

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

Report on Audit of Financial Statements
for the year ended June 30, 2023

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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, 2023, 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, 2023, 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 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 25, 2024 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 25, 2024

Johnston-Lee-Harnett Community Action, Incorporated
Statement of Financial Position
June 30, 2023

<u>Assets</u>	
Current assets:	
Cash	\$ 111,267
Government contracts and awards receivable	321,481
Other receivables	<u>25,263</u>
Total current assets	<u>458,011</u>
Noncurrent assets:	
Restricted cash for long-term purposes	29,600
Property and equipment, net	1,896,295
Right-of-use asset, net	386,918
Deposit	<u>10,302</u>
Total noncurrent assets	<u>2,323,115</u>
Total assets	<u>\$ 2,781,126</u>
<u>Liabilities and Net Assets</u>	
Current liabilities:	
Current maturities of operating lease	\$ 80,650
Current maturities of long-term debt	28,048
Line of credit	42,239
Accounts payable	255,258
Due to grantor	71,656
Accrued liabilities:	
Vacation	55,596
Payroll taxes and withholdings	120,418
Interest	7,754
Advances on grants	<u>21,934</u>
Total current liabilities	<u>683,553</u>
Noncurrent liabilities:	
Operating lease, excluding current maturities	306,268
Long-term debt, excluding current maturities	<u>1,262,104</u>
Total noncurrent liabilities	<u>1,568,372</u>
Total liabilities	<u>2,251,925</u>
Net assets (deficit):	
Without donor restrictions	(61,912)
With donor restrictions	<u>591,113</u>
Total net assets	<u>529,201</u>
	<u>\$ 2,781,126</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, 2023

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Revenues, support, and gains:			
Government contracts and awards:			
Federal	\$ 9,425,140	\$ 367,315	\$ 9,792,455
State	199,284	72,126	271,410
Contributions of cash and other financial assets	92,874	-	92,874
Contributions of nonfinancial assets	1,730,424	359,600	2,090,024
Contract services	225,392	-	225,392
Rental income	47,695	-	47,695
Gain on disposal of property and equipment	103,512	-	103,512
Interest income	90	-	90
Other	<u>1,300</u>	<u>-</u>	<u>1,300</u>
Total	11,825,711	799,041	12,624,752
Net assets released from restrictions	<u>413,811</u>	<u>(413,811)</u>	<u>-</u>
Total revenues, support, and gains	<u>12,239,522</u>	<u>385,230</u>	<u>12,624,752</u>
Expenses:			
Programs:			
Early Childhood Services	8,519,177	-	8,519,177
Housing Repairs and Maintenance	1,016,244	-	1,016,244
Community Services Block Grant	1,027,348	-	1,027,348
Other programs	<u>677,684</u>	<u>-</u>	<u>677,684</u>
Total programs	11,240,453	-	11,240,453
Management and general	<u>961,607</u>	<u>-</u>	<u>961,607</u>
Total expenses	<u>12,202,060</u>	<u>-</u>	<u>12,202,060</u>
Changes in net assets	37,462	385,230	422,692
Net assets (deficit) at beginning of year	<u>(99,374)</u>	<u>205,883</u>	<u>106,509</u>
Net assets (deficit) at end of year	\$ <u>(61,912)</u>	\$ <u>591,113</u>	\$ <u>529,201</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, 2023

	Programs				Total Programs	Management and General	Total
	Early Childhood Services	Housing Repairs and Maintenance	Community Services Block Grant	Other Programs			
Wages	\$ 3,993,989	\$ 318,352	\$ 477,250	\$ 72,868	\$ 4,862,459	\$ 569,603	\$ 5,432,062
Employee benefits	992,283	88,276	95,420	14,257	1,190,236	122,133	1,312,369
Payroll taxes	321,870	23,874	35,791	5,464	386,999	42,717	429,716
Communications costs	103,338	2,930	16,251	10,111	132,630	5,432	138,062
Contractual	-	215,028	450	121,048	336,526	-	336,526
Depreciation and amortization	88,545	351	-	2,655	91,551	66,365	157,916
Fees	16,083	320	-	3,832	20,235	785	21,020
Food and support	250,718	-	-	2,000	252,718	-	252,718
Health and safety	-	32,896	-	-	32,896	-	32,896
Contributed goods and services	179,640	-	-	-	179,640	-	179,640
Contributed space	1,442,443	-	-	-	1,442,443	-	1,442,443
Insurance	164,620	23,634	16,859	7,133	212,246	19,456	231,702
Interest	-	-	-	-	-	48,014	48,014
Maintenance, repair and utilities	246,554	14,043	11,896	56,393	328,886	11,461	340,347
Materials and supplies	222,146	182,547	-	147,541	552,234	-	552,234
Meetings and conferences	108	95	-	186	389	4,121	4,510
Memberships and subscriptions	32,034	-	9,000	4,000	45,034	4,418	49,452
Office supplies	36,496	2,394	12,000	7,206	58,096	3,292	61,388
Participant costs	3,023	68,812	308,296	185,914	566,045	-	566,045
Professional services	26,430	-	-	-	26,430	45,850	72,280
Rent	237,917	-	2,393	18,590	258,900	-	258,900
Specialized services	14,928	1,683	3,502	652	20,765	3,316	24,081
Training and education	69,019	21,576	14,722	699	106,016	774	106,790
Travel	49,714	7,876	20,760	16,689	95,039	10,089	105,128
Vehicle expenses	11,529	5,589	-	-	17,118	948	18,066
Other	15,750	5,968	2,758	446	24,922	2,833	27,755
Total	\$ 8,519,177	\$ 1,016,244	\$ 1,027,348	\$ 677,684	\$ 11,240,453	\$ 961,607	\$ 12,202,060

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, 2023

Cash flows from operating activities:	
Changes in net assets	\$ 422,692
Adjustments to reconcile changes in net assets to net cash provided by operating activities:	
Depreciation and amortization expense	157,916
Amortization of right-of-use asset	56,775
Contributed building, land, and equipment	(467,941)
Gain on the sale of property and equipment	(103,512)
Changes in assets and liabilities:	
(Increase) decrease in assets:	
Government contracts and awards receivable	282,067
Other receivables	(5,203)
Increase (decrease) in liabilities:	
Accounts payable	(169,894)
Due to grantor	12,113
Accrued liabilities	46,532
Advances on grants	(75,693)
Operating lease liability	<u>(56,775)</u>
Net cash provided by operating activities	<u>99,077</u>
Cash flows from investing activities:	
Purchase of equipment	(19,119)
Proceeds from sale of equipment	<u>116,000</u>
Net cash provided by investing activities	<u>96,881</u>
Cash flows from financing activities:	
Cash restricted for long-term purposes	(7,020)
Principal payments of line of credit, net	(7,761)
Principal payments of long-term debt	<u>(27,133)</u>
Net cash used in financing activities	<u>(41,914)</u>
Net increase in cash	154,044
Cash deficit, beginning of year	<u>(42,777)</u>
Cash, end of year	\$ <u><u>111,267</u></u>
Supplemental disclosure of cash flows information:	
Cash paid during the year for interest	\$ <u><u>48,177</u></u>
Supplemental disclosure of noncash investing and financing activities:	
Contributed building, land, and equipment	\$ <u><u>467,941</u></u>
Right-of-use asset and liability upon ASC 842 implementation	\$ <u><u>443,693</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, 2023

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, 2023, there were \$682,913 of cash deposits in excess of federally insured amounts.

Johnston-Lee-Harnett Community Action, Incorporated
Notes to Financial Statements
June 30, 2023

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, 2023 was \$157,916.

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. The Organization received \$108,341 of contributed building improvements without donor restrictions during the year ended June 30, 2023. Additionally, the Organization received \$42,600 of contributed land and \$317,000 for a contributed building with donor restrictions for use during the year ended June 30, 2023.

Certain property and equipment with a carrying value of \$96,413 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, 2023

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 \$22,945 for the year ended June 30, 2023.

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, 2023

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Adoption of New Accounting Pronouncement

In 2023, the Organization adopted Accounting Standards Update (ASU) No. 2016-02, *Leases*, which requires lessees to recognize leases on the statement of financial position and disclose key information about leasing arrangements. The Organization elected not to restate the comparative period (2022). It also elected not to reassess at adoption (i) expired or existing contracts to determine whether they are or contain a lease, (ii) the lease classification of any existing leases, or (iii) initial direct costs for existing leases. As a result of implementing ASU No. 2016-02, the Organization recognized right-of-use assets and lease liabilities of \$443,693. The adoption did not result in a significant effect on amounts reported in the statement of activities for the year ended June 30, 2023.

Subsequent Events

The Organization has evaluated events and transactions that occurred between June 30, 2023 and March 25, 2024, 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 was awarded various grants totaling approximately \$13.7 million. Of those grants, the Organization was awarded one grant specifically for COVID-19 relief totaling approximately \$155,000. 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:

Cash	\$	140,867
Receivables		346,744
Less amounts not available for general expenditures within one year:		
Restricted cash		(29,600)
Current maturities of long-term debt		(28,048)
Line of credit		<u>(42,239)</u>
Total financial assets available to meet general expenditures within one year		\$ <u>387,724</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.

Johnston-Lee-Harnett Community Action, Incorporated
Notes to Financial Statements
June 30, 2023

4. PROPERTY AND EQUIPMENT

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

Land	\$ 165,035
Buildings and improvements	3,115,063
Vehicles	1,451,782
Furniture and equipment	<u>502,103</u>
	5,233,983
Less accumulated depreciation	<u>(3,337,688)</u>
Net property and equipment	<u>\$ 1,896,295</u>

5. 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% (9.25% at June 30, 2023) 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, 2024. For the year ended June 30, 2023, the Organization recognized interest expense on the line of credit in the amount of \$3,719.

Subsequent to the year end, the Organization increased its line of credit held from \$50,000 to \$150,000.

6. 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, 2023, \$1,290,152 was outstanding under this loan agreement. The loan requires a reserve account to be funded to minimum annual reserves (\$29,596 as of July 1, 2023) until \$71,591 is accumulated. At June 30, 2023, the Organization held \$29,600 in restricted cash under this loan provision. For the year ended June 30, 2023, the Organization recognized interest expense in the amount of \$44,295. 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, 2023, the carrying amount of the land and building at the Organization's headquarters totaled \$878,586.

Future maturities of long-term debt are as follows:

Year ending June 30,	
2024	\$ 28,048
2025	28,995
2026	29,974
2027	30,985
2028	32,031
Thereafter	<u>1,140,119</u>
Total	<u>\$ 1,290,152</u>

Johnston-Lee-Harnett Community Action, Incorporated
Notes to Financial Statements
June 30, 2023

7. OPERATING LEASES AND LEASE LIABILITIES

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, 2023 was \$258,900 for the year ended June 30, 2023.

In 2023, the Organization adopted Accounting Standards Codification Topic 842, *Leases* and as such has recognized both a right-of-use asset and a corresponding lease liability on the statement of financial position for its executed operating lease. The asset and liability 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 term at the incremental borrowing rate of 7.25%. Amortization expense on lease liabilities and assets for the year ended June 30, 2023 is \$56,775.

The following is a schedule of minimum future rental payments under non-cancelable operating leases as of June 30, 2023:

Year ending June 30,		
2024	\$	105,420
2025		105,420
2026		105,420
2027		105,420
2028		<u>26,355</u>
Undiscounted lease liability		448,035
Less present value discount		<u>(61,097)</u>
Net lease liability		386,918
Less current maturities		<u>(80,650)</u>
	\$	<u><u>306,268</u></u>

The Organization leases two properties to low-income individuals on a month-to-month basis. 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, 2023 was \$47,695.

8. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions of \$206,198 are available for early childhood programs at June 30, 2023. Net assets with donor restrictions of \$25,315 are available for housing assistance and \$359,600 is available as a donated property at June 30, 2023.

9. 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, 2023 are comprised of the following:

Classroom space	\$	1,442,443
Capitalized asset		467,941
Professional services		164,872
Other goods		<u>14,768</u>
Total	\$	<u><u>2,090,024</u></u>

Johnston-Lee-Harnett Community Action, Incorporated
Notes to Financial Statements
June 30, 2023

10. 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, 2023 were \$162,742.

11. 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.

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 84% of total revenues from federal and state governmental entities for the year ended June 30, 2023. A significant reduction in this level of support could have significant impact on the Organization's programs and activities. In addition, 93% of receivables at June 30, 2023 were due from federal and state governmental entities. At June 30, 2023, 34% of payables were due to three vendors.



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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, 2023, 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 25, 2024.

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. 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 or significant deficiencies may exist that were not identified.

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 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.

MPC Company LLP

March 25, 2024



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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, 2023. 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, 2023.

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.

MPC Company LLP

March 25, 2024

Johnston-Lee-Harnett Community Action, Incorporated
 Schedule of Findings and Questioned Costs
 for the year ended June 30, 2023

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 No

Are any significant deficiencies identified? Yes None reported

Is any noncompliance material to financial statements noted? Yes No

Federal Awards

Internal control over major federal programs:

Are any material weaknesses identified? Yes No

Are any significant deficiencies identified? Yes 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 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

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, 2023

Section II. Financial Statement Findings

None.

Section III. Federal Awards Findings

None.



Johnston-Lee-Harnett Community Action, Inc.

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Summary Schedule of Prior Audit Findings for the year ended June 30, 2023

None noted.

Johnston-Lee-Harnett Community Action, Incorporated
Schedule of Expenditures of Federal and State Awards
for the year ended June 30, 2023

<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	\$ 6,462,854
COVID-19 - Full year Head Start - Part Day	93.600	UNKNOWN	<u>794,679</u>
			<u>7,257,533</u>
Passed through NC Department of Health and Human Services/Office of Economic Opportunity:			
CSBG - Hurricane Florence	93.556	2001NCCOSR/ 2101NCCOSR	<u>77,611</u>
Community Services Block Grant	93.569	2101NCCOSR/ 2201NCCOSR	871,646
COVID-19 Community Services Block Grant	93.569	2001NCCSC3	<u>160,177</u>
			<u>1,031,823</u>
			<u>1,109,434</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	353,535
COVID-19 - Weatherization Assistance for Low-Income Persons	93.568	2101NCLWC6	28,549
Heating Appliance Repair and Replacement Program	93.568	21B1NCLIEA / 22B1NCLIEA	<u>272,454</u>
			<u>654,538</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>273,623</u>
<u>U. S. Department of Housing & Urban Development</u>			
Passed through North Carolina Housing Finance Agency:			
COVID-19 HUD Emergency Solutions Grant	14.231	E20DW37001	239,720

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, 2023

Passed through NC Housing Coalition:			
SSO Program	14.267	UNKNOWN	<u>53,121</u>
			<u>292,841</u>
<u>Federal Emergency Management Agency</u>			
Direct Programs:			
		39-6436-00 /	
Emergency Food and Shelter Program	97.024	40-6436-00	10,791
		ARPAR-6420-00 /	
COVID-19 - Emergency Food and Shelter Program	97.024	CARES-6420-00	<u>23,163</u>
			<u>33,954</u>
<u>U. S. Department of Energy</u>			
Passed through NC Department of Environmental Quality:			
Weatherization Assistance for Low-Income Persons	81.042	DE-EE0007939	<u>161,360</u>
Total expenditures of federal awards			\$ <u><u>9,783,283</u></u>
<u>State of North Carolina Grant Program</u>			
Passed through North Carolina Housing Finance Agency:			
Urgent Repair Program	N/A	UNKNOWN	\$ <u>131,705</u>
Passed through NC Housing Coalition:			
Safe at Home	N/A	UNKNOWN	<u>76,894</u>
Total expenditures of state awards			<u>208,599</u>
Total expenditures of federal and state awards			\$ <u><u>9,991,882</u></u>

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, 2023

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 government for the year ended June 30, 2023. 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, 2023

At June 30, 2023, there was an outstanding loan under the *United States Department of Agriculture Rural Development* for an amount of \$1,290,152. 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.