

# STATE OF NORTH CAROLINA

OFFICE OF THE STATE AUDITOR

BETH A. WOOD, CPA



## THE NORTH CAROLINA PARTNERSHIP FOR CHILDREN, INC.

RALEIGH, NORTH CAROLINA  
FINANCIAL STATEMENT AUDIT REPORT  
FOR THE YEAR ENDED JUNE 30, 2018

A COMPONENT UNIT OF THE STATE OF NORTH CAROLINA



**NCOSA**  
The Taxpayers' Watchdog

STATE OF NORTH CAROLINA  
**Office of the State Auditor**



**Beth A. Wood, CPA**  
State Auditor

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## AUDITOR'S TRANSMITTAL

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The Honorable Roy Cooper, Governor  
The General Assembly of North Carolina  
Board of Directors, The North Carolina Partnership for Children, Inc.

We have completed a financial statement audit of The North Carolina Partnership for Children, Inc. for the year ended June 30, 2018, and our audit results are included in this report. You will note from the independent auditor's report that we determined that the financial statements are presented fairly in all material respects.

The results of our tests disclosed no deficiencies in internal control over financial reporting that we consider to be material weaknesses in relation to our audit scope or any instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

*North Carolina General Statutes* require the State Auditor to make audit reports available to the public. Copies of audit reports issued by the Office of the State Auditor may be obtained through one of the options listed in the back of this report.

A handwritten signature in black ink that reads "Beth A. Wood".

Beth A. Wood, CPA  
State Auditor

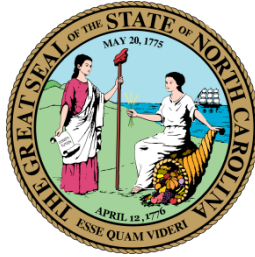


Beth A. Wood, CPA  
State Auditor

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# **INDEPENDENT AUDITOR'S REPORT**

STATE OF NORTH CAROLINA  
**Office of the State Auditor**



**Beth A. Wood, CPA**  
State Auditor

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20601 Mail Service Center  
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## **INDEPENDENT AUDITOR'S REPORT**

---

Board of Directors  
The North Carolina Partnership for Children, Inc.  
Raleigh, North Carolina

### Report on the Financial Statements

We have audited the accompanying financial statements of The North Carolina Partnership for Children, Inc. (North Carolina Partnership), a component unit of the State of North Carolina as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the North Carolina Partnership's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### 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 North Carolina Partnership'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 North Carolina Partnership'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, based on our audit, the financial statements referred to above present fairly, in all material respects, the financial position of The North Carolina Partnership for Children, Inc. as of June 30, 2018, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### Other Matters – Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### Other Information

The supplementary schedules of functional expenses, contract and grant expenses, and federal and state aid are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. The supplementary schedules have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

### Other Reporting Required by Government Auditing Standards

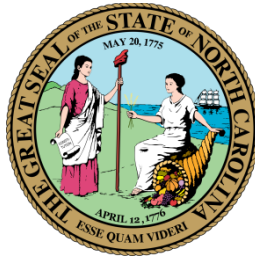
In accordance with *Government Auditing Standards*, we have also issued our report dated March 27, 2019 on our consideration of the North Carolina Partnership's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the North Carolina Partnership's internal control over financial reporting and compliance.



Beth A. Wood, CPA  
State Auditor

Raleigh, North Carolina

March 27, 2019



# **MANAGEMENT'S DISCUSSION AND ANALYSIS**



## Introduction

The following discussion and analysis provides an overview to assist the reader in interpreting and understanding the accompanying basic financial statements. This overview includes a comparative financial analysis with discussion of significant changes from the prior year, as well as a discussion of currently known facts, decisions, and conditions. This information is provided by The North Carolina Partnership for Children, Inc.'s (North Carolina Partnership) management in conjunction with the issuance of the accompanying financial statements.

## Overview of the Basic Financial Statements

The *Statement of Net Position* provides information relative to the North Carolina Partnership's assets, deferred outflows, liabilities, deferred inflows, and net position as of the last day of the fiscal year. Assets and liabilities on this statement are categorized as either current or noncurrent. Current assets are those that are available to pay for expenses in the next fiscal year. Current liabilities are those payable in the next fiscal year. Net position on this statement is categorized as either invested in capital assets, restricted, or unrestricted. Restricted net position is categorized as either nonexpendable or expendable. Overall, the *Statement of Net Position* provides information relative to the financial strength of the North Carolina Partnership and its ability to meet current and long-term obligations.

The *Statement of Revenues, Expenses, and Changes in Net Position* provides information relative to the results of the North Carolina Partnership's operations, nonoperating activities, and other activities affecting net position that occurred during the fiscal year. Nonoperating activities include primarily subsidies from the State in the form of state aid, noncapital gifts and grants, and investment income. Overall, the *Statement of Revenues, Expenses, and Changes in Net Position* provides information relative to the North Carolina Partnership's management of its operations and its ability to maintain its financial strength. The above statements are articulated by agreeing the ending net position balance reported on both statements.

The *Statement of Cash Flows* provides information relative to the North Carolina Partnership's sources and uses of cash funds for operating activities, noncapital financing activities, capital financing activities, and investing activities. This statement provides a reconciliation of beginning cash and cash equivalent balances to ending cash and cash equivalent balances and is representative of activity reported on the *Statement of Revenues, Expenses, and Changes in Net Position* as adjusted for changes in beginning and ending balances of noncash accounts on the *Statement of Net Position*.

The three statements described above, along with the notes to financial statements, are the basic financial statements required by the Governmental Accounting Standards Board (GASB) accounting principles. In accordance with GASB, the financial statements are presented on the North Carolina Partnership as a whole and use reporting concepts in a manner similar to that required of a business enterprise.

The *Statement of Net Position* is presented in a classified format to aid the reader in understanding the nature of its financial statement balances.

The *Notes to the Financial Statements* accompanying these financial statements are an integral part of the financial statements and should be read in conjunction with the financial statements. The *Notes to the Financial Statements* provide additional detail and explanation about the amounts reported in the financial statements.



### Brief Agency Highlights

The North Carolina Partnership provides statewide oversight of North Carolina's Smart Start Early Childhood Initiative. The North Carolina Partnership has notably increased its ability to provide effective oversight of, and technical assistance to, the 75 local partnerships that provide the Smart Start services to families and children in their communities.

The North Carolina Partnership has received grants from several private organizations for assisting communities in North Carolina in the development, implementation, and integration of comprehensive community-based early childhood initiatives.

### Analysis of Financial Position and Results of Operations

The North Carolina Partnership's net position as of June 30, 2018 and June 30, 2017, was approximately \$1.6 million and \$1.7 million, respectively, a decrease of approximately \$100,000 during the year.

### Condensed Financial Information

The following table summarizes the North Carolina Partnership's assets, deferred outflows/inflows, liabilities, and net position as of June 30, 2018 and 2017.

Condensed Statement of Net Position  
June 30, 2018 and 2017

	2018	2017	Amount Change	Percent Change
<b>Assets</b>				
Current Assets	\$ 5,041,018	\$ 3,408,638	\$ 1,632,380	47.9%
Noncurrent Assets				
Other	24,000	24,000		
Capital Assets, Net	53,442	84,069	(30,627)	(36.4)%
Total Assets	5,118,460	3,516,707	1,601,753	45.5%
<b>Deferred Outflows of Resources</b>	0	0	0	
<b>Liabilities</b>				
Current Liabilities				
Long-Term - Current Portion	23,211	51,834	(28,623)	(55.2)%
Other	3,370,194	1,682,591	1,687,603	100.3%
Long-Term Liabilities	121,250	73,373	47,877	65.3%
Total Liabilities	3,514,655	1,807,798	1,706,857	94.4%
<b>Deferred Inflows of Resources</b>	0	0	0	
<b>Net Position</b>				
Investment in Capital Assets	53,442	84,069	(30,627)	(36.4)%
Restricted:				
Nonexpendable	24,000	24,000		
Expendable	11,607	14,898	(3,291)	(22.1)%
Unrestricted	1,514,756	1,585,942	(71,186)	(4.5)%
Total Net Position	\$ 1,603,805	\$ 1,708,909	\$ (105,104)	(6.2)%

## Assets

Current assets as of June 30, 2018, consisted of \$4.3 million cash and cash equivalents, \$673,000 receivables, and \$89,000 prepaid expenses. Current assets as of June 30, 2017, consisted of \$2.8 million cash and cash equivalents, \$510,000 receivables, and \$126,000 prepaid expenses.

Current assets increased during the fiscal year June 30, 2018. The change consisted of an increase in cash primarily related to unearned revenues for Dolly Parton's Imagination Library Early Literacy Initiative, as discussed below. Capital assets were \$53,000 as of June 30, 2018 compared to \$84,000 as of June 30, 2017, this decrease represents annual depreciation expense. The composition of capital assets and current year activity is further detailed in Note 5.

## Liabilities

Current liabilities as of June 30, 2018, consisted primarily of \$787,000 due to state and \$2.3 million unearned revenue. Current liabilities as of June 30, 2017, primarily consisted of \$700,000 due to state, and \$784,000 unearned revenue.

Current liabilities increased during the fiscal year June 30, 2018. The increase consisted primarily of an increase in due to state and an increase in unearned revenue of approximately \$87,000 and \$1.6 million, respectively. The increase in due to state was due to receiving more reversion funds from the network of Smart Start organizations resulting from reduced costs. The increase in unearned revenue was primarily due to the advanced receipt of funds under the Dolly Parton's Imagination Library Early Literacy Initiative.

As of June 30, 2018, and 2017, noncurrent liabilities consisted entirely of accrued compensated absences.

## Net Position

As of June 30, 2018, net position invested in capital assets was \$53,000. Restricted nonexpendable net position of \$24,000 represents amounts subject to externally imposed restrictions which must be maintained in perpetuity. Restricted expendable net position of \$12,000 represents amounts subject to externally imposed restrictions. Unrestricted net position of \$1.5 million represents amounts not subject to externally imposed restrictions, but internally designated for various activities and initiatives.

For the year ended June 30, 2018, the decrease in total net position of \$105,000 is primarily attributable to the decrease in federal aid (offset by an increase in state aid), an increase in operating expenses, and an increase in contract/grant expenses as presented in the Statement of Revenues, Expenses, and Changes in Net Position section below.

The Statement of Revenues, Expenses, and Changes in Net Position presents the results of the North Carolina Partnership's operations for the report period. The following table summarizes the North Carolina Partnership's revenues, expenses, and changes in net position for the years ended June 30, 2018 and 2017. The 2017 balances for operating revenues and nonoperating revenues were restated between categories to be consistent with current year presentation.

Condensed Statement of Revenues, Expenses, and Changes in Net Position  
For the Fiscal Years Ended June 30, 2018 and 2017

	2018	2017	Amount Change	Percent Change
Operating Revenues	\$ 204,513	\$ 182,932	\$ 21,581	11.8%
Operating Expenses				
Salaries and Benefits	3,619,575	3,274,880	344,695	10.5%
Contracted Services	1,525,753	1,424,665	101,088	7.1%
Supplies and Materials	20,521	24,790	(4,269)	(17.2)%
Other Operating Expenses	369,543	309,650	59,893	19.3%
Fixed Charges and Other Expenses	578,542	587,975	(9,433)	(1.6)%
Purchase of Noncapitalized Equipment	13,337	57,650	(44,313)	(76.9)%
Depreciation	37,206	48,106	(10,900)	(22.7)%
Total Operating Expenses	6,164,477	5,727,716	436,761	7.6%
Operating Loss	(5,959,964)	(5,544,784)	(415,180)	7.5%
Nonoperating Revenues				
State Aid	101,950,268	99,092,555	2,857,713	2.9%
Federal Aid	1,089,016	1,838,975	(749,959)	(40.8)%
Investment Income	1,296	855	441	51.6%
Private Contributions	1,039,195	850,635	188,560	22.2%
Total Nonoperating Revenues	104,079,775	101,783,020	2,296,755	2.3%
Nonoperating Expenses				
Contract/Grant Expense	98,224,915	96,095,428	2,129,487	2.2%
Increase (Decrease) in Net Position	(105,104)	142,808	(247,912)	(173.6)%
Net Position Beginning of Year	1,708,909	1,566,101	142,808	9.1%
Net Position End of Year	\$ 1,603,805	\$ 1,708,909	\$ (105,104)	(6.2)%
Total Revenues	\$ 104,284,288	\$ 101,965,952	\$ 2,318,336	2.3%
Total Expenses	\$ 104,389,392	\$ 101,823,144	\$ 2,566,248	2.5%

### Operating Expenses

For the fiscal years ended June 30, 2018 and 2017, operating expenses totaled \$6.2 million and \$5.7 million, respectively.

Operating expenses increased during the fiscal year June 30, 2018. The increase consisted primarily of an increase in salaries and benefits, contracted services, and other operating expenses of approximately \$345,000, \$101,000, and \$60,000, respectively. The increases are primarily due to several new positions and contracts during fiscal year 2018 that are associated with a federal grant received from the Corporation for National and Community Service that began in fiscal year 2017.

**Nonoperating Revenues**

For the fiscal year ended June 30, 2018, nonoperating revenues totaled \$104.1 million, of which state aid was \$102.0 million. For the fiscal year ended June 30, 2017, nonoperating revenues totaled \$101.8 million, of which state aid was \$99.1 million.

Federal aid revenues earned were \$1.1 million and \$1.8 million for the years ended June 30, 2018 and 2017, respectively. The decrease in federal revenue was primarily due to the Race to the Top grant that ended in the prior fiscal year.

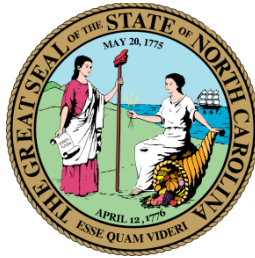
Nonoperating revenues increased during fiscal year June 30, 2018. The increase consisted primarily of an increase in state aid and private contributions of approximately \$2.9 million and \$189,000, respectively, due to an increase in state funding related to Dolly Parton's Imagination Library Early Literacy Initiative and an increase in private contributions. Private contributions earned were \$1.0 million and \$851,000 for the years ended June 30, 2018 and 2017, respectively. The Blue Cross Blue Shield of North Carolina Foundation was a major contributor in 2018 with contributions recognized of \$896,000.

Much of the North Carolina Partnership's activities are identified as nonoperating, with state aid the primary source of funding. The North Carolina Partnership provides oversight and funding to a network of Smart Start organizations across the State, resulting in significant grant disbursements.

**Economic Factors That Will Affect the Future**

The three main factors that impact the economic outlook for the North Carolina Partnership are private contributions as well as federal and state aid.

The North Carolina Partnership actively seeks private gifts to support the mission of the Smart Start initiative. For the fiscal year ended June 30, 2018, private contributions were more than fiscal year ended June 30, 2017. It is anticipated that the state of the economy will continue to improve for the fiscal year ending June 30, 2019 and possibly beyond.



# **FINANCIAL STATEMENTS**

***The North Carolina Partnership for Children, Inc.***  
***Statement of Net Position***  
***June 30, 2018***

***Exhibit A***

**ASSETS**

Current Assets:

Cash and Cash Equivalents	\$ 1,707,871
Restricted Cash and Cash Equivalents	2,571,724
Receivables:	
Accounts Receivable (Note 4)	586,356
Federal Aid Receivable (Note 4)	86,359
Prepaid Expenses	88,708
Total Current Assets	5,041,018

Noncurrent Assets:

Restricted Cash and Cash Equivalents	24,000
Capital Assets - Depreciable, Net (Note 5)	53,442
Total Noncurrent Assets	77,442
Total Assets	5,118,460

**DEFERRED OUTFLOWS OF RESOURCES**

0

**LIABILITIES**

Current Liabilities:

Accounts Payable	103,912
Accrued Payroll	131,367
Compensated Absences (Note 6)	23,211
Due to State	786,795
Unearned Revenue	2,348,120
Total Current Liabilities	3,393,405

Noncurrent Liabilities:

Compensated Absences (Note 6)	121,250
Total Liabilities	3,514,655

**DEFERRED INFLOWS OF RESOURCES**

0

**NET POSITION**

Investment in Capital Assets	53,442
Restricted for:	
Nonexpendable:	
Annual Recognition Award	24,000
Expendable:	
Specific Child Care Related Activities	11,607
Unrestricted	1,514,756
Total Net Position	\$ 1,603,805

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

***The North Carolina Partnership for Children, Inc.  
Statement of Revenues, Expenses, and  
Changes in Net Position  
For the Fiscal Year Ended June 30, 2018***

***Exhibit B***

**REVENUES**

Operating Revenues:

e-Learning Registrations and Service	\$ 6,136
Event Registrations	198,377

Total Operating Revenues	204,513
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**EXPENSES**

Operating Expenses:

Salaries and Benefits	3,619,575
Contracted Services	1,525,753
Supplies and Materials	20,521
Other Operating Expenses	369,543
Fixed Charges and Other Expenses	578,542
Purchase of Noncapitalized Equipment	13,337
Depreciation	37,206

Total Operating Expenses	6,164,477
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Operating Loss	(5,959,964)
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**NONOPERATING REVENUES (EXPENSES)**

State Aid	101,950,268
Federal Aid	1,089,016
Investment Income	1,296
Private Contributions	1,039,195
Contract/Grant Expense	(98,224,915)

Net Nonoperating Revenues	5,854,860
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Decrease in Net Position	(105,104)
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**NET POSITION**

Net Position, July 1, 2017	1,708,909
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Net Position, June 30, 2018	\$ 1,603,805
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The accompanying notes to the financial statements are an integral part of this statement.



***The North Carolina Partnership for Children, Inc.***  
***Statement of Cash Flows***  
***For the Fiscal Year Ended June 30, 2018***

***Exhibit C***  
***Page 1 of 2***

**CASH FLOWS FROM OPERATING ACTIVITIES**

e-Learning and Event Receipts	\$ 205,217
Payments to Employees and Fringe Benefits	(3,593,154)
Payments to Vendors and Suppliers	(2,426,186)
Net Cash Used by Operating Activities	(5,814,123)

**CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES**

State Aid Received	103,751,568
Grants to Local Partnerships and Other Organizations	(98,357,750)
Federal Aid Received	1,045,000
Private Contributions	888,193
Net Cash Provided by Noncapital Financing Activities	7,327,011

**CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES**

Acquisition of Capital Assets	(6,579)
Cash Used by Capital and Related Financing Activities	(6,579)

**CASH FLOWS FROM INVESTING ACTIVITIES**

Investment Income	1,296
Cash Provided by Investing Activities	1,296
Net Increase in Cash and Cash Equivalents	1,507,605
Cash and Cash Equivalents, July 1, 2017	2,795,990
Cash and Cash Equivalents, June 30, 2018	\$ 4,303,595

***The North Carolina Partnership for Children, Inc.***  
***Statement of Cash Flows***  
***For the Fiscal Year Ended June 30, 2018***

***Exhibit C***  
***Page 2 of 2***

**RECONCILIATION OF OPERATING LOSS  
TO NET CASH USED BY OPERATING ACTIVITIES**

Operating Loss	\$ (5,959,964)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	37,206
Changes in Assets and Deferred Outflows of Resources:	
Accounts Receivable	14,606
Prepaid Expenses	37,470
Changes in Liabilities and Deferred Inflows of Resources:	
Accounts Payable	29,434
Accrued Payroll	7,167
Compensated Absences	19,254
Unearned Revenue	704
Net Cash Used by Operating Activities	<u>\$ (5,814,123)</u>

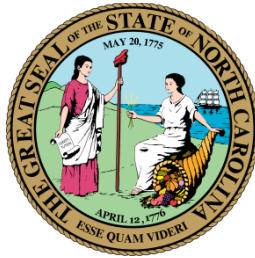
**RECONCILIATION OF CASH AND CASH EQUIVALENTS**

Current Assets:	
Cash and Cash Equivalents	\$ 1,707,871
Restricted Cash and Cash Equivalents	2,571,724
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	<u>24,000</u>
Total Cash and Cash Equivalents - June 30, 2018	<u>\$ 4,303,595</u>

**NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES**

Increase in Receivables Related to Nonoperating Income	\$ 44,016
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The accompanying notes to the financial statements are an integral part of this statement.



# **NOTES TO THE FINANCIAL STATEMENT**

## NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

- A. Organization and Purpose** - The North Carolina Partnership for Children, Inc. (North Carolina Partnership) is a legally separate nonprofit organization incorporated on March 31, 1993. The North Carolina Partnership provides technical assistance and training for local Smart Start partnerships (currently 75) in the areas of program development, administration, organizational development, communication, financial management, technology, contracts management, and fundraising. The North Carolina Partnership adheres to a comprehensive accountability plan to ensure programs, services, and funds reach the children and families of North Carolina. The North Carolina Partnership is tax-exempt as an organization described in Section 501(c)(3) of the Internal Revenue Code.
- B. Financial Reporting Entity** - The concept underlying the definition of the financial reporting entity is that elected officials are accountable to their constituents for their actions. As required by accounting principles generally accepted in the United States of America (GAAP), the financial reporting entity includes both the primary government and all of its component units. An organization other than a primary government serves as a nucleus for a reporting entity when it issues separate financial statements. The North Carolina Partnership is a component unit of the State of North Carolina and an integral part of the State's *Comprehensive Annual Financial Report* (CAFR).

Component units are legally separate entities for which the State is financially accountable. Accountability is defined as the State's substantive appointment of a majority of the component unit's governing board. Furthermore, to be financially accountable, the State must be able to impose its will upon the component unit or there must be a possibility that the component unit may provide specific benefits to, or impose specific financial burdens on, the State. Financial accountability also exists when an organization is fiscally dependent upon the State.

As required by *North Carolina General Statute* 143B-168.12, certain elected State officials appoint twenty-two of the North Carolina Partnership's board members, while four board members serve ex-officio by virtue of their State positions. The State provides significant operating subsidies to the North Carolina Partnership creating a benefit/burden relationship.

Because of the State's appointment of the board and the benefit/burden relationship, the North Carolina Partnership is a component unit of the State of North Carolina and the North Carolina Partnership's financial statements are included in the State's CAFR.

The accompanying financial statements present all funds for which the North Carolina Partnership's Board of Directors is responsible.

- C. Basis of Presentation** - The accompanying financial statements are presented in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB).

Pursuant to the provisions of GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, governmental not-for-profit entities that reported as of June 30, 1999, using the American Institute of Certified Public Accountants Statement of Position 78-10, *Accounting Principles and Reporting Practices for Certain Nonprofit Organizations*, may report as special-purpose governments engaged only in business-type activities. As such, the full scope of the North Carolina Partnership's activities is considered to be a single business-type activity and accordingly, is reported within a single column in the basic financial statements.

- D. Basis of Accounting** - The financial statements of the North Carolina Partnership have been prepared using the economic resource measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred, regardless of the timing of the cash flows.

Nonexchange transactions, in which the North Carolina Partnership receives (or gives) value without directly giving (or receiving) equal value in exchange, include state aid, certain grants, and donations. Revenues are recognized as soon as all eligibility requirements imposed by the provider have been met, if probable of collection.

- E. Cash and Cash Equivalents** - This classification includes cash on hand, cash on deposit with private bank accounts, and deposits held by the State Treasurer in the Short-Term Investment Fund (STIF). The STIF maintained by the State Treasurer has the general characteristics of a demand deposit account in that participants may deposit and withdraw cash at any time without prior notice or penalty. The North Carolina Partnership's equity position in the STIF is recorded at fair value. Additional information regarding the fair value measurement of deposits held by the State Treasurer in the STIF is disclosed in Note 3.
- F. Receivables** - Receivables consist of unexpended grant amounts due from local partnerships, amounts due from the State, and amounts due from the federal awarding agency. Receivables are shown at book value with no provision for doubtful accounts considered necessary.
- G. Prepaid Expenses** - The North Carolina Partnership records expenses allocable to future periods as prepaid expenses.
- H. Capital Assets** - Capital assets are recorded at cost at date of acquisition or acquisition value at date of donation in the case of gifts. Donated capital assets acquired prior to July 1, 2015 are stated at fair value as of the date of donation.

The North Carolina Partnership capitalizes assets that have a value or cost of \$5,000 or greater at the date of acquisition and an expected useful life of more than one year.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 5 to 7 years for equipment.

- I. **Restricted Assets** - Certain resources are reported as restricted assets because restrictions on asset use change the nature or normal understanding of the availability of the asset. Resources that are not available for current operations and are reported as restricted include resources whose use is limited by external parties or statute and endowment and other restricted investments. The endowment fund of \$24,000 is included in the amount of deposits with private financial institutions.
- J. **Due to the State** - The Smart Start program's funding from the State of North Carolina is recognized as revenue to the extent that allowable costs have been incurred. Any unexpended funds as of year end are required to be reverted to the State.
- K. **Noncurrent Long-Term Liabilities** - Noncurrent long-term liabilities consist of compensated absences that will not be paid within the next fiscal year.
- L. **Compensated Absences** - The North Carolina Partnership's policy is to record the cost of paid time off (PTO) when earned. Unused PTO can be accrued and carried forward from one year to the next. However, no more than 80 hours can be carried forward into the new calendar year. PTO in excess of 80 hours at the end of the calendar year is converted into family leave. When classifying compensated absences into current and noncurrent, leave is considered taken on a last-in, first-out (LIFO) method. Any unused PTO is not paid to the employee upon termination of employment.

The North Carolina Partnership has the policy of recording the cost of family leave when taken and paid rather than when the leave is earned. Family leave must be taken in five whole day increments and is available only to employees who have exhausted their PTO balances and are eligible for Family and Medical Leave Act protection. The policy provides for unlimited accumulation of family leave, but the employee cannot be compensated for any unused family leave upon termination of employment.

The North Carolina Partnership recognizes three separate employment types, distinguished by the expected duration of employment and the number of hours regularly worked each week. The three categories are: full-time with full benefits, full-time temporary with partial benefits, and part-time with partial benefits. Each employment type provides for different eligibility levels of benefits. These employment types do not alter the employment-at-will doctrine and, therefore, do not guarantee employment

for any specified period of time. Benefits are subject to change from time to time, and may be reduced, modified, or terminated at the discretion of the North Carolina Partnership.

- M. Net Position** - The North Carolina Partnership's net position is classified as follows:

**Investment in Capital Assets** - This represents the North Carolina Partnership's total investment in capital assets.

**Restricted Net Position - Nonexpendable** - Nonexpendable restricted net position consists of an endowment for which the use is limited by the donors or other outside sources. As a condition of the gift, the principal is generally not distributed, thus building a permanent and growing support for the endowment objective. However, it is the wish of the donor that an amount of \$1,000 be made annually, even if the principal must be utilized. Any expenditure of principal must be approved by the Trustees of the endowment.

**Restricted Net Position - Expendable** - Expendable restricted net position includes resources in which the North Carolina Partnership is legally or contractually obligated to spend the resources in accordance with restrictions imposed by external parties.

**Unrestricted Net Position** - Unrestricted net position includes resources derived from unrestricted gifts and interest income. It also includes the net position of accrued employee benefits such as compensated absences and the pension plan.

Restricted and unrestricted resources are tracked using a fund accounting system and are spent in accordance with established fund authorities. Fund authorities provide rules for the fund activity and are separately established for restricted and unrestricted activities. When both restricted and unrestricted funds are available for expenditure, the decision for funding is transactional based on management's decision. Both restricted and unrestricted net position include consideration of deferred outflows of resources and deferred inflows of resources.

- N. Revenue and Expense Recognition** - The North Carolina Partnership classifies its revenues and expenses as operating or nonoperating in the accompanying Statement of Revenues, Expenses, and Changes in Net Position. Operating revenues and expenses generally result from providing services that are necessary to the North Carolina Partnership's principal ongoing operations. Operating revenues include activities that have characteristics of exchange transactions. Operating expenses are all expense transactions incurred other than those related to capital and noncapital financing or investing activities as defined by GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*.



Nonoperating revenues include activities that have the characteristics of nonexchange transactions. Revenues from nonexchange transactions and state aid that represent subsidies or gifts to the North Carolina Partnership, as well as investment income, are considered nonoperating since these are either investing, capital, or noncapital financing activities. Capital contributions are presented separately after nonoperating revenues and expenses.

## NOTE 2 - DEPOSITS AND INVESTMENTS

The North Carolina Partnership is required by *North Carolina General Statute 147-77* to deposit any funds collected or received that belong to the State of North Carolina with the State Treasurer or with a depository institution in the name of the State Treasurer. All funds of the North Carolina Partnership, other than those required to be deposited with the State Treasurer, are deposited in board-designated official depositories. The amount shown on the Statement of Net Position as cash and cash equivalents includes cash on hand totaling \$250, and deposits in private financial institutions with a carrying value of \$2,435,963 and a bank balance of \$2,674,943.

Custodial credit risk is the risk that in the event of a bank failure, the North Carolina Partnership's deposits may not be returned to it. The North Carolina Partnership does not have a deposit policy for custodial credit risk. The North Carolina Partnership's deposits with each commercial bank are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. As of June 30, 2018, the North Carolina Partnership's bank balance in excess of the FDIC insured limit totaled \$2,424,943.

At June 30, 2018, the amount shown on the Statement of Net Position as cash and cash equivalents includes \$1,867,382, which represents the North Carolina Partnership's equity position in the State Treasurer's Short-Term Investment Fund (STIF). The STIF (a portfolio within the State Treasurer's Investment Pool, an external investment pool that is not registered with the Securities and Exchange Commission or subject to any other regulatory oversight and does not have a credit rating) had a weighted average maturity of 1.4 years as of June 30, 2018. Assets and shares of the STIF are valued at fair value. Deposit and investment risks associated with the State Treasurer's Investment Pool (which includes the State Treasurer's STIF) are included in the North Carolina Department of State Treasurer Investment Programs' separately issued audit report. This separately issued report can be obtained from the Department of State Treasurer, 3200 Atlantic Avenue, Raleigh, NC 27604 or can be accessed from the Department of State Treasurer's website at <https://www.nctreasurer.com/> in the Audited Financial Statements section.

**NOTE 3 - FAIR VALUE MEASUREMENTS**

To the extent available, the North Carolina Partnership's investments are recorded at fair value as of June 30, 2018. GASB Statement No. 72, *Fair Value Measurement and Application*, defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This statement establishes a hierarchy of valuation inputs based on the extent to which the inputs are observable in the marketplace. Inputs are used in applying the various valuation techniques and take into account the assumptions that market participants use to make valuation decisions. Inputs may include price information, credit data, interest and yield curve data, and other factors specific to the financial instrument. Observable inputs reflect market data obtained from independent sources. In contrast, unobservable inputs reflect the entity's assumptions about how market participants would value the financial instrument. Valuation techniques should maximize the use of observable inputs to the extent available.

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. The following describes the hierarchy of inputs used to measure fair value and the primary valuation methodologies used for financial instruments measured at fair value on a recurring basis:

- Level 1            Investments whose values are based on quoted prices (unadjusted) for identical assets in active markets that a government can access at the measurement date.
- Level 2            Investments with inputs – other than quoted prices included within Level 1 – that are observable for an asset, either directly or indirectly.
- Level 3            Investments classified as Level 3 have unobservable inputs and may require a degree of professional judgment.

**Short-Term Investment Fund** - At year-end, cash and cash equivalents valued at \$1,867,382 were held in the STIF. Ownership interest of the STIF is determined on a fair market valuation basis as of fiscal year end in accordance with the STIF operating procedures. Valuation of the underlying assets is performed by the custodian. Pool investments are measured at fair value in accordance with GASB 72. The North Carolina Partnership's position in the pool is measured and reported at fair value and the STIF is not required to be categorized within the fair value hierarchy.

**NOTE 4 - RECEIVABLES**

Receivables at June 30, 2018, were as follows:

**A. Accounts Receivable** - The gross accounts receivable were:

	Amount
Accounts Receivables:	
Due from Local Partnerships	\$ 573,149
Sales Tax Receivables	12,970
Other Receivables	237
Total Accounts Receivables	<u>\$ 586,356</u>

The North Carolina Partnership expects to collect these receivables.

**B. Federal Aid Receivable** - The North Carolina Partnership has federal aid receivables in the amount of \$86,359 that are collectible in the fiscal year ending June 30, 2019. The receivables represent reimbursement for the Corporation for National and Community Service Grant.**NOTE 5 - CAPITAL ASSETS**

A summary of changes in the capital assets for the year ended June 30, 2018 is presented as follows:

	Balance July 1, 2017	Increases	Decreases	Balance June 30, 2018
Capital Assets, Depreciable:				
Machinery and Equipment	\$ 523,738	\$ 6,579	\$ 6,438	\$ 523,879
Less Accumulated Depreciation	439,669	37,206	6,438	470,437
Total Capital Assets, Depreciable, Net	<u>\$ 84,069</u>	<u>\$ (30,627)</u>	<u>\$ 0</u>	<u>\$ 53,442</u>

**NOTE 6 - LONG-TERM LIABILITIES**

A summary of changes in the long-term liabilities for the year ended June 30, 2018, is presented as follows:

	Balance July 1, 2017	Additions	Reductions	Balance June 30, 2018	Current Portion
Compensated Absences	\$ 125,207	\$ 331,391	\$ 312,137	\$ 144,461	\$ 23,211

# NOTE 7 - OPERATING LEASE OBLIGATIONS

The North Carolina Partnership entered into operating leases for office rent. Future minimum lease payments under noncancelable operating leases consist of the following at June 30, 2018:

<u>Fiscal Year</u>	<u>Amount</u>
2019	\$ 342,123
2020	350,676
2021	359,442
2022	368,429
2023	377,639
2024-2025	716,339
Total Minimum Lease Payments	<u>\$ 2,514,648</u>

The North Carolina Partnership has the right to extend the term of the operating lease for office rent for one additional, consecutive, uninterrupted term of ten years commencing on May 1, 2025.

Rental expense for all operating leases during the year was \$334,966.

# NOTE 8 - OPERATING EXPENSE BY FUNCTION

The costs of providing the various programs and activities have been presented by their natural classification in the *Statement of Revenues, Expenses, and Changes in Net Position*. Schedule 1, accompanying the financial statements, provides a summarization of those expenses by their functional categories for the fiscal year. The following are the functional categories and the services associated with those functions:

## A. Program Functions

**Communications** - Provision of outreach materials and technical assistance to local partnerships in the areas of crisis communication, media relations, desktop publishing, special event planning, and advocacy awareness.

**Comprehensive Training Events** - Expenses that are incurred in the provision of training events that foster an understanding of comprehensive early childhood service delivery and best practices in multiple functional areas. Participants may include state and local partnership board members, staff and committee members, direct service providers, early childhood leaders and professionals, and others involved in the development of various facets of a comprehensive early childhood delivery system.

**Early Literacy** - Grants distributed to local partnerships for two early literacy programs. Reach Out and Read (ROR), a national evidence-based model that promotes early literacy in pediatric primary care. Dolly Parton's

Imagination Library promotes emergent literacy skills through a partnership with the Dollywood Foundation whereby families are recruited to participate and once children are enrolled, they receive an age-appropriate book in the mail each month up to their fifth birthday.

**Early Childhood Systems and Research/Evaluation** - Responsible for advising Smart Start local partnership activities within three core program areas (child care, family support, and health), ensuring they are aligned with research evidence, then approving and monitoring those activities throughout each fiscal year. Promotes continuous quality improvement by regularly reviewing early childhood community level data and long-term strategic plans from local partnerships. Uses trends to inform technical assistance that builds capacity and leads to sustainability of an integrated state-level system. Funds and implements additional early childhood programmatic initiatives. Conducts internal evaluations and oversees third party evaluations for strategic initiatives.

**e-Learning** - Responsible for developing new material and consolidating existing online education webinars, webcasts, courses, and materials based on technical assistance and training needs of local partnerships and others in the early childhood education field. The e-Learning function provides a centralized repository of online training material related to the early childhood education field, non-profit governance, and data management. The e-Learning function uses various technologies to achieve its goals, including videos, documents, online books, presentations, and curriculum-based courses.

**Finance** - Responsible for the oversight of the accounting, financial reporting, and contracting functions for the North Carolina Partnership and non-state allocated contracts for the local partnerships.

**Local Partnership Administration** - Grants distributed to local partnerships for administering the Smart Start program on the local level.

**Local Partnership Services** - Grants distributed to local partnerships to perform direct services activities for the Smart Start program on the local level.

**Monitoring** - Responsible for performing financial monitoring of, and providing technical assistance and training to, the local partnerships.

**Other Private Awards** - Privately funded programs to assist communities in the development, implementation, or integration of targeted or comprehensive community-based early childhood initiatives.

**Regional Accounting (MAC)** - Costs associated with the implementation and support of the Multi-Partnership Accounting and Contracting (MAC) plan. Costs include personnel, telecommunications systems, software, equipment, and supplies related to the support for the MAC sites.

**Shape NC Phase II** - Privately funded program to improve the health of young children, ages birth to five, and child care workers through a comprehensive statewide strategy of comprehensive coordinated early childhood obesity prevention outreach, and technical assistance that will address change at the individual, programmatic, environmental, and policy levels.

**Shape NC Phase III** - Privately and federally funded program designed to increase the number of children starting kindergarten at a healthy weight, which contributes to readiness to learn. The initiative promotes healthy eating and active learning through play for children 0-5 by providing technical assistance and training to community-based child care sites in four counties, using three evidence-based programs: Be Active Kids, Preventing Obesity by Design, and Nutrition and Physical Activity Self-Assessment for Child Care.

### **B. Support Functions**

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

**Fiscal** - Responsible for maintaining the financial records and processing payments and receipts for the North Carolina Partnership. Also, responsible for developing and implementing proper accounting policies and procedures.

**Fund Development** - Expenses that are incurred to induce others to contribute money, securities, time, materials, or facilities for which the contributor will receive no direct economic benefit.

**Human Resources** - Responsible for the administration of personnel related services and functions, including employee relations, recruiting, compensation and benefits, job descriptions, performance management, maintenance of employee records, and compliance with employment regulations.

**Partnership Engagement** - Provides ongoing support to the network of Smart Start local partnerships on topic areas, including but not limited to, financial oversight and compliance, Smart Start guidelines and policies, contracts, and subsidies.

**Technology** - Provision of technical assistance and training to the North Carolina Partnership and to the local partnership staff. Technical assistance is provided in areas of selecting hardware, software, and acquiring outside consultants for training.

**NOTE 9 - PENSION PLAN****Defined Contribution Plan**

*Plan Administration:* The North Carolina Partnership provides and administers the North Carolina Partnership for Children, Inc. Retirement Plan (Plan), which is a defined contribution plan, created under Internal Revenue Code Section 401(k). The Plan is open to all employees who have attained the age of 18 and have at least three months service.

*Benefits Provided:* The Plan provides distribution of benefits to participants who have reached retirement, become disabled, or to the designated beneficiary upon a participant's death. Participants in the Plan are immediately vested in the value of employee contributions. The value of employer contributions is vested 25%, 50%, and 100% after one year, two years, and three years of participation, respectively. If a participant's employment is terminated prior to becoming 100% vested in the employer contributions, then the amount is forfeited by the participant. The pension forfeitures are held in a short-term money market trust retirement account until application towards restricted purposes outlined in the Basic Plan Document.

*Contributions:* Participant, eligibility, and contributory requirements are established by the North Carolina Partnership. Participants choose to contribute a dollar or percentage of their wage not to exceed the federal limit. The North Carolina Partnership makes a safe-harbor contribution to the Plan each year equal to 3% of the participants' compensation and may make additional discretionary employer contributions. For the year ended June 30, 2018, the North Carolina Partnership's Plan contributions and pension expense were \$186,425. The North Carolina Partnership assumes no liability other than its contribution.

**NOTE 10 - RISK MANAGEMENT**

The North Carolina Partnership is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These exposures to loss are handled via a combination of methods, including purchase of commercial insurance and self-retention of certain risks. There have been no significant reductions in insurance coverage from the previous year and settled claims have not exceeded coverage in any of the past three fiscal years.

**A. Employee Benefit Plan**

Employees are provided health care coverage through a private insurance company. The Plan is funded by employer and employee contributions and is administered by a third party contractor.



**B. Other Risk Management and Insurance Activities**

**1. Automobile, Fire, and Other Property Losses**

Fire, coverage for other property losses, and vehicular liability insurance are covered by contracts with private insurance companies.

**2. Employee Dishonesty and Computer Fraud**

The North Carolina Partnership is protected for losses from employee dishonesty and computer fraud for employees. The blanket honesty bond is with a private insurance company with coverage of \$250,000 per occurrence and a \$1,000 deductible.

**3. Workers' Compensation**

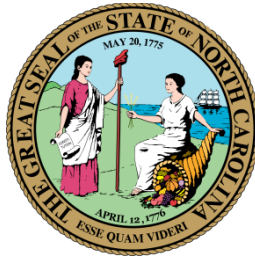
The North Carolina Partnership makes the necessary arrangements to carry out the provisions of the Workers' Compensation Act by purchasing workers' compensation insurance for employees through a private insurance company.

**NOTE 11 - COMMITMENTS**

The North Carolina Partnership has outstanding commitments on cost reimbursement contracts totaling \$3,715,319 as of June 30, 2018.

**NOTE 12 - RELATED PARTIES**

**Local Partnership Contracts with Board Member Organizations** - The board members of the North Carolina Partnership are representative of various organizations that benefit from actions taken by the Board. It is the policy of the North Carolina Partnership that board members not be involved with decisions regarding organizations they represent. During the year, the North Carolina Partnership entered into contracts with board member organizations for local partnership activities as identified on Schedule 2 accompanying the financial statements.



# **SUPPLEMENTARY INFORMATION**

**The North Carolina Partnership for Children, Inc.**  
**Schedule of Functional Expenses**  
**For the Fiscal Year Ended June 30, 2018**

**Schedule 1**

	<b>Salaries and Benefits</b>	<b>Contracted Services</b>	<b>Supplies and Materials</b>	<b>Other Operating Expenses</b>	<b>Fixed Charges and Other Expenses</b>	<b>Noncapitalized Equipment</b>	<b>Depreciation</b>	<b>Contract/ Grant Expense</b>	<b>Total</b>
<b>Program:</b>									
Communications	\$ 222,300	\$ 0	\$ 0	\$ 3,497	\$ 4,498	\$ 0	\$ 0	\$ 0	\$ 230,295
Comprehensive Training Events	73,161	128,889	25	136,712	18,528				357,315
Early Literacy	12,846	20,716	863	63	891	1,152		1,826,435	1,862,966
EC Systems and Research/Evaluation	628,591	7,000	101	15,217	109	50		1,000	652,068
e-Learning	102,226	150	137	6,411	18,692				127,616
Finance	169,471	250,124		635	997				421,227
Local Partnership Administration								11,292,344	11,292,344
Local Partnership Services								83,753,093	83,753,093
Monitoring	110,991			12,710					123,701
Other Private Awards	1,451	14,500	49	2,255					18,255
Regional Accounting (MAC)	501,011			22,333	79,841			950,826	1,554,011
Shape NC Phase II				4,479				92,700	97,179
Shape NC Phase III	395,057	1,041,282	964	100,565	68,151	6,186		308,358	1,920,563
<b>Total Program</b>	<b>2,217,105</b>	<b>1,462,661</b>	<b>2,139</b>	<b>304,877</b>	<b>191,707</b>	<b>7,388</b>	<b>0</b>	<b>98,224,756</b>	<b>102,410,633</b>
<b>Support:</b>									
Administration	648,533	42,631	14,212	49,384	309,462	866	37,206	159	1,102,453
Fiscal	169,421	9,238		248					178,907
Fund Development	68,271		45	203	138				68,657
Human Resources	83,157	11,223		2,311	684				97,375
Partnership Engagement	264,678			5,085	635				270,398
Technology	168,410		4,125	7,435	75,916	5,083			260,969
<b>Total Support</b>	<b>1,402,470</b>	<b>63,092</b>	<b>18,382</b>	<b>64,666</b>	<b>386,835</b>	<b>5,949</b>	<b>37,206</b>	<b>159</b>	<b>1,978,759</b>
<b>Total Expenses</b>	<b>\$ 3,619,575</b>	<b>\$ 1,525,753</b>	<b>\$ 20,521</b>	<b>\$ 369,543</b>	<b>\$ 578,542</b>	<b>\$ 13,337</b>	<b>\$ 37,206</b>	<b>\$ 98,224,915</b>	<b>\$ 104,389,392</b>

**The North Carolina Partnership for Children, Inc.**  
**Schedule of Contract and Grant Expenses**  
**For the Year Ended June 30, 2018**

**Schedule 2**  
**Page 1 of 2**

Organization Name	Gross Amount Expended	Refund Due	Net Amount Expended
Alamance Partnership for Children	\$ 852,417	\$ (174)	\$ 852,243
Albemarle Alliance for Children and Families, Inc.	1,805,342	(20,517)	1,784,825
Alexander County Partnership for Children	300,752	(1,091)	299,661
Alleghany Partnership for Children, Inc.	125,947		125,947
Alliance for Children	1,342,976	(9,578)	1,333,398
Anson County Partnership for Children	384,911		384,911
Ashe County Partnership for Children	291,246		291,246
Beaufort/Hyde Partnership for Children	547,433	(174)	547,259
Bladen Smart Start-A Partnership for Children, Inc.	359,713	(15,558)	344,155
Blue Ridge Partnership for Children	517,543		517,543
Buncombe County Partnership for Children, Inc.	* 1,565,634		1,565,634
Burke County Smart Start, Inc.	1,197,587	(1,226)	1,196,361
Cabarrus County Partnership for Children	2,283,606	(8,235)	2,275,371
Caldwell County Smart Start a Partnership for Young Children	869,294	(1,839)	867,455
Carteret County Partnership for Children	* 645,664	(535)	645,129
Caswell County Partnership for Children	235,696	(1,474)	234,222
Catawba County Partnership for Children	1,542,854	(10,956)	1,531,898
Chatham County Partnership for Children	708,058	(1,845)	706,213
Child Care Services Association	* 55,466		55,466
Children & Youth Partnership for Dare County, Inc.	292,484		292,484
Children's Council of Watauga County, Inc.	271,860		271,860
Cleveland County Partnership for Children, Inc.	974,170		974,170
Columbus County Partnership for Children, Incorporated	435,278	(7,384)	427,894
Craven Smart Start, Inc.	* 1,036,447		1,036,447
Down East Partnership for Children	2,353,754	(25,610)	2,328,144
Duplin County Partnership for Children	1,138,234	(7,577)	1,130,657
Durham's Partnership for Children	5,117,492		5,117,492
Franklin Granville Vance Smart Start, Inc.	1,412,343	(38,341)	1,374,002
Guilford County Partnership for Children, Inc.	3,286,281	(66,128)	3,220,153
Harnett County Partnership for Children, Inc.	842,342		842,342
Hertford-Northampton Smart Start Partnership for Children, Inc.	489,284	(1,990)	487,294
Hoke County Partnership for Children and Families	764,639		764,639
Iredell County Partnership for Young Children, Inc.	1,323,276	(11,399)	1,311,877
Jones County Partnership for Children	234,185	(1,437)	232,748
Lee County Partnership for Children	1,006,053	(1,614)	1,004,439
Lenoir/Greene County Partnership for Children	1,558,424	(175)	1,558,249
Madison County Partnership for Children and Families, Inc.	279,156		279,156
Martin/Pitt Partnership for Children, Inc.	1,498,146		1,498,146
Mecklenburg Partnership for Children	7,984,892	(20,586)	7,964,306
Montgomery County Partnership for Children	508,837		508,837
Onslow County Partnership for Children, Inc.	4,332,828		4,332,828
Orange County Partnership for Young Children	1,561,152	(1,769)	1,559,383
Pamlico Partnership for Children, Inc.	139,099		139,099
Partners for Children & Families, Inc.	784,635		784,635
Partnership for Children of Cumberland County, Inc.	3,917,592	(47,949)	3,869,643
Partnership for Children of Johnston County, Inc.	1,428,134	(3,933)	1,424,201
Partnership for Children of Lincoln/Gaston Counties, Inc.	2,054,853	(26,527)	2,028,326
Partnership for Children of the Foothills	938,794	(3,687)	935,107
Person County Partnership for Children	435,177		435,177
Randolph County Partnership for Children	1,024,894	(12,818)	1,012,076
Reach Out and Read, Inc.	54,911		54,911
Region A Partnership for Children	1,233,632	(2,084)	1,231,548
Richmond County Partnership for Children	773,922	(3,650)	770,272
Robeson County Partnership for Children	1,502,853	(58,182)	1,444,671
Rockingham County Partnership for Children, Inc.	721,694		721,694
Sampson County Partnership for Children	1,052,259		1,052,259
Scotland County Partnership for Children and Families, Inc.	394,184		394,184
Smart Start of Brunswick County, Inc.	642,061		642,061
Smart Start of Davidson County, Inc.	2,658,736	(24)	2,658,712
Smart Start of Davie County, Inc.	300,456		300,456
Smart Start of Forsyth County	* 4,301,738	(1,486)	4,300,252
Smart Start Partnership for Children, Inc.	1,189,553		1,189,553
Smart Start of New Hanover County	1,351,870	(980)	1,350,890
Smart Start of Pender County, Inc.	440,898		440,898
Smart Start of Transylvania County	188,437		188,437
Smart Start of Yadkin County, Inc.	462,318	(992)	461,326

**The North Carolina Partnership for Children, Inc.**  
**Schedule of Contract and Grant Expenses**  
**For the Year Ended June 30, 2018**

**Schedule 2**  
**Page 2 of 2**

<b>Organization Name</b>	<b>Gross Amount Expended</b>	<b>Refund Due</b>	<b>Net Amount Expended</b>
Smart Start Rowan, Inc.	1,746,283	(2,370)	1,743,913
Stanly County Partnership for Children	713,606	(10,119)	703,487
Stokes Partnership for Children	469,399	(343)	469,056
Surry County Early Childhood Partnership	701,193	(5,098)	696,095
The Chowan/Perquimans Smart Start Partnership	390,803		390,803
The Dollywood Foundation	787,875		787,875
The Halifax - Warren Smart Start Partnership for Children, Inc. *	548,849	(2,381)	546,468
The Partnership for Children of Wayne County, Inc.	928,256	(16,308)	911,948
Tyrrell-Washington Partnership for Children, Inc.	296,160	(3,644)	292,516
Various Other Organizations	27,519		27,519
Wake County Smart Start	7,888,727	(59,327)	7,829,400
Wilkes Community Partnership for Children	662,698		662,698
Wilson County Partnership for Children	1,301,296	(45,031)	1,256,265
	<u>\$ 98,789,060</u>	<u>\$ (564,145)</u>	<u>\$ 98,224,915</u>

\* These organizations are represented on the North Carolina Partnership's Board as described in Note 12 - Related Parties.

**The North Carolina Partnership for Children, Inc.**  
**Schedule of Federal and State Aid**  
**For the Fiscal Year Ended June 30, 2018**

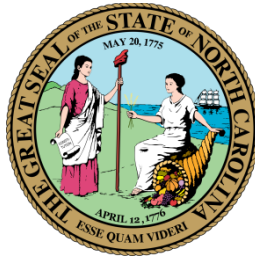
**Schedule 3**

<u>Federal/State Grantor/Pass-through Grantor/Program</u>	<u>Federal CFDA Number</u>	<u>Contract #</u>	<u>Receipts</u>	<u>Expenditures</u>
<b>Federal Aid:</b>				
United States Department of Health and Human Services				
Pass-through from the Corporation for National and Community Service				
Social Innovation Fund	*	94.019	N/A	
			\$ 1,089,016	\$ 1,089,016
<b>State Aid:</b>				
North Carolina Department of Health and Human Services - Division of Child Development and Early Education				
Early Childhood Initiatives Program (Current Year)	**	35365	100,164,912	100,164,912
Dolly Parton's Imagination Library Early Literacy Initiative		36322	1,785,356	1,785,356
			<u>101,950,268</u>	<u>101,950,268</u>
<b>Total State Aid</b>			<u>101,950,268</u>	<u>101,950,268</u>
<b>Total Federal and State Aid</b>			<u>\$ 103,039,284</u>	<u>\$ 103,039,284</u>

\* The North Carolina Partnership is a component unit of the State of North Carolina and is an integral part of the State's *Comprehensive Annual Financial Report* (CAFR). As such, the North Carolina Partnership's Corporation for National and Community Service - Social Innovation Fund federal expenditures are included in the State's Schedule of Expenditures of Federal Awards. Those expenditures are covered by the State of North Carolina's *Single Audit Report*, and a separate audit in accordance with the Single Audit Act and OMB Uniform Guidance for the North Carolina Partnership is not required.

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

Note: The information on this schedule has been prepared on the accrual basis of accounting.



# **INDEPENDENT AUDITOR'S REPORT**



STATE OF NORTH CAROLINA  
**Office of the State Auditor**



**Beth A. Wood, CPA**  
State Auditor

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**INDEPENDENT AUDITOR'S REPORT  
ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN  
AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

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Board of Directors  
The North Carolina Partnership for Children, Inc.  
Raleigh, North Carolina

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of The North Carolina Partnership for Children, Inc. (North Carolina Partnership), a component unit of the State of North Carolina as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the North Carolina Partnership's basic financial statements, and have issued our report thereon dated March 27, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the North Carolina Partnership'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 North Carolina Partnership's internal control. Accordingly, we do not express an opinion on the effectiveness of the North Carolina Partnership'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 North Carolina Partnership's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be

material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the North Carolina Partnership's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the North Carolina Partnership'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 North Carolina Partnership's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Beth A. Wood, CPA  
State Auditor

Raleigh, North Carolina

March 27, 2019

# ORDERING INFORMATION

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