

FINANCIAL STATEMENT AUDIT REPORT OF
PARTNERSHIP FOR CHILDREN OF
CUMBERLAND COUNTY, INC.
FAYETTEVILLE, NORTH CAROLINA
FOR THE YEAR ENDED JUNE 30, 2015

BOARD OF DIRECTORS
BUCK WILSON, BOARD CHAIR

ADMINISTRATIVE OFFICER
EVA HANSEN, PRESIDENT

Partnership for Children of Cumberland County, Inc.

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Independent Auditor's Report

To Board Members of
Partnership for Children of Cumberland County, Inc.
Fayetteville, North Carolina

Report on Financial Statements

We have audited the accompanying financial statements of Partnership for Children of Cumberland County, Inc. which comprise the Statement of Receipts, Expenditures, and Net Assets - Modified Cash Basis as of and for the year ended June 30, 2015, 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 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 Statement of Receipts, Expenditures and Net Assets of Partnership for Children of Cumberland County, Inc., as of and for the year ended June 30, 2015, 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 Matter

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 25 and Schedule 5 on page 28 are not required parts 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 Partnership for Children of Cumberland County, Inc. 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 December 9, 2015, on our consideration of Partnership for Children of Cumberland County, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 Partnership for Children of Cumberland County, Inc.'s internal control over financial reporting and compliance.

A handwritten signature in cursive script that reads "CohnReznick LLP".

Charlotte, North Carolina
December 9, 2015

Partnership for Children of Cumberland County, Inc.
Statement of Receipts, Expenditures, and Net Assets - Modified Cash Basis
For the Year Ended June 30, 2015

Exhibit A

	Unrestricted Funds		Temporarily	Permanently	
	Smart Start	Other	Restricted	Restricted	Total
	Fund	Funds	Funds	Funds	Funds
Receipts:					
State Awards and Contracts	\$ 3,871,230	\$ 2,263,216	\$ -	\$ -	\$ 6,134,446
Federal Awards	-	6,759,652	4,961	-	6,764,613
Private Contributions	-	26,467	29,488	1,434	57,389
Special Fund Raising Events	-	17,898	16,000	-	33,898
Interest and Investment Earnings	-	857	-	-	857
Sales Tax Refunds	-	28,108	-	-	28,108
Other Receipts	-	502,841	-	-	502,841
Total Receipts	3,871,230	9,599,039	50,449	1,434	13,522,152
Net Assets Released from Restrictions:					
Satisfaction of Program Restrictions	-	25,843	(25,843)	-	-
	3,871,230	9,624,882	24,606	1,434	13,522,152
Expenditures:					
Programs:					
Child Care and Education Affordability	792,831	48,744	-	-	841,575
Child Care and Education Quality	1,567,446	765,267	-	-	2,332,713
Family Support	409,985	214,625	-	-	624,610
Health and Safety	-	3,478	-	-	3,478
NC Pre-K	-	8,172,288	-	-	8,172,288
Support:					
Management and General	320,061	366,029	-	-	686,090
Program Coordination and Evaluation	780,907	253,844	-	-	1,034,751
Other:					
Refund of Prior Year Grant	-	30,931	-	-	30,931
Sales Tax Paid	-	26,002	-	-	26,002
Total Expenditures	3,871,230	9,881,208	-	-	13,752,438
Excess (Deficiency) of Receipts Over Expenditures	-	(256,326)	24,606	1,434	(230,286)
Net Assets at Beginning of Year	-	1,393,471	31,945	29,732	1,455,148
Net Assets at End of Year	\$ -	\$ 1,137,145	\$ 56,551	\$ 31,166	\$ 1,224,862
Net Assets Consisted of:					
Cash and Cash Equivalents	\$ 6,148	\$ 667,915	\$ 56,551	\$ 666	\$ 731,280
Investments	-	482,000	-	-	482,000
Beneficial Interest in the Community Foundation	-	-	-	30,500	30,500
Refunds Due From Contractors	917	-	-	-	917
	7,065	1,149,915	56,551	31,166	1,244,697
Less: Due to State	1,299	-	-	-	1,299
Funds Held for Others	5,766	12,770	-	-	18,536
	7,065	12,770	-	-	19,835
Total Net Assets	\$ -	\$ 1,137,145	\$ 56,551	\$ 31,166	\$ 1,224,862

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

Partnership for Children of Cumberland County, Inc.
Statement of Functional Expenditures - Modified Cash Basis
For the Year Ended June 30, 2015

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 Affordability	\$ 792,831	\$ 35,450	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 757,381
Child Care and Education Quality	1,567,446	894,309	44,413	41,671	104,617	18,694	5,479	458,263
Family Support	409,985	145,076	20,820	10,928	50,943	3,910	2,140	176,168
	<u>2,770,262</u>	<u>1,074,835</u>	<u>65,233</u>	<u>52,599</u>	<u>155,560</u>	<u>22,604</u>	<u>7,619</u>	<u>1,391,812</u>
Support:								
Management and General	320,061	244,371	16,737	6,491	33,916	16,332	2,214	-
Program Coordination and Evaluation	780,907	593,846	61,619	45,336	56,289	17,337	6,480	-
	<u>1,100,968</u>	<u>838,217</u>	<u>78,356</u>	<u>51,827</u>	<u>90,205</u>	<u>33,669</u>	<u>8,694</u>	<u>-</u>
Total Smart Start Fund Expenditures	<u>\$ 3,871,230</u>	<u>\$ 1,913,052</u>	<u>\$ 143,589</u>	<u>\$ 104,426</u>	<u>\$ 245,765</u>	<u>\$ 56,273</u>	<u>\$ 16,313</u>	<u>\$ 1,391,812</u>
Other Funds:								
Programs:								
Child Care and Education Affordability	\$ 48,744	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 48,744
Child Care and Education Quality	765,266	574,986	18,532	8,993	39,125	6,505	2,586	114,539
Family Support	214,625	121,432	7,298	1,302	33,199	33,158	8,267	9,969
Health and Safety	3,478	3,388	-	-	90	-	-	-
NC Pre-K	8,172,289	223,026	3,193	13,234	14,689	2,486	511	7,915,150
	<u>9,204,402</u>	<u>922,832</u>	<u>29,023</u>	<u>23,529</u>	<u>87,103</u>	<u>42,149</u>	<u>11,364</u>	<u>8,088,402</u>
Support:								
Management and General	366,029	330,072	10,614	850	21,190	3,303	-	-
Program Coordination and Evaluation	253,844	141,483	5,523	91,929	10,855	4,054	-	-
	<u>619,873</u>	<u>471,555</u>	<u>16,137</u>	<u>92,779</u>	<u>32,045</u>	<u>7,357</u>	<u>-</u>	<u>-</u>
Other:								
Refund of Prior Year Grant	30,931	-	-	-	-	30,931	-	-
Sales Tax Paid	26,002	-	-	26,002	-	-	-	-
	<u>56,933</u>	<u>-</u>	<u>-</u>	<u>26,002</u>	<u>-</u>	<u>30,931</u>	<u>-</u>	<u>-</u>
Total Other Funds Expenditures	<u>\$ 9,881,208</u>	<u>\$ 1,394,387</u>	<u>\$ 45,160</u>	<u>\$ 142,310</u>	<u>\$ 119,148</u>	<u>\$ 80,437</u>	<u>\$ 11,364</u>	<u>\$ 8,088,402</u>

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

PARTNERSHIP FOR CHILDREN OF CUMBERLAND COUNTY, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

A. Organization and Purpose - The Partnership for Children of Cumberland County, Inc. (Cumberland County Partnership) is a legally separate nonprofit organization incorporated on December 2, 1993. The Cumberland County Partnership was established to develop and provide, through public and private means, early childhood education and developmental services for children and families. The Cumberland 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 Cumberland County Partnership's Board of Directors is responsible. Pursuant to the provisions the Financial Accounting Standards Board's Accounting Standards 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 the standards, 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.

Permanently restricted net assets include gifts and contributions that are limited by donor-imposed stipulations that neither expire with the passage of time nor can be fulfilled or otherwise removed by actions of the Cumberland County Partnership.

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 certificate of deposits or short-term investments with an original maturity of three months or less.
- E. Investments** - This classification includes certificates of deposit whose original maturity term exceeds three months. Investments are reported at cost, which approximates fair value.
- F. Beneficial Interest in Community Foundation** - This classification consists of funds invested with Cumberland Community Foundation, Inc. as reported in Note 12. The amounts shown in the permanently restricted column of Exhibit A represent the irrevocable principle in an endowment fund as described more fully in Note 13.
- G. 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 receivable balance is reduced. Payments to the State for the recovered advances are recorded as a reduction to the State awards balance.
- H. Due to the State** - The funding provided by the State of North Carolina for the Smart Start program 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.

- I. **Funds Held For Others** - Funds held for others includes amounts received that are fiduciary in nature in which the Cumberland County Partnership acts in an agency capacity. For the year ended June 30, 2015, the Cumberland County Partnership was holding amounts withheld from employee paychecks related to the flexible spending plan and employee benefits to be distributed to the appropriate party and rental security deposits from tenants.
- J. **Property and Equipment** - Under the modified cash basis of accounting, purchases of property and equipment are reported as expenditures in the year incurred. However, the Cumberland County Partnership is required by contract regulation to track and maintain property and equipment items as presented in Schedule 4 of this report. The Cumberland 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, 2015.
- K. **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.
- L. **Use of Estimates** - The preparation of financial statements in conformity with the modified cash basis of accounting used by the Cumberland 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.
- M. **Qualifying Match and Contributions In-Kind** - The Cumberland 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 can be donated equipment, supplies, office space, or services. The Cumberland County Partnership also benefits from

donated volunteer hours which do not require specific expertise but which are nonetheless central to the Cumberland County Partnership's operations. See supplemental Schedule 5 for more information on contributions in-kind.

NOTE 2 - DEPOSITS AND INVESTMENTS

- A. Deposits** - All cash funds of the Cumberland 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 subject the Cumberland County Partnership to a concentration of credit risk. At June 30, 2015, the Cumberland County Partnership's bank deposits in excess of the FDIC insured limit was \$948,980.

- B. Investments** - In addition, at June 30, 2015 the Cumberland County Partnership had two certificates of deposit with commercial banks.

Bank	Original Cost	Maturity Date	Interest Amount
First Citizens Bank	\$242,000	March 6, 2017	.99%
First South Bank	\$240,000	March 17, 2016	.7472%

The certificates of deposit are fully insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. Certificates of deposit are reported at cost plus interest income which approximates fair value and are reported as investments.

The Cumberland County Partnership prepares its financial statements on the modified cash basis of accounting. Investments are reported at cost on the Statement of Receipts, Expenditures and Net Assets - modified cash basis as of June 30, 2015 as follows:

	Cost	Gains	Losses	Fair Value
Certificates of Deposit	\$482,000	\$ -	\$ -	\$482,000

The Cumberland County Partnership records interest and dividend earnings and realized gain and losses in the Statement of Receipts, Expenditures and Net Assets - Modified Cash Basis under the heading Interest and Investment Earnings.

Interest and investment earnings for the year ended June 30, 2015 are as follows:

Investment earnings - certificates of deposit	\$ 750
Interest on bank accounts	<u>107</u>
Total interest and investment earnings	<u>\$ 857</u>

C. Fair Value Measurements

Accounting Standards Codification (ASC) 820-10 establishes a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. ASC 820-10 defines levels within the hierarchy based on the reliability of inputs as follows:

Level 1

Inputs are quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. Level 1 assets may include securities that are traded in an active exchange market, or actively traded over-the-counter markets.

Level 2

Valuation is based on directly or indirectly observable inputs other than quoted prices included within Level 1 such as: quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active or inputs other than quoted prices that are observable or can be corroborated to observable market data for substantially the full term of the asset or liability.

Level 3

Valuation is based on unobservable inputs for the asset or liability. Level 3 assets may include financial instruments whose value is determined using pricing models with internally developed assumptions, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

The following is a description of the valuation methodologies used for instruments measured at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy.

Bank certificates of deposit with original maturity terms which exceed three months are classified as investments. Under the modified cash basis of accounting, the investments are reported at cost basis. The cost basis of bank certificates of deposit approximate fair value. Such securities are classified within Level 2 of the valuation hierarchy.

NOTE 3 - FUNDING FROM GRANT AWARDS AND CONTRACTS

Smart Start Program

One of the Cumberland County Partnership's major sources 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 Cumberland County Partnership and represents a concentration of credit risk as to the generation of revenue.

Associated with these contracts, the Cumberland 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) Division of Child Development and Early Education (DCDEE) entered into contracts with and made payments to service providers selected by the Cumberland 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 of the accompanying financial statements.

The Cumberland County Partnership was awarded and has received \$3,874,485 under a current year Smart Start contract with NCPC. The unexpended balance of this contract is subject to reversion to the State. The Cumberland County Partnership has returned \$917 of this contract to the State based on financial status reports submitted to NCPC subsequent to June 30, 2015. There was also a reversion of the prior year's funding in the current fiscal year of \$2,338.

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

Child Care Development Grant Program (DCDEE Grant)

Another of the Cumberland County Partnership's major sources of revenue and support is passed through from DCDEE based on cost-reimbursement grant contracts with Southwestern Child Development Commission, Inc. (SWCDC) for the Child Care Development Grant Program (DCDEE Grant). The Cumberland County Partnership is the Region 5 Lead Agency for this grant.

The Cumberland County Partnership was awarded \$561,856 under four (4) current year grant contracts with SWCDC and has received \$526,946 of this amount. The unexpended balances of these grant contracts are subject to reversion to SWCDC. The Cumberland County Partnership has returned \$13,463 of these contracts to the SWCDC based on financial status reports submitted to SWCDC subsequent to June 30, 2015.

Race to the Top-Early Learning Challenge (DCDEE Grant)

The Cumberland County Partnership was also awarded, \$506,643 under two (2) multi-year grant contracts with SWCDC as a part of the federal Race to the Top-Early Learning Challenge initiatives and has received \$163,359 of this amount during the fiscal year ended June 30, 2015. The unexpended balances of these grant contracts at the calendar year ends (December 31) are subject to reversion to SWCDC. The Cumberland County Partnership has returned \$10,270 of these contracts to the SWCDC based on financial status reports submitted to SWCDC subsequent to December 31, 2014.

The Cumberland County Partnership does not expect to receive continued funding through new DCDEE Race to the Top Early Learning Challenge grant contracts with the SWCDC which are scheduled to end December 31, 2015.

Race to the Top-Early Learning Challenge (NCPC Grant)

The Cumberland County Partnership also received revenue and support from the North Carolina Department of Health and Human Services (DHHS) for the Race to the Top-Early Learning Challenge grant (RTT-ELC) passed through the North Carolina Partnership for Children (NCPC). The RTT-ELC grant is a federally funded initiative to reduce disparities in school readiness among children with high needs and their peers. The Cumberland County Partnership was awarded a total of \$102,500 for three grants and has received \$23,439 during the fiscal year ended June 30, 2015.

The Cumberland County Partnership expects to receive continued funding through new DHHS contracts for the RTT-ELC grant through NCPC.

North Carolina Pre-K (NCPK Grant)

The Cumberland County Partnership also received revenue and support from the State of North Carolina for the North Carolina Pre-Kindergarten Program (NC Pre-K). The Cumberland County Partnership was awarded \$8,418,113 and received \$8,236,814 under a current year financial assistance contract. The NCPK Program included both state and federal funds to the Cumberland County Partnership for the year ended June 30, 2015. The unexpended balance of this contract is subject to reversion to the State. The Cumberland County Partnership had no amount to be returned of this contract to the State based on financial status reports submitted to DCDEE subsequent to June 30, 2015.

The Cumberland County Partnership expects to receive continued funding of the preschool program through new contracts with the State.

NOTE 4 - RELATED PARTY TRANSACTIONS

Service Provider Contracts with Board Member Organizations

The board members of the Cumberland County Partnership are representative of various organizations that benefit from actions taken by the Board. It is the policy of the Cumberland County Partnership that board members not be involved with decisions regarding organizations they represent. During the year, the Cumberland 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 Cumberland County Partnership's Smart Start Allocation.

NOTE 5 - FUNCTIONAL EXPENDITURES

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

A. Program Functions

Child Care and Education Affordability - Used to account for service activities including State subsidy contract and administration

(Division of Child Development and Early Education) [DCDEE], dual subsidy and dual subsidy administration, preschool classes and coordination, and public pre-K subsidy and child care transportation.

Child Care and Education Quality - Used to account for service activities including quality enhancement, child care resource and referral, professional development and supplements, and provider training.

Family Support - Used to account for service activities including family resource centers, general family support, ongoing parenting education, literacy programs and community outreach, information and resources and the Reach Out and Read (ROR) national evidence – based model that promotes early literacy.

Health and Safety - Used to account for service activities including the Assuring Better Child Health and Development (ABCD) Project initiative that improves the quality of child development services in primary care medical practices.

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

B. Support Functions

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

Program Coordination and Evaluation - Expenditures that are incurred to coordinate the policies, procedures, and daily practices of service delivery. Also, costs associated with providing technical assistance, monitoring 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 (utilities and maintenance), supplies and materials, and communication costs (telephone, printing and postage) were indirectly allocated based on utilization data.

NOTE 6 - OPERATING LEASE OBLIGATIONS

Future minimum lease payments under noncancelable operating leases consist of the following at June 30, 2015:

<u>Fiscal Year</u>	<u>Operating Leases</u>
2016	\$ 12,099
2017	-
2018	-
2019	-
2020	-
	<u>\$ 12,099</u>

Rental expense for all operating leases during the year was \$32,099.

In addition, the Cumberland County Partnership owns the Family Resource Center building (PFC RC). The PFC RC is an office complex located in Fayetteville, North Carolina. The Cumberland County Partnership realized significant rental income from the PFC RC. For the year ended June 30, 2015, the Cumberland County Partnership received \$196,264 of rental income from the tenants of the PFC RC. This amount is included in Other Receipts on the Statement of Receipts, Expenditures and Net Assets – Modified Cash Basis.

Future minimum lease rentals to be received consist of the following at June 30, 2015:

<u>Fiscal Year</u>	<u>Operating Leases</u>
2016	\$ 126,892
2017	23,496
2018	17,068
2019	-
2020	-
	<u>\$ 167,456</u>

NOTE 7 - PENSION PLAN

The Cumberland County Partnership has an IRC Section 401(k) plan (Plan) available to employees age 21 and older and who have one year of service with at least 1,000 hours. All costs of administering the Plan are the responsibility of the Plan participants. The Cumberland County Partnership provides matching of the employee contributions not to exceed 4% of the employee's annual salary. Employees may make voluntary contributions to the Plan up to the maximum allowable per IRS guidelines. For the period ended June 30, 2015, the Cumberland County Partnership contributed \$62,671 in matching retirement benefits.

NOTE 8 - RISK MANAGEMENT

The Cumberland 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 Cumberland County Partnership manages these various risks of loss as follows:

Type of Loss	Method Managed	Risk of Loss Retained
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 Cumberland County Partnership. Settled claims have not exceeded this insurance coverage in any of the past three fiscal years.

NOTE 9 - COMMITMENTS AND CONTINGENCIES

Compensated Absences - As a result of the Cumberland 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, 2015, is \$165,050. 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, 2015 are available for the following purposes:

<u>Purpose</u>	<u>Amount</u>
Annual Fundraiser - Kidstuff Annual Outreach Event	\$ 20,746
Annual Fundraiser - Administration Allocation	1,356
Race to the Top - Early Learning Challenge: Assuring Better Health and Development (RTT-ELC ABCD Grant)	4,961
Walmart Foundation - Reach Out and Read Grant	18,448
Women's Giving Circle - Reach Out and Read Grant	11,040
	<u>\$ 56,551</u>

- B. Net Assets Released From Donor Restrictions** - Net assets were released from donor restrictions during the fiscal year ended June 30, 2015, by incurring expenditures satisfying the restricted purposes as follows:

<u>Purpose</u>	<u>Amount</u>
Annual Fundraiser - Government and Military Affairs Liaison Activities	\$ 11,887
Annual Fundraiser - Kid Stuff Annual Outreach Event	9,367
Race to the Top - Early Learning Challenge: Assuring Better Health and Development (RTT-ELC ABCD Grant)	4,589
	<u>\$ 25,843</u>

- C. Permanently Restricted Net Assets** – Permanently restricted net assets at June 30, 2015 were restricted for the following purposes:

<u>Purpose</u>	<u>Amount</u>
Partnership for Children of Cumberland County (PFC) Endowment	\$ 31,166
	<u>\$ 31,166</u>

NOTE 11 - INCOME TAXES

The Cumberland 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 Cumberland County Partnership does not believe there are any unrecognized tax benefits or costs as of June 30, 2015. Income tax returns from 2012 through 2014 are open to examination by the tax authorities.

NOTE 12 - BENEFICIAL INTEREST IN ASSETS HELD BY COMMUNITY FOUNDATION

During the year ended June 30, 2012, the Cumberland County Partnership established an endowment for which the Cumberland County Partnership is the beneficiary. The endowment was established through the Cumberland Community Foundation, Inc. (CCF). The agreement between the Cumberland County Partnership and the CCF provides that all the contributions to the endowment are irrevocable. The CCF will make distributions of the income earned on the endowment, subject to the CCF's spending policy. The agreement also permits the CCF to substitute another beneficiary in the place of Cumberland County Partnership if the Cumberland County Partnership ceases to exist or if the Cumberland County Partnership ceases to be an organization described in Internal Revenue Code Sections 170c and 501c(3). Therefore, the Cumberland County Partnership has explicitly granted variance power to the CCF. The Cumberland County Partnership's endowment position is identified on the Statement of Receipts, Expenditures, and Net Assets - Modified Cash Basis as the Beneficial Interest in the Community Foundation.

The fair value of the endowment administered by the CCF on behalf of the Cumberland County Partnership at June 30, 2015 was \$40,669; however, under the modified cash basis of accounting, the original cost basis of contributions are reported on the Statement of Receipts, Expenditures, and Net Assets - Modified Cash Basis as \$31,166.

NOTE 13 - ENDOWMENT

Interpretation of Endowment Under Uniform Prudent Management of Institutional Funds Act (UPMIFA)

Through June 30, 2015, the Cumberland County Partnership's management and investment of donor-restricted endowment funds was subject to the provisions of the Uniform Management of Institutional Funds Act (UMIFA). In 2006, the Uniform Law Commission approved the model act, Uniform Prudent Management of Institutional Funds Act (UPMIFA) that serves as a guideline to states to use in enacting legislation. Among UPMIFA's most significant changes is the elimination of UMIFA's important concept of historic dollar threshold, the amount below which an organization could not spend from the fund, in favor of a more robust set of guidelines about what constitutes prudent spending. The Cumberland County Partnership's endowment consists of a beneficial interest in a community foundation. Endowments include donor-restricted endowment funds.

Basis of Endowment Accounting

Under the modified cash basis of accounting, the Cumberland County Partnership records contributions and endowment investment earnings on a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Contributions from funds held, raised or collected by Cumberland County Partnership and processed through its bank accounts are recorded as permanently restricted net assets.

Contributions from funds held, raised or collected by Cumberland County Partnership but not processed through its bank accounts are not recorded. Permanently restricted contributions sent directly by a third party to the community foundation are not recorded in the general ledger of the Cumberland County Partnership.

There were no third party contributions made directly to the foundation during the year ended June 30, 2015. Contributions received and processed through the Cumberland County Partnership's bank account was \$768 during the year ended June 30, 2015. Similarly, investment earnings and expenses of endowments held by the community foundation are not recorded in the general ledger of the Cumberland County Partnership, unless such earnings and expenses pass through its bank accounts.

Endowment net asset composition by fund type as of June 30, 2015 follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor- Restricted Cash	\$ -	\$ -	\$ 666	\$ 666
Donor- Restricted Funds	-	-	30,500	30,500
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 31,166</u>	<u>\$ 31,166</u>

NOTE 14 - SUBSEQUENT EVENTS

The Cumberland County Partnership has evaluated events and transactions that occurred between June 30, 2015 and December 9, 2015, 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, 2015 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, 2015.

SUPPLEMENTARY INFORMATION

Partnership for Children of Cumberland County, Inc.
Schedule of Contract and Grant Expenditures - Modified Cash Basis
For the Year Ended June 30, 2015

Schedule 1

Organization Name	Smart Start Funds		Other Funds	
	Amount Advanced	Refund Due	Amount Advanced	Refund Due
Organizations:				
Anson County Partnership for Children	\$ -	\$ -	\$ 10,174	\$ -
Autism Society of Cumberland County	45,000	-	-	-
Child & Youth Services, Child Development Services (CDS) (Fort Bragg)	*	-	154,125	-
Cumberland Community Action Program, Inc. (CCAP, Inc.) HeadStart	*	-	885,000	-
Cumberland County Public Library	*	917	-	-
Cumberland County Schools	*	-	1,455,300	-
Easter Seals UCP - Spainhour	97,008	-	156,329	-
Fayetteville State University	11,823	-	337,342	-
Fayetteville Technical Community College	*	-	105,599	-
Fayetteville Youth For Christ	27,012	-	-	-
Highland County Presbyterian Church Learning Center	*	-	-	-
Kerri Hurley	67,509	-	-	-
Montgomery County Partnership for Children	-	-	8,529	-
Partners for Children & Families of Moore County	-	-	30,054	-
Richmond County Partnership for Children	-	-	14,851	-
Solid Start Child Care Center	9,324	-	58,275	-
Truth Outreach Center, Inc. dba Trinity Child Care	*	-	698,600	-
	<u>819,161</u>	<u>917</u>	<u>3,914,178</u>	<u>-</u>
Individuals:				
Car Seats Distribution	12,142	-	-	-
Child Care Expense Reimbursements (Subsidy - TANF)	336,030	-	14,632	-
Child Care Expense Reimbursements (Subsidy - Non-TANF)	35,674	-	22,930	-
Child Care Expense Reimbursements (NC Pre-K Subsidy - TANF)	-	-	3,216,975	-
Child Care Expense Reimbursements (NC Pre-K Subsidy - Non-TANF)	-	-	857,550	-
Child Care Expense Reimbursements (Registration Fees & Transportation - Non-TANF)	6,745	-	1,237	-
Educational Materials & Supplies	256	-	5,773	-
Emergency Grants	-	-	150	-
Participant Training Grants	41,323	-	4,540	-
Quality Enhancement Grants	141,398	-	50,437	-
	<u>573,568</u>	<u>-</u>	<u>4,174,224</u>	<u>-</u>
	<u>\$ 1,392,729</u>	<u>\$ 917</u>	<u>\$ 8,088,402</u>	<u>\$ -</u>

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

Partnership for Children of Cumberland County, Inc.
Schedule of State Level Service Provider Contracts
For the Year Ended June 30, 2015

Schedule 2

Organization Name	DHHS Contracts
Child Care Services Association - WAGE\$ Program	\$ 319,974
Cumberland County Department of Social Services *	2,408,730
	<u>\$ 2,728,704</u>

* This organization is represented on the Partnership's Board as described in Note 4 - Service Provider Contracts with Board Member Organization.

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.

Partnership for Children of Cumberland County, Inc.
Schedule of Federal and State Awards - Modified Cash Basis
For the Year Ended June 30, 2015

Schedule 3

Federal and State Grantor/Pass-through Grantor/Program	Federal CFDA Number	Contract Number	Receipts	Expenditures
Federal Awards:				
United States 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 Southwestern Child Development Commission, Inc. (SWCDC)				
Child Care and Development Block Grant (Current Year)	93.575	005-14	\$ 295,022	\$ 295,022
Child Care and Development Block Grant (Current Year)	93.575	005-14-SA	15,373	15,373
Child Care and Development Block Grant (Prior Year)	93.575	005-13-SA	-	845
Child Care and Development Block Grant (Current Year)	93.575	005-14-IT	121,323	114,540
Child Care and Development Block Grant (Prior Year)	93.575	005-13-IT	-	6,934
Child Care and Development Block Grant (Current Year)	93.575	005-14-HSB	95,228	88,548
Child Care and Development Block Grant (Prior Year)	93.575	005-13-HSB	-	12,879
Pass through from the North Carolina Department of Health and Human Services, Division of Child Development and Early Education				
Temporary Assistance for Needy Families (North Carolina Pre-Kindergarten)	**	93.558 30171	6,047,869	6,054,219
			<u>6,574,815</u>	<u>6,588,360</u>
United States Department of Health and Human Services				
Administration for Children and Families				
Pass-through from the Mid-Carolina Area Agency on Aging				
Bio Monitoring Programs for State Public Health Laboratories -				
North Carolina Family Caregiver Support Program (Current Year)	93.062	N/A	3,000	3,000
North Carolina Family Caregiver Support Program (Prior Year)	93.062	N/A	-	3
			<u>3,000</u>	<u>3,003</u>
United States Department of Education				
Pass-through from Southwestern Child Development Commission, Inc. (SWCDC)				
Race to the Top - Early Learning Challenge Grant (Current Year)	84.412	005-14-RTT/ELC 1 & 2 Stars	27,085	54,136
Race to the Top - Early Learning Challenge Grant (Current Year)	84.412	RTT/ELC Enhanced Core	136,274	147,412
Race to the Top - Early Learning Challenge Grant (Prior Year)	84.412	RTT/ELC Enhanced Core	-	10,270
Pass through from the North Carolina Department of Health and Human Services				
Pass-through from the North Carolina Partnership for Children, Inc.				
Race to the Top - Early Learning Challenge Grant -ABCD Planning Grant (Prior Year)	84.412	320-13-14-026	5,000	9,589
Race to the Top - Early Learning Challenge Grant - ABCD Implementation Grant	84.412	320-14-15-009	8,439	3,478
Race to the Top - Early Learning Challenge Grant - Data Capacity Grant	84.412	320-14-15-016	10,000	10,000
			<u>186,798</u>	<u>234,885</u>
Total Federal Awards			<u>6,764,613</u>	<u>6,826,248</u>
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)	*		3,873,568	3,873,568
Early Childhood Initiatives Program (Prior Year)			(2,338)	(2,338)
Multi-Partnership Accounting and Contracting Grant (Current Year)			78,546	78,546
North Carolina Department of Health and Human Services, Division of Child Development and Early Education				
North Carolina Pre-K (Current Year)	*	29105	2,188,945	2,188,955
North Carolina Pre-K (Prior Year)	*	29105	(4,275)	-
Total State Awards			<u>6,134,446</u>	<u>6,138,731</u>
Total Federal and State Awards			<u>\$ 12,899,059</u>	<u>\$ 12,964,979</u>

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

** Major Programs per OMB Circular A-133.

Partnership for Children of Cumberland County, Inc.
Schedule of Property and Equipment - Modified Cash Basis
For the Year Ended June 30, 2015

Schedule 4

Furniture and Noncomputer Equipment	\$ 222,643
Computer Equipment / Printers	269,610
Buildings	5,209,956
Leasehold Improvements	66,048
Motor Vehicles	<u>58,186</u>
Total Property and Equipment	<u>\$ 5,826,443</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.

Partnership for Children of Cumberland County, Inc.
Schedule of Qualifying Match (Non-GAAP)
For the Year Ended June 30, 2015

Schedule 5

Match Provided at the Partnership Level:

Cash	\$ 254,337
In-Kind Goods and Services	<u>71,911</u>
Total	<u>\$ 326,248</u>

Match Provided at the Contractor Level:

Cash	\$ 604,162
In-Kind Goods and Services	<u>135,774</u>
Total	<u>\$ 739,936</u>

Note: This schedule is presented in accordance with the program match requirement as provided for by North Carolina Session Law 2014-100, Section 12B.9(d). The match is comprised of both cash and in-kind amounts. Only in-kind contributions that are verifiable, quantifiable, and related to the Smart Start Program can be applied to the in-kind match requirement, including volunteer services. The law allows for volunteer services to be valued for match purposes, a concept that deviates from generally accepted accounting principles. This schedule identifies those amounts allowable for this partnership in meeting the statewide match requirement.

Independent Auditor's Report on Internal Control over
Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in
Accordance with *Government Auditing Standards*

To Board Members of
Partnership for Children of Cumberland County, Inc.
Fayetteville, North Carolina

We have audited, 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, the financial statements of Partnership for Children of Cumberland County, Inc. (the "Organization"), as of and for the year ended June 30, 2015, and have issued our report thereon dated December 9, 2015.

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 of the financial statements, we considered the Organization's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization'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 Organization'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 the Organization'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 Organization's internal control or compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in cursive script that reads "CohnReznick LLP".

Charlotte, North Carolina
December 9, 2015