

The North Carolina Partnership for Children, Inc.

Raleigh, North Carolina

Financial Statement Audit Report

For the Year Ended June 30, 2024

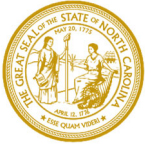
A Component Unit of the State of North Carolina

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A Department of the
State of North Carolina





North Carolina Office of the State Auditor

Dave Boliek, State Auditor

Auditor's Transmittal

The Honorable Josh Stein, Governor
Honorable Members of the North Carolina General Assembly
Board of Directors, The North Carolina Partnership for Children, Inc.

Like in many other states, families in North Carolina are experiencing difficulties finding and paying for adequate childcare. The North Carolina Partnership for Children was created to alleviate some of that hardship, and proper financial management is key to sustainability of the nonprofit.

Through financial audits of North Carolina entities and organizations, the North Carolina Office of the State Auditor assesses whether the records prepared by these entities and organizations are materially correct. Our audit of The North Carolina Partnership for Children, Inc.'s financial records show no material errors for the year ended June 30, 2024. The audited statements make for a clean opinion and can be relied upon by management.

I'd like to thank the North Carolina Partnership for Children staff for working and cooperating with our office during this financial statement audit.

Respectfully submitted,

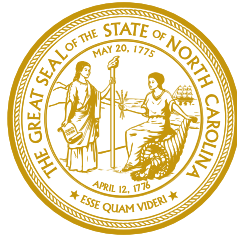
A handwritten signature in black ink, appearing to read "Dave Boliek".

Dave Boliek
State Auditor

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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



North Carolina Office of the State Auditor

Dave Boliek, State Auditor

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, 2024, 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, 2024, 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

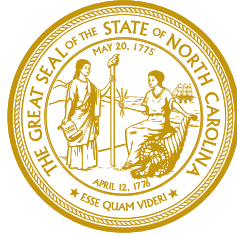
In accordance with *Government Auditing Standards*, we have also issued our report dated February 24, 2025, on our consideration of the North Carolina Partnership's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and 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.



Dave Boliek
State Auditor

Raleigh, North Carolina

February 24, 2025



Management's Discussion and Analysis

Introduction

The following discussion and analysis provide 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 for 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 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 related 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 for 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 for 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 explanations 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. Smart Start is a network of 75 independent nonprofit local partnerships serving all 100 North Carolina counties. The North Carolina Partnership for Children ensures fiscal and programmatic accountability and comprehensive, long-range strategic planning for the statewide Network to create better outcomes for children and families.

Smart Start works across the state to increase access to quality early care and education, collaborate with families to reach their goals, improve child health and development, and support early literacy for children birth-to-five. The Network also works statewide to provide vital workforce support as well as critical system-level supports. It administers other state, federal, local, and private programs and services. The North Carolina Partnership has received grants from other private organizations for building its capacity in effective oversight and technical assistance, while also assisting local partnerships in North Carolina to develop, implement, and integrate 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, 2024 and June 30, 2023, was approximately \$3.0 million and \$2.0 million, respectively, an increase of approximately \$1.0 million 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, 2024 and 2023.

Condensed Statement of Net Position June 30, 2024 and 2023				
	2024	2023	Amount Change	Percent Change
Assets				
Current Assets	\$ 11,818,131	\$ 17,613,051	\$ (5,794,920)	(32.9)%
Noncurrent Assets:				
Other	24,000	24,000		
Capital Assets, Net	1,593,594	1,434,068	159,526	11.1%
Total Assets	<u>13,435,725</u>	<u>19,071,119</u>	<u>(5,635,394)</u>	<u>(29.5)%</u>
Deferred Outflows of Resources	<u>0</u>	<u>0</u>	<u>0</u>	
Liabilities				
Current Liabilities:				
Long-Term Liabilities, Current Portion	315,562	275,817	39,745	14.4%
Other	9,177,673	15,537,637	(6,359,964)	(40.9)%
Long-Term Liabilities	<u>956,981</u>	<u>1,301,653</u>	<u>(344,672)</u>	<u>(26.5)%</u>
Total Liabilities	<u>10,450,216</u>	<u>17,115,107</u>	<u>(6,664,891)</u>	<u>(38.9)%</u>
Deferred Inflows of Resources	<u>0</u>	<u>0</u>	<u>0</u>	
Net Position				
Net Investment in Capital Assets	499,887	92,757	407,130	438.9%
Restricted:				
Nonexpendable	24,000	24,000		
Expendable	15,077	21,425	(6,348)	(29.6)%
Unrestricted	<u>2,446,545</u>	<u>1,817,830</u>	<u>628,715</u>	<u>34.6%</u>
Total Net Position	<u>\$ 2,985,509</u>	<u>\$ 1,956,012</u>	<u>\$ 1,029,497</u>	<u>52.6%</u>

Assets

Current assets as of June 30, 2024, consisted of \$6.4 million cash and cash equivalents, \$5.3 million receivables, and \$151,000 prepaid expenses. Current assets as of June 30, 2023, consisted of \$7.1 million cash and cash equivalents, \$10.3 million receivables, and \$224,000 prepaid expenses.

Current assets decreased by \$5.8 million during the fiscal year ended June 30, 2024. The change primarily consisted of a \$3.3 million decrease in Due from Local Partnerships and \$1.6 million decrease in Due from State. The decrease in Due from Local Partnerships was due to a change in NCPD policy to cap the amount local partnerships could carry forward and allow them to revert funds prior to year end. This incentivized the local partnerships to either spend the money more efficiently or return unneeded funds, resulting in less required reversions at year end. The decrease in Due from State was due to timely receipt of funds requested from DHHS, with no requests outstanding at year end.

Restricted cash and cash equivalents decreased by \$2.5 million during the current year. This was primarily due to the change in NCPD policy discussed above.

Noncurrent assets increased by \$160,000 due primarily to development of a new contract data and management system to improve, simplify, and create greater consistency in contracting and data management processes for all aspects of the Smart Start Program.

Liabilities

Current liabilities as of June 30, 2024, consisted primarily of \$6.6 million due to state and \$2.5 million unearned revenue. Current liabilities as of June 30, 2023, consisted primarily of \$12.3 million due to state and \$2.5 million unearned revenue. Current liabilities decreased by \$6.3 million during the fiscal year ended June 30, 2024. The decrease consisted primarily of a decrease in amounts due to the state. The decrease resulted from receiving less reversion funds from the network of Smart Start organizations as mentioned above.

Net Position

As of June 30, 2024, net investment in capital assets was \$500,000. 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 \$15,077 represents amounts subject to externally imposed restrictions. Unrestricted net position of \$2.4 million represents amounts not subject to externally imposed restrictions but internally designated for operative reserve and various activities and initiatives.

For the year ended June 30, 2024, there was an increase in net position of \$1.0 million. This was primarily attributable to the increase in net nonoperating revenue, coupled with a decrease 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, 2024 and 2023.

Condensed Statement of Revenues, Expenses, and Changes in Net Position For the Fiscal Years Ended June 30, 2024 and 2023

	2024	2023	Amount Change	Percent Change
Operating Revenues	\$ 223,238	\$ 208,581	\$ 14,657	7.0%
Operating Expenses:				
Salaries and Benefits	4,690,346	4,720,678	(30,332)	(0.6)%
Supplies and Services	1,335,018	1,873,246	(538,228)	(28.7)%
Other Operating Expenses	317,592	303,222	14,370	4.7%
Fixed Charges and Other Expenses	425,426	412,094	13,332	3.2%
Purchase of Noncapitalized Equipment	9,115	39,947	(30,832)	(77.2)%
Depreciation/Amortization	258,553	329,621	(71,068)	(21.6)%
Total Operating Expenses	7,036,050	7,678,808	(642,758)	(8.4)%
Operating Loss	(6,812,812)	(7,470,227)	(657,415)	(8.8)%
Nonoperating Revenues:				
State Aid	122,524,819	120,585,947	1,938,872	1.6%
Investment Income	13,171	9,584	3,587	37.4%
Private Contributions	1,185,668	896,711	288,957	32.2%
Other Nonoperating Revenues		32,794	(32,794)	(100.0)%
Total Nonoperating Revenues	123,723,658	121,525,036	2,198,622	1.8%
Nonoperating Expenses:				
Interest and Fees on Leases/Subscriptions	93,289	56,423	36,866	65.3%
Contract and Grant Expenses	115,788,060	113,569,712	2,218,348	2.0%
Total Nonoperating Expenses	115,881,349	113,626,135	2,255,214	2.0%
Increase in Net Position	1,029,497	428,674	600,823	140.2%
Net Position Beginning of Year	1,956,012	1,527,338	428,674	28.1%
Net Position End of Year	\$ 2,985,509	\$ 1,956,012	\$ 1,029,497	52.6%
Total Revenues	\$ 123,946,896	\$ 121,733,617	\$ 2,213,279	1.8%
Total Expenses	\$ 122,917,399	\$ 121,304,943	\$ 1,612,456	1.3%

Operating Revenues and Expenses

For the fiscal years ended June 30, 2024 and 2023, operating expenses totaled \$7.0 million and \$7.7 million, respectively, and operating revenues totaled \$223,000 and \$209,000, respectively.

Operating expenses decreased during the fiscal year ended June 30, 2024. This decrease was primarily due to a decrease in contracted services and depreciation/amortization.

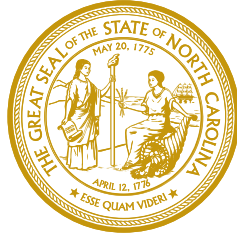
Nonoperating Revenues and Expenses

For the fiscal year ended June 30, 2024, nonoperating revenues totaled \$123.7 million, of which state aid was \$122.5 million. For the fiscal year ended June 30, 2023, nonoperating revenues totaled \$121.5 million, of which state aid was \$120.6 million.

Nonoperating revenues increased during the fiscal year ended June 30, 2024. The increase consisted primarily of a \$1.9 million increase of state aid as compared to the prior year. The increase in state aid was due to reversion of state funds from fiscal year ended June 30, 2023. 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 of \$2.2 million 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, 2024

Exhibit A

ASSETS

Current Assets:

Cash and Cash Equivalents	\$ 2,578,548
Restricted Cash and Cash Equivalents	3,806,991
Accounts Receivable (Note 3)	5,281,711
Prepaid Expenses	150,881

Total Current Assets	11,818,131
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Noncurrent Assets:

Restricted Cash and Cash Equivalents	24,000
Capital Assets - Nondepreciable (Note 4)	396,750
Capital Assets - Depreciable, Net (Note 4)	1,196,844

Total Noncurrent Assets	1,617,594
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Total Assets	13,435,725
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DEFERRED OUTFLOWS OF RESOURCES

0

LIABILITIES

Current Liabilities:

Accounts Payable	45,887
Accrued Payroll	83,976
Due to State	6,577,304
Unearned Revenue	2,470,506
Long-Term Liabilities - Current Portion (Note 5)	315,562

Total Current Liabilities	9,493,235
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Noncurrent Liabilities:

Long-Term Liabilities (Note 5)	956,981
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Total Liabilities	10,450,216
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DEFERRED INFLOWS OF RESOURCES

0

NET POSITION

Net Investment in Capital Assets	499,887
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Restricted:

Nonexpendable:	
Annual Recognition Award	24,000
Expendable:	
Specific Child Care Related Activities	15,077

Unrestricted	2,446,545
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Total Net Position	\$ 2,985,509
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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 Revenues, Expenses, and
Changes in Net Position
For the Fiscal Year Ended June 30, 2024

Exhibit B

OPERATING REVENUES

Event Registrations	\$ 223,238
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OPERATING EXPENSES

Salaries and Benefits	4,690,346
Supplies and Services	1,335,018
Other Operating Expenses	317,592
Fixed Charges and Other Expenses	425,426
Purchase of Noncapitalized Equipment	9,115
Depreciation/Amortization	258,553

Total Operating Expenses	7,036,050
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Operating Loss	(6,812,812)
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NONOPERATING REVENUES (EXPENSES)

State Aid	122,524,819
Investment Income	13,171
Private Contributions	1,185,668
Interest and Fees on Leases/Subscriptions	(93,289)
Contract and Grant Expenses	(115,788,060)

Net Nonoperating Revenues	7,842,309
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Increase in Net Position	1,029,497
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NET POSITION

Net Position - July 1, 2023	1,956,012
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Net Position - June 30, 2024	\$ 2,985,509
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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, 2024

Exhibit C

CASH FLOWS FROM OPERATING ACTIVITIES

Receipts from Customers	\$ 223,238
Payments to Employees and Fringe Benefits	(4,754,045)
Payments to Vendors and Suppliers	<u>(2,545,121)</u>
Net Cash Used by Operating Activities	<u>(7,075,928)</u>

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

State Aid	118,892,884
Grants to Local Partnerships and Other Organizations	(112,396,926)
Private Contributions	<u>623,834</u>
Net Cash Provided by Noncapital Financing Activities	<u>7,119,792</u>

CASH FLOWS FROM CAPITAL FINANCING AND RELATED FINANCING ACTIVITIES

Acquisition of Capital Assets	(418,079)
Principal Paid on Lease/Subscription Liabilities	(247,604)
Interest and Fees Paid on Lease/Subscription Liabilities	<u>(93,289)</u>
Total Cash Used by Capital Financing and Related Financing Activities	<u>(758,972)</u>

CASH FLOWS FROM INVESTING ACTIVITIES

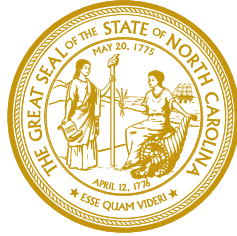
Investment Income	<u>13,171</u>
Total Cash Provided by Investing Activities	<u>13,171</u>

Net Decrease in Cash and Cash Equivalents	(701,937)
Cash and Cash Equivalents - July 1, 2023	<u>7,111,476</u>
Cash and Cash Equivalents - June 30, 2024	<u>\$ 6,409,539</u>

RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES

Operating Loss	\$ (6,812,812)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation/Amortization Expense	258,553
Changes in Assets:	
Accounts Receivable	50,541
Prepaid Expenses	72,883
Changes in Liabilities:	
Accounts Payable	(581,393)
Accrued Payroll	(6,377)
Compensated Absences	<u>(57,323)</u>
Net Cash Used by Operating Activities	<u>\$ (7,075,928)</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, and cash on deposit with private bank accounts.

- 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.

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. In addition, grouped acquisitions of machinery and equipment that have an estimated useful life of more than one year but are individually below the \$5,000 threshold are capitalized.

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

Right-to-use leased and subscription assets are recorded at the present value of payments expected to be made during the lease or subscription term, plus any upfront payments and ancillary charges paid to place the underlying right-to-use asset into service. Lease and subscription liabilities are capitalized as right-to-use assets when the underlying leased or subscription asset has a cost of \$5,000 or greater and an estimated useful life of more than one year.

Amortization for right-to-use leased and subscription assets is computed using the straight-line method over the shorter of the lease/subscription term or the underlying asset's estimated useful life. If a lease agreement contains a purchase option the North

Carolina Partnership is reasonably certain will be exercised, the right-to-use lease 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 include lease liabilities, subscription liabilities and 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) 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.

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.

Cash on hand at June 30, 2024 was \$100. The carrying amount of the North Carolina Partnership's deposits not with the State Treasurer was \$6,409,439 and the bank balance was \$6,512,372. 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, 2023, the North Carolina Partnership's uninsured and uncollateralized bank balance was \$6,262,372.

Note 3 - Receivables

Accounts receivable at June 30, 2024, were as follows:

	<u>Amount</u>
Accounts Receivable:	
Due from Local Partnerships	\$ 5,269,249
Sales Tax and Other Receivables	<u>12,462</u>
Total Accounts Receivable	<u>\$ 5,281,711</u>

The North Carolina Partnership expects to collect these receivables.

Note 4 - Capital Assets

A summary of changes in the capital assets for the year ended June 30, 2024, is presented as follows:

	<u>Balance July 1, 2023</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2024</u>
Capital Assets, Nondepreciable:				
Computer Software in Development	\$ 0	\$ 396,750	\$ 0	\$ 396,750
Total Capital Assets, Nondepreciable	<u>0</u>	<u>396,750</u>	<u>0</u>	<u>396,750</u>
Capital Assets, Depreciable:				
Machinery and Equipment	563,138	7,800		570,938
Right-to-Use Leased Buildings	1,392,925			1,392,925
Right-to-Use Subscription Assets	139,033	13,529		152,562
Total Capital Assets, Depreciable	<u>2,095,096</u>	<u>21,329</u>	<u>0</u>	<u>2,116,425</u>
Less Accumulated Depreciation/Amortization for:				
Machinery and Equipment	518,621	11,061		529,682
Right-to-Use Leased Buildings	96,063	192,128		288,191
Right-to-Use Subscription Assets	46,344	55,364		101,708
Total Accumulated Depreciation/Amortization	<u>661,028</u>	<u>258,553</u>	<u>0</u>	<u>919,581</u>
Total Capital Assets, Depreciable, Net	<u>1,434,068</u>	<u>(237,224)</u>	<u>0</u>	<u>1,196,844</u>
Capital Assets, Net	<u>\$ 1,434,068</u>	<u>\$ 159,526</u>	<u>\$ 0</u>	<u>\$ 1,593,594</u>

Note 5 - Long-Term Liabilities

A summary of changes in the long-term liabilities for the year ended June 30, 2024, is presented as follows:

	Balance July 1, 2023	Additions	Reductions	Balance June 30, 2024	Current Portion
Lease Liabilities	\$ 1,251,116	\$ 0	\$ 210,842	\$ 1,040,274	\$ 206,830
Subscription (SBITA) Liabilities	90,195	13,530	50,291	53,434	53,434
Compensated Absences	236,159	178,835	236,159	178,835	55,298
Total Long-Term Liabilities	\$ 1,577,470	\$ 192,365	\$ 497,292	\$ 1,272,543	\$ 315,562

Additional information regarding lease and subscription (SBITA) liabilities is included in Note 6.

Note 6 - Leases and Subscription-Based Information Technology Arrangements

A. Lessee Arrangements – The North Carolina Partnership has a lease agreement for the right to use office space from an external party. The lease expires April 30, 2030, and has a renewal option. The lease liability and right-to-use leased asset are recorded at the present value of payments expected to be made during the lease term, plus any upfront payments and ancillary charges paid to place the underlying right-to-use asset into service. The expected payments are discounted using the interest rate stated per the lease contracts. The lease arrangement at June 30, 2024, is summarized below (excluding short-term leases):

Classification:	Number of Lease Contracts	Lease Liabilities June 30, 2024	Current Portion	Lease Terms	Interest Rate
Lessee: Right-to-Use Leased Building	1	\$ 1,040,274	\$ 206,830	87 Months	7.25%

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

B. Subscription-Based Information Technology Arrangements (SBITAs) – The North Carolina Partnership enters SBITAs for the right to use information technology software and cloud computing arrangement network assets from external parties. The current SBITA expires October 30, 2025, and has a renewal option. The subscription liability and the related right-to-use subscription assets are recorded based on the present value of expected payments over the term of the SBITA. The expected payments are discounted using the interest rate stated per the SBITA contract. The North Carolina Partnership’s SBITA at June 30, 2024, is summarized below (excluding short-term SBITAs):

Classification:	Number of SBITAs	Subscription (SBITA) Liabilities June 30, 2024	Current Portion	SBITA Terms	Interest Rate
Lessee: Right-to-Use Subscription Assets	1	\$ 53,434	\$ 53,434	3 years	6.25%

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

C. Annual Requirements – The annual requirements to pay principal and interest on leases and SBITAs at June 30, 2024, are as follows:

Fiscal Year	Annual Requirements			
	Lease Liabilities		Subscription (SBITA) Liabilities	
	Principal	Interest	Principal	Interest
2025	\$ 206,830	\$ 70,282	\$ 53,434	\$ 3,340
2026	142,616	57,707		
2027	158,871	46,460		
2028	176,517	33,947		
2029	195,666	20,060		
2030	159,774	5,034		
Total Requirements	\$ 1,040,274	\$ 233,490	\$ 53,434	\$ 3,340

Note 7 - 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. This plan ended by June 30, 2023.

Child Care Related – Expenses related to Tri-Share pilot program.

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.

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.

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.

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.

Leadership/Development & 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. Also includes 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.

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.

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.

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. Responsible for developing and implementing proper accounting policies and procedures. Also 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 8 - 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, 2024, the North Carolina Partnership's Plan contributions were \$240,028. The North Carolina Partnership assumes no liability other than its contribution.

Note 9 - 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 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

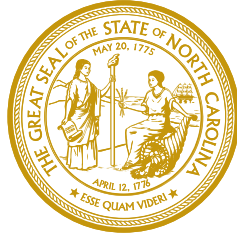
The North Carolina Partnership makes the necessary arrangements to carry out the provisions of the Workers' Compensation Act by purchasing workers' compensation insurance for employees through a private insurance company.

Note 10 - 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 11 - Commitments

The North Carolina Partnership has outstanding commitments on cost reimbursement contracts totaling \$2,140,528 as of June 30, 2024.

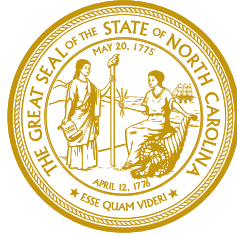


Supplementary Information

The North Carolina Partnership for Children, Inc.
Schedule of Functional Expenses
For the Fiscal Year Ended June 30, 2024

Schedule 1

	<u>Salaries and Benefits</u>	<u>Supplies and Services</u>	<u>Other Operating Expenses</u>	<u>Fixed Charges and Other Expenses</u>	<u>Purchase of Noncapitalized Equipment</u>	<u>Depreciation/ Amortization</u>	<u>Interest & Fees on Leases/ Subscriptions</u>	<u>Contract and Grant Expenses</u>	<u>Total</u>
Program:									
Child Care Health Initiative	\$ (3,595)	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ (3,595)
Child Care Related		947						72,000	72,947
Communications	199,776	49,845	506	9,192					259,319
EC Systems and Research/Evaluation	1,243,713	447	25,128						1,269,288
Early Literacy	28,562		53	1,622			7,970,964		8,001,201
Family Engagement & Support	59,551	349,245	35,741	1,307			1,117,670		1,563,514
Leadership/Development & Training Events	66,317	109,687	105,991	44,896	100				326,991
Local Partnership Administration								14,559,045	14,559,045
Local Partnership Services								90,464,600	90,464,600
Monitoring	364,502		17,559	368	429				382,858
Other Private Awards	233,702	98,608	5,589	42,773	1,877		7,992		390,541
Regional Accounting (MAC)		4,000	31,505	72,186			1,341,613		1,449,304
Resiliency	90,178	27,230	29,053				253,076		399,537
Total Program	<u>2,282,706</u>	<u>640,009</u>	<u>251,125</u>	<u>172,344</u>	<u>2,406</u>	<u>0</u>	<u>0</u>	<u>115,786,960</u>	<u>119,135,550</u>
Support:									
Administration	626,266	21,711	41,418	(27,051)		258,553	93,289	1,100	1,015,286
Fiscal	1,142,281	460,950	5,937	1,793	805				1,611,766
Fund Development	97,231	12,490	499	250					110,470
Human Resources	190,337	8,132	1,352	3,290					203,111
Technology	351,525	191,726	17,261	274,800	5,904				841,216
Total Support	<u>2,407,640</u>	<u>695,009</u>	<u>66,467</u>	<u>253,082</u>	<u>6,709</u>	<u>258,553</u>	<u>93,289</u>	<u>1,100</u>	<u>3,781,849</u>
Total Expenses	<u>\$ 4,690,346</u>	<u>\$ 1,335,018</u>	<u>\$ 317,592</u>	<u>\$ 425,426</u>	<u>\$ 9,115</u>	<u>\$ 258,553</u>	<u>\$ 93,289</u>	<u>\$ 115,788,060</u>	<u>\$ 122,917,399</u>



Independent Auditor's Report



North Carolina Office of the State Auditor

Dave Boliek, State Auditor

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, 2024, 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 February 24, 2025.

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.



Dave Boliek
State Auditor

Raleigh, North Carolina

February 24, 2025

Ordering Information

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Raleigh, North Carolina 27699

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919-807-7666



This audit required 365 hours at an approximate cost of \$56,575.