



Year Ended
December 31,
2017

Financial
Statements and
Single Audit Act
Compliance

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COMMUNITY ACTION AGENCY OF SOUTH CENTRAL MICHIGAN, INC.

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INDEPENDENT AUDITORS' REPORT

May 11, 2018

Board of Directors
Community Action Agency of
South Central Michigan, Inc.
Battle Creek, Michigan

Report on the Financial Statements

We have audited the accompanying financial statements of the *Community Action Agency of South Central Michigan, Inc.* (a not-for-profit organization; the "Agency"), which comprise the statement of financial position as of December 31, 2017, and the related statements of activities and cash flows for the year 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.

Independent Auditors' Responsibility

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Agency as of December 31, 2017, and the changes in its net assets and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 11, 2018 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 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 the Agency's internal control over financial reporting and compliance.

Rehmann Lobson LLC

COMMUNITY ACTION AGENCY OF SOUTH CENTRAL MICHIGAN, INC.

Statement of Financial Position

December 31, 2017

Assets

Current assets:

Cash and cash equivalents	\$ 1,225,549
Grants receivable	1,240,185
Inventory	323,602
Prepaid expenses	<u>133,767</u>

Total current assets 2,923,103

Noncurrent assets -

Property and equipment, net	<u>2,639,075</u>
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Total assets \$ 5,562,178

Liabilities

Current liabilities:

Accounts payable	\$ 197,049
Accrued liabilities	680,483
Unearned revenue	532,338
Current portion of long-term debt	<u>19,539</u>

Total current liabilities 1,429,409

Noncurrent liabilities -

Long-term debt, net of current portion	<u>341,300</u>
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Total liabilities 1,770,709

Net assets

Unrestricted:

Undesignated	1,040,414
Board designated	227,553
Net investment in property and equipment	<u>2,278,236</u>
Total unrestricted	3,546,203
Temporarily restricted	<u>245,266</u>

Total net assets 3,791,469

Total liabilities and net assets \$ 5,562,178

The accompanying notes are an integral part of these financial statements.

COMMUNITY ACTION AGENCY OF
SOUTH CENTRAL MICHIGAN, INC.

Statement of Activities

For the Year Ended December 31, 2017

	Unrestricted	Temporarily Restricted	Total
Support, revenue, gains and reclassifications			
Contributions	\$ 54,562	\$ 50	\$ 54,612
In-kind donations	434,217	-	434,217
Local grants	149,294	270,875	420,169
Program income	18,124	-	18,124
Educational services	9,276,656	-	9,276,656
Food and nutrition services	474,293	-	474,293
Housing and support services	2,355,961	-	2,355,961
Commodity food received	918,575	-	918,575
Interest income	1,168	22	1,190
Miscellaneous income	22,497	3,328	25,825
Net assets released from restrictions	433,625	(433,625)	-
Total support, revenue, gains and reclassifications	14,138,972	(159,350)	13,979,622
Operating expenses			
Program services:			
Educational services	9,203,944	-	9,203,944
Food and nutrition services	1,427,083	-	1,427,083
Housing and support services	2,476,525	-	2,476,525
Other community development services	259,087	-	259,087
Total program services	13,366,639	-	13,366,639
Support services - Management and general	915,733	-	915,733
Total operating expenses	14,282,372	-	14,282,372
Change in net assets	(143,400)	(159,350)	(302,750)
Net assets, beginning of year	3,689,603	404,616	4,094,219
Net assets, end of year	\$ 3,546,203	\$ 245,266	\$ 3,791,469

The accompanying notes are an integral part of these financial statements.

COMMUNITY ACTION AGENCY OF SOUTH CENTRAL MICHIGAN, INC.

Statement of Cash Flows

For the Year Ended December 31, 2017

Cash flows from operating activities	
Change in net assets	\$ (302,750)
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	351,009
Loss on sale of property and equipment	2,426
Changes in operating assets and liabilities which provided (used) cash:	
Grants receivable	(106,492)
Inventory	121,756
Prepays expenses	34,364
Accounts payable	81,916
Accrued liabilities	(169,841)
Unearned revenue	40,200
Net cash provided by operating activities	<u>52,588</u>
Cash flows from investing activities	
Purchase of property and equipment	(90,364)
Proceeds from sale of property and equipment	2,304
Net cash used in investing activities	<u>(88,060)</u>
Cash flows used in financing activities	
Payments on long-term debt	<u>(18,854)</u>
Net change in cash and cash equivalents	(54,326)
Cash and cash equivalents, beginning of year	<u>1,279,875</u>
Cash and cash equivalents, end of year	<u><u>\$ 1,225,549</u></u>
Supplemental disclosure of cash flow information	
Cash paid for interest	<u><u>\$ 17,110</u></u>

The accompanying notes are an integral part of these financial statements.

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NOTES TO FINANCIAL STATEMENTS

COMMUNITY ACTION AGENCY OF SOUTH CENTRAL MICHIGAN, INC.

Notes To Financial Statements

1. NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES

Nature of Business

The Community Action Agency of South Central Michigan, Inc. d/b/a Community Action (the “Agency”) is a not-for-profit corporation organized in 1966. Community Action was formed to develop and provide resources for the purpose of assisting low-income individuals through a variety of programs. The Agency provides various services to the residents of the following Michigan counties: Barry, Branch, Calhoun, and St. Joseph.

Basis of Presentation

The financial statements present the Agency’s financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. The Agency has no permanently restricted net assets at December 31, 2017.

Use of 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 the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the reporting year. Actual results could differ from those estimates.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Agency considers all highly liquid investments purchased with an original maturity of three months or less to be cash and cash equivalents.

The Agency maintains demand deposits in bank accounts which are insured by the Federal Deposit Insurance Corporation. Management believes the Agency is not exposed to any significant interest rate or other financial risk on these deposits.

Grants Receivable

Grants receivable represents amounts due from granting agencies for expenses made in conjunction with grant agreements. Management considers all grant receivables to be fully collectible.

Inventory and Commodity Revenue and Expense

Inventory consists of commodities received from the State of Michigan under the Commodities Supplemental Food Program (CSFP) and The Emergency Food Assistance Program (TEFAP). Commodities received/distributed represent the value of food received from the State of Michigan and distributed to low-income households. Valuations are provided by the State of Michigan. Inventory is stated at the lower of cost, determined by the first-in, first-out method, or net realizable value.

COMMUNITY ACTION AGENCY OF SOUTH CENTRAL MICHIGAN, INC.

Notes To Financial Statements

Prepaid Expenses

Payments to vendors for services that will benefit periods beyond the Agency's fiscal year-end are recorded as prepaid expenses.

Property and Equipment and Depreciation

Property and equipment are recorded at cost or, if donated, at the fair value on the date of the gift. The Agency capitalizes equipment purchased with a unit cost greater than \$5,000 and an estimated useful life of more than one year. Major improvements and renewals are capitalized while ordinary maintenance and repairs are expensed. Management annually reviews these assets for impairment whenever events or changes in circumstances indicate the related carrying amount may not be recoverable. Depreciation is computed using the straight-line method over the estimated useful lives of the related assets, which range from 2 to 40 years.

Contributions

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence or nature of any donor restrictions. Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized. All other donor-restricted support is reported as an increase in temporarily or permanently restricted net assets depending on the nature of the restriction. When temporary restrictions are met, the net assets are reclassified to the unrestricted net asset classification.

Revenue Recognition / Unearned Revenue

The majority of the Agency's funding is received through exchange contracts in which the Agency and grantor agency each receive and sacrifice approximately equal value. Such grant revenue is recognized as earned when actual expenditures are incurred which meet the specific terms of each grant. Contributions are recognized as support when promises to give are received. Revenues from rental income and other charges to tenants are recognized in the month earned. Noncash in-kind contributions, which include donated services, are recognized as support in the period in which the services are performed or the contributed asset is received, at fair value. Unearned revenue consists of grant funds that have been received, but not yet expended.

In-kind Contributions

The Agency has recorded in-kind contributions for office/operating space, materials, food, equipment, and professional services in the statement of activities. Donated materials, food, and equipment are reflected as in-kind contributions in the accompanying statements at their estimated fair value at date of receipt. Generally accepted accounting principles (GAAP) require that contributions of services only be recorded if they (a) create or enhance a non-financial asset or (b) require specialized skills, are provided by an individual possessing those skills, and would typically need to be purchased if not provided by donation. The requirements of GAAP are different than the in-kind recognition requirements of several of the Agency's grant awards. The Agency received contributions of services from non-professional volunteers during the year with a value of \$2,444,097, primarily for its Head Start and Aging programs which do not meet the GAAP recognition requirements, and therefore, have not been recorded in the financial statements.

COMMUNITY ACTION AGENCY OF SOUTH CENTRAL MICHIGAN, INC.

Notes To Financial Statements

Income Taxes

The Agency is a not-for-profit organization exempt from income tax under Section 501(c)(3) of the Internal Revenue Code and is exempt from similar state and local taxes. Although the Agency was granted income tax exemption by the Internal Revenue Service, such exemption does not apply to “unrelated business taxable income.” The Agency has been classified as not a private foundation.

The Agency analyzes its income tax filing positions in the federal and state jurisdictions where it is required to file income tax returns, as well as all open tax years in these jurisdictions, to identify potential uncertain tax positions. The Agency has evaluated its income tax filing positions for fiscal years 2014 through 2017, the years which remain subject to examination as of December 31, 2017. The Agency concluded that there are no significant uncertain tax positions requiring recognition in the Agency's financial statements. The Agency does not expect the total amount of unrecognized tax benefits (“UTB”) (e.g. tax deductions, exclusions, or credits claimed or expected to be claimed) to significantly change in the next twelve months. The Agency does not have any amounts accrued for interest and penalties related to UTBs at December 31, 2017, and is not aware of any claims for such amounts by federal or state income tax authorities.

Subsequent Events

In preparing these financial statements, management has evaluated, for potential recognition or disclosure, significant events or transactions that occurred during the period subsequent to December 31, 2017, the most recent statement of financial position presented herein, through May 11, 2018, the date these financial statements were available to be issued. No such significant events or transactions were identified.

Upcoming Accounting Pronouncement

In August 2016, The Financial Accounting Standards Board issued ASU No. 2016-14, Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities, which will be effective for the Agency's annual financial statements for the year ending December 31, 2018. This ASU 1) reduces the number of net asset classes presented from three to two; (2) modifies the presentation of underwater endowment funds and related disclosures; (3) requires enhanced disclosures concerning board designated net assets; (4) requires the presentation of expenses by functional and natural classification in one location; (5) requires quantitative and qualitative disclosures about liquidity and availability of financial assets; (6) requires the presentation of investment return net of external and direct internal investment expenses; (7) removes the requirement to present an indirect method operating cash flow reconciliation when presenting a direct method statement of cash flows; and (8) requires the use of the placed in service approach to recognize the expirations of restrictions on gifts used to acquire or construct long-lived assets absent explicit donor stipulations otherwise. Management has evaluated the provisions of ASU 2016-14 and has determined that the presentation of the financial statements will need to be modified as required by the ASU; however, there will be no significant changes in the Agency's accounting policies.

COMMUNITY ACTION AGENCY OF
SOUTH CENTRAL MICHIGAN, INC.

Notes To Financial Statements

2. PROPERTY AND EQUIPMENT

The following is a summary of property and equipment as of December 31, 2017:

Land	\$ 345,936
Buildings	4,841,795
Machinery and equipment	764,128
Transportation and equipment	<u>1,245,546</u>
Total property and equipment	7,197,405
Less accumulated depreciation	<u>(4,558,330)</u>
Property and equipment, net	<u><u>\$ 2,639,075</u></u>

Depreciation expense for the year ended December 31, 2017, totaled \$351,009.

3. LONG-TERM DEBT

Long-term debt consists of the following obligation at December 31, 2017:

Note payable to the U.S. Department of Agriculture, collateralized by real estate, due in monthly installments of \$2,997, including interest at 4.625% per annum, maturing in October 2031.	\$ 360,839
Less current portion	<u>(19,539)</u>
Long-term debt, net of current portion	<u><u>\$ 341,300</u></u>

Interest expense for the year ended December 31, 2017, totaled \$17,110.

Scheduled principal maturities of long-term debt for the years succeeding December 31, 2017, are summarized as follows:

Year Ended December 31,	Amount
2018	\$ 19,539
2019	20,462
2020	21,428
2021	22,441
2022	23,501
Thereafter	<u>253,468</u>
Total	<u><u>\$ 360,839</u></u>

COMMUNITY ACTION AGENCY OF SOUTH CENTRAL MICHIGAN, INC.

Notes To Financial Statements

4. TEMPORARILY RESTRICTED NET ASSETS

Net assets have been temporarily restricted for the following purposes:

	Beginning Balance	Grants and Other Revenue	Released from Restrictions	Ending Balance
Utilities and rent	\$ 24,345	\$ 262,875	\$ (258,913)	\$ 28,307
Education department	123,877	-	(37,608)	86,269
Administrative department	129,091	-	(129,091)	-
Tax preparation	972	-	-	972
Nutrition department	63,089	8,385	(8,002)	63,472
Housing department	6,562	-	50	6,612
Transportation department	32,074	-	-	32,074
Foster grandparent	24,606	3,015	(61)	27,560
	<u>\$ 404,616</u>	<u>\$ 274,275</u>	<u>\$ (433,625)</u>	<u>\$ 245,266</u>

5. BOARD-DESIGNATED NET ASSETS

Unrestricted net assets have been board designated for the following purposes:

	Beginning Balance	Contributions	Expenses	Ending Balance
Support services	\$ 10,331	\$ -	\$ -	\$ 10,331
Franklin fund	11,719	-	-	11,719
Capital reserve	109,509	50,068	(6,424)	153,153
Walk for warmth	83,767	48,455	(79,872)	52,350
	<u>\$ 215,326</u>	<u>\$ 98,523</u>	<u>\$ (86,296)</u>	<u>\$ 227,553</u>

6. RETIREMENT PLAN

Employees of the Agency who have been employed by the Agency for 3 months of service are eligible to participate in a voluntary self-directed retirement plan referred to as a safe harbor 401(k) plan authorized under Section 401(k) of the Internal Revenue Code. These employees have the option to participate in either or both pre-tax or Roth savings, with contributions paid through salary/wage reductions and invested at the participant's discretion. Eligible participants not having made an election will be automatically enrolled in the pre-tax option with contributions of 1% of compensation and will increase by 1% of compensation each year up to a maximum of 5% of compensation.

COMMUNITY ACTION AGENCY OF SOUTH CENTRAL MICHIGAN, INC.

Notes To Financial Statements

Employees of the Agency who have been employed by the Agency for 3 months of service and elected to participate in a voluntary self-directed retirement plan are eligible for safe harbor matching contributions paid by the employer. The Agency will match 100% of the employee's contribution up to 3% of compensation plus 50% of salary deferrals between 3% and 5% of their contribution. Employer contributions to the plan for the year ended December 31, 2017 were \$149,397. The employer contributions vest with the employee on the first day of eligibility.

7. OPERATING LEASES

The Agency leases various facilities under operating lease agreements that expire through 2020. Operating lease expense for the year ended December 31, 2017, was \$286,789. These leases provide for cancellation of the lease payments over the term of the leases. In addition, the Agency will make various monthly payments totaling \$168,054, \$18,490, and \$12,326 respectively, in 2018, 2019, and 2020.



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SUPPLEMENTARY INFORMATION

COMMUNITY ACTION AGENCY OF
SOUTH CENTRAL MICHIGAN, INC.

Schedule of Functional Expenses
For the Year Ended December 31, 2017

	Program Services				
	Educational Services	Food and Nutrition Services	Housing and Support Services	Other Community Development Services	Total Program Services
Salaries and wages	\$ 4,170,747	\$ 180,331	\$ 608,703	\$ 36,971	\$ 4,996,752
Fringes	1,273,271	49,058	148,071	7,689	1,478,089
Payroll taxes	562,443	24,403	93,393	3,747	683,986
Training and travel	201,696	22,797	18,079	18,558	261,130
Occupancy *	727,612	58,566	99,338	9,413	894,929
Equipment	135,539	35,386	102,401	610	273,936
Depreciation	228,724	19,098	51,769	1,256	300,847
Direct client assistance	965,638	74,615	1,303,666	-	2,343,919
Contracted services	23,961	2,512	-	11,091	37,564
Communication *	81,745	7,657	15,684	124,235	229,321
In-kind expenses	414,767	19,450	-	-	434,217
Commodities	-	918,575	-	-	918,575
Other costs *	401,137	14,635	34,975	45,517	496,264
Interest expense	16,664	-	446	-	17,110
Indirect costs	622,169	94,755	124,002	53,495	894,421
Total program expenses	9,826,113	1,521,838	2,600,527	312,582	14,261,060
Indirect costs	(622,169)	(94,755)	(124,002)	(53,495)	(894,421)
Total functional expenses	\$ 9,203,944	\$ 1,427,083	\$ 2,476,525	\$ 259,087	\$ 13,366,639

* These line items show a negative balance in the other management and general expenses to accurately reflect total occupancy and other costs to the Agency. Other management and general costs have been allocated using these categories.



Support Services			
Other Management and General	Indirect Cost Pool	Total Indirect Costs Charged to Grants	Grand Total
\$ 238,860	\$ 486,883	\$ -	\$ 5,722,495
54,739	119,918	-	1,652,746
30,034	48,603	-	762,623
6,323	17,062	-	284,515
(190,815)	78,088	-	782,202
19,030	2,430	-	295,396
37,724	12,438	-	351,009
14	-	-	2,343,933
7,838	39,646	-	85,048
(2,711)	9,387	-	235,997
-	-	-	434,217
-	-	-	918,575
(166,951)	67,193	-	396,506
-	-	-	17,110
-	-	(894,421)	-
34,085	881,648	(894,421)	14,282,372
-	-	894,421	-
<u>\$ 34,085</u>	<u>\$ 881,648</u>	<u>\$ -</u>	<u>\$ 14,282,372</u>

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SINGLE AUDIT ACT COMPLIANCE

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INDEPENDENT AUDITORS' REPORT ON THE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
REQUIRED BY THE UNIFORM GUIDANCE

May 11, 2018

Board of Directors
Community Action Agency of
South Central Michigan, Inc.
Battle Creek, Michigan

We have audited the financial statements of the *Community Action Agency of South Central Michigan, Inc.* (the "Agency"), as of and for the year ended December 31, 2017, and the related notes to the financial statements. We issued our report thereon dated May 11, 2018, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) 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.

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**COMMUNITY ACTION AGENCY OF
SOUTH CENTRAL MICHIGAN, INC.**

Schedule of Expenditures of Federal Awards

For the Year Ended December 31, 2017

Federal Agency / Program or Cluster Title	CFDA Number	Passed Through	Pass-through / Grantor Number	Federal Expenditures
U.S. Department of Agriculture				
Child and Adult Care Food Program (10/01/16-09/30/17)	10.558	MDE	13-000-0008	\$ 210,454
Child and Adult Care Food Program (10/01/17-09/30/18)	10.558	MDE	13-000-0008	104,817
Early Head Start Program (10/01/16-09/30/17)	10.558	MDE	13-000-0008	54,468
Early Head Start Program (10/01/17-09/30/18)	10.558	MDE	13-000-0008	18,765
Great Start Readiness Program (10/01/16-09/30/17)	10.558	MDE	13-000-0008	37,376
Great Start Readiness Program (10/01/17-09/30/18)	10.558	MDE	13-000-0008	20,379
				<u>446,259</u>
Food Distribution Cluster:				
Commodity Supplemental Food Program (CSFP):				
Administration (10/01/16-09/30/17)	10.565	MDE	13-000-0008	125,392
Administration (10/01/17-09/30/18)	10.565	MDE	13-000-0008	49,551
Commodities (10/01/16-09/30/17)	10.565	MDE	13-000-0008	394,178
Commodities (10/01/17-09/30/18)	10.565	MDE	13-000-0008	139,420
				<u>708,541</u>
Emergency Food Assistance Program (EFAP):				
Administration (10/01/16-09/30/17)	10.568	MDE	13-000-0008	77,936
Administration (10/01/17-09/30/18)	10.568	MDE	13-000-0008	26,081
				<u>104,017</u>
Commodities (10/01/16-09/30/17)	10.569	MDE	13-000-0008	315,101
Commodities (10/01/17-09/30/18)	10.569	MDE	13-000-0008	69,876
				<u>384,977</u>
Total Food Distribution Cluster				<u>1,197,535</u>
Total U.S. Department of Agriculture				<u>1,643,794</u>
U.S. Department of Energy				
Weatherization Assistance (07/01/16-06/30/17)	81.042	MDHHS	WAP16-13005	297,466
Weatherization Assistance (07/01/17-06/30/18)	81.042	MDHHS	WAP16-13005-2	133,548
Total U.S. Department of Energy				<u>431,014</u>
U.S. Department of Health and Human Services				
Head Start:				
Head Start - Full-year, Part-day	93.600	Direct	05CH8325-06-00	5,121,573
Head Start Training and Technical Assistance	93.600	Direct	05CH8325-06-00	54,855
Head Start - Full-year, Part-day	93.600	Direct	05CH8325-06-01	990,900
Head Start Training and Technical Assistance	93.600	Direct	05CH8325-06-01	2,540
Early Head Start	93.600	Direct	05CH8325-06-00	1,415,455
Early Head Start Training and Technical Assistance	93.600	Direct	05CH8325-06-00	27,676
Early Head Start	93.600	Direct	05CH8325-06-01	202,849
Early Head Start Training and Technical Assistance	93.600	Direct	05CH8325-06-01	830
				<u>7,816,678</u>

continued...

**COMMUNITY ACTION AGENCY OF
SOUTH CENTRAL MICHIGAN, INC.**

Schedule of Expenditures of Federal Awards

For the Year Ended December 31, 2017

Federal Agency / Program or Cluster Title	CFDA Number	Passed Through	Pass-through / Grantor Number	Federal Expenditures
U.S. Department of Health and Human Services (concluded)				
Aging Cluster:				
Congregate Meals (10/01/16-09/30/17)	93.045	R3C AAAC	n/a	\$ 28,748
Congregate Meals (10/01/17-09/30/18)	93.045	R3C AAAC	n/a	6,503
Home Delivered Meals (10/01/16-09/30/17)	93.045	R3C AAAC	n/a	23,401
Home Delivered Meals (10/01/17-09/30/18)	93.045	R3C AAAC	n/a	10,261
				<u>68,913</u>
Congregate Meals Branch County (10/01/16-09/30/17)	93.053	R3C AAAC	n/a	950
Congregate Meals Branch County (10/01/17-09/30/18)	93.053	R3C AAAC	n/a	217
Home Delivered Meals Branch County (10/01/16-09/30/17)	93.053	R3C AAAC	n/a	52,316
Home Delivered Meals Branch County (10/01/17-09/30/18)	93.053	R3C AAAC	n/a	20,196
				<u>73,679</u>
Total Aging Cluster				<u>142,592</u>
Low-Income Home Energy Assistance Program	93.568	MDHHS	WAP16-13005-1	151,702
Low-Income Home Energy Assistance Program	93.568	MDHHS	LCA-16-13005	99,236
				<u>250,938</u>
Community Services Block Grant	93.569	MDHHS	CSBG-14-13005-4	543,718
Community Services Block Grant	93.569	MDHHS	CSBG-14-5	83,837
Community Services Block Grant - Discretionary	93.569	MDHHS	CSBG-D-14-13005-4	28,583
				<u>656,138</u>
Total U.S. Department of Health and Human Services				<u>8,866,346</u>
Corporation for National and Community Service				
Foster Grandparent/Senior Companion Cluster - Foster Grandparent	94.011	Direct	13SFNMI003	289,987
				<u>289,987</u>
U.S. Department of Homeland Security				
Emergency Food and Shelter National Board Program	97.024	UWofBC	465400-001	1,613
				<u>1,613</u>
Total Expenditures of Federal Awards				<u>\$ 11,232,754</u>
				concluded.

See notes to schedule of expenditures of federal awards.

COMMUNITY ACTION AGENCY OF SOUTH CENTRAL MICHIGAN, INC.

Notes to Schedule of Expenditures of Federal Awards

1. BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal grant activity of the *Community Action Agency of South Central Michigan, Inc.* (the "Agency") under programs of the federal government for the year ended December 31, 2017. 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 the Agency, it is not intended to and does not present the financial position, changes in net assets or cash flows of the Agency.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting, which is described in Note 1 to the Agency's financial statements. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. Pass-through entity identifying numbers are presented where available.

Revenues are recognized when the qualifying expenditures have been included and all grant requirements have been met.

For purposes of charging indirect costs to federal awards, the Agency has not elected to use the 10 percent de minimis cost rate as permitted by §200.414 of the Uniform Guidance.

3. IN-KIND CONTRIBUTIONS

In-kind contributions were received for the following programs/activities for the year ended December 31, 2017:

Child education activities - Head Start and Early Head Start	\$ 2,845,967
Senior services - Aging Cluster	19,450
Commodities - Food Distribution Cluster	<u>918,575</u>
Total in-kind contributions	<u>\$ 3,783,992</u>

Of the total in-kind contributions reported above, \$1,343,852 is recognized in the accompanying financial statements because it meets the criteria as established by GAAP.

COMMUNITY ACTION AGENCY OF SOUTH CENTRAL MICHIGAN, INC.

Notes to Schedule of Expenditures of Federal Awards

4. PASS-THROUGH AGENCIES

The Agency receives certain federal grants as subawards from non-federal entities. Pass-through entities, where applicable, have been identified in the Schedule with an abbreviation, defined as follows:

Pass-through Agency Abbreviation	Pass-through Agency Name
MDE	Michigan Department of Education
MDHHS	Michigan Department of Health and Human Services
R3C AAAC	Region III C Area Agency on Aging
UWofBC	United Way of Branch County

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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

May 11, 2018

Board of Directors
Community Action Agency
of South Central Michigan
Battle Creek, Michigan

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 the *Community Action Agency of South Central Michigan* (the "Agency"), as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the Agency's basic financial statements, and have issued our report thereon dated May 11, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Agency'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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Agency's internal control. Accordingly, we do not express an opinion on the effectiveness of the Agency's internal control.

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

Our consideration of 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

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 Agency'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Rehmann Robson LLC

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

May 11, 2018

Board of Directors
Community Action Agency of
South Central Michigan, Inc.
Battle Creek, Michigan

Report on Compliance for Each Major Federal Program

We have audited the compliance of the *Community Action Agency of South Central Michigan* (the "Agency") with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Agency's major federal programs for the year ended December 31, 2017. The Agency's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Independent Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the Agency's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the 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 on compliance for each major federal program. However, our audit does not provide a legal determination of the Agency's compliance.

Opinion on Each Major Federal Program

In our opinion, the Agency 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 December 31, 2017.

Report on Internal Control Over Compliance

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

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

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

Purpose of this Report

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.



**COMMUNITY ACTION AGENCY OF
SOUTH CENTRAL MICHIGAN, INC.**

**Schedule of Findings and Questioned Costs
For the Year Ended December 31, 2017**

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP:

Unmodified

Internal control over financial reporting:

Material weakness(es) identified? yes X no

Significant deficiency(ies) identified? yes X none reported

Noncompliance material to financial statements noted? yes X no

Federal Awards

Internal control over major programs:

Material weakness(es) identified? yes X no

Significant deficiency(ies) identified? yes X none reported

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

Identification of major programs and type of auditors' report issued on compliance for each major program:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>	<u>Type of Report</u>
93.600	Head Start	Unmodified
10.565, 10.568, and 10.569	Food Distribution Cluster	Unmodified

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

Auditee qualified as low-risk auditee? X yes no

COMMUNITY ACTION AGENCY OF
SOUTH CENTRAL MICHIGAN, INC.

Schedule of Findings and Questioned Costs

For the Year Ended December 31, 2017

SECTION II - FINANCIAL STATEMENT FINDINGS

None reported.

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None reported.

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COMMUNITY ACTION AGENCY OF
SOUTH CENTRAL MICHIGAN, INC.

Summary Schedule of Prior Audit Findings

For the Year Ended December 31, 2017

None reported.



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INDEPENDENT AUDITORS' COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE

May 11, 2018

Board of Directors
Community Action Agency of
South Central Michigan, Inc.
Battle Creek, Michigan

We have audited the financial statements of the *Community Action Agency of South Central Michigan, Inc.* (the "Agency") as of and for the year ended December 31, 2017, and have issued our report thereon dated May 11, 2018. Professional standards require that we advise you of the following matters relating to our audit.

Our Responsibility in Relation to the Financial Statement Audit

As communicated in our engagement letter dated January 29, 2018, our responsibility, as described by professional standards, is to form and express opinions about whether the financial statements that have been prepared by management with your oversight are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your respective responsibilities.

Our responsibility, as prescribed by professional standards, is to plan and perform our audit to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement. An audit of financial statements 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 on the effectiveness of the entity's internal control over financial reporting. Accordingly, as part of our audit, we considered the internal control of the Agency solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are also responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures for the purpose of identifying other matters to communicate to you.

We have provided our findings regarding internal control over financial reporting and compliance noted during our audit in a separate letter to you dated May 11, 2018.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our engagement letter.

Compliance with All Ethics Requirements Regarding Independence

The engagement team, others in our firm, as appropriate, and our firm has complied with all relevant ethical requirements regarding independence.

Qualitative Aspects of the Agency's Significant Accounting Practices

Significant Accounting Policies

Management has the responsibility to select and use appropriate accounting policies. A summary of the significant accounting policies adopted by the Agency is included in Note 1 to the financial statements.

There have been no initial selections of accounting policies and no changes in significant accounting policies or their application during the year.

No matters have come to our attention that would require us, under professional standards, to inform you about (1) the methods used to account for significant unusual transactions and (2) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

Significant Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Those judgments are normally based on knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ markedly from management's current judgments.

The most sensitive accounting estimates affecting the financial statements were:

- Management's estimate of the useful lives of depreciable capital assets is based on the length of time it is believed that those assets will provide some economic benefit in the future.
- Management's estimate of the accrued compensated absences is based on current hourly rates and policies regarding payment of sick and vacation banks.

We evaluated the key factors and assumptions used to develop these estimates and determined that they are reasonable in relation to the basic financial statements taken as a whole.

Significant Difficulties Encountered During the Audit

We encountered no significant difficulties in dealing with management relating to the performance of the audit.

Uncorrected and Corrected Misstatements

For purposes of this communication, professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that we believe are trivial, and communicate them to the appropriate level of management. Further, professional standards require us to also communicate the effect of uncorrected misstatements related to prior periods on the relevant classes of transactions, account balances or disclosures, and the financial statements as a whole and each applicable opinion unit. In addition, professional standards require us to communicate to you all material, corrected misstatements that were brought to the attention of management as a result of our audit procedures. None of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter, which could be significant to the Agency's financial statements or the auditors' report. No such disagreements arose during the course of the audit.

Representations Requested from Management

We have requested certain written representations from management, which are included in Attachment B to this letter.

Management's Consultations with Other Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters. Management informed us that, and to our knowledge, there were no consultations with other accountants regarding auditing and accounting matters.

Other Significant Matters, Findings, or Issues

In the normal course of our professional association with the Agency, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, operating and regulatory conditions affecting the entity, and operational plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition to our retention as the Agency's auditors.

Other Information in Documents Containing Audited Financial Statements

Our responsibility for the supplementary information accompanying the financial statements, as described by professional standards, is to evaluate the presentation of the supplementary information in relation to the financial statements as a whole and to report on whether the supplementary information is fairly stated, in all material respects, in relation to the financial statements as a whole. We made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

Upcoming Changes in Accounting Standards

Generally accepted accounting principles (GAAP) are continually changing in order to promote the usability and enhance the applicability of information included in external financial reporting. While it would not be practical to include an in-depth discussion of every upcoming change in professional standards, Attachment A to this letter contains a brief overview of recent pronouncements of the Governmental Accounting Standards Board (GASB) and their related effective dates. Management is responsible for reviewing these standards, determining their applicability, and implementing them in future accounting periods.

This information is intended solely for the use of the governing body and management of the *Community Action Agency of South Central Michigan, Inc.* and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

A handwritten signature in black ink that reads "Rehmann Lohorn LLC". The signature is written in a cursive style with a large, prominent 'R' at the beginning.

COMMUNITY ACTION AGENCY OF SOUTH CENTRAL MICHIGAN, INC.

Attachment A - Upcoming Changes in Accounting Standards

For the December 31, 2017 Audit

The following pronouncements of the Financial Accounting Standards Board (FASB) have been released recently and may be applicable to the Agency in the near future. We encourage management to review the following information and determine which standard(s) may be applicable to the Agency. For the complete text of these and other FASB standards, visit www.fasb.org and click on the “Standards & Guidance” tab. If you have questions regarding the applicability, timing, or implementation approach for any of these standards, please contact your audit team.

ASU 2016-02, Leases (Topic 842): Establish the Principles That Lessees and Lessors Shall Apply to Report Useful Information to Users of Financial Statements about the Amount, Timing, and Uncertainty of Cash Flows Arising from a Lease
Effective 12/31/2020 (your FY 2020)

Under the new guidance, lessees will be required to recognize the following for all leases (with the exception of short-term leases) at the commencement date:

- A lease liability, which is a lessee’s obligation to make lease payments arising from a lease, measured on a discounted basis; and
- A right-of-use asset, which is an asset that represents the lessee’s right to use, or control the use of, a specified asset for the lease term.

Under the new guidance, lessor accounting is largely unchanged. Certain targeted improvements were made to align, where necessary, lessor accounting with the lessee accounting model and Topic 606, Revenue from Contracts with Customers.

The new lease guidance simplified the accounting for sale and leaseback transactions primarily because lessees must recognize lease assets and lease liabilities. Lessees will no longer be provided with a source of off-balance sheet financing.

Lessees (for capital and operating leases) and lessors (for sales-type, direct financing, and operating leases) must apply a modified retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. The modified retrospective approach would not require any transition accounting for leases that expired before the earliest comparative period presented. Lessees and lessors may not apply a full retrospective transition approach.

COMMUNITY ACTION AGENCY OF SOUTH CENTRAL MICHIGAN, INC.

Attachment A - Upcoming Changes in Accounting Standards

For the December 31, 2017 Audit

ASU 2016-14, Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities

Effective 12/31/2018 (your FY 2018)

The ASU changes how a not-for-profit organization classifies its net assets, as well as the information it presents in financial statements and notes about its liquidity, financial performance, and cash flows.

The ASU requires amended presentation and disclosures to help not-for-profits provide more relevant information about their resources (and the changes in those resources) to donors, grantors, creditors, and other users.

These include qualitative and quantitative requirements in the following areas:

- Net Asset Classes;
- Investment Return;
- Expenses;
- Liquidity and Availability of Resources; and
- Presentation of Operating Cash Flows.

Not-for-profit organizations that will be affected include charities, organizations, colleges and universities, health care providers, religious organizations, trade associations, and cultural institutions, among others.

ASU 2014-09, Revenue from Contracts with Customers (Topic 606) and Other Assets and Deferred Costs - Contracts with Customers (Subtopic 340 - 40)

Effective 12/31/2018 (your FY 2018)

The core principle of this ASU is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To achieve this core principle, an entity should apply the following steps:

- Step 1: Identify the contract(s) with a customer.
- Step 2: Identify the performance obligations in the contract.
- Step 3: Determine the transaction price.
- Step 4: Allocate the transaction price to the performance obligations in the contract.
- Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation.

The ASU also specifies the accounting for incremental costs to obtain, or costs to fulfill, a contract with a customer. Further, the ASU states that an entity should disclose sufficient information to enable users of financial statements to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers.

COMMUNITY ACTION AGENCY OF SOUTH CENTRAL MICHIGAN, INC.

Attachment A - Upcoming Changes in Accounting Standards

For the December 31, 2017 Audit

The amendments apply to any entity that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets unless those contracts are within the scope of other standards.

ASU No. 2016-01, *Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities.*

Effective 12/31/2019 (your FY 2019)

This ASU is intended to improve the recognition and measurement of financial instruments. The ASU affects companies, not-for-profit organizations, and employee benefit plans that hold financial assets or owe financial liabilities.

The new guidance makes targeted improvements to existing U.S. GAAP by:

- Requiring equity investments (except those accounted for under the equity method of accounting, or those that result in consolidation of the investee) to be measured at fair value with changes in fair value recognized in net income;
- Requiring public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes;
- Requiring separate presentation of financial assets and financial liabilities by measurement category and form of financial asset (i.e., securities or loans and receivables) on the balance sheet or the accompanying notes to the financial statements;
- Eliminating the requirement to disclose the fair value of financial instruments measured at amortized cost for organizations that are not public business entities;
- Eliminating the requirement for public business entities to disclose the method(s) and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheet; and

ASU No. 2016-08, *Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net)*

Effective 12/31/2019 (your FY 2019)

This ASU relates to when another party, along with the entity, is involved in providing a good or service to a customer. Topic 606 *Revenue from Contracts with Customers* requires an entity to determine whether the nature of its promise is to provide that good or service to the customer (i.e., the entity is a principal) or to arrange for the good or service to be provided to the customer by the other party (i.e., the entity is an agent).

COMMUNITY ACTION AGENCY OF SOUTH CENTRAL MICHIGAN, INC.

Attachment A - Upcoming Changes in Accounting Standards

For the December 31, 2017 Audit

The amendments are intended to improve the operability and understandability of the implementation guidance on principal versus agent considerations by clarifying the following:

- An entity determines whether it is a principal or an agent for each specified good or service promised to a customer.
- An entity determines the nature of each specified or service (e.g., whether it is a good, service, or a right to a good or service).
- When another entity is involved in providing goods or services to a customer, an entity that is a principal obtains control of: (a) a good or another asset from the other party that it then transfers to the customer; (b) a right to a service that will be performed by another party, which gives the entity the ability to direct that party to provide the service to the customer on the entity's behalf; or (c) a good or service from the other party that it combines with other goods or services to provide the specified good or service to the customer.
- The purpose of the indicators in paragraph 606-10-55-39 is to support or assist in the assessment of control. The amendments in paragraph 606-10-55-39A clarify that the indicators may be more or less relevant to the control assessment and that one or more indicators may be more or less persuasive to the control assessment, depending on the facts and circumstances.

The amendments amend certain existing illustrative examples and add additional illustrative examples to assist in the application of the guidance.

The effective date and transition of these amendments is the same as the effective date and transition of ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*. Private entities should apply the amendments in ASU 2014-09 for annual reporting periods beginning after December 15, 2018, including interim reporting periods therein (i.e., January 1, 2019, for a calendar year entity). Private entities must apply the amendments one year later.

ASU 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments*
Effective 12/31/2019 (your FY 2019)

The ASU addresses diversity in how certain cash receipts and cash payments are presented and classified in the statement of cash flows.

COMMUNITY ACTION AGENCY OF SOUTH CENTRAL MICHIGAN, INC.

Attachment A - Upcoming Changes in Accounting Standards

For the December 31, 2017 Audit

The amendments provide guidance on the following eight specific cash flow issues:

- Debt Prepayment or Debt Extinguishment Costs;
- Settlement of Zero-Coupon Debt Instruments or Other Debt Instruments with Coupon Interest Rates That Are Insignificant in Relation to the Effective Interest Rate of the Borrowing;
- Contingent Consideration Payments Made after a Business Combination;
- Proceeds from the Settlement of Insurance Claims;
- Proceeds from the Settlement of Corporate-Owned Life Insurance Policies, including Bank-Owned;
- Life Insurance Policies;
- Distributions Received from Equity Method Investees;
- Beneficial Interests in Securitization Transactions; and
- Separately Identifiable Cash Flows and Application of the Predominance Principle.

ASU No. 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash* *Effective 12/31/2020 (your FY 2020)*

The amendments in Accounting Standards Update (ASU) No. 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*, apply to all entities that have restricted cash or restricted cash equivalents and are required to present a statement of cash flows. The amendments address diversity in practice that exists in the classification and presentation of changes in restricted cash on the statement of cash flows.

The amendments require that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. As a result, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The amendments do not provide a definition of restricted cash or restricted cash equivalents.

ASU No. 2017-02, *Not-for-Profit Entities - Consolidation (Subtopic 958-810): Clarifying When a Not-for-Profit Entity That Is a General Partner or a Limited Partner Should Consolidate a For-Profit Limited Partnership or Similar Entity* *Effective 12/31/2019 (your FY 2019)*

The amendments clarify when a not-for-profit entity that is a general partner or a limited partner should consolidate a for-profit limited partnership or similar legal entity once the amendments in Accounting Standards Update No. 2015-02, *Consolidation (Topic 810): Amendments to the Consolidation Analysis*, become effective.

The amendments maintain how not-for-profit general partners currently apply the consolidation guidance in Subtopic 810-20 by including that guidance within Subtopic 958-810. The amendments also add to Subtopic 958-810 the general guidance in Subtopic 810-10 on when not-for-profit limited partners should consolidate a limited partnership.

COMMUNITY ACTION AGENCY OF
SOUTH CENTRAL MICHIGAN, INC.

Attachment B - Management Representations

For the December 31, 2017 Audit

The following pages contain the written representations that we requested from management.



May 11, 2018

Rehmann Robson
675 Robinson Road
Jackson, Michigan 49203

This representation letter is provided in connection with your audit of the financial statements of the *Community Action Agency of South Central Michigan, Inc.* (the "Agency"), which comprise the statement of financial position as of December 31, 2017, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements, for the purpose of expressing an opinion on whether the financial statements are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America.

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in the light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.

We confirm that having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves as of May 11, 2018:

Financial Statements

1. We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter dated January 29, 2018, for the preparation and fair presentation of the financial statements in accordance with the applicable financial reporting framework we have chosen, which is accounting principles generally accepted in the United States of America.
2. The financial statements are fairly presented in accordance with accounting principles generally accepted in the United States of America.
3. We acknowledge our responsibility for 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.
4. We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.
5. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.





6. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of accounting principles generally accepted in the United States of America.

For the purposes of this letter, related parties mean affiliated or financially interrelated organizations; entities for which investments are accounted for by the equity method by the Agency; trusts for the benefit of employees, such as pension trusts that are managed by or under the trusteeship of management or the governing board; members of the Agency's management and governing board and their immediate families; and other parties with which the Agency may deal if one party controls or can significantly influence the management or operating policies of the other to an extent that one of the transacting parties might be prevented from fully pursuing its own separate interests, such as significant contributors. Another party also is a related party if it can significantly influence the management or operating policies of the transacting parties or if it has an ownership interest in one of the transacting parties and can significantly influence the other to an extent that one or more of the transacting parties might be prevented from fully pursuing its own separate interests. Additional related parties may include certain national and local affiliates and a separate entity with officers or directors also on the nonprofit Agency's governing board.

7. There were no events subsequent to the date of the financial statements for which accounting principles generally accepted in the United States of America require adjustment to or disclosure in the financial statements.
8. The effects of all known actual or possible litigation and claims have been accounted for and disclosed in accordance with accounting principles generally accepted in the United States of America.
9. We have complied with all contractual agreements, grants, and donor restrictions.
10. We have maintained an appropriate composition of assets in amounts needed to comply with all donor restrictions.
11. We have accurately presented the Agency's position regarding taxation and tax-exempt status.
12. The bases used for allocation of functional expenses are reasonable and appropriate.
13. We have included in the financial statements all assets and liabilities under the Agency's control.
14. We have designed, implemented, and maintained adequate internal controls over the receipt and recording of contributions.
15. Reclassifications between net asset classes are proper.
16. The governing board's interpretations concerning whether laws place restrictions on net appreciation of donor-restricted endowments are reasonable and have been disclosed to you.
17. Methods and significant assumptions used by management to determine fair values, their consistency in application, and the completeness and adequacy of fair value information for financial statement measurement and disclosure purposes are appropriate.





Information Provided

18. We have provided you with:
 - a. Access to all information that is relevant to the preparation and fair presentation of the financial statements, such as records, documentation, and other matters;
 - b. Additional information that you have requested from us for the purpose of the audit; and
 - c. Unrestricted access to persons within the Agency from whom you determined it necessary to obtain audit evidence.
19. All transactions have been recorded in the accounting records and are reflected in the financial statements.
20. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
21. We have no knowledge of any fraud or suspected fraud that affects the Agency and involves:
 - a. Management;
 - b. Employees who have significant roles in internal control; or
 - c. Others when the fraud could have a material effect on the financial statements.
22. We have no knowledge of any allegations of fraud, or suspected fraud, affecting the Agency's financial statements communicated by employees, former employees, analysts, regulators or others.
23. We have disclosed to you all known instances of noncompliance or suspected noncompliance with laws, regulations, contracts, and grant agreements whose effects should be considered when preparing financial statements.
24. We have disclosed to you all known actual or possible litigation, claims, and assessments whose effects should be considered when preparing the financial statements.
25. We have disclosed to you the identity of the Agency's related parties and all the related party relationships and transactions of which we are aware.

Supplementary Information in Relation to the Financial Statements as a Whole

26. With respect to the supplementary information accompanying the financial statements:
 - a. We acknowledge our responsibility for the presentation of the supplementary information.
 - b. We believe the supplementary information, including its form and content, is fairly presented in relation to the financial statements as a whole, which statements are presented in accordance with accounting principles generally accepted in the United States of America.



- c. The methods of measurement or presentation have not changed from those used in the prior period.
- d. We believe the significant assumptions or interpretations underlying the measurement or presentation of the supplementary information, and the basis for our assumptions and interpretations, are reasonable and appropriate in the circumstances.

Uniform Guidance (2 CFR 200)

27. With respect to federal awards, we represent the following to you:
- a. We are responsible for understanding and complying with and have complied with the requirements of the Uniform Guidance.
 - b. We are responsible for the preparation and presentation of the schedule of expenditures of federal awards in accordance with the Uniform Guidance.
 - c. We believe the schedule of expenditures of federal awards, including its form and content, is fairly presented in accordance with the Uniform Guidance.
 - d. The methods of measurement or presentation have not changed from those used in the prior period.
 - e. We believe the significant assumptions or interpretations underlying the measurement or presentation of the schedule of expenditures of federal awards, and the basis for our assumptions and interpretations, are reasonable and appropriate in the circumstances.
 - f. We are responsible for including the auditor's report on the schedule of expenditures of federal awards in any document that contains the schedule and that indicates that the auditor has reported on such information.
 - g. When the schedule of expenditures of federal awards is not presented with the audited financial statements, management will make the audited financial statements readily available to the intended users of the schedule of expenditures of federal awards no later than the date of issuance by the entity of the schedule of expenditures of federal awards and the auditor's report thereon.
 - h. We have, in accordance with the Uniform Guidance, identified in the schedule of expenditures of federal awards, expenditures made during the audit period for all awards provided by federal agencies in the form of grants, federal cost-reimbursement contracts, loans, loan guarantees, property (including donated surplus property), cooperative agreements, interest subsidies, food commodities, direct appropriations, and other assistance.
 - i. We are responsible for complying with the requirements of laws, regulations, and the provisions of contracts and grant agreements related to each of our federal programs and have identified and disclosed to you the requirements of laws, regulations, and the provisions of contracts and grant agreements that are considered to have a direct and material effect on each major federal program; and we have complied, in all material respects, with these requirements.
 - j. We have provided to you our interpretations of any compliance requirements that have varying interpretations.



- k. We are responsible for establishing and maintaining effective internal control over compliance requirements applicable to federal programs that provide reasonable assurance that we are managing our federal awards in compliance with laws, regulations, and the provisions of contracts and grant agreements that could have a material effect on our federal programs. Also, no changes have been made in the internal control system to the date of this letter that might significantly affect internal control, including any corrective action taken with regard to significant deficiencies, including material weaknesses, reported in the schedule of findings and questioned costs.
- l. We have made available to you all contracts and grant agreements (including amendments, if any) and any other correspondence with federal agencies or pass-through entities relating to federal programs.
- m. We have received no requests from a federal agency to audit one or more specific programs as a major program.
- n. We have identified and disclosed to you all amounts questioned and any known noncompliance with the requirements of federal awards, including the results of other audits or program reviews. We also know of no instances of noncompliance occurring subsequent to the end of the period audited.
- o. We have charged costs to federal awards in accordance with applicable cost principles, including amounts claimed or used for matching determined in accordance with relevant guidelines in the Uniform Guidance.
- p. We have made available to you all documentation related to the compliance requirements, including information related to federal program financial reports and claims for advances and reimbursements.
- q. Federal program financial reports and claims for advances and reimbursements are supported by the books and records from which the basic financial statements have been prepared (and are prepared on a basis consistent with the schedule of expenditures of federal awards).
- r. The copies of federal program financial reports provided to you are true copies of the reports submitted, or electronically transmitted, to the respective federal agency or pass-through entity, as applicable.
- s. We are responsible for and have accurately prepared the summary schedule of prior audit findings to include all findings required to be included by the Uniform Guidance, and we have provided you with all information on the status of the follow-up on prior audit findings by federal awarding agencies and pass-through entities, including all management decisions.
- t. We have disclosed to you the findings received and related corrective actions taken for previous audits, attestation engagements, and internal or external monitoring that directly relate to the objectives of the compliance audit, including findings received and corrective actions taken from the end of the period covered by the compliance audit to the date of the auditor's report.
- u. We are responsible for and have accurately completed the appropriate sections of the Data Collection Form as required by the Uniform Guidance, and we are responsible for preparing and implementing a correction action plan for each audit finding.

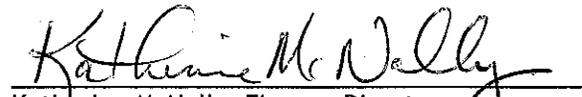


CommunityAction

ADMINISTRATIVE OFFICES
175 Main Street • Battle Creek, MI 49014
TELEPHONE: (269) 965-7766
TOLL FREE: (877) 422-2726
WEBSITE: www.caascn.org

- v. We have disclosed all contracts or other agreements with service organizations and disclosed to you all communications from these service organizations relating to noncompliance at the organizations.
- w. We have reviewed, approved, and taken responsibility for the financial statements and related notes.
- x. We have disclosed to you the nature of any subsequent events that provide additional evidence with respect to conditions that existed at the end of the reporting period that affect noncompliance during the reporting period.


Michelle Williamson, Chief Executive Officer


Katherine McNally, Finance Director

Dedicated to helping people achieve and maintain independence.

Serving Barry, Branch, Calhoun and St. Joseph counties since 1966.

This institution is an equal opportunity provider. Equal opportunity Employer.

