

**Audited Financial Statements,
Supplementary Information, and Compliance Reports**

SALISBURY-ROWAN COMMUNITY ACTION AGENCY, INC.

Year Ended October 31, 2012

Audited Financial Statements, Supplementary Information, and Compliance Reports

Salisbury-Rowan Community Action Agency, Inc.

Year Ended October 31, 2012

Audited Financial Statements

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Geoffrey E. Wiggins
Jeffrey S. Romeo
Angela B. Goodwin
J. Kelly Lanier
Joseph L. Hill, Jr.

Independent Auditors' Report

To the Board of Directors of
Salisbury-Rowan Community Action Agency, Inc.
Salisbury, North Carolina

We have audited the accompanying statement of financial position of Salisbury-Rowan Community Action Agency, Inc. ("the Agency") as of October 31, 2012, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the Agency's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion of the effectiveness of the Agency's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Salisbury-Rowan Community Action Agency, Inc. as of October 31, 2012, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note B to the financial statements, net assets as previously reported at October 31, 2011, have been adjusted for the correction of certain errors involving accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 26, 2013, on our consideration of the Agency'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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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 is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, 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 schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the financial statements as a whole.

Romeo, Wiggins & Company, L.L.P.

Raleigh, North Carolina
July 26, 2013

Statement of Financial Position

Salisbury-Rowan Community Action Agency, Inc.

October 31, 2012

ASSETS

CURRENT ASSETS

Cash and cash equivalents	\$	790,068
Receivables:		
Grants and contracts		1,283,636
Other		76,450
Prepaid expenses and other assets		103,645
TOTAL CURRENT ASSETS		<u>2,253,799</u>

Property and equipment, net of depreciation		1,684,904
Endowment investments		<u>10,000</u>

TOTAL ASSETS \$ 3,948,703

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Accounts payable	\$	310,952
Accrued salaries and withholdings		240,105
Accrued PTO		185,377
Deferred support		163,583
TOTAL CURRENT LIABILITIES		<u>900,017</u>

NET ASSETS

Unrestricted net assets:		
Available for operations		1,352,001
Property and equipment, net		1,684,904
Total unrestricted net assets		<u>3,036,905</u>
Temporarily restricted net assets		1,781
Permanently restricted net assets		10,000
TOTAL NET ASSETS		<u><u>3,048,686</u></u>

TOTAL LIABILITIES AND NET ASSETS \$ 3,948,703

See independent auditors' report and notes to financial statements.

Statement of Activities

Salisbury-Rowan Community Action Agency, Inc.

October 31, 2012

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total Net Asset Classes</u>
SUPPORT, REVENUES, AND OTHER INCOME				
Federal government	\$ 10,386,436	\$	\$	\$ 10,386,436
American Recovery/Reinvestment Act	799,913			799,913
State and local government	469,835			469,835
In-kind contributions:				
Donated equipment	18,325			18,325
Donated services	1,744,216			1,744,216
Donated space	367,466			367,466
Other in-kind contributions	85,480			85,480
Interest income	3,412	72		3,484
Other	41,705			41,705
TOTAL SUPPORT, REVENUES, AND OTHER INCOME	<u>13,916,788</u>	<u>72</u>	<u>0</u>	<u>13,916,860</u>
EXPENSES:				
Salaries and wages	6,550,822			6,550,822
Payroll taxes	530,329			530,329
Fringe benefits	985,824			985,824
Travel and training	341,933			341,933
Utilities	332,273			332,273
Food	592,013			592,013
Supplies & equipment	353,451			353,451
Insurance	130,962			130,962
Professional fees	38,541			38,541
Contractual services	287,257			287,257
Leases	95,644			95,644
Client services	401,310			401,310
Weatherization materials	214,070			214,070
Repairs & maintenance	151,480			151,480
Depreciation expense	208,553			208,553
In-kind expenses	2,197,162			2,197,162
Other	282,359			282,359
TOTAL EXPENSES	<u>13,693,983</u>	<u>0</u>	<u>0</u>	<u>13,693,983</u>
CHANGE IN NET ASSETS	<u>\$ 222,805</u>	<u>\$ 72</u>	<u>\$ 0</u>	<u>\$ 222,877</u>
Net assets, beginning of year, as previously reported	\$ 195,442	\$ 0	\$ 10,000	\$ 205,442
Correction of prior period errors--Note B	2,618,658	1,709		2,620,367
NET ASSETS, BEGINNING OF YEAR, AS RESTATED	2,814,100	1,709	10,000	2,825,809
Change in net assets	222,805	72	0	222,877
NET ASSETS, END OF YEAR	<u>\$ 3,036,905</u>	<u>\$ 1,781</u>	<u>\$ 10,000</u>	<u>\$ 3,048,686</u>

See independent auditors' report and notes to financial statements.

Statement of Cash Flows

Salisbury-Rowan Community Action Agency, Inc.

Year Ended October 31, 2012

OPERATING ACTIVITIES	
Change in net assets	\$ 222,877
Adjustments to reconcile change in net assets to net cash used in operating activities:	
Depreciation	208,553
Changes in operating assets and liabilities:	
Grants and contracts receivable	(715,533)
Other receivables	(50,279)
Prepaid expenses and other assets	(13,662)
Accounts payable	68,922
Accrued salaries and withholdings	14,115
Accrued PTO	21,038
Deferred support	12,845
NET CASH USED IN OPERATING ACTIVITIES	<u>(231,124)</u>
INVESTING ACTIVITIES	
Purchases of property and equipment	<u>(236,551)</u>
NET CASH USED IN INVESTING ACTIVITIES	<u>(236,551)</u>
CHANGE IN CASH AND CASH EQUIVALENTS	(467,675)
Cash and cash equivalents, beginning of year	<u>1,257,743</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 790,068</u>
SUPPLEMENTAL CASH FLOW INFORMATION	
Interest paid	\$ 0

See independent auditors' report and notes to financial statements.

Notes to Financial Statements

Salisbury-Rowan Community Action Agency, Inc.

Year Ended October 31, 2012

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization: Salisbury-Rowan Community Action Agency, Inc. (the "Agency") is a community action agency that has been in existence since 1964 and is committed to providing early childhood education, family self-sufficiency, career education and training services, weatherization and other services to low-income residents of Salisbury, North Carolina and the surrounding communities in Rowan County. The main office is located in Salisbury, North Carolina. The Agency operates in Rowan, Cabarrus, Stanly, Moore, Montgomery, and Davidson Counties. The Agency's programs include the following:

- Head Start/Early Head Start
- Child and Adult Care Food Program
- Weatherization Assistance Program /Heating and Air Repair and Replacement Program
- ARRA - Weatherization Assistance Program
- Workforce Investment Act -Youth Activities
- Community Service Block Grant (CSBG) -Youth and Family Services
- NC Pre-Kindergarten Program
- Day Care Center
- Extended Day Child Care Program

Basis of Accounting: The Agency prepares its financial statements in accordance with U.S. generally accepted accounting principles. This basis of accounting involves the application of accrual accounting; consequently, revenues and gains are recognized when earned, and expenses and losses are recognized when incurred.

Basis of Presentation: The Agency follows FASB ASC 958-205, 210, 225, issued by the Financial Accounting Standards Board (FASB) for presentation of its financial statements. The Agency reports information regarding its financial position and activities according to the following three net asset classes:

Unrestricted Net Assets: Unrestricted net assets represent those assets either not subject to donor-imposed restrictions or releases from temporarily restricted net assets designated for stipulated activities or programs, which are expended within the current fiscal year. Board-designated or appropriated amounts are legally unrestricted and are reported as part of the unrestricted class.

Temporarily Restricted Net Assets: Temporarily restricted net assets are subject to explicit or implicit donor-imposed restrictions that may or will be met by actions of the Agency and/or the passage of time. When a restriction expires (that is, when a stipulated time restriction ends or a purpose restriction is accomplished), restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Permanently Restricted Net Assets: Permanently restricted net assets are subject to donor-imposed stipulations that they be maintained permanently by the Agency.

Promises to Give: The accompanying financial statements have been prepared in conformity with the provisions of FASB ASC 958-605. Unconditional promises to give are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence or nature of any donor restrictions. Conditional promises to give are recognized only when the conditions on which they depend are substantially met and the promises become unconditional.

Notes to Financial Statements -- Continued

Salisbury-Rowan Community Action Agency, Inc.

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES -- Continued

Cash Equivalents: The Agency considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. Refer also to *Note J--Fair Value Measurements*.

Investments: Investments consist of a 12-month certificate of deposit held in perpetuity under a permanent endowment. (Refer also to *Note H--Permanently Restricted/Endowment Net Assets and Note J--Fair Value Measurements*).

Receivables: Grants and contracts receivable generally consist of amounts due from governmental agencies. Management maintains that all receivables are collectible; therefore, no allowance for doubtful accounts is provided at October 31, 2012. Amounts included in receivables are unsecured and are due within a year.

Property and Equipment: Property and equipment are recorded at cost when purchased or at fair value when donated. Fixed asset purchases in excess of \$5,000 (or \$500 for the Weatherization program) are capitalized and depreciated over their estimated useful lives on a straight-line basis. Purchases of fixed assets below these thresholds are expensed as incurred. A significant portion of the Agency's fixed assets are subject to a grantor's reversionary interest or approval prior to disposition.

Donated Assets, Space, and Services: Donated assets, space, and services are recorded as in-kind contributions at their estimated fair value at the date of donation or what the Agency would have had to pay for such services if such services had been purchased. Substantially all in-kind contributions qualify as matching contributions as defined by Head Start. The Agency does not imply time restrictions on gifts of long-lived assets.

Impairment of Long-Lived Assets: Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell.

Compensated Absences: It is the Agency's policy to permit regular full and part-time employees to accumulate earned and unearned Personal Time Off (PTO) leave up to one-half of their yearly contracted amount earned. Upon termination of employment, terminated employees receive payment for unused PTO. Compensation absences are charged as an expense to the appropriate program when paid and the Agency is reimbursed from grant sources. Accrued PTO, including banked PTO, is recorded as a liability and is estimated to be \$185,377 at October 31, 2012.

Deferred Support: The majority of the Agency's support is provided under cost-reimbursement grants. Advances received prior to the incurrence of qualifying expenditures are recognized as deferred support.

Fair Value of Financial Instruments: The carrying values of cash equivalents, receivables, accounts payable, and other accrued expenses approximate the fair values of such at October 31, 2012, based on the short maturities of these financial instruments.

Advertising: The Agency expenses the costs of advertising as incurred. The Agency incurred \$10,118 for advertising expenses for the year ended October 31, 2012.

Tax-Exempt Status: The Agency is exempt from federal and state income taxes under Section 501(c)(3) Internal Revenue Code and the applicable state tax statutes. In addition, the Internal Revenue Service has determined the Organization is not a private foundation within the meaning of Section 509(a). Tax years subsequent to 2009 remain open and subject to examination.

Salisbury-Rowan Community Action Agency, Inc.

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES -- Continued

Use of Estimates: The preparation of financial statements in conformity with U.S. 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 these estimates.

Allocation of Indirect Costs: The Agency operates an Administrative Pool whereby indirect costs are allocated among the various grants in the proportion that a specific grant's salaries and benefits bear to total Agency salaries and benefits. This allocation plan is approved by the Agency's oversight agent, the U.S. Department of Health and Human Services (DHHS). The Agency received approval for an indirect cost rate of 10% for the period ended October 31, 2012.

NOTE B--RESTATEMENT OF NET ASSETS

Net assets as previously reported at October 31, 2011, have been restated for the correction of errors involving accounting principles. The following changes were made to effect the restatement:

Capitalization of fixed assets	\$ 3,334,518
Recognition of accumulated depreciation on fixed assets	(1,677,612)
Increase in cash	30,294
Increase in grants receivable	133,808
Increase in prepaid and other assets	8,890
Increase in accounts payable and accrued expenses	(39,279)
Decrease in deferred support	<u>829,748</u>
Net increase in net assets at October 31, 2011, as a result of restatement	\$ <u>2,620,367</u>

Refer also to the accompanying statement of activities as pertains to a reclassification of accumulated earnings of \$1,709 on the J.V. Wallace Charity Trust Fund from unrestricted to temporarily restricted net assets at October 31, 2011.

NOTE C--SIGNIFICANT CONCENTRATIONS (including a subsequent event)

Concentration of Support/Credit Risk: Federal support from DHHS for Head Start/Early Head Start accounted for approximately 60% of the Agency's support, revenues, and other income for the year ended October 31, 2012. A significant reduction in this support could negatively impact the nature and/or outreach of the Agency's programs.

Concentration of Credit Risk: At October 31, 2012, receivables include \$544,745 due from DHHS for Head Start and \$515,254 due from USDA for the Child and Adult Care Food Program.

Subsequent Event: The Agency was subsequently awarded a Head Start/Early Head Start grant of \$8,152,724 for the fiscal year ending October 31, 2013.

Notes to Financial Statements -- Continued

Salisbury-Rowan Community Action Agency, Inc.

NOTE D--PROPERTY AND EQUIPMENT

Property and equipment consist of the following at October 31, 2012:

Building	\$ 716,747
Building Improvements	258,688
Classroom Equipment	161,508
Computer Software & Equipment	71,094
Other Equipment	119,661
Playground Materials	875,896
Vehicle	1,221,062
Construction In Progress (non-depreciable)	<u>146,413</u>
	3,571,069
Accumulated depreciation	<u>(1,886,165)</u>
Net property and equipment	<u>\$ 1,684,904</u>

A significant portion of the Agency's fixed assets are subject to a grantor's reversionary interest or approval prior to disposition.

NOTE E--OPERATING LEASES

The Agency leases space under operating leases for multiple Head Start locations expiring at various dates through 2019. The fair value of below-market leases is estimated based on recent appraisals of similar property, with the excess of fair value over lease payments included in in-kind contributions in the accompanying financial statements. Minimum rentals required under these operating leases approximate the following at October 31, 2012:

<u>Years Ending October 31</u>	
2013	\$ 77,416
2014	76,214
2015	43,988
2016	21,304
2017	15,600
Thereafter	<u>15,200</u>
	<u>\$ 249,722</u>

Lease expense for space leases totaled \$95,644 for the year ended October 31, 2012.

NOTE F--BENEFIT PLANS

The Agency has a 401(k) plan covering substantially all employees meeting certain eligibility requirements. The 401(k) plan requires the Agency to match employee contributions, up to 4% of employee's compensation, as defined. Agency contributions to the plan for the year ended October 31, 2012 were \$118,189.

The Agency entered into an agreement in February 2004 to allow all employees meeting certain eligibility requirements participation in an excess deferred compensation plan. This plan allows the Agency to contribute amounts in its sole discretion, and to permit participants to defer a portion of their compensation in excess of the limits allowed under Section 457 of the Internal Revenue Code for payment at a later time. Agency contributions to the excess deferred compensation plan for the year ended October 31, 2012 were \$0.

Notes to Financial Statements -- Continued

Salisbury-Rowan Community Action Agency, Inc.

NOTE F--BENEFIT PLANS--Continued

In addition, the Agency sponsors a cafeteria plan which provides certain benefits, including basic medical coverage, short-term disability benefits, and group life insurance benefits. The employer contributes a predetermined amount for each eligible full-time and part-time employee, which is allocated to the various benefit options in accordance with the participant's election. Employer contributions were \$694,561 for the year ended October 31, 2012.

NOTE G--TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets of \$1,781 at October 31, 2012, consist of accumulated earnings from an endowment. Refer also to *Note H--Permanently Restricted / Endowment Net Assets*.

NOTE H--PERMANENTLY RESTRICTED / ENDOWMENT NET ASSETS

Permanently restricted net assets of \$10,000 are required by the donor to be held in perpetuity, with earnings thereon available to pay utility bills for low-income persons. At October 31, 2012, endowment net assets are invested in a 12-month certificate of deposit earning interest at 0.5%. The fund earned \$72 and made no distributions during fiscal 2011-2012. Accumulated earnings of \$1,781 are included in temporarily restricted net assets at October 31, 2012.

NOTE I--CONDITIONAL PROMISES TO GIVE (including a subsequent event)

Conditional promises to give consist of the following at October 31, 2012:

<u>Grant Awards</u>	
Head Start *	\$ 8,152,724
Workforce Investment Act - Youth	466,106
Weatherization Assistance Program	391,083
Community Services Block Grant	263,860
HARRP	<u>171,780</u>
	<u>\$ 9,445,553</u>

* as subsequently adjusted

Support from these conditional promises to give has not been recognized as of October 31, 2012. All amounts are conditioned upon the incurrence of qualifying expenditures in 2013.

NOTE J--FAIR VALUE MEASUREMENTS

The Agency applies U.S. generally accepted accounting principles (GAAP) for fair value measurements of financial assets that are recognized or disclosed at fair value in the financial statements on a recurring basis. GAAP defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. GAAP also establishes a framework for measuring fair value and expands disclosures about fair value measurements.

FASB ASC 820-10 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. This hierarchy consists of three broad levels: Level 1 inputs consist of unadjusted quoted prices in active markets for identical assets and have the highest priority; Level 2 inputs consist of observable inputs other than quoted prices for identical assets; and Level 3 inputs have the lowest priority.

Notes to Financial Statements -- Continued

Salisbury-Rowan Community Action Agency, Inc.

NOTE J--FAIR VALUE MEASUREMENTS -- Continued

The following represents assets measured at fair value on a recurring basis by the Agency at October 31, 2012:

	<u>Fair Value</u>	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
Cash equivalents:				
Money market accounts	\$ 277,880	\$ 277,880	\$ 0	\$ 0
Investments:				
Certificate of deposit	<u>10,000</u>	<u>0</u>	<u>10,000</u>	<u>0</u>
Total	<u>\$ 287,880</u>	<u>\$ 277,880</u>	<u>\$ 10,000</u>	<u>\$ 0</u>

Level 1: The carrying value of money market accounts approximates fair value.

Level 2: The certificate of deposit is carried at face value, with accrued interest carried in cash. The carrying value approximates fair value given that stated rates approximate current market rates and the certificate matures in a year or less.

At October 31, 2012, the Agency has no assets or liabilities classified within Level 3 of the fair value hierarchy.

NOTE K--FUNCTIONAL EXPENSES

The Agency allocates certain expenses on a functional basis between program and support services. Expenses that can be identified with a specific program and support service are allocated directly according to their natural expense classification. Certain indirect expenses are allocated to program and support services based on estimated usage and/or benefit. Expenses for the year ended October 31, 2012 are allocated as follows:

Program services:	
Head Start	\$ 10,086,139
Child and Adult Care Food Program	760,489
Weatherization Assistance Program/Heating and Air Repair and Replacement Program	262,226
ARRA Weatherization Assistance Program	753,108
Workforce Investment Act - Youth	561,232
Community Service Block Grant	356,531
Other program services	<u>153,173</u>
	12,932,898
Support Services:	
Management and general	<u>761,085</u>
Total expenses	<u>\$ 13,693,983</u>

Notes to Financial Statements -- Continued

Salisbury-Rowan Community Action Agency, Inc.

NOTE L--CONTINGENCIES

Financial assistance from various awarding agencies is subject to special audit. Such audits could result in claims against the Agency for disallowed costs or noncompliance with grantor restrictions. Management is aware of no disallowable costs or instances of noncompliance with grantor restrictions. Consequently, no provision has been made for liabilities, if any, that may arise from such audits.

NOTE M--SUBSEQUENT EVENTS

Management has evaluated subsequent events through July 26, 2013, the date on which financial statements were available for issue.

SUPPLEMENTARY INFORMATION

Schedule of Expenditures of Federal Awards

Salisbury-Rowan Community Action Agency, Inc.

Year Ended October 31, 2012

Grantor/ Pass-through Grantor/ Program Title	CFDA/ Grant/ Contract Number	Federal Expenditures
<u>FEDERAL AWARDS</u>		
<u>U.S. Department of Health and Human Services:</u>		
<u>Head Start:</u>		
Program expenditures	93.600	\$ 8,558,082 *
In-kind matching assistance	matching	2,197,162
<u>Low Income Home Energy Assistance Program:</u>		
<u>N.C. Department of Commerce, Energy Division:</u>		
Weatherization Assistance Program	93.568	16,589
Heating and Air Repair and Replacement Program	93.568	134,101
		<u>150,690</u>
<u>N.C. Department of Health and Human Services:</u>		
Community Service Block Grant	93.569	379,883
<u>U.S. Department of Agriculture:</u>		
<u>N.C. Department of Health & Human Services,</u>		
<u>Division of Public Health--Women's and</u>		
<u>Children's Health Section:</u>		
Child and Adult Care Food Program	10.558	777,818 *
<u>U.S. Department of Labor:</u>		
<u>N.C. Department of Commerce, Division of Workforce Solutions:</u>		
<u>Centralina Workforce Consortium:</u>		
Workforce Investment Act -- Youth Activities	17.259	584,884 *
<u>U.S. Department of Energy:</u>		
<u>N.C. Department of Commerce, Energy Division:</u>		
ARRA--Weatherization Assistance Program	ARRA-81.042	799,913
Weatherization Assistance Program	81.042	127,631
		<u>927,544 *</u>
	Total Federal Expenditures	\$ <u>11,378,901</u>
	In-Kind Matching Assistance	\$ <u>2,197,162</u>

* Programs having compliance requirements that could have a direct and material effect on the entity's financial statements.

See independent auditors' report and note to schedule of expenditures of federal awards.

Note to Schedule of Expenditures of Federal Awards

Salisbury-Rowan Community Action Agency, Inc.

Year Ended October 31, 2012

NOTE A--BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Salisbury-Rowan Community Action Agency, Inc. Federal expenditures are presented on the accrual basis of accounting in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

COMPLIANCE REPORTS



Geoffrey E. Wiggins
Jeffrey S. Romeo
Angela B. Goodwin
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Joseph L. Hill, Jr.

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*

Board of Directors
Salisbury-Rowan Community Action Agency, Inc.
Salisbury, North Carolina

We have audited the financial statements of Salisbury-Rowan Community Action Agency, Inc. (a nonprofit organization) as of and for the year ended October 31, 2012, and have issued our report thereon dated July 26, 2013. 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.

Internal Control Over Financial Reporting

Management of Salisbury-Rowan Community Action Agency, Inc. is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Agency's internal control over financial reporting as a basis for designing our auditing procedures 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 Agency's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Agency's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying *schedule of findings and questioned costs*, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

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 2012-1 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Salisbury-Rowan Community Action Agency, Inc.'s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Board of Directors
Salisbury-Rowan Community Action Agency, Inc.
Page Two

Salisbury-Rowan Community Action Agency, Inc.'s response to the finding identified in our audit is described in the accompanying schedule of findings and questions costs. We did not audit the Agency's response and, accordingly, we express no opinion on the response.

This report is intended solely for the information and use of management, the Board of Directors, and federal and state awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Romeo, Wiggins & Company, L.L.P.

Raleigh, North Carolina
July 26, 2013



Geoffrey E. Wiggins
Jeffrey S. Romeo
Angela B. Goodwin
J. Kelly Lanier
Joseph L. Hill, Jr.

Independent Auditors' Report on Compliance
with Requirements That Could Have a Direct and
Material Effect on Each Major Program and
on Internal Control Over Compliance in
Accordance with OMB Circular A-133

Board of Directors
Salisbury-Rowan Community Action Agency, Inc.
Salisbury, North Carolina

Compliance

We have audited Salisbury-Rowan Community Action Agency, Inc.'s (a nonprofit organization) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended October 31, 2012. The Agency's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Agency's management. Our responsibility is to express an opinion on Salisbury-Rowan Community Action Agency, Inc.'s compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Agency'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. Our audit does not provide a legal determination of Salisbury-Rowan Community Action Agency, Inc.'s compliance with those requirements.

In our opinion, Salisbury-Rowan Community Action Agency, Inc. complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended October 31, 2012.

Internal Control Over Compliance

Management of Salisbury-Rowan Community Action Agency, Inc. is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Agency's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Salisbury-Rowan Community Action Agency, 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.

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 deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, the Board of Directors, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Romeo, Wiggins & Company, L.L.P.

Raleigh, North Carolina
July 26, 2013

Schedule of Findings and Questioned Costs

Salisbury-Rowan Community Action Agency, Inc.

Year Ended October 31, 2012

Section I - Summary of Auditors' Results

Type of auditors' report issued on financial statements: *Unqualified*

Internal control over financial reporting:

- ◆ Material weakness(es) identified? X yes no
- ◆ Significant deficiency (ies) identified that are not considered to be material weaknesses? yes X none reported

Noncompliance material to financial statements, as required to be reported in accordance with *Government Auditing Standards*. yes X no

Federal Awards

Internal control over major federal award programs:

- ◆ Material weakness(es) identified? yes X no
- ◆ Significant deficiency (ies) identified that are not considered to be material weaknesses? yes X none reported

Noncompliance material to major federal award programs? yes X no

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

Audit findings related to major programs, as required to be reported in accordance with section 510(a) of OMB Circular A-133? yes X no

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Program Name</u>
93.600	Head Start
10.558	Child and Adult Care Food Program
81.042	Weatherization Assistance Program
ARRA-81.042	Weatherization Assistance Program
17.259	Workforce Investment Act (Youth)

Dollar threshold used to distinguish between type A and type B programs: \$341,367

Auditee qualified as low-risk auditee? yes X no

Schedule of Findings and Questioned Costs--Continued

Salisbury-Rowan Community Action Agency, Inc.

Section II - Financial Statement Findings

Finding 2012-1: Restatement of Net Assets

Criteria: Salisbury-Rowan Community Action Agency, Inc. ("the Agency") is required to submit audited financial statements prepared in accordance with generally accepted accounting principles (GAAP) to various grantors and/or contracting agencies on an annual basis.

Condition: During our audit of the Agency's financial statements for the year ended October 31, 2012, we noted certain significant errors involving the application of GAAP that had been carried forward from prior period financial statements.

Context: (a) The Agency previously reported no fixed assets at October 31, 2011, although the Agency operates 21 child care centers in 6 North Carolina counties. The Agency has historically expensed fixed assets when purchased, rather than capitalizing and depreciating significant capital purchases over their estimated useful lives as required by GAAP. (b) The Agency previously reported significant deferred revenue at October 31, 2011. However, the majority of the Agency's support and revenue is derived from either cost-reimbursement grants that are funded (and recognized as support by GAAP) when qualifying expenditures are incurred or under contracts that are funded (and recognized as revenue by GAAP) when earned.

Effect: Fixed assets, net of depreciation, as previously reported at October 31, 2011 were understated by approximately \$1,657,000. Deferred revenue as previously reported at October 31, 2011 was overstated by approximately \$830,000. The correction of these and certain other errors resulted in a net increase in unrestricted net assets of \$2,618,658 and an increase in temporarily restricted net assets of \$1,709 at October 31, 2011. Amounts reported previously to grantors are not thought to have been affected by the errors noted and corrected.

Cause: Those charged with governance over the Agency's financial reporting were misinformed as to the implications of certain grant and/or contract provisions for purposes of preparing and presenting GAAP-basis financial statements.

Recommendation: We recommend the Agency take steps to ensure that those charged with governance over financial reporting, and/or persons engaged on behalf of this group, possess an understanding of GAAP to the extent necessary to prepare and present financial statements that are fairly stated in accordance with GAAP.

Views of responsible officials and planned corrective actions: We agree with the Finding and have recently contracted with a Certified Public Accountant who has extensive experience as pertains to the financial reporting requirements of generally accepted accounting principles (GAAP), *Government Auditing Standards*, and OMB Circular A-133. This contract CPA assisted us during the wrap-up phase of the audit of the Agency's financial statements for the year ended October 31, 2012, and has agreed to work with our staff and our Board to ensure that those charged with governance over financial reporting have an understanding of accounting principles suitable to the preparation and presentation of financial statements that are fairly stated in accordance with GAAP.

Section III - Federal Award Findings and Questioned Costs

There were no such findings to report.

Summary Schedule of Prior Audit Findings

Salisbury-Rowan Community Action Agency, Inc.

Year Ended October 31, 2012

No federal award findings were reported in connection with the prior audit.