

**Johnston-Lee-Harnett
Community Action, Incorporated**

Report on Audit of Financial Statements
for the year ended June 30, 2025

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Independent Auditors' Report

To the Board of Directors of
Johnston-Lee-Harnett Community Action, Incorporated

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Johnston-Lee-Harnett Community Action, Incorporated, which comprise the statement of financial position as of June 30, 2025, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Johnston-Lee-Harnett Community Action, Incorporated as of June 30, 2025, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Johnston-Lee-Harnett Community Action, Incorporated and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Substantial Doubt About the Entity's Ability to Continue as a Going Concern

The accompanying financial statements have been prepared assuming that Johnston-Lee-Harnett Community Action, Incorporated will continue as a going concern. As discussed in Note 14 to the financial statements, Johnston-Lee-Harnett Community Action, Incorporated has experienced recurring losses from operations, has a negative working capital, has a net asset deficiency, and has stated that substantial doubt exists about Johnston-Lee-Harnett Community Action, Incorporated's ability to continue as a going concern. Management's evaluation of the events and conditions and management's plans regarding these matters are also described in Note 14. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Johnston-Lee-Harnett Community Action, Incorporated's ability to continue as a going concern for one year after the date that the financial statements are issued.

Auditors' Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Johnston-Lee-Harnett Community Action, Incorporated's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Johnston-Lee-Harnett Community Action, Incorporated's ability to continue as a going concern for a reasonable period of time.

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

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The Schedule of Expenditures of Federal and State Awards, as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* is presented for purposes of additional analysis and is not a required

part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal and State awards is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 30, 2026 on our consideration of Johnston-Lee-Harnett Community Action, Incorporated's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Johnston-Lee-Harnett Community Action, Incorporated's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Johnston-Lee-Harnett Community Action, Incorporated's internal control over financial reporting and compliance.

MPC Company LLP

March 30, 2026

Johnston-Lee-Harnett Community Action, Incorporated
Statement of Financial Position
June 30, 2025

Assets

Current assets:

Government contracts and awards receivable	\$ 432,105
Sales tax receivable	16,000
Total current assets	448,105

Noncurrent assets:

Restricted cash for long-term purposes	66,010
Property and equipment, net	1,586,531
Right-of-use assets, net	395,776
Deposits	8,052
Total noncurrent assets	2,056,369
Total assets	\$ 2,504,474

Liabilities and Net Assets

Current liabilities:

Cash deficit	\$ 200,177
Current maturities of operating lease liabilities	177,024
Current maturities of long-term debt	29,974
Line of credit	150,000
Short-term loan	69,517
Accounts payable	200,003
Due to grantor	290
Accrued liabilities:	
Vacation	59,278
Payroll taxes and withholdings	137,898
Interest	7,411
Advances on grants	57,285
Total current liabilities	1,088,857

Noncurrent liabilities:

Operating lease liabilities, excluding current maturities	218,752
Long-term debt, excluding current maturities	1,203,135
Total noncurrent liabilities	1,421,887
Total liabilities	2,510,744

Net assets (deficit):

Without donor restrictions	(484,338)
With donor restrictions	478,068
Total net assets	(6,270)
Total net assets	\$ 2,504,474

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

Johnston-Lee-Harnett Community Action, Incorporated
Statement of Activities
for the year ended June 30, 2025

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Revenues, support, and gains:			
Government contracts and awards:			
Federal	\$ 9,460,114	\$ 6,853	\$ 9,466,967
State	180,233	-	180,233
Contributions of cash and other financial assets	20,217	-	20,217
Contributions of nonfinancial assets	1,751,231	-	1,751,231
Contract services	185,266	-	185,266
Rental income	46,833	-	46,833
Gain on sale of properties	161,762	-	161,762
Interest income	58	-	58
Other	11,460	-	11,460
Total	<u>11,817,174</u>	<u>6,853</u>	<u>11,824,027</u>
Net assets released from restrictions	<u>10,567</u>	<u>(10,567)</u>	<u>-</u>
Total revenues, support, and gains	<u>11,827,741</u>	<u>(3,714)</u>	<u>11,824,027</u>
Expenses:			
Programs:			
Early Childhood Services	8,405,449	-	8,405,449
Housing Repairs and Maintenance	922,984	-	922,984
Community Services Block Grant	677,871	-	677,871
Other programs	801,903	-	801,903
Total programs	<u>10,808,207</u>	<u>-</u>	<u>10,808,207</u>
Management and general	<u>1,044,344</u>	<u>-</u>	<u>1,044,344</u>
Total expenses	<u>11,852,551</u>	<u>-</u>	<u>11,852,551</u>
Changes in net assets	(24,810)	(3,714)	(28,524)
Net assets (deficit) at beginning of year	<u>(459,528)</u>	<u>481,782</u>	<u>22,254</u>
Net assets (deficit) at end of year	\$ <u>(484,338)</u>	\$ <u>478,068</u>	\$ <u>(6,270)</u>

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

Johnston-Lee-Harnett Community Action, Incorporated
Statement of Functional Expenses
for the year ended June 30, 2025

	Programs					Management and General	Total
	Early Childhood Services	Housing Repairs and Maintenance	Community Services Block Grant	Other Programs	Total Programs		
Wages	\$ 3,966,769	\$ 299,279	\$ 459,319	\$ 100,910	\$ 4,826,277	\$ 561,240	\$ 5,387,517
Employee benefits	970,237	81,091	87,015	25,708	1,164,051	111,780	1,275,831
Payroll taxes	297,301	22,430	34,425	7,563	361,719	42,958	404,677
Communications costs	141,980	3,363	15,866	10,386	171,595	5,874	177,469
Contractual	-	124,634	-	142,759	267,393	62,600	329,993
Depreciation and amortization	95,524	105	-	1,325	96,954	69,045	165,999
Fees	6,377	201	-	1,688	8,266	2,345	10,611
Food and support	195,544	-	-	-	195,544	6,283	201,827
Health and safety	-	60,217	-	-	60,217	-	60,217
Contributed goods and services	297,540	3,000	4,800	1,800	307,140	10,942	318,082
Contributed space	1,433,149	-	-	-	1,433,149	-	1,433,149
Insurance	191,202	23,380	16,408	11,138	242,128	33,688	275,816
Interest	-	-	-	-	-	54,566	54,566
Maintenance, repair and utilities	291,074	10,171	14,112	17,575	332,932	51,384	384,316
Materials and supplies	112,385	158,547	-	128,496	399,428	-	399,428
Meetings and conferences	-	-	1,793	75	1,868	4,238	6,106
Memberships and subscriptions	30,354	-	6,086	180	36,620	6,563	43,183
Office supplies	7,918	2,129	3,545	3,749	17,341	4,883	22,224
Participant costs	283	93,690	22,202	210,125	326,300	-	326,300
Professional services	22,830	19,640	-	-	42,470	300	42,770
Rent	249,544	-	2,602	126,186	378,332	2,900	381,232
Specialized services	7,929	582	2,722	678	11,911	2,167	14,078
Training and education	42,348	5,403	879	75	48,705	-	48,705
Travel	31,861	4,640	5,371	11,048	52,920	8,728	61,648
Vehicle expenses	6,927	4,727	-	-	11,654	1,160	12,814
Other	6,373	5,755	726	439	13,293	700	13,993
Total	\$ 8,405,449	\$ 922,984	\$ 677,871	\$ 801,903	\$ 10,808,207	\$ 1,044,344	\$ 11,852,551

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

Johnston-Lee-Harnett Community Action, Incorporated
Statement of Cash Flows
for the year ended June 30, 2025

Cash flows from operating activities:	
Changes in net assets	\$ (28,524)
Adjustments to reconcile changes in net assets to net cash used in operating activities:	
Depreciation and amortization expense	165,999
Right-of-use assets, net	141,740
Gain on the sale of properties	(161,762)
Changes in assets and liabilities:	
(Increase) decrease in assets:	
Government contracts and awards receivable	(124,810)
Sales tax receivable	2,958
Increase (decrease) in liabilities:	
Accounts payable	(148,416)
Due to grantor	(7)
Accrued liabilities	(43,392)
Advances on grants	(24,921)
Operating lease liabilities	<u>(141,740)</u>
Net cash used in operating activities	<u>(362,875)</u>
Cash flows from investing activities:	
Purchase of equipment	(42,555)
Proceeds from sale of properties	<u>181,089</u>
Net cash provided by investing activities	<u>138,534</u>
Cash flows from financing activities:	
Proceeds from short term loan	69,517
Principal payments of long-term debt	<u>(28,995)</u>
Net cash provided by financing activities	<u>40,522</u>
Net decrease in cash	(183,819)
Cash, beginning of year	<u>49,652</u>
Cash deficit, end of year	\$ <u><u>(134,167)</u></u>
Cash, end of year:	
Cash deficit	\$ (200,177)
Restricted cash	<u>66,010</u>
	\$ <u><u>(134,167)</u></u>
Supplemental disclosure of cash flows information:	
Cash paid during the year for interest	\$ <u><u>54,746</u></u>

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

Johnston-Lee-Harnett Community Action, Incorporated
Notes to Financial Statements
June 30, 2025

1. ORGANIZATION

Johnston-Lee-Harnett Community Action, Incorporated (the Organization) is a non-profit, tax-exempt entity incorporated in April 1966 under the laws of the State of North Carolina. Its purpose is to provide resources to help permanently improve the lives of the disadvantaged. The Organization strives to inspire people to be empowered through opportunities that support education, self-sufficiency, and a willingness to give back to society. The Organization is dedicated to Helping People, Changing Lives. Areas served are Johnston, Lee, and Harnett counties.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The financial statements of the Organization are prepared on the accrual basis of accounting.

Cash

Federal and state funds are kept in separate bank accounts at various North Carolina regional banks. At June 30, 2025, there were no cash deposits in excess of federally insured amounts.

Receivables

All receivables are stated at the amount management expects to collect from outstanding balances. Based on experience, management believes that they are fully collectible. Therefore, no allowance for credit losses has been recorded. In the event that an outstanding balance could not be collected, it would be written down with a charge against bad debt loss and a credit to the receivables balance. Past due status is determined based on contractual terms.

Property and Equipment

It is the Organization's policy to capitalize property and equipment with an original value of over \$5,000 and an estimated useful life of more than one year. Purchased property and equipment are recorded at cost.

Depreciation and amortization are provided using the straight-line method over the estimated useful life of the related asset. The following useful lives are used in determining depreciation and amortization:

	<u>Estimated Useful Life</u>
Buildings and improvements	20-27 Years
Vehicles	5-7 Years
Furniture and equipment	5-20 Years

Expenditures for repairs and maintenance are charged to expense as incurred. The cost of major renewals and betterments are capitalized and depreciated and amortized over their estimated useful lives. Upon disposition of property and equipment, the related asset and accumulated depreciation and amortization accounts are removed, and any gain or loss is reflected in the statement of activities for the period. Depreciation and amortization expense for the year ended June 30, 2025 was \$165,999.

Johnston-Lee-Harnett Community Action, Incorporated
Notes to Financial Statements
June 30, 2025

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property and Equipment (Continued)

Donated property and equipment are recorded as revenue at their estimated fair value as of the date of the contribution. If donors stipulate how long the assets must be used, the contributions are recorded as restricted support. In the absence of such stipulations, contributions of property and equipment are recorded as support without donor restrictions.

Certain property and equipment with a carrying value of \$46,653 was acquired with funds received under grant contract with governmental agencies. This property is used in connection with the entity's various programs. If such programs were to terminate, arrangements would need to be made with the grantor to dispose of the equipment. Equipment cannot be sold or traded without permission from the grantor.

Net Assets

Net assets, revenues, support, and gains are classified based on the existence or absence of donor or grantor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions – Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions.

Net Assets With Donor Restrictions – Net assets subject to donor or grantor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

Revenue Recognition

Government contracts and awards represent reimbursement of costs incurred in direct support of charitable programs. Such revenue is recognized when the direct costs are incurred. Payments received in advance are deferred to the applicable period in which the related services are performed or expenditures are incurred. In addition, government contracts and awards normally provide for the recovery of indirect costs supporting the program effort. Indirect cost recovery is recorded at rates established in advance by the Organization through negotiations with the United States Government.

Contributions received that are designated for future periods or restricted by the donor are reported as restricted support and increase the respective class of net assets. Contributions received with restrictions that are met in the same reporting period are reported as without donor restrictions support and increase without donor restrictions net assets.

Contract services refer to revenues earned from competitive bids awarded by local governments to provide various program related services. The related costs are shown as an element of program services.

Johnston-Lee-Harnett Community Action, Incorporated
Notes to Financial Statements
June 30, 2025

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Donated Services

The Organization recognizes contributions of services if such services (a) create or enhance non-financial assets or (b) require specialized skills and are provided by individuals possessing those skills and would typically need to be purchased if not contributed. Donated services are for the Organization's early childhood programs, all of which relates to the efforts of teachers who were paid by a local school system in addition to professional mental health and medical professionals.

Other donated services have not been reflected in the accompanying financial statements since they do not meet the criteria for recognition under accounting principles generally accepted in the United States of America. Nevertheless, a substantial number of volunteers have donated significant amounts of their time, principally as assistants in the early childhood programs. Management estimates the value of such services at \$43,501 for the year ended June 30, 2025.

Income Taxes

The Organization is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. Therefore, no provision for income taxes has been made in the accompanying financial statements.

Functional Allocation of Expenses

The costs of providing the program services and other services have been summarized on a functional basis in the statement of activities. The statement of functional expenses presents the natural classification detail of expenses by function. Accordingly, certain costs, including wages, payroll taxes, and employee benefits, have been allocated between the program and supporting services benefited based on estimates of time and effort.

The Organization receives the majority of its support through recurring awards or competitive bidding. Accordingly, fundraising costs are not material and as such have not been separately presented in the financial statements.

Use of Estimates

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

Subsequent Events

The Organization has evaluated events and transactions that occurred between June 30, 2025 and March 30, 2026, which is the date the financial statements were available to be issued, for possible recognition or disclosure in the financial statements.

Johnston-Lee-Harnett Community Action, Incorporated
Notes to Financial Statements
June 30, 2025

3. LIQUIDITY AND AVAILABILITY

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position date, comprise of the following as of June 30:

Receivables		\$ 448,105
Less amounts not available for general expenditures within one year:		
Cash deficit		(200,177)
Purpose restricted net assets		<u>(145,766)</u>
 Total financial assets available to meet general expenditures within one year		 \$ <u>102,162</u>

As part of the Organization's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. The Organization is also supported by donor restricted contributions. Because a donor or grantor's restriction requires resources to be used in a particular manner or in a future period, the Organization must maintain sufficient resources to meet those responsibilities to its donor or grantor. Thus, financial assets may not be available for general expenditures within one year.

The Organization has a short-term loan used to manage timing differences between receipts and expenditures. In addition, the Organization has a \$150,000 line of credit, fully used at year-end, to support liquidity needs.

4. PROPERTY AND EQUIPMENT

Property and equipment consist of the following as of June 30:

Land		\$ 165,035
Buildings and improvements		3,092,119
Vehicles		1,372,442
Furniture and equipment		<u>501,503</u>
		5,131,099
Less accumulated depreciation		<u>(3,544,568)</u>
Net property and equipment		\$ <u>1,586,531</u>

5. LINE OF CREDIT

In December 2023, the Organization entered into an unsecured operating line of credit agreement with a bank. Maximum borrowings under the agreement are \$150,000. There were no available borrowings as of June 30, 2025. Outstanding borrowings accrue interest at prime rate plus 1% (8.50 % at June 30, 2025) with a 5.00% interest rate floor and a 18.00% interest rate ceiling. For the year ended June 30, 2025, the Organization recognized interest expense on the line of credit in the amount of \$12,150. The Organization initially opted to renew the line of credit under substantially the same terms and with a maturity date of December 25, 2025.

Subsequent to the year ended, the Organization converted its line of credit into a note payable with an outstanding balance of \$150,000 that accrues interest at 7.00% with a maturity date of December 25, 2030. Monthly payments of \$2,981 began on January 25, 2026.

Johnston-Lee-Harnett Community Action, Incorporated
Notes to Financial Statements
June 30, 2025

6. SHORT-TERM LOAN

In June 2025, the Organization obtained an interest-free 90-day loan from a state-wide nonprofit organization of \$69,517 that matures on September 12, 2025. This loan had a covenant that required the Organization to obtain a fiscal review of its operations and submit the results of that review to the lender. The Organization has repaid the full balance of the loan subsequent to year end.

7. LONG-TERM DEBT

The Organization has a loan financed through a government agency with a face value of \$1,558,695 and matures on April 26, 2052. Amounts borrowed under this agreement bear interest at a rate of 3.375%. The loan requires a reserve account to be funded to minimum annual reserves (\$43,915 as of July 1, 2025) until \$71,591 is accumulated. At June 30, 2025, the Organization held \$66,010 in restricted cash under this loan provision. For the year ended June 30, 2025, the Organization recognized interest expense in the amount of \$42,416. The loan is secured by a deed of trust on the land and building at the Organization's headquarters. The loan includes a graduation clause, in which the Organization may be asked to pay the debt in full if it appears they can obtain other financing at reasonable terms. At June 30, 2025, the carrying amount of the land and building at the Organization's headquarters totaled \$775,956.

Future maturities of long-term debt are as follows:

Year ending June 30,		
2026	\$	29,974
2027		30,985
2028		32,031
2029		33,112
2030		34,230
Thereafter		<u>1,072,777</u>
Total	\$	<u>1,233,109</u>

8. OPERATING LEASES AND LEASE LIABILITIES

The Organization leases facilities and land for its early childhood programs under non-cancelable operating lease agreements expiring through April 2029. Total rental expense under these leases was \$381,232 for the year ended June 30, 2025.

The Organization has recognized both a right-of-use asset and a corresponding lease liability on the statement of financial position for its executed operating leases. The assets and liabilities are amortized over the life of the lease. The operating lease liability is presented net of a discount on future cash flows under the lease terms at the incremental borrowing rates of 7.25% and 9.50%. Amortization expense on lease liabilities and assets for the year ended June 30, 2025 is \$141,740.

Johnston-Lee-Harnett Community Action, Incorporated
Notes to Financial Statements
June 30, 2025

8. OPERATING LEASES AND LEASE LIABILITIES (Continued)

The following is a schedule of minimum future rental payments under non-cancelable operating leases as of June 30, 2025:

Year ending June 30,			
2026		\$	178,920
2027			166,420
2028			62,355
2029			<u>30,000</u>
Undiscounted lease liability			437,695
Less present value discount			<u>(41,919)</u>
Net lease liability			395,776
Less current maturities			<u>(177,024)</u>
		\$	<u><u>218,752</u></u>

The Organization leased two properties to low-income individuals on a month-to-month basis. During the fiscal year, the Organization sold those properties for a total of \$193,500. Additionally, the Organization also leases office and parking lot space to three not-for-profit organizations based out of Lee County on an annual basis and charges various programs for space utilized during the year. Total rental income for the year ended June 30, 2025 was \$46,833.

9. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions of \$134,348 are available for early childhood programs, \$11,418 for emergency assistance for low-income individuals, and \$332,302 is available as donated property to be utilized to assist homeless and low-income individuals living in Lee County at June 30, 2025.

10. CONTRIBUTIONS OF NONFINANCIAL ASSETS

Donated goods, capitalized assets, professional services, and use of classroom space are recorded at estimated fair market value on the statement of activities as contributions of nonfinancial assets. Nonfinancial asset contributions for the year ended June 30, 2025 are comprised of the following:

Classroom space			
		\$	1,433,149
Professional services			<u>318,082</u>
Total		\$	<u><u>1,751,231</u></u>

11. EMPLOYEE BENEFIT PLAN

The Organization has a defined contribution pension plan under Internal Revenue Code section 403(b). All employees who work at least 20 hours per week or 1,000 hours annually are eligible to participate in the Plan after completing a three-month service requirement. The Plan uses a matching formula in which it contributes a discretionary percentage of the first 5% of employee deferrals. Employees are 100% vested with respect to employer contributions after completing two years of service. The Organization's contributions for the year ended June 30, 2025 were \$150,130.

Johnston-Lee-Harnett Community Action, Incorporated
Notes to Financial Statements
June 30, 2025

12. COMMITMENTS AND CONTINGENCIES

The Organization receives significant financial assistance from governmental entities. These contracts and awards normally provide for the recovery of direct and indirect costs. Entitlement to the recovery of the applicable direct and indirect costs is generally conditioned upon compliance with the terms and conditions of the grant agreements and applicable regulations, including the expenditure of the resources for eligible purposes. Substantially all awards and the Organization's indirect cost rate are subject to financial and compliance reviews and audits by grantors. In management's opinion, the likelihood of an adverse material outcome upon its financial position from those reviews and audits is remote.

13. CONCENTRATIONS

The Organization received 82% of total revenues from federal and state governmental entities for the year ended June 30, 2025. A significant reduction in this level of support could have significant impact on the Organization's programs and activities. In addition, 96% of receivables at June 30, 2025 were due from federal and state governmental entities. At June 30, 2025, 64% of payables were due to four vendors.

14. SUBSTANTIAL DOUBT ABOUT THE ORGANIZATION'S ABILITY TO CONTINUE AS A GOING CONCERN

The Organization's board of directors and management identified conditions as of June 30, 2025 that raised substantial doubt about the Organization's ability to continue as a going concern.

Significant inflation and the costs of living are not fully mitigated by federal awards, which comprise most of the Organization's funding. Additionally, several federal agencies were not processing reimbursement requests timely, causing a shortage of cash available and requiring the agency to increase its debt. The federal programs are becoming increasingly more expensive to operate without additional funding or a decrease in the expected community impact.

Since June 2025, Johnston-Lee-Harnett Community Action, Inc. Board of Directors and management team have taken specific measures to improve the financial condition of the Organization, specifically:

- Effective July 2025, the Organization received \$100,000 from Johnston County Commissioners to use unrestricted dollars in Johnston County,
- The Organization started the E. Marie Watson Legacy fundraiser that is ongoing to add additional dollars for the renaming of our building at 1102 Massey Street. To date, this has raised approximately \$24,500,
- The Organization received a grant award from North Carolina Community Action Association that provides the Organization with unrestricted dollars,
- Continued increase in fundraising efforts through events and corporate and local government grants,
- Seeking out additional lines of credit, and
- Planning to host an auction of unused fixed assets.

The Board of Directors and management continue to evaluate options to increase revenues and cash available.



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**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***

Independent Auditors' Report

Board of Directors
Johnston-Lee-Harnett Community Action, Incorporated

We have audited 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, the financial statements of Johnston-Lee-Harnett Community Action, Incorporated, which comprise the statement of financial position as of June 30, 2025, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated March 30, 2026.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Johnston-Lee-Harnett Community Action, Incorporated's internal control over financial reporting (internal control) as a basis for designing 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 Johnston-Lee-Harnett Community Action, Incorporated's internal control. Accordingly, we do not express an opinion on the effectiveness of Johnston-Lee-Harnett Community Action, Incorporated's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we did not identify a deficiency in internal control over financial reporting that we consider to be a material weakness.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether Johnston-Lee-Harnett Community Action, Incorporated's financial statements are free from material misstatement, we performed tests of its

compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed 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 result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

MPC Company LLP

March 30, 2026



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Report on Compliance for Each Major Federal Program and Report on Internal Control over Compliance in Accordance with the Uniform Guidance

Independent Auditors' Report

Board of Directors
Johnston-Lee-Harnett Community Action, Incorporated

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited Johnston-Lee-Harnett Community Action, Incorporated's compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on each of Johnston-Lee-Harnett Community Action, Incorporated's major federal programs for the year ended June 30, 2025. Johnston-Lee-Harnett Community Action, Incorporated's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

In our opinion, Johnston-Lee-Harnett Community Action, Incorporated complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2025.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*); and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditors' Responsibilities for the Audit of Compliance section of our report.

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

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of

laws, statutes, regulations, rules and provisions of contracts or grant agreements applicable to Johnston-Lee-Harnett Community Action, Incorporated's federal programs.

Auditors' Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on Johnston-Lee-Harnett Community Action, Incorporated's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about Johnston-Lee-Harnett Community Action, Incorporated's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding Johnston-Lee-Harnett Community Action, Incorporated's compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of Johnston-Lee-Harnett Community Action, Incorporated's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of Johnston-Lee-Harnett Community Action, Incorporated's internal control over compliance. Accordingly, no such opinion is expressed.

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

Report on 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 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 internal control over compliance was for the limited purpose described in the Auditors' Responsibilities for the Audit of Compliance section above and was not designed to identify all

deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

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

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.

MPC Company LLP

March 30, 2026

Johnston-Lee-Harnett Community Action, Incorporated
 Schedule of Findings and Questioned Costs
 for the year ended June 30, 2025

Section I. Summary of Auditors' Results

Financial Statements

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

Internal control over financial reporting:

Are any material weaknesses identified?	___ Yes	_X_ No
Are any significant deficiencies identified?	___ Yes	_X_ None reported
Is any noncompliance material to financial statements noted?	___ Yes	_X_ No

Federal Awards

Internal control over major federal programs:

Are any material weaknesses identified?	___ Yes	_X_ No
Are any significant deficiencies identified?	___ Yes	_X_ None reported
Type of auditors' report issued on compliance for major federal programs:	Unmodified	
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	___ Yes	_X_ No
Identification of major federal programs:		
<u>CFDA Number</u>	<u>Name of federal program or cluster</u>	
93.600	Full year Head Start – Part Day	
Dollar threshold used to distinguish between type A and type B programs:	\$750,000	
Auditee qualified as a low-risk auditee?	___ Yes	_X_ No

Johnston-Lee-Harnett Community Action, Incorporated
Schedule of Findings and Questioned Costs
for the year ended June 30, 2025

Section II. Financial Statement Findings

None noted.

Section III. Federal Awards Findings

None noted.



Johnston-Lee-Harnett Community Action, Inc.

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Lillington, NC 27546

Summary Schedule of Prior Audit Findings for the year ended June 30, 2025

Audit Finding Reference: 2024-001

Status of Prior Finding: Corrective action was taken.

Johnston-Lee-Harnett Community Action, Incorporated
Schedule of Expenditures of Federal and State Awards
for the year ended June 30, 2025

<u>Federal Grantor / Pass-through Grantor / Program or Cluster Title</u>	<u>Assistance Listing Number</u>	<u>Pass-through entity identifying Number</u>	<u>Expenditures</u>
<u>U. S. Department of Health and Human Services</u>			
Direct Programs:			
Full year Head Start - Part Day	93.600	UNKNOWN	\$ <u>6,985,734</u>
Passed through NC Department of Health and Human Services/Office of Economic Opportunity:			
Community Services Block Grant	93.569	2401NCCOSR	<u>759,488</u>
Passed through NC Department of Health and Human Services/NC Department of Environmental Quality:			
Weatherization Assistance for Low-Income Persons	93.568	2401NCLIEA	313,533
Heating Appliance Repair and Replacement Program	93.568	2401NCLIEA	<u>249,537</u>
			<u>563,070</u>
<u>U. S. Department of Agriculture</u>			
Passed through NC Department of Health and Human Services:			
Child and Adult Care Food Program	10.558	UNKNOWN	<u>309,448</u>
<u>U. S. Department of Housing & Urban Development</u>			
Passed through North Carolina Housing Finance Agency:			
HUD Emergency Solutions Grant	14.231	E-24-DC-37-0001	167,733
Passed through NC Housing Coalition:			
SSO Program	14.267	UNKNOWN	<u>45,353</u>
			<u>213,086</u>
<u>Federal Emergency Management Agency</u>			
Direct Programs:			
		39-6436-00 / 40-6436-00 / 41-6436-00 /	
Emergency Food and Shelter Program	97.024	ARPAR-6436-00	<u>177,124</u>

The accompanying notes are an integral
part of this schedule.

Johnston-Lee-Harnett Community Action, Incorporated
 Schedule of Expenditures of Federal and State Awards
 for the year ended June 30, 2025

U. S. Department of Energy

Passed through NC Department of Environmental Quality:

Weatherization Assistance for Low-Income Persons	81.042	DE-EE0009920	<u>240,851</u>
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U. S. Department of Treasury

Passed through NC Department of Health and Human
 Services:

State Fiscal Recovery Funds	21.027	SLFRP0129	<u>227,858</u>
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Total expenditures of federal awards		\$	<u>9,476,659</u>
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State of North Carolina Grant Program

Passed through North Carolina Housing Finance Agency:

Urgent Repair Program	N/A	2328	\$ <u>178,945</u>
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Passed through NC Housing Coalition:

Day 1 Family Fund	N/A	UNKNOWN	<u>15,185</u>
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Total expenditures of state awards			<u>194,130</u>
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Total expenditures of federal and state awards		\$	<u><u>9,670,789</u></u>
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The accompanying notes are an integral
 part of this schedule.

Johnston-Lee-Harnett Community Action, Incorporated
Notes to Schedule of Expenditures of Federal and State Awards
for the year ended June 30, 2025

1. BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal and State Awards (the "Schedule") includes the federal and state awards activity of Johnston-Lee-Harnett Community Action, Incorporated under programs of the federal and state governments for the year ended June 30, 2025. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of Johnston-Lee-Harnett Community Action, Incorporated, it is not intended to and does not present the financial position, changes in net assets or cash flows of Johnston-Lee-Harnett Community Action, Incorporated.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the modified-cash basis of accounting. The modified-cash basis used by management differs in many respects from accounting principles generally accepted in the United States of America as detailed below:

- (a) the acquisition of property and equipment is shown as an expense, which means that depreciation expense is never shown as such, nor is there ever a gain or loss to recognize on the disposal of property and equipment during its estimated useful life.
- (b) this schedule does not recognize prepaid expenses; rather, payments made in advance are shown as expenses of the reporting period.
- (c) no accrual has been made for unpaid vacation time even though such time has vested; instead, the expense is recognized in the period the vacation time is actually used.

Expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through entity identifying numbers are presented where available.

3. INDIRECT COST RATE

Johnston-Lee-Harnett Community Action, Incorporated has elected not to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

4. OUTSTANDING LOANS AT JUNE 30, 2025

At June 30, 2025, there was an outstanding loan under the *United States Department of Agriculture Rural Development* for an amount of \$1,233,109. Other than repayment of principal and interest, there was no continuing compliance requirement on this loan, and as such, is not reported on the Schedule.

5. SUBRECIPIENTS

Johnston-Lee-Harnett Community Action, Incorporated has not contracted or made awards to any subrecipients.