

STATE OF NORTH CAROLINA

OFFICE OF THE STATE AUDITOR

BETH A. WOOD, CPA

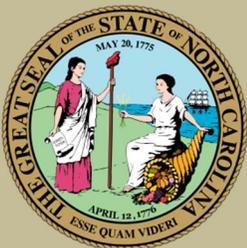


THE NORTH CAROLINA PARTNERSHIP FOR CHILDREN, INC.

RALEIGH, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT
FOR THE YEAR ENDED JUNE 30, 2022

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

2 S. Salisbury Street
20601 Mail Service Center
Raleigh, NC 27699
Telephone: (919) 807-7500
Fax: (919) 807-7647
www.auditor.nc.gov

AUDITOR'S TRANSMITTAL

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, 2022, 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 cursive script that reads 'Beth A. Wood'.

Beth A. Wood, CPA
State Auditor

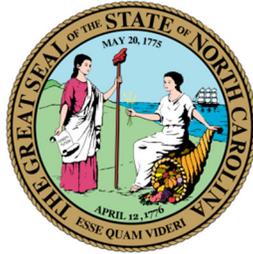


Beth A. Wood, CPA
State Auditor

TABLE OF CONTENTS

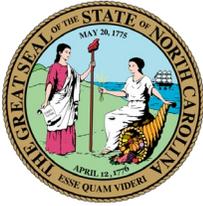
	PAGE
INDEPENDENT AUDITOR'S REPORT	1
MANAGEMENT'S DISCUSSION AND ANALYSIS.....	4
BASIC FINANCIAL STATEMENTS	
EXHIBITS	
A STATEMENT OF NET POSITION	9
B STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION	10
C STATEMENT OF CASH FLOWS	11
NOTES TO THE FINANCIAL STATEMENTS.....	12
SUPPLEMENTARY INFORMATION	
1 SCHEDULE OF FUNCTIONAL EXPENSES	24
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 <i>GOVERNMENT AUDITING STANDARDS</i>	25
ORDERING INFORMATION	27

Chapter 147, Article 5A of the North Carolina General Statutes, gives the Auditor broad powers to examine all books, records, files, papers, documents, and financial affairs of every state agency and any organization that receives public funding. The Auditor also has the power to summon people to produce records and to answer questions under oath.



INDEPENDENT AUDITOR'S REPORT

STATE OF NORTH CAROLINA
Office of the State Auditor



Beth A. Wood, CPA
State Auditor

2 S. Salisbury Street
20601 Mail Service Center
Raleigh, NC 27699
Telephone: (919) 807-7500
Fax: (919) 807-7647
www.auditor.nc.gov

INDEPENDENT AUDITOR'S REPORT

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

Report on the Audit of the Financial Statements

Opinion

We have audited 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, 2022, 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.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of The North Carolina Partnership for Children, Inc., as of June 30, 2022, and the changes in financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards* (GAGAS), issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of The North Carolina Partnership for Children, Inc. and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

The North Carolina Partnership's management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the North Carolina Partnership's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and GAGAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and GAGAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the North Carolina Partnership's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

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 is the responsibility of management and, 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.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the North Carolina Partnership's basic financial statements. The accompanying supplementary schedule of functional expenses is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary schedule of functional expenses is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary schedule of functional expenses is fairly stated, in all material respects, in relation to the basic 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 March 29, 2023 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 29, 2023



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 net investment 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 and nonoperating activities affecting net position that occurred during the fiscal year. Nonoperating activities primarily represent subsidies from the State in the form of state aid, noncapital gifts and grants, private contributions, 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 and related 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 the Financial Statements*, are the basic financial statements required by the Governmental Accounting Standards Board (GASB). 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, 2022 and June 30, 2021, was approximately \$1.5 million and \$1.6 million, respectively, a decrease of approximately \$100,000 during the year.

CONDENSED STATEMENT OF NET POSITION

The following table summarizes the North Carolina Partnership's assets, deferred outflows/inflows, liabilities, and net position as of June 30, 2022 and 2021. The 2021 amounts presented in the following condensed Statement of Net Position have not been restated for the implementation of GASB Statement No. 87, *Leases*. See Notes 5 and 6 for details on the restated balances related to capital assets and lease liabilities, respectively.

**Condensed Statement of Net Position
For the Fiscal Years Ended June 30, 2022 and 2021**

	2022	2021	Amount Change	Percent Change
Assets				
Current Assets	\$ 15,646,364	\$ 10,198,287	\$ 5,448,077	53.4%
Noncurrent Assets				
Other	24,000	24,000		
Capital Assets, Net	995,319	10,515	984,804	9365.7%
Total Assets	16,665,683	10,232,802	6,432,881	62.9%
Deferred Outflows of Resources	0	0	0	
Liabilities				
Current Liabilities				
Long-Term, Current Portion	394,583	39,798	354,785	891.5%
Other	13,938,485	8,434,505	5,503,980	65.3%
Long-Term Liabilities	805,277	134,957	670,320	496.7%
Total Liabilities	15,138,345	8,609,260	6,529,085	75.8%
Deferred Inflows of Resources	0	0	0	
Net Position				
Net Investment in Capital Assets	(19,423)	10,515	(29,938)	(284.7)%
Restricted				
Nonexpendable	24,000	24,000		
Expendable	27,536	50,942	(23,406)	(45.9)%
Unrestricted	1,495,225	1,538,085	(42,860)	(2.8)%
Total Net Position	\$ 1,527,338	\$ 1,623,542	\$ (96,204)	(5.9)%

ASSETS

Current assets as of June 30, 2022, consisted of \$6.3 million cash and cash equivalents, \$9.1 million receivables, and \$175,000 prepaid expenses. Current assets as of June 30, 2021, consisted of \$5.0 million cash and cash equivalents, \$5.1 million receivables, and \$102,000 prepaid expenses.

Current assets increased by \$5.4 million during the fiscal year ended June 30, 2022. The change primarily consisted of a \$3.6 million increase in due from local partnerships, caused by an increase in the reversion funds receivable from the network of local Smart Start partnerships. Additionally, the lasting effects of the pandemic have shifted many services and trainings to virtual mediums rather than in-person, resulting in much lower than planned costs to the local partnerships, which in turn, reverted these funds to the State.

Restricted cash and cash equivalents increased by \$1.6 million during the current year. This was primarily due to more cash payments received for the Dolly Parton Imagination Library contract.

Noncurrent assets increased by \$985,000 due to the implementation of GASB Statement No. 87, *Leases*, which resulted in a new category of capital assets which represents the North Carolina Partnership's leased office space.

LIABILITIES

Current liabilities as of June 30, 2022, consisted primarily of \$10.1 million due to state and \$3.4 million unearned revenue. Current liabilities as of June 30, 2021, consisted primarily of \$6.0 million due to state and \$2.3 million unearned revenue.

Current liabilities increased by \$5.9 million during the fiscal year ended June 30, 2022. The increase consisted primarily of an increase in amounts due to the state, unearned revenue, and the current portion of long-term liabilities. The increase in due to state of \$4.1 million resulted from receiving more reversion funds from the network of Smart Start organizations as mentioned above. The increase in unearned revenue of \$1.1 million was primarily related to the increase in payments received for the Dolly Parton Imagination Library contract as mentioned above.

At June 30, 2022, current and noncurrent long-term liabilities increased from the prior year by \$355,000 and \$670,000, respectively. These increases are primarily related to the implementation of GASB Statement No. 87, *Leases*.

NET POSITION

As of June 30, 2022, net investment in capital assets was (\$19,423). The negative amount reported was due to the implementation of GASB Statement No. 87, *Leases*. 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 \$27,536 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, 2022, there was a decrease in net position of \$96,000. This was primarily attributable to the decrease in operating revenues, coupled with an increase in operating expenses.

CONDENSED STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

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, 2022 and 2021.

**Condensed Statement of Revenues, Expenses, and Changes in Net Position
For the Fiscal Years Ended June 30, 2022 and 2021**

	2022	2021	Amount Change	Percent Change
Operating Revenues	\$ 32,925	\$ 69,151	\$ (36,226)	(52.4)%
Operating Expenses				
Salaries and Benefits	3,875,560	3,772,537	103,023	2.7%
Supplies and Services	1,148,651	1,219,125	(70,474)	(5.8)%
Other Operating Expenses	112,790	110,449	2,341	2.1%
Fixed Charges and Other Expenses	251,981	587,224	(335,243)	(57.1)%
Purchase of Noncapitalized Equipment	39,525	17,272	22,253	128.8%
Depreciation/Amortization	363,922	7,215	356,707	4944.0%
Total Operating Expenses	5,792,429	5,713,822	78,607	1.4%
Operating Loss	(5,759,504)	(5,644,671)	114,833	2.0%
Nonoperating Revenues				
State Aid	112,055,713	108,050,976	4,004,737	3.7%
Federal Aid		425,752	(425,752)	(100.0)%
Investment Income	2,202	1,945	257	13.2%
Private Contributions	683,061	1,293,948	(610,887)	(47.2)%
Total Nonoperating Revenues	112,740,976	109,772,621	2,968,355	2.7%
Nonoperating Expenses				
Interest and Fees on Leases	35,208		35,208	100.0%
Contract/Grant Expenses	107,042,468	103,745,385	3,297,083	3.2%
Total Nonoperating Expenses	107,077,676	103,745,385	3,332,291	3.2%
Increase (Decrease) in Net Position	(96,204)	382,565	(478,769)	(125.1)%
Net Position Beginning of Year	1,623,542	1,240,977	382,565	30.8%
Net Position End of Year	\$ 1,527,338	\$ 1,623,542	\$ (96,204)	(5.9)%
Total Revenues	\$ 112,773,901	\$ 109,841,772	\$ 2,932,129	2.7%
Total Expenses	\$ 112,870,105	\$ 109,459,207	\$ 3,410,898	3.1%

OPERATING REVENUES AND EXPENSES

For the fiscal years ended June 30, 2022 and 2021, operating expenses totaled \$5.8 million and \$5.7 million, respectively, and operating revenues totaled \$33,000 and \$69,000, respectively.

Operating expenses increased during the fiscal year ended June 30, 2022. This increase was primarily due to an increase in salaries and benefits, the result of filling open positions in the current year. The increase in depreciation/amortization was offset with the decrease in fixed charges and other operating expenses due to the implementation of GASB Statement No. 87, *Leases*.

NONOPERATING REVENUES AND EXPENSES

For the fiscal year ended June 30, 2022, nonoperating revenues totaled \$112.7 million, of which state aid was \$112.1 million. For the fiscal year ended June 30, 2021, nonoperating revenues totaled \$109.8 million, of which state aid was \$108.1 million.

Nonoperating revenues increased during the fiscal year ended June 30, 2022. The increase consisted primarily of an increase of state aid \$4.0 million as compared to the prior year. The increase in state aid was due to additional state funds appropriated. The increase in nonoperating revenues was offset by a decrease in federal aid and private contributions related to Shape NC Match program, which ended in the prior year, with final closeout in the current year.

Much of the North Carolina Partnership's activities are identified as nonoperating, with state aid being 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. The increase in contract/grant expenses during the fiscal year was driven by the increase in volume and expenses associated with subcontracts related to other contracts with the State.

ECONOMIC FACTORS THAT WILL AFFECT THE FUTURE

The main factors that impact the economic outlook for the North Carolina Partnership are private contributions and state aid. The North Carolina Partnership actively seeks private gifts to supplement the state aid received to support the mission of the Smart Start initiative.



FINANCIAL STATEMENTS

The North Carolina Partnership for Children, Inc.
Statement of Net Position
June 30, 2022

Exhibit A

ASSETS

Current Assets:

Cash and Cash Equivalents	\$ 1,362,279
Restricted Cash and Cash Equivalents	4,968,875
Accounts Receivable (Note 4)	9,140,297
Prepaid Expenses	174,913

Total Current Assets	15,646,364
----------------------	------------

Noncurrent Assets:

Restricted Cash and Cash Equivalents	24,000
Capital Assets - Depreciable, Net (Note 5)	995,319

Total Noncurrent Assets	1,019,319
-------------------------	-----------

Total Assets	16,665,683
--------------	------------

DEFERRED OUTFLOWS OF RESOURCES

0

LIABILITIES

Current Liabilities:

Accounts Payable	410,391
Accrued Payroll	59,217
Due to State	10,080,463
Unearned Revenue	3,388,414
Long-Term Liabilities - Current Portion (Note 6)	394,583

Total Current Liabilities	14,333,068
---------------------------	------------

Noncurrent Liabilities:

Long-Term Liabilities (Note 6)	805,277
--------------------------------	---------

Total Liabilities	15,138,345
-------------------	------------

DEFERRED INFLOWS OF RESOURCES

0

NET POSITION

Net Investment in Capital Assets	(19,423)
----------------------------------	----------

Restricted:

Nonexpendable:

Annual Recognition Award	24,000
--------------------------	--------

Expendable:

Specific Child Care Related Activities	27,536
--	--------

Unrestricted	1,495,225
--------------	-----------

Total Net Position	\$ 1,527,338
--------------------	--------------

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, 2022***

Exhibit B

OPERATING REVENUES

Event Registrations	\$ 32,925
---------------------	-----------

OPERATING EXPENSES

Salaries and Benefits	3,875,560
Supplies and Services	1,148,651
Other Operating Expenses	112,790
Fixed Charges and Other Expenses	251,981
Purchase of Noncapitalized Equipment	39,525
Depreciation/Amortization	363,922
	<hr/>
Total Operating Expenses	5,792,429
	<hr/>
Operating Loss	(5,759,504)

NONOPERATING REVENUES (EXPENSES)

State Aid	112,055,713
Investment Income	2,202
Private Contributions	683,061
Interest and Fees on Leases	(35,208)
Contract and Grant Expenses	(107,042,468)
	<hr/>
Net Nonoperating Revenues	5,663,300
	<hr/>
Decrease in Net Position	(96,204)

NET POSITION

Net Position - July 1, 2021	1,623,542
	<hr/>
Net Position - June 30, 2022	\$ 1,527,338
	<hr/> <hr/>

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, 2022

Exhibit C

CASH FLOWS FROM OPERATING ACTIVITIES

Event Receipts	\$ 32,925
Payments to Employees and Fringe Benefits	(3,848,927)
Payments to Vendors and Suppliers	<u>(1,339,093)</u>
Net Cash Used by Operating Activities	<u>(5,155,095)</u>

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

State Aid	115,672,843
Grants to Local Partnerships and Other Organizations	(110,601,109)
Private Contributions	<u>1,753,982</u>
Net Cash Provided by Noncapital Financing Activities	<u>6,825,716</u>

CASH FLOWS FROM CAPITAL FINANCING AND RELATED FINANCING ACTIVITIES

Principal Paid on Leases	(333,984)
Interest and Fees Paid on Leases	<u>(35,208)</u>
Total Cash Used by Capital Financing and Related Financing Activities	<u>(369,192)</u>

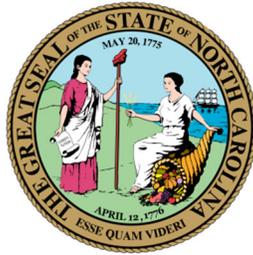
CASH FLOWS FROM INVESTING ACTIVITIES

Investment Income	<u>2,202</u>
Cash Provided by Investing Activities	<u>2,202</u>
Net Increase in Cash and Cash Equivalents	1,303,631
Cash and Cash Equivalents - July 1, 2021	<u>5,051,523</u>
Cash and Cash Equivalents - June 30, 2022	<u><u>\$ 6,355,154</u></u>

RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES

Operating Loss	\$ (5,759,504)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation/Amortization Expense	363,922
Changes in Assets:	
Accounts Receivable	(5,115)
Prepaid Expenses	(72,784)
Changes in Liabilities:	
Accounts Payable	291,753
Accrued Payroll	16,270
Compensated Absences	<u>10,363</u>
Net Cash Used by Operating Activities	<u><u>\$ (5,155,095)</u></u>

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



NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

A. Organization & 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 *Annual Comprehensive Financial Report*.

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 22 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 Annual Comprehensive Financial Report.

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). GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, as amended by GASB Statement No. 84, *Fiduciary Activities*, 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 undeposited receipts, petty cash, 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 and amounts due from the State in connection with reimbursement of allowable expenditures made pursuant to contracts and grants. Receivables are shown at book value and 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 stated 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 value of assets constructed includes all material direct and indirect construction costs. Right-to-use leased assets are recorded at the present value of payments expected to be made during the lease term.

The North Carolina Partnership capitalizes assets that have a value or cost of \$5,000 or greater at the date of acquisition and an estimated useful life of more than one year. Lease payables are capitalized as a right-to-use asset when the leased asset has a cost of \$5,000 or greater and an estimated 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.

Amortization for right-to-use leased assets is computed using the straight-line method over the shorter of the lease term or the asset's estimated useful life, unless the lease contains

a purchase option the North Carolina Partnership is reasonably certain will be exercised. In those instances, the right-to-use leased asset is amortized over the asset's estimated useful life.

- 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, statute, or endowment. The endowment fund of \$24,000 is included in the amount of deposits by private financial institutions.
- J. **Due to 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 and leases payable 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) 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 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:

Net Investment in Capital Assets - This represents the North Carolina Partnership's total investment in capital assets, net of outstanding liabilities related to those 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 for which the North Carolina Partnership is legally or contractually obligated to spend 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 retirement 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 and producing and delivering goods in connection with 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.

NOTE 2 - DEPOSITS AND INVESTMENTS

The North Carolina Partnership is required by North Carolina General Statute 147-77 to deposit moneys received 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.

At June 30, 2022, the amount shown on the Statement of Net Position as cash and cash equivalents includes \$275, 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 0.9 years as of June 30, 2022. 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.

Cash on hand at June 30, 2022 was \$620. The carrying amount of the North Carolina Partnership's deposits not with the State Treasurer was \$6,354,259 and the bank balance was \$6,391,624. 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. As of June 30, 2022, the North Carolina Partnership's uninsured and uncollateralized bank balance was \$6,141,624.

NOTE 3 - FAIR VALUE MEASUREMENTS

To the extent available, the North Carolina Partnership's investments are recorded at fair value as of June 30, 2022. 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 for an asset and may require a degree of professional judgment. |

Short-Term Investment Fund - At year-end, cash and cash equivalents held in the STIF were valued at \$275. Ownership interests of the STIF are 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 Statement No. 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

Accounts receivable at June 30, 2022, were as follows:

	<u>Amount</u>
Accounts Receivable:	
Due from Local Partnerships	\$ 8,533,036
Due from State	601,029
Sales Tax and Other Receivables	<u>6,232</u>
Total Accounts Receivable	<u>\$ 9,140,297</u>

The North Carolina Partnership expects to collect these receivables.

NOTE 5 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2022, is presented as follows:

	<u>Balance July 1, 2021 (as Restated)</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2022</u>
Capital Assets, Depreciable:				
Machinery and Equipment	\$ 517,490	\$ 0	\$ 0	\$ 517,490
Right-to-Use Leased Buildings	1,348,726			1,348,726
Total Capital Assets, Depreciable	<u>1,866,216</u>			<u>1,866,216</u>
Less Accumulated Depreciation/Amortization for:				
Machinery and Equipment	506,975	4,263		511,238
Right-to-Use Leased Buildings		359,659		359,659
Total Accumulated Depreciation/Amortization	<u>506,975</u>	<u>363,922</u>		<u>870,897</u>
Total Capital Assets, Depreciable, Net	<u>\$ 1,359,241</u>	<u>\$ (363,922)</u>	<u>\$ 0</u>	<u>\$ 995,319</u>

At year-end, the total amount of leased assets was \$1,348,726 and the related accumulated amortization was \$359,659.

NOTE 6 - LONG-TERM LIABILITIES

A summary of changes in the long-term liabilities for the year ended June 30, 2022, is presented as follows:

	Balance July 1, 2021 (as Restated)	Additions	Reductions	Balance June 30, 2022	Current Portion
Leases Payable	\$ 1,348,726	\$ 0	\$ 333,984	\$ 1,014,742	\$ 350,607
Compensated Absences	174,755	362,532	352,169	185,118	43,976
Total Long-Term Liabilities	\$ 1,523,481	\$ 362,532	\$ 686,153	\$ 1,199,860	\$ 394,583

Additional information regarding leases payable is included in Note 7.

NOTE 7 - LEASES

The North Carolina Partnership's leasing arrangements at June 30, 2022 are summarized below (excluding short-term leases):

Classification:	Number of Lease Contracts	Lease Liability June 30, 2022	Current Portion	Lease Terms	Interest Rate
Lessee:					
Right-to-Use Building	1	\$ 1,014,742	\$ 350,607	33 Months	3.25%

During the year the North Carolina Partnership did not recognize any variable payment amounts.

Future principal and interest lease payments as of June 30, 2022 were as follows:

Fiscal Year	Principal	Interest	Total
2023	\$ 350,607	\$ 27,816	\$ 378,423
2024	371,775	16,108	387,883
2025	292,360	3,973	296,333
Total	\$ 1,014,742	\$ 47,897	\$ 1,062,639

On December 13, 2022 and January 31, 2023, the North Carolina Partnership signed amendments to the existing office space lease to extend the lease through April 30, 2030. The amendments to the existing office lease will reduce the square footage and related rent payments for the North Carolina Partnership. These changes in lease term, reduced square footage, and related lease payments are effective July 1, 2023. The lease terms included in the amendments to the existing office lease were not known as of June 30, 2022.

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. Supplementary 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

Child Care Health Initiative - Resources provided to ensure children grow and learn in safe and healthy environments. Specifically, funds are used to expand access to health and safety consultation, training, and technical support of licensed child care programs as aligned with the 2020 Child Care Health Consultation Expansion plan.

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 early literacy programs. 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.

Family Engagement and Support - State funded program for planning a family engagement framework with local and state level input. The objective is to leverage the North Carolina Partnership's extensive network and expand infrastructure to deliver and foster family engagement activities and technical assistance in local communities.

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.

Leadership Development - Privately funded program to identify strategies and sustain leadership capacity, within the Smart Start network, in a way that aligns the needs of community members and community organizations and spark collective community action for child well-being.

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.

Resiliency - An initiative to implement state-level strategies that support local efforts to address adverse childhood experiences (ACEs). Funds cover services to build community capacity to implement prevention strategy to mitigate the impacts of trauma, including ACEs. Efforts are focused on building resilient communities and addressing adverse community environments for prevention of child abuse, neglect as well as opiate misuse and overdose prevention. Services provide evidence of best practices that address ACEs, including child maltreatment and opiate misuse.

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 ages 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.

Fiscal Consulting and Contracting - 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.

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.

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 - RETIREMENT 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 Plan 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, 2022, the North Carolina Partnership's Plan contributions were \$195,120. 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 participation in state-administered insurance programs, 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 Plans

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 - 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.

NOTE 12 - COMMITMENTS

The North Carolina Partnership has outstanding commitments on cost reimbursement contracts totaling \$4,967,249 as of June 30, 2022.

NOTE 13 - CHANGES IN FINANCIAL ACCOUNTING AND REPORTING

For the fiscal year ended June 30, 2022, the North Carolina Partnership implemented the following pronouncements issued by the Governmental Accounting Standards Board (GASB):

GASB Statement No. 87, Leases

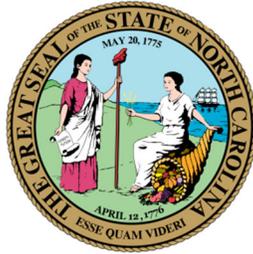
GASB Statement No. 99, Omnibus 2022

GASB Statement No. 87 increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundation principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities.

GASB Statement No. 99 enhances comparability in accounting and financial reporting and improves consistency of authoritative literature by addressing (1) practice issues that have been identified during implementation and application of certain GASB Statements and (2) accounting and financial reporting for financial guarantees.

NOTE 14 - RESTATEMENT

As of July 1, 2021, the North Carolina Partnership implemented GASB Statement No. 87, *Leases*. Net position was not restated due to the implementation; however, assets and liabilities were restated as a result of the implementation. See Note 5 and Note 6 for details on the restated balances related to capital assets and lease liabilities, respectively.

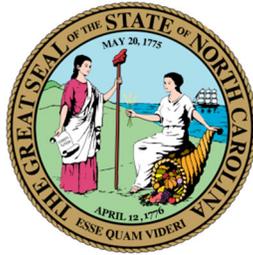


SUPPLEMENTARY INFORMATION

The North Carolina Partnership for Children, Inc.
Schedule of Functional Expenses
For the Fiscal Year Ended June 30, 2022

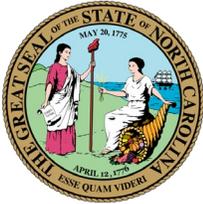
Schedule 1

	Salaries and Benefits	Supplies and Services	Other Operating Expenses	Fixed Charges and Other Expenses	Noncapitalized Equipment	Depreciation / Amortization	Interest & Fees on Leases	Contract and Grant Expenses	Total
Program:									
Child Care Health Initiative	\$ 24,199	\$ 5,460	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 1,003,357	\$ 1,033,016
Communications	208,052	24,000	46	8,824					240,922
Comprehensive Training Events	34,541	5,900	5,448	3,342					49,231
Early Literacy	67,953	27,893		1,073				8,226,048	8,322,967
EC Systems and Research/Evaluation	749,383	6,523	5,345	586					761,837
Family Engagement & Support	205,269	327,925	6,787	1,428	1,564			1,811,398	2,354,371
Local Partnership Administration								11,788,843	11,788,843
Local Partnership Services								82,805,912	82,805,912
Leadership Development			5,805						5,805
Monitoring	251,296		9,389						260,685
Other Private Awards	205,728	56,452	4,216	18,625				3,745	288,766
Regional Accounting (MAC)	38,571	105	28,964	51,852				1,274,682	1,394,174
Resiliency	86,104	20,000	1,894	190					108,188
Shape NC Phase III	7,142	73,743	43					126,286	207,214
Total Program	1,878,238	548,001	67,937	85,920	1,564	0	0	107,040,271	109,621,931
Support:									
Administration	521,159	116,063	21,167	32,202		363,922	35,208	2,197	1,091,918
Fiscal	625,209	417,962	3,674	1,514					1,048,359
Fiscal Consulting and Contracting	398,086	17,505	344	553					416,488
Fund Development				321					321
Human Resources	101,099	11,483	1,901	3,129					117,612
Technology	351,769	37,637	17,767	128,342	37,961				573,476
Total Support	1,997,322	600,650	44,853	166,061	37,961	363,922	35,208	2,197	3,248,174
Total Expenses	\$ 3,875,560	\$ 1,148,651	\$ 112,790	\$ 251,981	\$ 39,525	\$ 363,922	\$ 35,208	\$ 107,042,468	\$ 112,870,105



INDEPENDENT AUDITOR'S REPORT

STATE OF NORTH CAROLINA
Office of the State Auditor



Beth A. Wood, CPA
State Auditor

2 S. Salisbury Street
20601 Mail Service Center
Raleigh, NC 27699
Telephone: (919) 807-7500
Fax: (919) 807-7647
www.auditor.nc.gov

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

Board of Directors
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, 2022, 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 29, 2023.

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) as a basis for designing 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.

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. 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 financial statements. 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 29, 2023

ORDERING INFORMATION

COPIES OF THIS REPORT MAY BE OBTAINED BY CONTACTING:

Office of the State Auditor
State of North Carolina
2 South Salisbury Street
20601 Mail Service Center
Raleigh, North Carolina 27699

Telephone: 919-807-7500
Facsimile: 919-807-7647
Internet: www.auditor.nc.gov



To report alleged incidents of fraud, waste or abuse in state government contact the
Office of the State Auditor Fraud Hotline:

Telephone: 1-800-730-8477

Internet: www.auditor.nc.gov/about-us/state-auditors-hotline

For additional information contact the
North Carolina Office of the State Auditor at:

919-807-7666



This audit required 400 hours at an approximate cost of \$48,000.