

FINANCIAL STATEMENT AUDIT REPORT OF
DOWN EAST PARTNERSHIP FOR CHILDREN
ROCKY MOUNT, NORTH CAROLINA
FOR THE YEAR ENDED JUNE 30, 2014

BOARD OF DIRECTORS
ERIC EVANS, BOARD CHAIR

ADMINISTRATIVE OFFICER
HENRIETTA ZALKIND, EXECUTIVE DIRECTOR

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Independent Auditor's Report

To the Board of Directors
Down East Partnership for Children
Rocky Mount, North Carolina

Report on Financial Statements

We have audited the accompanying financial statements of the Down East Partnership for Children, which comprise the Statement of Receipts, Expenditures, and Net Assets — Modified Cash basis as of and for the year ended June 30, 2014, and the related Statement of Functional Expenditures — Modified Cash Basis for the year then ended, and the related notes to the financial statements.

Management's Responsibilities for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with modified cash basis of accounting described in Note 1; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for 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.

Auditor's 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 net assets of the Down East Partnership for Children as of June 30, 2014, and the results of its operations for the year then ended, in accordance with the basis of accounting as described in Note 1.

Other Matters

Basis of Accounting

We draw attention to Note 1 of the financial statements, which describes the basis of accounting. The financial statements are prepared on modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to that matter.

Report on Supplementary Information

Schedule 2 on page 23 is not a required part of the basic financial statements but is supplementary information required by the North Carolina Office of the State Auditor. In accordance with auditing standards generally accepted in the United States of America, we have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion or provide any assurance on Schedule 2.

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplementary schedules 1, 3, 4 and 5, which are the responsibility of management, are presented for purposes of additional analysis and are not a required part of the financial statements. Such information 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, that 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 December 17, 2014, on our consideration of the Down East Partnership for Children's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulation, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Down East Partnership for Children's internal control over financial reporting and compliance.



Raleigh, North Carolina
December 17, 2014

Down East Partnership for Children
Statement of Receipts, Expenditures, and Net Assets - Modified Cash Basis
For the Year Ended June 30, 2014

Exhibit A

	Unrestricted Funds		Temporarily Restricted Funds	Permanently Restricted Funds	Total Funds
	Smart Start Funds	Other Funds			
Receipts:					
State Awards and Contracts	\$ 2,298,565	\$ 2,837,837	\$ -	\$ -	\$ 5,136,402
Federal Awards	-	508,556	-	-	508,556
Local Awards	-	11,800	-	-	11,800
Private Contributions	-	284,327	282,464	4,845	571,636
Interest and Investment Earnings	-	8,062	-	-	8,062
Sales Tax Refunds	-	9,238	-	-	9,238
Other Receipts	-	3,613	-	-	3,613
Total Receipts	<u>2,298,565</u>	<u>3,663,433</u>	<u>282,464</u>	<u>4,845</u>	<u>6,249,307</u>
Net Assets Released from Restrictions:					
Satisfaction of Program Restrictions	-	234,734	(234,734)	-	-
	<u>2,298,565</u>	<u>3,898,167</u>	<u>47,730</u>	<u>4,845</u>	<u>6,249,307</u>
Expenditures:					
Programs:					
Child Care and Education Affordability	1,137,407	4,756	-	-	1,142,163
Child Care and Education Quality	474,299	306,746	-	-	781,045
Family Support	267,671	210,681	-	-	478,352
Health and Safety	46,588	270,795	-	-	317,383
NC Pre-K	14,871	2,715,978	-	-	2,730,849
Support:					
Fund Raising	-	45,103	-	-	45,103
Management and General	202,259	243,287	-	-	445,546
Program Coordination and Evaluation	155,470	78,080	-	-	233,550
Other:					
Refund of Prior Year Grant	-	2,947	-	-	2,947
Sales Tax Paid	-	11,797	-	-	11,797
Total Expenditures	<u>2,298,565</u>	<u>3,890,170</u>	<u>-</u>	<u>-</u>	<u>6,188,735</u>
Excess of Receipts Over Expenditures	-	7,997	47,730	4,845	60,572
Net Assets at Beginning of Year	-	480,005	243,221	10,000	733,226
Net Assets at End of Year	<u>\$ -</u>	<u>\$ 488,002</u>	<u>\$ 290,951</u>	<u>\$ 14,845</u>	<u>\$ 793,798</u>
Net Assets Consisted of:					
Cash and Cash Equivalents	\$ 19,987	\$ 231,925	\$ 290,951	\$ 245	\$ 543,108
Investments	-	259,338	-	-	259,338
Beneficial Interest Community Foundation	-	-	-	14,600	14,600
Refunds Due From Contractors	55	-	-	-	55
	<u>20,042</u>	<u>491,263</u>	<u>290,951</u>	<u>14,845</u>	<u>817,101</u>
Less: Due to State	20,042	-	-	-	20,042
Funds Held for Others	-	3,261	-	-	3,261
TOTAL NET ASSETS	<u>\$ -</u>	<u>\$ 488,002</u>	<u>\$ 290,951</u>	<u>\$ 14,845</u>	<u>\$ 793,798</u>

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

Down East Partnership for Children
Statement of Functional Expenditures - Modified Cash Basis
For the Year Ended June 30, 2014

Exhibit B

	<u>Total</u>	<u>Personnel</u>	<u>Contracted Services</u>	<u>Supplies and Materials</u>	<u>Other Operating Expenditures</u>	<u>Fixed Charges and Other Expenditures</u>	<u>Property and Equipment Outlay</u>	<u>Services/ Contracts/ Grants</u>
Smart Start Funds:								
Programs:								
Child Care and Education Affordability	\$ 1,137,407	\$ 160,736	\$ 5,731	\$ 3,604	\$ 14,957	\$ 1,006	\$ 2,217	\$ 949,156
Child Care and Education Quality	474,299	270,184	9,781	27,169	56,792	5,551	5,259	99,563
Family Support	267,671	143,225	15,391	5,329	36,004	557	2,395	64,770
Health and Safety	46,588	-	-	-	-	-	-	46,588
NC Pre-K	14,871	13,379	-	289	971	229	3	-
	<u>1,940,836</u>	<u>587,524</u>	<u>30,903</u>	<u>36,391</u>	<u>108,724</u>	<u>7,343</u>	<u>9,874</u>	<u>1,160,077</u>
Support:								
Management and General	202,259	163,478	5,156	4,737	20,240	8,165	483	-
Program Coordination and Evaluation	155,470	132,982	3,922	4,404	11,734	500	1,928	-
	<u>357,729</u>	<u>296,460</u>	<u>9,078</u>	<u>9,141</u>	<u>31,974</u>	<u>8,665</u>	<u>2,411</u>	<u>-</u>
Total Smart Start Fund Expenditures	<u>\$ 2,298,565</u>	<u>\$ 883,984</u>	<u>\$ 39,981</u>	<u>\$ 45,532</u>	<u>\$ 140,698</u>	<u>\$ 16,008</u>	<u>\$ 12,285</u>	<u>\$ 1,160,077</u>
Other Funds:								
Programs:								
Child Care and Education Affordability	\$ 4,756	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 4,756
Child Care and Education Quality	306,746	232,323	-	23,432	20,169	176	-	30,646
Family Support	210,681	108,763	16,401	7,556	24,508	3,100	42,188	8,165
Health and Safety	270,795	191,607	15,680	2,876	22,875	2,981	20,410	14,366
NC Pre-K	2,715,978	8,089	939	17	42	-	2	2,706,889
	<u>3,508,956</u>	<u>540,782</u>	<u>33,020</u>	<u>33,881</u>	<u>67,594</u>	<u>6,257</u>	<u>62,600</u>	<u>2,764,822</u>
Support:								
Fund Raising	45,103	38,168	2,968	154	2,276	1,526	11	-
Management and General	243,287	180,160	10,311	5,772	34,292	5,219	7,193	340
Program Coordination and Evaluation	78,080	56,382	-	15	52	-	-	21,631
	<u>366,470</u>	<u>274,710</u>	<u>13,279</u>	<u>5,941</u>	<u>36,620</u>	<u>6,745</u>	<u>7,204</u>	<u>21,971</u>
Other:								
Refund of Prior Year Grant	2,947	-	-	-	-	2,947	-	-
Sales Tax Paid	11,797	-	-	11,797	-	-	-	-
	<u>14,744</u>	<u>-</u>	<u>-</u>	<u>11,797</u>	<u>-</u>	<u>2,947</u>	<u>-</u>	<u>-</u>
Total Other Funds Expenditures	<u>\$ 3,890,170</u>	<u>\$ 815,492</u>	<u>\$ 46,299</u>	<u>\$ 51,619</u>	<u>\$ 104,214</u>	<u>\$ 15,949</u>	<u>\$ 69,804</u>	<u>\$ 2,786,793</u>

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

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

- A. Organization and Purpose** - The Down East Partnership for Children (Down East Partnership) is a legally separate nonprofit organization incorporated on December 7, 1993. The Down East Partnership was established to develop and provide, through public and private means, early childhood education and developmental services for children and families. The Down East Partnership is tax-exempt as an organization described in Section 501(c)(3) of the Internal Revenue Code.
- B. Basis of Presentation** - The accompanying financial statements present all funds for which the Down East Partnership's Board of Directors is responsible. Pursuant to the provisions of Financial Accounting Standards Board's standards for not-for-profit entities, the accompanying financial statements present information according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. As permitted by the standard, temporarily restricted contributions received and expended in the same year are reported as unrestricted receipts rather than as temporarily restricted receipts.

Contributions that are temporarily restricted and not expended within the year received are reported as an increase in temporarily restricted net assets. When the restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Receipts, Expenditures, and Net Assets as net assets released from restrictions.

Permanently restricted net assets include gifts and contributions that are limited by donor-imposed stipulations that neither expire with the passage of time nor can be fulfilled or otherwise removed by actions of the Down East Partnership. Net assets are invested in perpetuity with only income from such investments available for program operations.

- C. Basis of Accounting** - The accompanying financial statements were prepared on the modified cash basis of accounting. This basis differs from accounting principles generally accepted in the United States of America primarily because it recognizes long lived assets and other costs which benefit more than one period as expended in the year purchased; it recognizes revenue when received rather than when earned; and it recognizes expenditures when paid rather than when incurred.

However, unexpended advances to contractors that revert back to the State of North Carolina are recognized as a reduction to expenditures and an increase to net assets. In addition, amounts withheld from employee paychecks or other amounts received in an agency capacity are recorded as funds held for others. Additionally, Smart Start funds advanced to the Local Partnership that are unexpended and unearned at year end are recorded as funds Due to the State.

DOWN EAST PARTNERSHIP FOR CHILDREN
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

- D. Cash and Cash Equivalents** - This classification appears on the Statement of Receipts, Expenditures, and Net Assets – Modified Cash Basis and includes all demand and savings accounts and certificates of deposit and other short-term investments with an original maturity of three months or less.
- E. Investments** - This classification includes mutual funds, money market funds, and certificates of deposit for which the original maturity term exceeds three months, and shares of stock. Under the modified cash basis of accounting, investments in marketable securities are reported at cost, which may differ significantly from their fair values.
- F. Beneficial Interest in Community Foundation-** This classification consists of funds invested with North Carolina Community Foundation as reported in Note 13. The amounts shown in the permanently restricted column of Exhibit A represent the irrevocable principle in an endowment fund as described more fully in Note 14.
- G. Refunds Due From Contractors** - Refunds Due from Contractors represent the unexpended amount of advances to contractors at year-end that are to be refunded back to the State. As recoveries are collected, the advances are recorded as a reduction to the State awards balance.
- H. Due to the State** - The funding provided by the State of North Carolina for the Smart Start Initiative is funded on a cost-reimbursement basis. The money is earned to the extent of allowable costs incurred. Any unexpended funds as of June 30 are required to be reverted to The North Carolina Partnership for Children to be returned to the State of North Carolina.
- I. Funds Held For Others** - Funds Held for Others includes amounts received that are fiduciary in nature in which the Down East Partnership acts in an agency capacity. The Down East Partnership offers its employees the opportunity to participate in a Flexible Spending Plan, which is a cafeteria plan as defined by Section 125 of the Internal Revenue Code. A cafeteria plan allows employees to pay for certain employee benefits with pre-tax deductions. As of June 30, 2014 the Down East Partnership had \$3,261 in funds held for others.

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

- J. Property and Equipment** - Under the modified cash basis of accounting, purchases of property and equipment are reported as expenditures in the year incurred. However, Down East Partnership is required by contract regulation to track and maintain property and equipment items as presented in Schedule 4 of this report. The Down East Partnership has a policy to track purchases of property and equipment items with an individual cost of \$500 or more and an estimated useful life greater than one year. Such items are valued at their original purchase price, which may be different from their valuation as of June 30, 2014. Donated items are recorded on the property and equipment log at estimated fair market value at the date of donation.
- K. Compensated Absences** - As a result of the use of the modified cash basis of accounting, liabilities related to accrued compensated absences are not recorded in the financial statements. Expenditures related to compensated absences are recorded when paid. The amount of accrued compensated absences for accumulated, unpaid leave that would be due to employees upon termination is reported as a commitment in Note 9.
- L. Use of Estimates** - The preparation of financial statements in conformity with the modified cash basis of accounting used by the Down East Partnership requires management to make estimates and assumptions that affect certain reported amounts and disclosures (such as allocation of joint costs); accordingly, actual results could differ from those estimates. It is management's belief that these estimates are reasonable and fair.
- M. Qualifying Match and Contributions In-Kind** - The Down East Partnership, in accordance with applicable Smart Start legislation, reports qualifying match provided at both the Partnership and the contractor level; the qualifying match is reported in supplemental Schedule 5. The match includes cash received at the Partnership level, which is included in the modified cash basis financial statements. The qualifying match reported on Schedule 5 for cash provided at the contractor level and for in-kind goods and services at both the Partnership and contractor levels is not recorded in the modified cash basis financial statements. In-kind contributions could be donated equipment, supplies, office space or services. The Down East Partnership also benefits from donated volunteer hours which do not require specific expertise but which are nonetheless central to The Down East Partnership's operations. See supplemental Schedule 5 for more information on contributions in-kind.

DOWN EAST PARTNERSHIP FOR CHILDREN
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 2 - DEPOSITS

A. Cash

All funds of the Down East Partnership are deposited with a commercial bank and insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000.

Deposits over insured amounts subjects the Down East Partnership to a concentration of credit risk. At June 30, 2014, the Down East Partnership's bank deposits in excess of the FDIC insured limit was \$411,309.

B. Investments

Investments at June 30, 2014 are summarized as follows:

	<u>Cost</u>	<u>Fair Value</u>
Money Market	\$ 55,647	\$ 55,647
Corporate Stocks	137,187	154,519
Mutual Funds	23,906	23,908
Corporate Bonds	<u>42,599</u>	<u>43,202</u>
Total Investments	<u>\$ 259,338</u>	<u>\$ 277,276</u>

The Down East Partnership records interest and dividend earnings and realized gain and losses in the Statement of Receipts, Expenditures, and Net Assets – Modified Cash Basis under the heading interest and investment earnings. Investment fees are recorded in the bank charges expense account.

Interest and investment earnings for the year ending June 30, 2014 are as follows:

Investment earnings	\$ 8,056
Interest of bank accounts	<u>6</u>
Total interest and investment earnings	<u>\$ 8,062</u>

NOTE 3 - FUNDING FROM GRANT AWARDS AND CONTRACTS

Smart Start Program - The Down East Partnership's major source of revenue and support is from the State of North Carolina based on cost-reimbursement contracts with The North Carolina Partnership for Children, Inc. (NCPC) for the Smart Start program. A significant reduction in the level of funding from the State could have an adverse effect on the operations of the Down East Partnership and represents a concentration of credit risk as to the generation of revenue.

Associated with these contracts, the Down East Partnership is responsible for developing a comprehensive, collaborative, long-range plan of services to children and families for the service-delivery area. During the year, the North Carolina Department of Health and Human Services (DHHS) entered into contracts with and made payments to service providers selected by the Down East Partnership. These service provider contracts are not reflected on the accompanying financial statements. However, a summary of the service provider contracts entered into by DHHS is presented on Schedule 2 accompanying the financial statements.

The Down East Partnership was awarded and has received \$2,318,607 under a current year Smart Start contract with NCPC. The unexpended balance of this contract is subject to reversion to the State. The Down East Partnership has refunded \$20,042 of this contract to the State based on financial status reports submitted to NCPC subsequent to June 30, 2014.

The Down East Partnership expects to receive continued funding through new Smart Start contracts with the State.

NC Pre-K - The Down East Partnership also received revenue and support from the State of North Carolina for the NC Pre-K program. The Down East Partnership was awarded \$2,831,334 and received \$2,821,224 under a current year cost reimbursement contract.

The Down East Partnership expects to receive continued funding through new NC Pre-K contracts with the State.

Child Care and Development Block Grant - The Down East Partnership also received revenue and support from the Division of Child Development and Early Education based on a cost-reimbursement contract. The Down East Partnership was awarded \$271,470 and received \$234,730 under a current year contract. The unexpended balance is subject to reversion to the government. The Down East Partnership expects to receive continued funding through the Division of Child Development and Early Education.

NOTE 3 - FUNDING FROM GRANT AWARDS AND CONTRACTS, CONTINUED

Race to the Top Grant - The Down East Partnership also received revenue and support from the Division of Child Development and Early Education passed through Child Care Services Association based on a cost reimbursement contract. The Down East Partnership was awarded \$170,948 and received \$58,640 under a current year contract. Any unexpended balance at the end of the contract is subject to reversion to the government. The Down East Partnership expects to receive continued funding through the Division of Child Development and Early Education.

Family Resource Center Program - The Down East Partnership's other major source of revenue and support is from the State of North Carolina based on a cost-reimbursement contract with DHHS for the Family Resource Center (FRC) Program. The Down East Partnership was awarded \$125,000 and received \$110,431, under current year FRC contracts with DHHS. The Down East Partnership spent \$119,835 of the awarded amount. These contracts were reimbursement contracts thus the Down East Partnership never received unexpended balances. The Down East Partnership expects to receive continued funding through new FRC Program contracts with the State.

NC Division of Public Health – The Down East Partnership also received revenue and support from the NC Division of Public Health through Johnston County to coordinate the joint use of playgrounds between Edgecombe county and Edgecombe Public Schools. The Down East Partnership was awarded \$13,500 and received \$10,000 under a contract in the current year. Any unexpended balance would be subject to be reverted. The work on this contract is expected to be completed by September 30, 2014. The Down East Partnership is not anticipating any continued funding under new contracts.

Nash County Health Department – The Down East Partnership also received revenue and support for the Nash County Health Department to provide Triple P coordination and services for parents of children in Edgecombe and Nash counties. The Down East Partnership was awarded and received \$75,000 under a contract in the current year. The Down East spent \$29,218 of the awarded amount. The unexpended balance was carried forward to the next fiscal year.

The Down East Partnership expects to receive continued funding through the Nash County Health Department.

NOTE 4 - RELATED PARTY TRANSACTIONS

Service Provider Contracts with Board Member Organizations - The board members of the Down East Partnership are representative of various organizations that benefit from actions taken by the Board. It is the policy of the Down East Partnership that board members not be involved with decisions regarding organizations they represent. During the year, the Down East Partnership entered into contracts with board member organizations for program activities, as identified on Schedule 1 accompanying the financial statements. In addition, Schedule 2 identifies contracts entered into by DHHS with board member organizations for activities funded by the Down East Partnership for Children's Smart Start allocation.

NOTE 5 - FUNCTIONAL EXPENDITURES

The costs of providing the various programs and activities have been summarized on a functional basis in the Statement of Receipts, Expenditures, and Net Assets – Modified Cash Basis. Also, the Statement of Functional Expenditures – Modified Cash Basis, provides detail of the functional costs by their natural classification. Following are the services associated with the functional categories presented in the accompanying financial statements and the methods utilized to allocate joint cost:

A. Program Functions

Child Care and Education Affordability - Used to account for service activities including State subsidy contract and administration (Division of Child Development and Early Education) [DCDEE], Head Start wrap around/extended day, dual subsidy and dual subsidy administration, subsidy supplements for quality, Head Start classrooms and coordination, child care transportation for subsidized children, part-day subsidy programs, subsidy preschool classes and public pre-K subsidy.

Child Care and Education Quality - Used to account for service activities including quality enhancement and maintenance, child care resource and referral, professional development and supplements, literacy for child care providers, child care substitutes, provider training, mentoring programs, AmeriCorps, special needs – early intervention support for child care professionals, learning materials and teaching aids, curriculum enhancements, child care needs and resources assessments, kindergarten orientation/transition, or health insurance benefits for child care providers.

Family Support - Used to account for service activities including family resource centers, teen parent/child programs, ongoing parenting education, general family support, family intervention, literacy or family literacy projects, transportation services, community outreach information and resources, home visiting or family support needs and resources assessments.

NOTE 5 - FUNCTIONAL EXPENDITURES, CONTINUED

Health and Safety - Used to account for service activities including oral health services, comprehensive medical home services, child care health consultations, prenatal/newborn services, health care access and support including transportation, special needs – early intervention services/special education, health needs and resources assessment, or nutrition programs.

NC Pre-K - Used to account for development and implementation of NC Pre-K prekindergarten program for four-year-olds who are at risk of failure in kindergarten. The goal is to provide quality prekindergarten services in order to enhance kindergarten readiness.

B. Support Functions

Fund Raising - Expenditures that are incurred in inducing others to contribute money, securities, time, materials, or facilities for which the contributor will receive no direct economic benefit.

Management and General - Expenditures that are not identifiable with a single program or fund-raising activity but are indispensable to the conduct of those activities and to an organization's existence, including expenditures for the overall direction of the organization, its general board activities, business management, general recordkeeping, budgeting, and related purposes.

Program Coordination and Evaluation - Expenditures that are incurred to coordinate the policies, procedures, daily practices, and evaluation of service delivery. Also, costs associated with providing technical assistance, monitoring and reporting of in-house and direct service provider activities as to the delivery of services and adherence to the specific terms and conditions of the contracts.

C. Allocation of Joint Costs

The Down East Partnership uses an indirect cost pool to collect administrative expenses that are not directly attributable to the various programs the Partnership operates. Types of costs included in the pool were salaries, contracted services, supplies and materials, other operating expenses, fixed charges and other expenses, property and equipment, and participant training.

Indirect costs are allocated using a Basis of Allocation that most accurately reflects the usage of funds. Facility repairs and maintenance, utilities, and janitorial supplies were allocated based of pro rata square footage of building utilized. Telephone, Centralized Office Supplies and server cost were allocated based on number of employees, equipment rental was allocated based on meter readings from the postage machine.

DOWN EAST PARTNERSHIP FOR CHILDREN
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 6 - LEASE OBLIGATIONS

Operating Lease Obligations - Future minimum lease payments under a non-cancelable operating lease for office equipment consist of the following at June 30, 2014:

<u>Fiscal Year</u>	<u>Operating Lease</u>
2015	\$ <u>1,520</u>
Total Minimum Lease Payments	\$ <u><u>1,520</u></u>

Rental expense for all operating leases during the year was \$2,280.

NOTE 7 - PENSION PLAN

IRC Section 403(b) Plan - All permanent employees who are at least half time can participate in a tax sheltered annuity plan (Plan) created under Internal Revenue Code Section 403(b). The Plan is a defined contribution plan in which each employee of the Down East Partnership, as a condition of employment, is provided an individual annuity through an outside insurance company. The Down East does not contribute to the plan. The employee's eligible contributions, made through salary reduction agreements, are exempt from federal and state income taxes until the annuity is received or the contributions are withdrawn. These Plans are exclusively for employees of universities and certain charitable and other nonprofit organizations. All costs of administering and funding these Plans are the responsibility of the Plan participants. The Down East Partnership did not contribute retirement benefits during the year.

DOWN EAST PARTNERSHIP FOR CHILDREN
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 8 - RISK MANAGEMENT

The Down East Partnership is exposed to various risks of loss related to torts, theft of, damage to, or destruction of assets; errors and omissions; injuries to employees; employees' health and life; and natural disasters. The Down East Partnership manages these various risks of loss as follows:

<u>Type of Loss</u>	<u>Method Managed</u>	<u>Risk of Loss Retained</u>
Torts, errors and omissions, health and life	Purchased commercial insurance	None
Workers Compensation - employee injuries	Purchased commercial insurance	None
Physical property loss and natural disasters	Purchased commercial insurance	None

Management believes such coverage is sufficient to preclude any significant losses to the Down East Partnership. Settled claims have not exceeded this insurance coverage in any of the past three fiscal years.

NOTE 9 - COMMITMENTS AND CONTINGENCIES

Compensated Absences - As a result of the Down East Partnership for Children's use of the modified cash basis of accounting, accrued liabilities related to compensated absences (vacation only; sick leave does not vest) and any employer-related costs earned and unpaid, are not reflected in the financial statements. The compensated absences commitment for vacation leave at June 30, 2014, is \$97,247. No funds or reservation of net assets has been made for this commitment.

DOWN EAST PARTNERSHIP FOR CHILDREN
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 10 - RESTRICTIONS ON NET ASSETS

A. Temporarily Restricted Net Assets - Temporarily restricted net assets at June 30, 2014 are available for the following purposes:

<u>Purpose</u>	<u>Amount</u>
NCPC – Latino Outreach	\$ 84
Tuesday’s for Tots	261
Ready Schools Campaign	6,689
Prevent Child Abuse	462
Healthy Kids Collaborative	187
Community Consortium – Ready Schools	940
PNC – Discovery Park Project	1,595
Nash County – Young Mothers	4
Discovery Park	27,991
BCBSNC – Kid’s Obesity Prevention	87
Kate B Reynolds – Healthy Kids	102,487
BCBSNC – Kid’s Obesity Prevention Phase II	870
Kate B Reynolds – Playground Grants	143,852
United Way – Ready Schools	5,442
	<u>\$ 290,951</u>

B. Net Assets Released From Donor Restrictions - Net assets were released from donor restrictions during the fiscal year ended June 30, 2014, by incurring expenditures satisfying the restricted purposes as follows:

<u>Purpose</u>	<u>Amount</u>
NCPC – Latino Outreach	\$ 323
Tuesday for Tots	55
Ready Schools	401
Kate B Reynolds – Healthy Kids	47,772
R2 Evaluation	72,672
Con Agra – Healthy Kids	3,185
Nash County – Young Mothers	4,756
Robert Wood Johnson – Healthy Kids	18,290
Discovery Park	4,316
BCBSNC – Kid’s obesity prevention	65,070
PNC – Discovery Park Project	17,894
	<u>\$ 234,734</u>

DOWN EAST PARTNERSHIP FOR CHILDREN
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 10 - RESTRICTIONS ON NET ASSETS, CONTINUED

C. Permanently Restricted Net Assets – Permanently restricted net assets at June 30, 2014 were restricted for the following purposes:

<u>Purpose</u>	<u>Amount</u>
Beneficial Interest in Community Foundation	\$ 14,845
	<u>\$ 14,845</u>

NOTE 11 - FAIR VALUE OF INVESTMENTS

Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 820, Fair Value Measurements and Disclosures, provides a definition of fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used measure fair value. The hierarchy that prioritizes the inputs to unadjusted quoted prices in active markets for identical assets and liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The Down East Partnership uses appropriate valuation techniques based on the available inputs to measures fair value using Level 1 inputs because Level 1 inputs generally provide the most reliable evidence of fair value. Level 3 inputs are used only when Level 1 or Level 2 inputs are not available.

The Down East Partnership's investments are reported on the modified basis of accounting at cost in the Statement of Receipts, Expenditures and Net Assets – Modified Cash Basis. The methods used to measure fair value may produce an amount that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Down East Partnership believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The Down East Partnership's management determines the fair value measurement policies and procedures, subject to oversight by the board of directors. Those policies and procedures are reassessed at least annually to determine if the current valuation techniques are still appropriate. At that time, unobservable inputs used in the fair value measurements are evaluated and adjusted, as necessary, based on current market conditions and third-party information.

NOTE 11 - FAIR VALUE OF INVESTMENTS, CONTINUED

The three levels of fair value hierarchy under ASC Topic 820 are described as follows:

Level 1 – Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Down East Partnership has the ability to access.

Level 2 – Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in inactive markets; inputs other than quoted prices that are observable for the asset or liability; inputs that are derived principally from or corroborated by observable market data by correlation or other means; and inputs that are substantially observable for the full term of any asset or liability arising from a specified contractual term.

Level 3 – Inputs to the valuation methodology are unobservable and significant to the fair value measurement. The Down East Partnership had no Level 3 investments.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques in use maximize the use of observable inputs and minimize the use of unobservable inputs.

The following is a description of the valuation methodologies used for assets measured at the fair value. There have been no changes in the methodologies used at June 30, 2014.

- Mutual Funds – Valued at the net asset value (NAV) of share held by the Partnership at year end.
- Money Market Fund – Valued at the net asset value (NAV) of share held by the Partnership at year end.
- Corporate Bonds – Valued based on yields currently available on comparable securities of issuers with similar credit ratings, because prices in active markets are not available at the measurement date.
- Corporate Stocks– Valued based on quoted market prices in active markets at year end.

DOWN EAST PARTNERSHIP FOR CHILDREN
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 11 - FAIR VALUE OF INVESTMENTS, CONTINUED

The table below segregates all financial assets as of June 30, 2014 that are measured at fair value on a recurring basis (at least annually) into the most appropriate level within the fair value hierarchy based on the inputs used to determine the fair value at the measurement date:

	<u>Fair Value Measurement</u>	
	<u>Quoted Prices In Active Market For Identical Assets Fair Value Level 1</u>	<u>Quoted Prices In Active Market for Similar Assets Fair Value Level 2</u>
Money Market Fund	\$ 55,647	\$ -
Mutual Funds	23,908	-
Corporate Bonds	-	43,202
Corporate Stocks	<u>154,519</u>	<u>-</u>
Total Investments	<u>\$ 234,074</u>	<u>\$ 43,202</u>

Changes in Fair Value Levels

The availability of observable market data is monitored to assess the appropriate classification of financial instruments within the fair value hierarchy. Changes in economic conditions or model-based valuation techniques may require the transfer of financial instruments from one fair value level to another. In such instances, the transfer is reported at the beginning of the reporting period.

The Partnership evaluated the significance of transfers between levels based upon the nature of the financial instrument and the size of the transfer relative to total net assets available for benefits. For the year ended June 30, 2014, there were no significant transfers in or out of Level 1, 2 or 3.

NOTE 12 - INCOME TAXES

The Down East Partnership is exempt from payment of income taxes under the provision of Section 501(c)(3) of the Internal Revenue Code, except to the extent of taxes on any unrelated business income.

DOWN EAST PARTNERSHIP FOR CHILDREN
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 12 - INCOME TAXES, CONTINUED

FASB ASC 740 provides guidance for how uncertain tax positions should be recognized, measured, presented and disclosed in the financial statements. FASB ASC 740 requires the evaluation of tax positions taken or expected to be taken in the course of preparing financial statements to determine whether the tax positions are “more-likely-than-not” to be sustained by the applicable tax authority. The Down East Partnership does not believe there are any unrecognized tax benefits or costs as of June 30,

2014. Income tax returns from 2011 through 2013 are open for examination by taxing authorities.

NOTE 13 - BENEFICIAL INTEREST IN ASSETS HELD BY COMMUNITY FOUNDATION

The Down East Partnership is the beneficiary of an endowment established through the NC Community Foundation. The agreement between the Down East Partnership and the NC Community Foundation provides that all the contributions to the endowment are irrevocable. The NC Community Foundation will make distributions of the income earned on the endowment, subject to the NC Community Foundation’s spending policy. The agreement also permits the NC Community Foundation to substitute another beneficiary in the place of the Down East Partnership if the Down East Partnership ceases to exist or if the Down East Partnership ceases to be an organization described in Internal Revenue Code Sections 170c and 501c(3).

Therefore, the Down East Partnership has explicitly granted variance power to the NC Community Foundation. The Down East Partnership’s endowment position is identified on the Statement of Receipts, Expenditures, and Net Assets – Modified Cash Basis as the beneficial interest in the NC Community Foundation. The fair value of the endowment administered by the NC Community Foundation behalf of the Down East Partnership at June 30, 2014 was \$21,426; however, under the modified cash basis of accounting, the original cost basis of contributions are reported on the Statement of Receipts, Expenditures, and Net Assets – Modified Cash Basis.

NOTE 14 - ENDOWMENT

Through March 19, 2009, management and investment of donor-restricted endowment funds was subject to the provisions of the Uniform Management of Institutional Funds Act (UMIFA). In 2006, the Uniform Law Commission approved the model act, Uniform Prudent Management of Institutional Funds Act (UPMIFA) that serves as a guideline to states to use in enacting legislation. Among UPMIFA’s most significant changes is the elimination of UMIFA’s important concept of historic dollar threshold, the amount below which an organization could not spend from the fund, in favor of a more robust set of guidelines about what constitutes prudent spending. The Down East Partnership’s endowment consists of a beneficial interest in a community foundation. Endowments include donor-restricted endowment funds.

DOWN EAST PARTNERSHIP FOR CHILDREN
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 14 - ENDOWMENT, CONTINUED

The Down East Partnership’s management has interpreted UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Board classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of the subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

Basis of Endowment Accounting

Under the modified cash basis of accounting, the Down East Partnership records contributions and endowment investment earnings on a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Contributions from funds held, raised or collected by Down East Partnership and processed through its bank accounts are recorded as permanently restricted net assets.

Contributions from funds held, raised or collected by Down East Partnership but not processed through its bank accounts are not recorded. Permanently restricted contributions sent directly by a third party to the community foundation are not recorded in the general ledger of the Down East Partnership. There were no such third party contributions directly to the foundation during the year ended June 30, 2014. Similarly, investment earnings and expenses of endowments held by the community foundation are not recorded in the general ledger of the Down East Partnership, unless such earnings and expenses pass through its bank accounts.

Under the terms of the agreement between the Down East Partnership and the North Carolina Community Foundation, the endowment will provide for an annual distribution of investment earnings to the Down East Partnership. In the current year the Down East Partnership waived the physical receipt of its annual distribution. As a result, the reinvestment of annual investment earnings back into the endowment funds is not reflected on the financial statements of the Down East Partnership.

Endowment net asset composition by fund type as of June 30, 2014 follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-Restricted Funds	\$ -	\$ -	\$ 14,845	\$ 14,845

DOWN EAST PARTNERSHIP FOR CHILDREN
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 14 - SUBSEQUENT EVENTS

The Down East Partnership has evaluated events and transactions that occurred between June 30, 2014 and December 17, 2014 which is the date the financial statements were available to be issued, for possible recognition or disclosure in the financial statements. Events or transactions that provided evidence about conditions that did not exist at June 30, 2014 but arose before the financial statements were available to be issued have not been recognized in the financial statements for the year ended June 30, 2014.

Down East Partnership for Children
Schedule of Contract and Grant Expenditures - Modified Cash Basis
For the Year Ended June 30, 2014

Schedule 1

Organization Name	Smart Start Funds		Other Funds	
	Amount Advanced	Refund Due	Amount Advanced	Refund Due
Organizations:				
* Braswell Memorial Library	\$ 59,157	\$ -	\$ -	\$ -
* Charlene Hedgepeth	56,428	-	159,100	-
Edgecombe County DSS	-	-	2,657	-
* Edgecombe County Public Schools	47,660	20	553,359	-
* Halifax/Warren Partnership for Children	-	-	4,750	-
Nash County DSS	-	-	2,068	-
Nash County Health Department	46,623	35	-	-
Nash/Rocky Mount Schools	48,423	-	893,789	-
* NEED Inc	-	-	95,340	-
Various Providers - DEPC Subsidy	890,610	-	-	-
Various Providers - NC Pre-K	-	-	1,049,250	-
Various Providers - Young Mothers Connect	-	-	4,756	-
* Wilson County Partnership for Children	-	-	4,632	-
	<u>1,148,901</u>	<u>55</u>	<u>2,769,701</u>	<u>-</u>
Individuals:				
Various Individuals - Incredible Years	-	-	3,440	-
Various Individuals - 20/20 Stipends	-	-	190	-
Various Individuals - NAPSACC	2,500	-	5,815	-
Various Individuals - Outdoor Learning Environments	-	-	2,322	-
Various Individuals - Parent Orientations	2,118	-	-	-
Various Individuals - Playgroup Leader Stipends	1,000	-	-	-
Various Individuals - R2 Evaluation	-	-	5,245	-
Various Individuals - Reach Out & Read	5,613	-	-	-
Various Individuals - SHAPE Training	-	-	80	-
	<u>11,231</u>	<u>-</u>	<u>17,092</u>	<u>-</u>
	<u>\$ 1,160,132</u>	<u>\$ 55</u>	<u>\$ 2,786,793</u>	<u>\$ -</u>

* These organizations are represented on the Partnership's Board as described in Note 4 - Service Provider Contracts with Board Member Organizations.

Down East Partnership for Children
Schedule of State Level Service Provider Contracts
For the Year Ended June 30, 2014

Schedule 2

Organization Name	DHHS Contracts
* Child Care Services Association (WAGES)	\$ 251,026
	<u>\$ 251,026</u>

* These organizations are represented on the Partnership's Board as described in Note 4 - Service Provider Contracts with Board Member Organizations.

The information on this schedule provides a listing of service provider contracts entered into by the North Carolina Department of Health and Human Services (DHHS) as described in Note 3 - Funding from Grant Awards and Contracts.

Down East Partnership for Children
Schedule of Federal and State Awards - Modified Cash Basis
For the Year Ended June 30, 2014

Schedule 3

Federal/State Grantor/Pass-through Grantor/Program	Federal CFDA Number	Contract #	Receipts	Expenditures
Federal Awards:				
Department of Health and Human Services				
Division of Child Development and Early Education				
Passed through Child Care Services Association				
Child Care and Development Block Grant (Current Year)	93.575	2685-814	\$ 104,303	\$ 101,701
Child Care and Development Block Grant (Prior Year)	93.575	2685-814	-	711
Special Projects (Current Year)	93.575	2689-214	130,427	123,402
Special Projects (Prior Year)	93.575	2689-214	-	2,236
Division of Social Services (Current Year)	93.566	29038	110,431	119,835
Division of Social Services (Prior Year)	93.566	27319	9,864	-
Division of Social Services (Prior Year)	93.566	27317	9,891	-
NC Division of Public Health				
Passed through Johnston County	93.531	10-5920-4551	10,000	11,656
Department of Education				
Passed through Child Care Services Association				
Race to the Top - CCR&R Improved Services	84.412A	2770-614	53,370	52,453
Race to the Top - 1 & 2 Star	84.412A	2771-514	5,270	5,890
Passed through Nash County Health Department				
Triple P	84.412A		75,000	29,218
Total Federal Awards			<u>508,556</u>	<u>447,102</u>
State Awards:				
North Carolina Department of Health and Human Services				
Division of Child Development and Early Education				
Pass-through from The North Carolina Partnership for Children, Inc.				
Early Childhood Initiatives Program (Current Year)	*		\$ 2,298,565	\$ 2,298,565
Multi-Partnership Accounting and Contracting Grant (Current Yr)			16,613	16,613
North Carolina Department of Health and Human Services				
Division of Child Development and Early Education				
NC Pre-K (Current Year)	*	29066	2,821,224	2,821,224
Total State Awards			<u>5,136,402</u>	<u>5,136,402</u>
Total Federal and State Awards			<u>\$ 5,644,958</u>	<u>\$ 5,583,504</u>

* Programs with compliance requirements that have a direct and material effect on the financial statements.

Down East Partnership for Children
Schedule of Property and Equipment - Modified Cash Basis
June 30, 2014

Schedule 4

Furniture and Noncomputer Equipment	\$ 191,027
Computer Equipment/Printers	131,738
Buildings	795,171
Leasehold Improvements	<u>254,013</u>
Total Property and Equipment	<u><u>\$ 1,371,949</u></u>

Note: The information on this schedule provides a summary of property and equipment with acquisition or donated cost of \$500 or more which were held by the Partnership at year end. The valuations represent historical cost. On the modified cash basis of accounting, these items are expensed in the year of purchase.

Down East Partnership for Children
Schedule of Qualifying Match (Non-GAAP)
For the Year Ended June 30, 2014

Schedule 5

Match Provided at the Partnership Level:

Cash	\$	703,484
In-Kind Goods and Services		<u>18,656</u>
	\$	<u><u>722,140</u></u>

Match Provided at the Contractor Level:

In-Kind Goods and Services	\$	<u>36,227</u>
	\$	<u><u>36,227</u></u>

Note: This schedule is presented in accordance with the program match requirement as provided for by North Carolina Session Law 2013-360, Section 12B.9(d). The match is comprised of both cash and in-kind amounts. Only in-kind contributions that are verifiable, quantifiable, and related to the Smart Start Program can be applied to the in-kind match requirement, including volunteer services. The law allows for volunteer services to be valued for match purposes, a concept that deviates from generally accepted accounting principles. This schedule identifies those amounts allowable for this partnership in meeting the statewide match requirement.



**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***

Board of Directors
Down East Partnership for Children
Rocky Mount, North Carolina

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the accompanying financial statements of Down East Partnership for Children, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise Down East Partnership for Children's basic financial statements, and have issued our report thereon dated December 17, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Down East Partnership for Children'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 Down East Partnership for Children's internal control. Accordingly, we do not express an opinion on the effectiveness of the Down East Partnership for Children'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 material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Down East Partnership for Children's financial statements are free of 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.



Raleigh, North Carolina
December 17, 2014