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WESTERN CAROLINA COMMUNITY ACTION, INC.

Financial Statements
and Supplementary Information

June 30, 2021 and 2020

Western Carolina Community Action, Inc.
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June 30, 2021 and 2020

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INDEPENDENT AUDITORS' REPORT

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To the Board of Directors
Western Carolina Community Action, Inc.
Hendersonville, North Carolina

Report on the Financial Statements

We have audited the accompanying statements of financial position of Western Carolina Community Action, Inc. (the Agency), as of June 30, 2021 and June 30, 2020 and the related statements of activities, functional expenses and cash flows for the years 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 auditor's 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 Western Carolina Community Action, Inc. as of June 30, 2021 and 2020, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying financial data schedules and the Schedule of Expenditures of Federal and State awards, as required by *Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, are presented for purposes of additional analysis and are 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 information 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 XXX, 2021, on our consideration of Western Carolina Community Action, Inc.'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 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 Western Carolina Community Action, Inc.'s internal control over financial reporting and compliance.

PETWAY MILLS & PEARSON, PA
Certified Public Accountants
Zebulon, North Carolina

XXX, 2021

Western Carolina Community Action, Inc.
 Statements of Financial Position
 June 30,

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	<u>2021</u>	<u>2020</u>
Current Assets		
Cash and cash equivalents	\$ 1,332,143	\$ 980,328
Restricted Cash	417,322	531,713
Receivables:		
Federal and State Grants	1,489,483	1,528,058
Notes Receivable, Current Portion	16,298	15,195
Other	64,278	63,467
Prepaid Expenses	<u>71,690</u>	<u>106,147</u>
 Total Current Assets	 <u>3,391,214</u>	 <u>3,224,908</u>
 Noncurrent Assets		
Property and Equipment - Net	4,195,292	3,518,010
Notes Receivable, Exclusive of Current Portion	333,886	319,415
Investment in Endowment	46,074	34,819
Investment in Well Health Captive	<u>42,548</u>	<u>-</u>
 Total Noncurrent Assets	 <u>4,617,800</u>	 <u>3,872,244</u>
 Total Assets	 <u><u>\$ 8,009,014</u></u>	 <u><u>\$ 7,097,152</u></u>

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

Liabilities and Net Assets

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	2021	2020
Current Liabilities		
Accounts Payable and Accrued Expenses	\$ 617,029	\$ 301,399
Self-Insurance Payable	550,000	550,000
Accrued Annual Leave	218,761	319,446
Accrued Payroll	169,538	128,097
Incurred But Not Reported Claims Payable	180,567	109,141
Housing Escrow Payable	47,146	76,741
Deferred Revenue, Current Portion	16,298	15,195
Long-Term Debt, Current Portion	209,431	173,074
	<u>2,008,770</u>	<u>1,673,093</u>
Long-Term-Liabilities		
Deferred Revenue, Exclusive of Current Portion	333,885	319,415
Long Term Debt, Exclusive of Current Portion	1,587,092	1,151,862
	<u>1,920,977</u>	<u>1,471,277</u>
Total Liabilities	<u>3,929,747</u>	<u>3,144,370</u>
Net Assets		
Without Donor Restrictions		
Invested in Property and Equipment, Net of Related Debt	2,398,769	2,193,074
Board-Designated for Endowment	46,074	34,819
Undesignated	1,336,630	1,331,949
Total Without Donor Restrictions	<u>3,781,473</u>	<u>3,559,842</u>
With Donor Restrictions	297,794	392,940
Total Net Assets	<u>4,079,267</u>	<u>3,952,782</u>
Total Liabilities and Net Assets	<u>\$ 8,009,014</u>	<u>\$ 7,097,152</u>

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

Western Carolina Community Action, Inc.
Statement of Activities
Year Ended June 30, 2021

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	Without Donor Restrictions	With Donor Restrictions	Total
Revenues, Grants, and Other Support			
Federal Grants	\$ 7,484,467	\$ 4,200,629	\$ 11,685,096
Federal Grants Passed Through State Agencies	1,081,297	-	1,081,297
State Grants	2,145,899	34,027	2,179,926
County Contributions and Local Grants	724,579	101,942	826,521
Program Income and Fees	149,708	-	149,708
Interest Income from Investments	1,914	-	1,914
Other	51,952	36,925	88,877
In-kind Contributions	273,009	-	273,009
Donations	14,277	-	14,277
Rental Income	124,788	-	124,788
Gain (loss) on Disposal of Assets	9,000	-	9,000
Gain (loss) on Self Insured Plan	147,636	-	147,636
Realized Gain (loss) on Endowment Fund	776	-	776
Unrealized Gain (loss) on Endowment Fund	10,776	-	10,776
Net Assets Released from Restrictions	4,468,669	(4,468,669)	-
Total Revenues, Grants and Other Support	16,688,747	(95,146)	16,593,601
Expenses			
Program Services	14,908,185	-	14,908,185
Supporting Services			
Management and General	1,508,958	-	1,508,958
Fund Raising Services	49,973	-	49,973
Total Expenses	16,467,116	-	16,467,116
Change in Net Assets	221,631	(95,146)	126,485
Net Assets at Beginning of Year	3,559,842	392,940	3,952,782
Net Assets at End of Year	\$ 3,781,473	\$ 297,794	\$ 4,079,267

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

Western Carolina Community Action, Inc.
Statement of Activities
Year Ended June 30, 2020

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	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Revenues, Grants, and Other Support			
Federal Grants	\$ 6,972,077	\$ 3,620,910	\$ 10,592,987
Federal Grants Passed Through State Agencies	1,137,085	-	1,137,085
State Grants	1,878,123	-	1,878,123
County Contributions and Local Grants	716,947	185,000	901,947
Program Income and Fees	232,118	-	232,118
Interest Income from Investments	16,046	-	16,046
Other	70,395	9,188	79,583
In-kind Contributions	277,480	-	277,480
Donations	5,683	40,639	46,322
Rental Income	120,981	-	120,981
Gain (loss) on Disposal of Assets	(224)	-	(224)
Gain (loss) on Self Insured Plan	271,132	-	271,132
Realized Gain (loss) on Endowment Fund	(6,815)	-	(6,815)
Unrealized Gain (loss) on Endowment Fund	(2,440)	-	(2,440)
Net Assets Released from Restrictions	<u>3,668,990</u>	<u>(3,668,990)</u>	<u>-</u>
 Total Revenues, Grants, and Other Support	 <u>15,357,578</u>	 <u>186,747</u>	 <u>15,544,325</u>
Expenses			
Program Services	13,958,423	-	13,958,423
Supporting Services			
Management and General	1,424,208	-	1,424,208
Fund Raising Services	<u>38,479</u>	<u>-</u>	<u>38,479</u>
 Total Expenses	 <u>15,421,110</u>	 <u>-</u>	 <u>15,421,110</u>
 Change in Net Assets	 (63,532)	 186,747	 123,215
 Change in Estimate	 852,397	 -	 852,397
 Net Assets at Beginning of Year	 <u>2,770,977</u>	 <u>206,193</u>	 <u>2,977,170</u>
 Net Assets at End of Year	 <u>\$ 3,559,842</u>	 <u>\$ 392,940</u>	 <u>\$ 3,952,782</u>

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

Western Carolina Community Action, Inc.
Statement of Functional Expense
Year Ended June 30, 2021

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	Program Services	Supporting Services		Total
		Management and General	Fund Raising	
Salaries and Wages	\$ 5,479,484	\$ 883,950	\$33,462	\$ 6,396,896
FFCRA Wages	63,698	-	-	63,698
Payroll Taxes	402,038	68,893	2,486	473,417
FFCRA Tax Credit	(63,698)	-	-	(63,698)
Retirement Expense	359,771	67,402	2,397	429,570
Other Employee Benefits	1,150,091	35,580	4,238	1,189,909
Dues, Memberships, and Subscriptions	66,974	10,925	-	77,899
Equipment	101,102	7,497	489	109,088
Food Services Expense	229,159	787	69	230,015
Miscellaneous Program Support	3,495	16,585	-	20,080
Participant Costs	3,704,908	10,739	-	3,715,647
Postage and Shipping	4,998	2,048	11	7,057
Printing and Copywork	6,580	1,079	-	7,659
Professional Services	227,810	113,222	1,512	342,544
Software Leases and Licenses	65,764	115,375	2,411	183,550
Staff Travel and Continuing Education	128,464	26,785	182	155,431
Supplies	509,082	8,066	-	517,148
Vehicles	236,706	-	-	236,706
Occupancy	311,016	12,698	953	324,667
Housing Rehabilitation Programs	127,795	-	-	127,795
Advertising	12,320	8,033	-	20,353
Subcontractors	644,700	-	-	644,700
Communications	91,146	19,630	-	110,776
Facilities	200,638	72,183	1,763	274,584
Insurance	169,605	17,690	-	187,295
Depreciation	347,185	5,561	-	352,746
In-Kind Expenses	273,009	-	-	273,009
Interest Expense	48,251	4,230	-	52,481
Bad Debt Expense	6,094	-	-	6,094
Total	\$14,908,185	\$ 1,508,958	\$49,973	\$ 16,467,116

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

Western Carolina Community Action, Inc.
Statement of Functional Expenses
Year Ended June 30, 2020

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	Program Services	Supporting Services		Total
		Management and General	Fund Raising	
Salaries and Wages	\$ 5,518,396	\$ 758,252	\$27,199	\$ 6,303,847
Payroll Taxes	406,716	55,622	1,473	463,811
Retirement Expense	311,599	42,614	1,128	355,341
Other Employee Benefits	1,132,279	154,849	4,101	1,291,229
Dues, Memberships, and Subscriptions	17,203	11,800	1,144	30,147
Equipment	73,338	5,127	572	79,037
Food Services Expense	278,753	5,029	158	283,940
Miscellaneous Program Support	8,476	9,366	-	17,842
Participant Costs	3,136,830	1,806	13	3,138,649
Postage and Shipping	3,706	1,375	11	5,092
Printing and Copywork	14,083	3,018	-	17,101
Professional Services	176,243	93,761	1,455	271,459
Software Leases and Licenses	44,130	82,581	-	126,711
Staff Travel and Continuing Education	98,232	33,444	151	131,827
Supplies	378,915	7,219	114	386,248
Vehicles	315,180	54	-	315,234
Occupancy	284,175	6,932	7	291,114
Housing Rehabilitation Programs	23,400	-	-	23,400
Advertising	10,981	260	-	11,241
Subcontractors	675,765	-	-	675,765
Communications	89,722	12,594	-	102,316
Facilities	173,008	113,040	953	287,001
Insurance	135,871	15,417	-	151,288
Depreciation	328,871	4,586	-	333,457
In-Kind Expenses	277,480	-	-	277,480
Interest Expense	44,647	5,462	-	50,109
Bad Debt Expense	424	-	-	424
	<u>\$ 13,958,423</u>	<u>\$ 1,424,208</u>	<u>\$ 38,479</u>	<u>\$ 15,421,110</u>
Total				

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

Western Carolina Community Action, Inc.
 Statements of Cash Flows
 Years Ended June 30,

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	2021	2020
Cash Flows from Operating Activities		
Change In Net Assets	\$ 126,485	\$ 123,215
Adjustments to Reconcile Change in Net Assets to		
Cash Provided (Used) by Operating Activities:		
Depreciation and Amortization	352,746	333,457
(Gain) Loss on Disposal of Assets	(9,000)	224
Unrealized (Gain) Loss on Investments	(10,776)	2,440
Changes in Operating Assets and Liabilities:		
Receivables - Federal and State Grants	38,575	(602,382)
Receivables - Other	811	12,950
Prepaid Expenses	34,457	(74,698)
Accounts Payable and Accrued Expenses	315,630	61,918
Reimbursements from Self Insured Plan	12,277	15,692
Incurred but Not Reported Claims Payable	71,426	(3,851)
Accrued Payroll	41,441	26,182
Accrued Annual Leave	(100,685)	58,849
Housing Escrow Payable	(29,595)	18,182
Cash Provided (Used) by Operating Activities	843,792	(27,822)
Cash Flows from Investing Activities		
Purchases of Property and Equipment	(211,680)	(153,049)
Purchases of Land and Building	(823,248)	-
Investments in Endowment Fund	(479)	(687)
Investments in Well Health Captive	(42,548)	-
Proceeds from Disposal of Assets	-	1,846
Cash Provided (Used) by Investing Activities	(1,077,955)	(151,890)
Cash Flows from Financing Activities		
Proceeds from Long-term Debt	648,000	-
Principal Payments from Long-term Debt	(176,413)	(177,345)
Cash Provided (Used) by Financing Activities	471,587	(177,345)
Net Change in Cash	237,424	(357,057)
Cash at Beginning of Year	1,512,041	1,869,098
Cash at End of Year	\$ 1,749,465	\$ 1,512,041
Cash as Reported on Statement of Financial Position		
Cash and Cash Equivalents	\$ 1,332,143	\$ 980,328
Restricted Cash	417,322	531,713
	\$ 1,749,465	\$ 1,512,041
Supplemental Disclosures		
Interest Paid	\$ 52,481	\$ 50,109

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

Western Carolina Community Action, Inc.
Notes to the Financial Statements
Years Ended June 30, 2021 and 2020

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Note 1 – Description of Organization:

Western Carolina Community Action, Inc. (the Agency) was incorporated as a nonprofit corporation on February 28, 1966 pursuant to the laws of the State of North Carolina and operates in Henderson, Transylvania, and Polk Counties. It is funded primarily by grants from federal, State and local governmental units and agencies. The Agency administers various programs designed to assist the underprivileged in achieving self-sufficiency. Programs include Head Start, Early Head Start, Nutrition and Transportation Services, Rental Assistance, and Home Ownership Programs.

Note 2 – Significant Accounting Policies:

This summary of significant accounting policies of the Agency is presented to assist in understanding the Agency's financial statements. The financial statements and notes are representations of the Agency's management, who is responsible for their integrity and objectivity. These accounting policies conform to accounting principles generally accepted in the United States of America and have been consistently applied in the preparation of the financial statements.

Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting, whereby revenues are recognized when earned and expenditures are recognized when incurred. This basis of accounting conforms to accounting principles generally accepted in the United States of America.

Basis of Presentation

Net assets, revenues, gains, and losses 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 certain 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. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. 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 Equivalents

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For purposes of the statement of cash flows, the Agency considers all highly liquid investments available for current use regardless of maturity date to be cash equivalents.

Receivables

Receivables consist of unpaid balances from grantors and other miscellaneous amounts. Accounts are charged off as they are deemed uncollectible based upon periodic review of the accounts. For the years ended June 30, 2021 and 2020, bad debt expense was \$6,094 and \$424, respectively.

Property and Equipment

Property and equipment have been recorded at cost. Contributions of property and equipment have been recorded at their fair market value at the date of the gift. Depreciation has been computed on the straight-line basis over the estimated useful life of the asset. Upon sale or other disposition of property and equipment, the cost and related accumulated depreciation is removed from the accounts and the related gain or loss is reflected in operations. Expenditures for major renewals, replacements and betterments in excess of \$5,000 are capitalized. Repairs, maintenance and minor renewals, not in the nature of capital expenditures, are reflected in operations as incurred.

Property and equipment acquisitions by individual programs are charged to expense of the particular program at the time of purchase. These assets are capitalized by an offsetting entry to net assets.

Federal and State Grant Revenue

Revenue for reimbursable grants is recognized when program expenditures are incurred in accordance with program guidelines. All other grant revenues are recognized when received and expenditures tracked against it. Such revenues are subject to review by the funding agency.

Accrued Annual Leave

The Agency accrues Paid Time Off (PTO) benefits using a progressive rate based on the employees' length of service with the Agency. An employee can earn up to a maximum of 176 hours of PTO under the plan. The balance is payable upon termination. The Agency accrued annual leave in the amount of \$218,761 and \$319,446 for the years ended June 30, 2021 and 2020, respectively. PTO expense is recorded and billed to grants when paid not when accrued.

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In-kind Contributions

The Agency receives in-kind contributions from various organizations and individuals. These consist of rent, supplies, and consulting services and are valued at the fair market value of the donated service or item at the time of the donation.

Donated services are recognized as contributions in accordance with statements issued by the Financial Accounting Standards Board, if the services (a) create or enhance non-financial assets, or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Agency. During the years presented, volunteers provided services in the Head Start program that were not recognized as contributions in the financial statements since the recognition criteria were not met.

Deferred Revenue

Deferred revenue represents revenue associated with the Notes Receivable from English Hills, LLC. See notes 5 and 16 for further detail.

Advertising Costs

Advertising costs are expensed in the year incurred. Advertising and development costs for the years ended June 30, 2021 and 2020 totaled \$20,353 and \$11,241, respectively.

Income Taxes

The Agency qualifies as a tax-exempt organization under Internal Revenue Code Section 501(c)(3) and, accordingly, is exempt from federal and State income taxes. The Agency may be taxed on unrelated business income or uncertain tax positions; however, the Agency has not engaged in any activities that would generate unrelated business income or adopted any uncertain tax positions. Therefore, no provision for income taxes has been made in these financial statements.

The Agency has implemented the accounting requirements associated with uncertainty in income taxes using the provisions of Financial Accounting Standards Board (FASB) ASC 740, *Income Taxes*. Using that guidance, tax positions initially need to be recognized in the financial statements when it is more-likely-than-not the positions will be sustained upon examination by the tax authorities. It also provides guidance for de-recognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. As of the date of the independent auditors' report, the Agency has no uncertain tax positions that qualify for either recognition or disclosure in the financial statements.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions. Those estimates and assumptions affect the reported amounts of assets and liabilities, and the reported revenues and expenses. Actual results could differ from those estimates.

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Cost Allocation

The Agency uses the direct cost method to allocate costs to a particular program that can be specifically identified with the particular program. For costs that cannot be specifically identified with a particular program, the costs are allocated using an indirect cost rate. The rate is computed using program salaries and fringe benefits to total Agency salaries and fringe benefits. Fringe benefits are accounted for in a pool and allocated to each program based on salaries of the program.

Change in Accounting Principle

On May 28, 2014, FASB issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers (Topic 606)*. This update established the principles to report about the nature, timing, and uncertainty of revenue from contracts with customers. In June 2020, FASB issued Accounting Standards Update (ASU) 2020-05, *Revenue from Contracts with Customers (Topic 606) and Leases (Topic 842): Effective Dates for Certain Entities* deferring the effective date of ASU 2014-09 to periods beginning after December 15, 2020. The Agency has implemented ASU 2014-09.

Subsequent Events

Management has evaluated subsequent events from the date of the statement of financial position through the report date, which represents the date on which the financial statements were available to be issued. The Agency has not evaluated subsequent events after that date. There were no subsequent events during this period that require disclosure.

Note 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 statements of financial position, comprising of the following:

	<u>2021</u>	<u>2020</u>
Cash and cash equivalents	\$ 1,332,143	\$ 980,328
Federal and state grant receivables	1,489,483	1,528,058
Notes receivable	16,298	15,195
Other receivables	64,278	63,467
	<u>\$2,902,202</u>	<u>\$2,587,048</u>

Note 4 – Cash:

Restrictions

Cash held in several accounts in the amounts of \$417,322 and \$531,713 at June 30, 2021 and 2020, respectively, is restricted for certain purposes. Those purposes include ones imposed by grantors and funds restricted for use of self-insured health fund.

Concentrations



The amount of cash held in demand accounts sometimes exceeds the amount insured by the FDIC. Due to the strong credit ratings of these financial institutions, the Agency believes it is not exposed to any significant credit risk to cash.

Note 5 – Notes Receivable:

			Original				
	Note Date	Maturity Date	Principal Balance	Unamortized Discount	Present Value	Mortgage Position	Note Term
(A)	2005	2025	\$225,000	\$ 36,238	\$188,762	2nd	20 years
(B)	2006	2026	200,000	38,578	161,422	2nd	20 years
			<u>\$425,000</u>	<u>\$ 74,816</u>	<u>\$350,184</u>		

(A) In fiscal 2005, the Agency loaned English Hills, LLC \$225,000 used for the construction of low-income housing under the provisions of the HOME program. This deferred payment note is recorded at its present value of \$188,762 and \$180,309 at June 30, 2021 and 2020, respectively.

No repayment is required, if the subject property remains qualified under the affordability requirements of the HOME program’s funding guidelines and restrictions. This note bears no interest and is recorded at its net present value based on an imputed interest rate at loan origination of 4.59% (Long-term Applicable Federal Rate).

(B) In fiscal 2006, the Agency loaned English Hills, LLC \$200,000 used for the construction of low-income housing under the provisions of the HOME program. This deferred payment note is recorded at its present value of \$161,422 and \$154,301 at June 30, 2021 and 2020, respectively.

No repayment is required, if the subject property remains qualified under the affordability requirements of the HOME program’s funding guidelines and restrictions. This note bears no interest and is recorded at its net present value based on an imputed interest rate at loan origination of 4.52% (Long-term Applicable Federal Rate).

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Note 6 – Property and Equipment:

Property and equipment at June 30, 2021 and 2020 consisted of the following:

	<u>2021</u>	<u>2020</u>
Land	\$ 948,381	\$ 855,781
Buildings and Improvements	6,983,725	6,195,242
Vehicles	1,204,940	1,221,496
Equipment	218,726	211,826
Other	33,210	-
	<hr/>	<hr/>
Total	9,388,982	8,484,345
Less: Accumulated Depreciation	<u>5,193,690</u>	<u>4,966,335</u>
Total Property and Equipment - Net	<u>\$4,195,292</u>	<u>\$3,518,010</u>

Note 7 – Investment in Endowment:

The Agency has established an Endowment Fund with the Community Foundation of Henderson County, Inc. (the Foundation). This fund consists of funds designated by the Agency to function as an endowment. As required by generally accepted accounting principles, net assets associated with endowment funds, including funds designated by the Agency to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

The Agency has interpreted the State Prudent Management of Institutional Funds Act (SPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date for the donor-restricted endowments funds, absent explicit donor stipulations to the contrary. As a result of this interpretation, the Agency would classify as permanently restricted net assets (a) the original value of gifts donated to a permanent endowment, and (b) the original value of subsequent gifts to a permanent endowment.

The remaining portion of the donor-restricted endowment fund not classified as permanently restricted would be classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Agency in a manner consistent with the standard of prudence prescribed by SPMIFA. In accordance with SPMIFA, the Agency considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. The duration and preservation of the fund;
2. The Agency's purpose and the donor-restricted endowment fund;

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3. General economic conditions;
4. The possible effect of inflation and deflation;
5. The expected total return from income and the appreciation of investments;
6. Other resources of the Agency;
7. The investment policies of the Agency.

Return Objectives and Risk Parameters

The Agency utilizes the investment policy used by the Foundation. The primary objective of those investments is to provide for consistent long-term growth of principal and income without undue exposure to risk. The investment objective is to achieve a total return including appreciation, which will satisfy the current financial needs of the various funds, protect and increase their long-term inflation-adjusted value, and minimize short-run volatility.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, the Foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Foundation targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Spending Policy

The Foundation determines the amount available for spending under a total return system, with the intent to minimize the likelihood of the original contributions of a fund being invaded. The Foundation has a policy of appropriating for distribution each year five percent of its endowment fund's average fair value over the prior twelve quarters as calculated using a March 31 quarter end.

The endowment net asset composition for the years ended June 30, 2021 and 2020 is as follows:

	<u>2021</u>	<u>2020</u>
Board-designated Endowment Funds	<u>\$46,074</u>	<u>\$34,819</u>

The changes in endowment net assets for the years ended June 30, 2021 and 2020 are as follows:

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	2021	2020
Balance - Beginning of Year	\$ 34,819	\$ 36,560
Investment Income	776	964
Unrealized Gains (Losses)	10,776	(2,440)
Investment and Other Fees	(297)	(265)
Balance - End of Year	\$ 46,074	\$ 34,819

Note 8 – Investment in Well Health Captive

In December 2020, the Agency purchased one share of redeemable voting common stock and one share of non-voting redeemable preferred stock of Well Health Insurance LTD for a total purchase price of \$20,000. In April 2021, the Agency purchased additional equity in Well Health Insurance LTD in the amount of \$22,548. The investment was recorded at fair value of \$42,548 as of June 30, 2021. The cost of this investment is \$42,548 as of June 30, 2021.

Note 9 – Retirement Plan

The Agency contributes 5% of the total annual salary of each employee to the tax-sheltered annuity plan (403b) and also matches 100% of employee contributions up to 2.5% of the total annual salary of each eligible employee. There is a 90 day waiting period for eligibility of the 5% contribution, while an employee is immediately eligible for the 2.5% match upon election. For the years ended June 30, 2021 and 2020, the retirement expense was \$429,570 and \$355,341, respectively.

Note 10 – Line of Credit:

The Agency has a line of credit agreement with a local bank in the amount of \$300,000. The annual interest rate on any outstanding advances is 3.25%. No advances were received from a line of credit during the years ending June 30, 2021 and 2020, and the Agency has a zero balance owed at June 30, 2021.

Note 11 – Long-term Debt:

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Long-term Debt consists of the following as of June 30:

	2021	2020
<p>Note payable of \$648,000 dated November 2020, with 180 principal and interest payments of \$4,648, including interest at 3.5% beginning December 2020, using the interest calculation method, secured by building and land. Final payment due in November 2035.</p>	\$ 631,393	\$ -
<p>Mortgage dated July 2015 originally in the amount of \$1,240,000, requiring 119 payments of \$11,996 at 2.99% interest beginning on September 1, 2015 and due on August 1, 2025. This note was refinanced in March 2016 to include financing the purchase of the land under and adjacent to one of the commercial buildings financed as part of the original mortgage. The total amount of the refinanced mortgage was \$1,273,970, with 112 principal and interest payments of \$12,985, including interest at 2.99% beginning in May 2016. This mortgage is secured by a first lien deed of trust on commercial real estate.</p>	620,677	744,356
<p>Note payable with the North Carolina Housing Finance Agency, the balance of which, \$464,391, was assumed by WCCA on January 1, 2014 when WCCA acquired the Excelsior Apartments Low-Income Tax Credit Housing Project. This note was refinanced in September 2018 with First Citizens Bank. The total amount of the refinanced mortgage was \$445,000, with 240 principal and interest payments of \$2,958, including interest or 4.99% of beginning October 2018.</p>	406,065	420,497
<p>Note payable with the Asheville Regional Housing Consortium, the balance of which, \$120,125 was assumed by WCCA on January 1, 2014 when WCCA acquired the Excelsior Apartments Low-Income Tax Credit Housing Project. The note does not require monthly payments. No payments are required as long as the property is used in accordance to the requirements of the Rental Production Program. This note is set to mature on May 11, 2028.</p>	120,125	120,125

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Note 11 – Long-term Debt – Continued:

Note payable of \$415,000 originally dated August 2002, was refinanced in August 2012. The new terms require monthly principal payments of \$1,477 plus interest at the rate of bank prime plus one percent. This mortgage is secured by a building and land. Final payment is due August 2022.

	18,263	34,504
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Note payable of \$61,000 dated January 2016, with 59 principal and interest payments of \$1,106, including interest at 3.25% beginning March 2016, using the interest calculation method, secured by building and land. Final payment was made in November 2020.

	-	5,454
	1,796,523	1,324,936
Less: Current Installments	209,431	173,074
	\$ 1,587,092	\$ 1,151,862

Expected principal payments are as follows:

Fiscal Year Ending June 30

2022		\$ 209,431
2023		194,708
2024		201,138
2025		207,936
2026		94,004
Thereafter		889,306
		\$ 1,796,523

Note 12 – Related Party Transactions:

The Agency owns 50% of English Hills Housing of Brevard, Inc. which owns a .01% interest in English Hills, LLC. (See Note 16.) The value of the interest is immaterial to record and, accordingly, no value is shown as an asset in these statements.

Note 13 – Concentration of Credit Risk:

The majority of the Agency’s financial activities are with federal and State governments. This constitutes a concentration of credit risk with respect to receivables from grantors.

Note 14 – Net Assets:

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At June 30, 2021 and 2020, net assets consisted of the following:

	2021	2020
Without Donor Restrictions:		
Undesignated	\$ 1,336,630	\$ 1,331,949
Board-designated for Endowment	46,074	34,819
Invested in Property and Equipment, Net of Related Debt	2,398,769	2,193,074
Total Unrestricted	3,781,473	3,559,842
With Donor Restrictions:		
Donations and grants	297,794	392,940
Total Temporarily Restricted	297,794	392,940
 Total Net Assets	 \$ 4,079,267	 \$ 3,952,782

Note 15 – Net Assets Released from Restriction

Net assets were released from restrictions by incurring expenses satisfying the restricted purposes of the donor as follows:

	2021	2020
Provision of Housing and Support	\$ 4,468,669	\$ 3,668,990
	\$ 4,468,669	\$ 3,668,990

Note 16 – Contingencies:

The Agency has received proceeds from several federal and state grants. Periodic audits of these grants are required and certain costs may be questioned as not being appropriate expenses under the grant agreements. Such audits could result in the refund of grant monies to the grantor. Provision has been made in the accompanying financial statements, where applicable, for the refund of grant monies.

The Agency is named in various claims and legal actions in the normal course of its activities. Based upon counsel and management's opinion, the outcome of such matters is not expected to have a material adverse effect on the Agency's financial statements.

The Agency is a general partner in a limited partnership related to the operation of low income housing. As a general partner, the Agency made certain guarantees as to construction completion, permanent financing shortfall, and operating deficiencies. A general partner is also jointly and severally liable to the partnership and limited partners.

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The Agency is 50% owner of English Hills Housing of Brevard, Inc., a company that incorporated in 2002. English Hills Housing of Brevard, Inc. owns .0 % and is the Managing Member of English Hills, LLC. In prior years, \$200,000 in HOME funds were received by the Agency and loaned to English Hills, LLC. (See Note 5.) The proceeds of these loans were used to construct English Hills Apartments, which was completed in 2007. In consideration for services performed, the Agency was paid a development fee as construction progressed. English Hills, LLC was responsible for all construction costs.

During the year ended June 30, 2021, the COVID-19 outbreak in the United States caused business disruption through mandated and voluntary closings. The extent of the impact of COVID-19 on operational and financial performance will depend on certain developments and cannot be reasonably predicted and estimated at this time. The COVID-19 outbreak is ongoing as of June 30, 2021, and additional impact on operational and financial performance may occur.

Note 17 – Fair Value of Financial Instruments Approximate Carrying Values:

The Agency has a number of financial instruments, none of which are held for trading purposes. The Agency estimates that the fair-value of all financial instruments at June 30, 2021, does not differ materially from the aggregate carrying values of its financial instruments recorded in the accompanying balance sheet. The estimated fair-value amounts have been determined by the Agency using available market information and appropriate valuation methodologies. Considerable judgment is necessarily required in interpreting market data to develop the estimates of fair-value, and, accordingly, the estimates are not necessarily indicative of the amounts that the Agency could realize in a current market exchange.

Note 18 – Other Employee Benefits:

Other employee benefits incurred for the years ended June 30, 2021 and 2020 are as follows:

	<u>2021</u>	<u>2020</u>
Health Insurance and Related Costs	\$ 1,160,879	\$ 1,107,738
Employee Group Life & LTD Insurance	24,566	14,485
Workers' Compensation	44,124	38,825
Unemployment Insurance	42,050	38,400
Cafeteria Plan Fees	1,210	2,494
Health & Welfare	17,765	30,438
Accrued Leave	(100,685)	58,849
Total Fringe Benefits	<u>\$ 1,189,909</u>	<u>\$ 1,291,229</u>

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Note 19 - Supplemental Cash Flow Information:

Interest paid in cash during the years ended June 30, 2021 and 2020 were \$52,481 and \$50,109 respectively.

Note 20 – Indirect Costs:

Indirect costs are costs that have been incurred for common Agency objectives and cannot be readily identified with a particular program activity of the Agency. Indirect costs are charged to the grant program based on an allocation plan approved by the Agency’s oversight agency, the U.S. Department of Health and Human Services. The provisional rates of 17.00% of direct salaries and fringe benefits was approved for the years ended June 30, 2021 and 2020, respectively. The provisional rates were used to charge individual grants unless otherwise restricted by the grantor.

Note 21 –Change in Estimate:

During the year ended June 30, 2020, the Organization revised its method of calculating the self-insurance payable liability estimate. As a result, 2020 net assets increased by \$852,397.

Note 22 – Self Insured Plan

The calculated gain on the medical and dental Self-Insured Plans for the years ended June 30, 2021 and 2020 are as follows:

	2021	2020
Plan Revenue:		
Premiums	\$ 1,333,286	\$ 1,272,375
Prescription rebate(s)	6,387	-
Plan Expenses:		
Claims	900,243	703,732
Insurance Premiums	181,927	243,021
Other	109,867	54,490
Gain (Loss) on Self Insured Plans	\$ 147,636	\$ 271,132

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Supplementary Information

Western Carolina Community Action, Inc.
 HUD Housing Choice Vouchers Program
 Financial Data Schedule - Balance Sheet
 June 30, 2021

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Line Item #	14.871 Housing Choice Vouchers	14.896 FSS Coordinator	14.HCC HCV Cares Act
Assets			
Current Assets			
111	\$ 420,125	\$ -	\$ -
113	47,146	-	24,028
115	3,798	-	-
100	<u>471,069</u>	<u>-</u>	<u>24,028</u>
Accounts Receivable			
121	-	-	-
120	<u>-</u>	<u>-</u>	<u>-</u>
150	<u>471,069</u>	<u>-</u>	<u>24,028</u>
Noncurrent Assets			
Capital Assets			
164	38,385	-	-
166	<u>38,385</u>	<u>-</u>	<u>-</u>
160	<u>-</u>	<u>-</u>	<u>-</u>
180	<u>-</u>	<u>-</u>	<u>-</u>
190	<u>\$ 471,069</u>	<u>\$ -</u>	<u>\$ 24,028</u>
Liabilities and Equity			
Current Liabilities			
311	\$ -	\$ -	\$ -
312	<u>3,798</u>	<u>-</u>	<u>-</u>
310	<u>3,798</u>	<u>-</u>	<u>-</u>
342	-	-	24,028
Noncurrent Liabilities			
353	<u>47,146</u>	<u>-</u>	<u>-</u>
350	<u>47,146</u>	<u>-</u>	<u>-</u>
300	<u>50,944</u>	<u>-</u>	<u>24,028</u>
Equity			
508.1	-	-	-
511.1	-	-	-
512.1	<u>420,125</u>	<u>-</u>	<u>-</u>
513	<u>420,125</u>	<u>-</u>	<u>-</u>
600	<u>\$ 471,069</u>	<u>\$ -</u>	<u>\$ 24,028</u>

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Western Carolina Community Action, Inc.
HUD Housing Choice Vouchers Program
Financial Data Schedule - Revenues and Expenses
Year Ended June 30, 2021

Line Item #		14.871 Housing Choice Vouchers	14.896 FSS Coordinator	14.HCC HCV Cares Act
	Revenues			
70600	HUD PHA Operating Grants	\$ 4,096,936	\$ 65,508	\$ 150,024
71100	Investment Income - Unrestricted	310	-	-
71400	Fraud Recovery	1,650	-	-
71500	Other Revenue	10,594	-	-
70000	Total Revenues	<u>4,109,490</u>	<u>65,508</u>	<u>150,024</u>
	Expenses			
91100	Administrative Salaries	136,736	-	46,869
91500	Employee Benefit Contributions - Administrative	42,669	-	17,552
91800	Travel Expense	100	-	1,535
91810	Allocated Overhead	47,520	-	15,535
91900	Other	68,122	-	62,913
91000	Total Operating - Administrative	<u>295,147</u>	<u>-</u>	<u>144,404</u>
92100	Tenant Services - Salaries	-	51,464	-
92300	Employee Benefit Contributions - Tenant Services	-	14,044	-
92400	Tenant Services - Other	-	-	5,620
92500	Total Tenant Services	<u>-</u>	<u>65,508</u>	<u>5,620</u>
96900	Total Operating Expenses	<u>295,147</u>	<u>65,508</u>	<u>150,024</u>
97000	Excess of Operating Revenues over Operating Expenses	<u>3,814,343</u>	<u>-</u>	<u>-</u>
97300	Housing Assistance Payments	3,663,402	-	-
97350	HAP Portability-In	7,355	-	-
97400	Depreciation Expense	-	-	-
97500	Fraud Losses	-	-	-
90000	Total Expenses	<u>3,965,904</u>	<u>65,508</u>	<u>150,024</u>
10000	Excess of Total Revenue Over Total Expenses	<u>\$ 143,586</u>	<u>\$ -</u>	<u>\$ -</u>
11030	Beginning Equity	<u>276,539</u>	<u>-</u>	<u>-</u>
11040	Prior Period Adjustments, Equity Transfers and Correction of Errors	<u>-</u>	<u>-</u>	<u>-</u>
11170	Administrative Fee Equity	<u>420,125</u>	<u>-</u>	<u>-</u>
11180	Housing Assistance Payments Equity	<u>-</u>	<u>-</u>	<u>-</u>
11190	Unit Months Available	<u>7,812</u>	<u>-</u>	<u>-</u>
11210	Number of Unit Months Leased	<u>7,826</u>	<u>-</u>	<u>-</u>

Western Carolina Community Action, Inc.
 Schedule of Expenditures of Federal and State Awards
 For the Year Ended June 30, 2021

Grantor/Pass-through Grantor/Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Federal (Direct & Pass-Through Expenditures)	State Expenditures	Local Expenditures	Total Expenditures
DIRECT FEDERAL GRANTS:						
U.S. Department of Housing and Urban Development						
Direct Programs:						
Section 8 Housing - Housing Choice Voucher Program	14.871	NC 140 VO	\$ 3,965,904	\$ -	\$ -	\$ 3,965,904
Section 8 Housing - CARES Act	14.HCC	NC 140 HCC	150,024	-	-	150,024
Section 8 Housing - FSS Coordinator 7/1/20 - 12/31/20	14.896	NC140FSH384A016	33,034	-	-	33,034
Section 8 Housing - FSS Coordinator 1/1/21 - 12/31/21	14.896	NC140FSH384A016	32,474	-	-	32,474
Total U.S. Department of Housing and Urban Development			4,181,436	-	-	4,181,436
U.S. Department of Health and Human Services						
Direct Programs:						
Head Start/Early Head Start	93.600	04-CH-010068-05-00	5,575,083	-	-	5,575,083
Early Head Start Child Care Partnership	93.600	04HP00030601	1,380,931	-	-	1,380,931
Head Start/Early Head Start COVID			357,860	-	-	357,860
Early Head Start Child Care Partnership COVID			55,253	-	-	55,253
Total U.S. Department of Health and Human Services			7,369,127	-	-	7,369,127
FEDERAL PASSED THROUGH STATE AGENCIES:						
U.S. Department of Health and Human Services						
Passed through NC Department of Health and Human Resources: Division of Child Development: Passed through Henderson County: Wrap Around Child Care Services						
	93.575	0452012 - 881039	5,323	-	383	5,706
Passed through Pennsylvania County: Wrap Around Child Care Services						
	93.575	0882012 - 451190	2,746	-	-	2,746
Subtotal - Wrap Around Cluster			8,069	-	383	8,452

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The accompanying notes are an integral part of this schedule.

Western Carolina Community Action, Inc.
 Schedule of Expenditures of Federal and State Awards
 For the Year Ended June 30, 2021

Grantor/Pass-through Grantor/Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Federal (Direct & Pass-Through Expenditures)	State Expenditures	Local Expenditures	Total Expenditures
Passed through NC Department of Health and Human Services:						
Passed through State Division of Aging:						
Passed through Land of Sky Regional Council:						
Passed through Henderson County:						
Senior Services, General & Medical Transportation	93.044	20/21AANCT3SS	14,217	106,493	2,685	123,395
Passed through Transylvania County:						
Nutrition Services, Congregate Meals	93.045	20/21AANCT3CM	10,754	633	1,609	12,996
Nutrition Services, Home Delivered Meals	93.045	20/21AANCT3HD	62,889	34,979	-	97,868
Nutrition Services Incentive Program	93.053	20/21AANCSIP	8,322	-	-	8,322
Nutrition Services, Home Delivered Meals: CARES Act	93.045		58,741	-	-	58,741
Subtotal - Aging Cluster			154,923	142,105	4,294	301,322
Total U.S. Department of Health and Human Services			162,992	142,105	4,677	309,774
U.S. Department of Agriculture						
Passed through NC Department of Public Instruction:						
Child Nutrition Program/School Food Service	10.558	7210 10/1/19 - 9/30/20	-	-	-	-
Child Nutrition Program/School Food Service	10.558	7210 10/1/19 - 6/30/20	198,647	-	-	198,647
Total U.S. Department of Agriculture			198,647	-	-	198,647
U.S. Department of Housing and Urban Development						
Passed through the North Carolina Housing Finance Agency						
HOME - Single Family Rehab - Henderson County	14.239	SFRLP1431 IDIS#2014-33	92,145	-	-	92,145
Total U.S. Department of Housing and Urban Development			92,145	-	-	92,145

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The accompanying notes are an integral part of this schedule.

Western Carolina Community Action, Inc.
 Schedule of Expenditures of Federal and State Awards
 For the Year Ended June 30, 2021

Grantor/Pass-through Grantor/Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Federal (Direct & Pass-Through Expenditures)	State Expenditures	Local Expenditures	Total Expenditures
U S Department of Transportation						
Passed through NC Department of Transportation						
Section 5311 Transportation: Administration	20.509	20-CT-022 36233.109.19.1	117,307	20,701	24,358	162,366
Section 5311 Transportation: Capital	20.509	20-CT-022 36233.109.19.3	-	-	-	-
Section 5311 Transportation: CARES Act Operating	20.509	20-CA-022 49233.77.1.2	220,810	-	4,021	224,831
Subtotal - Section 5311 Transportation			338,117	20,701	28,379	387,197
Vaccination Rides CARES Act			-	7,238	-	7,238
Rural State Operating		20-RO-022 36223.145.1.2	-	12,400	-	12,400
Section 5310 Transportation: Operating	20.513	20-ED-022 51001.69.6.2	8,699	-	-	8,699
Total U. S. Department of Transportation			346,816	40,339	28,379	415,534
STATE GRANTS:						
North Carolina Department of Health and Human Services						
Division of Child Development and Early Education						
North Carolina Pre - K Plan - Henderson County	N/A	33562	-	1,677,681	-	1,677,681
Passed through Smart Start of Transylvania County						
North Carolina Pre - K Plan - Transylvania County	N/A	NCPK-TC-02-WCCA #2667416	-	349,616	-	349,616
Subtotal - North Carolina Pre - K			-	2,027,297	-	2,027,297
Total North Carolina Department of Health and Human Services			-	2,027,297	-	2,027,297
Child Care Services Association						
TEACH Early Childhood Project	N/A	FYE 21	-	7,073	-	7,073
TOTAL FEDERAL AND STATE AWARDS			\$ 12,351,163	\$ 2,216,814	\$ 33,056	\$ 14,601,033

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The accompanying notes are an integral part of this schedule.

Western Carolina Community Action, Inc.
Schedule of Expenditures of Federal and State Awards
Year Ended June 30, 2021

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Notes to the Schedule of Expenditures of Federal and State Awards:

Basis of Presentation:

The accompanying Schedule of Expenditures of Federal and State Awards includes the federal and State grant activity of the Agency under the programs of the federal government and the State of North Carolina for the year ended June 30, 2021. This information in the Schedule of Expenditures of Federal and State Awards is presented in accordance with the requirements of *Title 2 U.S. Code of Federal Requirements (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*. Because the Schedule presents only a selected portion of the operations of the Agency, it is not intended to and does not present the financial position, changes in net assets or cash flows of the Agency.

Federal Loan Program:

The Agency loaned English Hills, LLC two deferred notes in the amount of \$225,000 and \$200,000. The proceeds of the loans are to be used for the construction of low-income housing under the provisions of the HOME program. Both notes have terms of 20 years and no repayment is required if the subject property remains qualified under the affordability requirements in the HOME program's funding guidelines and restrictions.

Indirect Costs:

The Agency did not elect to use the 10% de minimis cost rate. Instead, the Agency negotiated an allocation plan approved by the Agency's oversight agency, the U.S. Department of Health and Human Services. This plan and the subsequent results are discussed in Note 20 of the consolidated financial statements.

Summary of Accounting Principles:

Expenditures reported in the Schedule of Expenditures of Federal and State Awards are reported on the accrual basis of accounting.

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Compliance Section

**INDEPENDENT AUDITOR'S 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**

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To the Board of Directors
Western Carolina Community Action, Inc.
Hendersonville, North Carolina

We have audited, in accordance with the 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 Western Carolina Community Action, Inc. (the Agency), which comprises 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 XXX, 2021.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Western Carolina Community Action, Inc.'s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing an opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Western Carolina Community Action, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of the Agency'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 combination of deficiencies in internal control 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.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether Western Carolina Community Action, Inc.'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 Agency'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 Agency's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

PETWAY MILLS & PEARSON, PA
Certified Public Accountants
Zebulon, North Carolina

XXX, 2021

**Independent Auditors' Report on Compliance for Each Major Federal
Program and on Internal Control Over Compliance Required by the
Uniform Guidance**

DRAFT

To the Board of Directors
Western Carolina Community Action, Inc.
Hendersonville, North Carolina

Report on Compliance for Each Major Federal Program

We have audited Western Carolina Community Action, Inc.'s (the Agency) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Western Carolina Community Action, Inc.'s major Federal programs for the year ended June 30, 2021. Western Carolina Community Action, Inc.'s major Federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its Federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of Western Carolina Community Action, Inc.'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 Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and 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 Western Carolina Community Action, Inc.'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 Western Carolina Community Action, Inc.'s compliance.

Opinion on Each Major Federal Program

In our opinion, Western Carolina Community Action, Inc. 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 Western Carolina Community Action, Inc. 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 Western Carolina Community Action, Inc.'s internal control over compliance with the types of requirements that could have a direct and material effect on a major Federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for each major Federal program and to test and report on internal control over compliance in accordance with 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 the Agency'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 a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a Federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or 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 preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses and significant deficiencies.

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 Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

PETWAY MILLS & PEARSON, PA
Certified Public Accountants
Zebulon, North Carolina

XXX, 2021

**Independent Auditors' Report on Compliance for Each Major State
Program and on Internal Control over Compliance in accordance with
OMB Uniform Guidance**

DRAFT

To the Board of Directors
Western Carolina Community Action, Inc.
Hendersonville, North Carolina

Report on Compliance for Each Major State Program

We have audited Western Carolina Community Action, Inc.'s compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on Western Carolina Community Action, Inc.'s major State program for the year ended June 30, 2021. Western Carolina Community Action, Inc.'s major State program is 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 the requirements of laws, regulations, contracts, and grants applicable to its State programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for Western Carolina Community Action, Inc.'s major State program 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 *Title 2 US Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and 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 State program occurred. An audit includes examining, on a test basis, evidence about Western Carolina Community Action, Inc.'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 the major State program. However, our audit does not provide a legal determination of Western Carolina Community Action, Inc.'s compliance.

Opinion on Each Major State Program

In our opinion, Western Carolina Community Action, Inc. complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major State program for the year ended June 30, 2021.

Report on Internal Control Over Compliance

DRAFT

Management of Western Carolina Community Action, Inc. 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 Western Carolina Community Action, Inc.'s internal control over compliance with the types of requirements that could have a direct and material effect on a major State program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for each major State program and to test and report on internal control over compliance in accordance with 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 the Agency'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 State program on a timely basis. A material weakness in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a State 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 combination of deficiencies, in internal control over compliance with a type of compliance requirement of a State 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 significant deficiencies or material weaknesses. 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 Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

PETWAY MILLS & PEARSON, PA
Certified Public Accountants
Zebulon, North Carolina

XXX, 2021

Western Carolina Community Action, Inc.
Schedule of Findings and Questioned Costs
Year Ended June 30, 2021

DRAFT

SECTION I – SUMMARY OF AUDITORS’ RESULTS

Financial Statements

Type of auditors’ report issued: Unmodified

Internal control over financial reporting:

- Material weaknesses identified? yes X no

- Significant deficiency (s) identified that are not
 considered to be material weaknesses yes X none reported

Noncompliance material to financial statements noted yes X no

Federal and State Awards

Type of auditors’ report issued on compliance for major federal and State programs:
Unmodified

Internal control over major federal and State programs:

- Material weaknesses identified? yes X no

- Significant deficiency (s) identified that are not
 considered to be material weaknesses yes X none reported

Any audit findings disclosed that are required to be reported in accordance with Uniform Guidance yes X no

Identification of major federal programs:

<u>Program Name</u>	<u>CFDA #</u>
Head Start/Early Head Start	93.600
Section 8 – Housing Choice Voucher Program	14.871

Western Carolina Community Action, Inc.
Schedule of Findings and Questioned Costs
Year Ended June 30, 2021

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Identification of major State programs:

Program Name

North Carolina Pre-K

Dollar threshold used to distinguish between Type A Programs: \$750,000.

Auditee qualified as low-risk auditee? X yes no

SECTION II – FINANCIAL STATEMENT FINDINGS

None reported.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None reported.

SECTION IV – STATE AWARDS

The following state award is deemed to have a direct and material effect on the financial statements:

Program Name

North Carolina Pre-K Plan – Henderson
County
North Carolina Pre-K Plan – Transylvania
County

Western Carolina Community Action, Inc.
Summary Schedule of Prior Audit Findings
Year Ended June 30, 2021

DRAFT

There were no findings reported in 2020.