

FINANCIAL STATEMENT AUDIT REPORT OF  
SMART START OF NEW HANOVER COUNTY, INC.  
WILMINGTON, NORTH CAROLINA  
FOR THE YEAR ENDED JUNE 30, 2016

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BOARD OF DIRECTORS  
TRACY MEADOWS, PRESIDENT

ADMINISTRATIVE OFFICER  
JANE MORROW, EXECUTIVE DIRECTOR

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## Independent Auditor's Report

To the Board of Directors  
Smart Start of New Hanover County, Inc.  
Wilmington, North Carolina

### Report on Financial Statements

We have audited the accompanying financial statements of the Smart Start of New Hanover County, Inc., which comprise the Statement of Receipts, Expenditures, and Net Assets — Modified Cash Basis as of and for the year ended June 30, 2016, the related Statement of Functional Expenditures — Modified Cash Basis and the related notes to the financial statements for the year then ended.

### Management's Responsibilities for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the modified cash basis of accounting described in Note 1; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express an opinion on these modified cash basis 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 entity'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 entity'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, the financial statements referred to above present fairly, in all material respects, the net assets of the Smart Start of New Hanover County, Inc. as of June 30, 2016, and the results of its operations for the year then ended, in accordance with the basis of accounting as described in Note 1.

## **Other Matters**

### ***Basis of Accounting***

We draw attention to Note 1 of the financial statements, which describes the basis of accounting. The financial statements are prepared on a modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to that matter.

### ***Report on Supplementary Information***

Schedule 2 on page 17, and schedule 5 on page 20 are not a required part of the basic financial statements but are supplementary information required by the North Carolina Office of the State Auditor. In accordance with auditing standards generally accepted in the United States of America, we have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion or provide any assurance on schedule 2 or schedule 5.

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplementary schedules 1, 3, and 4, which are the responsibility of management, are presented for purposes of additional analysis and are not a required part of the financial statements. Such information was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, that information is fairly stated in all material respects in relation to the modified cash basis 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 January 31, 2017, on our consideration of the Smart Start of New Hanover County, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulation, 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 the 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 Smart Start of New Hanover County, Inc.'s internal control over financial reporting and compliance.

*Elliott Davis Davidson, PLLC*

Raleigh, North Carolina  
January 31, 2017

**Smart Start of New Hanover County, Inc.**  
**Statement of Receipts, Expenditures, and Net Assets - Modified Cash Basis**  
**As of and for the Year Ended June 30, 2016**

**Exhibit A**

	Unrestricted Funds		Temporarily	Total
	Smart Start Funds	Other Funds	Restricted Funds	
<b>Receipts:</b>				
State Awards and Contracts, Net of Refunds	\$ 1,359,145	\$ -	\$ -	\$ 1,359,145
Federal Awards	-	199,311	-	199,311
Local Awards	-	66,000	-	66,000
Private Contributions	-	43,367	7,009	50,376
Special Fund Raising Events	-	40,602	2,000	42,602
Interest and Investment Earnings	-	26	-	26
Sales Tax Refunds	-	4,468	-	4,468
Other Receipts	-	13,803	-	13,803
<b>Total Receipts</b>	<b>1,359,145</b>	<b>367,577</b>	<b>9,009</b>	<b>1,735,731</b>
Net Assets Released from Restrictions:				
Satisfaction of Program Restrictions	-	20,066	(20,066)	-
	<u>1,359,145</u>	<u>387,643</u>	<u>(11,057)</u>	<u>1,735,731</u>
<b>Expenditures:</b>				
Programs:				
Child Care and Education Affordability	-	1,695	-	1,695
Child Care and Education Quality	475,530	24,143	-	499,673
Family Support	490,756	178,170	-	668,926
Health and Safety	134,045	68,340	-	202,385
Support:				
Management and General	171,364	10,926	-	182,290
Program Coordination and Evaluation	87,450	1,699	-	89,149
Other:				
Sales Tax Paid	-	3,530	-	3,530
<b>Total Expenditures</b>	<b>1,359,145</b>	<b>288,503</b>	<b>-</b>	<b>1,647,648</b>
<b>Excess/Deficiency of Receipts Over Expenditures</b>	<b>-</b>	<b>99,140</b>	<b>(11,057)</b>	<b>88,083</b>
<b>Net Assets at Beginning of Year</b>	<b>-</b>	<b>74,689</b>	<b>21,166</b>	<b>95,855</b>
<b>Net Assets at End of Year</b>	<b>\$ -</b>	<b>\$ 173,829</b>	<b>\$ 10,109</b>	<b>\$ 183,938</b>
<b>Net Assets Consisted of:</b>				
Cash and Cash Equivalents	\$ -	\$ 167,603	\$ 10,109	\$ 177,712
	-	167,603	10,109	177,712
Less: Funds Held for Others	-	(6,226)	-	(6,226)
<b>TOTAL NET ASSETS</b>	<b>\$ -</b>	<b>\$ 173,829</b>	<b>\$ 10,109</b>	<b>\$ 183,938</b>

*The accompanying notes are an integral part of the financial statements.*

**Smart Start of New Hanover County, Inc.**  
**Statement of Functional Expenditures - Modified Cash Basis**  
**For the Year Ended June 30, 2016**

**Exhibit B**

	<u>Total</u>	<u>Personnel</u>	<u>Contracted Services</u>	<u>Supplies and Materials</u>	<u>Other Operating Expenditures</u>	<u>Fixed Charges and Other Expenditures</u>	<u>Property and Equipment Outlay</u>	<u>Services/Contracts/Grants</u>
<b>Smart Start Funds:</b>								
<b>Programs:</b>								
Child Care and Education Quality	\$ 475,530	\$ 269,744	\$ 323	\$ 10,256	\$ 21,305	\$ 56,687	\$ 865	\$ 116,350
Family Support	490,756	234,693	1,119	5,098	32,638	46,938	581	169,689
Health and Safety	134,045	98,655	54	3,165	10,253	19,213	2,705	-
	<u>1,100,331</u>	<u>603,092</u>	<u>1,496</u>	<u>18,519</u>	<u>64,196</u>	<u>122,838</u>	<u>4,151</u>	<u>286,039</u>
<b>Support:</b>								
Management and General	171,364	137,374	4,435	889	6,699	20,594	1,373	-
Program Coordination and Evaluation	87,450	73,758	-	396	4,038	9,047	211	-
	<u>258,814</u>	<u>211,132</u>	<u>4,435</u>	<u>1,285</u>	<u>10,737</u>	<u>29,641</u>	<u>1,584</u>	<u>-</u>
<b>Total Smart Start Fund Expenditures</b>	<u>\$ 1,359,145</u>	<u>\$ 814,224</u>	<u>\$ 5,931</u>	<u>\$ 19,804</u>	<u>\$ 74,933</u>	<u>\$ 152,479</u>	<u>\$ 5,735</u>	<u>\$ 286,039</u>
<b>Other Funds:</b>								
<b>Programs:</b>								
Child Care and Education Affordability	\$ 1,695	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,695
Child Care and Education Quality	24,143	16,189	-	367	7,364	223	-	-
Family Support	178,170	140,997	-	4,356	21,602	2,419	-	8,796
Health and Safety	68,340	7,250	-	1,333	102	29	-	59,626
	<u>272,348</u>	<u>164,436</u>	<u>-</u>	<u>6,056</u>	<u>29,068</u>	<u>2,671</u>	<u>-</u>	<u>70,117</u>
<b>Support:</b>								
Management and General	10,926	7,630	-	(313)	1,399	2,210	-	-
Program Coordination and Evaluation	1,699	-	-	-	575	144	980	-
	<u>12,625</u>	<u>7,630</u>	<u>-</u>	<u>(313)</u>	<u>1,974</u>	<u>2,354</u>	<u>980</u>	<u>-</u>
<b>Other:</b>								
Sales Tax Paid	3,530	-	-	3,530	-	-	-	-
	<u>3,530</u>	<u>-</u>	<u>-</u>	<u>3,530</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Total Other Funds Expenditures</b>	<u>\$ 288,503</u>	<u>\$ 172,066</u>	<u>\$ -</u>	<u>\$ 9,273</u>	<u>\$ 31,042</u>	<u>\$ 5,025</u>	<u>\$ 980</u>	<u>\$ 70,117</u>

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

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

- A. **Organization and Purpose** - The Smart Start of New Hanover County (New Hanover County Partnership) is a legally separate nonprofit organization incorporated on April 18, 1995. The New Hanover County Partnership was established to develop and provide, through public and private means, early childhood education and developmental services for children and families. The New Hanover County Partnership is tax-exempt as an organization described in Section 501(c)(3) of the Internal Revenue Code.
- B. **Basis of Presentation** - The accompanying financial statements present all funds for which the New Hanover County Partnership's Board of Directors is responsible. Pursuant to the provisions of Financial Accounting Standards Board's Accounting Standard for *Not-For-Profit Entities*, the accompanying financial statements present information according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. As permitted by this Standard, temporarily restricted contributions received and expended in the same year are reported as unrestricted receipts rather than as temporarily restricted receipts.

Contributions that are temporarily restricted and not expended within the year received are reported as an increase in temporarily restricted net assets. When the restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Receipts, Expenditures, and Net Assets -- Modified Cash Basis as net assets released from restrictions.

The New Hanover County Partnership did not have any permanently restricted net assets at June 30, 2016. Net assets totaling \$10,109 were temporarily restricted as of June 30, 2016.

- C. **Basis of Accounting** - The accompanying financial statements were prepared on the modified cash basis of accounting. This basis differs from accounting principles generally accepted in the United States of America primarily because it recognizes long lived assets and other costs which benefit more than one period as expended in the year purchased; it recognizes revenue when received rather than when earned; and it recognizes expenditures when paid rather than when incurred.

Amounts withheld from employee paychecks or other amounts received in an agency capacity are recorded as funds held for others.

**SMART START OF NEW HANOVER COUNTY, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

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**NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**

- D. Cash and Cash Equivalents** - This classification appears on the Statement of Receipts, Expenditures, and Net Assets – Modified Cash Basis and includes all demand and savings accounts and certificates of deposit and other short-term investments with an original maturity of three months or less.
- E. Funds Held For Others** - Funds Held for Others includes amounts received that are fiduciary in nature in which the New Hanover County Partnership acts in an agency capacity. New Hanover County Partnership was awaiting payments from employees for insurance premiums and flex spending accounts: \$4,694 health; \$358 dental; \$1,125 flex spending, and \$49 disability coverage.
- F. Property and Equipment** - Under the modified cash basis of accounting, purchases of property and equipment are reported as expenditures in the year incurred. However, New Hanover County Partnership is required by contract regulation to track and maintain property and equipment items as presented in Schedule 4 of this report. The New Hanover County Partnership has a policy to track purchases of property and equipment items with an individual cost of \$500 or more and an estimated useful life greater than one year. Such items are valued at their original purchase price, which may be different from their valuation as of June 30, 2016. Donated items are recorded on the property and equipment log at estimated fair market value at the date of donation.
- G. Compensated Absences** - As a result of the use of the modified cash basis of accounting, liabilities related to accrued compensated absences are not recorded in the financial statements. Expenditures related to compensated absences are recorded when paid. The amount of accrued compensated absences for accumulated, unpaid leave that would be due to employees upon termination is reported as a commitment in Note 9.
- H. Use of Estimates** - The preparation of financial statements in conformity with the modified cash basis of accounting used by the New Hanover County Partnership requires management to make estimates and assumptions that affect certain reported amounts and disclosures (such as allocation of joint costs); accordingly, actual results could differ from those estimates. It is management's belief that these estimates are reasonable and fair.

**SMART START OF NEW HANOVER COUNTY, INC.**

**NOTES TO THE FINANCIAL STATEMENTS**

**JUNE 30, 2016**

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**NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**

- I. **Qualifying Match and Contributions In-Kind** – New Hanover County Partnership, in accordance with applicable Smart Start legislation, reports qualifying match provided at both the Partnership and the contractor level; the qualifying match is reported in supplemental Schedule 5. The match includes cash received and expended at the Partnership level, which is included in the modified cash basis financial statements. The qualifying match reported on Schedule 5 for cash provided at the contractor level and for in-kind goods and services at both the Partnership and contractor levels is not recorded in the modified cash basis financial statements. In-kind contributions could be donated equipment, supplies, office space, or services. New Hanover County Partnership also benefits from donor volunteer hours which do not require specific expertise but which are nonetheless central to New Hanover County Partnership's operations. See supplemental Schedule 5 for more information on contributions in-kind.

**Note 2 - Deposits**

All funds of the New Hanover County Partnership are deposited with commercial banks and insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000.

Deposits over insured amounts subject the New Hanover County Partnership to a concentration of credit risk. At June 30, 2016, the New Hanover County Partnership did not have any bank deposits not insured by the FDIC.

**NOTE 3 - FUNDING FROM GRANT AWARDS AND CONTRACTS**

**Smart Start Program** - The New Hanover County Partnership's major source of revenue and support is from the State of North Carolina based on cost-reimbursement contracts with The North Carolina Partnership for Children, Inc. (NCPC) for the Smart Start program. A significant reduction in the level of funding from the State could have an adverse effect on the operations of the New Hanover County Partnership and represents a concentration of credit risk as to the generation of revenue.

Associated with these contracts, the New Hanover County Partnership is responsible for developing a comprehensive, collaborative, long-range plan of services to children and families for the service-delivery area. During the year, the North Carolina Department of Health and Human Services (DHHS) entered into contracts with and made payments to service providers selected by the New Hanover County Partnership. These service provider contracts are not reflected on the accompanying financial statements. However, a summary of the service provider contracts entered into by DHHS is presented on Schedule 2 accompanying the financial statements.

The New Hanover County Partnership was awarded and has received \$1,359,145 under a current year Smart Start contract with NCPC. The New Hanover County Partnership has expended all awarded funds and therefore has returned none of this contract to the State based on financial status reports submitted to NCPC subsequent to June 30, 2016.

**NOTE 3 - FUNDING FROM GRANT AWARDS AND CONTRACTS, CONTINUED**

The New Hanover County Partnership expects to receive continued funding through new Smart Start contracts with the State.

**Parent as Teachers (PAT) Program** - The New Hanover County Partnership's other major source of revenue and support is from the State of North Carolina based on a cost-reimbursement contract with DHHS for the PAT program.

The New Hanover County Partnership was awarded \$125,000 and has received \$110,831 under a current year PAT contract with DHHS. Additionally, the New Hanover County Partnership received \$24,108 related to a prior year contract.

The New Hanover County Partnership expects to receive continued funding through new PAT program contracts with the State.

**Regional Child Care Resource & Referral Program (CCR&R)** – The New Hanover County Partnership received revenue and support from the State of North Carolina DHHS based on a cost-reimbursement pass-through contract with the Regional CCR&R (Southeastern Community College).

The New Hanover County Partnership was awarded \$23,000 and has received \$25,180 under current year contract. The New Hanover County Partnership has refunded \$2,180 of this contract to the State based on financial status reports submitted subsequent to June 30, 2016.

The New Hanover County Partnership expects to receive continued funding through the Regional CCR&R for the Regional CCR&R program.

**Race to the Top – Early Learning Challenge Grant I (RTT- ELC)** – The New Hanover County Partnership also received revenue and support from the North Carolina DHHS for the RTT-ELC. The RTT-ELC grant is a federally funded initiative to reduce disparities in school readiness among children with high needs and their peers. The New Hanover County Partnership was awarded \$189,808 in a prior year and received \$38,692 of this prior year grant during the year ended June 30, 2016.

The New Hanover County Partnership does not expect to continue receiving funding through DHHS for the RTT-ELC grant.

**Race to the Top – Early Learning Challenge Grant II (RTT- ELC)** – The New Hanover County Partnership also received revenue and support from the North Carolina DHHS for the RTT-ELC. The RTT-ELC grant is a federally funded initiative to help track the data of early childhood programs. This program is a data capacity building project that allows partnerships to purchase licenses to a data management system and to be trained in that system. The New Hanover County Partnership was awarded \$9,464 and has received \$500 under the current year RTT-ELC grant.

**NOTE 3 - FUNDING FROM GRANT AWARDS AND CONTRACTS, CONTINUED**

The New Hanover County Partnership expects to continue receiving funding through DHHS for the RTT-ELC grant.

**New Hanover County Department of Social Services (NHC DSS) Triple P Grant** – The New Hanover County Partnership received revenue and support from NHC DSS for Triple P parenting classes. This was a purchase of service grant that paid for the New Hanover County Partnership to provide 9 week parenting classes to parents who were referred by the courts and NHC DSS. The New Hanover County Partnership was awarded \$60,000 and has received \$48,000 under the current year Triple P Grant. Additionally, The New Hanover County Partnership received \$18,000 related to a prior year contract.

The New Hanover County Partnership expects to continue receiving funding through NHC DSS for the Triple P Grant.

**Cape Fear United Way Triple P Grant** – The New Hanover County Partnership received revenue and support from Cape Fear United Way for Triple P parenting classes. This grant supports the grant received from NHC DSS. The New Hanover County Partnership was awarded \$30,000 and has received \$30,000 under the current year Triple P Grant.

The New Hanover County Partnership expects to continue receiving funding through Cape Fear United Way for the Triple P Grant.

**NOTE 4 - RELATED PARTY TRANSACTIONS**

**Service Provider Contracts with Board Member Organizations** - The board members of the New Hanover County Partnership are representatives of various organizations that benefit from actions taken by the Board. It is the policy of the New Hanover County Partnership that board members not be involved with decisions regarding organizations they represent. During the year, the New Hanover County Partnership entered into contracts with board member organizations for program activities as identified on Schedule 1 accompanying the financial statements. In addition, Schedule 2 identifies contracts entered into by DHHS with board member organizations for activities funded by the New Hanover County Partnership's Smart Start allocation.

**Note 5 - Functional Expenditures**

The costs of providing the various programs and activities have been summarized on a functional basis in the Statement of Receipts, Expenditures, and Net Assets – Modified Cash Basis. Also, the Statement of Functional Expenditures – Modified Cash Basis, provides detail of the functional costs by their natural classification. Following are the services associated with the functional categories presented in the accompanying financial statements and the methods utilized to allocate joint cost:

**A. Program Functions**

**Child Care and Education Affordability** - Used to account for service activities including State subsidy contract and administration (Division of Child Development and Early Education) [DCDEE], and dual subsidy.

**Child Care and Education Quality** - Used to account for service activities including quality enhancement and maintenance, child care resource and referral, professional development and supplements, literacy for child care providers, provider training, special needs – early intervention support for child care professionals, learning materials and teaching aids, curriculum enhancements, and kindergarten orientation/transition.

**Family Support** - Used to account for service activities including family resource centers, teen parent/child programs, ongoing parenting education, general family support, literacy or family literacy projects, community outreach information and resources, and home visiting or family support needs.

**Note 5 - FUNCTIONAL EXPENDITURES, CONTINUED**

**Health and Safety** - Used to account for service activities including special needs – early intervention services/special education, health needs and resources assessment, or nutrition programs.

**B. Support Functions**

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

**Program Coordination and Evaluation** - Expenditures that are incurred to coordinate the policies, procedures, daily practices, and evaluation of service delivery. Also, costs associated with providing technical assistance, monitoring and reporting of in-house and direct service provider activities as to the delivery of services and adherence to the specific terms and conditions of the contracts.

**C. Allocation of Joint Costs**

Expenditures benefiting more than one purpose were allocated as follows:

**Salaries and Benefits** - Direct allocation based on employee time reports.

**Other Costs** - Other costs including occupancy cost (rent, utilities and maintenance), supplies and materials, and communication costs (telephone and printing) were indirectly allocated based on utilization data.

**NOTE 6 - OPERATING LEASE OBLIGATIONS**

Future minimum lease payments under non-cancelable operating leases for office and equipment rental consist of the following at June 30, 2016:

Fiscal Year	Operating Leases
2017	\$ 136,871
2018	65,335
Total Minimum Lease Payments	<u>\$ 202,206</u>

Rental expense for all operating leases during the year was \$140,108.

**Note 7 - Pension Plan**

**IRC Section 403(b) Plan** - All permanent employees who are at least half time can participate in a tax sheltered annuity plan (Plan) created under Internal Revenue Code Section 403(b). The Plan is a defined contribution plan in which each employee of the New Hanover County Partnership, as a condition of employment, is provided an individual annuity through an outside insurance company. The New Hanover County Partnership contributed 3% of gross wages for participating employees for the year ended June 30, 2016. The employee's eligible contributions, made through salary reduction agreements, are exempt from federal and State income taxes until the annuity is received or the contributions are withdrawn. These Plans are exclusively for employees of universities and certain charitable and other nonprofit organizations. All costs of administering and funding these Plans are the responsibility of the Plan participants. The New Hanover County Partnership contributed \$15,647 for retirement benefits during the year.

**NOTE 8 - RISK MANAGEMENT**

The New Hanover Partnership is exposed to various risks of loss related to torts, theft of, damage to, or destruction of assets; errors and omissions; injuries to employees; employees' health and life; and natural disasters. The New Hanover County Partnership manages these various risks of loss as follows:

<u>Type of Loss</u>	<u>Method Managed</u>	<u>Risk of Loss Retained</u>
Torts, errors and omissions, health and life	Purchased commercial insurance	None
Workers Compensation – employee injuries	Purchased commercial insurance	None
Physical property loss and natural disasters	Purchased commercial insurance	None

Management believes such coverage is sufficient to preclude any significant losses to the New Hanover County Partnership. Settled claims have not exceeded this insurance coverage in any of the past three fiscal years.

**SMART START OF NEW HANOVER COUNTY, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

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**NOTE 9 - COMMITMENTS AND CONTINGENCIES**

**Compensated Absences** - As a result of the New Hanover County Partnership's use of the modified cash basis of accounting, accrued liabilities related to compensated absences (vacation only; sick leave does not vest) and any employer-related costs earned and unpaid, are not reflected in the financial statements. The compensated absences commitment for vacation leave at June 30, 2016, is \$18,602. No funds or reservation of net assets has been made for this commitment.

**NOTE 10 - RESTRICTIONS ON NET ASSETS**

**A. Temporarily Restricted Net Assets** - Temporarily restricted net assets at June 30, 2016 are available for the following purposes:

Purpose	Amount
Shape NC Phase II: activities that assist with fighting obesity in children	\$ 1,829
CFMF Faith Summit: Funds for expenses related to annual Faith Summit	532
Family Support Contributions: Private contributions to assist with emergency needs of parents that are participating in SS Programs	873
Read & Paly: Funds to assist with purchasing of books and literacy activities	107
ROR Contributions: Private contributions to assist with the purchase of books for Reach Out and Read	1,022
Scholarship for Childcare: registration fees for children birth to 5 who receive subsidy	2,720
BlockFest: Grant from Corning & Vertex to purchase materials for use at BlockFest Events	<u>3,026</u>
Total	<u>\$ 10,109</u>

**SMART START OF NEW HANOVER COUNTY, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

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**NOTE 10 - RESTRICTIONS ON NET ASSETS, CONTINUED**

**B. Net Assets Released From Donor Restrictions** - Net assets were released from donor restrictions during the fiscal year ended June 30, 2016, by incurring expenditures satisfying the restricted purposes as follows:

Purpose	Amount
Shape NC Phase II: activities that assist with fighting obesity in children	\$ 2,204
Coastal Carolina Women’s Club: funds to assist emergency needs of parents that are participating in SS Parenting programs	309
BCBS – Play Outside: Grants to Childcares for Outdoor equipment	5,000
CFMF Faith Summit: Funds for expenses related to annual Faith Summit	316
Knox Clinic: funds to pay for Early Childcare Information brochure and insert	8,300
Family Support Contributions: Private contributions to assist with emergency needs of parents that are participating in SS Programs	27
Scholarship for Childcare: registration fees for children birth to 5 who receive subsidy	1,615
Target Reach Out and Read: funds for books	2,127
Walmart Reach Out and Read: funds for books	168
Total	<u>\$ 20,066</u>

**NOTE 11 - INCOME TAXES**

The New Hanover County Partnership is exempt from payment of income taxes under the provision of Section 501(c)(3) of the Internal Revenue Code, except to the extent of taxes on any unrelated business income.

FASB ASC 740 provides guidance for how uncertain tax positions should be recognized, measured, presented and disclosed in the financial statements. FASB ASC 740 requires the evaluation of tax positions taken or expected to be taken in the course of preparing financial statements to determine whether the tax positions are “more-likely-than-not” to be sustained by the applicable tax authority. Income tax returns from 2013 through 2015 are open for examination by taxing authorities.

The New Hanover County Partnership does not believe there are any unrecognized tax benefits or costs as of June 30, 2016.

**NOTE 12 - SUBSEQUENT EVENTS**

The New Hanover County Partnership has evaluated events and transactions that occurred between June 30, 2016 and January 31, 2017, which is the date the financial statements were available to be issued, for possible recognition or disclosure in the financial statements. Events or transactions that provided evidence about conditions that did not exist at June 30, 2016 but arose before the financial statements were available to be issued have not been recognized in the financial statements for the year ended June 30, 2016.

**NOTE 13 - NEW ACCOUNTING PRONOUNCEMENTS**

In August 2016, the FASB issued guidance to make targeted improvements to the not-for-profit financial reporting model, including changes in how a not-for-profit organization classifies its net assets, as well as the information it presents in financial statements and notes about its liquidity, and financial performance. The amendments will be effective for the Partnership for fiscal years beginning after December 15, 2017 and interim periods within fiscal years beginning after December 15, 2018. The Partnership is currently evaluating the effect that implementation of the new standard will have on its financial position, and results of operations.

**Smart Start of New Hanover County, Inc**  
**Schedule of Contract and Grant Expenditures - Modified Cash Basis**  
**For the Year Ended June 30, 2016**

**Schedule 1**

Organization Name	Smart Start Funds		Other Funds	
	Amount Advanced	Refund Due	Amount Advanced	Refund Due
<b>Organizations:</b>				
A Childs World Early Learning	\$ 1,500	\$ -	\$ -	\$ -
AAI Pharma Services Learning Center	1,500	-	200	-
Carr's Academy	1,500	-	-	-
Castle Hayne PreK	* 1,500	-	-	-
CFCC Child Development Center	* 1,500	-	-	-
Child Development Center	1,500	-	-	-
Childcare Network # 83	1,500	-	200	-
ChildCare Network #127	1,500	-	-	-
Childcare Network #128	1,500	-	-	-
ChildCare Network #158	1,500	-	-	-
Childrens Learning Center I	1,500	-	-	-
Childrens Learning Center II	1,500	-	-	-
College Road Early Learning PreK	* 1,500	-	-	-
Communities In Schools of CF - BABY FAST	77,156	-	-	-
Community Care of LCF - ABCD	-	-	53,483	-
Domestic Violence	-	-	750	-
Easter Seals UCP Children's Center	1,500	-	-	-
Johnson PreK	* 1,500	-	-	-
Kids & Company CC Center	-	-	5,743	-
KLK Management, LLC (Kayla's Korner)	1,500	-	-	-
LINC, Inc	-	-	750	-
Mary Washington Howe PreK	* 1,500	-	-	-
Milestone Learning Center	1,500	-	-	-
NHC Public Library - Read Out & Read	* 25,350	-	2,294	-
NHC Public Library- Raising A Reader	* 66,750	-	-	-
Rachel Freeman PreK	* 1,500	-	-	-
Wilmington Children's Museum	-	-	750	-
Wrightsboro Elementary School	* 1,500	-	-	-
	<u>199,256</u>	<u>-</u>	<u>64,170</u>	<u>-</u>
<b>Individuals:</b>				
Books for Raising A Reader Participants	-	-	38	-
Bus Passes for PAT Clients	-	-	140	-
Child Care Scholarships	-	-	1,695	-
Educational Scholarship Grants	84,750	-	-	-
Incentives for MotherRead Participants	98	-	508	-
Incentives for Parenting Classes	335	-	176	-
Incentives for PAT Clients	-	-	1,899	-
Incentives for Triple P Clients	-	-	27	-
Taxi Services for Triple P Clients	-	-	1,464	-
Touchpoints Incentives	1,600	-	-	-
	<u>86,783</u>	<u>-</u>	<u>5,947</u>	<u>-</u>
	<u>\$ 286,039</u>	<u>\$ -</u>	<u>\$ 70,117</u>	<u>\$ -</u>

\* These organizations are represented on the Partnership's Board as described in Note 4 - Service Provider Contracts with Board Member Organizations.

**Smart Start of New Hanover County, Inc.**  
**Schedule of State Level Service Provider Contracts**  
**For the Year Ended June 30, 2016**

**Schedule 2**

<b>Organization Name</b>	<b>DHHS Contracts</b>
* New Hanover County Department of Social Services	\$ 824,438
	<u>\$ 824,438</u>

\* These organizations are represented on the Partnership's Board as described in Note 4 - Service Provider Contracts with Board Member Organizations.

The information on this schedule provides a listing of service provider contracts entered into by the North Carolina Department of Health and Human Services (DHHS) as described in Note 3 - Funding from Grant Awards and Contracts.

**Smart Start of New Hanover County, Inc.**  
**Schedule of Federal and State Awards - Modified Cash Basis**  
**For the Year Ended June 30, 2016**

**Schedule 3**

Federal/State Grantor/Pass-through Grantor/Program	Federal CFDA Number	Contract #	Receipts	Expenditures
<b>Federal Awards:</b>				
U.S. Department of Health and Human Services				
Pass-through from Child Care Resource Incorporated (CCR&R)				
Child Care Resource and Referral Program	93.575	3233-304-1	\$ 25,180	\$ 23,000
Pass-through from the North Carolina Department of Health and Human Services				
Family Support Program - Parents as Teachers (Prior Year)	93.596	00032098	24,108	-
Pass-through from the North Carolina Department of Health and Human Services				
Family Support Program - Parents as Teachers (Current Year)	93.596	00032098	110,831	122,819
U.S. Department of Education				
Pass-through from the North Carolina Department of Health and Human Services				
Pass-through from The North Carolina Partnership for Children, Inc.				
Race to the Top - Early Learning Challenge Grant Data Project (Current Year)	84.412	320:15/16-019	500	1,624
Race to the Top - Early Learning Challenge Grant (Prior Year)	84.412	320-13-14-005	38,692	58,058
<b>Total Federal Awards</b>			<b>199,311</b>	<b>205,501</b>
<b>State Awards:</b>				
North Carolina Department of Health and Human Services				
Division of Child Development and Early Education				
Pass-through from The North Carolina Partnership for Children, Inc.				
Early Childhood Initiatives Program (Current Year)	*	N/A	1,359,145	1,359,145
<b>Total State Awards</b>			<b>1,359,145</b>	<b>1,359,145</b>
<b>Total Federal and State Awards</b>			<b>\$ 1,558,456</b>	<b>\$ 1,564,646</b>

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

**Smart Start of New Hanover County, Inc.**  
**Schedule of Property and Equipment - Modified Cash Basis**  
**For the Year Ended June 30, 2016**

**Schedule 4**

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Furniture and Noncomputer Equipment	\$ 58,709
Computer Equipment/Printers	32,084
Leasehold Improvements	<u>25,915</u>
<b>Total Property and Equipment</b>	<b><u><u>\$ 116,708</u></u></b>

Note: The information on this schedule provides a summary of property and equipment with acquisition or donated cost of \$500 or more which were held by the Partnership at year end. The valuations represent historical cost. On the modified cash basis of accounting, these items are expensed in the year of purchase.

**Smart Start of New Hanover County, Inc.**  
**Schedule of Qualifying Match (Non-GAAP)**  
**For the Year Ended June 30, 2016**

**Schedule 5**

**Match Provided at the Partnership Level:**

Cash	\$ 181,157
In-Kind Goods and Services	<u>40,322</u>
	<u>\$ 221,479</u>

**Match Provided at the Contractor Level:**

Cash	<u>\$ 210,435</u>
	<u>\$ 210,435</u>

Note: This schedule is presented in accordance with the program match requirement as provided for by North Carolina Session Law 2015-241, Section 12B.7(d). The match is comprised of both cash and in-kind amounts. Only in-kind contributions that are verifiable, quantifiable, and related to the Smart Start Program can be applied to the in-kind match requirement, including volunteer services. The law allows for volunteer services to be valued for match purposes, a concept that deviates from generally accepted accounting principles. This schedule identifies those amounts allowable for this partnership in meeting the statewide match requirement.



**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  
Smart Start of New Hanover County, Inc.  
Wilmington, North Carolina

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the accompanying financial statements of Smart Start of New Hanover County, Inc., as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise Smart Start of New Hanover County, Inc.'s basic financial statements, and have issued our report thereon dated January 31, 2017.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the modified cash basis financial statements, we considered Smart Start of New Hanover County, Inc.'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 opinions on the modified cash basis financial statements, but not for the purpose of expressing an opinion on the effectiveness of Smart Start of New Hanover County, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of Smart Start of New Hanover County, Inc.'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 entity'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 material weaknesses. However, material weaknesses may exist that have not been identified.

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Smart Start of New Hanover County, Inc.'s modified cash basis financial statements are free of 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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Elliott Davis Decosimo, PLLC*

Raleigh, North Carolina  
January 31, 2017