

Report Date, 2024

To the Finance and Audit Committee
Western Carolina Community Action, Inc. d/b/a WNCSource

We have audited the financial statements of Western Carolina Community Action, Inc. d/b/a WNCSource for the year ended June 30, 2023, and have issued our report thereon dated **Report date**, 2024. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our engagement letter to you dated November 3, 2023. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Matters

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Western Carolina Community Action, Inc. d/b/a WNCSource are described in Note 2 to the financial statements. As described in Note 2, the Agency adopted the following FASB Accounting Standard Updates (ASUs) during the year ended June 30, 2023: ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*; ASU No. 2016-01, *Financial Instruments – Overall: Recognition and Measurement of Financial Assets and Financial Liabilities*; ASU No. 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement*; ASU No. 2016-02, *Leases (Topic 842)*; ASU 2018-10, *Codification Improvements to Topic 842, Leases*; ASU 2018-11, *Leases (Topic 842): Targeted Improvements*; and ASU 2019-01, *Leases (Topic 842): Codification Improvements*; ASU No. 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*; ASU No. 2020-07, *Not-for-Profit Entities (Topic 958): Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*; and ASU No. 2020-03, *Codification Improvements to Financial Instruments*. We noted no transactions entered into by the Agency during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

The most sensitive estimates affecting the financial statements were lack of an allowance for doubtful accounts, depreciation expense, operating leases, and present value adjustments for note receivables and deferred revenue. Management has not established an allowance for doubtful accounts as all grants, note, and other receivable balances are expected to be collected based on significant judgement by management. Depreciation is recorded based on the estimated useful lives of the underlying assets. The operating lease liabilities and corresponding right-of-use assets are based on the present value of future lease obligations using the Agency's incremental borrowing rate upon lease commencement. The discount applied to note receivables and deferred revenue are computed by management using risk-adjusted interest rates applicable to the years in which the note receivables are expected to be received and deferred revenue is expected to be earned. We evaluated the methods, assumptions, and data used to develop the estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the financial statements were net assets; liquidity and availability of financial assets; contract assets and liabilities; fair value measurements; leases; notes payable; and self-insured health insurance.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Uncorrected misstatements were noted to record prepaid expense, record operating lease liability, eliminate intercompany activity, record discount on note payable, correct note payable balances, reclassify loan closing costs, reverse internal revenue and expense allocations, correct recording of refunded conditional grant funding, correct recording of miscellaneous revenues, and capitalize in-kind building improvements. These misstatements would have resulted in an increase in net assets of \$32,045. Management has determined that their effects are immaterial, both individually and in the aggregate, to the financial statements as a whole. The uncorrected misstatements or the matters underlying them could potentially cause future period financial statements to be materially misstated, even though, in our judgement, such uncorrected misstatements are immaterial to the financial statements under audit. In addition, Attachment "A" is a list of misstatements detected as a result of audit procedures or provided by management (PBC). Management has corrected all such misstatements.

Disagreements with Management

For purposes of this letter, a disagreement with management is a disagreement on a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated **Report Date**, 2024.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Agency's financial statements or a determination of the type of auditors' opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Agency's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with U.S. generally accepted accounting principles and the Uniform Guidance, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

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This information is intended solely for the use of the Finance and Audit Committee, Board of Directors, and management of Western Carolina Community Action, Inc. d/b/a WNCSource and is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,

CARTER, P.C.

DRAFT

Western Carolina Community Action, Inc. d/b/a WNCSource
Financial Statement Effects of Corrected Audit Differences
June 30, 2023

Description (nature) of audit difference	Total Assets	Total Liabilities	Net Assets	Revenues, Grants, & Other	Expenses	Change in Net Assets
PBC - Adjust self-insured health liability reserve	\$	\$ 591,868	\$ (591,868)	\$ (591,868)	\$	\$ (591,868)
PBC - Record conditional grant deferred revenue		603,313	(603,313)	(603,313)		(603,313)
Reclassify net asset with donor restrictions for financial statement disclosure (\$705,118)						
Net audit differences	<u>\$</u>	<u>\$ 1,195,181</u>	<u>\$ (1,195,181)</u>	<u>\$ (1,195,181)</u>	<u>\$</u>	<u>\$ (1,195,181)</u>
Financial statement caption totals	<u>\$ 9,323,526</u>	<u>\$ 4,308,612</u>	<u>\$ 5,014,914</u>	<u>\$ 16,309,637</u>	<u>\$ 16,786,790</u>	<u>\$ (477,153)</u>
Net audit differences over caption totals	<u>0.00%</u>	<u>27.74%</u>	<u>(23.83%)</u>	<u>(7.33%)</u>	<u>0.00%</u>	<u>250.48%</u>