

FINANCIAL STATEMENT AUDIT REPORT OF
HARNETT COUNTY PARTNERSHIP FOR
CHILDREN, INC.

LILLINGTON, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2015

BOARD OF DIRECTORS

DAVID HODGES, BOARD CHAIR

ADMINISTRATIVE OFFICER

TARA FISH, EXECUTIVE DIRECTOR

Harnett County Partnership for Children, Inc.

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Independent Auditor's Report

To Board Members of
Harnett County Partnership for Children, Inc.
Lillington, North Carolina

Report on Financial Statements

We have audited the accompanying financial statements of Harnett County Partnership for Children, Inc. which comprise the Statement of Receipts, Expenditures, and Net Assets - Modified Cash Basis as of and for the year ended June 30, 2015, 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 the 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 Statement of Receipts, Expenditures and Net Assets of Harnett County Partnership for Children, Inc., as of and for the year ended June 30, 2015, and the Statement of Functional Expenditures for the year then ended in accordance with the modified cash basis of accounting as described in Note 1.

Other Matter

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 the 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 19 and Schedule 5 on page 22 are not required parts 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 Schedules 2 and 5.

Our audit was conducted for the purpose of forming an opinion on the financial statements of Harnett County Partnership for Children, Inc. The accompanying supplementary Schedules 1, 3, and 4 are also 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 the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in 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 October 18, 2015, on our consideration of Harnett County Partnership for Children, 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 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 Harnett County Partnership for Children, Inc.'s internal control over financial reporting and compliance.

A handwritten signature in cursive script that reads "Cohn Reznick LLP".

Charlotte, North Carolina
October 18, 2015

Harnett County Partnership for Children, Inc.
Statement of Receipts, Expenditures, and Net Assets - Modified Cash Basis
For the Year Ended June 30, 2015

Exhibit A

| | Unrestricted Funds | | Temporarily Restricted Funds | Total Funds |
|--|---------------------|-------------------|------------------------------------|-------------------|
| | Smart Start Fund | Other Funds | | |
| Receipts: | | | | |
| State Awards and Contracts | \$ 874,403 | \$ 1,587,310 | \$ - | \$ 2,461,713 |
| Federal Awards | - | 2,000 | - | 2,000 |
| Private Contributions | - | 1,525 | 2,288 | 3,813 |
| Special Fund raising Events | - | 5,229 | - | 5,229 |
| Interest and Investment Earnings | - | 372 | - | 372 |
| Sales Tax Refunds | - | 8,058 | - | 8,058 |
| | - | 2,617 | - | 2,617 |
| Total Receipts | 874,403 | 1,607,111 | 2,288 | 2,483,802 |
| Net Assets Released from Restrictions: | | | | |
| Satisfaction of Program Restrictions | - | 1,183 | (1,183) | - |
| | <u>874,403</u> | <u>1,608,294</u> | <u>1,105</u> | <u>2,483,802</u> |
| Expenditures: | | | | |
| Programs: | | | | |
| Child Care and Education Affordability | 48,633 | - | - | 48,633 |
| Child Care and Education Quality | 343,000 | 2,034 | - | 345,034 |
| Family Support | 174,228 | 3,654 | - | 177,882 |
| Health & Safety | 66,300 | 47 | - | 66,347 |
| NC Pre-K | - | 1,597,359 | - | 1,597,359 |
| Support: | | | | |
| Management and General | 148,442 | 1,283 | - | 149,725 |
| Program Coordination and Evaluation | 93,800 | 136 | - | 93,936 |
| Other: | | | | |
| Sales Tax Paid | - | 7,586 | - | 7,586 |
| Total Expenditures | 874,403 | 1,612,099 | - | 2,486,502 |
| Excess (Deficiency) of Receipts Over Expenditures | - | (3,805) | 1,105 | (2,700) |
| Net Assets at Beginning of Year | - | 176,858 | 1,183 | 178,041 |
| Net Assets at End of Year | \$ - | \$ 173,053 | \$ 2,288 | \$ 175,341 |
| Net Assets Consisted of: | | | | |
| Cash and Cash Equivalents | \$ - | \$ 175,239 | \$ 2,288 | \$ 177,527 |
| Refunds Due From Contractors | 14,739 | - | - | 14,739 |
| | <u>14,739</u> | <u>175,239</u> | <u>2,288</u> | <u>192,266</u> |
| Less: Due to State | 14,739 | - | - | 14,739 |
| Funds Held for Others | - | 2,186 | - | 2,186 |
| | <u>14,739</u> | <u>2,186</u> | <u>-</u> | <u>16,925</u> |
| | <u>\$ -</u> | <u>\$ 173,053</u> | <u>\$ 2,288</u> | <u>\$ 175,341</u> |

The Accompanying Notes are an Integral Part of the Financial Statements.

Harnett County Partnership for Children, Inc.
 Statement of Functional Expenditures - Modified Cash Basis
 For the Year Ended June 30, 2015

Exhibit B

| | Total | Personnel | Contracted Services | Supplies and Materials | Other Operating Expenditures | Fixed Charges and Other Expenditures | Property and Equipment Outlay | Services/Contracts/Grants |
|--|---------------------|-------------------|---------------------|------------------------|------------------------------|--------------------------------------|-------------------------------|---------------------------|
| Smart Start Fund: | | | | | | | | |
| Programs: | | | | | | | | |
| Child Care and Education Affordability | \$ 48,633 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 48,633 |
| Child Care and Education Quality | 343,000 | 214,125 | 86 | 6,542 | 30,630 | 18,633 | 1,877 | 71,107 |
| Family Support | 174,228 | 118,686 | 70 | 1,344 | 12,642 | 10,765 | 293 | 30,428 |
| Health & Safety | 66,300 | 52,700 | - | 1,648 | 7,133 | 4,759 | 60 | - |
| | <u>632,161</u> | <u>385,511</u> | <u>156</u> | <u>9,534</u> | <u>50,405</u> | <u>34,157</u> | <u>2,230</u> | <u>150,168</u> |
| Support: | | | | | | | | |
| Management and General | 148,442 | 110,104 | 2,719 | 3,340 | 14,168 | 17,258 | 853 | - |
| Program Coordination and Evaluation | 93,800 | 72,385 | 97 | 454 | 9,122 | 10,742 | 1,000 | - |
| | <u>242,242</u> | <u>182,489</u> | <u>2,816</u> | <u>3,794</u> | <u>23,290</u> | <u>28,000</u> | <u>1,853</u> | <u>-</u> |
| Total Smart Start Fund Expenditures | \$ 874,403 | \$ 568,000 | \$ 2,972 | \$ 13,328 | \$ 73,695 | \$ 62,157 | \$ 4,083 | \$ 150,168 |
| Other Funds: | | | | | | | | |
| Programs: | | | | | | | | |
| Child Care and Education Quality | \$ 2,034 | \$ 15 | \$ - | \$ 2,019 | \$ - | \$ - | \$ - | \$ - |
| Family Support | 3,654 | 287 | - | 1,304 | 125 | - | - | 1,938 |
| Health & Safety | 47 | 47 | - | - | - | - | - | - |
| NC Pre-K | 1,597,359 | 43,413 | 23,835 | - | 1,477 | 2,322 | - | 1,526,312 |
| | <u>1,603,094</u> | <u>43,762</u> | <u>23,835</u> | <u>3,323</u> | <u>1,602</u> | <u>2,322</u> | <u>-</u> | <u>1,528,250</u> |
| Support: | | | | | | | | |
| Management and General | 1,283 | - | - | 115 | 568 | 600 | - | - |
| Program Coordination and Evaluation | 136 | 136 | - | - | - | - | - | - |
| | <u>1,419</u> | <u>136</u> | <u>-</u> | <u>115</u> | <u>568</u> | <u>600</u> | <u>-</u> | <u>-</u> |
| Other: | | | | | | | | |
| Sales Tax Paid | 7,586 | - | - | 7,586 | - | - | - | - |
| | <u>7,586</u> | <u>-</u> | <u>-</u> | <u>7,586</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Total Other Funds Expenditures | \$ 1,612,099 | \$ 43,898 | \$ 23,835 | \$ 11,024 | \$ 2,170 | \$ 2,922 | \$ - | \$ 1,528,250 |

The Accompanying Notes are an Integral Part of the Financial Statements.

HARNETT COUNTY PARTNERSHIP FOR CHILDREN, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

A. Organization and Purpose - The Harnett County Partnership for Children, Inc. (Harnett Partnership) is a legally separate nonprofit organization incorporated on October 18, 1994. The Harnett Partnership was established to develop and provide, through public and private means, early childhood education and developmental services for children and families. The Harnett 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 Harnett Partnership's Board of Directors is responsible. Pursuant to the provisions of Financial Accounting Standards Board's Accounting 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 Standards, 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.

The Harnett Partnership did not have any permanently restricted net assets at June 30, 2015.

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.

- 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 certificate of deposits or short-term investments with an original maturity of three months or less.
- E. 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.
- F. Due to the State** - The funding provided by the State of North Carolina for the Smart Start program 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, 2015 are required to be reverted to the North Carolina Partnership for Children, Inc. to be returned to the State of North Carolina.
- G. Funds Held for Others** - Funds Held for Others includes amounts received that are fiduciary in nature in which the Harnett Partnership acts in an agency capacity. For the year ended June 30, 2015, the Harnett Partnership was holding amounts as the fiscal agent for Local Interagency Coordinating Council (LICC) and as Lead Agency for Safe Kids Harnett County.
- H. Property and Equipment** - Under the modified cash basis of accounting, purchases of property and equipment are reported as expenditures in the year incurred. However, the Harnett Partnership is required by contract regulation to track and maintain property and equipment items as presented in Schedule 4 of this report. The Harnett 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, 2015.

- I. **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.
- J. **Use of Estimates** - The preparation of financial statements in conformity with the modified cash basis of accounting used by the Harnett 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.
- K. **Qualifying Match and Contributions In-Kind** - The Harnett 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 and expended 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 include donated equipment, supplies, services, or office space. The Harnett Partnership also benefits from donated volunteer hours which do not require specific expertise but which are nonetheless central to the Harnett Partnership's operations. See supplemental Schedule 5 for more information on contributions in-kind.

NOTE 2 - DEPOSITS

All cash funds of the Harnett Partnership are deposited with a commercial bank, of which \$60,000 (established target amount) is insured by the Federal Deposit Insurance Corporation (FDIC), up to \$250,000.

The Harnett Partnership has an Automated Investment Plan to invest excess balances over an established target amount. The investment is in the bank's United States government-backed securities and is not insured by the FDIC. Consequently, the Harnett Partnership bank deposits in excess of the FDIC insured limit totaled \$179,944 at June 30, 2015.

NOTE 3 - FUNDING FROM GRANT AWARDS AND CONTRACTS

Smart Start Program - One of the Harnett Partnership's major sources 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 Harnett Partnership and represents a concentration of credit risk as to the generation of revenue.

Associated with these contracts, the Harnett 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 Harnett 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 of the accompanying financial statements.

The Harnett Partnership was awarded and has received \$889,142 under a current year Smart Start contract with NCPC. The unexpended balance of this contract is subject to reversion to the State. The Harnett Partnership has returned \$14,739 of this contract to the State based on financial status reports submitted to NCPC subsequent to June 30, 2015.

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

North Carolina Pre-Kindergarten (NC Pre-K) - The Harnett Partnership also received revenue and support from the State of North Carolina for the NC Pre-K program. The Harnett Partnership was awarded \$1,603,104 and received \$1,587,310 under a current year financial assistance contract. The Harnett Partnership has expended all awarded funds and therefore has returned none of this contract to the State based on financial status reports submitted to DHHS subsequent to June 30, 2015. A significant reduction in the level of funding from the state could have an adverse effect on the operations of this program.

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

NOTE 4 - RELATED PARTY TRANSACTIONS

Service Provider Contracts with Board Member Organizations - The board members of the Harnett Partnership are representative of various organizations that benefit from actions taken by the Board. It is the policy of the Harnett Partnership that board members not be involved with decisions regarding organizations they represent. During the year, Harnett 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 Harnett Partnership'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. Also used for dual subsidy at Central Carolina College.

Child Care and Education Quality - Used to account for service activities including quality enhancement and professional development.

Family Support - Used to account for service activities including family parenting skills training, ongoing parenting education, literacy projects, family literacy projects and community outreach information and resources.

Health and Safety - Used to account for service activities including special needs- early intervention services/special education.

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

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, and daily practices of service delivery. Also, costs associated with monitoring 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

Expenditures benefiting more than one purpose were allocated as follows:

Salaries and Benefits - Direct allocation based on employee time reports.

Other Costs - Other costs including occupancy cost (rent, utilities and maintenance), supplies and materials, and communication costs (telephone and printing) were indirectly allocated based on utilization data.

NOTE 6 - LEASE OBLIGATIONS

Operating Lease - The Harnett Partnership's facility leases are cancellable based on the Harnett Partnership's funding from NCPC and DHHS. Future minimum lease payments under an equipment lease consist of the following at June 30, 2015:

| <u>Fiscal Year</u> | <u>Operating Leases</u> |
|------------------------------|-------------------------|
| 2016 | \$ 7,128 |
| 2017 | 1,188 |
| Total Minimum Lease Payments | <u>\$ 8,316</u> |

Rental expense for all operating leases during the year ended June 30, 2015 was \$54,876.

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 Harnett Partnership, as a condition of employment, is provided an individual annuity through an outside insurance company. The Harnett Partnership contributed 6% of gross wages for the year ended June 30, 2015. 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 Harnett Partnership contributed \$26,154 for retirement benefits during the year.

NOTE 8 - RISK MANAGEMENT

The Harnett 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 Harnett 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 |
| Worker Compensation - employee injury | 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 Harnett 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 Harnett Partnership'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, 2015 is \$18,823. No funds or reservation of net assets has been made for this commitment.

NOTE 10 - RESTRICTION ON NET ASSETS

A. Temporarily Restricted Net Assets - Temporarily restricted net assets at June 30, 2015 are available for the following purposes:

| <u>Purpose</u> | <u>Amount</u> |
|----------------------------|-----------------|
| Harnett Safe Seats Program | \$ 2,288 |
| | <u>\$ 2,288</u> |

B. Net Assets Released From Donor Restrictions – Net assets were released from donor restrictions during the fiscal year ended June 30, 2015, by incurring expenditures satisfying the restricted purposes as follows:

| <u>Purpose</u> | <u>Amount</u> |
|----------------------------|-----------------|
| Harnett Safe Seats Program | \$ 1,183 |
| | <u>\$ 1,183</u> |

NOTE 11 - INCOME TAXES

The Harnett 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.

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 Harnett Partnership does not believe there are any unrecognized tax benefits or costs as of June 30, 2015. Income tax returns from 2012 through 2014 are open to examination by the tax authorities.

NOTE 12 - SUBSEQUENT EVENTS

The Harnett Partnership has evaluated events and transactions that occurred between June 30, 2015 and October 18, 2015, 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, 2015 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, 2015.

SUPPLEMENTARY INFORMATION

Harnett County Partnership for Children, Inc.
 Schedule of Contract and Grant Expenditures - Modified Cash Basis
 For the Year Ended June 30, 2015

Schedule 1

| Organization Name | Smart Start Funds | | Other Funds | |
|---|-------------------|--------------------|---------------------|-------------|
| | Amount Advanced | Refund Due | Amount Advanced | Refund Due |
| Organizations: | | | | |
| Central Carolina Community College - Parent Education Childcare | * \$ 57,000 | \$ (8,367) | \$ - | \$ - |
| Central Carolina Community College - Motherhead | * 35,600 | (6,372) | - | - |
| Dream Big | 2,776 | - | - | - |
| New Breed | 2,000 | - | - | - |
| Anderson Creek | 2,499 | - | - | - |
| A Mothers Touch | 2,006 | - | - | - |
| Kid's Corner | 7,740 | - | - | - |
| Seed Planters | 6,789 | - | - | - |
| North Harnett Primary | 2,496 | - | - | - |
| South Harnett Primary | 2,712 | - | - | - |
| Benhaven Elementary | 2,499 | - | - | - |
| Harnett Primary | 3,156 | - | - | - |
| Henry and Etta Stokes | 1,950 | - | - | - |
| Kidszone Academy | 7,490 | - | - | - |
| Gospel Tabernacle Academy | 5,783 | - | - | - |
| Lillington Head Start | 5,958 | - | - | - |
| Dunn Head Start | 7,174 | - | - | - |
| Solid Foundation | - | - | 284,300 | - |
| Busy Bee | - | - | 263,451 | - |
| Spring Hill | - | - | 92,000 | - |
| Dream Big | - | - | 174,512 | - |
| Adventures Under the Sun | - | - | 136,000 | - |
| Lillypads | - | - | 51,463 | - |
| Anderson Creek Elementary School | - | - | 88,500 | - |
| Lillington Shawtown Elementary School | - | - | 88,500 | - |
| North Harnett Primary School | - | - | 86,750 | - |
| South Harnett Primary School | - | - | 89,500 | - |
| Benhaven Elementary School | - | - | 86,750 | - |
| Harnett Primary School | - | - | 82,250 | - |
| Anderson Creek Elementary School | - | - | 504 | - |
| North Harnett Primary School | - | - | 115 | - |
| South Harnett Primary School | - | - | 182 | - |
| Benhaven Elementary School | - | - | 88 | - |
| Various | - | - | 26 | - |
| | <u>155,628</u> | <u>(14,739)</u> | <u>1,524,891</u> | <u>-</u> |
| Individuals: | | | | |
| STEP, Professional Development / NCLCCA / Membership Grants | 8,079 | - | - | - |
| NC Pre-K Teacher Training | - | - | 1,420 | - |
| Harnett Safe Seats | - | - | 1,939 | - |
| Raising A Reader | 1,200 | - | - | - |
| | <u>9,279</u> | <u>-</u> | <u>3,359</u> | <u>-</u> |
| | <u>\$ 164,907</u> | <u>\$ (14,739)</u> | <u>\$ 1,528,250</u> | <u>\$ -</u> |

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

Harnett County Partnership for Children, Inc.
Schedule of State Level Service Provider Contracts
For the Year Ended June 30, 2015

Schedule 2

| <u>Organization Name</u> | <u>DHHS Contracts</u> |
|--|---------------------------|
| Child Care Services Association - Wage\$ * | \$ 233,920 |
| Harnett County Department of Social Services * | 763,779 |
| | <u>\$ 997,699</u> |

* This organization is represented on the Partnership's Board as described in Note 4 - Service Provider Contracts with Board Member Organization.

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

Harnett County Partnership for Children, Inc.
Schedule of Federal and State Awards - Modified Cash Basis
For the Year Ended June 30, 2015

Schedule 3

| Federal/State Grantor/Pass-through Grantor/Program | Federal CFDA Number | Contract Number | Receipts | Expenditures |
|---|---------------------------|-----------------|---------------------|---------------------|
| Federal Awards: | | | | |
| Department of Agriculture Pass-through from North Carolina State University Agriculture and Food Research Initiative | 10.310 | N/A | \$ 2,000 | \$ 2,000 |
| North Carolina Department of Health and Human Services Pass-through from the North Carolina Partnership for Children, Inc. RTT-ELC Grant | 84.412 | N/A | - | 488 |
| Total Federal Awards | | | <u>2,000</u> | <u>2,488</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) | * | N/A | 874,403 | 874,403 |
| North Carolina Department of Health and Human Services, Division of Child Development and Early Education NC Pre-K Program (Current Year) | * | N/A | <u>1,587,310</u> | <u>1,587,310</u> |
| Total State Awards | | | <u>2,461,713</u> | <u>2,461,713</u> |
| Total Federal State Awards | | | <u>\$ 2,463,713</u> | <u>\$ 2,464,201</u> |

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

Harnett County Partnership for Children, Inc.
Schedule of Property and Equipment - Modified Cash Basis
For the Year Ended June 30, 2015

Schedule 4

| | |
|-------------------------------------|-------------------------|
| Furniture and Noncomputer Equipment | \$ 44,172 |
| Computer Equipment/Printers | <u>28,040</u> |
| Total Property and Equipment | <u>\$ 72,212</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.

Harnett County Partnership for Children, Inc.
Schedule of Qualifying Match (Non-GAAP)
For the Year Ended June 30, 2015

Schedule 5

Match Provided at the Partnership Level:

| | | |
|----------------------------|-----------|----------------------|
| Cash | \$ | 4,993 |
| In-Kind Goods and Services | | <u>31,819</u> |
| Total | \$ | <u>36,812</u> |

Match Provided at the Contractor Level:

| | | |
|----------------------------|-----------|-----------------------|
| Cash | \$ | 164,322 |
| In-Kind Goods and Services | | <u>-</u> |
| Total | \$ | <u>164,322</u> |

Note: This schedule is presented in accordance with the program match requirement as provided for by North Carolina Session Law 2014-100, 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*

To Board Members of
Harnett County Partnership for Children, Inc.
Lillington, North Carolina

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Harnett County Partnership for Children, Inc.(the "Organization"), as of and for the year ended June 30, 2015, and have issued our report thereon dated October 18, 2015.

As described in Note 1, the financial statements were prepared on the modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Organization'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 the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization'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 Organization'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.

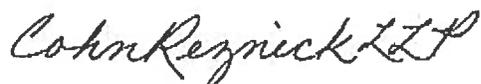
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given those limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization'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 Organization's internal control or compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Cohn Reznick LLP". The signature is written in a cursive, flowing style.

Charlotte, North Carolina
October 18, 2015