

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

Report on Audit of Financial Statements
for the year ended June 30, 2022

MPCompany LLP
Certified Public Accountants
4600 MARRIOTT DRIVE, SUITE 300
RALEIGH, NC 27612

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MPCompany LLP
Certified Public Accountants

4600 Marriott Drive, Suite 300 | Raleigh, North Carolina 27612
Tel (919) 836-9200 | Fax (919) 836-9288 | www.mpcllp.com

J. Micah Pate, III
Thomas M. Doherty
Brian T. Bennett
Alex Lehmann
Michael J. Palazzo, III

Angela W. Banask

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, 2022, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Johnston-Lee-Harnett Community Action, Incorporated as of June 30, 2022, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (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.

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 accompanying Schedule of Expenditures of Federal 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 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 January 31, 2023 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.

ZPC Company LLP

January 31, 2023

Johnston-Lee-Harnett Community Action, Incorporated
 Statement of Financial Position
 June 30, 2022

<u>Assets</u>	
Current assets:	
Government contracts and awards receivable	\$ 603,548
Other receivables	<u>20,060</u>
Total current assets	<u>623,608</u>
Restricted cash for long-term purposes	<u>22,580</u>
Property and equipment, at cost:	
Land	122,435
Buildings and improvements	2,718,953
Vehicles	1,451,782
Furniture and equipment	<u>512,103</u>
Less accumulated depreciation and amortization	4,805,273
Property and equipment, net	<u>3,225,634</u>
<u>Deposit</u>	<u>1,579,639</u>
Deposit	10,302
	<u>\$ 2,236,129</u>
<u>Liabilities and Net Assets</u>	
Current liabilities:	
Cash deficit	\$ 42,777
Current maturities of long-term debt	27,133
Line of credit	50,000
Accounts payable	425,152
Due to grantor	59,543
Accrued liabilities:	
Vacation	50,124
Payroll taxes and withholdings	79,195
Interest	7,917
Advances on grants	<u>97,627</u>
Total current liabilities	<u>839,468</u>
Noncurrent liabilities - long-term debt, less current maturities	<u>1,290,152</u>
Net assets (deficit):	
Without donor restrictions	(99,374)
With donor restrictions	<u>205,883</u>
Total net assets	<u>106,509</u>
	<u>\$ 2,236,129</u>

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, 2022

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Changes in net assets:			
Revenues, support, and gains:			
Government contracts and awards:			
Federal	\$ 9,138,111	\$ 304,631	\$ 9,442,742
State	68,295	20,000	88,295
Contributions of cash and other financial assets	85,584	75,000	160,584
Contributions of nonfinancial assets	1,372,072	-	1,372,072
Contract services	119,015	-	119,015
Rental income	14,925	-	14,925
Interest income	6	-	6
Other	36,314	-	36,314
Total	<u>10,834,322</u>	<u>399,631</u>	<u>11,233,953</u>
Net assets released from restrictions	<u>374,330</u>	<u>(374,330)</u>	<u>-</u>
Total revenues, support, and gains	<u><u>11,208,652</u></u>	<u><u>25,301</u></u>	<u><u>11,233,953</u></u>
Expenses:			
Programs:			
Early Childhood Services	7,308,554	-	7,308,554
Housing Repairs and Maintenance	1,729,618	-	1,729,618
Community Services Block Grant	1,006,243	-	1,006,243
Other programs	528,733	-	528,733
Total programs	<u>10,573,148</u>	<u>-</u>	<u>10,573,148</u>
Management and general	<u>931,638</u>	<u>-</u>	<u>931,638</u>
Total expenses	<u><u>11,504,786</u></u>	<u><u>-</u></u>	<u><u>11,504,786</u></u>
Changes in net assets	(296,134)	25,301	(270,833)
Net assets at beginning of year	<u>196,760</u>	<u>180,582</u>	<u>377,342</u>
Net assets (deficit) at end of year	<u>\$ (99,374)</u>	<u>\$ 205,883</u>	<u>\$ 106,509</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, 2022

	Programs							
	Early Childhood Services	Housing Repairs and Maintenance	Community Services Block Grant	Other Programs	Total Programs	Management and General		Total
Wages	\$ 3,626,525	\$ 465,546	\$ 462,385	\$ 94,404	\$ 4,648,860	\$ 533,040	\$ 5,181,900	
Employee benefits	579,181	92,400	99,086	21,846	792,513	106,242	898,755	
Payroll taxes	269,627	34,613	34,377	7,020	345,637	39,631	385,268	
Communications costs	84,526	3,066	14,749	8,630	110,971	6,735	117,706	
Contractual	-	262,255	8,584	52,281	323,120	-	323,120	
Depreciation and amortization	115,456	474	-	4,517	120,447	65,794	186,241	
Fees	15,348	359	-	3,418	19,125	1,530	20,655	
Food and support	181,078	-	-	-	181,078	-	181,078	
Health and safety	-	34,627	-	-	34,627	-	34,627	
In-kind goods and services	214,999	-	-	-	214,999	-	214,999	
In-kind space	1,157,073	-	-	-	1,157,073	-	1,157,073	
Insurance	142,532	19,793	12,496	6,622	181,443	28,629	210,072	
Interest	-	-	-	-	-	46,686	46,686	
Maintenance, repair and utilities	337,998	10,784	7,110	12,768	368,660	21,439	390,099	
Materials and supplies	98,736	253,115	-	58,300	410,151	-	410,151	
Meetings and conferences	-	-	2,017	36	2,053	1,616	3,669	
Memberships and subscriptions	35,112	-	1,920	-	37,032	2,302	39,334	
Office supplies	21,288	3,989	7,122	3,913	36,312	4,656	40,968	
Participant costs	360	504,478	328,862	226,087	1,059,787	-	1,059,787	
Professional services	28,415	-	-	13,405	41,820	47,000	88,820	
Rent	261,244	-	-	592	261,836	7,000	268,836	
Specialized services	19,698	2,656	8,494	3,148	33,996	4,560	38,556	
Training and education	52,245	26,045	10,889	-	89,179	2,068	91,247	
Travel	30,866	7,369	5,559	2,758	46,552	10,529	57,081	
Vehicle expenses	9,342	6,897	-	41	16,280	253	16,533	
Other	26,905	1,152	2,593	8,947	39,597	1,928	41,525	
Total	\$ 7,308,554	\$ 1,729,618	\$ 1,006,243	\$ 528,733	\$ 10,573,148	\$ 931,638	\$ 11,504,786	

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, 2022

Cash flows from operating activities:

Changes in net assets	\$ (270,833)
Adjustments to reconcile changes in net assets to net cash used in operating activities:	
Depreciation and amortization	186,241
Changes in assets and liabilities:	
(Increase) decrease in assets:	
Government contracts and awards receivable	(252,826)
Other receivables	19,821
Deposit	(9,000)
Increase (decrease) in liabilities:	
Accounts payable	227,191
Accrued liabilities	(2,245)
Advances on grants	<u>(99,674)</u>
Net cash used in operating activities	<u>(201,325)</u>

Cash flows from investing activities:

Capital expenditures for property and equipment	(4,975)
Net cash used in investing activities	<u>(4,975)</u>

Cash flows from financing activities:

Cash restricted for long-term purposes	(7,280)
Withdrawals under line of credit	23,100
Principal payments of long-term debt	<u>(26,247)</u>
Net cash used in financing activities	<u>(10,427)</u>

Net decrease in cash (216,727)

Cash, beginning of year 173,950

Cash deficit, end of year \$ (42,777)

Supplemental disclosure of cash flows information:

Cash paid during the year for interest \$ 46,844

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

Johnston-Lee-Harnett Community Action, Incorporated
Notes to Financial Statements
June 30, 2022

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 Presentation

The financial statements of the Organization are prepared on the accrual basis of accounting and in accordance with accounting principles generally accepted in the United States of America and in accordance with the principles contained in the audit and accounting guide, *Not-for-Profit Entities*, published by the American Institute of Certified Public Accountants.

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.

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.

Cash

Federal and state funds are kept in separate bank accounts at various North Carolina regional banks. At June 30, 2022, there were no cash deposits in excess of federally insured amounts.

Johnston-Lee-Harnett Community Action, Incorporated
Notes to Financial Statements
June 30, 2022

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 doubtful accounts 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	5-10 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, 2022 was \$186,241.

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 \$158,862 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.

Johnston-Lee-Harnett Community Action, Incorporated
Notes to Financial Statements
June 30, 2022

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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 \$3,972 for the year ended June 30, 2022.

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 activities 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 have been allocated between the program and supporting services benefited.

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.

Johnston-Lee-Harnett Community Action, Incorporated
Notes to Financial Statements
June 30, 2022

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Advertising Costs

The Organization uses advertising to promote its programs among the audiences it serves. Advertising costs are expensed as incurred. Advertising expense for the year ended June 30, 2022 was \$1,535.

Adoption of New Accounting Pronouncement

During fiscal year 2022 the Organization adopted the Financial Accounting Standards Board's Accounting Standards Update (ASU) 2020-07, *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*. The new guidance requires nonprofit entities to present contributed nonfinancial assets as a separate line item in the statement of activities, apart from contributions of cash or other financial assets. The standard also increase the disclosure requirements around contributed nonfinancial assets, including disaggregating by category the types of contributed nonfinancial assets a nonprofit entity has received. Adoption of this standard did not have a significant impact on the financial statements, with the exception of increased disclosure.

Subsequent Events

The Organization has evaluated events and transactions that occurred between June 30, 2022 and January 31, 2023, which is the date the financial statements were available to be issued, for possible recognition or disclosure in the financial statements.

Subsequent to the year end, the Organization sold property used for low-income housing for \$116,000. Additionally, the Organization was awarded various grants totaling approximately \$15.2 million. Of those grants, the Organization was awarded five grants specifically for COVID-19 relief totaling approximately \$2.2 million. All such grants are related to fulfilling the Organization's program objectives and its missions.

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	\$ 623,608
Less amounts not available for general expenditures within one year:	
Cash	\$ (20,197)
Restricted cash	(22,580)
Current maturities of long-term debt	(27,133)
Line of credit	<u>(50,000)</u>
Total financial assets available to meet general expenditures within one year	\$ <u>503,698</u>

Johnston-Lee-Harnett Community Action, Incorporated
Notes to Financial Statements
June 30, 2022

3. LIQUIDITY AND AVAILABILITY (Continued)

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.

4. LINE OF CREDIT

In May 2020, the Organization entered into an unsecured operating line of credit agreement with a bank. Maximum borrowings under the agreement are \$50,000. Outstanding borrowings accrue interest at prime rate plus 1% (5.75% at June 30, 2022) with a 4.00% interest rate floor and a 18.00% interest rate ceiling. The Organization opted to renew the line of credit under substantially the same terms and with a new maturity date of May 25, 2023. For the year ended June 30, 2022, the Organization recognized interest expense on the line of credit in the amount of \$1,500.

5. 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%. At June 30, 2022, \$1,317,285 was outstanding under this loan agreement. The loan requires a reserve account to be funded monthly in the minimum amount of \$597 until \$71,591 is accumulated. At June 30, 2022, the Organization held \$22,580 in restricted cash under this loan provision. For the year ended June 30, 2022, the Organization recognized interest expense in the amount of \$45,186. 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, 2022, the carrying amount of the land and building at the Organization's headquarters totaled \$747,502.

Future maturities of long-term debt are as follows:

Year ending June 30,	
2023	\$ 27,133
2024	28,048
2025	28,995
2026	29,974
2027	30,985
Thereafter	<u>1,172,150</u>
Total	\$ <u>1,317,285</u>

6. LEASES

The Organization leases facilities and land for its early childhood programs under non-cancelable operating lease agreements expiring through October 2028. Total rental expense under these leases in addition to an annual facility lease expiring June 30, 2022 was \$268,836 for the year ended June 30, 2022.

Johnston-Lee-Harnett Community Action, Incorporated
Notes to Financial Statements
June 30, 2022

6. LEASES (Continued)

The following is a schedule of minimum future rental payments under non-cancelable operating leases as of June 30, 2022:

Year ending June 30,	
2023	\$ 177,615
2024	105,420
2025	105,420
2026	105,420
2027	105,420
Thereafter	<u>28,991</u>
Total	<u>\$ 599,295</u>

The Organization leases four properties to low-income individuals on a month-to-month basis. Total rental income from these properties recognized in the statement of activities for the year ended June 30, 2022 was \$14,925.

7. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions of \$183,543 are available for early childhood programs at June 30, 2022. Net assets with donor restrictions of \$22,340 are available for housing assistance at June 30, 2022.

8. CONTRIBUTIONS OF NONFINANCIAL ASSETS

Donated goods, 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, 2022 are comprised of the following:

Classroom space	\$ 1,157,073
Professional services	212,253
Other goods	<u>2,746</u>
Total	<u>\$ 1,372,072</u>

9. 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, 2022 were \$150,986.

10. FUNCTIONAL EXPENSES

The financial statements report certain categories of expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include wages, payroll taxes, and employee benefits which are allocated based on estimates of time and effort.

Johnston-Lee-Harnett Community Action, Incorporated
Notes to Financial Statements
June 30, 2022

11. 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.

12. CONCENTRATIONS

The Organization received 85% of total revenues from federal and state governmental entities for the year ended June 30, 2022. A significant reduction in this level of support could have significant impact on the Organization's programs and activities. In addition, 97% of receivables at June 30, 2022 were due from federal and state governmental entities. At June 30, 2022, 16% of payables were due to one vendor.

13. COVID-19

The COVID-19 pandemic, whose effects first became known in January 2020, is having a broad impact on commerce and financial markets around the world. The United States and global markets experienced significant volatility in value resulting from uncertainty caused by the pandemic. The extent of the impact of COVID-19 on the Organization's operational and financial performance will depend on certain developments, including the duration and spread of the outbreak and its impacts on the Organization's grantors, clients, employees, and vendors, all of which at present, cannot be determined. Accordingly, the extent to which COVID-19 may impact the Organization's financial position and changes in net assets and cash flows as the pandemic continues is uncertain and the accompanying financial statements include no adjustments relating to the effects of this pandemic.



MPCompany LLP
Certified Public Accountants

4600 Marriott Drive, Suite 300 | Raleigh, North Carolina 27612
Tel (919) 836-9200 | Fax (919) 836-9288 | www.mpcllp.com

J. Micah Pate, III
Thomas M. Doherty
Brian T. Bennett
Alex Lehmann
Michael J. Palazzo, III

Angela W. Banask

**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, 2022, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements and have issued our report thereon dated January 31, 2023.

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. Given these limitations, during our audit, we did not identify any

deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether 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*. We noted certain matters that we have reported to management of Johnston-Lee-Harnett Community Action, Incorporated in a separate letter dated January 31, 2023.

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 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.

YPC Company LLP

January 31, 2023



MPCompany LLP
Certified Public Accountants

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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, 2022. 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, 2022.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (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 with the 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.

NPC Company LLP

January 31, 2023

Johnston-Lee-Harnett Community Action, Incorporated
Schedule of Findings and Questioned Costs
for the year ended June 30, 2022

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? | <input type="checkbox"/> Yes | <input checked="" type="checkbox"/> No |
| Are any significant deficiencies identified? | <input type="checkbox"/> Yes | <input checked="" type="checkbox"/> None reported |
| Is any noncompliance material to financial statements noted? | <input type="checkbox"/> Yes | <input checked="" type="checkbox"/> No |

Federal Awards

Internal control over major federal programs:

- | | | |
|--|------------------------------|---|
| Are any material weaknesses identified? | <input type="checkbox"/> Yes | <input checked="" type="checkbox"/> No |
| Are any significant deficiencies identified? | <input type="checkbox"/> Yes | <input checked="" type="checkbox"/> 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)? | <input type="checkbox"/> Yes | <input checked="" type="checkbox"/> 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
93.600	COVID-19 Full year Head Start – Part Day
93.568	Weatherization Assistance for Low-Income Persons
93.568	COVID-19 Weatherization Assistance for Low-Income Persons
93.568	Heating Appliance Repair and Replacement Program
14.231	Emergency Solutions Grant
14.231	COVID-19 HUD Emergency Solutions Grant

Dollar threshold used to distinguish between type A and type B programs:

\$750,000

Auditee qualified as a low-risk auditee?

Yes No

Johnston-Lee-Harnett Community Action, Incorporated
Schedule of Findings and Questioned Costs
for the year ended June 30, 2022

Section II. Financial Statement Findings

None.

Section III. Federal Awards Findings

None.



Johnston-Lee-Harnett Community Action, Inc.

MAIN OFFICE

Phone 919-934-2145
Fax 919-934-6231
Post Office Drawer 711
1102 Massey Street
Smithfield, NC 27577

LEE COUNTY OFFICE

Phone 919-776-0746
Fax 919-774-1867
Post Office Box 1061
225 S. Steele Street
Sanford, NC 27330

HARNETT COUNTY OFFICE

Phone 910-814-8360
Fax 910-814-8362
Post Office Box 40
252 Irene Roberts Rd., Suite 101
Lillington, NC 27546

Summary Schedule of Prior Audit Findings for the year ended June 30, 2022

None noted.

Johnston-Lee-Harnett Community Action, Incorporated
 Schedule of Expenditures of Federal Awards
 for the year ended June 30, 2022

<u>Federal Grantor / Pass-through Grantor / Program or Cluster Title</u>	<u>Federal CFDA 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	\$ 5,963,627
COVID-19 - Full year Head Start - Part Day	93.600	UNKNOWN	<u>197,142</u>
			<u>6,160,769</u>
Passed-through NC Department of Health and Human Services/Office of Economic Opportunity:			
CSBG - Hurricane Florence	93.556	G15B1NCCOSR	<u>36,972</u>
Community Services Block Grant	93.569	G19B1NCCOSR	374,235
COVID-19 Community Services Block Grant	93.569	2001NCCSC3	<u>674,508</u>
			<u>1,048,743</u>
			<u>1,085,715</u>
Passed-through NC Department of Health and Human Services/NC Department of Environmental Quality:			
Weatherization Assistance for Low-Income Persons	93.568	21B1NCLIEA / 22B1NCLIEA / 2001NCE5C3	315,208
COVID-19 - Weatherization Assistance for Low-Income Persons	93.568	2101NCLWC6	98,816
Heating Appliance Repair and Replacement Program	93.568	21B1NCLIEA / 22B1NCLIEA / 2001NCE5C3	<u>199,930</u>
			<u>613,954</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>298,612</u>
<u>U. S. Department of Housing & Urban Development</u>			
Passed through NC Department of Health and Human Services, Division of Aging and Adult Services:			
Emergency Solutions Grant	14.231	E21DC37001	236,226

The accompanying notes are an integral part of this schedule.

Johnston-Lee-Harnett Community Action, Incorporated
 Schedule of Expenditures of Federal Awards
 for the year ended June 30, 2022

Passed through North Carolina Housing Finance Agency

COVID-19 HUD Emergency Solutions Grant	14.231	E20DW37001	<u>637,203</u>
			<u>873,429</u>

Passed through NC Housing Coalition:

SSO Program	14.267	UNKNOWN	<u>58,697</u>
			<u>932,126</u>

Federal Emergency Management Agency

Direct Programs:

Emergency Food and Shelter Program	97.024	37-6436-00 / 38-6436-00	37,947
COVID-19 - Emergency Food and Shelter Program	97.024	ARPAR-6420-00 / CARES-6420-00	<u>26,442</u>
			<u>64,389</u>

U. S. Department of Energy

Passed-through NC Department of Environmental Quality:

Weatherization Assistance for Low-Income Persons	81.042	DE-EE0007939	<u>277,185</u>
			<u>\$ 9,432,750</u>

The accompanying notes are an integral
 part of this schedule.

Johnston-Lee-Harnett Community Action, Incorporated
Notes to Schedule of Expenditures of Federal Awards
for the year ended June 30, 2022

1. BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards (the "Schedule") includes the federal awards activity of Johnston-Lee-Harnett Community Action, Incorporated under programs of the federal government for the year ended June 30, 2022. 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, 2022

At June 30, 2022, there was an outstanding loan under the *United States Department of Agriculture Rural Development* for an amount of \$1,317,285. 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.