

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

Report on Audit of Financial Statements
for the year ended June 30, 2018

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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, 2018, and the related statements of activities 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, 2018, 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 December 12, 2018 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 to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Johnston-Lee-Harnett Community Action, Incorporated's internal control over financial reporting and compliance.

McMillan Pate + Company LLP

December 12, 2018

Johnston-Lee-Harnett Community Action, Incorporated
Statement of Financial Position
June 30, 2018

<u>Assets</u>	
Current assets:	
Cash	\$ 93,702
Government contracts and awards receivable	121,685
Other receivables	<u>21,685</u>
Total current assets	<u>237,072</u>
Restricted cash for long-term purposes	<u>47,054</u>
Property and equipment, at cost:	
Land	122,435
Buildings and improvements	2,636,985
Vehicles	1,687,648
Furniture and equipment	<u>805,689</u>
	5,252,757
Less accumulated depreciation	<u>3,045,192</u>
Property and equipment, net	<u>2,207,565</u>
Deposit	<u>1,302</u>
	<u>\$ 2,492,993</u>
<u>Liabilities and Net Assets</u>	
Current liabilities:	
Current maturities of long-term debt	\$ 23,759
Line of credit	43,236
Accounts payable	30,251
Accrued liabilities:	
Vacation	39,788
Payroll taxes and withholdings	96,262
Interest	<u>8,518</u>
Total current liabilities	<u>241,814</u>
Noncurrent liabilities - long-term debt, less current maturities	<u>1,393,483</u>
Net assets:	
Unrestricted	413,455
Temporarily restricted	<u>444,241</u>
Total net assets	<u>857,696</u>
	<u>\$ 2,492,993</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, 2018

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Changes in net assets:			
Revenues:			
Government contracts and awards:			
Federal	\$ 7,955,335	\$ 43,225	\$ 7,998,560
State	84,150	-	84,150
Contributions	1,026,250	-	1,026,250
Contract services	54,822	-	54,822
Rental income	13,472	-	13,472
Interest income	316	-	316
Other	15,748	-	15,748
Total	<u>9,150,093</u>	<u>43,225</u>	<u>9,193,318</u>
Net assets released from restrictions	<u>65,576</u>	<u>(65,576)</u>	<u>-</u>
Total revenues	9,215,669	(22,351)	9,193,318
Expenses:			
Program services:			
Early childhood programs	6,446,850	-	6,446,850
Heating appliance repair and replacement	789,583	-	789,583
Community services block grant	739,470	-	739,470
Weatherization	124,764	-	124,764
Housing and urban development (HUD)	264,548	-	264,548
NC Pre-K	250,543	-	250,543
Economic development	133,227	-	133,227
Emergency food and shelter	36,703	-	36,703
Duke Energy helping home fund	6,938	-	6,938
Other programs	57,897	-	57,897
Management and general	<u>823,112</u>	<u>-</u>	<u>823,112</u>
Total expenses	<u>9,673,635</u>	<u>-</u>	<u>9,673,635</u>
Changes in net assets	(457,966)	(22,351)	(480,317)
Net assets at beginning of year	<u>871,421</u>	<u>466,592</u>	<u>1,338,013</u>
Net assets at end of year	\$ <u>413,455</u>	\$ <u>444,241</u>	\$ <u>857,696</u>

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, 2018

Cash flows from operating activities:	
Changes in net assets	\$ (480,317)
Adjustments to reconcile changes in net assets to net cash used in operating activities:	
Depreciation	214,504
Changes in assets and liabilities:	
(Increase) decrease in assets:	
Government contracts and awards receivable	137,664
Other receivables	27,070
Prepaid expenses	16,562
Increase (decrease) in liabilities:	
Accounts payable	6,648
Accrued liabilities	7,882
Net cash used in operating activities	<u>(69,987)</u>
Cash flows from investing activities:	
Capital expenditures for property and equipment	<u>(152,739)</u>
Net cash used in investing activities	<u>(152,739)</u>
Cash flows from financing activities:	
Cash restricted for long-term purposes	(7,884)
Net borrowings (repayments) under line of credit	43,236
Principal payments of long-term debt	<u>(22,983)</u>
Net cash provided by financing activities	<u>12,369</u>
Net decrease in cash	(210,357)
Cash, beginning of year	<u>304,059</u>
Cash, end of year	\$ <u><u>93,702</u></u>
Supplemental disclosure of noncash investing and financing activities:	
Cash paid during the year for interest	\$ <u><u>49,272</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, 2018

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 Organization reports information regarding its financial position and activities according to two classes of net assets: unrestricted net assets and temporarily restricted net assets. Unrestricted net assets account for all resources expended and for contributions which have no restriction on use, or for which a restriction has been met or has expired. Temporarily restricted net assets account for contributions made that have donor-imposed restrictions which have not been met as of the date of the financial statements.

In order to ensure observance of limitations and restrictions placed on the use of the resources available to the Organization, the internal operating accounts are maintained in accordance with the principles of fund accounting. This is the procedure by which resources for various purposes are classified into funds that are in accordance with activities or objectives specified. These financial statements, however, have been prepared to focus on the entity as a whole and to present transactions according to the existence or absence of donor-imposed restrictions.

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.

Cash

Federal and state funds are kept in separate bank accounts at various North Carolina regional banks. At June 30, 2018, there were no cash deposits in excess of federally insured amounts.

Receivables

All receivables are stated at the amount management expects to collect from outstanding balances. Based on experience, management believes that they are fully collectible. Therefore, no allowance for 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.

Johnston-Lee-Harnett Community Action, Incorporated
Notes to Financial Statements
June 30, 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

	<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 over their estimated useful lives. Upon disposition of property and equipment, the related asset and accumulated depreciation accounts are removed and any gain or loss is reflected in the statement of activities for the period. Depreciation expense for the year ended June 30, 2018 was \$214,504.

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 unrestricted support.

Certain property and equipment with a carrying value of \$292,571 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.

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. 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 temporarily or permanently restricted support and increase the respective class of net assets. Contributions received with temporary restrictions that are met in the same reporting period are reported as unrestricted support and increase unrestricted net assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Johnston-Lee-Harnett Community Action, Incorporated
Notes to Financial Statements
June 30, 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue Recognition (continued)

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.

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 \$816,822 for the year ended June 30, 2018.

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 \$95,664 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 \$41,832 for the year ended June 30, 2018.

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. 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, 2018 was \$900.

Johnston-Lee-Harnett Community Action, Incorporated
Notes to Financial Statements
June 30, 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Subsequent Events

The Organization has evaluated events and transactions that occurred between June 30, 2018 and December 12, 2018 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 has been awarded various grants. All such grants are related to fulfilling its program objectives and its missions.

3. 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, 2018 were \$120,212.

4. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets of \$444,241 are available for early childhood programs at June 30, 2018.

5. 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.

6. LINE OF CREDIT

In February 2018, the Organization entered into an unsecured operating line of credit agreement with a bank. Maximum borrowings under the agreement are \$150,000. Outstanding borrowings accrue interest at the bank's rate (5% at June 30, 2018) with a 4.50% interest rate floor and a 7.00% interest rate ceiling. All accrued interest and outstanding principal are due at maturity, February 27, 2019. For the year ended June 30, 2018, the Organization recognized interest expense in the amount of \$664.

7. 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, 2018 was \$184,067 for the year ended June 30, 2018.

Johnston-Lee-Harnett Community Action, Incorporated
Notes to Financial Statements
June 30, 2018

7. LEASES (Continued)

The following is a schedule of minimum future rental payments under non-cancelable operating leases as of June 30, 2018:

Year ending June 30,		
2019	\$	204,669
2020		186,017
2021		150,913
2022		146,413
2023		<u>36,603</u>
Total	\$	<u>724,615</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, 2018 was \$13,472.

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, 2018, \$1,417,242 was outstanding under this loan agreement. The loan requires a reserve account to be funded annually in the minimum amount of \$7,160 until \$71,591 is accumulated. At June 30, 2018, the Organization held \$47,054 in restricted cash under this loan provision. For the year ended June 30, 2018, the Organization recognized interest expense in the amount of \$48,470. 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, 2018, the carrying amount of the land and building at the Organization's headquarters totaled \$1,135,157.

Future maturities of long-term debt are as follows:

Year ending June 30,		
2019	\$	23,759
2020		24,561
2021		25,390
2022		26,247
2023		27,133
Thereafter		<u>1,290,152</u>
Total	\$	<u>1,417,242</u>

9. CONCENTRATIONS

The Organization received 88% of total revenues from governmental entities for the year ended June 30, 2018. A significant reduction in this level of support could have significant impact on the Organization's programs and activities. In addition, 85% of receivables at June 30, 2018 were due from governmental entities.



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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

To the 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, 2018, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements and have issued our report thereon dated December 12, 2018.

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) to determine the 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 determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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.

McMillan Pate + Company LLP

December 12, 2018



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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 of
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, 2018. 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, 2018.

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 were not 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.

McMillan Pate + Company LLP

December 12, 2018

Johnston-Lee-Harnett Community Action, Incorporated
 Schedule of Findings and Questioned Costs
 for the year ended June 30, 2018

Section I. Summary of Auditors' Results

Financial Statements

Type of auditors' report issued: Unmodified

Internal control over financial reporting:

Are any material weaknesses identified?	___ Yes	_X_ No
Are any significant deficiencies identified?	___ Yes	_X_ No
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_ No
Type of auditors' report issued on compliance for major federal programs:	Unmodified	
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	___ Yes	_X_ No
Identification of major federal programs:		
<u>CFDA Number</u>	<u>Name of federal program or cluster</u>	
93.600	Head Start	
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, 2018

Section II. Financial Statement Findings

None.

Section III. Federal Awards Findings

None.



Johnston-Lee-Harnett Community Action, Inc.

MAIN OFFICE

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Post Office Drawer 711
1102 Massey Street
Smithfield, NC 27577

LEE COUNTY OFFICE

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

HARNETT COUNTY OFFICE

Phone 910-814-8360
Fax 910-814-8362

Post Office Box 40
745 Shawtown Rd., Suite A
Lillington, NC 27546-0040

Summary Schedule of Prior Audit Findings for the year ended June 30, 2018

None.

Johnston-Lee-Harnett Community Action, Incorporated
Schedule of Expenditures of Federal Awards
for the year ended June 30, 2018

<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		\$ <u>5,713,509</u>
Passed-through NC Department of Health and Human Services/Office of Economic Opportunity:			
Community Services Block Grant	93.569	G17B1NCCOSR	<u>805,246</u>
Passed-through NC Department of Environment and Natural Resources:			
Low-Income Home Energy Assistance Program	93.568	17B1NCLIEA	427,956
Heating Appliance Repair and Replacement Program	93.568	18B1NCLIEA	<u>250,086</u>
			<u>678,042</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>445,444</u>
<u>U. S. Department of Housing & Urban Development</u>			
Passed through NC Department of Health and Human Services, Division of Aging and Adult Services:			
Emergency Solutions Grant	14.231	00035352	125,799
Emergency Solutions Grant	14.231	00036776	<u>132,277</u>
			258,076
Passed through NC Housing Coalition:			
HUD Housing Counseling Program	14.169	UNKNOWN	<u>7,408</u>
<u>Federal Emergency Management Agency</u>			
Direct Programs:			
Emergency Food and Shelter Program	97.024		<u>36,703</u>
<u>U. S. Department of Energy</u>			
Passed-through NC Department of Commerce, Energy Division:			
Weatherization Assistance for Low-Income Persons	81.042	DE-EE0007939	<u>133,388</u>
			\$ <u>8,077,816</u>

The accompanying notes are an integral
part of this schedule

Johnston-Lee-Harnett Community Action, Incorporated
Notes to Schedule of Expenditures of Federal Awards
for the year ended June 30, 2018

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, 2018. 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, 2018

At June 30, 2018, there was an outstanding loan under the *United States Department of Agriculture Rural Development* for an amount of \$1,417,242. 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.