

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, 2020

A COMPONENT UNIT OF THE STATE OF NORTH CAROLINA



NCOSA
The Taxpayers' Watchdog

STATE OF NORTH CAROLINA
Office of the State Auditor



Beth A. Wood, CPA
State Auditor

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AUDITOR'S TRANSMITTAL

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, 2020, 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.

Handwritten signature of Beth A. Wood.

Beth A. Wood, CPA
State Auditor



Beth A. Wood, CPA
State Auditor

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INDEPENDENT AUDITOR'S REPORT

STATE OF NORTH CAROLINA
Office of the State Auditor



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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of The North Carolina Partnership for Children, Inc. (North Carolina Partnership), a component unit of the State of North Carolina as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the North Carolina Partnership's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the North Carolina Partnership's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the North Carolina Partnership's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the

reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, based on our audit, the financial statements referred to above present fairly, in all material respects, the financial position of The North Carolina Partnership for Children, Inc. as of June 30, 2020, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters – Required Supplementary Information

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

Other Supplementary Information

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 25, 2021 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.

A handwritten signature in black ink that reads "Beth A. Wood". The signature is written in a cursive, flowing style.

Beth A. Wood, CPA
State Auditor

Raleigh, North Carolina

March 25, 2021



MANAGEMENT'S DISCUSSION AND ANALYSIS

INTRODUCTION

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

OVERVIEW OF THE BASIC FINANCIAL STATEMENTS

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

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

The three statements described above, along with the *Notes to Financial Statements*, are the basic financial statements required by the Governmental Accounting Standards Board (GASB). 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, 2020 and June 30, 2019, was approximately \$1.2 million and \$1.5 million, respectively, a decrease of approximately \$250,000 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, 2020 and 2019.

Condensed Statement of Net Position				
June 30, 2020 and 2019				
	2020	2019	Amount Change	Percent Change
Assets				
Current Assets	\$ 11,344,418	\$ 8,041,403	\$ 3,303,015	41.1%
Noncurrent Assets				
Other	24,000	24,000		
Capital Assets, Net	17,730	34,541	(16,811)	(48.7%)
Total Assets	11,386,148	8,099,944	3,286,204	40.6%
Deferred Outflows of Resources	0	0	0	
Liabilities				
Current Liabilities				
Long-Term, Current Portion	33,139	33,805	(666)	(2.0%)
Other	9,992,367	6,493,405	3,498,962	53.9%
Long-Term Liabilities	119,665	85,744	33,921	39.6%
Total Liabilities	10,145,171	6,612,954	3,532,217	53.4%
Deferred Inflows of Resources	0	0	0	
Net Position				
Investment in Capital Assets	17,730	34,541	(16,811)	(48.7%)
Restricted:				
Nonexpendable	24,000	24,000		
Expendable	77,995	55,025	22,970	41.7%
Unrestricted	1,121,252	1,373,424	(252,172)	(18.4%)
Total Net Position	\$ 1,240,977	\$ 1,486,990	\$ (246,013)	(16.5%)

ASSETS

Current assets as of June 30, 2020, consisted of \$7.1 million cash and cash equivalents, \$4.1 million receivables, and \$119,000 prepaid expenses. Current assets as of June 30, 2019, consisted of \$6.3 million cash and cash equivalents, \$1.7 million receivables, and \$84,000 prepaid expenses.

Current assets increased during the fiscal year ended June 30, 2020. The change primarily consisted of an increase in accounts receivable. The increase in accounts receivable was primarily due to an increase in the reversion funds receivable from the network of local Smart Start partnerships. The stay at home order, quarantine and social distancing brought about by the Coronavirus pandemic resulted in many of the local partnerships pausing direct outreach, related travel, trainings, and technical assistance during the last quarter of the fiscal year. Therefore, many of the expenditures for the administration and services provided by the local partnerships were much lower than originally planned and, in turn, reverted to the State. Restricted cash and cash equivalents also increased primarily due to cash received in advance and related to unearned revenues for Dolly Parton's Imagination Literacy Initiative and advanced grant funding from the Blue Cross Blue Shield Foundation of North Carolina, as also discussed in the liabilities section below. Capital assets were \$18,000 as of June 30, 2020 compared to \$35,000 as of June 30, 2019, this decrease represents annual depreciation expense. The composition of capital assets and current year activity is further detailed in Note 4.

LIABILITIES

Current liabilities as of June 30, 2020, consisted primarily of \$4.5 million due to state and \$5.0 million unearned revenue. Current liabilities as of June 30, 2019, consisted primarily of \$1.7 million due to state and \$4.4 million unearned revenue.

Current liabilities increased during the fiscal year ended June 30, 2020. The increase consisted primarily of an increase in due to state and an increase in unearned revenue of approximately \$2.8 million and \$567,000, respectively. The increase in due to state was due to receiving more reversion funds from the network of local Smart Start partnerships resulting from the Coronavirus pandemic as discussed above. The increase in unearned revenue was due to advanced receipt of state funds from Dolly Parton's Imagination Library Early Literacy Initiative and advanced grant funding from the Blue Cross Blue Shield Foundation of North Carolina as discussed above.

As of June 30, 2020, and 2019, noncurrent liabilities consisted entirely of accrued compensated absences.

NET POSITION

As of June 30, 2020, net position invested in capital assets was \$18,000. 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 \$78,000 represents amounts subject to externally imposed restrictions. Unrestricted net position of \$1.1 million represents amounts not subject to externally imposed restrictions, but internally designated for various activities and initiatives.

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the year ended June 30, 2020, the decrease in total net position of \$250,000 is primarily attributable to a decrease in operating revenues coupled with an increase in operating expenses. See the following section below for further details on the operating revenues and 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, 2020 and 2019.

Condensed Statement of Revenues, Expenses, and Changes in Net Position
For the Fiscal Years Ended June 30, 2020 and 2019

	2020	2019	Amount Change	Percent Change
Operating Revenues	\$ 50,516	\$ 205,591	\$ (155,075)	(75.4%)
Operating Expenses				
Salaries and Benefits	3,757,122	3,567,935	189,187	5.3%
Supplies and Services	1,839,582	1,822,159	17,423	1.0%
Other Operating Expenses	295,749	335,173	(39,424)	(11.8%)
Fixed Charges and Other Expenses	578,429	586,903	(8,474)	(1.4%)
Purchase of Noncapitalized Equipment	25,913	28,040	(2,127)	(7.6%)
Depreciation	16,811	28,521	(11,710)	(41.1%)
Total Operating Expenses	6,513,606	6,368,731	144,875	2.3%
Operating Loss	(6,463,090)	(6,163,140)	(299,950)	4.9%
Nonoperating Revenues				
State Aid	102,565,220	102,931,626	(366,406)	(0.4%)
Federal Aid	1,559,064	1,223,037	336,027	27.5%
Investment Income	2,921	1,353	1,568	115.9%
Private Contributions	1,493,734	879,116	614,618	69.9%
Total Nonoperating Revenues	105,620,939	105,035,132	585,807	0.6%
Nonoperating Expenses				
Contract/Grant Expense	99,403,862	98,988,807	415,055	0.4%
Decrease In Net Position	(246,013)	(116,815)	(129,198)	110.6%
Net Position Beginning of Year	1,486,990	1,603,805	(116,815)	(7.3%)
Net Position End of Year	\$ 1,240,977	\$ 1,486,990	\$ (246,013)	(16.5%)
Total Revenues	\$ 105,671,455	\$ 105,240,723	\$ 430,732	0.4%
Total Expenses	\$ 105,917,468	\$ 105,357,538	\$ 559,930	0.5%

OPERATING REVENUES AND EXPENSES

For the fiscal years ended June 30, 2020 and 2019, operating expenses totaled \$6.5 million and \$6.4 million, respectively and operating revenues totaled \$51,000 and \$206,000, respectively.

Operating expenses increased during the fiscal year ended June 30, 2020. The increase is primarily due to an increase in salaries and benefits, the result of filling open positions in the current year. Operating revenues decreased during the fiscal year ended June 30, 2020. The

decrease is primarily as a result of a decrease in event registrations due to the Coronavirus pandemic.

NONOPERATING REVENUES AND EXPENSES

For the fiscal year ended June 30, 2020, nonoperating revenues totaled \$105.6 million, of which state aid was \$102.6 million. For the fiscal year ended June 30, 2019, nonoperating revenues totaled \$105.0 million, of which state aid was \$102.9 million.

Nonoperating revenues increased during fiscal year ended June 30, 2020. The increase consisted primarily of an increase in private contributions of \$1.5 million as compared to \$879,000 in the prior year. The increase is due to funds received from the Shape NC Match grant and new Leadership Development grant in the current year, both from the Blue Cross Blue Shield Foundation of North Carolina.

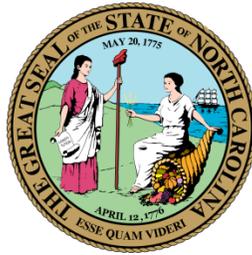
Much of the North Carolina Partnership's activities are identified as nonoperating, with state aid being the primary source of funding. The North Carolina Partnership provides oversight and funding to a network of Smart Start organizations across the State, resulting in significant grant disbursements. State aid revenues and contract/grant expenses decreased during the fiscal year ended June 30, 2020 due to the Coronavirus pandemic as noted above.

ECONOMIC FACTORS THAT WILL AFFECT THE FUTURE

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

The global outbreak of COVID-19, a respiratory disease caused by a new strain of coronavirus, was declared a pandemic by the World Health Organization on March 11, 2020, and a national emergency by the President of the United States on March 13, 2020. There is unprecedented uncertainty surrounding the duration of the pandemic, its potential economic ramifications, and any government actions to mitigate them. The overall effect to local, state, and federal economic conditions remains unclear.

The North Carolina Partnership actively seeks private gifts to supplement the federal and 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, 2020

Exhibit A

ASSETS

Current Assets:	
Cash and Cash Equivalents	\$ 1,600,169
Restricted Cash and Cash Equivalents	5,506,115
Receivables:	
Accounts Receivable (Note 3)	4,001,629
Federal Aid Receivable (Note 3)	117,420
Prepaid Expenses	119,085
	<hr/>
Total Current Assets	11,344,418
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	24,000
Capital Assets - Depreciable, Net (Note 4)	17,730
	<hr/>
Total Noncurrent Assets	41,730
	<hr/>
Total Assets	11,386,148

DEFERRED OUTFLOWS OF RESOURCES

0

LIABILITIES

Current Liabilities:	
Accounts Payable	401,828
Accrued Payroll	167,295
Compensated Absences (Note 5)	33,139
Due to State	4,472,774
Unearned Revenue	4,950,470
	<hr/>
Total Current Liabilities	10,025,506
Noncurrent Liabilities:	
Compensated Absences (Note 5)	119,665
	<hr/>
Total Liabilities	10,145,171

DEFERRED INFLOWS OF RESOURCES

0

NET POSITION

Investment in Capital Assets	17,730
Restricted for:	
Nonexpendable:	
Annual Recognition Award	24,000
Expendable:	
Specific Child Care Related Activities	77,995
Unrestricted	<hr/> 1,121,252
Total Net Position	<hr/> <hr/> \$ 1,240,977

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, 2020**

Exhibit B

OPERATING REVENUES

e-Learning Registrations and Service	\$ 4,607
Event Registrations	45,909
	<hr/>
Total Operating Revenues	50,516

OPERATING EXPENSES

Salaries and Benefits	3,757,122
Supplies and Services	1,839,582
Other Operating Expenses	295,749
Fixed Charges and Other Expenses	578,429
Purchase of Noncapitalized Equipment	25,913
Depreciation	16,811
	<hr/>
Total Operating Expenses	6,513,606
	<hr/>
Operating Loss	(6,463,090)

NONOPERATING REVENUES (EXPENSES)

State Aid	102,565,220
Federal Aid	1,559,064
Investment Income	2,921
Private Contributions	1,493,734
Contract/Grant Expense	(99,403,862)
	<hr/>
Net Nonoperating Revenues	6,217,077
	<hr/>
Decrease in Net Position	(246,013)

NET POSITION

Net Position, July 1, 2019	1,486,990
	<hr/>
Net Position, June 30, 2020	\$ 1,240,977
	<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, 2020

Exhibit C

CASH FLOWS FROM OPERATING ACTIVITIES

e-Learning and Event Receipts	\$ 50,251
Payments to Employees and Fringe Benefits	(3,681,933)
Payments to Vendors and Suppliers	(2,692,414)
	<u>(6,324,096)</u>
Net Cash Used by Operating Activities	<u>(6,324,096)</u>

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

State Aid Received	105,536,898
Grants to Local Partnerships and Other Organizations	(101,942,832)
Federal Aid Received	1,661,931
Private Contributions	1,878,904
	<u>7,134,901</u>
Net Cash Provided by Noncapital Financing Activities	<u>7,134,901</u>

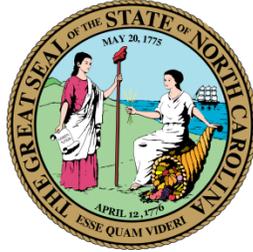
CASH FLOWS FROM INVESTING ACTIVITIES

Investment Income	<u>2,921</u>
Cash Provided by Investing Activities	<u>2,921</u>
Net Increase in Cash and Cash Equivalents	813,726
Cash and Cash Equivalents, July 1, 2019	<u>6,316,558</u>
Cash and Cash Equivalents, June 30, 2020	<u>\$ 7,130,284</u>

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

Operating Loss	\$ (6,463,090)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	16,811
Changes in Assets and Deferred Outflows of Resources:	
Accounts Receivable	(18,238)
Prepaid Expenses	(34,947)
Changes in Liabilities and Deferred Inflows of Resources:	
Accounts Payable	100,444
Accrued Payroll	41,934
Compensated Absences	33,255
Unearned Revenue	(265)
	<u>(6,324,096)</u>
Net Cash Used by Operating Activities	<u>\$ (6,324,096)</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 and Purpose** - The North Carolina Partnership for Children, Inc. (North Carolina Partnership) is a legally separate nonprofit organization incorporated on March 31, 1993. The North Carolina Partnership provides technical assistance and training for local Smart Start partnerships (currently 75) in the areas of program development, administration, organizational development, communication, financial management, technology, contracts management, and fundraising. The North Carolina Partnership adheres to a comprehensive accountability plan to ensure programs, services, and funds reach the children and families of North Carolina. The North Carolina Partnership is tax-exempt as an organization described in Section 501(c)(3) of the Internal Revenue Code.
- B. Financial Reporting Entity** - The concept underlying the definition of the financial reporting entity is that elected officials are accountable to their constituents for their actions. As required by accounting principles generally accepted in the United States of America (GAAP), the financial reporting entity includes both the primary government and all of its component units. An organization other than a primary government serves as a nucleus for a reporting entity when it issues separate financial statements. The North Carolina Partnership is a component unit of the State of North Carolina and an integral part of the State's *Comprehensive Annual Financial Report*.

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 *Comprehensive Annual 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).

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

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

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

- E. Cash and Cash Equivalents** - This classification includes cash on hand and cash on deposit with private bank accounts.
- F. Receivables** - Receivables consist of unexpended grant amounts due from local partnerships, amounts due from the State, and amounts due from the federal awarding agency. Receivables are shown at book value with no provision for doubtful accounts considered necessary.
- G. Prepaid Expenses** - The North Carolina Partnership records expenses allocable to future periods as prepaid expenses.
- H. Capital Assets** - Capital assets are recorded at cost at date of acquisition or acquisition value at date of donation in the case of gifts. Donated capital assets acquired prior to July 1, 2015 are stated at fair value as of the date of donation.

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

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

- I. **Restricted Assets** - Certain resources are reported as restricted assets because restrictions on asset use change the nature or normal understanding of the availability of the asset. Resources that are not available for current operations and are reported as restricted include resources whose use is limited by external parties, statute, or endowment. The endowment fund of \$24,000 is included in the amount of deposits with 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 that will not be paid within the next fiscal year.
- L. **Compensated Absences** - The North Carolina Partnership's policy is to record the cost of paid time off (PTO) when earned. Unused PTO can be accrued and carried forward from one year to the next. However, no more than 80 hours can be carried forward into the new calendar year. PTO in excess of 80 hours at the end of the calendar year is converted into family leave. When classifying compensated absences into current and noncurrent, leave is considered taken on a last-in, first-out (LIFO) method. Any unused PTO is not paid to the employee upon termination of employment. The policy provides for unlimited accumulation of family leave, but the employee cannot be compensated for any unused family leave upon termination of employment.

The North Carolina Partnership recognizes three separate employment types, distinguished by the expected duration of employment and the number of hours regularly worked each week. The three categories are: full-time with full benefits, full-time temporary with partial benefits, and part-time with partial benefits. Each employment type provides for different eligibility levels of benefits. These employment types do not alter the employment-at-will doctrine and, therefore, do not guarantee employment for any specified period of time. Benefits are subject to change from time to time, and may be reduced, modified, or terminated at the discretion of the North Carolina Partnership.

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

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

Restricted Net Position - Nonexpendable - Nonexpendable restricted net position consists of an endowment for which the use is limited by the donors or other outside sources. As a condition of the gift, the principal is generally not distributed, thus building a permanent and growing support for the endowment objective. However, it is the wish of the donor that an

amount of \$1,000 be made annually, even if the principal must be utilized. Any expenditure of principal must be approved by the Trustees of the endowment.

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

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

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, 2020, the amount shown on the Statement of Net Position as cash and cash equivalents includes cash on hand of \$700. The carrying amount of the North Carolina Partnership's deposits not with the State Treasurer was \$7,129,584 and the bank balance was \$7,198,818. 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, 2020, the North Carolina Partnership's uninsured and uncollateralized bank balance was \$6,948,818.

NOTE 3 - RECEIVABLES

A. Accounts Receivable - Accounts receivable at June 30, 2020, were as follows:

	<u>Amount</u>
Accounts Receivable:	
Due from Local Partnerships	\$ 3,962,731
Sales Tax Receivables	28,488
Other Receivables	<u>10,410</u>
Total Accounts Receivable	<u><u>\$ 4,001,629</u></u>

The North Carolina Partnership expects to collect these receivables.

B. Federal Aid Receivable - The North Carolina Partnership has federal aid receivables in the amount of \$117,420 that are collectible in the fiscal year ending June 30, 2021. The receivables represent reimbursements for eligible expenditures incurred under federal grants.

NOTE 4 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2020, is presented as follows:

	<u>Balance July 1, 2019</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2020</u>
Capital Assets, Depreciable:				
Machinery and Equipment	\$ 517,490	\$ 0	\$ 0	\$ 517,490
Less Accumulated Depreciation	482,949	16,811		499,760
Total Capital Assets, Depreciable, Net	<u>\$ 34,541</u>	<u>\$ (16,811)</u>	<u>\$ 0</u>	<u>\$ 17,730</u>

NOTE 5 - LONG-TERM LIABILITIES

A summary of changes in the long-term liabilities for the year ended June 30, 2020, is presented as follows:

	Balance July 1, 2019	Additions	Reductions	Balance June 30, 2020	Current Portion
Compensated Absences	\$ 119,549	\$ 316,722	\$ 283,467	\$ 152,804	\$ 33,139

NOTE 6 - OPERATING LEASE OBLIGATIONS

The North Carolina Partnership entered into an operating lease for office rent. Future minimum lease payments under this noncancelable operating lease consist of the following at June 30, 2020:

Fiscal Year	Amount
2021	\$ 359,442
2022	368,429
2023	377,639
2024	387,080
2025	329,261
Total Minimum Lease Payments	\$ 1,821,851

Rental expense for all operating leases during the year was \$357,125.

NOTE 7 - OPERATING EXPENSES 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

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.

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

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.

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.

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

Shape NC Phase 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.

Reach Out and Read - A collaboration with Reach Out and Read Carolinas and with local Smart Start partnerships to strengthen and expand the Smart Start Reach Out and Read intervention in select clinical locations. This program works with pediatricians to provide books to their youngest patients as well as “prescriptions” to read.

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.

B. Support Functions

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

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

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

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

Partnership Engagement - Provides ongoing support to the network of Smart Start local partnerships on topic areas, including but not limited to,

financial oversight and compliance, Smart Start guidelines and policies, contracts, and subsidies.

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

NOTE 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, 2020, the North Carolina Partnership's Plan contributions were \$189,714. 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 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

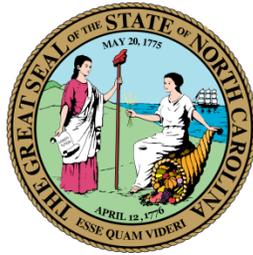
The North Carolina Partnership makes the necessary arrangements to carry out the provisions of the Workers' Compensation Act by purchasing workers' compensation insurance for employees through a private insurance company.

NOTE 10 - COMMITMENTS

The North Carolina Partnership has outstanding commitments on cost reimbursement contracts totaling \$2,283,658 as of June 30, 2020.

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.

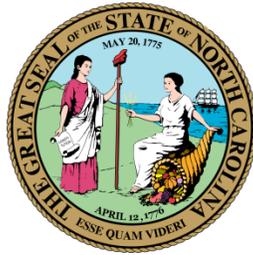


SUPPLEMENTARY INFORMATION

The North Carolina Partnership for Children, Inc.
Schedule of Functional Expenses
For the Fiscal Year Ended June 30, 2020

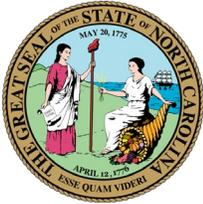
Schedule 1

	<u>Salaries and Benefits</u>	<u>Supplies and Services</u>	<u>Other Operating Expenses</u>	<u>Fixed Charges and Other Expenses</u>	<u>Noncapitalized Equipment</u>	<u>Depreciation</u>	<u>Contract/ Grant Expense</u>	<u>Total</u>
Program:								
Communications	\$ 281,216	\$ 0	\$ 2,938	\$ 4,521	\$ 190	\$ 0	\$ 0	\$ 288,865
Comprehensive Training Events	6,164	46,780	8,168	3,220				64,332
Early Literacy	42,109	6,775	15,556	3,218			6,745,560	6,813,218
EC Systems and Research/Evaluation	668,870	38,141	21,528	4,176	915			733,630
e-Learning	15	100		73				188
Local Partnership Administration							11,185,804	11,185,804
Local Partnership Services							78,978,826	78,978,826
Monitoring	241,389	446	10,499					252,334
Leadership Development	81,551	17,289	25,911	16,112			990	141,853
Regional Accounting (MAC)		270,208	20,573	61,337			971,853	1,323,971
Shape NC Phase III	316,957	675,774	32,427	134,157			1,234,192	2,393,507
Reach Out and Read							37,501	37,501
Family Engagement & Support	97,197	80,324	97,803	22,616	190		248,245	546,375
Total Program	<u>1,735,468</u>	<u>1,135,837</u>	<u>235,403</u>	<u>249,430</u>	<u>1,295</u>	<u>0</u>	<u>99,402,971</u>	<u>102,760,404</u>
Support:								
Administration	538,222	77,403	44,138	210,658	9,605	16,811		896,837
Fiscal	418,564	576,450	1,296	4,955				1,001,265
Fund Development	111,546		667	3,760			891	116,864
Human Resources	89,808	5,273	4,231	4,311				103,623
Partnership Engagement	459,570	42	4,464	595				464,671
Technology	403,944	44,577	5,550	104,720	15,013			573,804
Total Support	<u>2,021,654</u>	<u>703,745</u>	<u>60,346</u>	<u>328,999</u>	<u>24,618</u>	<u>16,811</u>	<u>891</u>	<u>3,157,064</u>
Total Expenses	<u>\$ 3,757,122</u>	<u>\$ 1,839,582</u>	<u>\$ 295,749</u>	<u>\$ 578,429</u>	<u>\$ 25,913</u>	<u>\$ 16,811</u>	<u>\$ 99,403,862</u>	<u>\$ 105,917,468</u>



INDEPENDENT AUDITOR'S REPORT

STATE OF NORTH CAROLINA
Office of the State Auditor



Beth A. Wood, CPA
State Auditor

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

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, 2020, 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 25, 2021.

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. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the North Carolina Partnership's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the 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 25, 2021

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919-807-7666



This audit required 314 hours at an approximate cost of \$32,656.