

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

INDEPENDENT AUDITOR'S REPORT ON AUDIT OF
FINANCIAL STATEMENTS

For the Years Ended November 30, 2014 and 2013

COMMUNITY ACTION AGENCY OF SOMERVILLE, INC.

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For the Years Ended November 30, 2014 and 2013

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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, 2014 and 2013, 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

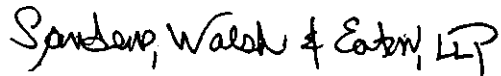
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Community Action Agency of Somerville, Inc. as of November 30, 2014 and 2013, and the change in its net assets and its cash flows for the years then ended in accordance with 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 5, 2015, 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.



Osterville, Massachusetts
May 5, 2015

COMMUNITY ACTION AGENCY OF SOMERVILLE, INC.

Statements of Financial Position

November 30, 2014 and 2013

ASSETS

	<u>2014</u>	<u>2013</u>
Current Assets:		
Cash	\$ 44,624	\$ 262,617
Grants and contracts receivable	364,428	141,640
Prepaid expenses	100,627	18,434
Total Current Assets	<u>509,679</u>	<u>422,691</u>
Fixed Assets:		
Land	409,749	409,749
Building and improvements	2,449,099	2,449,099
Furniture, equipment and vehicles	177,267	159,244
Total Fixed Assets	<u>3,036,115</u>	<u>3,018,092</u>
Accumulated depreciation	(750,180)	(682,744)
Net Fixed Assets	<u>2,285,935</u>	<u>2,335,348</u>
Total Assets	<u>\$ 2,795,614</u>	<u>\$ 2,758,039</u>

LIABILITIES AND NET ASSETS

Current Liabilities:		
Accounts payable	\$ 130,613	\$ 111,370
Line of credit	53,112	51,577
Accrued wages and related liabilities	130,360	121,767
Deferred revenue	81,044	81,455
Long-term debt: current portion	35,183	33,139
Total Current Liabilities	<u>430,312</u>	<u>399,308</u>
Long-Term Liabilities:		
Long-term debt, less current portion	<u>1,343,770</u>	<u>1,373,899</u>
Total Long-Term Liabilities	<u>1,343,770</u>	<u>1,373,899</u>
Total Liabilities	1,774,082	1,773,207
Net Assets:		
Unrestricted	<u>1,021,532</u>	<u>984,832</u>
Total Net Assets	<u>1,021,532</u>	<u>984,832</u>
Total Liabilities and Net Assets	<u>\$ 2,795,614</u>	<u>\$ 2,758,039</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, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Revenues and Support:		
Grants and contracts	\$ 4,796,253	\$ 4,489,910
In-kind contributions	523,394	545,891
Contributions	4,923	52,589
Other	416	-
Total Revenues and Support	<u>5,324,986</u>	<u>5,088,390</u>
Expenses:		
Head Start	4,590,700	4,315,212
Advocacy and community services	202,423	224,184
Management and general	495,163	548,471
Total Expenses	<u>5,288,286</u>	<u>5,087,867</u>
Change in Net Assets	36,700	523
Net Assets, Beginning of Year	984,832	984,309
Net Assets, End of Year	<u>\$ 1,021,532</u>	<u>\$ 984,832</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, 2014

	Head Start	Program Services		Total Program	Management and General	Totals
		Advocacy and Community Services				
Expenses:						
Salaries and wages	\$ 1,912,834	\$ 15,182	\$	1,928,016	\$ 186,096	\$ 2,114,112
Employee benefits	1,112,762	5,402		1,118,164	53,202	1,171,366
Consultants	100,011	162,583		262,594	169,890	432,484
Travel	18,834	-		18,834	1,357	20,191
Space	454,751	18,163		472,914	22,746	495,660
Consumable supplies	72,390	661		73,051	4,377	77,428
In-kind expense	513,824	-		513,824	9,570	523,394
Other direct expenses	337,858	432		338,290	47,925	386,215
Depreciation	67,436	-		67,436	-	67,436
Total Expenses	\$ 4,590,700	\$ 202,423	\$	4,793,123	\$ 495,163	\$ 5,288,286

Statement of Functional Expenses
For the Year Ended November 30, 2013

	Head Start	Program Services		Total Program	Management and General	Totals
		Advocacy and Community Services				
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

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, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Cash Flows from Operating Activities:		
Increase (decrease) in net assets	\$ 36,700	\$ 523
Adjustments to reconcile changes in net assets provided by operating activities:		
Depreciation	67,436	69,124
(Increase) decrease in operating assets:		
Grants and contracts receivable	(222,788)	31,745
Prepaid expenses	(82,193)	53,691
Increase (decrease) in operating liabilities:		
Accounts payable	19,243	59,268
Accrued wages and related liabilities	8,593	(118,248)
Deferred revenue	(411)	57,955
Net Cash Provided by Operating Activities	<u>(173,420)</u>	<u>154,058</u>
Cash Flows from Investing Activities:		
Purchase of equipment	<u>(18,023)</u>	<u>-</u>
Net Cash Used in Investing Activities	<u>(18,023)</u>	<u>-</u>
Cash Flows from Financing Activities:		
Repayments of mortgage payable	(28,085)	(26,360)
Repayments of note payable	(5,965)	(5,571)
Borrowings from Line of credit	<u>7,500</u>	<u>-</u>
Net Cash Provided by Financing Activities	<u>(26,550)</u>	<u>(31,931)</u>
Net Increase (Decrease) in Cash	(217,993)	122,127
Cash, Beginning of Year	<u>262,617</u>	<u>140,490</u>
Cash, End of Year	<u>\$ 44,624</u>	<u>\$ 262,617</u>
Supplemental Cash Flow Information:		
Cash expended for interest	<u>\$ 87,135</u>	<u>\$ 88,857</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, 2014 and 2013

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 2010, 2011, and 2012 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, 2014 and 2013

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, 2014 and 2013, was \$1,381 and \$1,291, respectively.

Compensated absences

The Organization's accrued compensated absences for the years ended November 30, 2014 and 2013 were \$80,044 and \$58,210, respectively.

NOTE B - GRANTS AND CONTRACTS RECEIVABLE:

Grants and contracts receivable consisted of the following at November 30, 2014 and 2013:

	2014	2013
U.S. Department of Health & Human Services:		
Head Start Grant	\$ 235,150	\$ 77,768
Community Service Block Grant	76,850	32,392
U.S. Department of Agriculture:		
Childcare food services	18,519	21,463
Commonwealth of Massachusetts:		
Supplemental Head Start Grant	33,909	-
United Way	-	10,017
Total Grants and Contracts Receivable	<u>\$ 364,428</u>	<u>\$ 141,640</u>

COMMUNITY ACTION AGENCY OF SOMERVILLE, INC.

Notes to Financial Statements

For the Years Ended November 30, 2014 and 2013

NOTE C- FIXED ASSETS:

Property and equipment consisted of the following at November 30, 2014 and 2013:

	2014	2013
Buildings	\$ 2,449,099	\$ 2,449,099
Property and Equipment	145,593	127,570
Vehicles	31,674	31,674
	<u>2,626,366</u>	<u>2,608,343</u>
Less: Accumulated Depreciation	(750,180)	(682,744)
	<u>\$ 1,876,186</u>	<u>\$ 1,925,599</u>

The Organization also had land which was not depreciated with a balance of \$409,749 at November 30, 2014 and 2013. Depreciation expense for the years ended November 30, 2014 and 2013, was \$67,436 and \$69,124, 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, 2014 and 4.25% at November 30, 2013) and is due on demand.

Borrowing on the line of credit was \$53,112 and \$51,577 at November 30, 2014 and 2013, 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, 2014 and 2013, was \$424,927 and \$441,640, respectively. The approximate minimum future rental commitments under all such operating leases, with renewal options, as of November 30, 2014, are as follows:

2015	\$ 410,778
2016	425,486
2017	440,775
2018	-
2019	-
	<u>\$ 1,277,039</u>

NOTE F - TAX-DEFERRED ANNUITY PLAN:

During the years ended November 30, 2014 and 2013, 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 \$89,892 and \$87,577, respectively, for the years ended November 30, 2014 and 2013.

COMMUNITY ACTION AGENCY OF SOMERVILLE, INC.

Notes to Financial Statements

For the Years Ended November 30, 2014 and 2013

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, 2014 and 2013, the unpaid principal balance was \$1,378,953 and \$1,407,038, 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, 2014 and 2013, was \$84,847 and \$86,473, respectively.

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

2015	\$	35,183
2016		37,353
2017		48,900
2018		50,275
2019		53,974
Thereafter		1,153,268
	\$	<u>1,378,953</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, 2014 and 2013

NOTE I - DONATED SERVICES AND FACILITIES:

During 2014 and 2013, the Organization received donated services valued at \$523,394 and \$545,891, respectively, as follows and recorded in the contributions line in the Statement of Activities:

	2014		
	<u>Hours</u>	<u>Rate</u>	<u>Value</u>
Volunteers	6,957	various \$	263,506
Consultants	1,353	various	73,535
Space in-kind			141,839
Supplies			40,680
Training			3,834
			<u>\$ 523,394</u>

	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>\$ 545,891</u>

NOTE J- SUBSEQUENT EVENTS:

The Organization has evaluated subsequent events through May 5, 2015, and the financial statements were available to be issued on May 5, 2015.

COMMUNITY ACTION AGENCY OF SOMERVILLE, INC.

Schedule of Expenditures of Federal Awards

For the Year Ended November 30, 2014

<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	\$ 3,824,394
Total Head Start			<u>3,824,394</u>
CSBG			
Passed Through MA DHCD:			
	93.569	OCDSC OCD42001260BG04000	354,303
Total CSBG			<u>354,303</u>
Total U.S. Department of Health and Human Services			<u>4,178,697</u>
U.S Department of Agriculture:			
Passed thru MA DOE:			
Childcare Food Services	10.558	DOE SCDOE12758N70532117A	205,005
Total U.S Department of Agriculture			<u>205,005</u>
Total Federal Financial Assistance			<u>\$ 4,383,702</u>

Type A programs are determined to be the larger of \$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, 2014, 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 5, 2015.

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 2014-1 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 2014-2, 2014-3 and 2014-4 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*.

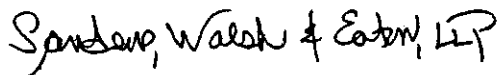
We noted certain matters that we reported to management of Community Action Agency of Somerville, Inc. in a separate letter dated May 5, 2015.

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 5, 2015

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, 2014. 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, 2014.

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 deficiencies described in the accompanying schedule of findings and questioned costs as item 2014-1 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 2014-2, 2014-3 and 2014-4 to be significant deficiencies.

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.

Spradlow, Walsh & Eaton, LLP

Osterville, Massachusetts
May 5, 2015

COMMUNITY ACTION AGENCY OF SOMERVILLE, INC.

Schedule of Findings and Questioned Costs

For the Year Ended November 30, 2014

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? x yes no

Reportable condition(s) identified not considered to be material weakness(es) yes x no

Significant deficiencies identified that are not considered to be material weakness(es)? x yes no

Noncompliance material to financial statements noted? yes x no

Federal Awards

Internal control over major programs:

Material weakness(es) identified? x yes no

Reportable condition(s) identified not considered to be material weakness(es) x yes no

Significant deficiencies identified that are not considered to be material weaknesses? x yes no

Type of auditor's report issued on compliance with major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with OMB Circular A-133, Section 510(a)? x yes no

Identification of Major Programs

CFDA Number

93.600

93.569

Name of Federal Program Cluster

Head Start

Community Services Block Grant

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

Auditee qualified for low risk auditee: yes x no

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, 2014

Section II - FINANCIAL STATEMENT FINDINGS

Internal Control Over Financial Statements

2014-1 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:

The Board adopted and implemented a written policy to have the Board Chair or other corporate officer routinely sign off on the Executive Director's timesheet.

Timing:

The policy was approved by the Board on 6/24/14 and implemented in September, 2014 upon the hiring of its new Executive Director.

2014-2 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.

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, 2014

2014-2 Unsupported personnel labor costs allocated to Federal programs (continued)

Cause:

Unawareness of standard.

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:

The payroll service enhanced the "Easy Pay" timesheet keeping function to include tracking of hours by Head Start and CSBG federal programs. The Organization is currently reporting and allocating labor costs based on actual hours.

Timing:

Management implemented the new payroll allocation procedures in September, 2014.

2014-3 Lack of Fidelity Bond

Significant Deficiency:

No Fidelity Bond coverage with a minimum of \$100,000 for responsible officials handling funds pursuant to the CSBG contract.

Condition:

Fidelity bond coverage does not exist.

Criteria:

Attachment A of the FY 2014 CSBG contract of services and additional terms and services

Cause:

Lack of oversight of the requirement.

Effect:

Potential risk of program liability costs for misappropriated funds.

Recommendation:

Review the Section G "Fiscal Requirements" of the contract and implement insurance requirement.

Client Response:

Management will review contract and implement Fidelity Bond coverage pursuant to terms and conditions of contract.

Timing:

Management is planning to implement the Fidelity Bond requirement immediately.

COMMUNITY ACTION AGENCY OF SOMERVILLE, INC.
Schedule of Findings and Questioned Costs
For the Year Ended November 30, 2014

2014-4 Vacation Accrual Allocation

Significant Deficiency:

Accrued vacation allocation to federal programs. Failure to properly allocate employee accrued vacation to federal programs could be deemed a lack of internal control and an overstated expenditure of Organizational Funds. Six administrative employee vacation accruals were allocated 100% to their primary departments instead of actual hours spent on each program.

Condition:

Administrative accrued vacation for the Head Start federal program was not calculated using actual time spent on the program. Instead accrued administrative vacation costs were allocated 100% to the employee's primary program department without regard to other programs that the employee spent time working on.

Criteria:

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

Cause:

Current payroll system does not allocate the vacation accruals amongst multiple departments.

Effect:

Overstatement of accrued vacation costs to federal programs.

Recommendation:

Allocate the vacation accrual equitably among the multiple programs that the employees work on using the actual hours reported in the ADP payroll system. This can be accomplished either by manually calculating the allocation percentages or by implementing software enhancements as the basis for the allocation.

Client Response:

The Organization is in the process of implementing software enhancements to properly allocate the accrued vacation costs based on actual hours spent on each program.

Timing:

The payroll service is in the process of implementing the software enhancements.

Section III - PRIOR YEAR 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.

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, 2014

2013-1 Allocation of Payroll Costs (continued)

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:

The Board adopted and implemented a written policy to have the Board Chair or other corporate officer routinely sign off on the Executive Director's timesheet.

Timing:

The policy was approved by the Board and implemented in September, 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.

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:

The payroll service enhanced the "Easy Pay" timesheet keeping function to include tracking of hours by Head Start and CSBG federal programs. The Organization is currently reporting and allocating labor costs based on actual hours.

Timing:

Management implemented the new payroll allocation procedures in September, 2014.

The accompanying notes are an integral part of these financial statements