

FINANCIAL STATEMENT AUDIT REPORT OF
SMART START OF NEW HANOVER COUNTY
WILMINGTON, NORTH CAROLINA
FOR THE YEAR ENDED JUNE 30, 2020

BOARD OF DIRECTORS
JUSTIN LEWIS, BOARD CHAIR

ADMINISTRATIVE OFFICER
JANE MORROW, EXECUTIVE DIRECTOR

Smart Start of New Hanover County

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Independent Auditor's Report

To Board Members of
Smart Start of New Hanover County
Wilmington, North Carolina

Report on Financial Statements

We have audited the accompanying financial statements of Smart Start of New Hanover County, which comprise the Statement of Receipts, Expenditures, and Net Assets - Modified Cash Basis as of and for the year ended June 30, 2020, and the related Statement of Functional Expenditures - Modified Cash Basis for the year then ended, and the related notes to the financial statements.

Management's Responsibility 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 Statement of Receipts, Expenditures and Net Assets of the Smart Start of New Hanover County, as of and for the year ended June 30, 2020, and the Statement of Functional Expenditures for the year then ended in accordance with the modified cash 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 the 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 22 and Schedule 5 on page 25 are not a required part of the basic financial statements but is 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 Schedules 2 and 5.

Our audit was conducted for the purpose of forming an opinion on the financial statements of Smart Start of New Hanover County. The accompanying supplementary Schedules 1, 3, and 4 are also 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 the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in United States of America. In our opinion, the 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 January 20, 2021, on our consideration of Smart Start of New Hanover County'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 solely 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 effectiveness of Smart Start of New Hanover County's 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 Smart Start of New Hanover County's internal control over financial reporting and compliance.



Charlotte, North Carolina
January 20, 2021

Smart Start of New Hanover County
Statement of Receipts, Expenditures, and Net Assets - Modified Cash Basis
For the Year Ended June 30, 2020

Exhibit A

	Without Donor Restrictions	With Donor Restrictions	Total Funds
Receipts:			
State Awards and Contracts	\$ 1,337,171	\$ 1,547	\$ 1,338,718
Federal Awards	203,436	4,064	207,500
Local Awards	37,214	23,786	61,000
Private Contributions	34,424	13,408	47,832
Special Fund Raising Events	27,632	-	27,632
Interest and Investment Earnings	3,200	-	3,200
Sales Tax Refunds	5,726	-	5,726
Other Receipts	14,188	-	14,188
Total Receipts	1,662,991	42,805	1,705,796
Net Assets Released from Restrictions: Satisfaction of Program Restrictions	48,014	(48,014)	-
	1,711,005	(5,209)	1,705,796
Expenditures:			
Programs:			
Child Care and Education Affordability	345	-	345
Child Care and Education Quality	470,872	-	470,872
Family Support	691,887	-	691,887
Health and Safety	195,232	-	195,232
NC Pre-K	36,960	-	36,960
Support:			
Fundraising	25	-	25
Management and General	189,659	-	189,659
Program Planning, Coordination and Evaluation	87,552	-	87,552
Other:			
Sales Tax Paid	5,881	-	5,881
Total Expenditures	1,678,413	-	1,678,413
Excess (Deficiency) of Receipts Over Expenditures	32,592	(5,209)	27,383
Net Assets at Beginning of Year	255,997	48,668	304,665
Restatement (See Note 14)	(3,500)	3,500	-
Net Assets at Beginning of Year after Restatement	252,497	52,168	304,665
Net Assets at End of Year	\$ 285,089	\$ 46,959	\$ 332,048
Net Assets Consisted of:			
Cash and Cash Equivalents	\$ 298,167	\$ 46,959	\$ 345,126
Refunds Due From Contractors	8,020	-	8,020
	306,187	46,959	353,146
Less: Due to State	23,178	-	23,178
Funds Held for Others	(2,080)	-	(2,080)
Total Net Assets	\$ 285,089	\$ 46,959	\$ 332,048

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, 2020

Exhibit B

	Total	Personnel	Contracted Services	Supplies and Materials	Other Operating Expenditures	Fixed Charges and Other Expenditures	Property and Equipment Outlay	Services/Contracts/Grants
Smart Start Fund:								
Programs:								
Child Care and Education Quality	\$ 455,457	\$ 269,429	\$ 13	\$ 19,908	\$ 14,746	\$ 62,682	\$ 4,804	\$ 83,875
Family Support	423,606	248,581	27	5,692	17,618	65,050	7,781	78,857
Health and Safety	149,805	126,662	55	1,617	5,589	14,899	983	-
NC Pre-K	34,460	-	-	-	-	-	-	34,460
	<u>1,063,328</u>	<u>644,672</u>	<u>95</u>	<u>27,217</u>	<u>37,953</u>	<u>142,631</u>	<u>13,568</u>	<u>197,192</u>
Support:								
Management and General	169,784	137,417	4,285	1,168	3,633	22,035	1,246	-
Program Planning, Coordination and Evaluation	87,548	73,388	-	568	2,172	9,539	1,881	-
	<u>257,332</u>	<u>210,805</u>	<u>4,285</u>	<u>1,736</u>	<u>5,805</u>	<u>31,574</u>	<u>3,127</u>	<u>-</u>
Total Smart Start Fund Expenditures	<u>\$ 1,320,660</u>	<u>\$ 855,477</u>	<u>\$ 4,380</u>	<u>\$ 28,953</u>	<u>\$ 43,758</u>	<u>\$ 174,205</u>	<u>\$ 16,695</u>	<u>\$ 197,192</u>
Other Funds:								
Programs:								
Child Care and Education Affordability	\$ 345	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 345
Child Care and Education Quality	15,415	4,063	-	1,207	646	685	24	8,790
Family Support	268,281	195,678	1,267	6,962	40,703	5,294	266	18,111
Health and Safety	45,427	39,453	-	1,211	1,062	1,004	24	2,673
NC Pre-K	2,500	-	-	-	-	-	-	2,500
	<u>331,968</u>	<u>239,194</u>	<u>1,267</u>	<u>9,380</u>	<u>42,411</u>	<u>6,983</u>	<u>314</u>	<u>32,419</u>
Support:								
Fundraising	25	-	-	-	25	-	-	-
Management and General	19,875	12,287	-	547	4,428	2,613	-	-
Program Planning, Coordination and Evaluation	4	-	-	4	-	-	-	-
	<u>19,904</u>	<u>12,287</u>	<u>-</u>	<u>551</u>	<u>4,453</u>	<u>2,613</u>	<u>-</u>	<u>-</u>
Other:								
Sales Tax Paid	5,881	-	-	5,881	-	-	-	-
	<u>5,881</u>	<u>-</u>	<u>-</u>	<u>5,881</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Other Funds Expenditures	<u>\$ 357,753</u>	<u>\$ 251,481</u>	<u>\$ 1,267</u>	<u>\$ 15,812</u>	<u>\$ 46,864</u>	<u>\$ 9,596</u>	<u>\$ 314</u>	<u>\$ 32,419</u>

The Accompanying Notes are an Integral Part of the Financial Statements.

SMART START OF NEW HANOVER COUNTY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2020

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 two classes of net assets: without donor restrictions and with donor restrictions. Net assets without donor restrictions are the part of net assets not subject to donor-imposed restrictions (donors include other types of contributors, including makers of certain grants). Net assets with donor restrictions are the part of net assets subject to donor-imposed restrictions (donors include other types of contributors, including makers of certain grants). As permitted by this Standard, contributions with donor restrictions received and expended in the same year are reported as receipts without donor restrictions rather than receipts with donor restrictions.

Contributions with donor restrictions that are not expended within the year received are reported as an increase in net assets with donor restrictions. When the restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the Statement of Receipts, Expenditures, and Net Assets as net assets released from restrictions.

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.
- E. Refunds Due from Contractors** - Refunds Due from Contractors represent the unexpended amount of advances to contractors at year-end that are to be refunded back to the State. As recoveries are collected, the advances are recorded as a reduction to the State awards balance.
- F. 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.
- G. Fund 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, 2020, the New Hanover County Partnership was holding amounts withheld from employee paychecks for legal benefits of \$96 and \$3,478 for flexible spending to be paid in July. The New Hanover County Partnership was awaiting payments from employees for insurance premiums of \$5,405 for health and \$249 for dental.
- H. 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, 2020. 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.
- I. 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 9A.

- J. 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.
- K. 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.
- L. Change in Accounting Principle** - During 2020, the Partnership adopted the provisions of Accounting Standards Update 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities* ("ASU 2016-14"). The update addresses the complexity and understandability of net asset classifications, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. The Partnership has adjusted the presentation of these statements accordingly. ASU 2016-14 has been applied on a retrospective basis.

NOTE 2 - DEPOSITS

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

Deposits over insured amounts subjects the New Hanover County Partnership to a concentration of credit risk. At June 30, 2020, the New Hanover County Partnership did not have any bank deposits not insured by 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 \$1,343,837 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 \$23,178 of this contract to the State based on financial status reports submitted to NCPC subsequent to June 30, 2020.

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

Dolly Parton Imagination Library Expansion Program - The New Hanover County Partnership was awarded and received \$16,000 and expended \$14,453 under a current year Dolly Parton Imagination Library Expansion Grant (DPIL) with NCPC. As allowed by program regulation, the unexpended balance of the current year contract is available to carry forward to the subsequent year.

The New Hanover County Partnership expects expect to receive continued funding through new DPIL contracts with NCPC.

Parents as Teachers (PAT) Program - The New Hanover County Partnership received revenue and support 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, received \$129,839 and expended \$130,485 under the current year contract with DHHS. Additionally, the New Hanover County Partnership received \$12,386 related to a prior year contract.

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

Physical Activity and Nutrition (PAN) Program - The New Hanover County Partnership received revenue and support from the State of North Carolina based on a cost-reimbursement contract with DHHS for the PAN program. The New Hanover County Partnership was awarded \$32,887, received \$22,926 and expended \$25,436 of the current year contract with DHHS. Additionally, the New Hanover County Partnership received \$21,949 and expended \$16,390 related to a prior year contract.

The New Hanover County Partnership expects to receive continued funding through June 30, 2021 for this program through DHHS.

Preschool Development Grant (PDG) - 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 North Carolina Partnership for Children for the PDG program. The New Hanover County Partnership was awarded and received \$20,400 and expended \$18,665 under the current year contract with the State.

The New Hanover County Partnership does not expect to receive continued funding through new contracts with the state.

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 weeks of parenting classes to parents who were referred by the courts and NHC DSS. The New Hanover County Partnership was awarded \$60,000 and received \$42,000 and expended \$63,211 under current year contract. Additionally, the New Hanover County Partnership received \$12,000 related to a prior year contract.

The New Hanover County Partnership expects to receive continued 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 the 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 \$60,000 over 3 years beginning in 2018, received \$20,000 and expended under the Triple P Grant. During the year ended June 30, 2020 the New Hanover County Partnership has expended all awarded funds and therefore has returned none of this contract to the grantor based on financial status report submitted subsequent to June 30, 2020.

The New Hanover County Partnership expects to receive continued 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.

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], Head Start wraparound/extended day, dual subsidy and dual subsidy administration. Head Start classrooms and coordination, child care transportation for subsidized children, part-day subsidy programs, subsidy preschool classes and public pre-K subsidy. Also, support for part-day programs for children not in full time care.

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, family intervention, literacy or family literacy projects, transportation services, community systems building and public awareness, and home visiting.

Health and Safety - Used to account for service activities including oral health services, child care health consultations, 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

Fundraising - 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 Planning, 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 estimates of utilization data.

NOTE 6 - OPERATING LEASE OBLIGATIONS

Future minimum lease payments under non-cancelable operating leases consist of the following at June 30, 2020:

Fiscal Year	Operating Leases
2021	\$ 158,811
2022	141,935
2023	138,692
2024	70,058
Total Minimum Lease Payments	<u>\$ 509,496</u>

Rental expense for all operating leases during the year was \$160,272.

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, 2020. 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 \$16,598 for retirement benefits during the year.

NOTE 8 - RISK MANAGEMENT

The New Hanover County 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.

NOTE 9 - COMMITMENTS AND CONTINGENCIES

A. 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, 2020 is \$25,554. No funds or reservation of net assets has been made for this commitment.

B. In early 2020, an outbreak of a novel strain of coronavirus (COVID-19) emerged globally. As a result, events have occurred including mandates from federal, state and local authorities leading to an overall decline in economic activity. As of June 30, 2020, there was no significant impact to the New Hanover County Partnership's operations. However, the New Hanover County Partnership is not able to reliably estimate the length or severity of this outbreak. If the length of the outbreak and related effects on the New Hanover County Partnership's operations continues for an extended period of time, there could be a loss of revenue and other material adverse effects to the New Hanover County Partnership's financial position, results of operations, and cash flows.

NOTE 10 - RESTRICTIONS ON NET ASSETS

A. Net Assets With Donor Restrictions - Net assets with donor restrictions at June 30, 2020 are available for the following purposes:

Purpose	Amount
DPIL	\$ 1,547
PAT	4,064
NHC DSS Triple P	23,786
Corning Hurricane Preparedness for Early Childcare Centers	5,000
Family Support Contributions	2,008
Read & Play	107
ROR Contributions	1,023
Smiles for Kids	3,192
Scholarship for Children	825
Farm to Childcare	3,880
Cape Fear Garden Club	1,527
	<u>\$ 46,959</u>

B. Net Assets Released From Donor Restrictions - Net assets were released from donor restrictions during the fiscal year ended June 30, 2020 by incurring expenditures satisfying the restricted purposes as follows:

Purpose	Amount
Trillium Health - Triple P Level 2 and Touchpoints Training	\$ 2,702
NHC DSS Triple P	32,997
Corning Positive Parenting	4,000
CFMF Faith Summit	129
Family Support Contributions	98
Smiles for Kids	797
Scholarship for Children	345
Family Festival	500
Farm to Childcare	2,946
Women's Impact Network	3,500
	<u>\$ 48,014</u>

NOTE 11 - BOARD DESIGNATED FUNDS

Occasionally, New Hanover Partnership's Board designates a portion of financial assets for various programs. In the event of an unanticipated liquidity need, the New Hanover County Partnership's Board could use these designated financial assets to meet unanticipated liquidity needs. At June 30, 2020, the New Hanover County Partnership had Board designated funds of \$183,660 for the following programs:

<u>Program</u>	<u>Total</u>
Behavior & Inclusion	\$ 3,866
Childcare Resource & Ref	3,866
Community Outreach & Ed	3,866
Curriculum & Assessment	3,866
Parent As Teachers	3,866
Positive Parenting	3,866
Professional Development	3,866
Programming Evaluation	3,866
Reach Out and Read	3,866
Young Parents	3,866
Reserve Fund	<u>145,000</u>
	<u>\$ 183,660</u>

NOTE 12 - FINANCIAL ASSETS AVAILABLE TO MEET CASH NEEDS

The following reflects New Hanover County Partnership's financial assets as of June 30, 2020 reduced by amounts not available for general use because of contractual or donor-imposed restrictions within one year of June 30, 2020:

Financial assets at year-end	\$ 332,048
Less those unavailable for general expenditures within one year, due to:	
Contractual or donor-imposed restrictions:	
Restricted by donor with time and purpose restrictions (See Note 10A)	(46,959)
Board Designations: (See Note 11)	<u>(183,660)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 101,429</u>

The New Hanover County Partnership is supported by contributions with donor restrictions. Because a donor's restriction requires resources to be used in a particular manner or in a future period, the New Hanover County Partnership must maintain sufficient resources to meet these responsibilities to its donors. Thus, financial assets may not be available for general expenditures within one year.

As part of New Hanover County Partnership's liquidity management, it has a policy to have a reserve fund that is between 10 and 18 percent of the prior year's expenditures, as represented on the 990 Federal Tax form. The Board of Directors has designated \$145,000 of existing accumulated liquid net assets as the beginning balance of the fund. Each year, a minimum of 25% of net funds from fundraising events/unrestricted donations will be designated for the reserve fund until such time as the reserve reaches 14% of the prior year's expenditures. Thereafter, additional funds may be placed into the reserve until the maximum of 18% is reached.

NOTE 13 - 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, 2020. Income tax returns for 2017 through 2019 remain open to examination by the tax authorities.

NOTE 14 - RESTATEMENT

The New Hanover County Partnership received donor restricted funds for various activities during the past fiscal years. These funds were incorrectly classified as unrestricted private contributions at the time of receipt. As a result, a reclassification of the net assets is required for proper financial presentation for both With and Without Donor Restricted Net Assets and is presented as follows:

	<u>Net Assets Previously Reported</u>	<u>New Effect of Prior Year Reclassification</u>	<u>July1, 2019 Net Assets Restated</u>
Without Donor Restrictions	\$ 255,997	\$ (3,500)	\$ 252,497
With Donor Restrictions	<u>48,668</u>	<u>3,500</u>	<u>52,168</u>
Total Net Assets	<u>\$ 304,665</u>	<u>\$ -</u>	<u>\$ 304,665</u>

NOTE 15 - SUBSEQUENT EVENTS

The New Hanover County Partnership has evaluated events and transactions that occurred between June 30, 2020 and January 20, 2021, 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, 2020 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, 2020.

This information is an integral part of the financial statements.

SUPPLEMENTARY INFORMATION

Smart Start of New Hanover County
 Schedule of Contract and Grant Expenditures - Modified Cash Basis
 For the Year Ended June 30, 2020

Schedule 1

Organization Name	Smart Start Fund		Other Funds	
	Amount Advanced	Refund Due	Amount Advanced	Refund Due
Organizations:				
Cape Fear Community College Bonnie Sanders Burney CDC	* \$ 725	\$ -	\$ -	\$ -
Carr's Academy, LLC	-	-	725	-
Chestnut Preschool, Inc	-	-	725	-
Child Development Center	725	-	-	-
Childcare Network #127	* -	-	725	-
Childcare Network #159	625	-	-	-
Childcare Network #83	725	-	-	-
Childcare Network #82	625	-	-	-
Children's Learning Center I & II	-	-	1,350	-
Communities in Schools - Young Parents	79,155	8,020	2,510	-
Communities in Schools - United Way Grant	-	-	500	-
Easter Seals UCP Children's Center	-	-	725	-
Excel Learning Center Vision Dr	-	-	625	-
Kids & Company	525	-	625	-
KLK Management, LLC - Kayla's Korner	-	-	725	-
Milestone Learning Center	725	-	-	-
New Hanover County Library - Raising A Reader - Refund from prior year grant	* -	-	(83)	-
New Hanover County Library - Reach Out Read	* 7,722	-	-	-
New Hanover County Library - United Way Grant	* -	-	1,500	-
New Hanover County Schools - Curriculum & Assessment	* 34,460	-	2,500	-
New Hanover County Schools - DTQ Pre-School Grants	* 2,900	-	-	-
Park Avenue School - Gardening Supplies	-	-	459	-
Soaring as Eagles - United Way Grant	-	-	250	-
Training Up A Child - Gardening Supplies	-	-	861	-
	<u>128,912</u>	<u>8,020</u>	<u>14,722</u>	<u>-</u>
Individuals:				
Bus Passes to PAT & PP Clients	-	-	348	-
Books and Car Seats for PAT Clients	-	-	886	-
Child Care Expense Reimbursements	-	-	3,804	-
Education Scholarship Grants	76,300	-	-	-
Incentives to PAT Clients	-	-	3,777	-
Incentives to PP Clients	-	-	865	-
Incentives to Families of PDG	-	-	3,230	-
Incentives to Providers	-	-	918	-
Meal Gift Cards to Providers	-	-	1,300	-
Scholarships/Bonus Awards	-	-	1,700	-
Taxi Services for PAT and PP Clients	-	-	869	-
Parents/Child Care Training	-	-	-	-
	<u>76,300</u>	<u>-</u>	<u>17,697</u>	<u>-</u>
	<u>\$ 205,212</u>	<u>\$ 8,020</u>	<u>\$ 32,419</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, 2020

Schedule 2

Organization Name	DHHS Contracts
Department of Social Services	\$ 824,485
	<u>\$ 824,485</u>

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, 2020

Schedule 3

Federal/State Grantor/Pass-through Grantor/Program	Federal CFDA Number	Contract #	Receipts	Expenditures
Federal Awards:				
U.S. Department 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	00037077	\$ 12,386	\$ -
Family Support Program - Parents as Teachers (Current Year)	93.590	00038903	129,839	130,485
Health & Safety - Physical Activity and Nutrition (Prior Year)	93.439	00038543	21,949	16,390
Health & Safety - Physical Activity and Nutrition (Current Year)	93.439	00039532	22,926	25,436
U.S. Department of Health and Human Services				
Pass-through from the 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.				
Preschool Development Grant-Family Engagement (Current Year)	93.434	306 18/19/030	20,400	18,665
Total Federal Awards			207,500	190,976
State Awards:				
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	1,320,659	1,320,659
Dolly Parton Imagination Library Expansion (Current Year)		N/A	16,000	14,453
North Carolina Department of Health and Human Services				
Pass through from Trillium Health Resources				
Family Support Program - Triple P Level 2 and Touchpoints (Prior Year)		0105T-000-FY17	-	2,702
North Carolina Department of Health and Human Services				
Pass through from Communities in Schools				
School Safety Program - Community Resilience Program (Current Year)		N/A	2,059	2,058
Total State Awards			1,338,718	1,339,872
Total Federal and State Awards			\$ 1,546,218	\$ 1,530,848

* 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, 2020

Schedule 4

Furniture and Noncomputer Equipment	\$ 61,822
Computer Equipment/Printers	38,814
Leasehold Improvements	<u>25,916</u>
Total Property and Equipment	<u>\$ 126,552</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, 2020**

Schedule 5

Match Provided at the Partnership Level:

Cash	\$	163,240
In-Kind Goods and Services		<u>23,980</u>
	\$	<u><u>187,220</u></u>

Match Provided at the Contractor Level:

Cash	\$	-
In-Kind Goods and Services		<u>58,173</u>
	\$	<u><u>58,173</u></u>

Note: This schedule is presented in accordance with the program match requirement as provided for by North Carolina Session Law 2018-5, 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 the 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 was not available in a timely manner for the fiscal year ended June 30, 2020. For the fiscal year ended June 30, 2020, Smart Start met the legislative statewide match requirement and will be waiving penalties for local partnerships that do not meet their match requirement for the fiscal year ended June 30, 2020.

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 Board Members of
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 financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Smart Start of New Hanover County (a nonprofit organization), which comprise the Statement of Receipts, Expenditures, and Net Assets - Modified Cash Basis as of and for the year ended June 30, 2020, and the related Statement of Functional Expenditures - Modified Cash Basis for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated January 20, 2021.

As described in Note 1, the financial statements were prepared on the modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

Internal Control over Financial Reporting

In planning and performing our audit, we considered Smart Start of New Hanover County's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Smart Start of New Hanover County's internal control. Accordingly, we do not express an opinion on the effectiveness of 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 Smart Start of New Hanover County'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 those 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 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 financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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



Charlotte, North Carolina
January 20, 2021