

**NORTHEAST SOUTH DAKOTA
HEAD START PROGRAM, INC.**

**FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT
WITH SUPPLEMENTARY INFORMATION**

OCTOBER 31, 2017

**NORTHEAST SOUTH DAKOTA
HEAD START PROGRAM, INC.**

TABLE OF CONTENTS

	Page
Independent Auditor's Report	1
Financial Statements:	
Statement of Financial Position	4
Statement of Activities	5
Statement of Cash Flows	6
Notes to Financial Statements	7
Supplementary Information	13
Schedule of Program Activity	14
Schedule of Expenditures of Federal Awards	15
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	16
Independent Auditor's Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by the Uniform Guidance	18
Summary Schedule of Prior Audit Findings and Questioned Costs	21
Schedule of Current Audit Findings and Questioned Costs	22

*Wahlenberg
Ritzman & Co., LLC*
certified public accountants

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Northeast South Dakota Head Start Program, Inc.
Aberdeen, South Dakota

Report on the Financial Statements

We have audited the accompanying financial statements of Northeast South Dakota Head Start Program, Inc. (a nonprofit organization), which comprise the statement of financial position as of October 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with 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.

Madison Office	112 South Egan Avenue	PO Box 505	Madison, SD 57042	605.256.9165
Yankton Office	207 Douglas Avenue	PO Box 1018	Yankton, SD 57078	605.665.4401
Sioux Falls Office	507 West 10 th Street	PO Box 876	Sioux Falls, SD 57101	605.336.0372

Toll Free: 1-800-456-0889

email: wrc@wrccpa.com

Member of: Private Companies Practice Section American Institute of CPAs, South Dakota Society of CPAs



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

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

Opinion

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

Report on Summarized Comparative Information

We have previously audited Northeast South Dakota Head Start Program, Inc.'s financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated March 26, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended October 31, 2016, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of program activity is presented for purposes of additional analysis and is not a required part of the financial statements. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and also 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 June 20, 2018, on our consideration of Northeast South Dakota Head Start Program, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Northeast South Dakota Head Start Program, Inc.'s internal control over financial reporting and compliance.

Wohlenberg Ritzman + Co., LLC

Yankton, South Dakota
June 20, 2018

NORTHEAST SOUTH DAKOTA HEAD START PROGRAM, INC.

**STATEMENT OF FINANCIAL POSITION
OCTOBER 31, 2017 AND 2016**

ASSETS	2017	2016
CURRENT ASSETS		
Cash	\$ 391	\$ 468
Grants receivable:		
U.S. Department of Health and Human Services	261,693	138,353
State - Department of Education	<u>23,417</u>	<u>18,319</u>
Total current assets	<u>285,501</u>	<u>157,140</u>
PROPERTY AND EQUIPMENT		
Vehicles/equipment	759,324	704,604
Less: accumulated depreciation	<u>(484,505)</u>	<u>(438,785)</u>
Net property and equipment	<u>274,819</u>	<u>265,819</u>
TOTAL ASSETS	<u>\$ 560,320</u>	<u>\$ 422,959</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 166,513	\$ 46,899
Accrued payroll	78,597	70,962
Accrued payroll taxes	1,016	1,184
Contracts payable	<u>39,375</u>	<u>38,095</u>
Total current liabilities	285,501	157,140
NET ASSETS		
Temporarily restricted	<u>274,819</u>	<u>265,819</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 560,320</u>	<u>\$ 422,959</u>

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

NORTHEAST SOUTH DAKOTA HEAD START PROGRAM, INC.

STATEMENT OF ACTIVITIES
YEAR ENDED OCTOBER 31, 2017
WITH COMPARATIVE TOTALS FOR THE YEAR ENDED OCTOBER 31, 2016

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>2017 Total</u>	<u>2016 Total</u>
REVENUE				
Grant revenue	\$ 2,795,270	\$ 54,720	\$ 2,849,990	\$ 2,757,503
Loss on sale of assets	-	-	-	(5,146)
In-kind contributions	414,675	-	414,675	454,891
Total revenue	<u>3,209,945</u>	<u>54,720</u>	<u>3,264,665</u>	<u>3,207,248</u>
EXPENSES				
Program activity:				
Child education	2,589,937	-	2,589,937	2,646,126
Food programs	237,640	-	237,640	196,779
Administrative costs	371,528	-	371,528	331,580
Fundraising	10,840	-	10,840	19,920
Total program activity	<u>3,209,945</u>	<u>-</u>	<u>3,209,945</u>	<u>3,194,405</u>
General:				
Depreciation	45,720	-	45,720	48,442
Total general	<u>45,720</u>	<u>-</u>	<u>45,720</u>	<u>48,442</u>
Total expenses	<u>3,255,665</u>	<u>-</u>	<u>3,255,665</u>	<u>3,242,847</u>
RECLASSIFICATION OF NET ASSETS				
Net assets released from restriction through satisfaction of program restrictions	<u>45,720</u>	<u>(45,720)</u>	<u>-</u>	<u>-</u>
Change in Net Assets	-	9,000	9,000	(35,599)
Net Assets - Beginning of Year	<u>-</u>	<u>265,819</u>	<u>265,819</u>	<u>301,418</u>
Net Assets - End of Year	<u>\$ -</u>	<u>\$ 274,819</u>	<u>\$ 274,819</u>	<u>\$ 265,819</u>

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

NORTHEAST SOUTH DAKOTA HEAD START PROGRAM, INC.

STATEMENT OF CASH FLOWS
YEARS ENDED OCTOBER 31, 2017 AND 2016

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 9,000	\$ (35,599)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	45,720	48,442
Loss on sale of asset	-	5,146
(Increase) decrease in assets:		
Grants receivable - U.S. Department of Health and Human Services	(123,340)	31,974
Grants receivable - State - Department of Education	(5,098)	306
Increase (decrease) in liabilities:		
Accounts payable	119,614	(23,320)
Accrued payroll	7,635	9,202
Accrued payroll liabilities	(168)	(2,384)
Advance payment of federal grant	-	(2)
Contracts payable	1,280	(15,672)
Net cash provided by operating activities	54,643	18,093
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds of sale of assets	-	872
Purchase of property and equipment	(54,720)	(18,861)
Net cash (used in) investing activities	(54,720)	(17,989)
Decrease in cash	(77)	104
Cash, Beginning of year	468	364
Cash, End of year	\$ 391	\$ 468

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

NORTHEAST SOUTH DAKOTA HEAD START PROGRAM, INC.

NOTES TO FINANCIAL STATEMENTS OCTOBER 31, 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Business

Northeast South Dakota Head Start Program, Inc. (the Program), was organized as a nonprofit corporation in 1987. The Program was formed to develop and provide comprehensive early child development for disadvantaged pre-school children and their families. The Program is primarily supported through grants from federal and state governments. Approximately 95% of the Program's grant revenue is received from the Department of Health and Human Services' Head Start funds.

Basis of Accounting

The financial statements of the Program have been prepared on the accrual basis of accounting and in accordance with generally accepted accounting principles (GAAP) in the United States of America, following the recommendations of the Financial Accounting Standards Board (FASB).

The FASB requires the Program to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Comparative Financial Information

The financial statements include certain prior-year summarized comparative information in total by not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Program's financial statements for the year ended October 31, 2016, from which the summarized information was derived.

Classification of Net Assets

Net assets and revenue, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Program and changes therein are classified and reported as follows:

Unrestricted Net Assets – Net assets that are not subject to donor-imposed stipulations or where donor-imposed stipulations are met in the year of contribution.

NORTHEAST SOUTH DAKOTA HEAD START PROGRAM, INC.

NOTES TO FINANCIAL STATEMENTS OCTOBER 31, 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Classification of Net Assets, continued

Temporarily Restricted Net Assets – Net assets subject to donor-imposed stipulations that may or may not be met, either by actions of the Program and/or the passage of time. When a restriction expires, temporarily restricted net assets are transferred to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Permanently Restricted Net Assets – Net assets subject to donor-imposed stipulations that they be maintained permanently by the Program. Generally, the donors of these assets permit the Program to use all or part of the income earned on any related investments for general or specific purposes. Currently, the Program does not have any permanently restricted net assets.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Cash and Cash Equivalents

For financial statement reporting purposes, the Program includes all cash accounts not subject to withdrawal restrictions or penalties, treasury bills, commercial paper and money market funds with a term to maturity of three months or less when purchased to be cash equivalents. Certificates of deposit, regardless of maturity, are not considered to be cash and cash equivalents.

Property and Equipment

Vehicles and equipment are stated at cost, if purchased, or at fair value at the date of gift, if donated, less accumulated depreciation. Depreciation is provided for using the straight-line method over the estimated useful life of the asset. The Program considers items with a cost greater than \$5,000 and a useful life greater than one year to be property and equipment.

NORTHEAST SOUTH DAKOTA HEAD START PROGRAM, INC.

NOTES TO FINANCIAL STATEMENTS OCTOBER 31, 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Property and Equipment, continued

Property and equipment purchased with grant funds are owned by the Program while used in the Program for which they were purchased or in other future authorized programs. However, the various funding sources have a reversionary interest in the property and equipment purchased with grant funds. Its disposition, as well as the ownership of any proceeds therefrom, is subject to funding source regulations. The property and equipment purchased with grant funds are normally restricted for use in specific programs operated by the Program.

The Program has adopted a policy of implying a time restriction on assets purchased with grant contributions. Grant-funded property and equipment are recorded as restricted support. As the property and equipment are depreciated, the temporarily restricted net assets are released from restriction and reported in the statement of activities as net assets released from restriction.

Grants and Contracts

Support received under grants and contracts is recorded as revenue when the related costs are incurred. Grants receivable includes amounts receivable under grants and contracts and represents amounts due for expenses incurred prior to year end.

In-Kind Contributions

The Program has recorded in-kind contributions for space, supplies, and professional services in the statement of activities in accordance with Generally Accepted Accounting Principles (GAAP). GAAP requires that only contributions of services received that create or enhance a nonfinancial asset or require specialized skill by the individual possessing those skills and would typically need to be purchased if not provided by donation be recorded. The requirements of GAAP are different than the in-kind requirements of the Program's grant awards. The Program received contributions of nonprofessional volunteers and consultants during the year with a value of \$260,847 for its Head Start program, which are not recorded in the statement of activities.

Federal Income Taxes

Northeast South Dakota Head Start Program, Inc. is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. Consequently, no provision for federal income tax has been included in the financial statements. In addition, the Program qualifies for the charitable contribution deduction under section 170(b)(1)(A) and has been classified as an organization that is not a private foundation under Section 509(a)(2).

NORTHEAST SOUTH DAKOTA HEAD START PROGRAM, INC.

**NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2017**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Compensated Absences

Annual, personal and sick leave are accumulated by employees throughout the year. Employees will not be given monetary compensation for accrued and unused annual leave time except in the case of termination, which shall be known as terminal leave. Employees are reimbursed for unused personal leave at the end of the school year. Upon termination, employees are not entitled to receive compensation for their accrued sick leave balance.

Fundraising Activity

The Program does not maintain a formal fundraising or solicitation department. Currently, it does not conduct fundraising campaigns, door-to-door solicitations, telethons, mass mailings or special fundraising events. The program directors do, however, compile data and applications necessary to renew and obtain new grants.

2. CONCENTRATION OF CREDIT RISK

The Program maintains cash balances at one financial institution. Accounts at this institution are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. As of October 31, 2017, the Program had no uninsured cash balances.

3. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purpose –

Grant-funded property and equipment	<u>\$274,819</u>
-------------------------------------	------------------

NORTHEAST SOUTH DAKOTA HEAD START PROGRAM, INC.

**NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2017**

4. LEASES

The Program leases class room space in various locations under operating leases. These leases have various monthly payments and expiration dates.

The following are the minimum payments on existing operating leases:

2018	\$	71,237
2019		72,661
2020		74,115
2021		75,597
2022		<u>64,300</u>
	\$	<u>357,910</u>

Rental expense amounted to \$123,344 in 2017.

5. CONCENTRATION OF REVENUE SOURCES

Approximately 95% of the Program's revenue is derived from grants from the US Department of Health and Human Services. The current level of the Program's operations and program services may be impacted or segments discontinued if the funding is not renewed.

6. RISK MANAGEMENT

The Program is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions, injuries to employees, and natural disasters. During the period ended October 31, 2017, the Program managed its risks as follows:

Employee Health Insurance

The Program purchases health insurance for its employees from a commercial insurance carrier. Settled claims resulting from these risks have not exceeded the liability coverage during the past three years.

Liability Insurance

The Program purchases liability insurance for risks related to torts, theft, or damage to property; and errors and omissions of directors and officers from a commercial insurance carrier. Settled claims resulting from these risks have not exceeded the liability coverage during the past three years.

NORTHEAST SOUTH DAKOTA HEAD START PROGRAM, INC.

**NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2017**

6. RISK MANAGEMENT, continued

Worker's Compensation

The Program purchases liability insurance for worker's compensation from a commercial insurance carrier. Settled claims resulting from these risks have not exceeded the liability coverage during the past three years.

Unemployment Benefits

The Program provides coverage for unemployment benefits by paying into the Unemployment Compensation Fund established by state law and managed by the State of South Dakota.

7. RETIREMENT PLAN

The Program maintains a 401(k) Retirement Plan for its employees. The Program will match 75 cents per employee dollar contribution for all eligible employees to a maximum of \$6,000 or 6% of employee annual earnings. Plan eligibility requires the employee to attain the age of 21 and one year of service. Retirement plan expense for the year ended October 31, 2017 was \$35,223.

8. SUBSEQUENT EVENTS

Events occurring after October 31, 2017 were evaluated by management through June 20, 2018, the date which the financial statements were available to be issued, to ensure that any subsequent events that met the criteria for recognition and/or disclosure in these financial statements have been included. There are no significant subsequent events needing disclosure.

SUPPLEMENTARY INFORMATION

NORTHEAST SOUTH DAKOTA HEAD START PROGRAM, INC.

SCHEDULE OF PROGRAM ACTIVITY - REGULATORY BASIS
YEAR ENDED OCTOBER 31, 2017

	<u>DOA</u> <u>10.558</u>	<u>Department of Health and Human Services</u> <u>93.600</u>			
	<u>Child & Adult Care Food Program</u>	<u>Full-Year, Part-Day</u>	<u>Training and Tech. Assist.</u>	<u>In-Kind Elimination</u>	<u>Total Programs</u>
REVENUE					
Grant revenue	\$ 147,920	\$ 2,666,646	\$ 35,424	\$ -	\$ 2,849,990
In-kind contributions	-	675,522	-	(260,847)	414,675
Total Revenue	<u>147,920</u>	<u>3,342,168</u>	<u>35,424</u>	<u>(260,847)</u>	<u>3,264,665</u>
EXPENSES					
Wages and salaries	-	1,524,587	-	-	1,524,587
Fringe benefits	-	543,431	-	-	543,431
Travel/transportation	-	153,370	19,207	-	172,577
Supplies/food	147,920	104,628	624	-	253,172
Space/occupancy	-	175,154	-	-	175,154
Vehicles/equipment	-	54,720	-	-	54,720
Other	-	110,756	15,593	-	126,349
In-kind expenses	-	675,522	-	(260,847)	414,675
Total Expenses	<u>147,920</u>	<u>3,342,168</u>	<u>35,424</u>	<u>(260,847)</u>	<u>3,264,665</u>
Change in Net Assets	-	-	-	-	-
Net Assets - Beginning of Year	-	-	-	-	-
NET ASSETS - End of Year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

See Independent Auditor's Report

NORTHEAST SOUTH DAKOTA HEAD START PROGRAM, INC.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED OCTOBER 31, 2017

<u>Federal Grantor/Pass-Through Grantor Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Award Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Disbursements/ Expenditures</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES				
Direct Funding:				
Head Start - Full-Year, Part-Day	93.600	08CH0090/26		\$ 2,666,646
Head Start - Training and Technical Assistance	93.600	08CH0090/26		<u>35,424</u>
Total U.S. Department of Health and Human Services				<u>2,702,070</u>
U.S. DEPARTMENT OF AGRICULTURE				
Passed through the S.D. Department of Education:				
Child Care Food Program	10.558		LA064110	<u>147,920</u>
Total U.S. Department of Agriculture				<u>147,920</u>
Total Federal Awards				<u>\$ 2,849,990</u>

NOTE 1: SIGNIFICANT ACCOUNTING POLICIES:

The accompanying Schedule of Expenditures of Federal Awards (Schedule) includes the federal award activity of Northeast South Dakota Head Start Program, Inc. under programs of the federal government for the year ended October 31, 2017. The information in this Schedule is presented in accordance with the requirements of the Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*. Because the Schedule presents only a selected portion of the operations of Northeast South Dakota Head Start Program, Inc., it is not intended to and does not present the financial position, changes in net position or cash flows of Northeast South Dakota Head Start Program, Inc.

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES

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

The Program has not elected to use the 10% de minimus cost rate.

See Independent Auditor's Report

*Wahlenberg
Ritzman & Co., LLC*
certified public accountants

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

To the Board of Directors
Northeast South Dakota Head Start Program, Inc.
Aberdeen, South Dakota

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 Northeast South Dakota Head Start Program, Inc. (a nonprofit organization), which comprise the statement of financial position as of October 31, 2017, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated June 20, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Northeast South Dakota Head Start Program, Inc.'s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Northeast South Dakota Head Start Program, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of the Northeast South Dakota Head Start Program, Inc.'s internal control.

Madison Office	112 South Egan Avenue	PO Box 505	Madison, SD 57042	605.256.9165
Yankton Office	207 Douglas Avenue	PO Box 1018	Yankton, SD 57078	605.665.4401
Sioux Falls Office	507 West 10 th Street	PO Box 876	Sioux Falls, SD 57101	605.336.0372

Toll Free: 1-800-456-0889

email: wrc@wrccpa.com

Member of: Private Companies Practice Section American Institute of CPAs, South Dakota Society of CPAs



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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Northeast South Dakota Head Start Program, Inc.'s internal control and compliance. Accordingly, this report is not suitable for any other purpose.

Wohlberg Ritzman + Co., LLC

Yankton, South Dakota
June 20, 2018

*Wahlenberg
Ritzman & Co., LLC*
certified public accountants

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

To the Board of Directors
Northeast South Dakota Head Start Program, Inc.
Aberdeen, South Dakota

Report on Compliance for Each Major Federal Program

We have audited Northeast South Dakota Head Start Program, Inc.'s (the Program) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Program's major federal programs for the year ended October 31, 2017. The Program's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Madison Office	112 South Egan Avenue	PO Box 505	Madison, SD 57042	605.256.9165
Yankton Office	207 Douglas Avenue	PO Box 1018	Yankton, SD 57078	605.665.4401
Sioux Falls Office	507 West 10 th Street	PO Box 876	Sioux Falls, SD 57101	605.336.0372

Toll Free: 1-800-456-0889

email: wrc@wrccpa.com

Member of: Private Companies Practice Section American Institute of CPAs, South Dakota Society of CPAs



Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Program'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 Program'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 Program's compliance.

Opinion on Each Major Federal Program

In our opinion, the Program 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 October 31, 2017.

Report on Internal Control Over Compliance

Management of the Program 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 Program'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 Program's internal control over compliance.

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

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

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

Wohlenberg Ritzman + Co., LLC

Yankton, South Dakota
June 20, 2018

NORTHEAST SOUTH DAKOTA HEAD START PROGRAM, INC.

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS AND QUESTIONED COSTS
YEAR ENDED OCTOBER 31, 2017**

SECTION II - FINDINGS - FINANCIAL STATEMENTS AUDIT

There were no prior financial statement audit findings reported.

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

There were no prior federal award program findings reported.

NORTHEAST SOUTH DAKOTA HEAD START PROGRAM, INC.

SCHEDULE OF CURRENT AUDIT FINDINGS AND QUESTIONED COSTS
YEAR ENDED OCTOBER 31, 2017

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? _____ yes 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

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

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

Identification of major programs:

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
93.600	Head Start

Dollar Threshold used to distinguish between Type A and Type B Programs: \$750,000

Auditee qualified as low-risk auditee? X yes _____ no

NORTHEAST SOUTH DAKOTA HEAD START PROGRAM, INC.

**SCHEDULE OF CURRENT AUDIT FINDINGS AND QUESTIONED COSTS
YEAR ENDED OCTOBER 31, 2017**

SECTION II - FINDINGS - FINANCIAL STATEMENTS AUDIT

There are no financial statement audit findings.

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

There are no major federal award program findings.