# SAGUACHE COUNTY COMMUNITY COUNCIL, INC.

## FINANCIAL STATEMENTS

## March 31, 2016 and 2015

Wall,
Smith,
Bateman Inc.
Certified Public Accountants

# SAGUACHE COUNTY COMMUNITY COUNCIL, INC.
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## March 31, 2016 and 2015


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# INDEPENDENT AUDITORS' REPORT

Wall,
Smith,
Bateman Inc.

To the Board of Directors
Saguache County Community Council, Inc.
Center, Colorado

**Report on the Financial Statements**

We have audited the accompanying financial statements of Saguache County Community Council, Inc. (a nonprofit organization), which comprise the statements of financial position as of March 31, 2016 and 2015, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

*Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

*Auditors' Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

*Opinion*

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Saguache County Community Council, Inc. as of March 31, 2016 and 2015, and the changes in its

net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

*Emphasis of Matter – Effects of a Fire*

As described in Note 4 of the financial statements, during fiscal year 2016, a fire destroyed the leased Head Start building and significant damage occurred to the nearby Early Head Start building and playground equipment, owned by the Council. Our opinion is not modified with respect to this matter.

*Other Matters*

*Other Information*

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The budgetary comparison information and the schedule of functional expenses are presented for purposes of additional analysis and are not a required part of the financial statements. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

**Other Reporting Required by** *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 19, 2016, on our consideration of Saguache County Community Council, 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 Saguache County Community Council, Inc.'s internal control over financial reporting and compliance.

Wall, Smith, Bateman Inc.

Wall, Smith, Bateman Inc.
Alamosa, Colorado

October 24, 2016

# SAGUACHE COUNTY COMMUNITY COUNCIL, INC.
## STATEMENTS OF FINANCIAL POSITION
## March 31, 2016 and 2015

| | 2016 | 2015 |
|---|---|---|
| **ASSETS** | | |
| **CURRENT ASSETS** | | |
| Cash and cash equivalents | $ 874,949 | $ 16,525 |
| Grants receivable | 30,871 | 5,854 |
| Food reimbursement receivable | 5,188 | 6,138 |
| **Total Current Assets** | 911,008 | 28,517 |
| **NONCURRENT ASSETS** | | |
| **Property and Equipment** | | |
| Construction in progress | 185,530 | - |
| Buildings | 852,000 | 852,000 |
| Leasehold improvements | 29,246 | 132,101 |
| Equipment | 90,206 | 273,565 |
| Less: Accumulated depreciation | (142,570) | (275,798) |
| **Total NonCurrent Assets** | 1,014,412 | 981,868 |
| **TOTAL ASSETS** | $ 1,925,420 | $ 1,010,385 |
| **LIABILITIES AND NET ASSETS** | | |
| **LIABILITIES** | | |
| **CURRENT LIABILITIES** | | |
| Accounts payable | $ 119,946 | $ 17,746 |
| Payroll liabilities payable | 17,348 | 562 |
| **Total Current Liabilities** | 137,294 | 18,308 |
| **TOTAL LIABILITIES** | 137,294 | 18,308 |
| **NET ASSETS** | | |
| Unrestricted | | |
| Unreserved | 1,023,472 | 992,077 |
| Board designated | 764,654 | - |
| **TOTAL NET ASSETS** | 1,788,126 | 992,077 |
| **TOTAL LIABILITIES AND NET ASSETS** | $ 1,925,420 | $ 1,010,385 |

The accompanying notes are an integral part of this financial statement.

# SAGUACHE COUNTY COMMUNITY COUNCIL, INC.
## STATEMENTS OF ACTIVITIES
### For the Years Ended March 31, 2016 and 2015

| | 2016 | 2015 |
|---|---|---|
| **Changes in net assets:** | | |
| **OPERATING REVENUES** | | |
| Federal grant revenues | $ 948,617 | $ 836,851 |
| Food reimbursement revenue | 49,998 | 60,076 |
| Donated commodities | 2,065 | 2,538 |
| In-kind contributions | 205,757 | 179,536 |
| **TOTAL OPERATING REVENUES** | 1,206,437 | 1,079,001 |
| **OPERATING EXPENSES** | | |
| Program | 974,933 | 982,132 |
| Supporting services | 153,508 | 135,395 |
| **TOTAL OPERATING EXPENSES** | 1,128,441 | 1,117,527 |
| **Change in net assets from operations** | 77,996 | (38,526) |
| **Other changes - effects of a fire** | | |
| Insurance proceeds | 1,142,844 | - |
| Donations | 14,533 | - |
| Fire expenses | (439,324) | - |
| **Total other changes - effects of a fire** | 718,053 | - |
| **CHANGE IN NET ASSETS** | 796,049 | (38,526) |
| **NET ASSETS, BEGINNING OF YEAR** | 992,077 | 1,030,603 |
| **NET ASSETS, END OF YEAR** | $ 1,788,126 | $ 992,077 |

The accompanying notes are an integral part of this financial statement.

# SAGUACHE COUNTY COMMUNITY COUNCIL, INC.
## STATEMENTS OF CASH FLOWS
### For the Years Ended March 31, 2016 and 2015

| | 2016 | 2015 |
|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| Change in net assets from operations | $ 77,996 | $ (38,526) |
| Adjustment to reconcile change in net assets to net cash provided (used) by operating activities: | | |
| Depreciation | 38,562 | 39,282 |
| (Increase) decrease in: | | |
| Grants receivable | (25,017) | 9,891 |
| Food reimbursement receivable | 950 | 4,949 |
| Increase (decrease) in: | | |
| Accounts payable | 102,200 | 4,133 |
| Deferred revenue | - | (6,599) |
| Payroll liabilities payable | 16,786 | 562 |
| **NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES** | 211,477 | 13,692 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | |
| Insurance proceeds from a fire | 1,142,844 | - |
| Donations | 14,533 | - |
| Fire expenses | (439,324) | - |
| Loss from fire | 232,131 | - |
| Capital asset additions | (303,237) | - |
| **NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES** | 646,947 | - |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | - | - |
| **NET INCREASE (DECREASE) IN CASH** | 858,424 | 13,692 |
| **CASH, BEGINNING OF YEAR** | 16,525 | 2,833 |
| **CASH, END OF YEAR** | $ 874,949 | $ 16,525 |
| **SUPPLEMENTAL DISCLOSURES** | | |
| Noncash noncapital financing activities | | |
| USDA donated commodities | $ 2,065 | $ 2,538 |

The accompanying notes are an integral part of this financial statement.

## NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

*Organization*
The Saguache County Community Council, Inc. (Organization) is organized as a not-for-profit corporation under the statutes of the State of Colorado, and serves as grantee for federal funds to operate a Head Start program. The Head Start program provides comprehensive early childhood development including health, education, nutritional, social, and other services primarily to disadvantaged preschool children and their families.

*Basis of Accounting*
The financial statements of the Saguache County Community Council, Inc. have been prepared on the accrual basis of accounting and accordingly, reflect all significant receivables, payables, and other liabilities.

*Cash and Cash Equivalents*
Cash and cash equivalents may include cash held by banks in either demand deposits or temporary investments in highly liquid instruments with a maturity of three months or less. For fiscal years 2016 and 2015, there were no funds held other than in demand deposit bank accounts in banks.

*Concentrations of Credit Risk*
The balances are insured by the Federal Deposit Insurance Corporation (FDIC) up to $250,000. At March 31, 2016 and 2015, the Organization had $488,392 and $0, respectively, in uninsured cash balances.

*Property and Equipment*
Property and equipment acquisitions have been valued at cost or estimated cost if actual historical cost is not available. It is the Organization's policy to capitalize all acquisitions costing $5,000 or more and having a useful life of greater than one year. Depreciation is provided over the estimated useful life of each class of depreciable assets and is computed using the straight-line method.

*In-Kind*
The grant requires 20% matching for the Head Start program. A portion of this match is obtained through in-kind goods and services. These goods and services are valued and recorded at the prevailing wage rate for donated services and at the estimated fair market value for goods.

*Advances from Federal Government*
The Organization records grant revenue as a refundable advance until it is expended for the purpose of the grant, at which time it is recognized as revenue. As of March 31, 2016 and 2015, there was $0 and $0, respectively, in deferred revenue balances recorded in advances from the federal government, which represents amounts received under cost reimbursable contracts that will be expended in the next fiscal year in accordance with the grant document.

*Temporary and Permanently Restricted Net Assets*
Contributions and grants received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions, per FASB ASC 958. Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized. All other donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from restrictions. Grant awards received, are classified as deferred revenues until expended for the purposes of the grant, since they are conditional promises to give. There were no temporarily or permanently restricted net assets at March 31, 2016 or 2015.

*Use of Estimates*
The preparation of the financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

*Compensated Absences*
No provision or accrual of compensated absences has been made in these financial statements, as the Organization's personnel are not allowed to accumulate material compensated absences.

*Income Taxes*
Saguache County Community Council, Inc. is exempt from federal income taxes on income substantially related to the Organization's exempt purpose under Section 501(c)(3) of the Internal Revenue Code. Under Colorado state statutes, any Organization receiving exemption from federal income taxes is also exempt from Colorado income taxes.

Saguache County Community Council, Inc. files federal income tax returns. The federal income tax returns prior to fiscal year 2013 are closed. Saguache County Community Council, Inc.'s policy for evaluating uncertain income tax positions is to only take income tax positions that are more likely than not to be sustained if the taxing authorities were to examine the positions. If applicable, Saguache County Community Council, Inc. classifies interest and penalties as interest expense.

## NOTE 2 EMPLOYEE BENEFIT PLAN

The Organization participates in a defined contribution retirement plan, pursuant to IRS Section 403(b), effective beginning fiscal year 1992. The plan covers substantially all employees who have been employed for a minimum of one year. For the years ended March 31, 2016 and 2015, the Organization's contributions to the plan were $17,280 and $18,523, respectively.

## NOTE 3 DETAIL OF NET ASSETS

| | 2016 | 2015 |
|---|---|---|
| Total local revenue in net assets | | |
| SCCC funds and interest | $ 9,060 | $ 10,209 |
| Designated for construction of new building | 764,654 | - |
| Net property and equipment in net assets | 1,014,412 | 981,868 |
| Total Net Assets | $ 1,788,126 | $ 992,077 |

## NOTE 4 OTHER CHANGES – EFFECTS OF A FIRE

During fiscal year 2016, a fire destroyed the leased Head Start building and significant damage occurred to the nearby Early Head Start building and playground equipment, owned by the Council. As a result, loss on capital assets of $232,131 was recorded.

The Council incurred additional costs related to the remediation of smoke and water damage to the Early Head Start building, demolition of the old Head Start building, and beginning phases of construction of a new Head Start building. Insurance proceeds and donations were received in the amount of $1,157,377. The following costs were paid during the fiscal year or recorded as accounts payable from these proceeds, which are in addition to normal management and general costs:

| | |
|---|---|
| Supplies | $ 29,281 |
| Contractual | 119,435 |
| Capital outlay | 185,530 |
| Repairs and maintenance | 47,824 |
| Other | 10,653 |
| | $ 392,723 |

## NOTE 5 RECONCILIATION OF AUTHORIZED GRANT TO AMOUNT EXPENDED

Below is a reconciliation of the authorized grant amount to the amount actually expended and earned.

| | |
|---|---|
| Total outlays | $ 1,026,329 |
| Less: Recipient's share of outlays (In-kind) | (205,757) |
| Federal grant outlays | 820,572 |
| Federal grant authorized | (832,864) |
| Unobligated Balance | $ (12,292) |
| Total funds drawn down | $ 789,701 |
| Add: Grant Receivable | 30,871 |
| Federal grant earned | $ 820,572 |
| Grant authorized | $ 832,864 |

## NOTE 6 CONCENTRATIONS

Virtually all of the Organization's support is provided by the Head Start grant. Lack of funding from the grantor would have a significant adverse impact on the Organization; however, the Organization does not expect such a decrease in funding.

## NOTE 7 COMMITMENTS AND CONTINGENCIES

The Organization participates in federal grant programs, which are subject to program compliance audits by the grantors or their representatives. The amount, if any, of expenses which may be disallowed by the granting agencies cannot be determined at this time; although the Organization expects such amounts, if any, to be immaterial.

*Construction*
The Organization began construction on a new Head Start building during fiscal year 2016. Estimated total construction costs are $1,555,369. Construction costs through March 31, 2016, were approximately $185,530. Currently, the Head Start is working on finding funding sources to pay for these costs.

*Litigation*
The Organization is party to various legal actions, the aggregate effect of which, in management's and legal counsel's opinion, would not be material to its financial statements.

## NOTE 8 EVALUATION OF SUBSEQUENT EVENTS

Saguache County Community Council, Inc. is subject to the provisions of *FASB ASC 855-10-50, Subsequent Events,* which establishes a requirement for disclosing the date through which subsequent events have been evaluated, as well as whether that date is the date the financial statements were issued or the date the financial statements were available to be issued. Saguache County Community Council, Inc., has evaluated subsequent events through October 24, 2016, the date the financial statements were available to be issued.

# SAGUACHE COUNTY COMMUNITY COUNCIL, INC.
## SCHEDULE OF GRANT REVENUES AND EXPENSES - BUDGET AND ACTUAL (NON-GAAP)
## HEAD START GRANT 08CH1010/01
## For the Year Ended March 31, 2016

| | APPROVED BUDGET | ACTUAL | VARIANCE |
|---|---|---|---|
| **REVENUES** | | | |
| Federal grant revenue | $ 832,864 | $ 820,572 | $ (12,292) |
| In-kind contributions | 208,216 | 205,757 | (2,459) |
| **TOTAL REVENUES** | 1,041,080 | 1,026,329 | (14,751) |
| **EXPENSES** | | | |
| Personnel | 467,199 | 453,515 | 13,684 |
| Fringe benefits | 120,691 | 111,507 | 9,184 |
| Travel | 4,650 | 1,644 | 3,006 |
| Training | - | 1,348 | (1,348) |
| Supplies | 20,271 | 37,056 | (16,785) |
| Contractual | 25,851 | 33,395 | (7,544) |
| Construction | 130,000 | 117,707 | 12,293 |
| Other | 64,202 | 64,400 | (198) |
| In-kind goods and services | 208,216 | 205,757 | 2,459 |
| **TOTAL EXPENSES** | 1,041,080 | 1,026,329 | 14,751 |
| **NET CHANGE IN GRANT NET ASSETS** | $ - | $ - | $ - |

# SAGUACHE COUNTY COMMUNITY COUNCIL, INC.
## SCHEDULE OF FUNCTIONAL EXPENSES
### For the Year Ended March 31, 2016

| | PROGRAM | | | OTHER CHANGES - EFFECTS OF A FIRE | |
|---|---|---|---|---|---|
| | HEAD START | EARLY HEAD START | SUPPORTING SERVICES | | TOTAL |
| Personnel | $ 381,144 | $ 104,173 | $ 72,371 | $ - | $ 557,688 |
| Fringe benefits | 101,924 | 14,353 | 9,583 | - | 125,860 |
| Travel | 1,556 | - | 88 | - | 1,644 |
| Training | 1,283 | - | 65 | - | 1,348 |
| Supplies | 21,562 | 2,558 | 15,494 | 29,281 | 68,895 |
| Contractual | 19,926 | - | 14,801 | 119,435 | 154,162 |
| Capital outlay | 116,411 | - | 1,296 | 185,530 | 303,237 |
| Repairs and maintenance | - | - | - | 47,824 | 47,824 |
| Other | 61,856 | 6,778 | 2,544 | 10,653 | 81,831 |
| In-kind goods and services | 205,757 | - | - | - | 205,757 |
| **SUBTOTAL - Expenses** | 911,419 | 127,862 | 116,242 | 392,723 | 1,548,246 |
| Food purchases | 49,998 | - | - | - | 49,998 |
| Donated food | 2,065 | - | - | - | 2,065 |
| Less: Capital outlay | (116,411) | - | (1,296) | (185,530) | (303,237) |
| Loss from fire | - | - | - | 232,131 | 232,131 |
| Depreciation | - | - | 38,562 | - | 38,562 |
| **TOTAL EXPENSES** | $ 847,071 | $ 127,862 | $ 153,508 | 439,324 | $ 1,567,765 |

# SAGUACHE COUNTY COMMUNITY COUNCIL, INC.
## SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
## For the Year Ended March 31, 2016

| FEDERAL GRANTOR/PASS-THROUGH GRANTOR/ PROGRAM OR CLUSTER TITLE | FEDERAL CFDA NUMBER | PASS-THROUGH ENTITY IDENTIFYING NUMBER | FEDERAL EXPENDITURES |
|---|---|---|---|
| **U.S. DEPARTMENT OF AGRICULTURE** | | | |
| COLORADO DEPT. OF PUBLIC HEALTH & ENVIRONMENT | | | |
| Child and Adult Care Food Program | 10.558 | | $ 49,998 |
| COLORADO DEPT. OF HUMAN SERVICES | | | |
| *Food Distribution Cluster* | | | |
| Commodity Supplemental Food Program | 10.565 | | 2,065 |
| **U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES** | | | |
| Head Start | 93.600 | 08CH1010/01 | 820,572 |
| EARLY CHILDHOOD COUNCIL OF THE SLV, INC. | | | |
| Head Start - Early Head Start | 93.600 | 08CH1152/04 | 128,045 |
| Total Head Start | | | 948,617 |
| **TOTAL EXPENDITURES OF FEDERAL AWARDS** | | | $ 1,000,680 |

# SAGUACHE COUNTY COMMUNITY COUNCIL, INC.
## NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
## For the Year Ended March 31, 2016

### NOTE 1: BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal grant activity of Saguache County Community Council, Inc. under programs of the federal government for the year ended March 31, 2016. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, U*niform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of Saguache County Community Council, Inc., it is not intended to and does not present the financial position, changes in net assets or cash flows of Saguache County Community Council, Inc.

### NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through entity identifying numbers are presented where available. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. Saguache County Community Council, Inc. did not elect to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance for the year ended March 31, 2016.

### NOTE 3: FOOD DISTRIBUTION

Nonmonetary assistance is reported in the Schedule at the fair market value of the commodities received and disbursed. At March 31, 2016, the Saguache County Community Council, Inc. did not have any items remaining in the food inventory at year-end.

**INDEPENDENT AUDITORS' 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*

Wall, Smith, Bateman Inc.

To the Board of Directors
Saguache County Community Council, Inc.
Center, Colorado

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 Saguache County Community Council, Inc. (a nonprofit organization), which comprise the statement of financial position as of March 31, 2016, 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 October 24, 2016.

**Internal Control over Financial Reporting**

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

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

Our consideration of the internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be a material weakness. Finding 2016-001.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Organization'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*.

**The Organization's Response to the Finding**

Saguache County Community Council, Inc.'s response to the finding identified in our audit is described in the accompanying corrective action plan. The Organization'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 organization'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.

Wall, Smith, Bateman Inc.

Wall, Smith, Bateman Inc.
Alamosa, Colorado

October 24, 2016

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

Wall,
Smith,
Bateman Inc.

To the Board of Directors
Saguache County Community Council, Inc.
Center, Colorado

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

We have audited Saguache County Community Council Inc.'s compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Organization's major federal programs for the year ended March 31, 2016. The Organization's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

*Management's Responsibility*

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

*Auditors' Responsibility*

Our responsibility is to express an opinion on compliance for each of the Organization's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Organization's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

*Opinion on Each Major Federal Program*

In our opinion, the Organization 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 March 31, 2016.

**Report on Internal Control over Compliance**

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

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

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

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

Wall, Smith, Bateman Inc.

Wall, Smith, Bateman Inc.
Alamosa, Colorado

October 24 ,2016

**SAGUACHE COUNTY COMMUNITY COUNCIL, INC.**
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**
**Year Ended March 31, 2016**

## Section I – Summary of Auditors' Results

Financial Statements

Type of auditors' report issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? __X__ yes _____ no
- Significant deficiency(ies) identified that are **not** considered to be material weakness(es)? _____ yes __X__ none reported
- Noncompliance material to financial statements noted? _____ yes __X__ no

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? _____ yes __X__ no
- Significant deficiency(ies) identified that are **not** considered to be material weakness(es)? _____ yes __X__ none reported

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

Any audit findings disclosed that are required to be reported in accordance with 2 CFR section 200.516(a)? _____ yes __X__ no

Identification of major programs:

| CFDA Number(s) | Name of Federal Program or Cluster |
|---|---|
| 93.600 | Head Start |

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

Auditee qualified as a low-risk auditee? __X__ yes _____ no

## Section II – Financial Statement Findings

**Finding 2016-001 Internal Control Over Financial Reporting**

*Type of Finding: Internal Control (material weakness)*

*Condition:* The Council does not have a system of internal control to prevent or detect and correct financial misstatements related to the recording of non-routine transactions.

*Criteria:* A system of internal control includes the design, documentation, and monitoring of control activities over the application of accounting principles, antifraud programs, non-routine transactions,

financial statement preparation, safeguarding of assets, and compliance with the provisions of laws, regulations, contracts, and grant agreements.

*Cause:* During fiscal year 2016, a fire destroyed the leased Head Start building and significant damage occurred to the nearby Early Head Start building and playground equipment, owned by the Council.

*Effect:* Non-routine transactions were required to record the loss of capital assets, receipt of insurance proceeds and related fees, and construction of the new building.

*Recommendation:* The Council should strengthen its internal controls with adopted policies and procedures to address proper recording of non-routine transactions and record necessary adjustments when performing financial close and reporting.

*Management's Response:* See corrective action plan.

## Section III – Federal Award Findings and Questioned Costs

None

## Section IV- Prior Year Audit Findings

None

Center Head Start Project

P. O. Box 1240
Center, Colorado 81125
Phone: 719-754-3191
Fax: 719-754-2468

## CORRECTIVE ACTION PLAN

Oversight Agency: U.S. Department of Health and Human Services

Saguache County Community Council, Inc. respectfully submits the following corrective action plan for the year ended March 31, 2016.

Independent Accountants: Wall, Smith, Bateman Inc.
Certified Public Accountants
700 Main Street, Suite 200, P.O. Box 809
Alamosa, CO 81101

Audit period: Year ended March 31, 2016

The findings from the March 31, 2016 schedule of findings and questioned costs are discussed below. The findings are numbered consistently with the numbers assigned in the schedule. Section I of the schedule, Summary of Auditors' Results, does not include findings and is not addressed.

### Section II – Financial Statement Findings

**Finding 2016-001: Internal Control Over Financial Reporting**

*Type of finding: Internal Control (material weakness)*

*Recommendation:* The Council should strengthen its internal controls with adopted policies and procedures to address proper recording of non-routine transactions and record necessary adjustments when performing financial close and reporting.

*Action taken:* To address proper recording of non-routine transactions, the Saguache County Community Council, Inc. is implementing a policy whereby the fiscal manager brings to the attention of the director of the Center Head Start any and all transactions that are not recurring as well as transactions for vendors that are not currently on the approved vendor list of the Center Head Start. Through discussion with the director and the fiscal manager it will be determined, at that time, how to properly record the non-routine transaction. If there is any uncertainty, the independent accounting firm used by the Center Head Start will be contacted for guidance on properly recording the transaction.

All adjustments for the current fiscal year including depreciation expense, accumulated depreciation, in-kind, accounts payable and other adjustments necessary for the year end closing will be done prior to closing out the fiscal year end and producing any preliminary year-end financial reports.

If the U.S. Department of Health and Human Services has questions regarding this plan, please call the responsible party listed below.

Sincerely yours,

Annette Martinez
Executive Director
Saguache County Community Council, Inc.