

MID-COLUMBIA CHILDREN'S COUNCIL

FINANCIAL STATEMENTS

Year Ended November 30, 2022



KERN ▲ THOMPSON
CERTIFIED PUBLIC ACCOUNTANTS

MID-COLUMBIA CHILDREN'S COUNCIL

FINANCIAL STATEMENTS

Year Ended November 30, 2022

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Mid-Columbia Children's Council
Hood River, Oregon

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of Mid-Columbia Children's Council (a nonprofit organization), which comprise the statement of financial position as of November 30, 2022, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the financial statements present fairly, in all material respects, the financial position of Mid-Columbia Children's Council as of November 30, 2022, 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.

Basis for Opinion

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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Mid-Columbia Children's Council and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Mid-Columbia Children's Council's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

To the Board of Directors
Mid-Columbia Children's Council

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Mid-Columbia Children's Council's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Mid-Columbia Children's Council's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. Code of *Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and 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 March 4, 2024, on our consideration of the Mid-Columbia Children's Council'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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Mid-Columbia Children's Council's 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 Mid-Columbia Children's Council's internal control over financial reporting and compliance.

To the Board of Directors
Mid-Columbia Children's Council

Report on Summarized Comparative Information

We have previously audited the Mid-Columbia Children's Council's 2021 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated August 25, 2022. In our opinion, the summarized comparative information presented herein as of and for the year ended November 30, 2021, is consistent, in all material respects, with the audited financial statements from which it has been derived.



Portland, Oregon
March 4, 2024

MID-COLUMBIA CHILDREN'S COUNCIL

STATEMENT OF FINANCIAL POSITION

November 30, 2022

(With Comparative Totals as of November 30, 2021)

ASSETS

	2022	2021
Current assets		
Cash	\$ 304,256	\$ 309,940
Grants and accounts receivable	177,936	560,251
Prepaid expenses	58,244	25,899
Total current assets	540,436	896,090
 Property and equipment		
Buildings and Improvements	3,837,579	3,387,860
Land	120,230	120,230
Equipment	743,624	540,121
Vehicles	903,782	903,782
Construction in progress	10,470	-
	5,615,685	4,951,993
Less accumulated depreciation	(3,555,538)	(3,394,745)
Total property and equipment	2,060,147	1,557,248
 Total assets	\$ 2,600,583	\$ 2,453,338

LIABILITIES AND NET ASSETS

Current liabilities		
Accounts payable	\$ 182,794	\$ 222,902
Payroll and related liabilities	218,818	146,618
Due to parent fund	15,411	14,829
Refundable advances	228,668	420,482
Total current liabilities	645,691	804,831
 Net assets		
Without donor restrictions		
Available for current operations	(105,255)	91,259
Net investment in property and equipment	2,060,147	1,557,248
Total net assets	1,954,892	1,648,507
 Total liabilities and net assets	\$ 2,600,583	\$ 2,453,338

See notes to financial statements.

MID-COLUMBIA CHILDREN'S COUNCIL

STATEMENT OF ACTIVITIES

Year Ended November 30, 2022

(With Comparative Totals for the Year Ended November 30, 2021)

	<u>2022</u>	<u>2021</u>
Support and revenue		
Grants and contracts	\$ 9,098,026	\$ 8,197,596
Contributions	2,623	2,231
Program and other revenue	85,585	28,314
Total revenue	<u>9,186,234</u>	<u>8,228,141</u>
Expenses		
Program services	7,743,291	6,896,983
Management and general	1,136,558	1,161,977
Total expenses	<u>8,879,849</u>	<u>8,058,960</u>
Change in net assets without donor restrictions	306,385	169,181
Net assets without donor restrictions - beginning of year	<u>1,648,507</u>	<u>1,479,326</u>
Net assets without donor restrictions - end of year	<u>\$ 1,954,892</u>	<u>\$ 1,648,507</u>

See notes to financial statements.

MID-COLUMBIA CHILDREN'S COUNCIL

STATEMENT OF FUNCTIONAL EXPENSES

Year Ended November 30, 2022

(With Comparative Totals for the Year Ended November 30, 2021)

	Program Services	Management and General	Total	
			2022	2021
Salaries and wages	\$ 4,111,862	\$ 613,750	\$ 4,725,612	\$ 4,495,339
Payroll tax and benefits	1,303,375	140,218	1,443,593	1,508,608
Contract services	275,571	174,657	450,228	313,785
Depreciation	160,793	-	160,793	115,328
Insurance	88,345	20,801	109,146	104,885
IT, software, and other	278,038	35,643	313,681	256,991
Occupancy	691,838	27,913	719,751	494,378
Parent activities	2,590	-	2,590	1,048
Repairs and maintenance	64,780	2,422	67,202	64,821
Supplies	659,749	114,178	773,927	659,444
Training	92,798	6,776	99,574	36,950
Travel, local	8,306	190	8,496	7,172
Travel, out of area	5,246	10	5,256	211
	\$ 7,743,291	\$ 1,136,558	\$ 8,879,849	\$ 8,058,960

See notes to financial statements.

MID-COLUMBIA CHILDREN'S COUNCIL

STATEMENT OF CASH FLOWS

Year Ended November 30, 2022

(With Comparative Totals for the Year Ended November 30, 2021)

	<u>2022</u>	<u>2021</u>
Cash flows from operating activities:		
Cash received from grants, contracts, contributions, program fees, and other, net of amounts restricted for long-term purposes	\$ 8,810,919	\$ 7,633,348
Cash paid to suppliers and employees	<u>(8,686,382)</u>	<u>(8,263,244)</u>
Net cash provided by (used in) operating activities	<u>124,537</u>	<u>(629,896)</u>
Cash flows from investing activities:		
Purchase of property and equipment	<u>(663,692)</u>	<u>(316,183)</u>
Net cash provided by (used in) investing activities	<u>(663,692)</u>	<u>(316,183)</u>
Cash flows from financing activities:		
Receipts of grant restricted to long-term capital expenditures for equipment and building improvements	<u>533,471</u>	<u>87,202</u>
Net cash provided by financing activities	<u>533,471</u>	<u>87,202</u>
Net change in cash	(5,684)	(858,877)
Cash, beginning of year	<u>309,940</u>	<u>1,168,817</u>
Cash, end of year	<u>\$ 304,256</u>	<u>\$ 309,940</u>

See notes to financial statements.

MID-COLUMBIA CHILDREN'S COUNCIL

NOTES TO FINANCIAL STATEMENTS

November 30, 2022

NOTE A – DESCRIPTION OF ORGANIZATION

Mid-Columbia Children's Council, Inc. (the Organization) is a nonprofit charitable organization, established to provide early childhood development for disadvantaged preschool children and their families. The Organization was formed on May 28, 1987 and provides its services primarily under contracts and grants provided by federal and state governments.

All powers of the Organization are vested in a nine-member board of directors and an 18-member Policy Council. The board of directors has general responsibility for overall administration of the Organization. The Policy Council has general responsibility over community relations concerning the Head Start and Early Head Start Programs. The Policy Council is also responsible for approving actions taken with regard to planning, personnel, and grant applications.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Statement Presentation

The Organization reports information regarding its financial position and activities according to two classes of net assets: without donor restrictions and with donor restrictions. Accordingly, the net assets of the Organization and changes therein are classified and reported as follows:

- **Net Assets Without Donor Restrictions** – Net assets that are not subject to donor-imposed stipulations. The Board of Directors may designate net assets without donor restrictions for specific purposes.
- **Net Assets With Donor Restrictions** – Net assets subject to donor-imposed stipulations that will be met either by actions of the Organization and/or the passage of time, or net assets with donor restrictions that are not subject to appropriation or expenditure.

Expenses are reported as a decrease in net assets without donor restrictions. Gains and losses are reported as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor stipulation or by law. Expiration of net assets with donor restrictions (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as net assets released from restrictions.

Contributions

Contributions are recognized when the donor makes a promise to give to the Organization that is, in substance, unconditional. Contributions with donor restrictions are reported as increases in net assets with donor restrictions depending on the nature of the restrictions. Otherwise, when a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions. Conditional promises to give – that is, those with a measurable performance or other barrier and a right of return – are not recognized until the conditions on which they depend have been met. Contributions received with donor-imposed conditions and restrictions that are met in the same reporting period are reported as support without donor restrictions and increase net assets without donor restrictions.

MID-COLUMBIA CHILDREN'S COUNCIL
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

November 30, 2022

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Functional Allocation of Expenses

The costs of providing the programs and supporting services have been summarized in the Statement of Activities. Directly identifiable expenses are charged to programs and supporting services when incurred. Certain costs, including office expense, occupancy, leases and utilities have been allocated among the programs and supporting services benefited based primarily on estimates of time and effort and number of children served.

Property and Equipment

Fixed assets are recorded at cost on the date of acquisition. The Organization capitalizes assets that cost greater than \$5,000. Assets are identified and tracked by program as required by their major grantors. Depreciation is calculated on the straight-line method over the estimated useful lives of the assets. The buildings are depreciated over 25 years. Personal property is depreciated over five years. Expenditures for maintenance and repairs are charged to expense as incurred, except for major renovations that are capitalized.

Refundable Advances

➤ **Cost Reimbursement Grants**

Refundable advances result primarily from conditional grant payments received prior to the incurrence of allowable grant expenditures, and are refundable to the grantor if not used for grant purposes.

In-Kind Contributions

Significant services received which create or enhance a nonfinancial asset or require specialized skills that the Organization would have purchased if not donated are recognized in the statements of activities and changes in net assets. During the years ended November 30, 2022 and 2021, contributed services were immaterial. These services included professional volunteer time, such as nutritionists, dental hygienists, therapists, and legal services.

In-kind donations of equipment and other materials are recorded when there is an objective basis upon which to value the contribution and where the contribution is an essential part of the Organization's activities. During the years ended November 30, 2022 and 2021, contributed supplies and materials were immaterial.

Conditional Promises to Give

A portion of the Organization's revenue is derived from cost-reimbursable federal and state contracts and grants, which are conditioned upon certain performance requirements and/or the incurrence of allowable qualifying expenses. Amounts received are recognized as revenue when the Organization has incurred expenditures in compliance with specific contract or grant provisions. Amounts received prior to incurring qualifying expenditures are reported as refundable advances in the statement of financial position.

MID-COLUMBIA CHILDREN'S COUNCIL
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

November 30, 2022

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Conditional Promises to Give (Continued)

The Organization has cost-reimbursable grants of \$190,709 that have not been recognized at November 30, 2022 because performance requirements and/or qualifying expenditures have not yet been incurred.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Grants and Accounts Receivable

Grants receivable are recorded monthly as the related services are provided and billed. Substantially all of the grants receivable are uncollateralized and are supported by contracts with governmental entities. Accordingly, an allowance for doubtful accounts has not been established, as balances over 90 days are trivial and management believes all balances are collectible.

Income Taxes

The Organization has been approved as a tax-exempt organization under the Internal Revenue Code Section 501(c)(3) and applicable state laws. Accordingly, no provision for income taxes is included in the accompanying financial statements. The Organization does not believe it has unrelated trade or business income in excess of \$1,000.

Prior Year Summarized Financial Information

The financial statements include certain prior-year summarized comparative information in total but not by net asset class or natural expense classification by function. 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 Organization's financial statements for the year ended November 30, 2021, from which the summarized information was derived.

NOTE C – PROPERTY AND EQUIPMENT

Approximately 59% of fixed assets net book value were purchased with federal funds and may revert to the federal funding agency upon disposition.

MID-COLUMBIA CHILDREN'S COUNCIL
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
November 30, 2022

NOTE D – OPERATING LEASES

The Organization has entered into several operating leases for buildings, land, and equipment to be used for administrative and classroom purposes. The future minimum lease payments are as follows:

Year Ending November 30,	
2023	\$ 99,180
2024	<u>24,795</u>
	<u>\$ 123,975</u>

The total rental expense for the fiscal year ended November 30, 2022 was \$220,878.

NOTE E – DEFINED CONTRIBUTION PENSION PLAN

The Organization has established a defined contribution pension plan which covers all employees over the age of 18 after one year of service. The Organization contributed \$68,283 for the year ended November 30, 2022 as discretionary contributions.

NOTE F – CONCENTRATIONS AND CONTINGENCIES

The Organization receives approximately 62% of its operating revenue from one federal grantor. A significant reduction in this funding source would negatively impact the organization and its programs.

Financial instruments that potentially expose the Organization to concentrations of credit and market risk consist primarily of cash. Cash is maintained at one high-quality financial institution. The Organization has not experienced any losses on its cash, and does not believe it is exposed to any significant credit risk on cash.

NOTE G – LINE OF CREDIT

The Organization has one \$50,000 line of credit agreement. Principal is due on demand and interest is payable monthly at the bank's prime rate plus 1.50 percentage points. The line is unsecured. There was \$0 outstanding at November 30, 2022. The line of credit is ongoing.

MID-COLUMBIA CHILDREN'S COUNCIL
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

November 30, 2022

NOTE H – LIQUIDITY

The following represents the Organization's financial assets available to meet cash needs for general expenditures within one year of November 30, 2022:

Financial assets at year-end	
Cash and cash equivalents	\$ 304,256
Grants and accounts receivable	<u>177,936</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 482,192</u>

As part of the Organization's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due.

NOTE I – SUBSEQUENT EVENTS

Subsequent events have been evaluated through March 4, 2024, which is the date the financial statements were available to be issued.

SINGLE AUDIT REPORTS

**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
Mid-Columbia Children's Council
Hood River, Oregon

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 Mid-Columbia Children's Council (a nonprofit organization), which comprise the statement of financial position as of November 30, 2022, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated March 4, 2024.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Mid-Columbia Children's Council's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore material weaknesses or significant deficiencies may exist that were not identified. We identified certain deficiencies in internal control described in the accompanying schedule of findings and questioned costs as item number 2022-001 that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as item number 2022-001.

To the Board of Directors
Mid-Columbia Children's Council

Organization's Response

Government Auditing Standards requires the auditor to perform limited procedures on the Organization's response to findings identified in our audit and described in the accompanying schedule of findings and questioned costs. The Organization's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

Purpose of this Report

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



Portland, Oregon
March 4, 2024

**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
Mid-Columbia Children's Council
Hood River, Oregon

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited Mid-Columbia Children's Council's compliance with the types of compliance requirements identified as subject to audit in the OMB Compliance Supplement that could have a direct and material effect on each of Mid-Columbia Children's Council's major federal programs for the year ended November 30, 2022. Mid-Columbia Children's Council's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, Mid-Columbia Children's Council complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended November 30, 2022.

Basis for Opinion on Each Major Federal Program

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). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of Mid-Columbia Children's Council and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of Mid-Columbia Children's Council's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to Mid-Columbia Children's Council's federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on Mid-Columbia Children's Council's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists.

To the Board of Directors
Mid-Columbia Children's Council

Auditor's Responsibilities for the Audit of Compliance (Continued)

The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about Mid-Columbia Children's Council's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding Mid-Columbia Children's Council's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of Mid-Columbia Children's Council's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances 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 Mid-Columbia Children's Council's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as items 2022-002 and 2022-003. Our opinion on each major federal program is not modified with respect to these matters.

Government Auditing Standards requires the auditor to perform limited procedures on Mid-Columbia Children's Council's response to the noncompliance findings identified in our audit described in the accompanying schedule of findings and questioned costs. Mid-Columbia Children's Council's response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control over Compliance

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance and therefore, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, as discussed below, we did identify certain deficiencies in internal control over compliance that we consider to be significant deficiencies.

To the Board of Directors
Mid-Columbia Children's Council

Report on Internal Control over Compliance (Continued)

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 a 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. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as item number 2022-002 and 2022-003 to be significant deficiencies.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

Government Auditing Standards requires the auditor to perform limited procedures on Mid-Columbia Children's Council's response to the internal control over compliance findings identified in our compliance audit described in the accompanying schedule of findings and questioned costs. Mid-Columbia Children's Council's response was not subject to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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



Portland, Oregon
March 4, 2024

MID-COLUMBIA CHILDREN'S COUNCIL
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended November 30, 2022

<u>Federal Grantor/Pass Through Grantor/ Program Title</u>	<u>Federal AL No.</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Total Program Expenditures</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES:			
Head Start and Early Head Start:			
Direct Award - Head Start and Early Head Start Cluster	93.600		\$ <u>5,726,049</u>
Total U.S. Department of Health and Human Services			<u>5,726,049</u>
U.S. DEPARTMENT OF AGRICULTURE:			
<i>Passed through Oregon Department of Education:</i>			
Child and Adult Care Food Program	10.558	1413001	113,691
<i>Passed through Office of Superintendent of Public Instruction:</i>			
Child and Adult Care Food Program	10.558	160008	<u>95,015</u>
Total U.S. Department of Agriculture, AL No. 10.558			<u>208,706</u>
Total federal expenditures, all programs			\$ <u><u>5,934,755</u></u>

See Notes to the Schedule of Expenditures of Federal Awards

MID-COLUMBIA CHILDREN'S COUNCIL

NOTES TO SCHEDULE OF EXPENDITURES AND FEDERAL AWARDS

Year Ended November 30, 2022

NOTE 1 – BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Mid-Columbia Children's Council and is presented on the accrual basis of accounting, consistent with generally accepted accounting principles. The information in this schedule is presented in accordance with requirements of the Title 2 CFR Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

NOTE 2 – MATCHING REQUIREMENT

The Organization accounts for the non-federal share requirements by the Department of Health and Human Services through inclusion of in-kind contributions and cash donations received. While some of these contributions are not considered to be in accordance with generally accepted accounting principles (GAAP), management asserts they have been allowable by the granting agency.

NOTE 3 – MAJOR AND NONMAJOR FEDERAL FINANCIAL ASSISTANCE PROGRAMS

Federal financial assistance programs with identical assistance (AL) numbers are combined in determining whether the programs are major or nonmajor. Type A federal assistance programs are those with combined expenditures of \$750,000 or more during a fiscal year. Type B federal financial assistance programs are those with combined expenditures of less than \$750,000 during a fiscal year.

NOTE 4 – INDIRECT COST RATE

The Organization has not used the 10% de minimis indirect cost rate under the Uniform Guidance.

MID-COLUMBIA CHILDREN'S COUNCIL
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended November 30, 2022

Section 1 – Summary of Auditors' Results

Financial Statements

1. Type of auditors' report issued – **Unmodified**
2. Significant deficiencies in internal control over financial reporting identified – **None reported**
3. Material weaknesses in internal control over financial reporting identified – **Yes**
4. Noncompliance that is material to the financial statements noted – **Yes**

Federal Awards

5. Significant deficiencies in internal control over major programs – **Yes**
6. Material weaknesses in internal control over major programs – **None**
7. The type of auditors' report issued on compliance for major programs – **Unmodified**
8. Audit findings disclosed that are required to be reported in accordance with 2 CFR Part 200.516(a) – **Yes**

Identification of Major Programs

➤ **Head Start Cluster – AL 93.600**

9. Dollar threshold used to distinguish between Type A and Type B programs – **\$750,000**
10. The auditee qualified as a low-risk auditee under the Uniform Guidance – **Yes**

Section 2 – Financial Statement Findings

11. Findings related to the financial statements reported in accordance with *Government Auditing Standards*

2022-001 Finding – Over Preparation of Financial Statements

Statement of Condition: Material Noncompliance and Weakness Over Preparation of Financial Statements.

Criteria: We identified a control deficiency related to the Organization's internal controls over the timely preparation of its financial statements, in accordance with generally accepted accounting principles (GAAP).

MID-COLUMBIA CHILDREN'S COUNCIL

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

Year Ended November 30, 2022

Section 2 – Financial Statement Findings (Continued)

2022-001 Finding – Over Preparation of Financial Statements (Continued)

Context and Cause: The Organization did not have procedures in place to ensure that audited financial statement filings required were completed and filed before their specified due dates. Management did not meet the Single Audit year-end reporting due dates required by funders and regulations. The filings were not performed, in part, due to turnover causing insufficient internal capacity in the fiscal department and in other critical departments, and lack of procedures and controls in place to ensure timely filing. The lack of internal capacity resulted in insufficient communication, and a loss of key control activities such as a 2nd person reviewing and approving journal entries and bank reconciliations for a significant part of the year. This resulted in delays while another individual reconciled the bank account and analyzed and corrected many journal entries after year end.

Overall, these issues caused significant delays and inefficiencies in the audit process while the accounting staff researched and reconciled the accounts and made correcting adjustments. As management was working through this process, there were iterations of the trial balance, and we received the final trial balance at the end of August, 2023. In this final trial balance, there was a large under accrual of payroll payable that required an adjustment.

Effect of Condition: The year-end audited financial statements were not timely completed and filed by the regulatory due dates and the Organization needed an additional audit adjustment relating to accrued payroll.

Questioned Costs: None

Recommendation: *The Organization should review the requirements and implement contingency plans to ensure that year-end reporting requirements are met. The Organization should increase internal capacity to enable a timely monthly closing process, and the Organization's management should review the monthly and annual reconciliations and journal entries for accuracy and completeness. This will allow the Organization to provide accurate information for audit purposes.*

Prioritizing accurate and timely financial reporting and budgeting is of critical importance to the Organization, and is dependent upon all personnel having sufficient expertise in place to understand and fulfill communication requirements with each other.

View of responsible officials: We concur with the finding and are implementing corrective action.

Section 3 – Federal Award Findings and Questioned Costs

Finding 2022-002

Federal Agency: U.S. Department of Human Services
Federal Program: Head Start Cluster
CFDA Number: 93.600

Type of Finding: Noncompliance and Significant Deficiency in Internal Control over Compliance - Allowable Costs.

MID-COLUMBIA CHILDREN'S COUNCIL

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

Year Ended November 30, 2022

Section 3 – Federal Award Findings and Questioned Costs (Continued)

Criteria: Costs attributable to common or joint use of facilities or services by Head Start programs and other programs must be fairly allocated among the various programs that utilize such services (42 USC 9839(c)).

Condition: Expenditures were not properly charged to programs or allocated in accordance with the cost allocation plan. We identified 8 of the 43 expenditures tested in our statistically valid sample did not agree with the cost allocation plan. Repeat of finding 2021-001.

Context: Expenditures should be charged to the proper programs and allocated in accordance with the cost allocation plan.

Known Questioned Costs: \$6,357 – resulted in likely questioned costs greater than \$25,000.

Cause: Turnover of accounting personnel and lack of documentation and understanding of the allocation process with the Organization resulted in costs being incorrectly allocated between programs.

Effect: Grant expenses were charged to the incorrect programs.

Recommendation: We recommend management implement procedures to ensure that costs charged to the grant follow the approved cost allocation plan.

Views of responsible official: Management concurs with the audit findings.

Finding 2022-003

Type of Finding: Noncompliance and Significant Deficiency in Internal Control over Compliance - Reporting.

Criteria: The Organization is required to complete financial and other reports on specified dates according to the grant agreement with the funder.

Condition: The Organization did not file the required reports timely. Additionally, one of the reports in several instances did not agree to supporting documentation from the accounting system.

Context and Cause: The Organization experienced turnover in key personnel responsible for preparing and filing federal reports. The reports were eventually filed late, but supporting documentation from the accounting system was not maintained in a fixed format in a centralized location, and could not be recreated after the fact.

Questioned Costs: None.

Effect: Reporting compliance requirements were not performed adequately.

Recommendation: We recommend management implement procedures to ensure the Uniform Grant Guidance and the Compliance Supplement requirements for Reporting are performed on a timely basis, and fixed format backup documentation maintained in a centralized location.

Views of responsible official: Management concurs with the audit findings.