

Community Action Agency of
Somerville, Inc.

Financial Statements

November 30, 2019 and 2018

Community Action Agency of Somerville, Inc.
Financial Statements
November 30, 2019 and 2018

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Independent Auditor's Report

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

We have audited the accompanying financial statements of Community Action Agency of Somerville, Inc. (a non-profit organization), which comprise the statements of financial position as of November 30, 2019 and 2018, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audit 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 audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Community Action Agency of Somerville, Inc. as of November 30, 2019 and 2018, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Other Information

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 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 are 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 December 15, 2020, 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.

Emphasis of Matter

As discussed in Note 2 to the financial statements, during the year November 30, 2019, the Community Action Agency of Somerville, Inc. adopted Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements for Not-for-Profit Entities*. As a result, the standard was retroactively applied to the financial statements for the fiscal year ending November 30, 2018. Our opinion is not modified with respect to this matter.

Anstiss & Co., P.C.

Anstiss & Co., P.C.
Lowell, MA
December 15, 2020

Community Action Agency of Somerville, Inc.
Statements of Financial Position
November 30, 2019 and 2018

	2019	2018
Assets		
Current assets		
Cash	\$ 344,560	\$ 108
Grants and contracts receivable	424,659	659,829
Prepaid expenses	39,132	170,570
Total current assets	808,351	830,507
Fixed assets		
Land	409,749	409,749
Building and improvements	2,436,224	2,436,224
Furniture, equipment and vehicles	181,993	244,167
Total fixed assets	3,027,966	3,090,140
Accumulated depreciation	(1,066,609)	(1,049,347)
Net fixed assets	1,961,357	2,040,793
Security deposit	16,264	16,264
Total assets	\$ 2,785,972	\$ 2,887,564
 Liabilities and Net Assets		
Current liabilities		
Overdrawn cash	\$ -	\$ 64,927
Accounts payable and accrued expenses	52,924	114,609
Accrued wages and related liabilities	326,789	206,594
Long-term debt: current portion	43,416	42,218
Total current liabilities	423,129	428,348
Deferred rent	152,629	127,459
Long-term debt, less current portion	1,072,054	1,111,903
Total long-term liabilities	1,224,683	1,239,362
Total liabilities	1,647,812	1,667,710
Net assets		
Net assets without donor restriction	1,138,160	1,219,854
Total net assets	1,138,160	1,219,854
Total liabilities and net assets	\$ 2,785,972	\$ 2,887,564

The accompanying notes are an integral part of these statements.

Community Action Agency of Somerville, Inc.
Statements of Activities
For the Years Ended November 30, 2019 and 2018

	2019			2018		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Revenues and Support						
Grants and contracts	\$ 5,353,849	\$ -	\$ 5,353,849	\$ 5,413,369	\$ -	\$ 5,413,369
In-kind contributions	518,163	-	518,163	552,440	-	552,440
Contributions	78,747	-	78,747	46,514	-	46,514
Other income	7,127	-	7,127	8,310	-	8,310
Net assets released from restrictions	-	-	-	11,000	(11,000)	-
Total revenues and support	<u>5,957,886</u>	<u>-</u>	<u>5,957,886</u>	<u>6,031,633</u>	<u>(11,000)</u>	<u>6,020,633</u>
Expenses						
Program services						
Head Start	5,089,027	-	5,089,027	5,097,501	-	5,097,501
Advocacy and community services	294,831	-	294,831	209,310	-	209,310
Total program services	<u>5,383,858</u>	<u>-</u>	<u>5,383,858</u>	<u>5,306,811</u>	<u>-</u>	<u>5,306,811</u>
Management and general	655,722	-	655,722	569,731	-	569,731
Total operating expenses	<u>6,039,580</u>	<u>-</u>	<u>6,039,580</u>	<u>5,876,542</u>	<u>-</u>	<u>5,876,542</u>
Change in Net Assets	<u>(81,694)</u>	<u>-</u>	<u>(81,694)</u>	<u>155,091</u>	<u>(11,000)</u>	<u>144,091</u>
Net Assets - Beginning of Year	<u>1,219,854</u>	<u>-</u>	<u>1,219,854</u>	<u>1,064,763</u>	<u>11,000</u>	<u>1,075,763</u>
Net Assets - End of Year	<u>\$ 1,138,160</u>	<u>\$ -</u>	<u>\$ 1,138,160</u>	<u>\$ 1,219,854</u>	<u>\$ -</u>	<u>\$ 1,219,854</u>

The accompanying notes are an integral part of these statements.

Community Action Agency of Somerville, Inc.
Statements of Functional Expenses
For the Years Ended November 30, 2019 and 2018

2019					
Program Services					
Advocacy and					
Community					
Head Start	Services	Total Program	Management and	Total	
General					
Expenses					
Salaries and wages	\$ 2,099,238	\$ 133,839	\$ 2,233,077	\$ 378,763	\$ 2,611,840
Employee benefits & payroll taxes	1,368,374	55,665	1,424,039	108,698	1,532,737
Consultants	100,035	35,516	135,551	77,129	212,680
Travel	14,364	1,050	15,414	1,365	16,779
Space	436,529	22,526	459,055	45,842	504,897
Consumable supplies	83,514	3,922	87,436	9,084	96,520
In-kind expense	518,163	-	518,163	-	518,163
Other direct expenses	388,760	42,313	431,073	34,841	465,914
Depreciation	80,050	-	80,050	-	80,050
Total expenses	<u>\$ 5,089,027</u>	<u>\$ 294,831</u>	<u>\$ 5,383,858</u>	<u>\$ 655,722</u>	<u>\$ 6,039,580</u>
2018					
Program Services					
Advocacy and					
Community					
Head Start	Services	Total Program	Management and	Total	
General					
Expenses					
Salaries and wages	\$ 2,177,183	\$ 109,588	\$ 2,286,771	\$ 297,661	\$ 2,584,432
Employee benefits & payroll taxes	1,216,634	47,574	1,264,208	100,005	1,364,213
Consultants	117,222	28,759	145,981	76,611	222,592
Travel	17,656	172	17,828	4,092	21,920
Space	469,872	17,320	487,192	46,719	533,911
Consumable supplies	96,925	1,778	98,703	5,888	104,591
In-kind expense	552,440	-	552,440	-	552,440
Other direct expenses	372,287	4,119	376,406	38,755	415,161
Depreciation	77,282	-	77,282	-	77,282
Total expenses	<u>\$ 5,097,501</u>	<u>\$ 209,310</u>	<u>\$ 5,306,811</u>	<u>\$ 569,731</u>	<u>\$ 5,876,542</u>

The accompanying notes are an integral part of these statements.

Community Action Agency of Somerville, Inc.
Statements of Cash Flows
For the Years Ended November 30, 2019 and 2018

	2019	2018
Cash Flows from Operating Activities		
Change in Net Assets	\$ (81,694)	\$ 144,091
Adjustments to reconcile changes in net assets to net cash provided by (used in) operating activities		
Gain on disposal of fixed assets	(614)	-
Depreciation	80,050	77,282
Amortization of debt issuance costs reported as interest expense	3,567	3,567
(Increase) decrease in operating assets:		
Grants and contracts receivable	235,170	(234,871)
Contributions receivable	-	11,000
Prepaid expenses	131,438	(155,005)
Increase (decrease) in operating liabilities:		
Overdrawn cash	(64,927)	64,927
Accounts payable and accrued expenses	(61,685)	26,491
Accrued wages and related liabilities	120,195	(3,828)
Deferred rent	25,170	36,064
Net cash provided by (used in) operating activities	386,670	(30,282)
Cash Flows from Investing Activities		
Capital expenditures	-	(29,976)
Net cash used in investing activities	-	(29,976)
Cash Flows from Financing Activities		
Repayments on line of credit	-	(10,623)
Repayments of long-term debt	(42,218)	(40,959)
Net cash used in financing activities	(42,218)	(51,582)
Net Increase (Decrease) in Cash	344,452	(111,840)
Cash - Beginning of Year	108	111,948
Cash - End of Year	\$ 344,560	\$ 108
Supplemental Disclosure of Cash Flow Information		
Cash paid for interest	36,770	38,029

The accompanying notes are an integral part of these statements.

Community Action Agency of Somerville, Inc.
Notes to Financial Statements
November 30, 2019 and 2018

Note 1 – 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 approximately 355 children from low-income families in Somerville and Cambridge each year and the Homelessness Prevention Program (HPP) which provides advocacy and crisis case management to low income Somerville residents at risk of homelessness.

Note 2 – Summary of Significant Accounting Policies

Basis of Presentation

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 (GAAP). Under GAAP, financial information is classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Organization and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions

Net assets without donor restrictions comprise those assets upon which donors have placed no restrictions on the expenditure of the principal or income.

Net Assets with Donor Restrictions

Net assets subject to donor-imposed stipulations that may or will be met, either by actions of the Agency and/or the passage of time are classified as net assets with donor restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restriction. It is the Organization's policy to record temporarily restricted contributions whose restrictions were met in the same reporting period as unrestricted support in accordance with ASC 958-605 "*Revenue Recognition*".

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.

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.

Tax Exempt Status

The Organization is generally exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. The Organization has also been classified as an entity that is not private foundation within the meaning of Section 509(a) and qualifies for deductible contributions as provided in Sections 170(b)(1)(A)(vi).

Community Action Agency of Somerville, Inc.
Notes to Financial Statements
November 30, 2019 and 2018

Note 2 – Summary of Significant Accounting Policies (continued)

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. Support received under cost reimbursement contracts and grants is recorded as grant revenue and grant receivable in unrestricted net assets when the related costs are incurred or billed.

Contributions Receivable

Unconditional promises to give that are expected to be collected within one year are recorded at their net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of the estimated future cash flows. Subsequent amortization of the discount is credited to contribution income. Management has established an allowance for uncollectible promises which represent an estimate, discounted for present value, of promises to give which will be written off. Conditional promises to give are not included in support until the conditions are met.

Fixed Assets

Donated property is recorded at fair market value on the date of the gift. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Expenditures for maintenance and repairs are charged against operations. The Organization's policy is to capitalize property and equipment costing \$5,000 or more. Property and equipment with a useful life greater than one year is stated at cost. 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

Revenue Recognition

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

Expense Allocation

The costs of providing the Organization's various programs and supporting services have been summarized on a functional basis in the statements of functional expenses. The statement of functional expenses is required to present the natural classification detail of expenses by function, allocated on a reasonable basis that is consistently applied. Expenses are allocated among program and supporting services directly or based on time records and utilization estimates made by management. Management and general expense includes those expenses that are not directly identifiable with any other specific function, but provide for overall support and direction of the Organization

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, 2019 and 2018, was \$6,271 and \$2,243, respectively.

Community Action Agency of Somerville, Inc.
Notes to Financial Statements
November 30, 2019 and 2018

Note 2 – Summary of Significant Accounting Policies (continued)

Adoption of Recent Accounting Pronouncements

During the fiscal year ending November 30, 2019, the Organization adopted ASU 2016-14, *Not-for-Profit Entities (Topic 958): “Presentation of Financial Statements for Not-for-Profit Entities.”*

This guidance is intended to improve the net asset classification requirements and the information presented in the financial statements and notes about a not-for-profit entity’s liquidity, financial performance, and cash flows. The main provisions of this guidance include presentation of two classes of net assets versus the previously required three; recognition of capital gifts as net assets without donor restrictions when the associated long-lived asset is placed in service; and recognition of underwater endowment funds as a reduction in net assets with donor restrictions. This guidance also enhances disclosures for board-designated amounts, composition of net assets without donor restrictions, liquidity, and expenses by both their natural and functional classification. As a result of the adoption of this standard, during the year ended November 30, 2019, certain amounts from the prior year financial statements were reclassified to conform to current year presentation.

A recap of the net asset reclassifications driven by the adoption of ASU 2016-14 as of November 30, 2018 is as follows:

	ASU 2016-14 Classifications		
Net Asset Classifications	Without donor restrictions	With donor restrictions	Total net assets
As previously presented:			
Unrestricted	\$ 1,219,854	\$ -	\$ 1,219,854
Temporarily restricted	-	-	-
Total net assets as reclassified	\$ 1,219,854	\$ -	\$ 1,219,854

Accounting Updates

In May 2014, FASB issued ASU 2014-09, *“Revenue from Contracts with Customers.”* This ASU affects any entity that enters into contracts with customers to transfer goods or services and is intended to enhance the comparability of revenue recognition practices across entities. The new standard requires entities to recognize revenue when the entity has satisfied its performance obligations under contracts with customers in the amount the entity expects to be entitled to in exchange for the goods or services provided. For not-for-profit entities with no public debt, this ASU takes effect for annual periods beginning after December 15, 2019.

In June 2018, FASB issued ASU 2018-08, *“Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made.”* The new ASU clarifies the difference between an exchange transaction and a contribution and further defines when a contribution is considered conditional or unconditional. This will allow not-for-profit entities to identify when and how revenue should be recognized. For not-for-profit organizations without public debt, this ASU is effective for financial statements issued for annual periods beginning after December 15, 2018.

Community Action Agency of Somerville, Inc.
Notes to Financial Statements
November 30, 2019 and 2018

Note 2 – Summary of Significant Accounting Policies (continued)

In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-02, “Leases”. ASU 2016-02 includes a lessee accounting model that recognizes two types of leases: finance leases and operating leases. The standard requires that a lessee recognize on the statement of financial position assets and liabilities for leases with lease terms of more than 12 months (leases with terms of less than 12 months are exempt from the new standard). ASU 2016-02 requires qualitative and quantitative disclosures, providing information about the amounts recorded in the financial statements. This standard is effective for annual financial statements issued for fiscal years beginning after December 15, 2021.

The Organization is currently evaluating the effect that these accounting pronouncements will have on the financial statements. There were no other accounting standards recently issued that had or are expected to have a material impact on November 30, 2019 financial statements and associated disclosures.

Note 3 – Liquidity and Availability

Financial assets available within one year for general expenditure were as follows for the years ending November 30, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Financial assets		
Cash	\$ 344,560	\$ 108
Grants and contracts receivable	<u>424,659</u>	<u>659,829</u>
Total financial assets available for general expenditure within one year	<u>\$ 769,219</u>	<u>\$ 659,937</u>

The Organization’s consideration of liquidity to meet obligations over the next year accounts for all financial assets and liabilities including cash and cash equivalents and notes payable. The Organization’s primary sources of revenue are from government contracts. Supplemental sources of revenue include grants and donations. To help manage unanticipated liquidity needs, the Organization has a committed line of credit in the amount of \$100,000, which it could draw upon.

Note 4 – Concentration of Credit Risk

Financial instruments, which potentially subject the Organization to concentrations of credit risk, consist principally of cash, cash equivalents and contract receivables. The Organization maintains its cash and cash equivalents in bank deposit accounts, which at times may exceed federally insured limits. The Organization has not experienced any losses in such accounts. Management considers credit risk to be minimal. Credit risk with receivables is concentrated among Federal and State agencies which comprise substantially all of the receivable balances as of November 30, 2019 and 2018.

Community Action Agency of Somerville, Inc.
Notes to Financial Statements
November 30, 2019 and 2018

Note 5 – Grants and Contracts Receivable

Grants and contracts receivable consisted of the following at November 30, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Commonwealth of Massachusetts Supplemental Head Start Grant:	\$ 194,859	\$ 214,013
U.S. Department of Health & Human Services Head Start Grant	118,663	400,866
Other Receivables	<u>111,137</u>	<u>44,950</u>
Total grants and contracts receivable	<u>\$ 424,659</u>	<u>\$ 659,829</u>

Note 6 – Fixed Assets

Fixed assets consisted of the following as of November 30, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Land	\$ 409,749	\$ 409,749
Buildings	2,436,224	2,436,224
Property and equipment	147,693	147,693
Vehicles	<u>34,300</u>	<u>96,474</u>
Total Fixed assets	3,027,966	3,090,140
Less: Accumulated depreciation	<u>(1,066,609)</u>	<u>(1,049,347)</u>
Net fixed assets	<u>\$ 1,961,357</u>	<u>\$ 2,040,793</u>

Depreciation expense for the years ended November 30, 2019 and 2018, was \$80,050 and \$77,282, respectively.

Note 7 – Line of Credit

The Organization maintains an unsecured \$100,000 line of credit with East Boston Savings Bank. The availability of the line of credit will expire on December 27, 2020, unless renewed by the bank. The interest rate of the line of credit is floating at a rate equal to the Prime Rate plus 0.50% (5.25% and 5.75% at November 30, 2019 and 2018, respectively). Monthly payments of interest only are required, with principle due on demand. There were no outstanding balances on the line of credit as of November 30, 2019 and 2018.

Note 8 – Commitments and Contingencies

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 noncompliance 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
November 30, 2019 and 2018

Note 9 – Mortgage Payable

	2019	2018
Mortgage payable to East Boston Savings Bank dated January 25, 2016 with an interest rate fixed at 2.99% for 5 years, then adjusted every 5 years thereafter at the prevailing Federal Home Loan Bank (FHLB) 5/20 Amortizing Advance Rate plus 1.20%. The term of the mortgage is 25 years, and principle and interest are due monthly. The mortgage is secured by first mortgage and assignment of leases and rents on the subject property located at 29-33 Allen Street, Somerville, MA. Interest expense incurred in conjunction with the mortgage during the years ended November 30, 2019 and 2018, was \$36,770 and \$38,029, respectively.	\$ 1,190,201	\$ 1,232,420
Less: Current portion of mortgage payable	(43,416)	(42,218)
Less: Unamortized loan fees	(74,731)	(78,299)
Long-term debt, net of current portion	\$ 1,072,054	\$ 1,111,903

The future minimum payments on the mortgage payable are as follows for the years ending November 30, 2019 and 2018:

2020	\$ 43,416
2021	44,851
2022	46,230
2023	47,651
2024	49,031
Thereafter	959,022
Total	\$ 1,190,201

Amortization of loan fees reported as interest expense was \$3,567 for each of the years ended November 30, 2019 and 2018.

The debt requires the Organization to be in compliance with certain covenants. The Organization was not in compliance with the required covenants at November 30, 2019, but was in compliance with the required covenants at November 30, 2018. The Organization did not obtain a debt covenant waiver for the year ended November 30, 2019.

Note 10 – Donated Services and Facilities

The Organization receives contributed space, supplies, and professional services in support of its programs. These in-kind contributions are reflected in the accompanying financial statements based upon the estimated value assigned to them by management. The value of these in-kind contributions for the years ended November 30, 2019 and 2018 was \$518,163 and \$552,440, respectively, and is included in in-kind contributions and in-kind expenses in the accompanying financial statements.

Community Action Agency of Somerville, Inc.
Notes to Financial Statements
November 30, 2019 and 2018

Note 10 – Donated Services and Facilities (continued)

The Organization also receives services from volunteers in support of its programs. The value of these services is not reflected in the accompanying financial statements, since the value assigned to these services does not meet the criteria for recognition under accounting principles generally accepted in the United States of America.

Note 11 – Tax-Deferred Annuity Plan

During the years ended November 30, 2019 and 2018, the Organization maintained 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. Expenses related to these plans was \$115,240 and \$104,600 for the years ended November 30, 2019 and 2018, respectively.

Note 12 – Operating Leases

The Organization leases equipment and office and classroom space under various operating leases. Rent expense for the years ended November 30, 2019 and 2018, was \$349,107 and \$350,123, respectively. The approximate minimum future rental commitments under all such operating leases are as follows as of November 30, 2019:

2020	\$ 335,951
2021	312,300
2022	279,543
2023	276,165
2024	285,803
Thereafter	<u>1,068,351</u>
Total	<u>\$ 2,558,113</u>

Note 13 – Subsequent Events

ASC 855-10, “*Subsequent Events*” defines further disclosure requirements for events that occur after the statement of financial position date but before financial statements are issued. In accordance with ASC 855-10, the Organization’s management has evaluated events subsequent from November 30, 2019 through December 15, 2020, which is the date the financial statements were available to be issued.

On March 11, 2020, the World Health Organization characterized an outbreak of a novel strain of coronavirus (COVID-19) as a pandemic. In addition, multiple jurisdictions in the U.S., including Massachusetts, have declared a state of emergency. It is anticipated that these impacts will continue for some time.

Community Action Agency of Somerville, Inc.
Notes to Financial Statements
November 30, 2019 and 2018

Note 13 – Subsequent Events (continued)

The extent of the impact of the COVID-19 pandemic on the Organization's operational and financial performance will depend on future developments, including the duration and spread of the outbreak. Potential impacts to the Organization may include disruptions or restrictions on employees' ability to work, donors' ability to contribute, and the Organization's ability to fundraise. Changes to the operating environment may increase operating costs. The future effects of these issues are unknown.

There were no other material events noted during this period that would either impact the results reflected in this report or the Organization's results going forward.

**Independent Auditor's Report on Internal Control Over Financial Reporting
and on Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards***

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

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, 2019, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated December 15, 2020.

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 the Organization's internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, we did identify certain deficiencies in internal control that we consider to be a 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 item 2019-001 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 deficiency described in the accompanying schedule of findings and questioned costs as item 2019-002 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 an instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and questioned costs as item 2019-003.

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

Community Action Agency of Somerville, Inc.'s responses 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 responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

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.

Anstiss & Co., P.C.

Anstiss & Co., P.C.
Lowell, MA
December 15, 2020

**Independent Auditor's Report on Compliance for Each Major Program
and on Internal Control Over Compliance Required by the Uniform Guidance**

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

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 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, 2019. 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 federal statutes, regulations, and the terms and conditions of its federal awards 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 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 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 of 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, 2019.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance which is required to be reported in accordance with the Uniform Guidance and which is described in the accompanying schedule of findings and questioned costs as items 2019-005 and 2019-006. Our opinion on each major federal program is not modified with respect to these matters.

Community Action Agency of Somerville, Inc.'s responses to the noncompliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. Community Action Agency of Somerville, Inc.'s responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

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 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 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 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 and, therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify a certain deficiency in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as item 2019-004 that we consider to be a material weakness.

Community Action Agency of Somerville, Inc.'s response to the internal control over noncompliance finding identified in our audit is 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 compliance and, accordingly, we express no opinion on the response.

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.

Anstiss & Co., P.C.

Anstiss & Co., P.C.
Lowell, MA
December 15, 2020

**Community Action Agency of Somerville, Inc.
 Schedule of Findings and Questioned Costs
 For the Year Ended November 30, 2019**

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: unmodified

Internal control over financial reporting:

- Material weakness(es) identified? yes no
- Significant deficiency(ies) identified? yes none reported
- Noncompliance material to financial statements noted? yes none reported

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? yes no
- Significant deficiency(ies) identified? yes none reported

Type of auditor's report issued on compliance for major programs: unmodified

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

Identification of major program:

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 low-risk auditee? yes no

**Community Action Agency of Somerville, Inc.
Schedule of Findings and Questioned Costs
For the Year Ended November 30, 2019**

Section II – Financial Statement Findings

Material Weaknesses

2019-001 Management Responsibilities

Condition: The individual designated as the Director of Finance of the Organization for the year ended November 30, 2019 lacked the skills, knowledge and experience needed to oversee the financial reporting function of the Organization.

Criteria: It is the Organization's responsibility to designate an individual, preferably within senior management, who possesses suitable skill, knowledge, or experience to oversee financial statement reporting and audit services and to have internal controls in place to monitor the individual designated.

Effect: As a result of the condition noted above, there was a lack of audit preparedness on behalf of management which caused significant delays in closing the fiscal year, difficulty responding to audit inquiries and several proposed audit adjustments to correct material misstatements.

Recommendation: The Board of Directors put procedures in place to ensure the individual holding the position of Director of Finance has the necessary skills, knowledge and experience to oversee the financial reporting needs of the Organization.

Views of Responsible Officials: The Organization agrees with the finding.

Corrective Action: Management has outsourced the Director of Finance responsibilities to an accounting firm with extensive not-for-profit experience as it conducts its search for an individual with adequate skills, knowledge and experience to permanently fill the position.

**Community Action Agency of Somerville, Inc.
Schedule of Findings and Questioned Costs
For the Year Ended November 30, 2019**

Section II – Financial Statement Findings (continued)

Significant Deficiency

2019-002 Compensation of the Executive Director

Condition: In addition to the Board-approved salary increase, the Executive Director of the Organization received a cost-of-living salary increase and one-time salary adjustment without knowledge or approval of the Board of Directors.

Criteria: It is the Board of Directors' responsibility to approve the compensation of the Executive Director.

Effect: As a result of the condition noted above, the Executive Director received approximately \$8,000 more in annual compensation than approved by the Board of Directors.

Recommendation: The Board of Directors document a formal policy with respect to increases in executive compensation that includes, but is not limited to, the requirement for a Board vote and approval of any and all increases, in advance of payment, that is documented in the Board of Directors' meeting minutes.

Views of Responsible Officials: The Organization agrees with the finding.

Corrective Action: The Board of Directors will revise the policy surrounding all increases to Executive Director compensation to include cost-of-living adjustments, one-time adjustments, and merit.

Community Action Agency of Somerville, Inc.
Schedule of Findings and Questioned Costs
For the Year Ended November 30, 2019

Section II – Financial Statement Findings (continued)

Instance of Noncompliance

2019-003 Submission of Audit Package and Data Collection Form

Condition: Due to the significant difficulties and delays encountered, as described at finding 2019-001, the Community Action Agency of Somerville, Inc. was unable to meet the deadline for submission of its November 30, 2019 audit package and data collection form to the Federal Audit Clearinghouse.

Criteria: The audit package and the Data Collection Form are required to be submitted to the Federal Audit Clearinghouse within thirty (30) days after the receipt of the auditor's report or nine (9) months after the end of the fiscal year – whichever comes first. However, the Federal Office of Management and Budget issued a memorandum on June 18, 2020 extending the filing date for recipients impacted by the COVID-19 crisis that had not yet filed their Single Audits as of March 19, 2020. Those with normal dues dates from July 31, 2020 through September 30, 2020 received an extension up to three (3) months beyond the normal due date. Therefore, the deadline for submission of the November 30, 2019 audit package and Data Collection Form was November 30, 2020.

Effect: The Organization has not met the federal filing requirements.

Recommendation: Internal controls be put in place regarding audit preparedness to ensure timely submission of the Organization's audit package and Data Collection Form to the Federal Audit Clearinghouse.

Views of Responsible Officials: The Organization agrees with the finding.

Corrective Action: The outsourced Director of Finance is implementing changes within the fiscal department and anticipates all corrections to be made in time for the fiscal year 2020 audit to ensure the audit package and Data Collection Form will be filed in a timely manner.

**Community Action Agency of Somerville, Inc.
Schedule of Findings and Questioned Costs
For the Year Ended November 30, 2019**

Section III – Federal Award Findings and Questioned Costs

Department of Health & Human Services

Head Start – CFDA No. 93.600

Grant Period- Year Ended November 30, 2019

Material Weaknesses

2019-004 The material weakness at finding 2019-001 applies to this grant.

**Community Action Agency of Somerville, Inc.
Schedule of Findings and Questioned Costs
For the Year Ended November 30, 2019**

Section III – Federal Award Findings and Questioned Costs (continued)

Instance of Noncompliance

2019-005 Unallowable Activities and Unallowable Costs

Condition: The Organization charged the Head Start program for a significant portion of one-time salary adjustment paid to executive and administrative personnel accrued at November 30, 2019 and paid out in February 2020.

Criteria: The payment of this one-time salary adjustment included individuals that were not educational personnel, family service workers, or child counselors. The cost of such compensation is not considered an allowable administrative cost necessary for Head Start program implementation.

Effect: The Organization is not in compliance with the Federal program requirements.

Recommendation: Procedures and internal controls over such procedures be put in place to ensure compliance with the requirements as noted above as criteria specifically with regards to executive compensation.

Views of Responsible Officials: The Organization respectfully disagrees with the finding. Based on guidance from the Administration for Children & Families (ACF), the Organization takes the view that one-time salary adjustments for administrative or management staff are allowable and do not require prior approval to the extent that agency spending stays within the approved indirect rate.

Corrective Action: The Board of Directors will review and, where necessary, revise compensation policies and procedures to ensure compliance with federal program requirements.

**Community Action Agency of Somerville, Inc.
Schedule of Findings and Questioned Costs
For the Year Ended November 30, 2019**

Section III – Federal Award Findings and Questioned Costs (continued)

Instance of Noncompliance

2019-006 Property and Equipment Tracking

Condition: The Organization does not have the proper maintenance of equipment and real property records as required for Head Start programs by the Department of Health and Human Services, specifically: maintenance of a schedule, which shows property description, identification number, source of funding, title holder, acquisition date, cost of property, and percentage of Federal participation in the project costs for the Federal award under which the property was acquired, the location, use and condition of the property, and any ultimate disposition data including the date of disposal and sale price of the property as required by Federal compliance requirements, and a physical inventory of the property being taken and the results reconciled with the property records at least once every two years.

Criteria: It is Organization's responsibility to ensure compliance with Federal program requirements with respect to equipment and real property management as noted above as condition.

Effect: The Organization is not in compliance with the Federal program requirements.

Recommendation: Procedures and internal controls over such procedures be put in place to ensure compliance with the requirements as noted above as criteria.

Views of Responsible Officials: The Organization agrees with the finding.

Corrective Action: The outsourced Director of Finance is implementing changes within the fiscal department to maintain property and maintenance records in compliance with Federal program requirements as best practice.

**Community Action Agency of Somerville, Inc.
Schedule of Expenditures of Federal Awards
November 30, 2019**

<u>Federal Grantor / Pass-through Grantor / Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Passed Through to Subrecipients</u>	<u>Federal Expenditures</u>
U.S Department of Agriculture				
<u>Passed through Massachusetts Department of Elementary and Secondary Education:</u>				
Childcare Food Services	10.558	DOE SCDOE12758N70532117A	\$ -	\$ 204,517
Total U.S. Department of Agriculture			-	204,517
U.S. Department of Health and Human Services				
<u>Direct Program:</u>				
* Head Start	93.600	N/A	-	4,250,128
<u>Passed through Massachusetts Department of Housing and Community Development</u>				
Community Services Block Grant	93.569	OCDSCOCD42001260BG04000	-	430,262
Total U.S. Department of Health and Human Services			-	4,680,390
Total Expenditures of Federal Awards			\$ -	\$ 4,884,907

The accompanying notes are an integral part of this schedule.

Community Action Agency of Somerville, Inc.
Notes to the Schedule of Expenditures of Federal Awards
November 30, 2019

Note 1 - Basis of Presentation

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of Community Action Agency of Somerville, Inc. under programs of the federal government for the year ended November 30, 2019. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of 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 Community Action Agency of Somerville, Inc.

Note 2 - Summary of Significant Accounting Principals

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principals contained in the Uniform Guidance and OMB Circular A-122, *Cost Principles for Non-Profit Organizations*, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Community Action Agency of Somerville, Inc. has elected not to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

* Major Program



Community Action Agency of Somerville
66-70 Union Square, Ste. #104, Somerville, MA 02143
Working to End Poverty Where We Live

tel:617.623.7370
www.caasomerville.org
fax:617.628.2512

Corrective Action Plan

December 15, 2020

Community Action Agency of Somerville, Inc. respectfully submits the following corrective action plan for the year ended November 30, 2019.

Name and address of independent public accounting firm: Anstiss & Co., P.C.
Princeton Corporate Centre
1115 Westford Street
Lowell, MA 01851

Audit Period: December 1, 2018 through November 30, 2019

The findings from the November 30, 2019 Schedule of Findings and Questioned Costs are discussed below. The findings are numbered consistently with the numbers assigned in the schedule.

Findings - Financial Statement Audit

Material Weakness

2019-001 Management Responsibilities

Recommendation: The Board of Directors put procedures in place to ensure the individual holding the position of Director of Finance has the necessary skills, knowledge and experience to oversee the financial reporting needs of the Organization.

Corrective Action: Management has outsourced the Director of Finance responsibilities to an accounting firm with extensive not-for-profit experience as it conducts its search for an individual with adequate skills, knowledge and experience to permanently fill the position.

Significant Deficiency

2019-002 Compensation of the Executive Director

Recommendation: The Board of Directors document a formal policy with respect to increases in executive compensation that includes, but is not limited to, the requirement for a Board vote and approval of any and all increases, in advance of payment, that is documented in the Board of Directors' meeting minutes.

Corrective Action: The Board of Directors will revise the policy surrounding all increases to Executive Director compensation to include cost-of-living adjustments, one-time adjustments, and merit.

Instance of Noncompliance

2019-003 Submission of Audit Package and Data Collection Form

Recommendation: Internal controls be put in place regarding audit preparedness to ensure timely submission of the Organization's audit package and Data Collection Form to the Federal Audit Clearinghouse.

Corrective Action: The outsourced Director of Finance is implementing changes within the fiscal department and anticipates all corrections to be made in time for the fiscal year 2020 audit to ensure the audit package and Data Collection Form will be filed in a timely manner.

Findings - Federal Award Program Audit

Department of Health & Human Services

Head Start - CFDA No. 93.600

Material Weakness

2019-004 The material weakness at finding 2019-001 applies to this grant.

Instance of Noncompliance

2019-005 Unallowable Activities and Unallowable Costs

Recommendation: Procedures and internal controls over such procedures be put in place to ensure compliance with the requirements as noted above as criteria specifically with regards to executive compensation.

Views of Responsible Officials: The Organization respectfully disagrees with the finding. Based on guidance from the Administration for Children & Families (ACF), the Organization takes the view that one-time salary adjustments for administrative or management staff are allowable and do not require prior approval to the extent that agency spending stays within the approved indirect rate.

Corrective Action: The Board of Directors will review and, where necessary, revise compensation policies and procedures to ensure compliance with federal program requirements.

Instance of Noncompliance

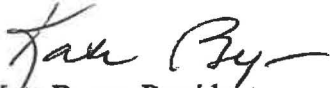
2019-006 Property and Equipment Tracking

Recommendation: Procedures and internal controls over such procedures be put in place to ensure compliance with the requirements as noted above as criteria.

Corrective Action: The outsourced Director of Finance is implementing changes within the fiscal department to maintain property and maintenance records in compliance with Federal program requirements as best practice.

If the Department of Health & Human Services has questions regarding this plan, please call
Kate Byrne, President at 617-623-7370.

Sincerely,



Kate Byrne, President
Community Action Agency of Somerville, Inc.

CAAS helps local families and individuals achieve financial security while working to eliminate the root causes of economic injustice.

David Gibbs
Executive Director

Kate Byrne
President

Jessie Leonard
Director of Head Start