

COMMUNITY ACTION AGENCY OF SOMERVILLE, INC.
(a nonprofit corporation)

**INDEPENDENT AUDITOR'S REPORT ON AUDIT OF
FINANCIAL STATEMENTS**

For the Years Ended November 30, 2013 and 2012

COMMUNITY ACTION AGENCY OF SOMERVILLE, INC.

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Community Action Agency of Somerville, Inc.
Somerville, MA

Report on the Financial Statements

We have audited the accompanying financial statements of Community Action Agency of Somerville, Inc., which comprise the statement of financial position as of November 30, 2013 and 2012, and the related statement 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 audit. We conducted our audit in accordance with audited standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit 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 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 Community Action Agency of Somerville, Inc. as of November 30, 2013 and 2012, and the change 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

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 27, 2014, on our consideration of Community Action Agency of Somerville, 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 Community Action Agency of Somerville, Inc.'s internal control over financial reporting and compliance.

Sanderson, Walsh & Eaton, LLP

Osterville, Massachusetts
May 27, 2014

COMMUNITY ACTION AGENCY OF SOMERVILLE, INC.**Statements of Financial Position**

November 30, 2013 and 2012

ASSETS

	<u>2013</u>	<u>2012</u>
Current Assets:		
Cash	\$ 262,617	\$ 140,490
Grants and contracts receivable	141,640	173,385
Prepaid expenses	18,434	72,125
Total Current Assets	<u>422,691</u>	<u>386,000</u>
Fixed Assets:		
Land	409,749	409,749
Building and improvements	2,449,099	2,449,099
Furniture, equipment and vehicles	159,244	159,244
Total Fixed Assets	<u>3,018,092</u>	<u>3,018,092</u>
Accumulated depreciation	(682,744)	(613,620)
Net Fixed Assets	<u>2,335,348</u>	<u>2,404,472</u>
Total Assets	<u>\$ 2,758,039</u>	<u>\$ 2,790,472</u>

LIABILITIES AND NET ASSETS

Current Liabilities:		
Accounts payable	\$ 111,370	\$ 52,102
Line of credit	51,577	57,147
Accrued wages and related liabilities	121,767	240,015
Deferred revenue	81,455	23,500
Long-term debt: current portion	33,139	33,139
Total Current Liabilities	<u>399,308</u>	<u>405,903</u>
Long-Term Liabilities:		
Long-term debt, less current portion	<u>1,373,899</u>	<u>1,400,260</u>
Total Long-Term Liabilities	<u>1,373,899</u>	<u>1,400,260</u>
Total Liabilities	1,773,207	1,806,163
Net Assets:		
Unrestricted	<u>984,832</u>	<u>984,309</u>
Total Net Assets	<u>984,832</u>	<u>984,309</u>
Total Liabilities and Net Assets	<u>\$ 2,758,039</u>	<u>\$ 2,790,472</u>

The accompanying notes are an integral part of these financial statements

COMMUNITY ACTION AGENCY OF SOMERVILLE, INC.

Statements of Activities

For the Years Ended November 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Revenues and Support:		
Grants and contracts	\$ 4,489,910	\$ 4,987,199
In-kind contributions	545,891	582,447
Contributions	52,589	143,061
Total Revenues and Support	<u>5,088,390</u>	<u>5,712,707</u>
Expenses:		
Head Start	4,315,212	4,945,314
Advocacy and community services	224,184	309,480
Management and general	548,471	602,833
Total Expenses	<u>5,087,867</u>	<u>5,857,627</u>
Change in Net Assets	523	(144,920)
Net Assets, Beginning of Year, previously reported	984,309	1,047,766
Restatement to reflect correction of payables and wages (see Note J)	-	81,463
Net Assets, Beginning of Year, restated	<u>984,309</u>	<u>1,129,229</u>
Net Assets, End of Year	<u>\$ 984,832</u>	<u>\$ 984,309</u>

The accompanying notes are an integral part of these financial statements

COMMUNITY ACTION AGENCY OF SOMERVILLE, INC.

Statement of Functional Expenses

For the Year Ended November 30, 2013

	Head Start	Program Services		Total Program	Management and General	Totals
		Community Services	Advocacy and			
Expenses:						
Salaries and wages	\$ 1,669,613	\$ 93,385	\$ 1,762,998	\$ 171,750	\$ 1,934,748	
Employee benefits	1,108,118	41,358	1,149,476	64,025	1,213,501	
Consultants	92,095	51,310	143,405	210,794	354,199	
Travel	17,239	863	18,102	988	19,090	
Space	457,788	34,182	491,970	49,733	541,703	
Consumable supplies	37,525	594	38,119	11,642	49,761	
In-kind expense	545,891	-	545,891	-	545,891	
Other direct expenses	317,819	2,492	320,311	39,539	359,850	
Depreciation	69,124	-	69,124	-	69,124	
Total Expenses	\$ 4,315,212	\$ 224,184	\$ 4,539,396	\$ 548,471	\$ 5,087,867	

Statement of Functional Expenses

For the Year Ended November 30, 2012

	Head Start	Program Services		Total Program	Management and General	Totals
		Community Services	Advocacy and			
Expenses:						
Salaries and wages	\$ 2,070,538	\$ 162,843	\$ 2,233,381	\$ 272,479	\$ 2,505,860	
Employee benefits	1,189,502	61,780	1,251,282	120,219	1,371,501	
Consultants	120,362	4,343	124,705	95,877	220,582	
Travel	17,524	2,409	19,933	1,208	21,141	
Space	482,917	50,980	533,897	59,584	593,481	
Consumable supplies	91,374	3,688	95,062	7,858	102,920	
In-kind expense	582,447	-	582,447	-	582,447	
Other direct expenses	318,086	23,437	341,523	45,608	387,131	
Depreciation	72,564	-	72,564	-	72,564	
Total Expenses	\$ 4,945,314	\$ 309,480	\$ 5,254,794	\$ 602,833	\$ 5,857,627	

The accompanying notes are an integral part of these financial statements

COMMUNITY ACTION AGENCY OF SOMERVILLE, INC.

Statements of Cash Flows

For the Years Ended November 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Cash Flows from Operating Activities:		
Increase (decrease) in net assets	\$ 523	\$ (144,920)
Adjustments to reconcile changes in net assets provided by operating activities:		
Depreciation	69,124	72,564
(Increase) decrease in operating assets:		
Grants and contracts receivable	31,745	75,451
Prepaid expenses	53,691	31,928
Increase (decrease) in operating liabilities:		
Accounts payable	59,268	(79,797)
Accrued wages and related liabilities	(118,248)	115,349
Deferred revenue	57,955	23,500
Net Cash Provided by Operating Activities	<u>154,058</u>	<u>94,075</u>
Cash Flows from Investing Activities:		
Purchase of equipment	-	-
Sale of equipment	-	-
Net Cash Used in Investing Activities	<u>-</u>	<u>-</u>
Cash Flows from Financing Activities:		
Repayments of note payable	(31,931)	(30,123)
Net Cash Provided by Financing Activities	<u>(31,931)</u>	<u>(30,123)</u>
Net Increase (Decrease) in Cash	122,127	63,952
Cash, Beginning of Year	<u>140,490</u>	<u>76,538</u>
Cash, End of Year	<u>\$ 262,617</u>	<u>\$ 140,490</u>
Supplemental Cash Flow Information:		
Cash expended for interest	<u>\$ 88,857</u>	<u>\$ 91,203</u>

The accompanying notes are an integral part of these financial statements

COMMUNITY ACTION AGENCY OF SOMERVILLE, INC.

Notes to Financial Statements

For the Years Ended November 30, 2013 and 2012

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Organization

The Community Action Agency of Somerville, Inc. (the Organization) is a non-profit organization organized to cooperate with and assist governmental and private agencies in accomplishing the purposes described in the Economic Opportunity Act of 1964. Its principal activities consist of carrying out Community Action Programs such as the Head Start program which serves 355 children from low-income families in Somerville and Cambridge each year.

Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

Tax Exempt Status

The Organization is a not-for-profit corporation exempt from taxes under Internal Revenue Code 501(c)(3) and is not defined as a private foundation. The Organization 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 organization's federal Exempt Organization Business Income Tax Returns (Form 990) for 2009, 2010, and 2011 are subject to examination by the IRS, generally for three years after they were filed.

Financial Statement Presentation

The Organization reports information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted and permanently restricted. Restrictions on net assets may only be imposed by donors, not by the Board of Directors or any other body. Temporary restrictions are those restrictions that are satisfied through the passage of time or through specific performance. Permanent restrictions, as the name implies, never lapse.

Cash and Cash Equivalents

For the purposes of the statements of cash flows, the Organization considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

Grants Receivable

The Organization received almost all its funding from government agencies both directly and indirectly. The vast majority (approximately 95%) of its programs are funded by the U.S. Department of Health and Human Services. The Organization historically has not experienced significant amounts of bad debt and therefore no allowance for doubtful accounts has been provided.

Revenue Recognition

Revenue from grants and contracts is recognized in the period which the services are performed.

COMMUNITY ACTION AGENCY OF SOMERVILLE, INC.

Notes to Financial Statements

For the Years Ended November 30, 2013 and 2012

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures 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.

Fixed Assets

Property and equipment with a useful life greater than one year is stated at cost. Donated property is recorded at fair market value on the date of the gift. The Organization's policy is to capitalize property and equipment costing \$5,000 or more. Depreciation is calculated on a straight-line basis based on the following useful lives:

Property and Equipment	5-7 years
Vehicles	3-5 years
Building	40 years

Deferred Revenue

Grant monies received prior to the performance of services are deferred and recognized in the period in which services are performed.

Functional Expenses

Expenses are charged directly to program, administrative or fundraising in general categories based on specific identification. Indirect expenses have been allocated based on management estimates of expenditures.

Advertising

The Organization follows the policy of charging the costs of advertising to expense as incurred. Advertising costs incurred for the years ended November 30, 2013 and 2012, was \$1,291 and \$537, respectively.

Compensated absences

The Organization accrues compensated absences for vacation and sick days and totaled for the years ended November 30, 2013 and 2012 \$58,210 and \$175,798, respectively.

NOTE B - GRANTS AND CONTRACTS RECEIVABLE:

Grants and contracts receivable consisted of the following at November 30, 2013 and 2012:

	2013	2012
U.S. Department of Health & Human Services:		
Head Start Grant	\$ 77,768	\$ 40,649
Community Service Block Grant	32,392	50,572
U.S. Department of Agriculture:		
Childcare food services	21,463	48,533
Commonwealth of Massachusetts:		
Supplemental Head Start Grant	-	33,631
United Way	10,017	-
Total Grants and Contracts Receivable	<u>\$ 141,640</u>	<u>\$ 173,385</u>

COMMUNITY ACTION AGENCY OF SOMERVILLE, INC.

Notes to Financial Statements

For the Years Ended November 30, 2013 and 2012

NOTE C- FIXED ASSETS:

Property and equipment consisted of the following at November 30, 2013 and 2012:

	2013	2012
Buildings	\$ 2,449,099	\$ 2,449,099
Property and Equipment	127,570	127,570
Vehicles	31,674	31,674
	<u>2,608,343</u>	<u>2,608,343</u>
Less: Accumulated Depreciation	(682,744)	(613,620)
	<u>\$ 1,925,599</u>	<u>\$ 1,994,723</u>

The Organization also had land which was not depreciated with a balance of \$409,749 at November 30, 2013 and 2012. Depreciation expense for the years ended November 30, 2013 and 2012, was \$69,124 and \$72,564, respectively.

NOTE D - LINE OF CREDIT:

The Organization has an unsecured \$100,000 line of credit with Citizens Bank. The line of credit bears interest at the prime rate plus 1.0% (4.25% at November 30, 2013 and 4.25% at November 30, 2012) and is due on demand.

Borrowing on the line of credit was \$51,577 and \$57,147 at November 30, 2013 and 2012, respectively.

NOTE E - OPERATING LEASES:

The Organization leases office and classroom space from various leases ranging from 1 - 5 years. The rental expense for the years ended November 30, 2013 and 2012, was \$441,640 and \$345,004, respectively. The approximate minimum future rental commitments under all such operating leases, with renewal options, as of November 30, 2013, are as follows:

2014	\$ 396,628
2015	410,778
2016	425,486
2017	440,775
2018	-
	<u>\$ 1,232,892</u>

NOTE F - TAX-DEFERRED ANNUITY PLAN:

During the years ended November 30, 2013 and 2012, the Organization had tax-deferred annuity plans qualified under Section 403(b) of the Internal Revenue Code. The plans cover full-time employees of the Organization. The Organization contributes 6% of gross salaries for qualified administration employees and 4% of gross salaries for qualified union employees to the plans. Employees may contribute to the plans up to the maximum amount allowed by the Internal Revenue Code. Pension expense was \$87,557 and \$113,327, respectively, for the years ended November 30, 2013 and 2012.

COMMUNITY ACTION AGENCY OF SOMERVILLE, INC.

Notes to Financial Statements

For the Years Ended November 30, 2013 and 2012

NOTE G - MORTGAGE PAYABLE:

On July 1, 2004, the Organization entered into two loan agreements totaling \$1,746,000 with Boston Community Capital to finance the acquisition, development and construction of 29-33 Allen Street Somerville to house the Organization's Head Start program. During the acquisition and construction period, interest was capitalized and due on the amount of outstanding loan disbursements each month. At November 30, 2013 and 2012, the unpaid principal balance was \$1,407,038 and \$1,433,399, respectively. Starting on November 15, 2008, interest was set for each 12 month period until the maturity date at a fixed rate equal to LIBOR plus 2%. The maturity date of the note is January 21, 2020. The note is a direct-reduction mortgage-style basis over a twenty-nine (29) year amortization period with a balloon payment at maturity on January 21, 2020. Interest expense incurred in conjunction with the note during the years ended November 30, 2013 and 2012, was \$86,473 and \$88,460, respectively.

Aggregate principal amounts payable under the note are as follows for the years ending November 30:

2014	\$	33,139
2015		35,183
2016		37,353
2017		48,900
2018		50,275
Thereafter		1,202,188
	\$	<u>1,407,038</u>

NOTE H - CONTINGENCIES:

The Organization received \$225,000 from the City of Somerville, Massachusetts, that was recorded as revenue in 2005 for the funding of the Head Start building on Allen Street. A security interest has been attached to the property. If the property is continuously operated by the Organization as a Head Start or equivalent facility serving low and moderate income households for a period of ten (10) years, then the attachment will be released.

The Organization's federal and state funded grants and contracts are subject to audit by appropriate governmental agencies which may, at their discretion, request a return of funds as a result of non-compliance with the terms of the grants/contracts or applicable regulations. The amount of such recovery, if any, cannot be determined and accordingly, no provision has been recorded in these financial statements.

COMMUNITY ACTION AGENCY OF SOMERVILLE, INC.

Notes to Financial Statements

For the Years Ended November 30, 2013 and 2012

NOTE I - DONATED SERVICES AND FACILITIES:

During 2013 and 2012, the Organization received donated services valued at \$545,891 and \$582,447, respectively, as follows and recorded in the contributions line in the Statement of Activities:

2013			
	<u>Hours</u>	<u>Rate</u>	<u>Value</u>
Volunteers	8,570	various \$	152,372
Consultants	5,082	various	143,262
Health Care	1,970	various	90,306
Space in-kind			123,919
Literacy in-kind			28,032
Field trips in-kind			8,000
		<u>\$</u>	<u>545,891</u>

2012			
	<u>Hours</u>	<u>Rate</u>	<u>Value</u>
Volunteers	11,700	various \$	208,080
Consultants	2,824	various	79,620
Health Care	1,254	various	57,475
Space in-kind			156,716
Literacy in-kind			62,286
Field trips in-kind			18,270
		<u>\$</u>	<u>582,447</u>

NOTE J - PRIOR PERIOD ADJUSTMENT - CORRECTION OF AN ERROR:

Unrestricted net assets at December 1, 2011, have been adjusted for prior years extending beyond last year resulting in an understatement of \$81,463 of net income due to overstatement of operational expenses. In addition, current liabilities were overstated for the same \$81,463. The correction has no effect on the results of the current year's activities; however, the cumulative effect increases beginning unrestricted net assets at December 1, 2011, by \$81,463. The restatement net effect on the this years opening balance sheet accounts is as follows:

FYE: November 30, 2011			
	<u>As Reported</u>	<u>Restated</u>	<u>Adjusted</u>
Accounts payable	190,027	144,271	(45,756)
Accrued wages	166,994	131,287	(35,707)
Net assets	1,047,766	1,129,229	81,463

NOTE K- SUBSEQUENT EVENTS:

The Organization has evaluated subsequent events through May 27, 2014, and the financial statements were available to be issued on May 27, 2014.

COMMUNITY ACTION AGENCY OF SOMERVILLE, INC.

Schedule of Expenditures of Federal Awards

For the Year Ended November 30, 2013

<u>Federal Grantor/Pass-Through Grantor / Program Name</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Federal Expenditures</u>
U.S. Department of Health and Human Services:			
Head Start:			
Direct Program thru ACF:			
Head Start Programs	93.600	N/A	\$ 3,615,847
Total Head Start			<u>3,615,847</u>
CSBG			
Passed Through MA DHCD:			
Total CSBG	93.569	OCDSOCOD42001260BG04000	<u>393,725</u>
			<u>393,725</u>
Total U.S. Department of Health and Human Services			<u><u>4,009,572</u></u>
U.S Department of Agriculture:			
Passed thru MA DOE:			
Childcare Food Services	10.558	DOE SCDOE12758N70532117A	173,198
Total U.S Department of Agriculture			<u>173,198</u>
Total Federal Financial Assistance			<u><u>\$ 4,182,770</u></u>

Type A programs are determined to be \$300,000 or three (3) percent of total federal awards expended if total awards exceed \$300,000.

NOTE A - BASIS OF PRESENTATION:

The information in this Schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the Schedule presents only a selected portion of the operations of the Community Action Agency of Somerville, Inc., it is not intended to and does not present the financial position, changes in net assets, or cash flows of the Community Action Agency of Somerville, Inc.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The accrual method of accounting has been used in the determination of amounts included in the schedule. Such expenditures are recognized following the cost principles contained in OMB Circular A-122, *Cost Principles for Non-Profit Organizations*, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Pass-through entity identifying numbers are presented where available.

The accompanying notes are an integral part of these financial statements

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

Board of Directors
Community Action Agency of Somerville, Inc.
Somerville, MA

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Community Action Agency of Somerville, Inc. (a nonprofit organization), which comprise the statement of financial position as of November 30, 2013, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements and have issued our report thereon dated May 27, 2014.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Community Action Agency of Somerville, Inc.'s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Community Action Agency of Somerville, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of Community Action Agency of Somerville, Inc.'s internal control.

Our consideration of the internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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. We consider the deficiency described in the accompanying schedule of findings and questioned costs as items 2013-1 to be a material weakness.

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. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 2013-2, to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Community Action Agency of Somerville, Inc.'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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

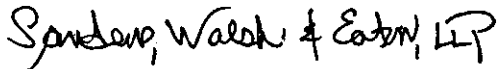
We noted certain matters that we reported to management of Community Action Agency of Somerville, Inc. in a separate letter dated May 27, 2014.

Community Action Agency of Somerville, Inc.'s Response to Findings

Community Action Agency of Somerville, Inc.'s response to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. Community Action Agency of Somerville, Inc.'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 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 organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Osterville, Massachusetts
May 27, 2014

REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Community Action Agency of Somerville, Inc.
Somerville, MA

Report on Compliance for Each Major Federal Program

We have audited Community Action Agency of Somerville, Inc.'s compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Community Action Agency of Somerville, Inc.'s major federal programs for the year ended November 30, 2013. Community Action Agency of Somerville, Inc.'s major federal programs are identified in the summary of auditor's 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.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Community Action Agency of Somerville, Inc.'s major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Community Action Agency of Somerville, Inc.'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 on Community Action Agency of Somerville, Inc.'s compliance.

Opinion on Each Major Federal Program

In our opinion, Community Action Agency of Somerville, Inc. complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended November 30, 2013.

Report on Internal Control Over Compliance

Management of Community Action Agency of Somerville, Inc., 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 Community Action Agency of Somerville, Inc.'s internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Community Action Agency of Somerville, Inc.'s internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 2013-1 to be a material weakness. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 2013-2 to be a significant deficiency.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. 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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Sanders, Walsh & Eaton, LLP

Osterville, Massachusetts

May 27, 2014

COMMUNITY ACTION AGENCY OF SOMERVILLE, INC.
Schedule of Findings and Questioned Costs
For the Year Ended November 30, 2013

Section I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued:		Unqualified
Internal control over financial reporting:		
Material weakness(es) identified?	<input checked="" type="checkbox"/> yes	<input type="checkbox"/> no
Reportable condition(s) identified not considered to be material weakness(es)	<input type="checkbox"/> yes	<input checked="" type="checkbox"/> no
Significant deficiencies identified that are not considered to be material weakness(es)?	<input checked="" type="checkbox"/> yes	<input type="checkbox"/> no
Noncompliance material to financial statements noted?	<input type="checkbox"/> yes	<input checked="" type="checkbox"/> no

Federal Awards

Internal control over major programs:		
Material weakness(es) identified?	<input checked="" type="checkbox"/> yes	<input type="checkbox"/> no
Reportable condition(s) identified not considered to be material weakness(es)	<input checked="" type="checkbox"/> yes	<input type="checkbox"/> no
Significant deficiencies identified that are not considered to be material weaknesses?	<input checked="" type="checkbox"/> yes	<input type="checkbox"/> no

Type of auditor's report issued on compliance with major programs:		Unqualified
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Any audit findings disclosed that are required to be reported in accordance with OMB Circular A-133, Section 510(a)?	<input checked="" type="checkbox"/> yes	<input type="checkbox"/> no
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Identification of Major Programs

<u>CFDA Number</u>	<u>Name of Federal Program Cluster</u>
93.600	Head Start
93.569	Community Services Block Grant

Dollar threshold used to distinguish between Type A and Type B Programs:	\$ 300,000
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Auditee qualified for low risk auditee:	<input type="checkbox"/> yes	<input checked="" type="checkbox"/> no
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COMMUNITY ACTION AGENCY OF SOMERVILLE, INC.

Schedule of Findings and Questioned Costs

For the Year Ended November 30, 2013

Section II - FINANCIAL STATEMENT FINDINGS

Internal Control Over Financial Statements

2013-1 Allocation of Payroll Costs

Material Weakness: Payroll allocation to federal programs. Failure to have and follow payroll allocation to federal programs could be deemed a lack of internal control and expenditure of Organizational Funds for unallowable costs.

Condition:

The agency's board is not currently involved in the review and approval of the Executive Director's timesheet and there is no policy governing this process.

Criteria:

OMB Circular A-122, Attachment B8- Compensation for Personnel Services.

Cause:

Unawareness of the standard.

Effect:

Overstatement of payroll costs and unsubstantiated payroll cost.

Recommendation:

Adopt and implement a policy to have the Board or designated officer routinely review and Executive Director's timesheet and to acknowledge review and receipt of services performed.

Client Response:

At the Board's scheduled July 22, 2014 meeting the Board will adopt and implement a written policy to have the Board Chair or other corporate officer routinely sign off on the Executive Director's timesheet.

Timing:

A policy will be adopted by the Board at a meeting to be held July 22, 2014.

2013-2 Indirect program labor costs allocated to Federal programs based on budgeted time instead of actual time

Significant Deficiency: payroll allocation of indirect labor to federal programs based on budgeted time instead of actual time spent on program.

Condition:

The administrative personnel labor costs allocated to both the Head Start and CSBG federal programs are not supported by actual time incurred for the benefit of those programs. Instead costs are allocated based on a pre-determined budget time estimate without regard to actual time incurred to benefit the programs.

Criteria:

OMB Circular A-122, Attachment A.D., Allocation of Indirect Costs:

Cause:

Unawareness of standard.

The accompanying notes are an integral part of these financial statements

COMMUNITY ACTION AGENCY OF SOMERVILLE, INC.

Schedule of Findings and Questioned Costs

For the Year Ended November 30, 2013

2013-2 Unsupported personnel labor costs allocated to Federal programs (continued)

Effect:

Overstatement or understatement of payroll costs of shared personnel to federal programs.

Recommendation:

Enhance the existing time keeping function with payroll service's (ADP) payroll system to include tracking of hours by federal program.

Client Response:

Management will review with payroll service to enhance the "Easy Pay" timesheet keeping function to include a tracking of hours by Head Start and CSBG federal programs.

Timing:

Management is planning to implement the payroll allocation as of July 22, 2014.

Section III - PRIOR YEAR FINDINGS

Internal Control Over Financial Statements

2012-1 Credit Card Procedures

Material Weakness: Credit card procedures. Failure to have and follow credit card procedures could be deemed a lack of internal control and expenditure of Organizational Funds for unallowable costs.

Condition:

As reported in the prior year finding 11-01, credit card transactions were missing receipts and this was discovered in the FYE 11/30/12 audit period while performing the prior year FYE 11/30/11 audit.

Criteria:

Receipts for credit card statements should be kept for all transactions. The receipts are necessary in order to substantiate what the charge is for, what grant can reimburse the costs, and whether it is an allowable cost. Without proper documentation, it does not allow for a proper control environment and makes it difficult to properly account for credit card transactions.

Cause:

The Organization was not following proper internal control procedures for credit cards.

Effect:

Credit card transactions are unable to be substantiated.

Recommendation:

The organization implemented the prior year auditor's recommendation to review and update internal controls regarding credit card usage. Our recommendation is consistent with the prior year auditor's recommendation to review monthly credit card statements to the approved underlying documentation.

Status:

The recommendation has been fully implemented and the finding resolved in FYE 2013.

COMMUNITY ACTION AGENCY OF SOMERVILLE, INC.

Schedule of Findings and Questioned Costs

For the Year Ended November 30, 2013

2012-2 Misappropriation of Organizational Funds

Material Weakness: Misappropriation of Organizational Funds. Failure to have and follow credit card procedures could be deemed a lack of internal control and expenditure of Organizational Funds for unallowable costs.

Condition:

As reported in the prior year finding 11-02, unauthorized personal expenses were paid by the organization on behalf of the Executive Director. We tested the forensic accounting on the misappropriation of funds performed by Glivinski & Associates on the former Executive Director's credit card statements for personal charges. The total misappropriation of funds totaled \$30,709.70 of which \$4,581.53 was repaid by the former Executive Director for the three fiscal years ended November 30, 2010 thru 2012. The \$30,709.70 of misappropriated funds are broken down as follows: \$22,750.47 federal funds consisting of \$7,325.23 of Community Service Block grant (CSBG) passed thru the Massachusetts Department of Housing and Community Development (DHCD) and \$15,425.24 from the Head Start program of the Administration of Children and Families (ACF). ACF and DHCD were notified of the forensic accounting and after review, including the Head Start cost of delivery for the year which ran at a loss, ACF determined that unrestricted funds were the source of payment for the unauthorized expenses.

Criteria:

Only business expenses which are approved should be paid by the Organization. Personal expenses should not be paid by the Organization's credit cards. There should be internal controls in place to verify that the credit card expenses are business related and any amount which are personal are reimbursed immediately.

Cause:

The Organization's internal control systems were deficient in stopping the continual use of the Organization's credit cards for personal purchases. The former Executive Director was notified several times of the policy, yet charges were still made.

Effect:

The Organization spent Organizational funds on the personal expenses of the former Executive Director.

Recommendation:

The Organization implemented the prior year auditor's recommendation to review and update internal controls regarding credit cards. Any amounts due from an employee for improper purchases should be reimbursed to the Organization immediately.

Status:

The recommendation has been fully implemented and the finding resolved in FYE 2013.

COMMUNITY ACTION AGENCY OF SOMERVILLE, INC.

Schedule of Findings and Questioned Costs

For the Year Ended November 30, 2013

U.S. Department of Health and Human Services

2012-3 Community Services Block Grant Eligibility

Significant Deficiency: Income eligibility percentage used to approve participant eligibility not properly documented. Because of the failure to document the proper income levels participants may be added to the program and charged to federal awards. Procedures should be implemented to document the correct income eligibility percentages to determine eligibility.

Condition:

During our eligibility testing of the CSBG family files, we noted that the Organization did not document the 125% of the official poverty guideline as revised annually by the Department of HHS thus increasing the risk of ineligible recipients of the federal program. Even though the 125% threshold documentation was not used, our sample did not result in ineligible families receiving benefits.

Criteria:

Attachment A FY 2012 CSBG scope of services and additional terms and conditions Section K - Eligibility

Cause:

Unawareness of documentation policy to compare family income to the poverty guideline as outlined in the

Effect:

The risk of ineligible families participating in advocacy programs earmarked for lower poverty level families resulting in non compliance with program standards.

Recommendation:

We recommend documenting the family income to the 125% of the HHS poverty guidelines threshold to quantify the eligibility conclusion.

Status:

The recommendation has been fully implemented and the finding resolved in FYE 2013.

2012-4 Head Start Testing and Recording of 20% Receipts of In-kind Donations

Significant Deficiency: In-kind donations documenting the receipt of 20% of non-federal revenue was not recorded to the general ledger. Failure to contribute at least 20% of the costs of the Head Start program could be deemed noncompliant with its agreement and ineligibility to receive federal funding for the Head Start program.

Condition:

During our testing of the matching provisions of the Head Start program, we noted that the Organization did maintain files and documentation of its in-kind contributions ranging over numerous program cost attributes but it did not record the receipt of those in-kind program cost donations to its general ledger. In addition, the monitoring of the in-kind donations were not documented to determine if the 20% program threshold had been achieved. We determined the 20% matching provision was met through non federal cash grants and the in-kind contributions.

Criteria:

FYE 11/30/12 ACF Head Start service grant section 17 A Non-Federal share. ACF (42 USC 9835(b); 45 CFR

COMMUNITY ACTION AGENCY OF SOMERVILLE, INC.

Schedule of Findings and Questioned Costs

For the Year Ended November 30, 2013

2012-4 Head Start Testing and Recording of 20% Receipts of In-kind Donations (continued)

Cause:

Employee turnover at the Director of Finance position due to prior year finding 11-01 and 11-02 created a disruption within the accounting department resulting in in-kind donations not being recorded to the general

Effect:

The risk of non compliance increases if the organization is not contributing at least 20% of the costs of the program through cash or in-kind contributions, resulting in non compliance of program standards.

Recommendation:

We recommend either a monthly or quarterly review of management's compilation of the various in-kind donations to determine accuracy and the subsequent posting to the general ledger. In addition, we would recommend as part of that process the monitoring of the recorded amounts in the general ledger to the minimum 20 % annual program threshold.

Views of Responsible Officials and Corrective Action Plan:

The Organization agrees with the finding and management has begun the implementation of recording the in-kind donations to the general ledger and quantifying the annual program requirement.

Responsibility:

The Board of Directors has been overseeing the implementation.

Status:

The recommendation has been fully implemented and the finding resolved in FYE 2013.

2012-5 Late Filing of Federal Reports for Head Start and Community Services Block Grant Programs

Significant Deficiency: Federal reports for both the CSBG and Head Start were submitted late. The Organization's failure to file these reports in a timely manner could sustain significant cutbacks in funding for these programs.

Condition:

During our testing we noted that the Organization did not submit timely federal reports for the Head Start and Community Services Block Grant Programs.

Criteria:

2 CFR Part 215.52 - Financial Reporting

Cause:

Employee turnover at the Director of Finance position created a disruption within the accounting department resulting in financial reporting not being submitted in a timely manner.

Effect:

Failure to file these reports timely could cause the Organization to sustain significant cut backs in funding for these programs.

Recommendation:

We recommend review of contract provisions and identification of due dates for quarterly, semi-annual and year end reporting and the applicable requirements.

The accompanying notes are an integral part of these financial statements

COMMUNITY ACTION AGENCY OF SOMERVILLE, INC.

Schedule of Findings and Questioned Costs

For the Year Ended November 30, 2013

2012-5 Late Filing of Federal Reports for Head Start and Community Services Block Grant Programs

Status:

The recommendation has been fully implemented and the finding resolved in FYE 2013.

2012-6 Federal Awards Received Not Deposited Into Interest Bearing Account - Head Start and Community Services Block Grant

Condition:

During our testing of compliance with the cash management treasury function of federal grants, we noted that federal award deposits received from both CSBG and Head Start were not deposited into an interest bearing account.

Criteria:

Attachment A FY 2012 CSBG scope of services and additional terms and conditions Section F - Interest on Funds and Standard Terms and Conditions of Award-Discretionary grants on the Head Start 2012 grant.

Cause:

Management unawareness of the requirement.

Effect:

Interest income is not being generated from federal deposits thus increasing the risk of program non-compliance with the \$250 annual threshold for interest repayment back to the federal program.

Recommendation:

Establish an interest bearing account to receive the federal award deposits for both the CSBG and Head Start programs. In addition, implement a monitoring control to determine if interest income from federal advanced deposits are in excess of the annual \$250 requirement.

Status:

The recommendation has been fully implemented and the finding resolved in FYE 2013.

2012-7 No inventory taken of equipment purchased with federal funds - Head Start

Condition:

During our testing we noted that no inventory of equipment acquired with federal funds for either the CSBG or

Criteria:

45 CFR Part 74 - Financial and Program management 74.34 - Equipment.

Cause:

Management unawareness of the compliance requirement.

Effect:

Increased risk to the safeguarding of assets.

Recommendation:

Establish policy to conduct physical inventory of all assets purchased with federal funds and reconcile back to the fixed asset ledger at least once every two (2) years.

Status:

The recommendation has been fully implemented and the finding resolved in FYE 2013.

The accompanying notes are an integral part of these financial statements

COMMUNITY ACTION AGENCY OF SOMERVILLE, INC.

Schedule of Findings and Questioned Costs

For the Year Ended November 30, 2013

2012-8 The loan agreement with Boston Community Capital and related amendments does not provide HHS with a right to cure a default resulting in a Notice of Federal Interest in the real estate that is not properly secured - Head Start

Condition:

During our compliance testing we noted that the Loan and Security Agreement with Boston Community Loan Fund, Inc. dated July 21, 2004, does not provide for intervention by ACF in case of default.

Criteria:

45 CFR part 1309.22 - Head Start Rights and Responsibilities in the event of grantees default on mortgage.

Cause:

Management unawareness of the compliance requirement.

Effect:

In the event of default, the ACF is at risk of not being able to cure the default resulting in disruption to program operations.

Recommendation:

Engage organization counsel to review and update the Loan and Security Agreements with Boston Community Loan Fund, Inc.

Status:

The recommendation has been fully implemented and the finding resolved in FYE 2013.

2012-9 Vendors selected on contracts in excess of \$25,000 are not Screened for Debarment and Suspension on the Excluded Party List System (EPLS) - Head Start and Community Services Block Grant

Condition:

During our testing we noted that the Organization was not using the EPLS system to screen vendors who are ineligible to engage in transactions that are federally funded.

Criteria:

Title 45 of the Code of Federal Regulations Part 76 Government wide debarment and suspension (no procurement).

Cause:

Management unawareness of the compliance requirement.

Effect:

Reduced funding for engaging with vendors not qualified to participate in federal contracts.

Recommendation:

We recommend that the procurement policy be amended to include monitoring of potential vendors on the www.epls system for those contracts in excess of \$25,000.

Status:

The recommendation has been fully implemented and the finding resolved in FYE 2013.

The accompanying notes are an integral part of these financial statements