

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

Report on Audit of Financial Statements  
for the year ended June 30, 2019

**MPCompany LLP**

Certified Public Accountants  
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## CONTENTS

	<u>Page(s)</u>
Independent Auditors' Report	1-2
Financial Statements:	
Statement of Financial Position	3
Statement of Activities	4
Statement of Functional Expenses	5
Statement of Cash Flows	6
Notes to Financial Statements	7-13
Supplemental Information:	
Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Governmental Auditing Standards</i>	14-15
Report on Compliance for each Major Federal Program and Report on Internal Control Over Compliance in Accordance with the Uniform Guidance	16-17
Schedule of Findings and Questioned Costs	18-19
Summary Schedule of Prior Audit Findings	20
Schedule of Expenditures of Federal Awards	21
Notes to Schedule of Expenditures of Federal Awards	22





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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, 2019, 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, 2019, 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.

**Emphasis of Matter**

As discussed in Note 2 to the financial statements, in 2019, the entity adopted Financial Accounting Standards Board's Accounting Standards Update 2016-14, *Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities*. Our opinion is not modified with respect to this matter.

**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 February 8, 2020 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 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.

*WAC Company LLP*

February 8, 2020

Johnston-Lee-Harnett Community Action, Incorporated  
Statement of Financial Position  
June 30, 2019

<u>Assets</u>	
Current assets:	
Government contracts and awards receivable	94,925
Other receivables	17,324
Total current assets	<u>112,249</u>
Restricted cash for long-term purposes	<u>54,214</u>
Property and equipment, at cost:	
Land	122,435
Buildings and improvements	2,648,287
Vehicles	1,444,929
Furniture and equipment	504,558
	<u>4,720,209</u>
Less accumulated depreciation	<u>2,701,654</u>
Property and equipment, net	<u>2,018,555</u>
Deposit	<u>1,302</u>
	\$ <u><u>2,186,320</u></u>
<u>Liabilities and Net Assets</u>	
Current liabilities:	
Cash deficit	\$ 66,455
Current maturities of long-term debt	24,561
Line of credit	49,000
Accounts payable	143,798
Accrued liabilities:	
Vacation	58,392
Payroll taxes and withholdings	46,824
Interest	8,375
Total current liabilities	<u>397,405</u>
Noncurrent liabilities - long-term debt, less current maturities	<u>1,368,922</u>
Net assets:	
Without donor restrictions	339,339
With donor restrictions	80,654
Total net assets	<u>419,993</u>
	\$ <u><u>2,186,320</u></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, 2019

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Changes in net assets:			
Revenues:			
Government contracts and awards:			
Federal	\$ 7,952,184	\$ -	\$ 7,952,184
State	61,236	-	61,236
Contributions	1,191,597	-	1,191,597
Contract services	69,238	-	69,238
Rental income	10,075	-	10,075
Interest income	84	-	84
Other	50,736	-	50,736
Total	9,335,150	-	9,335,150
Net assets released from restrictions	61,809	(61,809)	-
Total revenues	9,396,959	(61,809)	9,335,150
Expenses and losses:			
Program services:			
Early childhood programs	7,012,593	-	7,012,593
Housing repairs and maintenance	998,787	-	998,787
Community services block grant	475,115	-	475,115
Other programs	314,381	-	314,381
Total program services	8,800,876	-	8,800,876
Management and general	971,457	-	971,457
Total expenses	9,772,333	-	9,772,333
Loss on disposal of equipment	520	-	520
Total expenses and losses	9,772,853	-	9,772,853
Changes in net assets	(375,894)	(61,809)	(437,703)
Net assets at beginning of year	413,455	444,241	857,696
Reclassification of net assets (Note 12)	301,778	(301,778)	-
Net assets at end of year	\$ 339,339	\$ 80,654	\$ 419,993

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, 2019

	Early Childhood Services	Housing Repairs and Maintenance	Community Service Block Grant	Other Programs	Total Programs	Management and General	Total
Wages	\$ 3,575,276	\$ 221,277	\$ 305,232	\$ 74,269	\$ 4,176,054	\$ 465,053	\$ 4,641,107
Payroll taxes	265,391	16,424	22,658	5,514	309,987	33,140	343,127
Employee benefits	695,266	62,695	62,414	16,345	836,720	89,927	926,647
Communications costs	19,066	2,628	12,470	18,550	52,714	12,914	65,628
Contractual	-	221,005	6,664	5,512	233,181	1,777	234,958
Depreciation and amortization	130,814	158	-	4,516	135,488	73,096	208,584
Fees	7,072	-	-	4,519	11,591	1,049	12,640
Food and support	358,541	-	-	-	358,541	-	358,541
Health and safety	-	56,517	-	-	56,517	-	56,517
In-kind goods and services	88,994	-	-	-	88,994	-	88,994
In-kind space	950,736	-	-	-	950,736	-	950,736
Insurance	187,292	19,770	22,988	5,014	235,064	17,065	252,129
Interest	-	-	-	378	378	50,635	51,013
Maintenance, repair and utilities	213,190	11,879	7,423	42,669	275,161	75,949	351,110
Materials and supplies	92,926	170,190	-	2,515	265,631	447	266,078
Meetings and Conferences	60	-	200	791	1,051	5,509	6,560
Memberships and subscriptions	1,096	220	614	595	2,525	5,965	8,490
Office supplies	15,474	4,830	2,100	4,441	26,845	9,677	36,522
Participant costs	19,775	164,088	19,069	45,471	248,403	-	248,403
Professional services	56,079	-	-	24,745	80,824	48,042	128,866
Pupil Transportation	30,992	-	-	-	30,992	-	30,992
Rent	180,795	-	-	26,000	206,795	32,970	239,765
Specialized services	12,205	1,840	2,018	2,902	18,965	9,105	28,070
Training and Education	49,300	19,352	-	3,442	72,094	99	72,193
Travel	25,358	10,483	9,265	4,803	49,909	23,725	73,634
Vehicle expenses	30,758	3,327	-	21,168	55,253	1,165	56,418
Other	6,137	12,104	2,000	222	20,463	14,148	34,611
Total	\$ 7,012,593	\$ 998,787	\$ 475,115	\$ 314,381	\$ 8,800,876	\$ 971,457	\$ 9,772,333

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

Johnston-Lee-Harnett Community Action, Incorporated  
Statement of Cash Flows  
for the year ended June 30, 2019

Cash flows from operating activities:	
Changes in net assets	\$ (437,703)
Adjustments to reconcile changes in net assets to net cash used in operating activities:	
Depreciation and amortization	208,584
Loss on disposal of equipment	520
Changes in assets and liabilities:	
(Increase) decrease in assets:	
Government contracts and awards receivable	26,760
Other receivables	4,361
Increase (decrease) in liabilities:	
Accounts payable	113,547
Accrued liabilities	<u>(30,977)</u>
Net cash used in operating activities	<u>(114,908)</u>
Cash flows from investing activities:	
Capital expenditures for property and equipment	<u>(20,094)</u>
Net cash used in investing activities	<u>(20,094)</u>
Cash flows from financing activities:	
Cash restricted for long-term purposes	(7,160)
Net borrowings (repayments) under line of credit	5,764
Principal payments of long-term debt	<u>(23,759)</u>
Net cash used in financing activities	<u>(25,155)</u>
Net decrease in cash	(160,157)
Cash, beginning of year	<u>93,702</u>
Cash deficit, end of year	\$ <u><u>(66,455)</u></u>
Supplemental disclosure of noncash investing and financing activities:	
Cash paid during the year for interest	\$ <u><u>48,080</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, 2019

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, 2019, there were no cash deposits in excess of federally insured amounts.

Johnston-Lee-Harnett Community Action, Incorporated  
Notes to Financial Statements  
June 30, 2019

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 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 and amortization:

	Estimated <u>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 amortization 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, 2019 was \$208,584.

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 \$249,027 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.



Johnston-Lee-Harnett Community Action, Incorporated  
Notes to Financial Statements  
June 30, 2019

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue Recognition (continued)

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.

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 \$958,005 for the year ended June 30, 2019.

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 \$81,725 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 \$166,962 for the year ended June 30, 2019.

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, 2019

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Advertising Costs

The Organization uses advertising to promote its programs among the audiences it serves. Advertising costs are expensed as incurred. Advertising expense for the year ended June 30, 2019 was \$475.

Adoption of New Accounting Pronouncement

During 2019 the Organization adopted the Financial Accounting Standards Board's Accounting Standards Update (ASU) 2016-14 – *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. This update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and functional expense reporting. A key change required by ASU 2016-14 is the description of the net asset classes used in these financial statements. Amounts previously reported as unrestricted net assets are now reported as net assets without donor restrictions and amounts previously reported as temporarily restricted net assets are now reported as net assets with donor restrictions. In addition, ASU 2016-14 states that organizations, absent explicit donor restrictions, are required to use the placed-in-service approach for property and equipment acquired or constructed using restricted funds, thereby eliminating implied time restrictions. See Note 12 for additional information on the reclassification of net assets as a result of the adoption of ASU 2016-14.

Subsequent Events

The Organization has evaluated events and transactions that occurred between June 30, 2019 and February 8, 2020 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. 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	\$ (12,241)
Receivables	<u>112,249</u>
Total current financial assets	100,008
Less amounts not available for general expenditures within one year:	
Restricted cash	(54,214)
Current maturities of long-term debt	(24,561)
Line of credit	<u>(49,000)</u>
Total financial assets available to meet general expenditures within one year	\$ <u>(27,767)</u>

Johnston-Lee-Harnett Community Action, Incorporated  
Notes to Financial Statements  
June 30, 2019

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, 2019 were \$115,412.

5. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions of \$80,654 are available for early childhood programs at June 30, 2019.

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 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 with a 4.50% interest rate floor and a 7.00% interest rate ceiling. All accrued interest and outstanding principal were paid prior to maturity in February 2019.

In May 2019, the Organization entered into an unsecured operating line of credit agreement with another bank. Maximum borrowings under the agreement are \$50,000. Outstanding borrowings accrue interest at prime rate plus 1% (6.50% at June 30, 2019) with a 4.00% interest rate floor and a 18.00% interest rate ceiling. All accrued interest and outstanding principal are due at maturity, May 25, 2020.

For the year ended June 30, 2019, the Organization recognized interest expense on the lines of credit in the amount of \$3,324.



Johnston-Lee-Harnett Community Action, Incorporated  
Notes to Financial Statements  
June 30, 2019

8. 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, 2019 was \$209,669 for the year ended June 30, 2019.

The following is a schedule of minimum future rental payments under non-cancelable operating leases as of June 30, 2019:

Year ending June 30,	
2020	\$ 186,017
2021	150,913
2022	146,413
2023	36,603
Total	\$ <u>519,946</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, 2019 was \$10,075.

9. 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, 2019, \$1,393,483 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, 2019, the Organization held \$54,214 in restricted cash under this loan provision. For the year ended June 30, 2019, the Organization recognized interest expense in the amount of \$47,689. 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, 2019, the carrying amount of the land and building at the Organization's headquarters totaled \$1,083,842.

Future maturities of long-term debt are as follows:

Year ending June 30,	
2020	\$ 24,561
2021	25,390
2022	26,247
2023	27,133
2024	28,048
Thereafter	<u>1,262,104</u>
Total	\$ <u>1,393,483</u>

Johnston-Lee-Harnett Community Action, Incorporated  
Notes to Financial Statements  
June 30, 2019

10. CONCENTRATIONS

The Organization received 86% of total revenues from governmental entities for the year ended June 30, 2019. 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, 2019 were due from governmental entities.

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 on the basis of estimates of time and effort.

12. RECLASSIFICATION

During 2019 the Organization adopted ASU 2016-14 as discussed in Note 2. This required the Organization to use the placed-in-service approach for property and equipment acquired or constructed using donor restricted funds. Prior to the adoption of this ASU, the Organization recognized these acquisitions as donor restricted and released the restriction over time. The placed-in-service approach requires the acquisitions to be released from restriction when placed in service. This change in accounting principal resulted in \$301,778 of time restricted net assets being reclassified to net assets without donor restricted as reflected on the *Statement of Activities* under the caption "Reclassification of net assets".



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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, 2019, 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 February 8, 2020.

**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.

*WPC Company LLP*

February 8, 2020





**MPCompany LLP**

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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, 2019. 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, 2019.

### **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.

*MP Company LLP*

February 8, 2020

Johnston-Lee-Harnett Community Action, Incorporated  
Schedule of Findings and Questioned Costs  
for the year ended June 30, 2019

**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 ☒ No

Are any significant deficiencies identified?

☐ Yes ☒ No

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 ☒ 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 ☒ No

Identification of major federal programs:

CFDA Number

Name of federal program or cluster

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?

☒ Yes ☐ No

Johnston-Lee-Harnett Community Action, Incorporated  
Schedule of Findings and Questioned Costs  
for the year ended June 30, 2019

**Section II. Financial Statement Findings**

*None.*

**Section III. Federal Awards Findings**

*None.*



# Johnston-Lee-Harnett Community Action, Inc.

## MAIN OFFICE

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## LEE COUNTY OFFICE

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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, 2019

<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>5,865,455</u>
Passed-through NC Department of Health and Human Services/Office of Economic Opportunity:			
Community Services Block Grant	93.569	G15B1NCCOSR	<u>529,353</u>
Passed-through NC Department of Environment and Natural Resources:			
Low-Income Home Energy Assistance Program	93.568	18B1NCLIEA	364,634
Heating Appliance Repair and Replacement Program	93.568	19B1NCLIEA	<u>188,954</u>
			<u>553,588</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>596,194</u>
<u>U. S. Department of Housing &amp; Urban Development</u>			
Passed through NC Department of Health and Human Services, Division of Aging and Adult Services:			
Emergency Solutions Grant	14.231	00036776	173,102
Emergency Solutions Grant	14.231	00038475	<u>94,921</u>
			268,023
Passed through NC Housing Coalition:			
HUD Housing Counseling Program	14.169	UNKNOWN	<u>15,277</u>
<u>Federal Emergency Management Agency</u>			
Direct Programs:			
Emergency Food and Shelter Program	97.024		<u>32,702</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>153,401</u>
			\$ <u>8,013,993</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, 2019

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, 2019. 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, 2019

At June 30, 2019, there was an outstanding loan under the *United States Department of Agriculture Rural Development* for an amount of \$1,393,483. 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.