

THE ROSE

SINGLE AUDIT REPORTING PACKAGE
July 31, 2020 and 2019

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PART I.

**FINANCIAL STATEMENTS
WITH INDEPENDENT AUDITOR'S REPORT AND SCHEDULE
OF EXPENDITURES OF FEDERAL AND STATE AWARDS
As of and for the Years Ended July 31, 2020 and 2019**

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
The Rose:

Report on the Financial Statements

We have audited the accompanying financial statements of The Rose (a Texas nonprofit organization), which comprise the statements of financial position as of July 31, 2020 and 2019, 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.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Rose as of July 31, 2020 and 2019, 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.

INDEPENDENT AUDITOR'S REPORT, continued

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 and State 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 related 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 December 4, 2020, on our consideration of The Rose'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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of The Rose's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering The Rose's internal control over financial reporting and compliance.

Ham, Logan & Bryson, L.L.P.

Houston, Texas
December 4, 2020

THE ROSE
STATEMENTS OF FINANCIAL POSITION
JULY 31, 2020 AND 2019

	<u>2020</u>	<u>2019</u>
ASSETS		
Cash and cash equivalents	\$ 4,948,844	\$ 3,064,174
Accounts receivable, net of allowance for doubtful accounts of \$45,208 and \$58,745 at July 31, 2020 and 2019, respectively	436,117	777,337
Grants receivable	120,166	41,888
Pledges receivable	281,648	219,247
Prepaid expenses and other assets	476,961	268,908
Property and equipment, net	<u>7,459,886</u>	<u>7,070,996</u>
Total assets	<u>\$ 13,723,622</u>	<u>\$ 11,442,550</u>
 LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable	\$ 228,563	\$ 174,109
Accrued liabilities	762,281	848,312
Deferred rent	526,903	-
Notes payable	<u>2,512,565</u>	<u>1,428,637</u>
Total liabilities	<u>4,030,312</u>	<u>2,451,058</u>
Net assets:		
Without donor restrictions:		
Undesignated	7,031,693	8,101,195
Designated	1,400,000	-
With donor restrictions	<u>1,261,617</u>	<u>890,297</u>
Total net assets	<u>9,693,310</u>	<u>8,991,492</u>
Total liabilities and net assets	<u>\$ 13,723,622</u>	<u>\$ 11,442,550</u>

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

THE ROSE
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JULY 31, 2020

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Revenue and support:			
Support and grants	\$ 4,573,158	\$ 1,287,695	\$ 5,860,853
Program service fees, net	7,522,878	-	7,522,878
Special events, net	335,105	-	335,105
Building lease income, net	51,651	-	51,651
Investment income	40,620	-	40,620
Other income, net	2,649	-	2,649
Gain on disposal	50,000	-	50,000
	<u>12,576,061</u>	<u>1,287,695</u>	<u>13,863,756</u>
Revenue before release of restrictions on net assets			
Net assets released from restrictions:			
Satisfaction of program restrictions	351,586	(351,586)	-
Satisfaction of equipment acquisition restrictions	564,789	(564,789)	-
	<u>916,375</u>	<u>(916,375)</u>	<u>-</u>
Total net assets released from restrictions			
Total revenue and support	<u>13,492,436</u>	<u>371,320</u>	<u>13,863,756</u>
Expenses:			
Program services	11,388,317	-	11,388,317
Supporting services:			
Management and general	1,066,276	-	1,066,276
Fundraising	707,345	-	707,345
	<u>1,773,621</u>	<u>-</u>	<u>1,773,621</u>
Total supporting services			
Total expenses	<u>13,161,938</u>	<u>-</u>	<u>13,161,938</u>
Change in net assets	330,498	371,320	701,818
Net assets, beginning of year	8,101,195	890,297	8,991,492
Net assets, end of year	<u>\$ 8,431,693</u>	<u>\$ 1,261,617</u>	<u>\$ 9,693,310</u>

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

THE ROSE
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JULY 31, 2019

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Revenue and support:			
Support and grants	\$ 2,184,511	\$ 1,040,251	\$ 3,224,762
Program service fees, net	10,295,040	-	10,295,040
Special events, net	422,231	-	422,231
Building lease income, net	194,380	-	194,380
Investment income	76,453	-	76,453
Other income, net	9,081	-	9,081
Loss on disposal	<u>(23,007)</u>	<u>-</u>	<u>(23,007)</u>
Revenue before release of restrictions on net assets	<u>13,158,689</u>	<u>1,040,251</u>	<u>14,198,940</u>
Net assets released from restrictions:			
Satisfaction of program restrictions	390,048	(390,048)	-
Satisfaction of equipment acquisition restrictions	<u>1,464,664</u>	<u>(1,464,664)</u>	<u>-</u>
Total net assets released from restrictions	<u>1,854,712</u>	<u>(1,854,712)</u>	<u>-</u>
Total revenue and support	<u>15,013,401</u>	<u>(814,461)</u>	<u>14,198,940</u>
Expenses:			
Program services	<u>11,712,205</u>	<u>-</u>	<u>11,712,205</u>
Supporting services:			
Management and general	948,751	-	948,751
Fundraising	<u>689,238</u>	<u>-</u>	<u>689,238</u>
Total supporting services	<u>1,637,989</u>	<u>-</u>	<u>1,637,989</u>
Total expenses	<u>13,350,194</u>	<u>-</u>	<u>13,350,194</u>
Change in net assets	1,663,207	(814,461)	848,746
Net assets, beginning of year	<u>6,437,988</u>	<u>1,704,758</u>	<u>8,142,746</u>
Net assets, end of year	<u>\$ 8,101,195</u>	<u>\$ 890,297</u>	<u>\$ 8,991,492</u>

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

THE ROSE
STATEMENTS OF FUNCTIONAL EXPENSES
FOR THE YEARS ENDED JULY 31, 2020 AND 2019

Description	2020				2019			
	Program Services	Management and General	Fundraising	Totals	Program Services	Management and General	Fundraising	Totals
Expenses:								
Salaries and related expenses	5,151,756	513,997	396,884	\$ 6,062,637	\$ 5,073,635	\$ 518,964	\$ 411,281	\$ 6,003,880
Medical supplies	238,160	-	-	238,160	329,196	-	-	329,196
Physician fees	1,755,898	-	-	1,755,898	2,194,115	-	-	2,194,115
Professional fees	898,053	207,939	82,916	1,188,908	876,236	194,477	82,051	1,152,764
Occupancy	415,393	148,704	87,093	651,190	410,311	51,288	51,288	512,887
Rent	401,989	16,250	15,525	433,764	342,261	15,385	14,703	372,349
Software, repairs and maintenance	601,054	42,538	33,921	677,513	525,801	42,139	32,439	600,379
Insurance	564,921	43,985	29,492	638,398	539,965	39,986	28,088	608,039
Interest - SBA and LOC	-	-	-	-	41,232	-	-	41,232
Office expense and printing	69,462	15,580	13,944	98,986	59,193	19,988	15,341	94,522
Telephone and utilities	97,323	8,120	8,754	114,197	100,925	8,762	10,062	119,749
Postage and delivery	78,078	3,463	1,977	83,518	86,920	2,840	3,840	93,600
Provision for doubtful accounts	90,566	-	-	90,566	50,980	-	-	50,980
Pension	35,960	3,703	1,987	41,650	36,910	3,114	2,689	42,713
Depreciation of equipment	854,375	14,743	8,397	877,515	870,937	13,243	6,897	891,077
Vehicle expenses	61,124	2,238	5,314	68,676	86,889	2,795	5,845	95,529
Other	74,205	45,016	21,141	140,362	86,699	35,770	24,714	147,183
Total expenses	<u>\$ 11,388,317</u>	<u>\$ 1,066,276</u>	<u>\$ 707,345</u>	<u>\$ 13,161,938</u>	<u>\$ 11,712,205</u>	<u>\$ 948,751</u>	<u>\$ 689,238</u>	<u>\$ 13,350,194</u>

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

THE ROSE
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JULY 31, 2020 AND 2019

	<u>2020</u>	<u>2019</u>
Cash flows from operating activities:		
Change in net assets	\$ 701,818	\$ 848,746
Adjustments to reconcile net assets to net cash provided by operating activities:		
Depreciation expense	998,223	1,004,690
(Gain) loss on disposal of equipment	(50,000)	22,628
Loss on sale of investments	-	379
Donated stock	-	(5,000)
Bad debt expense	90,566	50,980
Change in operating assets and liabilities:		
Accounts receivable	250,654	(157,037)
Grants receivable	(78,278)	(32,935)
Pledges receivable	(62,401)	-
Other receivables	-	114,917
Prepaid expenses and other assets	(208,053)	28,470
Accounts payable	54,454	(123,101)
Accrued liabilities	(86,031)	129,888
Deferred rent	526,903	-
Net cash provided by operating activities	<u>2,137,855</u>	<u>1,882,625</u>
Cash flows from investing activities:		
Purchase of property and equipment	(1,337,113)	(1,593,132)
Proceeds from sale of donated stock	-	4,621
Net cash used in investing activities	<u>(1,337,113)</u>	<u>(1,588,511)</u>
Cash flows from financing activities:		
Proceeds from line of credit	-	480,999
Proceeds from notes payable	1,285,000	-
Payments on line of credit	-	(1,108,172)
Payments on notes payable	(201,072)	(228,254)
Payments on capital lease obligation	-	(13,774)
Net cash used in financing activities	<u>1,083,928</u>	<u>(869,201)</u>
Net decrease in cash and cash equivalents	1,884,670	(575,087)
Cash and cash equivalents, beginning of year	<u>3,064,174</u>	<u>3,639,261</u>
Cash and cash equivalents, end of year	<u>\$ 4,948,844</u>	<u>\$ 3,064,174</u>
Supplemental disclosures of cash flows information:		
Interest paid	<u>\$ 91,465</u>	<u>\$ 141,415</u>
Non-cash investing activities:		
Purchase of equipment with trade-in	<u>\$ 50,000</u>	<u>\$ 50,000</u>

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

THE ROSE

NOTES TO FINANCIAL STATEMENTS

1. Organization and Nature of Operations

The Rose is a Texas nonprofit corporation organized in 1986 for the purpose of providing breast cancer screening, diagnostic services and education, and assisting in the placement of women for any needed treatment. The Rose operates in two locations in the Houston, Texas area and also utilizes mobile screening services. The Rose's Empower Her sponsorship program and other programs are supported primarily by patient services fees, contributions from foundations and other nonprofit organizations, and federal and state awards.

2. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying financial statements of The Rose have been prepared using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") promulgated by the Financial Accounting Standards Board ("FASB") related to financial statements of not-for-profit organizations. Accordingly, net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. The net assets of The Rose and changes therein are classified and reported as follows:

Net assets without donor restrictions – Net assets that are not subject to donor-imposed stipulations. Net asset without donor restrictions may be designated for specific purposes by action of the Board of Directors or may otherwise be limited by contractual agreements with outside parties. The Rose had net assets without donor restrictions of \$8,468,689 and \$8,101,195 as of July 31, 2020 and 2019, respectively.

Net assets with donor restrictions – Net assets subject to donor-imposed stipulations. Net assets with donor-imposed restrictions include net assets that are either (i) restricted until the donor-imposed stipulation has been met through the passage of time and/or by actions of the Board of Directors, or (ii) expected to be maintained in perpetuity. When a purpose restriction is accomplished or a time restriction ends, the net assets with donor restrictions are released to net assets without donor restrictions. The Rose had net assets with donor restrictions of \$1,261,617 and \$890,297 as of July 31, 2020 and 2019, respectively.

Use of Estimates

The preparation of The Rose's financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, the reported amounts of revenues and expenses during the reporting period, and the allocation of expenses among various programs. Actual results could differ from those estimates.

Cash and Cash Equivalents

The Rose considers all cash and highly liquid short-term investments available for current use with an initial maturity of three months or less to be cash equivalents.

Accounts Receivable

Accounts receivable consist primarily of fees due to The Rose from program services.

Grants Receivable

Grants receivable are recorded as revenue at fair value when an unconditional commitment is received from a donor.

Pledges Receivable

Pledges receivable are recognized when the donor makes a pledge to give to The Rose that is, in substance, unconditional. Pledges receivable that are expected to be collected within one year are recorded at net realizable value. Pledges receivable that are expected to be collected in more than one year are discounted to estimate the present value of future cash flows. Pledges receivable as of July 31, 2020 and 2019 consist of pledges received in support of The Rose's medical equipment acquisitions and other programs which are expected to be collected within one year.

THE ROSE

NOTES TO FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies, continued

Allowance for Doubtful Accounts

The Rose uses the allowance method to determine uncollectable receivables. The allowance for doubtful accounts is regularly evaluated by management and is based on management's past experience with patients, insurance providers, and donors. Receivables are considered impaired if payments are not received in accordance with contractual terms. Account balances are charged against the allowance for doubtful accounts after all means for collection have been exhausted and the potential for recovery is considered remote. As of July 31, 2020 and 2019, the allowance for doubtful accounts was \$45,208 and \$58,745, respectively.

Property and Equipment

Property and equipment is recorded at cost. Donated property and equipment are recorded at their estimated fair value at the date of donation. The Rose's policy is to capitalize expenditures for substantial renewals and betterments in excess of \$1,000, with a useful life greater than one year, while repairs and maintenance are charged to expense as incurred. Depreciation is recorded using the straight-line method over the estimated useful lives of the assets which range from five to thirty-nine years. Assets under capital lease are included in equipment and depreciated as such (see Note 5).

Long-Lived Assets

Long-lived assets, such as property and equipment, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If circumstances require a long-lived asset be tested for possible impairment, The Rose first compares undiscounted cash flows expected to be generated by an asset to the carrying value of the asset. If the carrying value of the long-lived asset is not recoverable on an undiscounted cash flow basis, an impairment is recognized to the extent the carrying value exceeds its fair value. No impairment on long-lived assets was recognized for the years ended July 31, 2020 and 2019. Long-lived assets to be disposed of by sale are reported at the lower of their carrying amount or their fair value less costs to sell and are not depreciated.

Support and Grant Revenue

Contributions and grants received are recorded as contributions without donor restrictions or contributions with donor restrictions depending on the existence and/or nature of any donor-imposed stipulation. Expirations of restrictions on net assets (i.e., the donor-imposed restriction has been fulfilled and/or the stipulated time period has elapsed) are reported as net assets released from restrictions in the Statements of Activities. Revenues from fundraising events are recognized at the time of sale and are considered to be without donor restrictions.

In-kind contributions are recorded at their fair values in the period received. For the years ended July 31, 2020 and 2019, included in unrestricted support and grants in the accompanying Statements of Activities are in-kind contributions of \$7,532 and \$19,437, respectively.

The Rose reports gifts of land, buildings and equipment as contributions without donor restrictions, unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets, with explicit restrictions that specify how the assets are to be used, and gifts of cash or other assets that must be used to acquire long-lived assets are reported as contributions with donor restrictions.

Unconditional promises to give are recorded at their fair market value in the period in which The Rose was notified of the intent of the contribution. Conditional promises to give are not included in contributions until such time as the conditions are substantially met.

Service Fee Revenue

Program service fees are recognized when services are performed and are net of related insurance, policy, or sponsorship adjustments.

THE ROSE

NOTES TO FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies, continued

Contributed Services

In accordance with FASB Accounting Standards Codification Topic 958-605, *Not-for-Profit Entities – Accounting for Contributions Received and Contributions Made*, The Rose recognizes contributed services at their estimated fair value if the services received (i) create or enhance long-lived assets or (ii) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. The Rose receives donated services from volunteers, including board members, in support of program services. For the years ended July 31, 2020 and 2019, included in unrestricted support and grants in the accompanying Statements of Activities are contributed legal services of \$1,050 and \$5,641 respectively.

Income Taxes

The Rose is a not-for-profit organization exempt from federal income taxes under Internal Revenue Code (“IRC”) Section 501(c)(3) except on net income derived from unrelated business activities. The Rose qualifies for charitable contribution deductions and has been classified as an organization other than a private foundation under IRC Section 509(a)(2).

The Rose has real estate rental activity which is subject to tax on unrelated business income. A portion of The Rose’s office building, located in Southeast Houston, houses The Rose’s operations and the remaining space is leased to unrelated parties. During the years ended July 31, 2020 and 2019, The Rose did not incur any federal income tax liability as a result of any unrelated business income. The Rose believes that it has appropriate support for any tax positions taken, and as such, does not have any uncertain tax positions that are material to the financial statements.

The most significant tax positions of The Rose are its assertions that it is exempt from income taxes and its determination of whether any amounts are subject to unrelated business income tax. All significant tax positions have been considered by management. It has been determined that it is more likely than not that all tax positions would be sustained upon examination by taxing authorities.

The Rose’s Federal Exempt Organization Business Income Tax Return (Form 990) for the years ended July 31, 2020, 2019, 2018, and 2017 are subject to examination by the IRS, generally for three years after the return was filed.

Functional Expense Allocation

The costs of providing various programs and other activities have been summarized on a functional basis in the Statements of Activities and in the Statements of Functional Expenses. Expenses that can be directly identifiable with the programs or supporting services to which they relate are charged accordingly. Other expenses that are not directly identifiable with specific programs or supporting services are allocated among programs or supporting services based on approximations developed by management.

Recently Issued Accounting Pronouncements

In May 2014, the FASB issued Accounting Standards Update (“ASU”) No. 2014-09, which creates Topic 606, *Revenue from Contracts with Customers*, and supersedes nearly all existing revenue recognition guidance under U.S. GAAP. The core principle of ASU No. 2014-09 is that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which an entity expects to be entitled to those goods or services. Additionally, ASU No. 2014-09 requires enhanced financial statement disclosures over the nature, amount, timing, and uncertainty of revenue recognition as part of the new accounting guidance. Initially, the amendments for ASU No. 2014-09 were effective for annual periods beginning after December 15, 2017, including interim periods within that reporting period, and early application was not permitted. In August 2015, the FASB issued ASU No. 2015-14 and agreed to give companies an extra year to comply with the new standard. In June 2020, the FASB issued ASU No. 2020-05, which provides private companies and non-profit organizations that have not yet applied the new revenue recognition provisions an additional year to comply with the new standard due to unique challenges resulting from the COVID-19 pandemic; thus, ASU No. 2014-09 will be effective for The Rose for the annual reporting period beginning August 1, 2020. ASU No. 2014-09 may be applied retrospectively to each prior period presented, or retrospectively with the cumulative effect recognized as of the date of adoption. Management does not expect the adoption of ASU No. 2014-09 to have a significant impact on the financial statements.

THE ROSE
NOTES TO FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies, continued

Recently Issued Accounting Pronouncements

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*, which requires lessees to recognize the following for all leases (with the exception of short-term leases) at the commencement date: (i) a lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis; and (ii) a right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term. Under ASU No. 2016-02, lessor accounting is largely unchanged. ASU No. 2016-02 is effective for fiscal years beginning after December 15, 2019 with early application permitted. Lessees and lessors must apply a modified retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. The modified retrospective approach would not require any transition accounting for leases expiring before the earliest comparative period presented. Lessees and lessors may not apply a full retrospective transition approach. In July 2019, the FASB approved the delay of the effective date of ASU No. 2016-02 by one year (effective for annual periods beginning after December 15, 2020). In June 2020, the FASB issued ASU No. 2020-05, which allowed certain entities who had not yet issued their financial statements (or made financial statements available for issuance) reflecting the adoption of ASU No. 2016-02 to defer implementation for one year due to unique challenges resulting from the COVID-19 pandemic. Accordingly, ASU No. 2016-02 is effective for The Rose for the year beginning August 1, 2022. Management is currently evaluating the effect the provisions of ASU No. 2016-02 will have on The Rose's financial statements.

In August 2018, the FASB issued ASU No. 2018-13, *Fair Value Measurement (Topic 820): Disclosure framework - Changes to the Disclosure Requirements for Fair Value Measurement*, which is part of the FASB disclosure framework project to improve the effectiveness of disclosures in the notes to the financial statements. The amendments in the new guidance remove, modify, and add certain disclosure requirements related to fair value measurements covered in FASB ASC Topic 820 ("ASC 820"), *Fair Value Measurements and Disclosures*. The new standard is effective for fiscal years beginning after December 15, 2019. Early adoption is permitted for either the entire standard or only the requirements that modify or eliminate the disclosure requirements, with certain requirements applied prospectively, and all other requirements applied retrospectively to all periods presented. Management does not expect the adoption of ASU No. 2018-13 to have a significant impact on The Rose's financial statements.

Reclassifications

Certain prior year balances have been reclassified in order to conform to the current year presentation. Such reclassifications have no impact on net assets and changes in net assets as previously reported.

3. Pledges Receivable

Pledges receivable consist of amounts expected to be collected within one year. At July 31, 2020 and 2019, pledges receivable consist of the following:

	<u>2020</u>	<u>2019</u>
Contributions without donor restrictions	\$ 231,648	\$ 209,247
Contributions with donor restrictions	<u>50,000</u>	<u>10,000</u>
Total pledges receivable	<u>\$ 281,648</u>	<u>\$ 219,247</u>

THE ROSE
NOTES TO FINANCIAL STATEMENTS

4. Prepaid Expenses and Other Assets

At July 31, 2020 and 2019, prepaid expenses and other assets, as presented in the Statements of Financial Position, include the following:

	<u>2020</u>	<u>2019</u>
Prepaid insurance	\$ 31,918	\$ 34,441
Prepaid equipment and maintenance contracts	171,614	178,621
Down payment on mobile coach	162,318	-
Other assets	<u>111,111</u>	<u>55,846</u>
Total prepaid expenses and other assets	<u>\$ 476,961</u>	<u>\$ 268,908</u>

5. Property and Equipment

At July 31, 2020 and 2019, property and equipment consist of the following:

	<u>2020</u>	<u>2019</u>
Furniture, fixtures and equipment	\$ 7,781,209	\$ 7,805,227
Building	4,495,779	4,381,790
Leasehold improvements	629,552	-
Land	460,496	460,496
Vehicles	<u>1,271,343</u>	<u>1,271,343</u>
	14,638,379	13,918,856
Accumulated depreciation	<u>(7,178,493)</u>	<u>(6,847,860)</u>
Property and equipment, net	<u>\$ 7,459,886</u>	<u>\$ 7,070,996</u>

Included in total accumulated depreciation at July 31, 2019 is accumulated depreciation on equipment acquired under capital lease of \$108,438. During the year ended July 31, 2019, the capital lease matured and ownership of the equipment transferred to The Rose. Depreciation expense for all property and equipment, including equipment acquired under capital lease, for the years ended July 31, 2020 and 2019 was \$998,223 and \$1,004,690, respectively.

6. Accrued Liabilities

At July 31, 2020 and 2019, accrued liabilities consist of the following:

	<u>2020</u>	<u>2019</u>
Accrued property taxes	\$ 91,950	\$ 65,844
Accrued salaries and payroll taxes	209,373	322,810
Accrued employee leave	407,183	350,439
Other accrued expenses	<u>53,775</u>	<u>109,219</u>
Total accrued liabilities	<u>\$ 762,281</u>	<u>\$ 848,312</u>

7. Lines of Credit

Effective May 9, 2019, an existing loan agreement with Texas Citizens Bank, N.A for a \$500,000 revolving line of credit was renewed with substantially the same terms, except the interest rate was increased from 6.00% to 7.25% per year and was extended to May 9, 2021. The line of credit is secured by deeds of trust for real property tracts I, II and III, located in the South Green subdivision of Harris County, Texas and all fixtures, accessories and personal property attached to or associated with the real estate. Interest is due and payable monthly and principal and accrued unpaid interest is due and payable at maturity. At July 31, 2020 and 2019, no balance was outstanding on this line of credit.

THE ROSE
NOTES TO FINANCIAL STATEMENTS

7. Lines of Credit, continued

Effective May 9, 2019, an existing loan agreement with Texas Citizens Bank, N.A for a \$2,000,000 revolving line of credit, bearing interest at 7.25% per year, was renewed with substantially the same terms, and extended to May 9, 2021. The line of credit is secured by deeds of trust for real property tracts I, II and III, located in the South Green subdivision of Harris County, Texas and all fixtures, accessories and personal property attached to or associated with the real estate. Interest is due and payable monthly and principal and accrued unpaid interest is due and payable at maturity. At July 31, 2020 and 2019, no balance was outstanding on this line of credit.

8. Notes Payable

Effective August 9, 2011, The Rose entered into a \$2,164,779 note payable agreement with a financial institution, bearing interest at 6.85% per annum, and maturing on August 9, 2026. The note payable is secured by deeds of trust for real property tracts I, II and III, located in the South Green subdivision of Harris County, Texas. Principal and interest payments of \$19,399 are due and payable in monthly installments; however, effective for the period October 9, 2017 through March 9, 2018, the financial institution granted The Rose a deferral of principal payments due to Hurricane Harvey. The deferred principal is due and payable in one lump sum at maturity. At July 31, 2020 and 2019, \$1,227,565 and \$1,369,302, respectively, was outstanding on the note payable.

Effective March 2, 2009, The Rose entered into a \$998,100 note payable agreement with a financial institution, bearing interest at 4.00% per annum, and maturing on March 2, 2019. Effective February 22, 2019, the loan maturity date was extended to March 2, 2020. The note payable is secured by deed of trust on real estate located at 12700 North Featherwood Drive, Houston, Texas. Principal and interest payments of \$10,528 are due and payable in monthly installments; however, effective for the period October 2, 2017 through September 2, 2018, the financial institution granted The Rose a deferral of principal and interest payments due to Hurricane Harvey. The deferred principal and interest are due and payable in one lump sum at maturity. At July 31, 2020 and 2019, \$0 and \$59,335 respectively, was outstanding on the note payable.

On March 27, 2020, the President of the United States signed into law the Coronavirus Aid, Relief, and Economic Security ("CARES") Act, which, among other things, includes the Paycheck Protection Program (the "PPP"). On April 15, 2020, pursuant to the PPP, The Rose received proceeds from an unsecured loan with a financial institution in the amount of \$1,135,000, bearing interest at a rate of 1.00% per year, and maturing April 15, 2022. The CARES Act allows principal, interest, and fees to be deferred for six months ("deferral period"), and accordingly, interest and principal is due and payable in monthly installments of \$64,556 beginning October 10, 2020. Under the CARES Act, loan forgiveness may be available for certain qualifying expenses as defined in the CARES Act. On June 5, 2020, the President of the United States signed into law the PPP Flexibility Act, which, among other things, extended the deferral period for all entities that have applied for forgiveness from six months to the date that the financial institution receives the approved loan forgiveness funds from the Small Business Administration. Management has applied for forgiveness of the loan and believes it has expended the loan proceeds in accordance with the provisions of the PPP, which should allow for full forgiveness of the loan. If forgiveness is not granted, principal and interest are due and payable in equal monthly installments on the 15th day of each month subsequent to the date that a final determination is made that no portion of the loan will be forgiven. At July 31, 2020, \$1,135,000 was outstanding on the note.

Effective June 25, 2020, The Rose entered into a \$150,000 note payable agreement with a financial institution, bearing interest at 2.75% per annum, and maturing on June 25, 2030. The note is collateralized by all assets of The Rose. Principal and interest payments of \$641 are due and payable in monthly installments beginning June 25, 2021. At July 31, 2020, \$150,000 was outstanding on the note payable.

Future maturities of notes payable at July 31, 2020 are as follows:

<u>For the Year</u> <u>Ending July 31,</u>	
2021	\$ 152,622
2022	213,706
2023	743,829
2024	714,249
2025	204,867
Thereafter	<u>483,292</u>
	<u>\$ 2,512,565</u>

THE ROSE
NOTES TO FINANCIAL STATEMENTS

9. Commitments

The Rose has various non-cancelable operating lease agreements for equipment and equipment maintenance. The existing leases have varying expiration dates with the longest current lease expiring in July 2025. During the years ended July 31, 2020 and 2019, The Rose incurred equipment lease and equipment lease maintenance expense of \$215,673 and \$296,732, respectively.

Future annual minimum lease payments for equipment and equipment maintenance at July 31, 2020 are as follows:

<u>For the Year</u> <u>Ending July 31,</u>	
2021	\$ 198,668
2022	97,104
2023	79,062
2024	30,943
2025	<u>13,977</u>
	<u>\$ 419,754</u>

On March 27, 2009, The Rose executed a lease agreement for 8,604 square feet of office space for its Galleria area facility. The lease, commencing on October 1, 2009, has an initial term of 122 months, expiring on November 30, 2019, and provides a onetime five-year renewal option. Lease payments are due and payable in monthly installments which include monthly base rent that escalates annually over the term of the lease, as well as monthly additional rent to cover operating expense of the premises. The lease maturity date was extended to March 31, 2020. During the years ended July 31, 2020 and 2019, rental expense for this facility was \$228,370 and \$286,437, respectively.

On November 19, 2019, The Rose executed a lease agreement for 8,019 square feet of office space for its Galleria area facility. The lease, commencing on January 1, 2020, has an initial term of 138 months, expiring on June 30, 2031, and provides a onetime ten-year renewal option. Lease payments are due and payable in monthly installments which include monthly base rent that escalates annually over the term of the lease, as well as monthly additional rent to cover operating expenses of the premises and reserved parking. The lease agreement includes a build-out allowance, accounted for as a lease incentive, deferred and amortized as a reduction of lease expense over the term of the lease. The build-out costs are capitalized and amortized on a straight-line basis over the term of the lease. Lease expense is recognized on a straight-line basis over the term of the lease and deferred rent is recognized for the difference between rent expense and the related lease payments. During the year ended July 31, 2020, rental expense for this facility was \$58,929.

Future annual minimum lease payments for this facility at July 31, 2020 are as follows:

<u>For the Year</u> <u>Ending July 31,</u>	
2021	\$ 110,395
2022	237,055
2023	242,996
2024	249,030
2025	255,292
Thereafter	<u>1,646,194</u>
	<u>\$ 2,740,962</u>

THE ROSE
NOTES TO FINANCIAL STATEMENTS

10. Concentrations of Credit Risk and Major Contributors

Cash Balances

The Rose holds a portion of its cash and cash equivalents at financial institutions which are insured by the Federal Deposit Insurance Corporation ("FDIC"). At various times during the years ended July 31, 2020 and 2019, these balances exceeded FDIC and alternative insurance coverage limits; however, The Rose has not experienced any losses from these deposits.

Accounts Receivable

At July 31, 2020 and 2019, approximately \$354,607 (74%) and \$371,830 (44%) of The Rose's accounts receivable from program service fees were due from various agencies of the State of Texas resulting from contracts with the Department of State Health Services, Medicare of Texas and Medicaid of Texas.

Support and Grant Revenue

For the year ended July 31, 2020, \$1,400,000 (24%) of The Rose's support and grant revenues were from one donor, and for the year ended July 31, 2019, \$400,000 (13%) of The Rose's support and grant revenues were from two donors.

11. Retirement Plan

The Rose sponsors a defined contribution plan, with a December 31 year end, which allows all employees meeting certain age and service requirements to defer up to 100% of their wages as contributions subject to Internal Revenue Service maximum limitations. Employer matching and profit-sharing contributions to the plan are made at the discretion of the Board of Directors and accordingly, The Rose made employer matching contributions equal to 50% of an employee's salary deferrals up to 3% of the employee's compensation. Employer matching contribution expense of \$41,650 and \$42,713 for the years ended July 31, 2020 and 2019, respectively, is included in the accompanying Statements of Functional Expenses.

12. Building Operations

Included in property and equipment is a 33,532 square foot building located in Southeast Houston where The Rose Diagnostic Imaging Center and its administrative offices are located. During the year ended July 31, 2020, The Rose leased 4,926 square feet of this building to one unrelated third party, and during the year ended July 31, 2019, The Rose leased 12,301 square feet of this building to two unrelated third parties, as follows:

Effective October 1, 2017, The Rose amended and extended an existing operating lease agreement in which The Rose leases 4,926 square feet of office space to an unrelated third party for 60 months, expiring on September 30, 2022.

Effective October 1, 2017, The Rose amended and extended an additional existing operating lease agreement in which The Rose leased 7,375 square feet of office space to an unrelated third party for 12 months, expiring on September 30, 2018. This operating lease was subsequently extended for an additional four month period from October 1, 2018 through January 31, 2019.

Lease payments for both leases are due and payable in monthly installments. During the years ended July 31, 2020 and 2019, The Rose received lease income of \$163,787 and \$491,540, respectively.

Future annual minimum lease payments due to The Rose at July 31, 2020 are as follows:

<u>For the Year</u> <u>Ending July 31,</u>	
2021	\$ 183,548
2022	186,108
2023	<u>31,018</u>
	<u>\$ 400,674</u>

THE ROSE
NOTES TO FINANCIAL STATEMENTS

12. Building Operations, continued

Included in the Statements of Activities is building lease income presented net of related expenses. Related expenses are allocated between The Rose and the lessees based on square footage.

For the years ended July 31, 2020 and 2019, the allocation of building expense between The Rose and the lessees are as follows:

	2020		
	<u>The Rose</u>	<u>Lessees</u>	<u>Total</u>
Depreciation	\$ 102,975	\$ 17,733	\$ 120,708
Mortgage interest	78,153	13,458	91,611
Property taxes	154,414	26,590	181,004
Insurance	37,683	6,489	44,172
Other operating costs	<u>277,965</u>	<u>47,866</u>	<u>325,831</u>
Total building expenses	<u>\$ 651,190</u>	<u>\$ 112,136</u>	<u>\$ 763,326</u>

	2019		
	<u>The Rose</u>	<u>Lessees</u>	<u>Total</u>
Depreciation	\$ 71,935	\$ 41,678	\$ 113,613
Mortgage interest	63,432	36,751	100,183
Property taxes	79,854	46,267	126,121
Insurance	27,101	15,702	42,803
Other operating costs	<u>270,565</u>	<u>156,762</u>	<u>427,327</u>
Total building expenses	<u>\$ 512,887</u>	<u>\$ 297,160</u>	<u>\$ 810,047</u>

For the years ended July 31, 2020 and 2019, building lease income, net of related expenses, as presented in the Statements of Activities, are as follows:

	<u>2020</u>	<u>2019</u>
Building lease income	\$ 163,787	\$ 491,540
Building expenses allocable to lessees	<u>(112,136)</u>	<u>(297,160)</u>
Building lease income, net	<u>\$ 51,651</u>	<u>\$ 194,380</u>

13. Net Assets with Donor Restrictions

At July 31, 2020 and 2019, net assets with donor restrictions are available for the following purposes:

	<u>2020</u>	<u>2019</u>
Equipment acquisitions and digital conversion	\$ 655,634	\$ 675,423
Building acquisitions	475,000	200,000
Mobile program	130,983	-
Patient service program	<u>-</u>	<u>14,874</u>
Total net assets with donor restrictions	<u>\$ 1,261,617</u>	<u>\$ 890,297</u>

THE ROSE
NOTES TO FINANCIAL STATEMENTS

14. Liquidity

The following reflects The Rose's financial assets as of July 31, 2020 and 2019, reduced by amounts not available for general use because of contractual or donor-imposed restrictions within one year of the financial position date. Amounts not available include amounts restricted for a donor specified purpose.

	2020	2019
Financial assets, at year-end	\$ 5,786,775	\$ 4,102,646
Less those unavailable for general expenditure within one year, due to contractual or donor-imposed restrictions:		
Restricted by donor with time or purpose restrictions	1,261,617	890,297
Less those unavailable for general expenditure within one year, due to designations by the board of directors:		
Designated for medical home/nurse practitioner program	1,400,000	-
Financial assets available to meet cash needs for general expenditures within one year	\$ 3,125,158	\$ 3,212,349

The Rose is substantially supported by program service fees and contributions without donor restrictions; thus, the majority of The Rose's financial assets are available for general expenditure within one year. As part of The Rose's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due.

15. Related Party Transactions

During the years ended July 31, 2020 and 2019, The Rose maintained a checking account with, and notes payable to, Texas Citizens Bank, N.A., where a board member of The Rose is a regional president.

For the years ended July 31, 2020 and 2019, included in support and grants revenue are donations from board members, or their respective employers, totaling \$82,879 and \$49,270, respectively.

For the years ended July 31, 2020 and 2019, included in support and grants revenue are donations from The Rose's officers totaling \$21,260 and \$24,966 respectively.

16. Subsequent Events

Management has evaluated subsequent events through December 4, 2020, which is the date the financial statements were available to be issued, and has concluded that there were no significant events to be reported.

SUPPLEMENTAL SCHEDULE

THE ROSE
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
FOR THE YEAR ENDED JULY 31, 2020

Federal or State Grantor/Pass-through Grantor/ Program Title	Federal CFDA Number	Pass-through Grantor Number	Expenditures
U.S. Department of Human and Health Services Texas Health and Human Services Commission Breast and Cervical Cancer Program	93.283	529-17-0023-00005	\$ 185,503
U.S. Department of Human and Health Services Texas Department of State Health Service Breast and Cervical Cancer Program	93.283		<u>101,931</u>
Total expenditures under federal grants			<u>\$ 287,434</u>
Federal or State Grantor/Pass-through Grantor/ Program Title	State Contract Number		
Texas Health and Human Services Commission Breast and Cervical Cancer Program	529-17-0023-00005		\$ 158,553
State of Texas Cancer Prevention and Research Institute of Texas Empower Her to Care Expansion	PP170091		<u>697,665</u>
Total expenditures under state grants			<u>856,218</u>
Total expenditures under federal and state grants			<u><u>\$ 1,143,652</u></u>

See accompanying note to schedule of expenditures of federal awards.

THE ROSE
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS

1. Basis of Presentation

The accompanying schedule of expenditures of federal and state awards (the "Schedule") is presented on the accrual basis of accounting and in accordance with the requirements of the *Uniform Guidance, Audits of States, Local Government, and Non-Profit Organizations* and of *Uniform Grant Management Standards, Part V, State of Texas Single Audit Circular*. Therefore, amounts presented in the Schedule may differ from amounts presented in, or used in, the preparation of the basic financial statements.

Because the Schedule presents only a selected portion of the operations of The Rose, it is not intended to and does not present the financial position, changes in net assets, or cash flows of The Rose.

PART II.

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

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

To the Board of Directors of
The Rose:

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 The Rose (a Texas nonprofit organization), which comprise the Statement of Financial Position as of July 31, 2020, 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 December 4, 2020.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered The Rose'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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of The Rose's internal control. Accordingly, we do not express an opinion on the effectiveness of The Rose's internal control.

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether The Rose'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*.

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

Purpose of this Report

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

Ham, Lou & Bragin, L.L.P.

Houston, Texas
December 4, 2020

PART III.

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

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE *UNIFORM GUIDANCE AND UNIFORM GRANT MANAGEMENT STANDARDS*, THE STATE OF TEXAS SINGLE AUDIT CIRCULAR

To the Board of Directors of
The Rose:

Report on Compliance for Each Major Federal or State Program

We have audited The Rose's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of The Rose's major federal or state programs for the year ended July 31, 2020. The Rose's major federal and state programs are identified in the Summary of Independent Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of The Rose's major federal and state 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, 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*") and the *Uniform Grant Management Standards, State of Texas Single Audit Circular*. 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 or state programs occurred. An audit includes examining, on a test basis, evidence about The Rose'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 major federal and state programs. However, our audit does not provide a legal determination of The Rose's compliance.

Opinion on Each Major Federal and State Program

In our opinion, The Rose complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal and state programs for the year ended July 31, 2020.

Report on Internal Control Over Compliance

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

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE *UNIFORM GUIDANCE AND UNIFORM GRANT MANAGEMENT STANDARDS*, THE *STATE OF TEXAS SINGLE AUDIT CIRCULAR*, continued

Report on Internal Control Over Compliance, continued

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 or state program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal or state 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 or state 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* and *Uniform Grant Management Standards, State of Texas Single Audit Circular*. Accordingly, this report is not suitable for any other purpose.

Ham, Logan & Bregin, L.L.P.

Houston, Texas
December 4, 2020

PART IV.

**SCHEDULE OF FINDINGS AND
QUESTIONED COSTS**

THE ROSE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JULY 31, 2020

SECTION I – SUMMARY OF INDEPENDENT AUDITOR’S RESULTS

FINANCIAL STATEMENTS

Type of independent auditor’s report issued: Unmodified

Internal control over financial reporting:

- Material weakness identified? ___ Yes X No
- Significant deficiency identified that is not considered to be a material weakness? ___ Yes X No

Noncompliance material to financial statements noted? ___ Yes X No

FEDERAL AND STATE AWARDS

Internal control over major programs:

- Material weakness identified? ___ Yes X No
- Significant deficiency identified that is not considered to be a material weakness? ___ Yes X No

Type of independent auditor’s report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with *Uniform Guidance* or *Uniform Grants Management Standards, State of Texas Single Audit Circular*? ___ Yes X No

Identification of major program:

<i>Name of Federal Program</i>	<i>CFDS Number</i>
U.S. Department of Human and Health Services Centers for Disease Control and Prevention Breast and Cervical Cancer Program	93.283
<i>Name of State Program</i>	<i>State Contract Number</i>
Cancer Prevention Research Institute of Texas Empower Her to Care	PP170091
Dollar threshold used to distinguish between type A and type B programs:	\$ 750,000
Auditee qualified as low-risk auditee?	<u> X </u> Yes ___ No

THE ROSE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JULY 31, 2020

SECTION II – FINANCIAL STATEMENT FINDINGS

None.

SECTION III – FEDERAL AND STATE AWARD FINDINGS AND QUESTIONED COSTS

FEDERAL AND STATE AWARD FINDINGS

None.

FEDERAL AND STATE AWARD QUESTIONED COSTS

None.

SECTION IV – SCHEDULE OF PRIOR YEAR FINDINGS

None.