223</u>
Less: accumulated depreciation	<u>(66,434)</u>	<u>(50,549)</u>
Property and equipment, net	<b>\$ 43,789</b>	<b>\$ 59,674</b>

Total depreciation expense was \$15,885 and \$15,344 for the years ended December 31, 2016 and 2015, respectively.

**Note 4-Temporarily Restricted Net Assets**

ITT had the following temporarily restricted activity during the year ended December 31, 2016:

<b><u>2016</u></b>	<b>Beginning Balance</b>	<b>Grants and Donations Received</b>	<b>Released from Restrictions</b>	<b>Ending Balance</b>
Temporarily Restricted Funds:				
ITT Corporate Sponsorships	\$300,000	\$ 375,000	\$ (380,090)	\$294,910
Seton-Dell Children's Hospital		150,000	(150,000)	
It's Time Texas (ITT)				
Government Contracts		1,160,482	(1,160,482)	
ITT Summit Sponsorships		38,625	(38,625)	
RGK Foundation	45,833		(45,833)	
St. David's Foundation		50,000		50,000
Healthy Texas Week		5,000	(5,000)	
Valley Baptist Legacy Foundation		500,000	(3,447)	496,553
Growing Healthy School		5,150	(5,150)	
HEB Healthy Campus Grant	11,850	<u>60,000</u>	<u>(71,850)</u>	
	<b><u>\$ 357,683</u></b>	<b><u>\$2,344,257</u></b>	<b><u>\$ (1,860,477)</u></b>	<b><u>\$ 841,463</u></b>

# IT'S TIME TEXAS, Inc.

## Notes to Financial Statements (continued)

*For the Years Ended December 31, 2016 and 2015*

### **Note 4-Temporarily Restricted Net Assets (continued)**

ITT had the following temporarily restricted activity during the year ended December 31, 2015:

<b><u>2015</u></b>	<b>Grants and Beginning Balance</b>	<b>Donations Received</b>	<b>Released from Restrictions</b>	<b>Ending Balance</b>
<b>Temporarily Restricted Funds:</b>				
ITT Corporate Sponsorships	\$ 310,038	\$ 400,000	\$ (410,038)	\$300,000
Seton-Dell Children's Hospital	95,833	150,000	(245,833)	
It's Time Texas (ITT)				
Government Contracts		1,599,156	(1,599,156)	
ITT Summit Sponsorships		32,864	(32,864)	
RGK Foundation	137,500	50,000	(141,667)	45,833
Slimdown Showdown		25,000	(25,000)	
HEB Community Challenge				
Sponsorship	8,333		(8,333)	
HEB Healthy Campus Grant	9,471	60,000	(57,621)	11,850
Growing Healthy School	<u>21,842</u>	<u>14,678</u>	<u>(36,520)</u>	<u></u>
	<u>\$ 583,017</u>	<u>\$ 2,331,698</u>	<u>\$ (2,557,032)</u>	<u>\$ 357,683</u>

### **Note 5 - Concentration of Credit Risk for Cash Held in Banks**

Financial instruments which potentially subject ITT to credit risk principally consist of cash and cash equivalents. To minimize this risk, ITT places its temporary cash investments with high credit quality financial institutions insured by the Federal Deposit Insurance Corporation (FDIC). Effective January 1, 2013, deposit insurance coverage by the FDIC changed to \$250,000 per bank per entity for all interest bearing and non-interest bearing accounts. At December 31, 2016 and 2015, ITT had \$2,495,750 and \$2,158,317 in uninsured cash balances, respectively. ITT has not experienced any losses in such accounts in the past.

### **Note 6-Concentration of Revenue and Receivables**

For the years ended December 31, 2016 and 2015, contract grant funding provided by the Health and Human Services Commission represented 44% and 59%, respectively, of total revenue. Accounts receivable from this source represented 38% and 84%, respectively, of total receivables at December 31, 2016 and 2015. In the event this funding source were reduced or eliminated, it could have a major impact on ITT.

**IT'S TIME TEXAS, Inc.**

**Notes to Financial Statements (continued)**

*For the Years Ended December 31, 2016 and 2015*

**Note 7-Commitments**

Operating Leases

ITT leases equipment and office space subject to lease agreements with various termination dates through February 2021. Lease payments of \$114,056 and \$108,597 were expensed in connection with these leases for the years ended December 31, 2016 and 2015, respectively.

At December 31, 2016, future minimum lease payments are as follows (including an office lease amendment entered into during September 2017):

2017	\$	78,331
2018		129,191
2019		130,854
2020		150,419
<u>2021</u>		<u>25,859</u>
<u>Total</u>	<u>\$</u>	<u>514,654</u>

**Note 8- Contingencies**

ITT participates in funding that is subject to audit by the funding agencies. These programs have compliance requirements and should the grantor agency auditors find areas of substantial noncompliance, ITT would be required to refund any unallowable costs.

**Note 9-Subsequent Event**

ITT entered into a grant agreement with the Health and Human Services Commission ("HHSC"), effective October 1, 2017 and terminates September 30, 2018 totaling \$1,699,997.

## **SUPPLEMENTAL INFORMATION**

IT'S TIME TEXAS, Inc.

Schedule of Expenditures of Federal Awards

*For the Year ended December 31, 2016*

<b>Grantor/ Pass-Through Agency</b>	<b>CFDA Number</b>	<b>Pass-Through Entity Identifying Number/ Award Number</b>	<b>Federal Expenditures</b>
<b><u>United States Department of Agriculture</u></b>			
Passed-through Texas Health and Human Services Commission: State Administrative Matching Grants for the Supplemental Nutrition Assistance Program - SNAP-Ed, Texas CORD	10.561	529-14-0118-00001	\$ 1 149 339
Total Federal Awards			\$ 1.149,339

# IT'S TIME TEXAS, Inc.

## Notes to Schedule of Expenditures of Federal Awards

*For the Year Ended December 31, 2016*

### **Note 1-Basis of Presentation**

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal award activity of IT'S TIME TEXAS, Inc. ("ITT") under programs of the federal government for the year ended December 31, 2016. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of ITT, it is not intended and does not present the financial position, changes in net assets, or cash flows of ITT. Therefore, some amounts presented in this Schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

### **Note 2 - Summary of Significant Accounting Policies**

#### **Basis of Presentation**

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

#### **Revenue Recognition**

Grant revenues from governmental agencies and other granters are recognized when compliance with the various grant requirements is achieved. Usually this occurs at the time the expenditures are made and any grant matching requirements are met.

# Reynolds & Franke, PC

CERTIFIED PUBLIC ACCOUNTANTS

## **Report of Independent Auditors 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  
IT'S TIME TEXAS, Inc.  
Austin, 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 IT'S TIME TEXAS, Inc. ("ITT") (a nonprofit organization), which comprise the statement of financial position as of December 31, 2016, 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 September 25, 2017.

### **Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered ITT'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 ITT's internal control. Accordingly, we do not express an opinion on the effectiveness of ITT's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of ITT'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. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as items 2016-001 through 2016-004 that we consider to be material weaknesses.

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether ITT's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the 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 an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* which is described in the accompanying schedule of findings and questioned costs as item 2016-005.

## **IT'S TIME TEXAS, Inc.'s Response to Findings**

ITT's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. ITT's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

## **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 ITT's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering ITT's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Austin, Texas  
September 25, 2017

The image shows two handwritten signatures. The signature on the left is "Reynolds" and the signature on the right is "Franke, PC". Both signatures are written in cursive ink.

# Reynolds & Franke, PC

CERTIFIED PUBLIC ACCOUNTANTS

## **Report of Independent Auditors on Compliance for Each Major Program and On Internal Control Over Compliance Required by the Uniform Guidance**

To the Board of Directors of  
IT'S TIME TEXAS, Inc.  
Austin, Texas

### **Report on Compliance for Each Major Federal Program**

We have audited IT'S TIME TEXAS, Inc.'s ("ITT") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of ITT's major federal programs for the year ended December 31, 2016. ITT'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 the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

#### ***Auditors' Responsibility***

Our responsibility is to express an opinion on compliance for each of ITT'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 the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about ITT's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

#### ***Opinion on Each Major Federal Program***

In our opinion, ITT 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, 2016.

### **Other Matters**

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with the Uniform Guidance and which is described in the accompanying schedule of findings and questioned costs as item 2016-005. Our opinion on each major federal program is not modified with respect to these matters.

ITT's response to the noncompliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. ITT's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

### **Report on Internal Control Over Compliance**

Management of ITT is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered ITT'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 ITT's internal control over compliance.

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

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

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

A handwritten signature in black ink that reads "Reynolds & Franke, PC". The signature is fluid and cursive, with "Reynolds" on the left and "Franke, PC" on the right, separated by a ampersand.

Austin, Texas

September 25, 2017

IT'S TIME TEXAS, Inc.

Schedule of Findings and Questioned Costs

*For the Year Ended December 31, 2016*

**I. Summary of Auditors' Results**

*Audited Financial Statements*

**Type of auditors' report issued:** Unmodified

Internal control over financial reporting:

Material weakness(es) identified?       X       Yes                  No

Significant deficiency(ies) identified that are not  
considered to be material weakness(es)?                  Yes       X       None Reported

Noncompliance material to financial statements noted?                  Yes       X       No

*Federal Awards*

Internal control over major programs:

Material weakness(es) identified?                  Yes       X       No

Significant deficiency(ies) identified that are not  
considered to be material weakness(es)?                  Yes       X       None Reported

**Type of auditors' report issued on compliance for  
major programs:** Unmodified

**Any audit findings disclosed that are required to  
be reported in accordance section 2 CFR  
200.516(a)?**        Yes       X       No

Identification of major programs:

<b>CFDA No.</b>	<b>Federal/ State</b>	<b>Name of Federal/ State Program</b>
10.561	Federal	United States Department of Agriculture, SNAP-Ed, Texas CORD

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

Auditee qualified as low-risk?       X       Yes                  No

IT'S TIME TEXAS, Inc.

Schedule of Findings and Questioned Costs (continued)

*For the Year Ended December 31, 2016*

**II. Audited Financial Statement Findings**

***2016-001 Material Audit Adjustment:***

Condition: During the course of the audit, we had to recommend one material adjustment to ITT's accounting records in order for the financial statements to be materially correct in accordance with accounting principles generally accepted in the United States of America.

Criteria: The current Statement on Auditing Standards No. 115 issued by the American Institute of Certified Public Accountants (AICPA) requires ITT to design adequate internal control procedures to initiate, authorize, record, and process transactions and journal entries into the general ledger. The independent auditors cannot be considered part of ITT's internal control.

Cause: There are no procedures in place to provide reasonable assurance that the financial statements are materially stated in accordance with accounting principles generally accepted in the United States of America.

Effect: Because of the failure to have procedures in place to provide reasonable assurance on internal control over the financial statements, the independent auditors had to recommend one material adjustment to ITT's accounting records.

Recommendation: ITT design and implement adequate internal control procedures to record and process material transactions into the general ledger.

Management Response: *ITT will include in its Financial Procedure, a process for handling Journal Entries and Revenue Recognition. Journal entries will be made for any transaction not automatically produced by our QuickBooks software. These entries often include payroll reclassification of amounts already posted, reconciling items from the bank statement and allocations. Entries should be made to reclassify previous posting and to correct errors, versus changing an existing transaction. ITT Finance Manager will work with ITT Leadership to design and implement internal control procedures which will include:*

- *Policy for revenue recognition. Certain types of revenue (such as event registration fees) may be received in advance of the product or service being delivered Finance Manager will create and implement policy by Dec. 1, 2017.*
- *Review Policy for grants or donations received The terms and conditions stated by the grantors and donors will determine how revenue is recognized ITT will provide an information form to the funder for pledge/payment clarification. Finance Manager will create and implement form by December], 2017*
- *ITT will implement revenue recognition policy retroactively for possible revenue recognition issues beginning January 1, 2017.*
- *ITT will consult with its independent auditor on revenue recognition guidance.*

IT'S TIME TEXAS, Inc.

Schedule of Findings and Questioned Costs (continued)

*For the Year Ended December 31, 2016*

**II. Audited Financial Statement Findings (continued)**

***2016-002 Journal Entries:***

Condition: Journal entries are prepared and recorded by the Accounting Consultant or Finance Director without formal approval or review.

Criteria: Internal controls should be in place to provide reasonable assurance that journal entries are formally approved and reviewed.

Cause: There are no procedures in place to formally approve or review journal entries.

Effect: Because of the failure to approve and review journal entries, journal entries may be created that are improper or unauthorized within the financial statements without the approval or knowledge of management.

Recommendation: The adoption of a policy whereby all journal entries that meet a minimum threshold will be approved by a designated member of the Board of Directors or an outside accountant. All entries should be initialed by the preparer and the individual approving them in order to attribute responsibility to the appropriate individuals. All journal entries should be accompanied by a full explanation and be reference to adequate supporting data or information.

Management Response:

*ITT will ensure to include minimum threshold will be approved by a designated member of the Board of Directors or an outside accountant.*

- ITT will establish a policy for Journal Entry preparation. Draft policy is included for review.*
- ITT will establish threshold limits and implement a policy for levels of approval.*
- All policies will be finalized and implemented by Finance Manager by Dec. 1, 2017.*
- ITT will identify an outside accountant for ongoing financial reviews. Firm/Individual consultant will be identified by Dec. 1, 2017.*
- ITT will implement journal entry policy retroactively beginning January 1, 2017.*

IT'S TIL\1E TEXAS, Inc.

Schedule of Findings and Questioned Costs (continued)

*For the Year Ended December 31, 2016*

**II. Audited Financial Statement Findings (continued)**

***2016-003 Establish Controls over Cash Receipts:***

Condition: Lack of control in the receiving, depositing, recording of cash receipts, and reconciling of the bank accounts.

Criteria: Internal controls should be in place to properly separate the cash receipt duties of receiving, depositing, recording, and reconciling.

Cause: There are no segregation of duties in the cash receipts procedures.

Effect: Allowing these functions to be controlled by the same person increases the risk that errors or misappropriation could occur and go undetected.

Recommendation: To provide effective controls, it would be necessary to separate each of these duties. Since management has informed us that it would not be practicable to separate each of these duties, it would appear advisable to at least set up some form of control on cash receipts, such as a list of cash receipts. We recommend that the person who opens the mail list the cash receipts, preferably on a prescribed form, before turning them over, in order that such lists may be subsequently compared with the cash book and bank deposits. This comparison should be made by someone independent of the accounting department.

Management Response:

- *ITT will create and implement a policy in which the Front Office Assistant will be responsible for opening the mail and recording all incoming revenue/payments, including cash receipts. The process will be in practice effective Oct. 1, 2017.*
- *Finance Manager will create a logformfor Assistant to use.*
- *Daily log forms must have a 2nd review and signature by either the Office Manager, VP Executive Operations, or other leadership team member.*
- *Daily logs will be turned in to the Finance Manager.*

IT'S TIL\IE TEXAS, Inc.

Schedule of Findings and Questioned Costs (continued)

*For the Year Ended December 31, 2016*

**II. Audited Financial Statement Findings (continued)**

***2016-004 Establish Controls over Employee Time Allocations:***

**Condition:** Lack of internal controls regarding the evaluation and calculation of employees' payroll allocations between program, management and general, and fundraising functional expense categories.

**Criteria:** Internal controls should be in place to have employees properly track and allocate their time between various programs/grants, management and general, and fundraising functional expense categories. Time sheets should be submitted, approved, and evaluated to verify employee allocations equal 100% across all functional expense categories. In addition, all employee time sheets should agree to grant allocation spreadsheets submitted to grantors for reimbursement or reporting purposes.

**Cause:** There are no internal controls in place to accurately evaluate and allocate employees' payroll allocations to verify they do not exceed 100%.

**Effect:** Without internal controls over employee time allocations, employees' payroll expenses can be over allocated (over 100%) or under allocated (less than 100%) to various programs/grants, management and general, and fundraising functional expense categories.

**Recommendation:** To provide effective controls, it would be necessary to prepare policies and procedures regarding how employees track their time across program/grant, management and general, and fundraising functional expense categories. Employees should submit time sheets regularly indicating the time they spent in these categories and all time sheets should be evaluated and approved by the appropriate supervisor/manager of the employee. All timesheets should be used to prepare allocation spreadsheets that are used for grant reporting and reimbursement purposes.

**Management Response:** *ITT is transitioning to an online time management tool, T-sheets. This tool will help employees appropriately track and manage time, and allocate time based on pre-populated funding codes. This tool will also only allow employees to submit their time up to 100%, therefore removing the potential risk for over-calculation. Controls will be in place for supervisor approval of time and allocations, as well as the Finance Manager's final approval. ITT intends to implement this tool effective January 1, 2018. For the remainder of 2017, supervisors will be required to calculate time allocations and return timesheets to employees for corrections before sending to the Finance Manager. This information will be communicated in a staff meeting on October 6, 2017.*

IT'S TIME TEXAS, Inc.

Schedule of Findings and Questioned Costs (continued)

*For the Year Ended December 31, 2016*

**III. Findings and Questioned Costs For Major Federal Award Programs Audit**

***2016-005 Department of Agriculture - Passed through Texas Health & Human Services Commission:***

**Questioned  
Costs**

Supplemental Nutrition Assistance, SNAP-Ed, Texas CORD- CFDA No. 10.561

Condition and Criteria: ITT overcharged the grant and was reimbursed in excess of the expenditures allowable by the program.

\$ 3,818

Effect: The excess expenditures are questioned costs.

Cause: Management of ITT did not accurately reconcile the reimbursement forms submitted to the grant with the accounting records and payroll allocations.

Context: Reconciliation of the grant funds received during 2016 to the accounting records detail.

Auditors' Recommendation: We recommend the program put into place clearer guidelines and formal review/reconciliation procedures to reconcile the accounting detail records with the reimbursement forms submitted to the grant.

Management Response: As soon as ITT's management was made aware of this single incident, ITT's leadership immediately contacted the Texas Health and Human Services Commission ("HHSC") to make them aware of the error and to confirm the process for reimbursement. ITT promptly reimbursed HHSC the overcharged amount and developed procedures to avoid a similar incident in the future. The procedures, which received the support of HHSC, has been implemented since May 2017. This process is followed every month to verify accuracy for year-to-date and prior months.

**IT'S TIME TEXAS, Inc.**

**Summary Schedule of Prior Year Findings**

*For the Year Ended December 31, 2016*

**I. Prior Year Findings -Financial Statements Audit**

None

**II. Prior Year Findings - Major Federal Award Programs Audit**

None