

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, 2016

A COMPONENT UNIT OF THE STATE OF NORTH CAROLINA



NC  **OSA**
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, 2016, and our audit results are included in this report. You will note from the independent auditor's report that we determined that the financial statements are presented fairly in all material respects.

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

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

A handwritten signature in cursive script that reads 'Beth A. Wood'.

Beth A. Wood, CPA
State Auditor



Beth A. Wood, CPA
State Auditor

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Article V, Chapter 147 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. The Auditor also has the power to summon people to produce records and to answer questions under oath.



INDEPENDENT AUDITOR'S REPORT

STATE OF NORTH CAROLINA
Office of the State Auditor



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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, 2016, 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, 2016, 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 and other required supplementary information, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 17, 2017 on our consideration of the North Carolina Partnership's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the North Carolina Partnership's internal control over financial reporting and compliance.



Beth A. Wood, CPA
State Auditor

Raleigh, North Carolina

May 17, 2017



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

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

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

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

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

The *Notes to the Financial Statements* accompanying these financial statements are an integral part of the financial statements and should be read in conjunction with the financial

statements. The *Notes to the Financial Statements* provide additional detail and explanation about the amounts reported in the financial statements.

Brief Agency Highlights

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

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

Analysis of Financial Position and Results of Operations

The North Carolina Partnership's net position as of June 30, 2016 and June 30, 2015, was approximately \$1.6 million and \$1.5 million, respectively, an increase of approximately \$100,000 during the year.

Condensed Financial Information

The following table summarizes the North Carolina Partnership's assets, deferred outflows/inflows, liabilities and net position as of June 30, 2016 and 2015.

	2016	2015	Amount Change	Percent Change
Assets				
Current Assets	\$ 3,422,011	\$ 3,443,764	(21,753)	(0.6)%
Capital Assets, Depreciable, Net	132,175	147,020	(14,845)	(10.1)%
Total Assets	<u>3,554,186</u>	<u>3,590,784</u>	(36,598)	(1.0)%
Deferred Outflows of Resources	<u>0</u>	<u>0</u>	0	0.0%
Liabilities				
Current Liabilities	1,887,160	1,990,776	(103,616)	(5.2)%
Noncurrent Liabilities	<u>100,925</u>	<u>108,924</u>	(7,999)	(7.3)%
Total Liabilities	<u>1,988,085</u>	<u>2,099,700</u>	(111,615)	(5.3)%
Deferred Inflows of Resources	<u>0</u>	<u>22,015</u>	(22,015)	(100)%
Net Position				
Investment in Capital Assets	132,175	147,020	(14,845)	(10.1)%
Restricted:				
Nonexpendable	24,000	24,000	0	0.0%
Expendable	17,284	12,514	4,770	38.1%
Unrestricted	<u>1,392,642</u>	<u>1,285,535</u>	107,107	8.3%
Total Net Position	<u>\$ 1,566,101</u>	<u>\$ 1,469,069</u>	97,032	6.6%

Assets

Current assets as of June 30, 2016, consisted primarily of \$2.5 million cash and cash equivalents, \$31,000 investments, \$777,000 receivables, and \$159,000 prepaid expenses. Current assets as of June 30, 2015, consisted primarily of \$1.8 million cash and cash equivalents, \$543,000 investments, \$980,000 receivables, and \$132,000 prepaid expenses.

Current assets decreased during the fiscal year June 30, 2016. The decrease consisted primarily of an increase in cash and a decrease in short-term investments of approximately \$667,000 and \$512,000, respectively, due to a \$521,000 certificate of deposit that matured during the fiscal year that was not reinvested.

Noncurrent assets as of June 30, 2016, consisted of \$132,000 capital assets. Noncurrent assets as of June 30, 2015, consisted of \$147,000 capital assets.

Liabilities

Current liabilities as of June 30, 2016, consisted primarily of \$517,000 due to the State, and \$794,000 unearned revenue. Current liabilities as of June 30, 2015, primarily consisted of \$545,000 due to the State, and \$823,000 unearned revenue.

As of June 30, 2016 and 2015, noncurrent liabilities consisted entirely of accrued compensated absences.

Net Position

Net position invested in capital assets was \$132,000 and \$147,000 as of June 30, 2016 and 2015, respectively. Restricted nonexpendable net position of \$24,000 as of June 30, 2016 and 2015, represent amounts subject to externally imposed restrictions which must be maintained in perpetuity.

Restricted expendable net position of \$17,000 and \$12,000 as of June 30, 2016 and 2015, respectively, represents amounts subject to externally imposed restrictions. Unrestricted net position of \$1.4 and \$1.3 million as of June 30, 2016 and 2015, respectively, represents amounts not subject to externally imposed stipulations, but internally designated for various activities and initiatives.

For the year ended June 30, 2016, the increase in net position of \$97,000 is primarily attributable to the increase in state aid, a decrease in operating expenses, and an increase in contract/grant expense as presented in the Statement of Revenues, Expenses, and Changes in Net Position section below.

The Statement of Revenues, Expenses, and Changes in Net Position present 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, 2016 and 2015.

Condensed Statement of Revenues, Expenses, and Changes in Net Position
For the Fiscal Years Ended June 30, 2016 and 2015

	2016	2015	Amount Change	Percent Change
Operating Revenues	\$ 0	\$ 0	0	0.0%
Operating Expenses				
Salaries and Benefits	3,666,200	3,741,929	(75,729)	(2.0)%
Contracted Services	1,820,977	1,871,595	(50,618)	(2.7)%
Supplies and Materials	33,391	56,528	(23,137)	(40.9)%
Other Operating Expenses	341,954	481,691	(139,737)	(29.0)%
Fixed Charges and Other Expenses	470,216	382,584	87,632	22.9%
Purchase of Noncapitalized Equipment	32,500	45,241	(12,741)	(28.2)%
Depreciation	55,385	52,291	3,094	5.9%
Total Operating Expenses	6,420,623	6,631,859	(211,236)	(3.2)%
Operating Loss	(6,420,623)	(6,631,859)	211,236	3.2%
Nonoperating Revenues				
State Aid	98,807,190	98,273,362	533,828	0.5%
Federal Aid	3,040,486	3,005,598	34,888	1.2%
Private Contributions	1,118,107	1,139,936	(21,829)	(1.9)%
Other Nonoperating Revenues	207,624	222,455	(14,831)	(6.7)%
Total Nonoperating Revenues	103,173,407	102,641,351	532,056	0.5%
Nonoperating Expenses				
Contract/Grant Expense	96,655,752	96,269,884	385,868	0.4%
Increase (Decrease) In Net Position	97,032	(260,392)	357,424	137.3%
Net Position Beginning of Year	1,469,069	1,729,461	(260,392)	(15.0)%
Net Position End of Year	\$ 1,566,101	\$ 1,469,069	97,032	6.6%
Total Revenues	\$ 103,173,407	\$ 102,641,351	532,056	0.5%
Total Expenses	103,076,375	102,901,743	174,632	0.2%

Nonoperating Revenues

For the fiscal year ended June 30, 2016, nonoperating revenues totaled \$103.2 million, of which state aid was \$98.8 million. For the fiscal year ended June 30, 2015, nonoperating revenues totaled \$102.6 million, of which state aid was \$98.3 million.

Private contributions earned were \$1.1 million and \$1.1 million as of June 30, 2016 and 2015, respectively. Major contributors for 2016 were the Blue Cross Blue Shield of North Carolina Foundation, \$954,000, and the Z. Smith Reynolds Foundation, \$9,100.

Additionally, the North Carolina Partnership received federal funds of \$3.0 million for the Early Learning Challenge grant.

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

Economic Factors That Will Affect the Future

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

The North Carolina Partnership actively seeks private gifts to support the mission of the Smart Start initiative. For the fiscal year ended June 30, 2016, private contributions were consistent with fiscal year ended June 30, 2015. It is anticipated that the state of the economy will improve for the fiscal year ending June 30, 2017 and possibly beyond.



FINANCIAL STATEMENTS

The North Carolina Partnership for Children, Inc.
Statement of Net Position
June 30, 2016

Exhibit A

ASSETS

Current Assets:

Cash and Cash Equivalents	\$ 1,626,417
Restricted Cash and Cash Equivalents	828,597
Restricted Short-Term Investments	31,039
Receivables:	
Accounts Receivable (Note 4)	362,165
Federal Aid Receivable (Note 4)	414,428
Prepaid Items	159,365
	<hr/>
Total Current Assets	3,422,011
	<hr/>

Noncurrent Assets:

Capital Assets - Depreciable, Net (Note 5)	132,175
	<hr/>
Total Assets	3,554,186
	<hr/>

DEFERRED OUTFLOWS OF RESOURCES

0

LIABILITIES

Current Liabilities:

Accounts Payable	431,724
Accrued Payroll	111,613
Compensated Absences (Note 6)	32,572
Due to State	517,205
Unearned Revenue	794,046
	<hr/>
Total Current Liabilities	1,887,160
	<hr/>

Noncurrent Liabilities:

Compensated Absences (Note 6)	100,925
	<hr/>
Total Liabilities	1,988,085
	<hr/>

DEFERRED INFLOWS OF RESOURCES

0

NET POSITION

Investment in Capital Assets	132,175
Restricted for:	
Nonexpendable:	
Annual Recognition Award	24,000
Expendable:	
Specific Child Care Related Activities	17,284
Unrestricted	1,392,642
	<hr/>
Total Net Position	\$ 1,566,101
	<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 Revenues, Expenses, and
Changes in Net Position
For the Fiscal Year Ended June 30, 2016**

Exhibit B

OPERATING REVENUES	\$ 0
<hr/>	
OPERATING EXPENSES	
Operating Expenses:	
Salaries and Benefits	3,666,200
Contracted Services	1,820,977
Supplies and Materials	33,391
Other Operating Expenses	341,954
Fixed Charges and Other Expenses	470,216
Purchase of Noncapitalized Equipment	32,500
Depreciation	55,385
	<hr/>
Total Operating Expenses	6,420,623
	<hr/>
Operating Loss	(6,420,623)
	<hr/>
NONOPERATING REVENUES (EXPENSES)	
State Aid	98,807,190
Federal Aid	3,040,486
Investment Income	110
Private Contributions	1,118,107
Miscellaneous	207,514
Contract/Grant Expense	(96,655,752)
	<hr/>
Net Nonoperating Revenues	6,517,655
	<hr/>
Increase in Net Position	97,032
	<hr/>
NET POSITION	
Net Position, July 1, 2015	1,469,069
	<hr/>
Net Position, June 30, 2016	\$ 1,566,101
	<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, 2016

Exhibit C

CASH FLOWS FROM OPERATING ACTIVITIES	
Payments to Employees and Fringe Benefits	\$ (3,662,696)
Payments to Vendors and Suppliers	(2,824,247)
	<u>(6,486,943)</u>
Cash Used by Operating Activities	<u>(6,486,943)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State Aid Received	98,779,207
Grants to Local Partnerships and Other Organizations	(96,553,965)
Federal Aid Received	3,144,610
Private Contributions	1,094,906
Other Receipts	207,514
	<u>6,672,272</u>
Net Cash Provided by Noncapital Financing Activities	<u>6,672,272</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Acquisition of Capital Assets	(40,540)
	<u>(40,540)</u>
Cash Used by Capital and Related Financing Activities	<u>(40,540)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Proceeds from Sales and Maturities of Investments	521,271
Investment Income	784
	<u>522,055</u>
Cash Provided by Investing Activities	<u>522,055</u>
Net Increase in Cash and Cash Equivalents	666,844
Cash and Cash Equivalents, July 1, 2015	<u>1,788,170</u>
Cash and Cash Equivalents, June 30, 2016	<u>\$ 2,455,014</u>
RECONCILIATION OF OPERATING LOSS TO CASH USED BY OPERATING ACTIVITIES	
Operating Loss	\$ (6,420,623)
Adjustments to Reconcile Operating Loss to Cash Used by Operating Activities:	
Depreciation Expense	55,385
Changes in Assets and Liabilities:	
Accounts Receivable	(8,992)
Prepaid Items	(27,337)
Accounts Payable	(88,880)
Accrued Payroll	20,768
Compensated Absences	(17,264)
	<u>(6,486,943)</u>
Cash Used by Operating Activities	<u>\$ (6,486,943)</u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS	
Current Assets:	
Cash and Cash Equivalents	\$ 1,626,417
Restricted Cash and Cash Equivalents	828,597
	<u>2,455,014</u>
Total Cash and Cash Equivalents, June 30, 2016	<u>\$ 2,455,014</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 for Children, Inc. is a component unit of the State of North Carolina and an integral part of the State's *Comprehensive Annual Financial Report* (CAFR).

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

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

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

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

- C. Basis of Presentation** - The accompanying financial statements are presented in accordance with accounting principles generally accepted in

the United States of America as prescribed by the Governmental Accounting Standards Board (GASB).

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

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

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

- E. Cash and Cash Equivalents** - This classification includes cash on hand, cash on deposit with private bank accounts, and deposits held by the State Treasurer in the Short-Term Investment Fund (STIF). The STIF maintained by the State Treasurer has the general characteristics of a demand deposit account in that participants may deposit and withdrawal cash at any time without prior notice or penalty.
- F. Investments** - To the extent available, investments are recorded at fair value based on quoted market prices in active markets on a trade-date basis. Additional information regarding the fair value measurement of investments is disclosed in Note 3. This classification includes money market mutual funds which are accounted for at fair value, as determined by share price.
- G. 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.
- H. Prepaid Expenses** - The North Carolina Partnership records expenses allocable to future periods as prepaid expenses.
- I. 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.

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

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

The North Carolina Partnership recognizes three separate employment types, distinguished by the expected duration of employment and the number of hours regularly worked each week. The three categories are: full-time with full benefits, full-time temporary with partial benefits, and part-time with partial benefits. Each employment type provides for

different eligibility levels of benefits. These employment types do not alter the employment-at-will doctrine and, therefore, do not guarantee employment for any specified period of time. Benefits are subject to change from time to time, and may be reduced, modified, or terminated at the discretion of the North Carolina Partnership.

- N. 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.

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 and inflows of resources.

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

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

NOTE 2 - DEPOSITS AND INVESTMENTS

- A. Deposits** - The North Carolina Partnership is required by *North Carolina General Statute 147-77* to deposit any funds collected or received that belong to the State of North Carolina with the State Treasurer or with a depository institution in the name of the State Treasurer. All funds of the North Carolina Partnership, other than those required to be deposited with the State Treasurer, are deposited in board-designated depositories or brokerage firms. The amount shown on the Statement of Net Position as cash and cash equivalents includes cash on hand totaling \$250, deposits in private financial institutions with a carrying value of \$2,354,685 and a bank balance of \$2,755,606, and deposits held by the State Treasurer totaling \$100,079.

Custodial credit risk is the risk that in the event of a bank failure, the North Carolina Partnership's deposits may not be returned to it. The North Carolina Partnership does not have a deposit policy for custodial credit risk. The North Carolina Partnership's deposits with each commercial bank are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. As of June 30, 2016, the North Carolina Partnership's bank balance in excess of the FDIC insured limit totaled \$2,505,606.

- B. Investments** – There are no legal limitations on the types of investments by the North Carolina Partnership. The North Carolina Partnership has adopted formal investment policies to establish investment objectives, standards of prudence, eligible investments, and safekeeping and custodial procedures necessary for the prudent management of the private funds maintained by the North Carolina Partnership.

At June 30, 2016, the amount shown on the Statement of Net Position as cash and cash equivalents includes \$100,079, which represents the North Carolina Partnership's equity position in the State Treasurer's Short-Term Investment Fund (STIF). The STIF (a portfolio within the State Treasurer's Investment Pool, an external investment pool that is not registered with the Securities and Exchange Commission or subject to any other regulatory oversight and does not have a credit rating) had a weighted average maturity of 1.5 years as of June 30, 2016. Assets and shares of the STIF are valued at fair value. Deposit and investment risks associated with the State Treasurer's Investment Pool (which includes the State Treasurer's STIF) are included in the State of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available on the North Carolina Office of the State Controller's

website at <http://www.osc.nc.gov/> or by calling the State Controller's Financial Reporting Section at (919) 707-0500.

The North Carolina Partnership is subject to the following risks:

Interest Rate Risk: Interest rate risk is the risk the North Carolina Partnership may face should interest rate variances affect the fair value of investments. In accordance with its investment policy, the North Carolina Partnership manages its exposure to declines in fair values by limiting the weighted average maturity of its investment portfolio. For its two major investment types, certificates of deposit maturities may not exceed 36 months and money market mutual funds must have maturities of 90 days or less.

Credit Risk: Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The North Carolina Partnership manages credit risk by diversifying its investment portfolio. Investments are limited to: U.S. treasury obligations; obligations of the State of North Carolina; time deposits, certificates of deposit, and savings accounts; no-load money market funds; no-load money market mutual funds; U.S. agency securities; bankers' acceptances; commercial paper; investment grade bonds; high-quality stocks; and exchange-traded funds. Policy also further limits the composition of the above investment types as to the total investment portfolio.

The following table presents the fair value of investments by type and investments subject to interest rate risk and credit risk at June 30, 2016, for the North Carolina Partnership's investments.

	<u>Properties of Debt Securities</u>		
	<u>Amount</u>	<u>Weighted Average Maturities</u>	<u>Rating</u>
Investment Type			
Debt Securities			
Money Market Trust Retirement	<u>\$ 31,039</u>	42 days	Unrated

The money market funds held by a private financial institution are not insured by the FDIC.

C. Reconciliation of Deposits and Investments - A reconciliation of deposits and investments for the North Carolina Partnership to the basic financial statements as of June 30, 2016, is as follows:

Cash on Hand	\$ 250
Carrying Amount of Deposits with Private Financial Institutions	2,354,685
Investments in the Short-Term Investment Fund	100,079
Money Market Trust Retirement	<u>31,039</u>
Total Deposits and Investments	<u>\$ 2,486,053</u>
Deposits	
Current:	
Cash and Cash Equivalents	\$ 1,626,417
Restricted Cash and Cash Equivalents	<u>828,597</u>
Total Deposits	<u>2,455,014</u>
Investments	
Current:	
Restricted Short-Term Investments	<u>31,039</u>
Total Deposits and Investments	<u>\$ 2,486,053</u>

NOTE 3 - FAIR VALUE MEASUREMENTS

To the extent available, the North Carolina Partnership's investments are recorded at fair value as of June 30, 2016. GASB Statement No. 72, *Fair Value Measurement and Application*, defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This statement establishes a hierarchy of valuation inputs based on the extent to which the inputs are observable in the marketplace. Inputs are used in applying the various valuation techniques and take into account the assumptions that market participants use to make valuation decisions. Inputs may include price information, credit data, interest and yield curve data, and other factors specific to the financial instrument. Observable inputs reflect market data obtained from independent sources. In contrast, unobservable inputs reflect the entity's assumptions about how market participants would value the financial instrument. Valuation techniques should maximize the use of observable inputs to the extent available.

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

- Level 1 Investments whose values are based on quoted prices (unadjusted) for identical assets in active markets that a government can access at the measurement date.

- Level 2 Investments with inputs – other than quoted prices included within Level 1 – that are observable for an asset, either directly or indirectly.
- Level 3 Investments classified as Level 3 have unobservable inputs and may require a degree of professional judgment.

Short-Term Investment Fund – At year-end, the North Carolina Partnership’s investments valued at \$100,079 were held in the STIF which is a Level 2 investment. Ownership interest of the STIF is determined on a fair market valuation basis as of fiscal year end in accordance with the STIF operating procedures. Valuation of the underlying assets is performed by the custodian.

NOTE 4 - RECEIVABLES

Receivables at June 30, 2016, were as follows:

A. Accounts Receivable - The gross accounts receivable were:

	Gross Receivables
Accounts Receivables:	
Due from Local Partnerships	\$ 327,674
Sales Tax Receivables	23,449
Other Receivables	11,042
Total Accounts Receivables	\$ 362,165

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 \$414,428 that are collectible in the fiscal year ending June 30, 2017. The receivables represent reimbursement for the Race to the Top - Early Learning Challenge Grant.

NOTE 5 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2016 is presented as follows:

	Balance July 1, 2015	Increases	Decreases	Balance June 30, 2016
Capital Assets, Depreciable:				
Machinery and Equipment	\$ 572,247	\$ 40,540	\$ 89,049	\$ 523,738
Less Accumulated Depreciation	425,227	55,385	89,049	391,563
Total Capital Assets, Depreciable, Net	\$ 147,020	\$ (14,845)	\$ 0	\$ 132,175

NOTE 6 - LONG-TERM LIABILITIES

A summary of changes in the long-term liabilities for the year ended June 30, 2016, is presented as follows:

	Balance July 1, 2015	Additions	Reductions	Balance June 30, 2016	Current Portion
Compensated Absences	\$ 150,761	\$ 318,712	\$ 335,976	\$ 133,497	\$ 32,572

NOTE 7 - OPERATING LEASE OBLIGATIONS

The North Carolina Partnership entered into operating leases for office rent. Future minimum lease payments under noncancelable operating leases consist of the following at June 30, 2016:

Fiscal Year	Amount
2017	\$ 325,637
2018	333,778
2019	342,123
2020	350,676
2021	359,442
2022-2025	1,462,407
Total Minimum Lease Payments	\$ 3,174,063

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

Rental expense for all operating leases during the year was \$318,515.

NOTE 8 - 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*. 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

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.

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. The e-Learning function provides a centralized repository of online training material for local partnerships 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.

Early Learning Challenge Grant - Federally funded initiative to reduce disparities in school readiness among children with high needs and their peers. Priorities are:

- Leadership program designed to facilitate effective local community leadership that increases schooled readiness for children with high needs;
- Expanded developmental screening and referrals for children from birth to five;
- Increased access to high-quality child care health consultants who improve health, nutrition, and safety practices in child care facilities;
- Faith summit designed to engage faith leaders as early child champions;
- Community development initiative in four rural, high poverty counties selected to be part of a transformation zone that combines evidence-based programs and infrastructure development strategies;
- Early literacy project in the transformation zone; and
- A data project to support a longitudinal statewide data system that tracks outcomes and measures progress in reducing disparities among children with high needs and their peers.

Finance - Responsible for the oversight of the accounting, financial reporting, and contracting functions for the local partnerships and the North Carolina Partnership. Also responsible for the provision of technical assistance and training to the local partnerships.

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

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

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

Organizational Development - Privately funded programs to provide technical assistance, resources and support necessary to enhance the organizational capacity of the North Carolina Partnership and local partnerships to help ensure long-term success and sustainability as nonprofit organizations. Priorities are increased diversity and inclusion, strengthened governance and executive leadership, deepened grassroots community engagement and advocacy, and increased diversification of funding sources.

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

Program and Evaluation - Responsible for the approval of local partnership strategic plans and activities as well as performing programmatic monitoring of and technical assistance and training to the local partnerships. Responsible for building the program capacity of local partnerships and facilitating the development and implementation of coordinated state-level systems of service. Also responsible for research and evaluation refining and guiding the Smart Start system work.

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

Regional Accounting (MAC) - Used to account for 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 - Privately funded program to improve the health of young children, ages birth to five and child care workers through a comprehensive statewide strategy of comprehensive coordinated early childhood obesity prevention outreach, and technical assistance that will address change at the individual, programmatic, environmental and policy levels.

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.

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.

Contracts - Responsible for establishing and maintaining funding contracts with the local partnerships for (1) administrative costs and (2) direct service activities related to services to children and families. Also provide technical assistance to local partnerships on the use of the North Carolina Partnership's contracts system.

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.

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.

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.

NOTE 9 - PENSION PLANS

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

Contributions: Participant, eligibility, and contributory requirements are established by the North Carolina Partnership. Participants choose to

contribute a dollar or percentage of their wage not to exceed the federal limit. The North Carolina Partnership makes a safe-harbor contribution to the Plan each year equal to 3% of the participants' compensation and may make additional discretionary employer contributions. For the year ended June 30, 2016, the North Carolina Partnership's Plan contributions and pension expense were \$199,218. The North Carolina Partnership assumes no liability other than its contribution.

NOTE 10 - RISK MANAGEMENT

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

A. Employee Benefit Plan

Employees are provided health care coverage by Blue Cross Blue Shield of North Carolina. The Plan is funded by employer and employee contributions and is administered by a third party contractor.

B. Other Risk Management and Insurance Activities

1. Automobile, Fire, and Other Property Losses

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

2. Employee Dishonesty and Computer Fraud

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

3. Workers' Compensation

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

NOTE 11 - COMMITMENTS

The North Carolina Partnership has outstanding commitments on cost-reimbursement contracts totaling \$2,369,046 as of June 30, 2016.

NOTE 12 - RELATED PARTIES

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

NOTE 13 - CHANGES IN FINANCIAL ACCOUNTING AND REPORTING

For the fiscal year ended June 30, 2016, the North Carolina Partnership implemented the following pronouncements issued by the Governmental Accounting Standards Board (GASB):

GASB Statement No. 72, Fair Value Measurement and Application.

GASB Statement No. 76, The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments

GASB Statement No. 72 provides guidance for determining a fair value measurement for financial reporting purposes. This statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements.

GASB Statement No. 76 reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specific within a source of authoritative GAAP.



SUPPLEMENTARY INFORMATION

The North Carolina Partnership for Children, Inc.
Schedule of Functional Expenses
For the Fiscal Year Ended June 30, 2016

Schedule 1

	Salaries and Benefits	Contracted Services	Supplies and Materials	Other Operating Expenses	Fixed Charges and Other Expenses	Noncapitalized Equipment/ Depreciation	Contract/ Grant Expense	Total
Programs:								
Comprehensive Training Events	\$ 71,721	\$ 153,299	\$ 702	\$ 149,686	\$ 13,768	\$ 0	\$ 0	\$ 389,176
e-Learning		6,272			2,038			8,310
Early Learning Challenge Grant	731,211	939,583	200	58,361	37,746		1,266,003	3,033,104
Finance	153,863	238,405		747	719			393,734
Financial Services	209,481			14,251	120			223,852
Local Partnership Administration							11,263,752	11,263,752
Local Partnership Services							82,588,432	82,588,432
Organizational Development	82,920	8,975		1,255	66		1,000	94,216
Other Private Awards		700						700
Program and Evaluation	596,689	72,456		8,960	166		11,002	689,273
Public Information	167,042			4,821	3,076			174,939
Regional Accounting (MAC)	372,153	90,468	8,561	21,588	52,082		954,350	1,499,202
Shape NC	136,872	166,198		10,531			571,213	884,814
Technology	210,855	16,252	6,760	7,319	61,569	25,613		328,368
	<u>2,732,807</u>	<u>1,692,608</u>	<u>16,223</u>	<u>277,519</u>	<u>171,350</u>	<u>25,613</u>	<u>96,655,752</u>	<u>101,571,872</u>
Support:								
Administration	624,003	95,738	17,168	55,687	297,097	62,272		1,151,965
Contracts	90,495	7,062		391				97,948
Development	35,769	12,486		5,610	215			54,080
Fiscal	142,654	8,520		661	6			151,841
Human Resources	40,472	4,563		2,086	1,548			48,669
	<u>933,393</u>	<u>128,369</u>	<u>17,168</u>	<u>64,435</u>	<u>298,866</u>	<u>62,272</u>	<u>0</u>	<u>1,504,503</u>
Total Expenditures	<u>\$ 3,666,200</u>	<u>\$ 1,820,977</u>	<u>\$ 33,391</u>	<u>\$ 341,954</u>	<u>\$ 470,216</u>	<u>\$ 87,885</u>	<u>\$ 96,655,752</u>	<u>\$ 103,076,375</u>

The North Carolina Partnership for Children, Inc.
Schedule of Contract and Grant Expenses
For the Fiscal Year Ended June 30, 2016

Schedule 2
Page 1 of 3

Organization Name	Gross Amount Expended	Refund Due	Net Amount Expended
Alamance Partnership for Children	\$ 874,201	\$ 0	\$ 874,201
Albemarle Smart Start Partnership, Inc.	1,855,824	(956)	1,854,868
Alexander County Partnership for Children	317,844	(1,707)	316,137
Alleghany Partnership for Children, Inc.	119,128		119,128
Alliance for Children	1,353,431	(29,752)	1,323,679
Anson County Partnership for Children	389,131		389,131
Ashe County Partnership for Children	300,154		300,154
Beaufort/Hyde Partnership for Children	691,859	(1,606)	690,253
Bladen Smart Start: A Partnership for Children, Inc.	360,993		360,993
Blue Ridge Partnership for Children	485,149	(9)	485,140
Buncombe County Partnership for Children, Inc.	* 1,669,020		1,669,020
Burke County Smart Start, Inc.	1,203,667	(1,352)	1,202,315
Cabarrus County Partnership for Children	2,282,009	(6,100)	2,275,909
Caldwell County Smart Start A Partnership for Young Children	832,267	(822)	831,445
Carteret County Partnership for Children	* 670,579		670,579
Caswell County Partnership for Children	235,121	(1,236)	233,885
Catawba County Partnership for Children	1,477,041	(4,377)	1,472,664
Chatham County Partnership for Children	726,691	(5,679)	721,012
Children & Youth Partnership for Dare County, Inc.	331,709		331,709
Children's Council of Watauga County, Inc.	262,172		262,172
Cleveland County Partnership for Children, Inc.	* 956,990		956,990
Columbus County Partnership for Children, Incorporated	408,494	(2,010)	406,484
Craven Smart Start, Inc.	* 959,483		959,483
Down East Partnership for Children	2,473,003	(21,110)	2,451,893
Duplin County Partnership for Children	1,117,307	(7,121)	1,110,186
Durham's Partnership for Children	5,085,258		5,085,258
Franklin Granville Vance Smart Start, Inc.	1,397,927	(10,601)	1,387,326
Guilford County Partnership for Children, Inc.	3,296,210	(43,394)	3,252,816
Harnett County Partnership for Children, Inc.	910,983	(6,362)	904,621
Hertford-Northampton Smart Start Partnership for Children, Inc.	475,622	(1,798)	473,824
Hoke County Partnership for Children and Families	761,931		761,931
Iredell County Partnership for Young Children, Inc.	1,210,435	(5,606)	1,204,829
Jones County Partnership for Children	235,990		235,990
Lee County Partnership for Children	1,017,813	(4,540)	1,013,273

The North Carolina Partnership for Children, Inc.
Schedule of Contract and Grant Expenses
For the Fiscal Year Ended June 30, 2016

Schedule 2
Page 2 of 3

Organization Name	Gross Amount Expended	Refund Due	Net Amount Expended
Lenoir/Greene County Partnership for Children	1,599,002	(850)	1,598,152
Madison County Partnership for Children and Families, Inc.	267,635	(78)	267,557
Martin/Pitt Partnership for Children, Inc.	1,446,401	(5,137)	1,441,264
Mecklenburg Partnership for Children	7,505,236	(2,872)	7,502,364
Montgomery County Partnership for Children	480,477		480,477
Onslow County Partnership for Children, Inc.	4,367,512		4,367,512
Orange County Partnership for Young Children	1,166,739	*	1,166,739
Pamlico Partnership for Children, Inc.	132,807		132,807
Partners for Children and Families, Inc.	790,437		790,437
Partnership for Children of Cumberland County, Inc.	3,980,232	(5,386)	3,974,846
Partnership for Children of Johnston County, Inc.	1,414,534		1,414,534
Partnership for Children of Lincoln/Gaston Counties, Inc.	2,047,605	(16,114)	2,031,491
Partnership for Children of the Foothills	907,213	(8,538)	898,675
Person County Partnership for Children	441,924	(2,006)	439,918
Randolph County Partnership for Children	1,094,689	(539)	1,094,150
Region A Partnership for Children	1,214,139		1,214,139
Richmond County Partnership for Children	755,516		755,516
Robeson County Partnership for Children	1,580,443	(7,376)	1,573,067
Rockingham County Partnership for Children, Inc.	718,753		718,753
Sampson County Partnership for Children	1,042,091		1,042,091
Scotland County Partnership for Children and Families, Inc.	388,766	(22)	388,744
Smart Start of Brunswick County, Inc.	630,649		630,649
Smart Start of Davidson County, Inc.	2,657,279		2,657,279
Smart Start of Davie County, Inc.	306,493		306,493
Smart Start of Forsyth County	4,384,387	*	4,384,387
Smart Start of Henderson County, Inc.	806,730		806,730
Smart Start of New Hanover County	1,399,950		1,399,950
Smart Start of Pender County, Inc.	436,510		436,510
Smart Start of Transylvania County	184,132	(10)	184,122
Smart Start of Yadkin County, Inc.	477,537	(2,399)	475,138
Smart Start Rowan, Inc.	1,794,002	(4,881)	1,789,121
Stanly County Partnership for Children	761,258		761,258
Stokes Partnership for Children	469,150	(1,631)	467,519

The North Carolina Partnership for Children, Inc.
Schedule of Contract and Grant Expenses
For the Fiscal Year Ended June 30, 2016

Schedule 2
Page 3 of 3

Organization Name	Gross Amount Expended	Refund Due	Net Amount Expended
Surry County Early Childhood Partnership	659,082	(1,354)	657,728
The Chowan/Perquimans Smart Start Partnership	456,913		456,913
The Halifax-Warren Smart Start Partnership for Children, Inc.	537,866		537,866
The Partnership for Children of Wayne County, Inc.	929,349	(5,293)	924,056
Tyrrell-Washington Partnership for Children, Inc.	275,344	(4,246)	271,098
Various Other Organizations	49,420		49,420
Wake County SmartStart	7,732,635	(80,428)	7,652,207
Wilkes Community Partnership for Children	675,920	(4,549)	671,371
Wilson County Partnership for Children	1,266,039	(12,633)	1,253,406
	<u>\$ 96,978,232</u>	<u>\$ (322,480)</u>	<u>\$ 96,655,752</u>

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

The North Carolina Partnership for Children, Inc.
Schedule of Federal and State Aid
For the Fiscal Year Ended June 30, 2016

Schedule 3

<u>Federal/State Grantor/Pass-through Grantor/Program</u>	<u>Federal CFDA Number</u>	<u>Contract #</u>	<u>Receipts</u>	<u>Expenditures</u>
Federal Aid:				
United States Department of Education				
Pass-through from the North Carolina Department of Health and Human Services - Division of Child Development and Early Education				
Race to the Top - Early Learning Challenge				
	*	84.412	\$ 3,040,486	\$ 3,040,486
State Aid:				
North Carolina Department of Health and Human Services - Division of Child Development and Early Education				
Early Childhood Initiatives Program (Current Year)				
	**	32456	93,851,184	93,851,184
Early Childhood Initiatives Program (Current Year)				
	**	32457	4,956,006	4,956,006
Total State Aid			<u>98,807,190</u>	<u>98,807,190</u>
Total Federal and State Aid			<u>\$ 101,847,676</u>	<u>\$ 101,847,676</u>

* The North Carolina Partnership is a component unit of the State of North Carolina and is an integral part of the State's *Comprehensive Annual Financial Report* (CAFR). As such, the North Carolina Partnership's Race to the Top - Early Learning Challenge federal expenditures are included in the State's Schedule of Expenditures of Federal Awards. Those expenditures are covered by the State of North Carolina's *Single Audit Report*, and a separate audit in accordance with the Single Audit Act and OMB Uniform Guidance for the North Carolina Partnership is not required.

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

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



INDEPENDENT AUDITOR'S REPORT

STATE OF NORTH CAROLINA
Office of the State Auditor



Beth A. Wood, CPA
State Auditor

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

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, 2016, 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 May 17, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the North Carolina Partnership's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the North Carolina Partnership's internal control. Accordingly, we do not express an opinion on the effectiveness of the North Carolina Partnership's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the North Carolina Partnership's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the North Carolina Partnership's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the North Carolina Partnership's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Beth A. Wood, CPA
State Auditor

Raleigh, North Carolina

May 17, 2017

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