TELAMON CORPORATION AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS, SUPPLEMENTARY INFORMATION AND COMPLIANCE SECTION

As of and for the Year Ended September 30, 2015

And Report of Independent Auditor

DHHR - Finance

MAR 17 2016

Date Received

Telamon Corporation

Empowering Individuals, Improving Communities

Corporate Office:
5560 Munford Road, Suite 201
Raleigh, North Carolina 27612-2731
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Suzanne Orozco
Executive Director

March 7, 2016

WV DHHR Office of Internal
Control and Policy Development
Division of Compliance and Monitoring
One Davis Square, Suite 401
Charleston, WV 25301

Dear Sir or Madam,

Please find enclosed one copy of Telamon Corporation's annual audit for the fiscal year ending September 30, 2015. The audit was performed in accordance with Office of Management and Budget Circular A-133.

Should you need any additional information please contact me at the above address and/or telephone number.

Sincerely,

Kevin D. Bartholomew, CPA
Director of Finance

Enclosure

TELAMON CORPORATION AND SUBSIDIARIES
TABLE OF CONTENTS

Cherry Bekaert LLP
CPAs & Advisors

Report of Independent Auditor

Board of Directors
Telamon Corporation and Subsidiaries
Raleigh, North Carolina

Report on the Financial Statements

We have audited the consolidated financial statements of Telamon Corporation and subsidiaries ("the Organization") which comprise the consolidated statement of financial position as of September 30, 2015, and the related consolidated statements of activities and changes in net assets, cash flows and functional expenses for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 the consolidated 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 consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Organization's preparation and fair presentation of the consolidated 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 Organization'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 consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Organization as of September 30, 2015, 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.

Emphasis of Matter

We draw attention to Note 16 to the consolidated financial statements, in regards to the Organization's restatement due the reclassification of previous reported liabilities to net assets. As a result unrestricted net assets as of September 30, 2014 have been restated for the correction of this misstatement. Our opinion is not modified with respect to this matter.

We draw attention to Note 16 of the consolidated financial statements, in regards to the Organization adopting an alternative accounting principle for the accounting treatment and reporting of property and equipment that they purchased with Federal funds. As a result, temporarily and unrestricted net assets as of September 30, 2014 has been restated. Our opinion is not modified with respect to this matter.

Supplementary and Other Information

Our audit was conducted for the purpose of forming our opinions on the consolidated financial statements that collectively comprise the Organization's basic financial statements. The supplementary information and the Schedule of Expenditures of Federal Awards, as required by U.S. Office of Management and Budget Circular A-133, *Audits of State and Local Governments and Non-Profit Organizations* are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. This information is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the consolidated financial statements. Such information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion this information is fairly stated, in all material respects, in relation to the consolidated 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 February 9, 2016, on our consideration of the Organization's internal control over financial reporting and on our test of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control over financial reporting and compliance.

Cherry Bekaert LLP

Raleigh, North Carolina
February 9, 2016

DHHR - Finance

MAR 17 2016

Date Received

TELAMON CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF FINANCIAL POSITION

SEPTEMBER 30, 2015

	Unrestricted	Temporarily Restricted	Total 2015
ASSETS			
Current Assets:			
Cash and cash equivalents	$ 3,761,143	$ -	$ 3,761,143
Investments	1,556,883	-	1,556,883
Receivables:			
Due from federal government	5,748,136	-	5,748,136
Other receivables	325,330	-	325,330
Notes receivable, current	5,632		5,632
Prepaid expenses	635,958	-	635,958
Land available for sale	779,560	-	779,560
Total Current Assets	12,812,642	-	12,812,642
Property and equipment, net	4,086,070	12,158,740	16,244,810
Other Assets:			
Security deposit	182,887	-	182,887
Notes receivable, non-current	256,874	-	256,874
Investment in captive insurance companies	71,000	-	71,000
Total Other Assets	510,761	-	510,761
Total Assets	$ 17,409,473	$ 12,158,740	$ 29,568,213
LIABILITIES AND NET ASSETS			
Current Liabilities:			
Accounts payable, trade	$ 1,775,516	$ -	$ 1,775,516
Deferred revenue	271,605	-	271,605
Captive insurance arrangement obligation, current portion	1,221,471	-	1,221,471
Accrued salaries, benefits, and other	5,348,560	-	5,348,560
Notes payable, current portion	63,531	118,725	182,256
Total Current Liabilities	8,680,683	118,725	8,799,408
Noncurrent Liabilities:			
Captive insurance arrangement obligation, non-current	1,212,588	-	1,212,588
Notes payable, non-current	-	552,069	552,069
Total Noncurrent Liabilities	1,212,588	552,069	1,764,657
Total Liabilities	9,893,271	670,794	10,564,065
Net Assets:			
Net assets - unrestricted	7,516,202	-	7,516,202
Net assets - temporary restricted	-	11,487,946	11,487,946
Total Net Assets	7,516,202	11,487,946	19,004,148
Total Liabilities and Net Assets	$ 17,409,473	$ 12,158,740	$ 29,568,213

TELAMON CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

YEAR ENDED SEPTEMBER 30, 2015

	Unrestricted	Temporarily Restricted	Total 2015
Support and Revenue:			
Support:			
Grant receipts	$ 68,110,614	$ 401,816	$ 68,512,430
Donated funds	68,166	-	68,166
Miscellaneous program income	997,298	-	997,298
Total Support	69,176,078	401,816	69,577,894
Revenue:			
Interest and dividend income	16,966	-	16,966
Net realized and unrealized gain	28,559	-	28,559
Other sale proceeds	518,883	-	518,883
Total Revenue	564,408	-	564,408
Total Support and Revenue	69,740,486	401,816	70,142,302
Expenses:			
Programs services:			
Federal grants	65,375,460	1,118,218	66,493,678
Non-Federal grants	3,720,645	-	3,720,645
Total Program Services	69,096,105	1,118,218	70,214,323
Total Expenses	69,096,105	1,118,218	70,214,323
Change in net assets	644,381	(716,402)	(72,021)
Net assets, September 30, 2014, as previously reported	5,269,651	-	5,269,651
Prior period adjustment (see Note 16)	1,090,708	-	1,090,708
Change in accounting principle (see Note 16)	511,462	12,204,348	12,715,810
Net assets, September 30, 2014 restated	6,871,821	12,204,348	19,076,169
Net assets, September 30, 2015	$ 7,516,202	$ 11,487,946	$ 19,004,148

The accompanying notes to the consolidated financial statements are an integral part of this statement.

TELAMON CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS

YEAR ENDED SEPTEMBER 30, 2015

Cash flows from operating activities:		
Change in net assets	$	(72,021)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation		1,359,914
Realized and unrealized gain on investments		(28,559)
Loss on sale of land available for sale		247,355
Loss on sale of fixed assets		
Changes in operating assets and liabilities:		
Accounts receivable		(33,026)
Prepaid expenses		12,854
Note receivable		(262,506)
Cash surrender value of life insurance		206,931
Accounts payable		315,360
Accrued liabilities		84,591
Net cash from operating activities		1,830,893
Cash flows from investing activities:		
Proceeds from sale of investments		308,316
Proceeds from the sale of land available for sale		509,761
Purchase of property and equipment		(177,463)
Purchase of investments		(153,534)
Purchase and development of land		(118,965)
Net cash from investing activities		368,115
Cash flows from financing activities:		
Repayment of note payable		(324,843)
Borrowings on note payable		17,494
Net cash from financing activities		(307,349)
Net increase in cash and cash equivalents		1,891,659
Cash and cash equivalents, beginning of year		1,869,484
Cash and cash equivalents, end of year	$	3,761,143
Supplemental disclosure of cash payments for:		
Interest	$	33,899
Supplemental disclosure of non-cash transactions for:		
In-kind	$	8,413,008

TELAMON CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED SEPTEMBER 30, 2015

	Program Services		
	Federal Grants	Non-federal Grants	Total Program Services
Salaries	$ 27,081,291	$ 1,086,569	$ 28,167,860
Fringe benefits	13,403,802	505,944	13,909,746
Employee recruitment and development	247,630	5,268	252,898
Staff travel	1,748,103	51,378	1,799,481
Staff training cost	939,469	8,334	947,803
Space cost/rent	1,894,084	142,927	2,037,011
Consumable/durable supplies	3,042,474	205,083	3,247,557
Copy and printing cost	138,550	4,703	143,253
Communication cost	1,014,129	30,387	1,044,516
Utilities cost	851,421	43,482	894,903
Subscription/publication/membership	297,991	6,508	304,499
Maintenance building and grounds	2,341,996	56,920	2,398,916
Equipment maintenance and repair	441,781	11,596	453,377
Attorney/consultant/programmers	291,682	4,091	295,773
Boards and council meeting cost	57,034	15,108	72,142
Insurance - property/liability/bonding	478,263	27,750	506,013
Licenses and taxes	235,417	25,414	260,831
Indirect administration	4,494,279	171,680	4,665,959
Classroom training cost	623,850	2,267	626,117
On the job training cost	34,927	-	34,927
Work experience wages	563,964	1,798	565,762
Participant services	1,312,296	46,006	1,358,302
Vehicle operating cost	822,441	2,900	825,341
Housing program cost	247,176	277,471	524,647
Contractor payments	1,375,113	80,327	1,455,440
Expense Title XX Funds	-	22,838	22,838
Food cost	1,582,987	8,738	1,591,725
Parent cost	99,005	3,505	102,510
Advertising	30,108	(300)	29,808
Other expenses	86,049	871,953	958,002
	65,777,312	3,720,645	69,497,957
Capitalized costs	(289,216)	-	(289,216)
Depreciation	1,122,787	-	1,122,787
Loan principal	(117,205)	-	(117,205)
Total Functional Expenses	$ 66,493,678	$ 3,720,645	$ 70,214,323

Note 1—Nature of activities

Telamon Corporation ("the Organization") engages in activities in two main operational areas. The first area is providing supportive services, including childcare, employment, housing, education and community development services, to seasonal and migrant farm workers and other economically disadvantaged individuals and families. The second area involves operating "Head Start" facilities which provide early educational opportunities to disadvantaged pre-kindergarten aged children.

The Organization operates as a not-for-profit organization with its corporate office located in Raleigh, North Carolina. The Organization's operations are funded primarily through federal and state grants.

Note 2—Summary of significant accounting policies

Basis of Accounting – The accompanying consolidated financial statements have been prepared on the accrual basis of accounting whereby revenues are recognized when earned and expenditures are recognized when incurred. This basis of accounting conforms to accounting principles generally accepted in the United States of America.

Principals of Consolidation – The consolidated financial statements present the financial position of Telamon Corporation and its wholly owned subsidiaries, Telamon Insurance Ltd. and Telamon Property LLC. All significant inter-organization balances and transactions are eliminated.

Basis of Presentation – The Organization reports 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.

Unrestricted net assets – Net assets that are not subject to stipulations imposed by a third party.

Temporarily restricted net assets – Net assets subject to stipulations imposed by a third party that may or will be met, either by actions of the Organization and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities and changes in nets assets as net assets released from restrictions.

Permanently restricted net assets – Net assets subject to stipulations imposed by a third party that they be maintained permanently by the Organization. Generally, the donors of these assets permit the Organization to use all or part of the income earned on any related investments for general or specific purposes.

Contributions – Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence or nature of any donor restrictions.

Cash and Cash Equivalents – The Organization places its cash and cash equivalents on deposit with financial institutions in the United States. The Federal Deposit Insurance Corporation (FDIC) covers $250,000 for substantially all depository accounts.

Note 2—Summary of significant accounting policies (continued)

The Organization is involved in arrangements with two captive insurance holding companies, Generations Group, Ltd. and Milestone Insurance Company, Ltd. to provide workers' compensation insurance coverage for the Organization's employees. Under terms of the arrangements, the Organization is required to obtain letters of credit as a precaution against additional claims. These letters of credit are considered restrictions upon the Organization's cash and cash equivalents. As of September 30, 2015, the letters of credit accounted for $933,853 of restricted cash and cash equivalents.

Investments – Investments in available-for-sale securities with readily determinable fair values are reported at their fair values in the consolidated statement of financial position. The Organization classifies those debt securities it intends to hold to maturity, and has the ability to do so, as held-to-maturity securities. Income and realized gains and losses on investments are reported as investment return included in operating revenues.

Unbilled Accounts Receivable/Deferred Revenue – The Organization administers grants funded from federal and non-federal sources. Under the provisions of the grants, the Organization receives funds for all allowable expenditures. Upon the closeout of a contract, final settlement is made to return any unexpended funds to the grantor or to obtain funds to meet outstanding obligations. The Organization reports the amount of expenditures in excess of actual grant receipts as "unbilled accounts receivable" and the amount of actual grant receipts in excess of expenditures as "deferred revenue." The amount of unbilled receivables as of September 30, 2015 is $244,633. Management believes the "unbilled accounts receivable" at September 30, 2015 are fully collectible, therefore, no allowance for doubtful accounts has been recognized.

Allowance for Doubtful Accounts – The Organization has elected to record bad debts using the direct write-off method. Accounting principles generally accepted in the United States of America require the allowance method be used to recognize bad debts; however, the effect of using the direct write-off method is not materially different from the results that would have been obtained under the allowance method.

Land Available for Sale – The Organization is involved in housing and urban development projects that require the Organization to purchase properties and sell those to qualified home buyers. Additionally, during 2010 the Organization received land in the form of a donation. As of September 30, 2015, the Organization held land available for sale totaling $779,560.

Property and Equipment – Significant policies related to fixed assets are as follows:

General Fixed Assets - Property and equipment are recorded at cost or, if donated, at the approximate fair value at the date of donation. Property and equipment are capitalized on the books if each individual item is $5,000 or more in value. Expenditures for maintenance and repairs, which do not exceed the lives of the applicable assets, are charged to expense as incurred.

Federal Agency Fixed Assets (Restricted Assets) – The Organization was given custodial assignment of property and equipment from federal government contracts and grants which was recorded as separate federal agency fixed assets as temporarily restricted net assets. The government equipment (assigned to the Organization) was recorded at the cost less a provision for depreciation, which approximates the net salvageable value. Under this authority the Organization used the federal furniture and equipment in performing its grant contracts.

Note 2—Summary of significant accounting policies (continued)

Depreciation is computed using the straight-line method over the estimated useful lives of the respective assets. The following are the estimated useful lives of the respective assets:

Description	Estimated Useful Lives
Equipment	3 - 5 Years
Leasehold improvements	7 - 30 Years
Buildings	39 Years

Self-Insured Health Plan Supplemented by Stop-Loss Insurance – The Organization has a self-insured health plan for all its employees. The Organization has purchased stop-loss insurance in order to limit its exposure, which will reimburse the Organization for individual claims in excess of $185,000. Self-insurance losses are accrued based on the Organization's estimates of the aggregate liability for uninsured claims incurred using certain actuarial assumptions followed in the insurance industry.

Recognition of Revenues/Expenditures – As required by and determined on a grant by grant basis, the Organization recognizes revenues resulting from grant contracts (i) in accordance with grant accounting on a pro-rata basis over the service period or (ii) to the extent of expenses incurred on a cost-reimbursement basis. Expenditures are recognized when the goods and services are received.

Advertising – Advertising costs are expensed the first time the advertising takes place. Allowable advertising expenses were $29,808 in 2015.

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

Income Tax Status – The Organization is exempt from federal income taxes under Internal Revenue Code Section 501(c)(3) of the U.S. Internal Revenue Code and the applicable state tax statutes. In addition, the Organization qualifies for the charitable contributions deduction under Section 170(b)(1)(a) of the U.S. Internal Revenue Code. Management has evaluated the effect of the guidance provided by U.S. generally accepted accounting principles. Management believes that the Organization continues to satisfy the requirements of a tax-exempt organization at September 30, 2015. Management has evaluated all other tax positions that could have a significant effect on the consolidated financial statements and determined the Organization had no significant uncertain income tax positions at September 30, 2015.

Note 3—Concentrations

For the year ended September 30, 2015, approximately 92% of total program service expenditures were from federal sources including:

U.S. Department of Health and Human Services	71%
U.S. Department of Labor	16%
Other Federal Sources	5%
Federal Expenditures as a percent of Total Program Service Expenditures	92%

Note 4—Fair value of financial instruments, carried at fair value

Generally accepted accounting principles define fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction value hierarchy which required an entity to maximize the use of observable inputs when measuring fair value.

The standard describes three levels of inputs that may be used to measure fair value:

Level 1 – Inputs to the valuation methodology are quoted prices available in active markets for identical investments as of the reporting date;

Level 2 – Inputs to the valuation methodology are other than quoted prices in active markets, which are either directly or indirectly observable as of the reporting date, and fair value can be determined through the use of models or other valuation methodologies;

Level 3 – Inputs to the valuation methodology are unobservable inputs in situations where there is little or no market activity for the asset or liability and the reporting entity makes estimates and assumptions related to the pricing of the asset or liability including assumptions regarding risk.

A financial instrument's classification within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Financial instruments carried at fair value by level as of September 30, 2015:

Description	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
Open End Mutual Funds	$ 15,330	$ -	$ -	$ 15,330
Investment Insurance	827,914			827,914
Corporate Bonds	713,639	-	-	713,639
	$ 1,556,883	$ -	$ -	$ 1,556,883

Note 5—Notes receivable

Notes receivable at September 30, 2015 consists of the following:

$88,000 note receivable from Stephanie L. Callands related to the purchase of 1125 W.I. Powell Road, Dry Fork, Virginia 24549, lot GPIN 1492-75-1698. Monthly receipt of principal and interest of $371 beginning March, 2015 through March, 2045. The loan is secured by a first lien deed of trust on the property. Interest accrues at 3% per annum.	$	87,008
$89,500 note receivable from Christopher Wayne Riddle and Danielle Coffey Riddle related to the purchase of 1125 W.I. Powell Road, Dry Fork, Virginia 24549, lot GPIN 1492-65-7737. Monthly receipt of principal and interest of $377 beginning March, 2015 through March, 2045. The loan is secured by a first lien deed of trust on the property. Interest accrues at 3% per annum.		88,490
$88,000 note receivable from Noel Moreno, Sr. related to the purchase of 1125 W.I. Powell Road, Dry Fork, Virginia 24549, lot GPIN 1492-65-7737. Monthly receipt of principal and interest of $371 beginning March, 2015 through March, 2045. The loan is secured by a first lien deed of trust on the property. Interest accrues at 3% per annum.		87,008
	$	262,506

Current maturities of long-term receivables for the next five years ending September 30 and thereafter are as follows:

Fiscal Year Ended		Principal
2016	$	5,632
2017		5,798
2018		5,974
2019		6,156
2020		6,343
Thereafter		232,603
	$	262,506

Note 6—Property and equipment

Property and Equipment – Purchased property and equipment are stated at cost. Donated property is stated at fair value at the date of the gift. Major improvements, which extend the lives of existing property and equipment, are capitalized. Expenditures for maintenance and repairs, which do not extend the lives of the applicable assets, are charged to expense as incurred. The following is a summary of property and equipment, at cost, less accumulated depreciation as of September 30, 2015:

Equipment	$ 12,596,054
Leasehold improvements	2,536,905
Buildings	16,505,385
Land	2,752,202
Less accumulated depreciation	(18,145,736)
	$ 16,244,810

Note 7—Employee benefit plan

Effective January 1, 1981, the Organization initiated an employee annuity plan in accordance with Internal Revenue Code Section 403(b)(1). This plan covers substantially all employees and includes employee contributions only on a voluntary basis. The Organization funds all pension costs as accrued. These funds are restricted for the Organization's employee retirement program. Pension costs for the year ended September 30, 2015 were $2,966,644.

Note 8—Investment and participation in captive insurance companies

During fiscal year ended September 30, 2008, the Organization redeemed the ownership interest in Generations Group, Ltd. (the "Generations Captive"), a captive insurance holding company which provides workers' compensation insurance coverage for its employees. Under terms of the Generations Group, Ltd. shareholder agreement, common shares are redeemed immediately for the purchase price of $1. Preferred shares are not redeemed until 60 days following the date on which the last applicable policy year is closed. Policy years will be closed at the direction of the Board of Directors at least three years after the end of such policy year. During fiscal year 2014, policy year 2006-07 was closed. During fiscal year 2015, policy year 2005-06 was closed. The amount of preferred shares that are refundable to the Organization are estimated to be $24,900. The Organization is liable for the losses of other members of the Generation Captive related to open policy years to the extent of the insurance reserve.

During the fiscal year ended September 30, 2008, the Organization invested $36,000 as a capital contribution in Milestone Insurance Company, Ltd. (the "MIC Captive"), a Bermuda mutual insurance company. The MIC Captive arranges and provides workers' compensation and automobile liability insurance. The Organization is liable for the losses of other members of the MIC Captive related to open policy years to the extent of the insurance reserve.

During the fiscal year ended September 30, 2010, the Organization invested $10,000 as a capital contribution in Telamon Insurance, Ltd. (the "Telamon Captive"), a Nevis Island mutual insurance company. The Organization has included the $10,000 investment in the Telamon Captive, the $36,000 investment in the MIC Captive and the $25,000 investment in the Generations Captive, in non-current assets on the accompanying consolidated statement of financial position. The Telamon Captive arranges and provides a variety of insurance coverages.

The Organization's annual payments to the companies for insurance coverage are based on actuarial studies and are included in operating expenses. The Organization paid $1,108,824 in premiums during the year ended September 30, 2015. The total accrued insurance reserve balance for all captives is $2,434,059 as of September 30, 2015. Defined portions of claims paid by these companies are self-insured. Self-insurance reserves are necessarily based on estimates of historical loss experience, and while management believes that the reserves are adequate, the ultimate liabilities may be different than the amounts provided.

Note 9—Investment in real estate

During the fiscal year ended September 30, 2014, the Telamon Captive invested $452,763 in Telamon Properties, LLC ("Telamon Property") to purchase two suites in the corporate office. The loan is being amortized and the Organization is paying rent in the amount of the depreciation for the use of the property. Telamon Property was created for the purpose of investing in property.

Note 10—Functional allocation of costs and indirect costs

The costs of providing the various programs and other activities have been summarized on a functional basis in the consolidated statement of activities and changes in net assets. Accordingly, certain costs have been allocated among the programs and supporting services benefited. The amount of indirect costs allocated for the year ended September 30, 2015 was $4,665,959.

During the fiscal year ended September 30, 2015, the Organization operated under an indirect cost agreement executed on September 24, 2014, which continued the provisional rate of 11.55%. The Organization executed an indirect cost rate agreement on August 26, 2015 with its federal cognizant agency (U.S. Department of Health and Human Services) establishing a new provisional rate of 12.70%. The policy is consistent with prior years.

Cost type	Provisional rate	Actual rate
Indirect costs	12.70%	11.11%

The basis used for the indirect rate includes direct salaries and wages, including all fringe benefits.

Note 11—Donated materials and services

Several of the Organization's grants require a specified amount of matching funds or "in-kind" contributions to be applied toward these grants. Donated materials and minor equipment are reported at their estimated values at the date of receipt. Donated services are reflected at their best-estimated value of skilled labor at the time the services were rendered. Donated facilities are also reflected at their estimated value for the twelve-month period. No amount is recorded for donated facility leases greater than one year because all leases contain clauses conditional upon continued funding from the grantor agency. In-kind contributions and expenses totaled $8,413,008 for the year ended September 30, 2015.

Note 12—Lease commitments

The Organization leases office space in the states in which it operates. Many of these leases have clauses covering termination upon 30 days' notice or upon loss of grantor funding. The leases expire at various dates through 2024.

Future minimum lease payments for the next five years under the leases are as follows:

Year Ending September 30,	Amount
2016	$ 1,159,189
2017	798,564
2018	646,924
2019	369,723
2020	232,188
Thereafter	822,634
	$ 4,029,222

Rent expense for the year ended September 30, 2015 was $2,037,011.

Note 13—Risk management

The Organization is exposed to various risks of loss related to property, liability and employee benefits. These risks are addressed through a combination of participation in a captive insurance entity, commercial insurance and self-insurance. The Organization is fully self-insured for workers' compensation, health insurance, auto physical damage, and auto liability.

The Organization is subject to various deductible amounts in addition to payment of premiums assessed by the captives. The captives are responsible for claims beyond the deductible amounts and above certain limits. The captives are operated separately and are independently accountable for their fiscal matters and are not a component for financial reporting purposes. A copy of the most recent audited consolidated financial statements for the captive can be obtained from the Organization.

As of September 30, 2015, the liability for self-insured health insurance claims amounts to $772,010. Changes in the claims liability amount for the fiscal year then ended were as follows:

	Beginning Fiscal Year Liability	Current Year Claims and Changes in Estimates	Claims Payments	Ending Fiscal Year Liability
Health insurance	$ 924,770	$ 3,059,292	$ 3,212,052	$ 772,010

Note 14—Contingencies

All costs incurred on contracts and grants are subject to review by grantor agencies. In the opinion of management, any such review will not result in adjustments having a material effect on the consolidated financial statements.

Recourse Liabilities – The Organization holds partnership interests (typically representing an ownership interest between 0.001% and 1.000%) in several domestic partnerships engaged in providing federal tax credit supported, low-income housing construction or rehabilitation projects. Competing entities must include a nonprofit partner in order to qualify to receive tax credits tied to the projects. The nonprofit partner then claims first right of refusal of an option to manage the properties. Typically, the Organization receives a fee of $10,000 for its participation, is allocated a *de minimis* partnership interest in exchange for agreeing to the sponsorship, and accumulates award credits that lead to the opportunity to bid for and develop low-income housing projects directly. As a member in these partnerships, the Organization has been allocated a pro rata share of partnership recourse liabilities totaling $744,014.

Note 15—Notes payable

Notes payable at September 30, 2015 consists of the following:

Note payable to USDA/Rural Housing Service related to the purchase of Laurel Head Start facility. Monthly payments of principal and interest of $1,108 through January 2046. The loan is secured by a first lien deed of trust on the property. Interest accrues at 4.125% per annum.	$ 229,553
Note payable to bank related to the purchase of Lansing, Michigan State office. Monthly payments of principal and interest of $10,764 for 83 payments. The loan is secured by a first lien deed of trust on the property. Interest accrues at 4% per annum.	441,241
Note payable to NCALL related to construction costs for a Head Start facility in Smyrna, Delaware. As the Organization incurs construction costs, those costs are added to the total principal. Interest accrues at 5.0% per annum. Principal payments are not due until the maturity date or settlement of the loan, whichever occurs first.	63,531
	$ 734,325

Current maturities of long-term debt for the next five years ending September 30 and thereafter are as follows:

Fiscal Year Ended	Principal
2016	$ 182,258
2017	123,568
2018	128,607
2019	86,925
2020	4,591
Thereafter	208,376
	$ 734,325

Interest expense for the year ended September 30, 2015 was $33,899.

Note 16—Changes in accounting principles and correction of error restatements

Captive insurance arrangement obligation and beginning unrestricted net assets have been restated to properly reflect the correction of an error related to the overstatement of the Organization's captive insurance obligation and the understatement of unrestricted net assets. Due to the restatement, the beginning captive insurance obligation decreased and beginning unrestricted net assets increased at September 30, 2014.

The Organization adopted an alternative accounting principle for the accounting treatment and reporting of property and equipment that were purchased with Federal funds. As a result, temporarily and unrestricted net assets at September 30, 2014 has been restated.

Note 16—Changes in accounting principles and correction of error restatements (continued)

The changes in accounting principles and correction of error restatements are detailed in the table below:

	Unrestricted Net Assets	Temporarily Restricted Net Assets	Total Net Assets
September 30, 2014 - as previously reported	$ 5,269,651	$ -	$ 5,269,651
Correction of an error	1,090,708	-	1,090,708
Change in accounting principle	511,462	12,204,348	12,715,810
Total	1,602,170	12,204,348	13,806,518
September 30, 2014 - restated	$ 6,871,821	$ 12,204,348	$ 19,076,169

Note 17—Subsequent events

The Organization has evaluated subsequent events through February 9, 2016 in connection with the preparation of these consolidated financial statements, which is the date the consolidated financial statements were available to be issued. In October 2015, the Organization began construction on a new Delaware Head Start facility. In connection with this project, the Organization opened a loan through the USDA for $1.3 million. Interest accrues at 5.0% per annum. Principal payments are due on the first day of each calendar month beginning December 1, 2015.

TELAMON CORPORATION AND SUBSIDIARIES

SCHEDULE OF EXPENDITURES OF THE WEST VIRGINIA DEPARTMENT OF HEALTH AND HUMAN RESOURCES GRANTS

YEAR ENDED SEPTEMBER 30, 2015

West Virginia Department of Health and Human Resources		
Grant G150324	$	115,130
Grant G160450		45,111
	$	160,241

Report of Independent Auditor on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Consolidated Financial Statements Performed in Accordance with *Government Auditing Standards*

Board of Directors
Telamon Corporation and Subsidiaries
Raleigh, North Carolina

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 accompanying consolidated financial statements of Telamon Corporation and subsidiaries (the "Organization") as of and for the year ended September 30, 2015, and the related notes to the consolidated financial statements, which collectively comprise the Organization's consolidated financial statements, and have issued our report thereon dated February 9, 2016.

Internal Control over Financial Reporting

In planning and performing our audit of the consolidated 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 opinions on the consolidated 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 consolidated 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. We did identify a deficiency in internal control as described in the accompanying schedule of findings and questioned costs that we consider to be a significant deficiency which was not considered a material weakness as described as 2015-001.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization's consolidated 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 consolidated 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*.

Response to Finding

The Organization's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The Organization's response was not subject to the 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.

Cherry Bekaert LLP

Raleigh, North Carolina
February 9, 2016

Cherry Bekaert LLP
CPAs & Advisors

Report of Independent Auditor on Compliance for Each Major Federal Program and on Internal Control over Compliance in Accordance with OMB Circular A-133

Board of Directors
Telamon Corporation and Subsidiaries
Raleigh, North Carolina

Report on Compliance for Each Major Federal Program

We have audited the Telamon Corporation and subsidiaries (the "Organization") compliance with the types of compliance requirements described in the OMB Circular A-133 Compliance Supplement that could have a direct and material effect on each of the Organization's major federal programs for the year ended September 30, 2015. The Organization'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 the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Organization'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 OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133, require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the 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 each major federal program. However, our audit does not provide a legal determination of the Organization's compliance.

Opinion on Each 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 each of its major federal programs for the year ended September 30, 2015.

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 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 OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Organization'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 significant deficiencies or material weaknesses. 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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Cherry Bekaert LLP

Raleigh, North Carolina
February 9, 2016

DHHR - Finance
MAR 17 2016
Date Received

TELAMON CORPORATION AND SUBSIDIARIES
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED SEPTEMBER 30, 2015

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Federal Expenditures
U.S. Department of Labor			
WIA Cluster			
Pass through other agencies:			
State of Georgia			
Workforce Investment Act			
City of Savannah	17.259	14-0336-02	$ 226,776
City of Savannah	17.259	15-0336-02	50,502
City of Savannah	17.259	14-0336-01	255,208
City of Savannah	17.259	15-0336-01	54,037
			586,523
State of Indiana			
IPIC	17.259	S2002-WI-14-Y	528,946
IPIC	17.259	S2002-WI-15-Y	178,260
			707,206
State of Maryland			
LSWA	17.259		71,571
LSWA	17.259		413
LSWA	17.259		9,209
			81,193
State of North Carolina			
Workforce Investment Act			
Cape Fear	17.259	15-2040-33-5885	17,968
			17,968
Turning Point	17.259	9-2040-21-4675-03	54,667
			54,667
Region Q WDB	17.259		167,841
Region Q WDB	17.259		88,533
Region Q WDB	17.259		23
			256,397
Total for CFDA 17.259			1,703,954
Direct Programs:			
National Farmworker Job Program	17.264	N/A	9,399,613
Total for CFDA 17.264			9,399,613
Youthbuild	17.274	YB-19250-09-60-A-37	155,994
Youthbuild	17.274	YB-26251-14-60-A-37	213,560
Total for CFDA 17.274			369,554
OSHA	17.502	SH24879-SH-3	7,746
OSHA	17.502	SH26275-14-60-F-37	121,906
Total for CFDA 17.502			129,652
Total U.S. Department of Labor			11,602,773
U.S. Department of Agriculture			
Direct Programs:			
Rural Self-Help Housing Technical Assistance	10.420		89
Rural Self-Help Housing Technical Assistance	10.420		60,382
Total for CFDA 10.420			60,471

TELAMON CORPORATION AND SUBSIDIARIES
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED SEPTEMBER 30, 2015

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Federal Expenditures
Pass through other agencies:			
State of South Carolina			
Rural Housing Service Rural Development Grant	10.433		$ 45
Rural Housing Service Rural Development Grant	10.433		13,302
Total for CFDA 10.433			13,347
State of Georgia			
Office of School Readiness	10.558		144,261
			144,261
State of North Carolina			
Department of Health Services	10.558		731,345
			731,345
State of Michigan			
Department of Education	10.558		328,627
			328,627
State of Delaware			
Department of Education	10.558		523,127
			523,127
State of Indiana			
Department of Education	10.558		301,022
			301,022
State of Tennessee			
Department of Education	10.558		72,499
			72,499
Total for CFDA 10.558			2,100,881
Total U.S. Department of Agriculture			2,174,699
U.S. Department of Housing and Urban Development			
Direct Programs:			
Comprehensive Housing Counseling	14.169	HC140431-001	145,126
Comprehensive Housing Counseling	14.169	HC150431-004	69,930
Total for CFDA 14.169			215,056
Direct Programs:			
West Virginia STEPS Transitional Housing			
Housing Development Fund	14.235	WV0077B3E081100	163
Housing Development Fund	14.235	WV0077L3E081301	139,658
Housing Development Fund	14.235	WV0077L3E081402	450
Housing Development Fund	14.235	WV0022L3E081306	135,334
Housing Development Fund	14.235	WV0022L3E081407	46,069
Housing Development Fund	14.235	WV0081L3E081301	143,645
Housing Development Fund	14.235	WV0081L3E081402	1,406
Housing Development Fund	14.235	WV0081B3E081100	580
Total for CFDA 14.235			467,305

TELAMON CORPORATION AND SUBSIDIARIES
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED SEPTEMBER 30, 2015

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Federal Expenditures
Pass through other agencies:			
Commonwealth of Virginia			
Danville Community Housing Development Organization	14.239	Grant J	$ 358
Danville Community Housing Development Organization	14.239		273
Danville Community Housing Development Organization	14.239	Grant L	797
Danville Community Housing Development Organization	14.239		346
Danville Community Housing Development Organization	14.239	Grant M	4,466
Danville Community Housing Development Organization	14.239	Grant K	3,265
Danville Community Housing Development Organization	14.239		422
Danville Community Housing Development Organization	14.239		4,351
Danville Community Housing Development Organization	14.239		493
Danville Community Housing Development Organization	14.239		48,011
Danville Community Housing Development Organization	14.239		922
			63,704
Dept. of Housing & Community Development	14.239	07-HOME-01	579
Dept. of Housing & Community Development	14.239	09-AHP-02	42,580
			43,159
VA Housing Development Authority	14.239		34,914
VA Housing Development Authority	14.239		1,394
			36,308
Total for CFDA 14.239			143,171
Total U.S. Department of Housing and Urban Development			825,532
U.S. Department of Treasury			
Pass through other agencies:			
State of North Carolina			
Housing Finance Agency	21.010		
Housing Finance Agency	21.010		133,191
Housing Finance Agency	21.010		30,790
Housing Finance Agency	21.010		23,634
Housing Finance Agency	21.010		49,467
Housing Finance Agency	21.010		1,250
Total for CFDA 21.010			238,332
Total U.S. Department of Treasury			238,332
U.S. Department of Veterans Affairs			
Direct Programs:			
VA Homeless Providers & Per Diem	64.024		6,906
VA Homeless Providers & Per Diem	64.024		110,083
VA Homeless Providers & Per Diem	64.024		355
			117,344

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Federal Expenditures
Pass through other agencies:			
State of West Virginia			
WVCAP	64.024		$ 67,514
WVCAP	64.024		182,827
			250,341
Total for CFDA 64.024			367,685
Total for U.S. Department of Veterans Affairs			367,685
U.S. Department of Homeland Security			
Direct Programs:			
Emergency Food & Shelter	97.024		737
Emergency Food & Shelter	97.024		1,540
Emergency Food & Shelter	97.024		4,973
Emergency Food & Shelter	97.024		1,384
Total for CFDA 97.024			8,634
Total U.S. Department of Homeland Security			8,634
U.S. Environmental Protection Agency			
Pass through other agencies:			
Commonwealth of Virginia			
Dept. of Agricultural & Consumer Services	66.714		65,349
Total for CFDA 66.714			65,349
Total U.S. Environmental Protection Agency			65,349
U.S. Department of Energy			
Passed through other agencies:			
Commonwealth of Virginia			
Virginia Housing and Community Development Weatherization Assistance Program	81.042	13-WX-24	7,283
Virginia Housing and Community Development Weatherization Assistance Program	81.042	14-WX-24	84,552
Virginia Housing and Community Development Weatherization Assistance Program	81.042	15-WX-24	13,400
			105,235
Dept. of Housing & Community Development	81.042	14-ER-32	16,833
Dept. of Housing & Community Development	81.042	15-ER-32	144
			16,977
Total for CFDA 81.042			122,212
Passed through other agencies:			
Commonwealth of Virginia			
Dept. of Housing & Community Development	81.117		1,747
Total for CFDA 81.117			1,747
Total U.S. Department of Energy			123,959

TELAMON CORPORATION AND SUBSIDIARIES
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED SEPTEMBER 30, 2015

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Federal Expenditures
U.S. Department of Education			
Passed through other agencies:			
State of Michigan			
Migrant Identification and Recruitment	84.011		$ 8,968
Migrant Identification and Recruitment	84.011		28,270
Total for CFDA 84.011			37,238
Total U.S. Department of Education			37,238
U.S. Department of Health and Human Services			
Direct Programs:			
State of Delaware			
Delaware Head Start	93.600	03CH3402/01	10,000
Delaware Head Start	93.600	03CH3402/02	5,326,956
Delaware Head Start	93.600	03CH3402/03	1,115,006
			6,451,962
State of Georgia			
Georgia Head Start	93.600	90CM9777/02	1,343,656
Georgia Head Start	93.600	90CM9777/03	2,695,118
			4,038,774
State of Michigan			
Michigan Head Start	93.600	90CM0157/23	3,070,239
Michigan Head Start	93.600	90CM9816/01	8,879,775
			11,950,014
State of North Carolina			
North Carolina Head Start	93.600	04CH4595/13	3,142,744
North Carolina Head Start	93.600	04CH4595/14	8,099,016
North Carolina Head Start	93.600	04CH4726/01	300,016
North Carolina Head Start	93.600	04CH4726/02	578,163
			12,119,939
North Carolina Head Start Partnership	93.600	04HP0022/01	623,299
			623,299
State of Indiana			
Indiana Head Start	93.600	05CH8298/04	3,358,330
Indiana Head Start	93.600	05CH8298/05	1,178,867
Indiana Head Start	93.600	05CH8430/02	217,898
Indiana Head Start	93.600	05CH8430/01	807,477
			5,562,572
Indiana Head Start Partnership	93.600		584,748
			584,748
State of Tennessee			
Migrant Head Start Program	93.600	90CM0188/20	1,207,020
Migrant Head Start Program	93.600	90CM9803/01	1,783,443
			2,990,463
Tennessee Head Start	93.600	04HP0019/01	576,395
			576,395

TELAMON CORPORATION AND SUBSIDIARIES
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED SEPTEMBER 30, 2015

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Federal Expenditures
Passed through other agencies:			
Delaware Department of Education			
ECAP	93.600	0000029326	$ 665,781
ECAP	93.600		201,786
			867,567
Early Head Start Partnership	93.600	020181-0000-0000	3,533
			3,533
Admin. for Children and Families			
East Coast Migrant Head Start	93.600	90-CM-0087	3,710,040
			3,710,040
Total for CFDA 93.600			49,479,306
Direct Programs:			
State of Michigan			
Assets for Independence Demonstration Program	93.602	90E10882/01	7,453
			7,453
Total for CFDA 93.602			7,453
Pass through other agencies:			
State of North Carolina			
Department of Human Resources and Community Service Block Grants	93.569	G13B1NCCOSR	104,661
Department of Human Resources and Community Service Block Grants	93.569	14B1NCCOSR	21,302
			125,963
State of West Virginia			
Department of Human Resources and Community Service Block Grants	93.569	2014F0016	157,420
Department of Human Resources and Community Service Block Grants	93.569	2015F0016	174,075
			331,495
Total for CFDA 93.569			457,458
Pass through other agencies:			
Commonwealth of Virginia			
Low Income Housing Energy Assistance Program (LIHEAP) Crisis	93.568	14-LH-24	354,796
Low Income Housing Energy Assistance Program (LIHEAP) Crisis	93.568	15-LH-24	33,961
			388,757
Total for CFDA 93.568			388,757
Pass through other agencies:			
State of Michigan			
Migrant Child Task Force	93.778	431N1300696	137
Total for CFDA 93.778			137
Total U.S. Department of Health and Human Services			50,333,111
TOTAL FEDERAL AWARDS			$ 65,777,312

Note 1—Basis of presentation

The foregoing schedule of expenditures of federal awards includes the federal grant activity of Telamon Corporation and subsidiaries and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic consolidated financial statements.

Note 2—In-kind contributions

The value of the federal awards expended in the form of noncash assistance for the year ended September 30, 2015 was $8,413,008.

Section I – Summary of Auditor's Results

Consolidated 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 that are not considered to be material weaknesses?	X yes	____ none reported
• Noncompliance material to consolidated financial statements noted?	____ yes	X no

Federal Awards

Internal control over major federal programs:		
• Material weakness(es) identified?	____ yes	X no
• Significant deficiency(ies) identified that are not considered to be material weaknesses?	____ yes	X none reported
• Noncompliance material to federal awards noted?	____ yes	X no
Type of auditor's report issued on compliance for major programs:	Unmodified	
Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133?	____ yes	X no

Identification of major programs:

CFDA#	Program Name
	Head Start Cluster
93.600	Head Start
	Workforce Investment Act Cluster
17.259	WIA Youth Activities

Dollar threshold used to distinguish between Type A and Type B programs:	$ 1,973,320	
Auditee qualified as low-risk auditee?	X yes	____ no

Section II – Financial Statement Findings

Finding 2015-001 – Restatement - Correction of an Error

Significant Deficiency

Criteria: An effective system of internal control contemplates that management can properly maintain the books and record all necessary transactions to ensure that the financial statements are not materially misstated.

Condition: During the audit it was noted that the Organization's captive insurance obligation was overstated and unrestricted net assets were understated.

Effect: Captive insurance obligation was overstated and unrestricted net assets were understated by $1,090,708.

Cause: Internal controls over the review of eliminating entries were not functioning properly.

Recommendation: We recommend that the Organization put a review process in place over eliminating entries.

Views of Responsible Officials: The Organization agrees with the finding.

Section III – Federal Award Findings and Questioned Costs

None reported

Finding: 2015-001

Name of contact person: Kevin Bartholemew, Director of Finance

Corrective action: The Organization will implement the use of a consolidating schedule to support all inter-company eliminating journal entries. This will ensure proper recording of entries to all inter-company accounts.

Proposed completion date: Immediately

TELAMON CORPORATION AND SUBSIDIARIES
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

YEAR ENDED SEPTEMBER 30, 2015

None reported

Cherry Bekaert LLP
CPAs & Advisors

Board of Directors
Telamon Corporation and Subsidiaries
Raleigh, North Carolina

We have audited the consolidated financial statements of Telamon Corporation and Subsidiaries (the "Organization") for the year ended September 30, 2015, and have issued our report thereon dated February 9, 2016. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, *Government Auditing Standards,* and OMB Circular A-133, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated March 20, 2015. Professional standards also require that we communicate to you the following information related to our audit.

SIGNIFICANT AUDIT FINDINGS

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Organization are described in the notes to the consolidated financial statements. The Organization adopted an alternative accounting principle for recording property and equipment purchased with federal grant monies. In addition the Organization restated temporary and unrestricted net assets effective due to an overstatement of their captive insurance obligation. We have included an emphasis of matter paragraph in our report of independent auditor concerning these matters. We noted no transactions entered into by the Organization during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the consolidated financial statements in the proper period.

Accounting estimates are an integral part of the consolidated financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the consolidated financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the consolidated financial statements were:

> Management's estimate of depreciation expense was based on an analysis of estimated useful lives of property and equipment. We evaluated the key factors and assumptions used to develop useful lives to determine that they seemed reasonable in relation to the consolidated financial statements of the Organization for the year ended September 30, 2015.
>
> Management's estimate of functional expenses was based on formulas derived from an analysis of time sheets and direct assignment based on job descriptions. We evaluated the allocations used to develop the functional expense classifications to determine that they seemed reasonable in relation to the consolidated financial statements of the Organization for the year ended September 30, 2015.
>
> Management's estimate of the allowance for doubtful accounts was based on an analysis of historical collection trends and current grantor relations. We evaluated the key factors and assumptions used to develop the allowance to determine that it seemed reasonable in relation to the consolidated financial statements of the Organization for the year ended September 30, 2015 taken as a whole.
>
> Management's estimate of the self-insured health plan liability was based on estimated costs of future claims. We evaluated the key factors and assumptions used to develop the allowance to determine that it seemed reasonable in relation to the consolidated financial statements of the Organization for the year ended September 30, 2015 taken as a whole.

Management's estimate of fair value of investments was based on the active market for identical investments. We evaluated the key factors and assumptions used to develop the valuation to determine that it seemed reasonable in relation to the consolidated financial statements of the Organization for the year ended September 30, 2015 taken as a whole.

Management's estimate of the captive insurance liability was based on actuarial determinations. We evaluated the key factors and assumptions used to develop the liability recorded to determine that it seemed reasonable in relation to the consolidated financial statements of the Organization for the year ended September 30, 2015 taken as a whole.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. There was a passed audit adjustment arising from timing differences related to the recording of cash disbursements verses when the amount cleared the bank.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the consolidated financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated February 9, 2016.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves an application of an accounting principle to the Organization's consolidated financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Organization's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

With respect to the schedule of expenditures of the West Virginia Department of Health and Human Resources Grants G160450 and G150324 and the schedule of expenditures of federal awards that accompany the consolidated financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with U.S. generally accepted accounting principles, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the consolidated financial statements. We compared and reconciled the information to the underlying accounting records used to prepare the consolidated financial statements or to the consolidated financial statements themselves.

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

Cherry Bekaert LLP

Raleigh, North Carolina
February 9, 2016

DHHR - Finance
MAR 17 2016
Date Received