



TECHNOLOGY FOR RURAL ENHANCEMENT OF COMMUNITIES
FEDERAL EIN 46-0427818

FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT
DECEMBER 31, 2016 AND 2015



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TECHNOLOGY FOR RURAL ENHANCEMENT OF COMMUNITIES

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Technology for Rural Enhancement of Communities
Belle Fourche, South Dakota

Report on the Financial Statements

We have audited the accompanying financial statements of **TECHNOLOGY FOR RURAL ENHANCEMENT OF COMMUNITIES** (the Organization) which comprise the statements of financial position as of December 31, 2016 and 2015, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Organization as of December 31, 2016 and 2015, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of expenditures of federal awards on page 12 is presented for purposes of additional analysis 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*, 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 _____, 2017 on our consideration of the Organization'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 Organization's internal control over financial reporting and compliance.

KETEL THORSTENSON, LLP
Certified Public Accountants

_____, 2017

TECHNOLOGY FOR RURAL ENHANCEMENT OF COMMUNITIES

STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
<u>ASSETS</u>		
Current Assets		
Cash (Note 2)	\$ 30,673	\$ 5,218
Grants Receivable	41,910	39,035
Prepaid Insurance	74,966	72,596
Other	3,223	3,756
Total Current Assets	150,772	120,605
Property and Equipment		
Land and Buildings (Note 2)	820,777	786,628
Office Furniture and Equipment	492,067	465,277
Vehicles	567,704	582,051
	1,880,548	1,833,956
Less Accumulated Depreciation	1,219,023	1,180,224
	661,525	653,732
Other Asset		
Investment in Cooperatives	62,545	56,655
TOTAL ASSETS	\$ 874,842	\$ 830,992
<u>LIABILITIES AND NET ASSETS</u>		
Current Liabilities		
Notes Payable - Current Portion (Note 2)	\$ 14,097	\$ 8,991
Accounts Payable and Accrued Interest	19,486	20,908
Accrued Payroll	16,979	13,153
Accrued Payroll Taxes and Benefits	6,851	5,335
Accrued Leave	30,820	29,987
Total Current Liabilities	88,233	78,374
Long-Term Debt		
Notes Payable - Net of Current Portion Shown Above (Note 2)	162,312	179,176
Commitments (Notes 3 and 4)		
Unrestricted Net Assets	624,297	573,442
TOTAL LIABILITIES AND NET ASSETS	\$ 874,842	\$ 830,992

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

TECHNOLOGY FOR RURAL ENHANCEMENT OF COMMUNITIES

**STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015**

	<u>2016</u>	<u>2015</u>
Support and Revenues		
Government Grants (Note 5)	\$ 1,732,893	\$ 1,618,007
Miscellaneous	6,347	25,896
Interest	6,885	5,084
Total Support and Revenues	1,746,125	1,648,987
Expenses		
<i>Program Services:</i>		
Head Start/Early Head Start	1,444,227	1,385,663
<i>Supporting Services:</i>		
Management and General	251,043	242,840
Total Expenses	1,695,270	1,628,503
Change in Unrestricted Net Assets	50,855	20,484
Unrestricted Net Assets -- Beginning of Year	573,442	552,958
Unrestricted Net Assets -- End of Year	\$ 624,297	\$ 573,442

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

TECHNOLOGY FOR RURAL ENHANCEMENT OF COMMUNITIES

**STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2016**

	Program Services Head Start/ Early Head Start	Management and General	Total Expenses
Salaries and Wages	\$ 728,865	\$ 136,477	\$ 865,342
Employee Benefits (Note 3)	123,387	27,273	150,660
Children/Family Food and Supplies	101,863	-	101,863
Depreciation	82,659	1,687	84,346
Payroll Taxes	67,127	10,396	77,523
Insurance	59,484	3,332	62,816
Professional Fees	7,482	49,787	57,269
Repairs and Maintenance	49,820	7,119	56,939
Telephone and Utilities	41,711	4,318	46,029
Training	43,273	-	43,273
Rent (Note 4)	26,100	-	26,100
Office Supplies	19,246	4,999	24,245
Copier, Postage and Advertising	21,732	519	22,251
Youth Development	21,610	-	21,610
Miscellaneous	18,636	-	18,636
Vehicle Operating Expense	14,192	-	14,192
Travel	8,150	2,993	11,143
Interest	5,524	2,143	7,667
Parent Activities	3,366	-	3,366
	\$ 1,444,227	\$ 251,043	\$ 1,695,270

The accompanying notes are an integral part of this financial statement.

TECHNOLOGY FOR RURAL ENHANCEMENT OF COMMUNITIES

**STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2015**

	Program Services Head Start/ Early Head Start	Management and General	Total Expenses
Salaries and Wages	\$ 727,471	\$ 134,804	\$ 862,275
Employee Benefits (Note 3)	129,947	28,122	158,069
Children/Family Food and Supplies	110,774	-	110,774
Depreciation	75,978	1,759	77,737
Payroll Taxes	74,251	10,434	84,685
Insurance	53,516	3,611	57,127
Professional Fees	9,333	48,035	57,368
Repairs and Maintenance	16,532	481	17,013
Telephone and Utilities	37,875	4,277	42,152
Training	24,304	-	24,304
Rent (Note 4)	27,533	-	27,533
Office Supplies	19,823	2,907	22,730
Copier, Postage and Advertising	11,518	3,792	15,310
Youth Development	15,325	-	15,325
Miscellaneous	15,234	-	15,234
Vehicle Operating Expense	12,643	-	12,643
Travel	14,534	2,671	17,205
Interest	6,240	1,947	8,187
Parent Activities	2,832	-	2,832
	<u>\$ 1,385,663</u>	<u>\$ 242,840</u>	<u>\$ 1,628,503</u>

The accompanying notes are an integral part of this financial statement.

TECHNOLOGY FOR RURAL ENHANCEMENT OF COMMUNITIES

**STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015**

	2016	2015
Cash Flows from Operating Activities		
Change in Net Assets	\$ 50,855	\$ 20,484
<i>Adjustment to Reconcile Change in Net Assets to Net Cash Flows Provided by Operating Activities</i>		
Depreciation	84,346	77,737
Earnings on Investment in Cooperatives	(5,890)	(2,737)
<i>Working Capital Changes Increasing (Decreasing) Cash:</i>		
Grants Receivable	(2,875)	(14,889)
Prepaid Insurance	(2,370)	6,616
Other Assets	533	(1,194)
Accounts Payable and Accrued Interest	(1,422)	(3,673)
Accrued Liabilities	6,175	(23,979)
Net Cash Flows Provided by Operating Activities	129,352	58,365
Cash Flows from Investing Activities		
Purchases of Property and Equipment	(92,139)	(94,233)
Net Cash Flows Used in Investing Activities	(92,139)	(94,233)
Cash Flows from Financing Activities		
Principal Repayments of Notes Payable	(11,758)	(11,979)
Net Cash Flows Used in Financing Activities	(11,758)	(11,979)
Net Increase (Decrease) in Cash	25,455	(47,847)
Cash -- Beginning of Year	5,218	53,065
Cash -- End of Year	\$ 30,673	\$ 5,218
Supplemental Disclosures of Cash Flow Information		
Cash Paid During the Year for Interest	\$ 7,929	\$ 7,704

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

TECHNOLOGY FOR RURAL ENHANCEMENT OF COMMUNITIES

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2016 AND 2015

(1) Summary of Significant Accounting Policies

Nature of Activities

Technology for Rural Enhancement of Communities (the Organization) is a not-for-profit corporation organized under the laws of South Dakota for the purpose of improving, through technology, the quality of life of rural families in all areas including, but not limited to: agriculture, art, business development, communications, economic, education from birth to adult, entertainment, entrepreneurship, governance, health, housing, justice, mental health, recreation, self-sufficiency, social, substance abuse, welfare, and other areas. The Organization's main program is the operation of a Head Start Program in Western South Dakota. Virtually all revenue of the Organization is received under federal grant awards to operate this program. A significant reduction in the level of this support, if it were to occur, may have a significant effect on the Organization's programs and activities.

Use of 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 amounts and disclosures reported in the financial statements. Actual results could differ from those estimates.

Method of Accounting

The Organization uses the accrual basis of accounting to prepare its financial statements.

Financial Statement Presentation

The Organization is required 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. There are no temporarily or permanently restricted net assets at December 31, 2016 or 2015.

Property and Equipment

Expenditures for the acquisition of property and equipment over \$1,000 are capitalized at cost. Donated property and equipment are reported at fair market value at the date of the donation. Depreciation is provided over the estimated useful lives of the assets using the straight line method. Estimated useful lives on property and equipment are as follows:

	<u>Years</u>
Buildings	39
Office Furniture and Equipment	5-12
Vehicles	5

The title to equipment acquired partly or wholly with grant funds shall remain with the Organization while the assets are used for the authorized purposes. However, for those assets having a unit acquisition cost of \$5,000 or more, the federal government has the right to retain title and to determine the use of any proceeds from the sale of these assets. In addition, the federal government also retains an interest in supplies, if their aggregate value equals or exceeds \$5,000. Substantially all the Organization's equipment is acquired partly or wholly with grant funds.

Investment in Cooperatives

Investments in cooperatives are valued at cost less any impairment in the value that is not temporary in nature. The cooperative's patronage savings or losses vary from year to year, and interim operating results are not available. Accordingly, patronage allocations of savings or losses for which notification has not been received cannot be reasonably determined. Patronage allocations are included in miscellaneous income in the accompanying statements of activities for the years ended December 31, 2016 and 2015.

TECHNOLOGY FOR RURAL ENHANCEMENT OF COMMUNITIES

NOTES TO FINANCIAL STATEMENTS (CONTINUED) DECEMBER 31, 2016 AND 2015

(1) Summary of Significant Accounting Policies (Continued)

Revenue Recognition

Grant revenue is recognized as expenses are incurred, in accordance with the terms of the grant agreement. Funds received in advance of expenditures are included in deferred revenue, while expenses incurred prior to receipt of grant funds are included in grants receivable.

Donated Services

Donated services are recognized at fair market value on the date of receipt if the services received (a) create or enhance long-lived assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not donated (Note 5).

Functional Allocation of Expenses

The Organization allocates costs and expenses between program and supporting services by primarily using the specific identification method, as well as management's estimate of the services benefiting from the expense.

Federal Income Tax

The Organization qualifies as an exempt organization under Section 501(c)(3) of the Internal Revenue Code and is not subject to federal income tax. In addition, the Organization has been determined by the Internal Revenue Service not to be a "private foundation" within the meaning of Section 509(a) of the Code. At December 31, 2016, the Organization believes no significant uncertain tax positions or liabilities exist.

Subsequent Events

The Organization has evaluated subsequent events through _____, 2017, the date which the financial statements were available for issue.

Emerging Accounting Standards

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which removes inconsistencies and weaknesses in revenue requirements, provides a more robust framework for addressing revenue issues, improves comparability of revenue recognition practices across entities, provides more useful information to users of financial statements through improved disclosure requirements, and simplifies the preparation of financial statements by reducing the number of requirements to which an entity must refer. The ASU outlines five steps to achieve proper revenue recognition: identify the contract with the customer, identify the performance obligations in the contract, determine the transaction price, allocate the transaction price to the performance obligations in the contract, and recognize revenue when (or as) the entity satisfies the performance obligation. This standard is effective for annual reporting periods beginning after December 15, 2018. The Organization will be evaluating the impact implementation will have on the financial statements.

TECHNOLOGY FOR RURAL ENHANCEMENT OF COMMUNITIES

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2016 AND 2015**

(1) Summary of Significant Accounting Policies (Concluded)

Emerging Accounting Standards (Continued)

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)* which supersedes FASB ASC Topic 840, *Leases* and provides principles for the recognition, measurement, presentation and disclosure of leases for both lessees and lessors. The new standard requires lessees to apply a dual approach, classifying leases as either finance or operating leases based on the principle of whether or not the lease is effectively a financed purchase by the lessee. This classification will determine whether lease expense is recognized based on an effective interest method or on a straight-line basis over the term of the lease, respectively. A lessee is also required to record a right-of-use asset and a lease liability for all leases with a term of greater than twelve months regardless of classification. If the available accounting election is made, leases with a term of twelve months or less can be accounted for similar to existing guidance for operating leases. The standard is effective for fiscal years beginning after December 15, 2019, with early adoption permitted. The Organization is currently evaluating the impact this standard will have on the financial statements.

In August 2016, the FASB issued ASU 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*, which is intended to provide more useful information to financial statement users. Changes include: 1) presenting only two classes of net assets (with and without donor restrictions), 2) no longer requiring a reconciliation with the indirect method when choosing to utilize the direct method of cash flows, 3) reporting investment return net of expenses with no additional disclosure of expense amounts, and 4) eliminating the option to release donor-imposed restrictions of long-lived assets over the estimated useful life of the asset acquired. In addition, enhanced disclosures are required for board designated and donor restricted net assets, the entity's liquidity and how that liquidity is managed, expenses by both natural and functional classification, the allocation methods among program and support functions, and underwater endowment funds (which will now be classified as net assets with donor restrictions). The standard is effective for fiscal years beginning after December 15, 2017. The Organization is currently evaluating the impact this standard will have on the financial statements.

(2) Notes Payable

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

	<u>2016</u>	<u>2015</u>
Note payable to USDA-Rural Development due in annual installments of \$9,522, including interest at 4.125 percent, through July 2047, secured by real estate purchased.	\$ 153,940	\$ 156,766
Note payable to bank due in monthly installments of \$846, including interest at 4.5 percent, through September 2019, secured by real estate.	<u>22,469</u>	<u>31,401</u>
	176,409	188,167
Less Current Portion	<u>14,097</u>	<u>8,991</u>
	\$ 162,312	\$ 179,176

Future annual principal maturities of long-term debt for the years ending December 31 are as follows:

2017	\$ 14,097
2018	13,027
2019	7,082
2020	3,652
2021	3,802
Thereafter	<u>134,749</u>
	\$ 176,409

TECHNOLOGY FOR RURAL ENHANCEMENT OF COMMUNITIES

**NOTES TO FINANCIAL STATEMENTS (CONCLUDED)
DECEMBER 31, 2016 AND 2015**

(2) Notes Payable (Continued)

The note payable to USDA-Rural Development requires the deposit of \$79.58 per month into a debt reserve account until the balance reaches \$9,522. The reserve of \$2,010 at December 31, 2016 and 2015 is included in cash in the accompanying Statements of Financial Position. At December 31, 2016, the Organization was not in compliance with this requirement; however USDA Rural Development has represented they do not intend to call the loan during 2017, as the Organization makes its annual mortgage payment one year in advance.

(3) Retirement Plan

The Organization sponsors a 401(k) plan for its employees and contributes six percent of wages for eligible employees. Funds are deposited into retirement accounts by the Organization on behalf of the employees. All funds contributed to the 401(k) plan are 100 percent vested when contributed. Total Organization contributions to the plan were **\$48,670** and \$46,621 for the years ended December 31, 2016 and 2015, respectively.

(4) Lease Obligations

The Organization leases facilities, office space, copiers and land under operating leases with various terms and conditions. Rental expense for these leases totaled **\$26,100** and \$27,533 for the years ended December 31, 2016 and 2015, respectively.

Future minimum lease payments on non-cancelable operating leases are as follows for the years ending December 31:

2017	\$	21,290
2018		6,390
2019		5,167
2020		1,500
2021		1,000

(5) In-Kind Services

The Organization received **\$443,235** and \$470,028 of donated services in 2016 and 2015, respectively, which do not qualify under accounting standards to be recognized as revenue in the accompanying financial statements. They do, however, qualify as in-kind matching contributions under the terms of the grant programs.

SUPPLEMENTARY INFORMATION

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TECHNOLOGY FOR RURAL ENHANCEMENT OF COMMUNITIES

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2016**

<u>FEDERAL GRANTOR/PASS-THROUGH GRANTOR/PROGRAM OR CLUSTER TITLE</u>	<u>FEDERAL CFDA NUMBER</u>	<u>PASS- THROUGH ENTITY OR/ IDENTIFYING NUMBER</u>	<u>FEDERAL EXPENDITURES</u>
<u>Direct Federal Support</u>			
U.S. Department of Health & Human Services:			
Head Start/Early Head Start	93.600	08CH0109/22	\$ 1,106,836
Head Start/Early Head Start	93.600	08CH01215/01	594,307
Total U.S. Department of Health & Human Services			1,701,143
<u>Pass-Through Support</u>			
U.S. Department of Agriculture:			
Passed Through the State of South Dakota National School Lunch Program (Note 3)	10.555	SD Department of Education	31,750
Total U.S. Department of Agriculture			31,750
TOTAL FEDERAL EXPENDITURES			\$ 1,732,893

Note 1. The accompanying schedule of expenditures of federal awards includes the federal grant activity of Technology for Rural Enhancement of Communities and is presented on the accrual basis. The information in this schedule is presented in accordance with the requirements of the Uniform Guidance.

Note 2. The Organization has elected not to use the 10 percent de minimis indirect cost rate as allowed under the Uniform Guidance.

Note 3. This amount reflects cash received. Federal reimbursements are based on approved rates for service provided rather than reimbursement for specific expenditures.

OTHER REPORTS

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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
Technology for Rural Enhancement of Communities
Belle Fourche, 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 **TECHNOLOGY FOR RURAL ENHANCEMENT OF COMMUNITIES** (the Organization), which comprise the statement of financial position as of December 31, 2016, 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 _____, 2017.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Organization'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 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 Organization'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 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 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 the Organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

KETEL THORSTENSON, LLP
Certified Public Accountants

_____, 2017



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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
Technology for Rural Enhancement of Communities
Belle Fourche, South Dakota

Report on Compliance for the Major Federal Program

We have audited **TECHNOLOGY FOR RURAL ENHANCEMENT OF COMMUNITIES** (the Organization's) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the Organization's major federal program for the year ended December 31, 2016. The Organization's major federal program is identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the Organization's major federal program 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 Organization'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 the major federal program. However, our audit does not provide a legal determination of the Organization's compliance.

Opinion on the Major Federal Program

In our opinion, the Organization complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the major federal program for the year ended December 31, 2016.

Report on Internal Control Over Compliance

Management of the Organization 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 Organization's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the 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 Organization's internal control over compliance.

Board of Directors
Technology for Rural Enhancement of Communities

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.

Our consideration of the 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 the 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.

KETEL THORSTENSON, LLP
Certified Public Accountants

_____, 2017

TECHNOLOGY FOR RURAL ENHANCEMENT OF COMMUNITIES

**SCHEDULE OF FINDINGS
DECEMBER 31, 2016**

A. SUMMARY OF AUDIT RESULTS

1. The independent auditor's report expresses an unmodified opinion on the financial statements.
2. No material weaknesses were disclosed during the audit of the financial statements and none are reported in the 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*.
3. No instances of noncompliance material to the financial statements, were disclosed during the audit.
4. No material weaknesses relating to the audit of the major federal award program and none are reported in the Independent Auditor's Report on Compliance for Each Major Program and on Internal Control over Compliance Required by Uniform Guidance.
5. The Independent Auditor's Report on Compliance for the Major Federal Program expresses an unmodified opinion on all major programs, as listed in #7.
6. There were no audit findings relative to the major federal award program, which would be required to be reported in accordance with 2 CFR Section 200.516.
7. The program tested as a major program was the U.S. Department of Health and Human Services Head Start and Early Head Start Program (CFDA #93.600).
8. The threshold for distinguishing Type A and B programs was \$750,000.
9. The Organization was determined to be a low risk auditee.

B. FINDING -- FINANCIAL STATEMENT AUDIT

None

C. FINDINGS AND QUESTIONED COSTS -- MAJOR FEDERAL PROGRAM AUDIT

None

MANAGEMENT RESPONSE

DRAFT

TECHNOLOGY FOR RURAL ENHANCEMENT OF COMMUNITIES

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2016**

No prior audit findings were reported, so no additional schedule is required.

DRAFT

TECHNOLOGY FOR RURAL ENHANCEMENT OF COMMUNITIES

**CORRECTIVE ACTION PLAN
DECEMBER 31, 2016**

No current year audit findings were reported, so no corrective action plan is required to be submitted.

DRAFT