

FINANCIAL STATEMENT AUDIT REPORT OF  
SMART START OF NEW HANOVER COUNTY  
WILMINGTON, NORTH CAROLINA  
FOR THE YEAR ENDED JUNE 30, 2018

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BOARD OF DIRECTORS  
KHADIJIA TRIBIE, BOARD CHAIR

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  
Wilmington, North Carolina

### Report on Financial Statements

We have audited the accompanying financial statements of the Smart Start of New Hanover County (the "Partnership"), which comprise the Statement of Receipts, Expenditures, and Net Assets — Modified Cash Basis as of and for the year ended June 30, 2018, the related Statement of Functional Expenditures — Modified Cash Basis for the year then ended, and the related notes to the financial statements.

### *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 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 as of June 30, 2018, 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 15 and Schedule 5 on page 18 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 is the responsibility of management and 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 financial statements as a whole.

#### *Other Reporting Required by Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 26, 2019, 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, PLLC*

Raleigh, North Carolina  
February 26, 2019

**Smart Start of New Hanover County**  
**Statement of Receipts, Expenditures, and Net Assets - Modified Cash Basis**  
**For the year ended June 30, 2018**

*Exhibit A*

	Unrestricted Funds		Temporarily	Total
	Smart Start Funds	Other Funds	Restricted Funds	
<b>Receipts:</b>				
State Awards and Contracts	\$ 1,340,742	\$ 9,575	\$ -	\$ 1,350,317
Federal Awards	-	165,951	-	165,951
Local Awards	-	37,923	7,077	45,000
Private Contributions	-	32,261	8,010	40,271
Special Fund Raising Events	-	60,474	1,286	61,760
Interest and Investment Earnings	-	506	-	506
Sales Tax Refunds	-	4,207	-	4,207
Other Receipts	-	14,438	-	14,438
Total Receipts	<u>1,340,742</u>	<u>325,335</u>	<u>16,373</u>	<u>1,682,450</u>
Net Assets Released from Restrictions:				
Satisfaction of Program Restrictions	-	22,025	(22,025)	-
	<u>1,340,742</u>	<u>347,360</u>	<u>(5,652)</u>	<u>1,682,450</u>
<b>Expenditures:</b>				
Programs:				
Child Care and Education Affordability	-	695	-	695
Child Care and Education Quality	471,339	17,690	-	489,029
Family Support	423,398	236,696	-	660,094
Health and Safety	148,277	4,760	-	153,037
NC Pre-K	25,682	668	-	26,350
Support:				
Fund Raising	-	300	-	300
Management and General	170,464	26,297	-	196,761
Program Coordination and Evaluation	101,582	303	-	101,885
Other:				
Refund of Prior Year Grant	-	1,463	-	1,463
Sales Tax Paid	-	4,171	-	4,171
Total Expenditures	<u>1,340,742</u>	<u>293,043</u>	<u>-</u>	<u>1,633,785</u>
<b>Excess/Deficiency of Receipts Over Expenditures</b>	<u>-</u>	<u>54,317</u>	<u>(5,652)</u>	<u>48,665</u>
<b>Net Assets at Beginning of Year</b>	-	165,899	32,208	198,107
<b>Net Assets at End of Year</b>	<u>\$ -</u>	<u>\$ 220,216</u>	<u>\$ 26,556</u>	<u>\$ 246,772</u>
<b>Net Assets Consisted of:</b>				
Cash and Cash Equivalents	\$ 980	\$ 212,970	\$ 26,556	\$ 240,506
Less: Due to State	980	-	-	980
Less: Funds Held for Others	-	(7,246)	-	(7,246)
Total Net Assets	<u>\$ -</u>	<u>\$ 220,216</u>	<u>\$ 26,556</u>	<u>\$ 246,772</u>

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

**Smart Start of New Hanover County**  
**Statement of Functional Expenditures - Modified Cash Basis**  
**For the year ended June 30, 2018**

*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>								
Programs:								
Child Care and Education Quality	\$ 471,339	\$ 248,345	\$ 86	\$ 14,653	\$ 33,274	\$ 59,081	\$ 5,690	\$ 110,210
Family Support	423,398	212,618	171	3,862	27,494	52,257	7,745	119,251
Health and Safety	148,277	120,072	29	4,225	8,274	13,228	2,449	-
NC Pre-K	25,682	-	-	-	-	-	-	25,682
	<u>1,068,696</u>	<u>581,035</u>	<u>286</u>	<u>22,740</u>	<u>69,042</u>	<u>124,566</u>	<u>15,884</u>	<u>255,143</u>
Support:								
Management and General	170,464	138,222	4,020	881	6,151	21,048	142	-
Program Coordination and Evaluation	101,582	83,183	1,166	466	7,183	8,601	983	-
	<u>272,046</u>	<u>221,405</u>	<u>5,186</u>	<u>1,347</u>	<u>13,334</u>	<u>29,649</u>	<u>1,125</u>	<u>-</u>
Total Smart Start Fund Expenditures	<u>\$ 1,340,742</u>	<u>\$ 802,440</u>	<u>\$ 5,472</u>	<u>\$ 24,087</u>	<u>\$ 82,376</u>	<u>\$ 154,215</u>	<u>\$ 17,009</u>	<u>\$ 255,143</u>
<b>Other funds:</b>								
Programs:								
Child Care and Education Affordability	\$ 695	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 695
Child Care and Education Quality	17,690	9,223	-	-	7,833	387	247	-
Family Support	236,696	178,737	1,421	7,488	25,905	6,311	1,322	15,512
Health and Safety	4,760	-	-	1,631	280	136	103	2,610
NC Pre-K	668	-	-	-	-	-	-	668
	<u>260,509</u>	<u>187,960</u>	<u>1,421</u>	<u>9,119</u>	<u>34,018</u>	<u>6,834</u>	<u>1,672</u>	<u>19,485</u>
Support:								
Fund Raising	300	-	-	-	300	-	-	-
Management and General	26,297	11,954	2,081	775	7,788	1,980	1,719	-
Program Coordination and Evaluation	303	-	-	-	249	-	54	-
	<u>26,900</u>	<u>11,954</u>	<u>2,081</u>	<u>775</u>	<u>8,337</u>	<u>1,980</u>	<u>1,773</u>	<u>-</u>
Other:								
Refund of Prior Year Grant	1,463	-	-	-	-	1,463	-	-
Sales Tax Paid	4,171	-	-	4,171	-	-	-	-
	<u>5,634</u>	<u>-</u>	<u>-</u>	<u>4,171</u>	<u>-</u>	<u>1,463</u>	<u>-</u>	<u>-</u>
Total Other Funds Expenditures	<u>\$ 293,043</u>	<u>\$ 199,914</u>	<u>\$ 3,502</u>	<u>\$ 14,065</u>	<u>\$ 42,355</u>	<u>\$ 10,277</u>	<u>\$ 3,445</u>	<u>\$ 19,485</u>

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

**SMART START OF NEW HANOVER COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

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**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 as net assets released from restrictions.

The New Hanover County Partnership did not have any permanently restricted net assets at June 30, 2018.

- 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.

However, unexpended advances to contractors that revert back to the State of North Carolina are recognized as a reduction to expenditures and an increase to net assets. In addition, amounts withheld from employee paychecks or other amounts received in an agency capacity are recorded as funds held for others. Additionally, Smart Start funds advanced to the Local Partnership that are unexpended and unearned at year end are recorded as funds Due to the State.

- 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.

**SMART START OF NEW HANOVER COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

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

- E. Due to state** - The funding provided by the State of North Carolina for the Smart Start Initiative is funded on a cost-reimbursement basis. The money is earned to the extent of allowable costs incurred. Any unexpended funds as of June 30 are required to be reverted to The North Carolina Partnership for Children, Inc. to be returned to the State of North Carolina.
- F. 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. For the year ended June 30, 2018, the New Hanover County Partnership was awaiting payments from employees for insurance premiums and flex spending accounts: \$5,772 health; \$500 dental; \$24 disability; \$69 legal benefits; and \$881 flex spending.
- G. 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, 2018. Donated items are recorded on the property and equipment log at estimated acquisition value at the date of donation, which is defined as the price that would be paid to acquire an asset with equivalent service capacity in an orderly market transaction at the acquisition date.
- H. 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.
- I. 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  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2018**

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

- J. 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 a commercial banks and insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000.

Deposits over insured amounts subjects the New Hanover County Partnership to a concentration of credit risk. At June 30, 2018, the New Hanover County Partnership's bank deposits in excess of the FDIC insured limit was \$58,693.

**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.

**SMART START OF NEW HANOVER COUNTY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2018**

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

**Smart start program, continued** - The New Hanover County Partnership was awarded and has received \$1,342,295 under a current year Smart Start contract with NCPC. The unexpended balance of this contract is subject to reversion to the State. The New Hanover County Partnership has refunded \$980 of this contract to the State based on financial status reports submitted to NCPC subsequent to June 30, 2018. Additionally, the New Hanover County Partnership refunded \$573 of a prior year contract to the State during the year ended June 30, 2018.

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

**Dolly Parton Imagination Library (“DPIL”)** - The New Hanover County Partnership also received revenue and support from the State of North Carolina for the DPIL. The New Hanover Partnership was awarded \$17,000 and received \$9,575 under a current year financial assistance contract.

The New Hanover County Partnership expects to receive continued funding through new DPIL 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 \$135,000 and has received \$126,524 under the current year PAT contract with DHHS. Additionally, the New Hanover County Partnership received \$22,760 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 and received \$16,667 under the current year contract. 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 subsequent to June 30, 2018. Additionally, the New Hanover County Partnership received \$1,463 related to a prior year contract.

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

**SMART START OF NEW HANOVER COUNTY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2018**

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

**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 received \$33,000 under the current year Triple P Grant. Additionally, the New Hanover County Partnership received \$12,000 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 and received \$27,000 under the current year Triple P Grant.

The New Hanover County Partnership expects to continue receiving funding through Cape Fear United Way.

**NOTE 4 - RELATED PARTY TRANSACTIONS**

**Service provider contracts with board member organizations** - The board members of the New Hanover County Partnership are representative 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 services support Division of Child Development and Early Education (“DCDEE”), dual subsidy and subsidy supplements for quality.

**SMART START OF NEW HANOVER COUNTY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2018**

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**NOTE 5 - FUNCTIONAL EXPENDITURES, CONTINUED**

**A. Program functions, continued**

**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, 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, family intervention, literacy or family literacy projects, transportation services, community outreach information and resources, home visiting or community systems building.

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

**NC Pre-K** - Used to account for development and implementation of NC Pre-K prekindergarten program for four-year-olds. The goal is to provide quality prekindergarten services in order to enhance kindergarten readiness.

**B. Support functions**

**Fund Raising** - Expenditures that are incurred in inducing others to contribute money, securities, time, materials, or facilities for which the contributor will receive no direct economic benefit.

**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, needs assessment and strategic planning. 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.

**SMART START OF NEW HANOVER COUNTY  
NOTES TO FINANCIAL STATEMENTS  
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**NOTE 6 - OPERATING LEASE OBLIGATIONS**

Future minimum lease payments under non-cancelable operating leases consist of the following at June 30, 2018:

<u>Fiscal Year</u>	<u>Operating Leases</u>
2019	\$ 155,577
2020	155,577
2021	90,521
2022	6,625
2023	-
2024 and beyond (5 year increments)	-
Total minimum lease payments	<u>\$ 408,300</u>

Rental expense for all operating leases during the year was \$140,317.

**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 the year ended June 30, 2018. 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 \$15,960 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 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  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2018**

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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, 2018, is \$22,859. 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, 2018 are available for the following purposes:

Purpose	Amount
Trillium Health – activities that provide Triple P Level 2 and Touchpoints Training	\$ 6,662
NHC DSS Triple P – activities that provide Triple P Level 4 Parenting classes to DSS clients	7,077
Corning Positive Parenting Activities for Positive Parenting	5,000
CFMF Faith Summit –funds for expenses related to annual Faith Summit	129
Family Support Contributions – Private contributions to assist with emergency needs of parents participating in SS programs	1,656
Read & Play – Funds to assist with purchasing of books and literacy activities	107
ROR Contributions – private contributions to assist with Books for Reach Out and Read	1,023
Scholarship for Childcare – Registration fees for children birth to 5 who receive subsidy	1,640
Family Festival – contributions for annual family festival	552
Farm to Childcare – funds to support implementing farm to childcare programs	2,510
Pathways to Grade Level Reading – funds to support meeting to advance outcomes of third grade level reading in NHC	200
	<u>\$ 26,556</u>

**SMART START OF NEW HANOVER COUNTY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2018**

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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, 2018, by incurring expenditures satisfying the restricted purposes as follows:

Purpose	Amount
Trillium Health – activities that provide Triple P level 2 and Touchpoints Training	\$ 374
NHC DSS Triple P – activities that provide Triple P level 4 Parenting classes to DSS clients	17,646
CFMF Faith Summit – funds for expenses related to annual Faith Summit	204
Family Support Contributions – private contributions to assist with emergency Needs of parents participating in SS programs	100
Scholarship for Childcare – registration fees for children birth to 5 who receive subsidy	695
Family Festival – contributions for annual family festival	1,081
Farm to Childcare – funds to support implementing far to childcare programs	1,925
	<u>\$ 22,025</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.

The New Hanover County Partnership does not believe there are any unrecognized tax benefits or costs as of June 30, 2018.

**NOTE 12 - SUBSEQUENT EVENTS**

The New Hanover County Partnership has evaluated events and transactions that occurred between June 30, 2018 and February 26, 2019, 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, 2018 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, 2018.

**Smart Start of New Hanover County**  
**Schedule of Contract and Grant Expenditures - Modified Cash Basis**  
**For the year ended June 30, 2018**

Schedule 1

Organization name	Smart start funds		Other funds	
	Amount advance	Refund due	Amount advanced	Refund due
<b>Organizations:</b>				
Brighter Day Daycare	\$ 900	\$ -	\$ -	\$ -
CFCC Child Development Center	900	-	-	-
Carr's Academy, LLC	900	-	-	-
Chestnut Preschool Inc	900	-	-	-
Childcare Network (#82,#83,&#159)	2,400	-	-	-
Child Development Center	900	-	-	-
Children's Cottage of Wilmington	-	-	600	-
Children's Learning Center 2	750	-	-	-
College Road Early ChildCare (NHCS)	* 900	-	-	-
Communities in Schools (Triple P Level 2 Stipend)	- 77,166	-	750	-
Communities in Schools ( Ready Parents)	900	-	668	-
KLK Management, LLC (Kayla's Korner)	1,200	-	-	-
Kids & Co Child Care (1 & 2)	900	-	-	-
Milestone Learning	* 600	-	-	-
Noah's Ark	* 32,752	-	750	-
NHC Public Library (Triple P Level 2 Stipend)	* 9,332 (573)	-	750	-
NHC Public Library (Raising A Reader)	* 26,255	-	668	-
NHC Public Library (Reach Out & Read)	600	-	3,168	-
NHC Schools (Curriculum & Assessment) Prior Year - Refund	* 900	-	-	-
NHC Schools (Curriculum & Assessment)	-	-	668	-
Park Avenue School	-	-	-	-
Rachel Freeman PreK (NHCS)	-	-	-	-
The Learning Center (AAI)	-	-	750	-
	<u>158,582</u>	<u>-</u>	<u>8,772</u>	<u>-</u>
<b>Individuals:</b>				
BeActive Kits to Workshop attendee	211	-	-	-
Bus Passes for PAT & Triple P Clients	-	-	495	-
Child Care Expense For Triple & PAT Clients	-	-	3,977	-
Child Care Scholarships	-	-	695	-
Educational Scholarship Grants	96,350	-	-	-
Farm to Childcare Travel Stipends	-	-	2,010	-
Incentives for PAT Clients	-	-	2,288	-
Incentives for Triple P Clients	-	-	150	-
Substitute Teacher for Pathways training	-	-	43	-
Taxi Servies for PAT & Triple Clients	-	-	1,055	-
	<u>96,561</u>	<u>-</u>	<u>10,713</u>	<u>-</u>
	<u>\$ 255,143</u>	<u>\$ -</u>	<u>\$ 19,485</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  
Schedule of State Level Service Provider Contracts  
For the year ended June 30, 2018***

*Schedule 2*

<b>Organization name</b>	<b>DHHS contracts</b>
* New Hanover County Department of Social Services	<u>\$ 834,474</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**  
**Schedule of Federal and State Awards - Modified Cash Basis**  
**For the year ended June 30, 2018**

Schedule 3

Federal/State Grantor/Pass-through Grantor/Program	Federal CFDA Number	Contract #	Receipts	Expenditures
<b>Federal awards:</b>				
U.S Depart of Health and Human Services				
Pass-through from the North Carolina Department of Health and Human Services Division of Child Development and Early Education				
Child Care Resource and Referral (Prior Year)	93.575	3391-604-3	\$ -	\$ 1,463
Child Care Resource and Referral (Current Year)	93.575	3543-004-01	16,667	16,667
U.S Depart of Health and Human Services				
Pass-through from the North Carolina Department of Health and Human Services				
Family Support Program - Parents as Teachers				
(Prior Year)	93.590	00033864	22,760	-
Family Support Program - Parents as Teachers	93.590	00035321		
(Current Year)			126,524	132,579
<b>Total Federal awards</b>			<u>165,951</u>	<u>150,709</u>
<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 (Prior Year)		N/A	(573)	(573)
Early Childhood Initiatives Program (Current Year)		*	1,341,315	1,341,315
Dolly Parton Imaginary Library Expansion (Current Year)			9,575	9,575
North Carolina Department of Health and Human Services				
Pass through from Trillium Health Resources				
Family Support Program - Triple P Level 2 and Touchpoints		0105T-000-FY17	-	374
<b>Total State awards</b>			<u>1,350,317</u>	<u>1,350,691</u>
<b>Total Federal and State awards</b>			<u>\$ 1,516,268</u>	<u>\$ 1,501,400</u>

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

***Smart Start of New Hanover County  
Schedule of Property and Equipment - Modified Cash Basis  
For the year ended June 30, 2018***

*Schedule 4*

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Furniture and noncomputer equipment	\$ 62,586
Computer equipment/printers	37,219
Leasehold improvements	25,916
Total property and equipment	<u>\$ 125,721</u>

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  
Schedule of Qualifying Match (Non-GAAP)  
For the year ended June 30, 2018***

*Schedule 5*

**Match provided at the partnership level:**

Cash	\$ 172,051
In-kind goods and services	82,216
	<u>\$ 254,267</u>

**Match provided at the contractor level:**

Cash	\$ -
In-kind goods and services	66,519
	<u>\$ 66,519</u>

Note: This schedule is presented in accordance with the program match requirement as provided for by North Carolina Session Law 2017-57, Section 11B.8.(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.

The amounts shown above as allowable for this partnership in meeting its match requirement do not include allowable amounts included in the North Carolina Families Accessing Services through Technology (NCFAST) system, as this information is currently available only on a State level for FYE 30 Jun 18. For FYE 30 Jun 18 Smart Start met the legislative statewide match requirement and will be waiving penalties for local partnerships that do not meet their match requirement for FYE 30 Jun 18.



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*

To the Board of Directors  
Smart Start of New Hanover County  
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 as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise Smart Start of New Hanover County's basic financial statements, and have issued our report thereon dated February 26, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Smart Start of New Hanover County'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 financial statements, but not for the purpose of expressing an opinion on the effectiveness of Smart Start of New Hanover County's internal control. Accordingly, we do not express an opinion on the effectiveness of the Smart Start of New Hanover County'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's 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.

A handwritten signature in black ink that reads "Elliott Davis, PLLC". The signature is written in a cursive style with a large, sweeping initial "E".

Raleigh, North Carolina  
February 26, 2019