

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

Report on Audit of Financial Statements
for the year ended June 30, 2021

MPCoCompany LLP
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Independent Auditors' Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of Johnston-Lee-Harnett Community Action, incorporated, which comprise the statement of financial position as of June 30, 2021, and the related statements of activities, functional expenses, and cash flows for the year then ended and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Johnston-Lee-Harnett Community Action, Incorporated as of June 30, 2021, 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.

Other Matters

Other 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 is presented for purposes of additional analysis as required by the audit requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), 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 March 31, 2022 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 31, 2022

Johnston-Lee-Harnett Community Action, Incorporated
Statement of Financial Position
June 30, 2021

<u>Assets</u>	
Current assets:	
Cash	\$ 173,950
Government contracts and awards receivable	350,722
Other receivables	<u>39,881</u>
Total current assets	<u>564,553</u>
Restricted cash for long-term purposes	<u>15,300</u>
Property and equipment, at cost:	
Land	122,435
Buildings and improvements	2,713,978
Vehicles	1,451,782
Furniture and equipment	<u>512,103</u>
	4,800,298
Less accumulated depreciation and amortization	<u>3,039,393</u>
Property and equipment, net	<u>1,760,905</u>
Deposit	<u>1,302</u>
	<u>\$ 2,342,060</u>
<u>Liabilities and Net Assets</u>	
Current liabilities:	
Current maturities of long-term debt	\$ 26,247
Line of credit	26,900
Accounts payable	197,961
Due to grantor	59,543
Accrued liabilities:	
Vacation	50,124
Payroll taxes and withholdings	81,282
Interest	8,075
Advances on grants	<u>197,301</u>
Total current liabilities	<u>647,433</u>
Noncurrent liabilities - long-term debt, less current maturities	<u>1,317,285</u>
Net assets:	
Without donor restrictions	196,760
With donor restrictions	<u>180,582</u>
Total net assets	<u>377,342</u>
	<u>\$ 2,342,060</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, 2021

	<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	\$ 11,773,015	\$ 184,504	\$ 11,957,519
State	104,970	-	104,970
Contributions	1,698,333	-	1,698,333
Paycheck Protection Program	142,594	-	142,594
Contract services	202,748	-	202,748
Rental income	13,005	-	13,005
Interest income	14	-	14
Other	<u>41,675</u>	<u>-</u>	<u>41,675</u>
Total	13,976,354	184,504	14,160,858
Net assets released from restrictions	<u>84,576</u>	<u>(84,576)</u>	<u>-</u>
Total revenues, support, and gains	<u>14,060,930</u>	<u>99,928</u>	<u>14,160,858</u>
Expenses:			
Programs:			
Early Childhood Services	7,661,189	-	7,661,189
Project Hope	2,547,281	-	2,547,281
Housing Repairs and Maintenance	1,132,203	-	1,132,203
Community Services Block Grant	1,171,074	-	1,171,074
Other programs	<u>783,505</u>	<u>-</u>	<u>783,505</u>
Total programs	13,295,252	-	13,295,252
Management and general	<u>921,435</u>	<u>-</u>	<u>921,435</u>
Total expenses	<u>14,216,687</u>	<u>-</u>	<u>14,216,687</u>
Changes in net assets	(155,757)	99,928	(55,829)
Net assets at beginning of year	<u>352,517</u>	<u>80,654</u>	<u>433,171</u>
Net assets at end of year	\$ <u>196,760</u>	\$ <u>180,582</u>	\$ <u>377,342</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, 2021

	Programs							Management and General	Total
	Early Childhood Services	Project Hope	Housing Repairs and Maintenance	Community Service Block Grant	Other Programs	Total Programs			
Wages	\$ 3,482,823	\$ 79,668	\$ 254,899	\$ 483,954	\$ 167,856	\$ 4,469,200	\$ 520,506	\$ 4,989,706	
Employee benefits	657,722	5,136	71,808	97,767	20,621	853,054	106,820	959,874	
Payroll taxes	259,701	5,940	19,031	36,081	12,425	333,178	36,593	369,771	
Communications costs	89,658	451	4,945	14,476	5,398	114,928	7,197	122,125	
Contractual	-	113,735	280,125	12,762	63,944	470,566	-	470,566	
Depreciation and amortization	127,721	-	474	-	4,517	132,712	67,026	199,738	
Fees	10,515	-	300	-	1,941	12,756	2,369	15,125	
Food and support	114,781	-	-	-	3,000	117,781	-	117,781	
Health and safety	-	-	36,093	-	-	36,093	-	36,093	
In-kind goods and services	199,250	-	-	-	-	199,250	-	199,250	
In-kind space	1,184,749	-	-	-	-	1,184,749	-	1,184,749	
Insurance	148,813	872	11,084	12,071	2,416	175,256	22,896	198,152	
Interest	-	-	-	-	-	-	47,852	47,852	
Maintenance, repair and utilities	341,299	953	7,001	7,014	11,174	367,441	22,881	390,322	
Materials and supplies	495,829	-	244,553	-	34,087	774,469	346	774,815	
Meetings and conferences	-	-	3,000	32,865	-	35,865	141	36,006	
Memberships and subscriptions	24,336	-	-	2,257	2,998	29,591	5,252	34,843	
Office supplies	115,930	10,131	5,088	20,239	4,664	156,052	8,384	164,436	
Participant costs	438	2,329,508	162,229	419,898	438,777	3,350,850	-	3,350,850	
Professional services	48,202	-	-	-	624	48,826	52,297	101,123	
Rent	241,066	-	-	-	-	241,066	7,592	248,658	
Specialized services	16,098	887	5,517	8,490	157	31,149	4,151	35,300	
Training and education	61,081	-	19,203	9,171	-	89,455	1,741	91,196	
Travel	20,190	-	706	8,516	5,069	34,481	6,373	40,854	
Vehicle expenses	18,001	-	4,220	-	-	22,221	181	22,402	
Other	2,986	-	1,927	5,513	3,837	14,263	837	15,100	
Total	\$ 7,661,189	\$ 2,547,281	\$ 1,132,203	\$ 1,171,074	\$ 783,505	\$ 13,295,252	\$ 921,435	\$ 14,216,687	

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, 2021

Cash flows from operating activities:	\$	(55,829)
Changes in net assets		(55,829)
Adjustments to reconcile changes in net assets to net cash used in operating activities:		
Depreciation and amortization		199,738
Paycheck Protection Program loan forgiveness		(142,594)
In-kind property contributions		(21,500)
Changes in assets and liabilities:		
(Increase) decrease in assets:		
Government contracts and awards receivable		(191,890)
Other receivables		(19,219)
Increase (decrease) in liabilities:		
Accounts payable		31,804
Accrued liabilities		2,685
Advances on grants		(72,610)
Net cash used in operating activities		<u>(269,415)</u>
Cash flows from investing activities:		
Capital expenditures for property and equipment		<u>(30,186)</u>
Net cash used in investing activities		<u>(30,186)</u>
Cash flows from financing activities:		
Cash restricted for long-term purposes		46,074
Withdrawals under line of credit		26,900
Principal payments of long-term debt		<u>(63,028)</u>
Net cash provided by financing activities		<u>9,946</u>
Net decrease in cash		(289,655)
Cash, beginning of year		<u>463,605</u>
Cash, end of year	\$	<u><u>173,950</u></u>
Supplemental disclosure of cash flows information:		
Cash paid during the year for interest	\$	<u><u>48,483</u></u>
Supplemental disclosure of noncash investing and financing activities:		
Contributed property and equipment	\$	<u><u>21,500</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, 2021

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, 2021, there were no cash deposits in excess of federally insured amounts.

Johnston-Lee-Harnett Community Action, Incorporated
Notes to Financial Statements
June 30, 2021

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 \$1,000 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, 2021 was \$199,738.

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 \$21,500 in donated property and equipment without restrictions during the year ended June 30, 2021.

Certain property and equipment with a carrying value of \$199,014 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, 2021

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.

The Organization initially records the Paycheck Protection Program (PPP) as a loan and subsequently recognizes revenue in accordance with guidance for conditional contributions; that is, once the measurable performance or other barrier and right of return of the PPP loan no longer existed.

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.

Donated Material and Services

Donated materials and use of space are recorded as contributions at their estimated fair market values at the date of receipt. The Organization recognized donated materials and use of space in the amount of \$1,251,073 for the year ended June 30, 2021.

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. The accompanying statement of activities includes the recognition of donated services of \$132,926 for its early childhood programs, all of which relates to the efforts of teachers who were paid by a local school system.

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 \$110,126 for the year ended June 30, 2021.

Johnston-Lee-Harnett Community Action, Incorporated
Notes to Financial Statements
June 30, 2021

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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, 2021 was \$500.

Subsequent Events

The Organization has evaluated events and transactions that occurred between June 30, 2021 and March 31, 2022 which is the date the financial statements were available to be issued, for possible recognition or disclosure in the financial statements.

Subsequent to year end, the Organization was awarded various grants totaling approximately \$17.8 million. Of those grants, the Organization was awarded eight grants specifically for COVID-19 relief totaling approximately \$4.8 million. All such grants are related to fulfilling its program objectives and its missions.

Additionally, Lee County donated property for the Organization in October 2021 for the public purpose of providing services to low to moderate income persons. The Organization is responsible for utilities, and repairs and maintenance and is restricted from selling the property.

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 balance sheet date, comprise of the following as of June 30:

Cash	\$ 189,250
Receivables	<u>390,603</u>
Total current financial assets	579,853
Less amounts not available for general expenditures within one year:	
Restricted cash	(15,300)
Current maturities of long-term debt	<u>(26,247)</u>
Total financial assets available to meet general expenditures within one year	\$ <u><u>538,306</u></u>

Johnston-Lee-Harnett Community Action, Incorporated
Notes to Financial Statements
June 30, 2021

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. 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, 2021 were \$139,240.

5. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions of \$180,582 are available for early childhood programs at June 30, 2021.

6. 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.

7. 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% (4.25% at June 30, 2021) with a 4.00% interest rate floor and a 18.00% interest rate ceiling. All accrued interest and outstanding principal were paid prior to maturity on May 25, 2021. The Organization opted to renew the line of credit under substantially the same terms and with a new maturity date of May 25, 2022.

For the year ended June 30, 2021, the Organization recognized interest expense on the line of credit in the amount of \$1,804.

Johnston-Lee-Harnett Community Action, Incorporated
Notes to Financial Statements
June 30, 2021

8. 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, 2021, \$1,343,532 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, 2021, the Organization held \$15,300 in restricted cash under this loan provision. For the year ended June 30, 2021, the Organization recognized interest expense in the amount of \$46,048. 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, 2021, the carrying amount of the land and building at the Organization's headquarters totaled \$791,908.

Future maturities of long-term debt are as follows:

Year ending June 30,		
2022	\$	26,247
2023		27,133
2024		28,048
2025		28,995
2026		29,974
Thereafter		<u>1,203,135</u>
Total	\$	<u>1,343,532</u>

9. LEASES

The Organization leases facilities and land for its early childhood programs under non-cancelable operating lease agreements expiring through October 2022. Total rental expense under these leases in addition to an annual facility lease expiring June 30, 2021 was \$248,658 for the year ended June 30, 2021.

The following is a schedule of minimum future rental payments under non-cancelable operating leases as of June 30, 2021:

Year ending June 30,		
2022	\$	181,213
2023		<u>36,603</u>
Total	\$	<u>217,816</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, 2021 was \$13,005.

10. CONCENTRATIONS

The Organization received 86% of total revenues from governmental entities for the year ended June 30, 2021. A significant reduction in this level of support could have significant impact on the Organization's programs and activities. In addition, 90% of receivables at June 30, 2021 were due from governmental entities. At June 30, 2021, 32% of payables were due to two vendors.

Johnston-Lee-Harnett Community Action, Incorporated
Notes to Financial Statements
June 30, 2021

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. 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.

13. PAYCHECK PROTECTION PROGRAM (PPP) LOAN

On April 23, 2020, the Organization received loan proceeds in the amount of \$984,146 under the Paycheck Protection Program ("PPP") administered by a Small Business Administration (SBA) approved partner. The loan is uncollateralized and is fully guaranteed by the Federal government. Established as part of the Coronavirus Aid, Relief and Economic Security Act ("CARES Act"), the PPP provides for loans to qualifying businesses in amounts up to 2.5 times the business's average monthly payroll expenses. PPP loans and accrued interest are forgivable after a "covered period" of twenty-four weeks if the borrower maintains its payroll levels and uses the loan proceeds for eligible purposes, including payroll, benefits, rent, and utilities. The forgiveness amount will be reduced if the borrower terminates employees or reduces salaries during the covered period. Any unforgiven portion of a PPP loan is payable over two years at an interest rate of 1%, with a deferral of payments for 10 months after the end of the covered period. The Organization intends to use PPP loan proceeds for purposes consistent with the PPP and apply for forgiveness within 10 months of the end of the covered period.

The Organization initially recorded the loan as a refundable advance and subsequently recognized revenue in accordance with guidance for conditional contributions; that is, once the measurable performance or other barrier and right of return of the PPP loan no longer existed. The Organization has recognized \$142,594 as revenue for the year ended June 30, 2021. The Organization received forgiveness for \$946,065 of the loan and paid principal and interest of \$38,115 in June 2021.



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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, 2021, 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 31, 2022.

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 audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of 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 March 31, 2022.

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 31, 2022



MPCCompany 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

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

Report on Compliance for Each Major Federal Program

We have audited Johnston-Lee-Harnett Community Action, Incorporated's compliance with the types of compliance requirements described 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, 2021. 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.

Management's Responsibility

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

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of Johnston-Lee-Harnett Community Action, Incorporated's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Johnston-Lee-Harnett Community Action, Incorporated's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Johnston-Lee-Harnett Community Action, Incorporated's compliance.

Opinion on Each Major Federal Program

In our opinion, Johnston-Lee-Harnett Community Action, Incorporated complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2021.

Report on Internal Control over Compliance

Management of Johnston-Lee-Harnett Community Action, Incorporated is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Johnston-Lee-Harnett Community Action, Incorporated's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Johnston-Lee-Harnett Community Action, Incorporated's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

MPC Company LLP

March 31, 2022

Johnston-Lee-Harnett Community Action, Incorporated
 Schedule of Findings and Questioned Costs
 for the year ended June 30, 2021

Section I. Summary of Auditors' Results

Financial Statements

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

Internal control over financial reporting:

Are any material weaknesses identified? Yes X No

Are any significant deficiencies identified? Yes X None reported

Is any noncompliance material to financial statements noted? Yes X No

Federal Awards

Internal control over major federal programs:

Are any material weaknesses identified? Yes X No

Are any significant deficiencies identified? Yes X None reported

Type of auditors' report issued on compliance for major federal programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? Yes X No

Identification of major federal programs:

<u>CFDA Number</u>	<u>Name of federal program or cluster</u>
93.569	Community Services Block Grant
93.556	Community Service Block Grant – Hurricane Florence
21.019	Treasury Coronavirus Relief Funds

Dollar threshold used to distinguish between type A and type B programs: \$750,000

Auditee qualified as a low-risk auditee? X Yes No

Johnston-Lee-Harnett Community Action, Incorporated
Schedule of Findings and Questioned Costs
for the year ended June 30, 2021

Section II. Financial Statement Findings

None.

Section III. Federal Awards Findings

None.



Johnston-Lee-Harnett Community Action, Inc.

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252 Irene Roberts Rd., Suite 101
Lillington, NC 27546

Summary Schedule of Prior Audit Findings for the year ended June 30, 2021

None noted.

Johnston-Lee-Harnett Community Action, Incorporated
Schedule of Expenditures of Federal Awards
for the year ended June 30, 2021

<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	\$ 5,874,945
COVID-19 - Full year Head Start - Part Day	93.600	UNKNOWN	<u>610,772</u>
			<u>6,485,717</u>
Passed-through NC Department of Health and Human Services/Office of Economic Opportunity:			
CSBG - Hurricane Florence	93.556	G15B1NCCOSR	<u>70,266</u>
Community Services Block Grant	93.569	G19B1NCCOSR	758,593
COVID-19 Community Services Block Grant	93.569	2001NCCSC3	<u>417,724</u>
			<u>1,176,317</u>
Passed-through NC Department of Health and Human Services/NC Department of Environmental Quality:			
Weatherization Assistance for Low-Income Persons	93.568	21B1NCLIEA	<u>279,515</u>
COVID-19 - Weatherization Assistance for Low-Income Persons	93.568	21B1NCLIEA	5,891
Heating Appliance Repair and Replacement Program	93.568	20B1NCLIEA	<u>189,865</u>
			<u>475,271</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>84,576</u>
<u>U. S. Department of Treasury</u>			
Passed through NC Department of Public Safety/Office of Recovery and Resiliency			
Treasury Coronavirus Relief Funds	21.019	B-20-MW-37-0001	<u>1,330,694</u>
Passed through NC Department of Health and Human Services/NC Housing Finance Agency			
Treasury Coronavirus Relief Funds	21.019	B-20-MW-37-0001	<u>1,250,532</u>
Passed-through NC Department of Health and Human Services/Division of Child Development and Early Education			
Treasury Coronavirus Relief Funds	21.019	UNKNOWN	<u>101,786</u>

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, 2021

U. S. Department of Housing & Urban Development

Passed through NC Department of Health and

Human Services, Division of Aging and Adult Services:

Emergency Solutions Grant	14.231	00039888	279,654
Emergency Solutions Grant	14.231	00041642, 00042672	<u>148,916</u>
			<u>428,570</u>

Passed through NC Housing Finance Agency:

COVID-19 - Emergency Solutions Grant	14.231	00041401	<u>159,625</u>
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Passed through NC Housing Coalition:

HUD Housing Counseling Program	14.169	UNKNOWN	<u>25,538</u>
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SSO Program	14.267	UNKNOWN	<u>45,763</u>
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Federal Emergency Management Agency

Direct Programs:

Emergency Food and Shelter Program	97.024	UNKNOWN	23,582
COVID-19 - Emergency Food and Shelter Program	97.024	UNKNOWN	<u>36,869</u>
			<u>60,451</u>

U. S. Department of Energy

Passed-through NC Department of Environmental Quality:

Weatherization Assistance for Low-Income Persons	81.042	DE-EE0007939	<u>163,827</u>
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\$ 11,858,933

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, 2021

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, 2021. 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, 2021

At June 30, 2021, there was an outstanding loan under the *United States Department of Agriculture Rural Development* for an amount of \$1,343,532. 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.