

FINANCIAL STATEMENT AUDIT REPORT OF
SMART START PARTNERSHIP FOR CHILDREN, INC.
HENDERSONVILLE, NORTH CAROLINA
FOR THE YEAR ENDED JUNE 30, 2021

BOARD OF DIRECTORS
JOHNATHAN TEMPLE, CHAIR

ADMINISTRATIVE OFFICER
SONIA GIRONDA, EXECUTIVE DIRECTOR

Smart Start Partnership for Children, Inc.

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Independent Auditor's Report

To Board Members of
Smart Start Partnership for Children, Inc.
Hendersonville, North Carolina

Report on Financial Statements

We have audited the accompanying financial statements of Smart Start Partnership for Children, Inc., which comprise the Statement of Receipts, Expenditures, and Net Assets - Modified Cash Basis as of and for the year ended June 30, 2021, 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 Partnership for Children, Inc., as of and for the year ended June 30, 2021, 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

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplementary information in Schedule 2 on page 22 and Schedule 5 on page 25 is presented for purposes of additional analysis as required by the North Carolina Office of the State Auditor, and is not a required part of the financial statements. 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.

The accompanying supplementary information in Schedules 1, 3, and 4 on pages 20, 23, and 24 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects in relation to the financial statements as whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 13, 2022 on our consideration of Smart Start Partnership for Children, 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 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 Partnership for Children, Inc.'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 Partnership for Children, Inc.'s internal control over financial reporting and compliance.

CohnReznick LLP

Charlotte, North Carolina
January 13, 2022

Smart Start Partnership for Children, Inc.
Statement of Receipts, Expenditures, and Net Assets - Modified Cash Basis
For the Year Ended June 30, 2021

Exhibit A

	Without Donor Restrictions	With Donor Restrictions	Total Funds
Receipts:			
State Awards and Contracts	\$ 950,591	\$ 3,742	\$ 954,333
Federal Awards	11,754	-	11,754
Private Contributions	162,988	22,564	185,552
Special Fund Raising Events	1,651	-	1,651
Sales Tax Refunds	2,672	-	2,672
Other Receipts	47,475	300	47,775
Total Receipts	1,177,131	26,606	1,203,737
Net Assets Released from Restrictions:			
Satisfaction of Program Restrictions	13,830	(13,830)	-
	1,190,961	12,776	1,203,737
Expenditures:			
Programs:			
Child Care and Education Affordability	426,169	-	426,169
Child Care and Education Quality	172,637	-	172,637
Family Support	307,037	-	307,037
Health and Safety	74,763	-	74,763
Support:			
Fund Raising	13,595	-	13,595
Management and General	94,816	-	94,816
Program Planning, Coordination and Evaluation	80,569	-	80,569
Other:			
Sales Tax Paid	3,164	-	3,164
Total Expenditures	1,172,750	-	1,172,750
Excess (Deficiency) of Receipts Over Expenditures	18,211	12,776	30,987
Net Assets at Beginning of Year	33,760	87,672	121,432
Net Assets at End of Year	\$ 51,971	\$ 100,448	\$ 152,419
Net Assets Consisted of:			
Cash and Cash Equivalents	\$ 58,073	\$ 100,448	\$ 158,521
Less: Due to State	5,961	-	5,961
Funds Held for Others	141	-	141
Total Net Assets	\$ 51,971	\$ 100,448	\$ 152,419

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

Smart Start Partnership for Children, Inc.
Statement of Functional Expenditures - Modified Cash Basis
For the Year Ended June 30, 2021

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	\$ 416,512	\$ 16,845	\$ 425	\$ 13	\$ 632	\$ 1,059	\$ -	\$ 397,538
Child Care and Education Quality	145,661	2,110	10	416	31	151	-	142,943
Family Support	195,780	42,352	155	499	5,226	3,661	-	143,887
Health and Safety	600	289	-	-	-	-	-	311
	<u>758,553</u>	<u>61,596</u>	<u>590</u>	<u>928</u>	<u>5,889</u>	<u>4,871</u>	<u>-</u>	<u>684,679</u>
Support:								
Fund Raising	10,472	7,503	152	21	1,820	976	-	-
Management and General	92,739	66,671	3,421	4,146	6,072	10,676	1,753	-
Program Planning, Coordination and Evaluation	80,569	55,706	12,566	756	2,969	3,687	2,546	2,339
	<u>183,780</u>	<u>129,880</u>	<u>16,139</u>	<u>4,923</u>	<u>10,861</u>	<u>15,339</u>	<u>4,299</u>	<u>2,339</u>
Total Smart Start Fund Expenditures	<u>\$ 942,333</u>	<u>\$ 191,476</u>	<u>\$ 16,729</u>	<u>\$ 5,851</u>	<u>\$ 16,750</u>	<u>\$ 20,210</u>	<u>\$ 4,299</u>	<u>\$ 687,018</u>
Other Funds:								
Programs:								
Child Care and Education Affordability	\$ 9,657	\$ -	\$ -	\$ -	\$ 9	\$ -	\$ -	\$ 9,648
Child Care and Education Quality	26,976	14,515	-	343	2,601	1,502	2,251	5,764
Family Support	111,257	74,083	1,531	1,818	9,811	5,261	-	18,753
Health and Safety	74,163	-	-	-	774	-	-	73,389
	<u>222,053</u>	<u>88,598</u>	<u>1,531</u>	<u>2,161</u>	<u>13,195</u>	<u>6,763</u>	<u>2,251</u>	<u>107,554</u>
Support:								
Management and General	2,077	12	-	-	526	1,539	-	-
Fund Raising	3,123	-	-	284	1,787	1,052	-	-
	<u>5,200</u>	<u>12</u>	<u>-</u>	<u>284</u>	<u>2,313</u>	<u>2,591</u>	<u>-</u>	<u>-</u>
Other:								
Sales Tax Paid	3,164	-	-	3,164	-	-	-	-
	<u>3,164</u>	<u>-</u>	<u>-</u>	<u>3,164</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Other Funds Expenditures	<u>\$ 230,417</u>	<u>\$ 88,610</u>	<u>\$ 1,531</u>	<u>\$ 5,609</u>	<u>\$ 15,508</u>	<u>\$ 9,354</u>	<u>\$ 2,251</u>	<u>\$ 107,554</u>

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

SMART START PARTNERSHIP FOR CHILDREN, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2021

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

- A. Organization and Purpose** - The Smart Start Partnership for Children, Inc. (Henderson County Partnership) is a legally separate nonprofit organization incorporated on October 21, 1997. The Henderson County Partnership was established to develop and provide, through public and private means, early childhood education and developmental services for children and families. The Henderson 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 Henderson 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. Due to State** - The funding provided by the State of North Carolina for the Smart Start Initiative is funded on a cost-reimbursement basis. The money is earned to the extent of allowable costs incurred. Any unexpended funds as of June 30 are required to be reverted to The North Carolina Partnership for Children, Inc. to be returned to the State of North Carolina.
- F. Funds Held For Others** - Funds Held for Others includes amounts received that are fiduciary in nature in which the Smart Start Partnership for Children, Inc. acts in an agency capacity. For the year ended June 30, 2021, the Smart Start Partnership for Children, Inc. had unremitted sales tax from a fund raising event in the amount of \$141.
- G. Property and Equipment** - Under the modified cash basis of accounting, purchases of property and equipment are reported as expenditures in the year incurred. However, the Henderson County Partnership is required by contract regulation to track and maintain property and equipment items as presented in Schedule 4 of this report. The Henderson 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, 2021. Donated items are recorded on the property and equipment log at estimated acquisition value at the date of donation, which is defined as the price that would be paid to acquire an asset with equivalent service capacity in an orderly market transaction at the acquisition date.
- H. Compensated Absences** - As a result of the use of the modified cash basis of accounting, liabilities related to accrued compensated absences are not recorded in the financial statements. Expenditures related to compensated absences are recorded when paid. The amount of accrued compensated absences for accumulated, unpaid leave that would be due to employees upon termination is reported as a commitment in Note 9A.
- I. Use of Estimates** - The preparation of financial statements in conformity with the modified cash basis of accounting used by the Henderson 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.
- J. Qualifying Match and Contributions In-Kind** - Henderson 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. The Henderson County Partnership also benefits from donor volunteer hours which do not require specific expertise, but which are nonetheless central to Henderson County Partnership operations. See supplemental Schedule 5 for more information on contributions in-kind.

NOTE 2 - DEPOSITS

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

Deposits over insured amounts subjects the Henderson County Partnership to a concentration of credit risk. At June 30, 2021, the Henderson County Partnership did not have any bank deposits not insured by FDIC.

NOTE 3 - FUNDING FROM GRANT AWARDS AND CONTRACTS

Smart Start Program - The Henderson 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 Henderson County Partnership and represents a concentration of credit risk as to the generation of revenue.

Associated with these contracts, the Henderson 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 Henderson 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 Henderson County Partnership was awarded and has received \$948,735 under a current year Smart Start contract with NCPC. The unexpended balance of this contract is subject to reversion to the State. The Henderson County Partnership has refunded \$5,961 of this contract to the State based on financial status reports submitted to NCPC subsequent to June 30, 2021. The Henderson County Partnership has also refunded \$441 of a prior year contract to NCPC during the year ended June 30, 2021.

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

Dolly Parton Imagination Library Expansion Program - The Henderson County Partnership also received revenue and support from the State of North Carolina for the Dolly Parton Imagination Library Expansion program. The

Henderson County Partnership was awarded and received \$12,000 and has expended \$8,258 under a current year contract with the NCPC. As allowed by program regulation, the unexpended balance of the current year contract is available to carry forward to the subsequent year.

The Henderson County Partnership expects to receive continued funding through new Dolly Parton Imagination Library Expansion contracts with the State.

United Way of Henderson County - The Henderson County Partnership also received revenue and support from the United Way of Henderson County for the purpose of improving kindergarten readiness in Henderson County. This was awarded in grants for the Dolly Parton Imagination Library, Reach Out and Read, Kindergarten Transition and general support of the work of the Henderson County Partnership. The Henderson County Partnership received and expended \$41,388 under the grant during the year ended June 30, 2021.

The Henderson County Partnership expects to receive continued support from United Way of Henderson County to improve kindergarten readiness in our community.

Community Foundation of Henderson County - The Henderson County Partnership also received revenue and support from the Community Foundation of Henderson County for Reach Out and Read. The Henderson County Partnership was awarded, received and expended \$7,500 under the grant during the year ended June 30, 2021.

The Henderson County Partnership received support from a joint Community Foundation of Henderson County and United Way of Henderson County community grant to help provide child care for local families through the Child Care Subsidy System during the Covid-19 Pandemic. The Henderson County Partnership was awarded, received and expended \$5,000 under the grant during the year ended June 30, 2021.

The Henderson County Partnership does not expect to receive continued support from Community Foundation of Henderson County.

North Carolina Partnership for Children Family Connects Grant - The Henderson County Partnership also received revenue and support from NCPC under a Family Connects Grant. The grant period is from March 1, 2021 through November 30, 2022 with a total award of \$531,108. The Henderson County Partnership received \$7,754 and expended \$12,588 under the grant during the year ended June 30, 2021.

The Henderson County Partnership expects to receive continued support from the North Carolina Partnership for Children for the duration of this two-year grant.

Community Foundation of Western North Carolina - The Henderson County Partnership also received revenue and support from the Community Foundation of Western North Carolina. The Henderson County Partnership was awarded and received \$20,000 and expended \$8,490 under the grant during the year ended June 30, 2021.

The Henderson County Partnership does not expect to receive continued support from Community Foundation of Western North Carolina.

COVID Impact Mitigation Grant (Coronavirus Relief Fund) - The Henderson County Partnership received revenue and support from DHHS through the NCPC to provide COVID impact mitigation services in the County. For the year ended June 30, 2021, the Henderson County Partnership was awarded, received and expended \$4,000 under current year financial assistance contract.

Additionally, the Henderson County Partnership also received 25 electronic devices under a current year COVID Impact Mitigation Grant with NCPC at a cost of \$25,000. All electronic devices were provided to participants during the year ended June 30, 2021 and no devices were retained by the Henderson County Partnership for Children, Inc. Under the modified cash basis of accounting (Note 1), in-kind contributions and donated equipment are not recognized.

The Smart Start Partnership for Children, Inc. does not expect to receive continued funding through new COVID impact mitigation grants.

Dogwood Health Trust - The Henderson County Partnership also received revenue and support from the Dogwood Health Trust to help child care providers provide safe and reliable child care during the Covid-19 Pandemic. The Henderson County Partnership was awarded, received and expended \$56,554 under the grant during the year ended June 30, 2021.

The Henderson County Partnership does not expect to receive continued support from Dogwood Health Trust.

Healthy People Healthy Carolinas - The Henderson County Partnership also received revenue and support from Healthy People Healthy Carolinas to provide GO NAPSACC in Henderson County. The Henderson County Partnership received and expended \$12,026 under the grant during the year ended June 30, 2021.

The Henderson County Partnership does not expect to receive continued support from Healthy People Healthy Carolinas.

Town of Mills River - The Henderson County Partnership also received revenue and support from the Town of Mills River to support Kindergarten Transition work in the municipality. The Henderson County Partnership received and expended \$3,000 under the grant during the year ended June 30, 2021.

The Henderson County Partnership expects to receive continued support from the Town of Mills River for Kindergarten Transition activities.

Paycheck Protection Program Loan - The Henderson County Partnership received additional revenue and support from Mountain BizCapital, Inc. in the form of a forgivable loan dated August 7, 2020 with a maturity date of August 5, 2025 and a maximum principal balance of \$42,255. Under the modified cash basis of accounting (See Note 1), loan proceeds are recognized as revenue in the period which they are received. The Henderson County Partnership received \$42,255 of this loan during the year ended June 30, 2021, of which \$42,255 was

expended. In order for the loan to be forgiven, the Henderson County Partnership must use the proceeds of the loan for its payroll costs and other expenses in accordance with the requirements of the Paycheck Protection Program. If the loan is not forgiven, the loan bears interest at a rate of 1% per annum, which is recognized as an expense when paid and monthly payments of interest and principal in the amount of \$863 commence July 7, 2021. During the year ended June 30, 2021, no amount of interest was expended. The full balance of \$42,255 was forgiven during the year ended June 30, 2021.

NOTE 4 - RELATED PARTY TRANSACTIONS

Service Provider Contracts with Board Member Organizations - The board members of the Henderson County Partnership are representative of various organizations that benefit from actions taken by the Board. It is the policy of the Henderson County Partnership that board members not be involved with decisions regarding organizations they represent. During the year, the Henderson 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 or associated with 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, resource and referral, professional development and supplements, literacy for child care providers, provider training, special needs – early intervention support for child care professionals, child care needs and resources assessments, and kindergarten orientation/transition.

Family Support - Used to account for service activities including family resource centers, family support, ongoing parent education, family intervention, literacy, home visiting and community systems building and public awareness.

Health and Safety - Used to account for service activities associated with comprehensive medical home services, child care health consultations, prenatal/newborn services, and health and nutrition programs.

B. Support Functions

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

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

Program 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 employee time reports or based on utilization information.

NOTE 6 - OPERATING LEASE OBLIGATIONS

Future minimum lease payments under non-cancelable operating leases consist of the following at June 30, 2021:

Fiscal Year	Operating Leases
2022	\$ 33,724
2023	27,124
2024	23,694
Total Minimum Lease Payments	<u>\$ 84,542</u>

Rental expense for all operating leases during the year was \$20,218.

NOTE 7 - PENSION PLAN

Retirement Plans - - 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 Henderson County Partnership, as a condition of employment, is provided an individual annuity through an outside insurance company. The Henderson County Partnership contributed 4-7% of gross wages for the year ended June 30, 2021. 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. The Henderson County Partnership pays the annual service fee for maintaining the Plan. The Henderson County Partnership contributed \$12,837 for retirement benefits during the year.

NOTE 8 - RISK MANAGEMENT

The Henderson 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 Henderson 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 Henderson 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 Henderson 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, 2021 is \$17,052. 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, 2021, there was no significant impact to the Henderson County Partnership's operations. However, the Henderson 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 Henderson 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 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, 2021 are restricted for the following purposes:

Purpose	Amount
Dolly Parton Imagination Library	\$ 3,742
Duke Energy - Reach Out and Read	3,574
Dental Care	50
Leadership Funds	19,786
Literacy	59,790
Kindergarten Transition	847
Family Connects	12,659
	<u>\$ 100,448</u>

B. **Net Assets Released From Donor Restrictions** - Net assets were released from donor restrictions during the fiscal year ended June 30, 2021 by incurring expenditures satisfying the restricted purposes as follows:

Purpose	Amount
Leadership Funds	\$ 251
Community Outreach	8,931
Child Care Subsidy	4,648
	<u>\$ 13,830</u>

NOTE 11 - FINANCIAL ASSETS AVAILABLE TO MEET CASH NEEDS

The following reflects the Henderson County Partnership's financial assets as of June 30, 2021, reduced by amounts not available for general use because of contractual or donor-imposed restrictions within one year of June 30, 2021:

Financial assets at year-end	\$ 152,419
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 10 A)	<u>(100,448)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 51,971</u>

The Henderson 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 Henderson 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 the Henderson County Partnership's liquidity management, it has a policy to appoint the Executive Committee and staff leadership to provide oversight with ongoing notification to the full board. Upon knowledge of funding concerns, staff leadership will notify the Executive Committee who will meet to assess the threat and time period funding could be impacted. This might include a review of existing contracts, grant requirements, grantors, direct service providers and administrative leases and a plan to contact anyone who might be impacted. This should also include a review of existing recurring/predictable funding needs such as salaries, benefits and other predictable expenses along with a review of funds available and a plan to contact anyone who might be impacted.

NOTE 12 - INCOME TAXES

The Henderson 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 Henderson County Partnership does not believe there are any unrecognized tax benefits or costs as of June 30, 2021.

Income tax returns for 2018 through 2020 remain open to examination by the tax authorities.

NOTE 13 - SUBSEQUENT EVENTS

The Henderson Partnership has evaluated events and transactions that occurred between June 30, 2021 and January 13, 2022, 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, 2021 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, 2021.

This information is an integral part of the financial statements.

SUPPLEMENTARY INFORMATION

Smart Start Partnership for Children, Inc.
Schedule of Contract and Grant Expenditures - Modified Cash Basis
For the Year Ended June 30, 2021

Schedule 1

Organization Name	Smart Start Fund		Other Funds	
	Amount Advanced	Refund Due	Amount Advanced	Refund Due
Organizations:				
Aletheia Academy for Little People	\$ 7,258	\$ -	\$ 2,279	\$ -
Alejandrina's Child Care Home	6,107	-	2,874	-
Alice's Playground	38,796	-	3,347	-
Bell's School for People Under Six	5,138	-	4,839	-
Best Ever Home Day Care	-	-	1,074	-
Bruce Drysdale Elementary School	-	-	500	-
Carolina Academy	5,623	-	501	-
Children and Family Resource Center for Parents as Teachers	125,952	-	-	-
Children and Family Resource Center for Smart Start Quality Enhancement	140,700	-	-	-
Children and Family Resource Center for Child Care Health Consultant	311	-	-	-
Children's World	1,932	-	-	-
Curtain Climbers	1,542	-	1,100	-
East Coast Migrant Head Start	-	-	1,616	-
Everyday Superheroes	-	-	25	-
First United Methodist Church Weekday School	-	-	738	-
Genesis Child Care	-	-	1,098	-
Helping Hand Child Developmental Center	6,873	-	689	-
His Kids Child Development Center	-	-	2,605	-
Immaculata Pre-K	11,973	-	2,590	-
Laurie's Child Care	-	-	2,570	-
Learning Tree of Fletcher	-	-	2,802	-
Little Blessings Christian Academy	151,306	-	11,356	-
Little Bright Minds	28,967	-	2,039	-
Little Red School	25,049	-	2,236	-
Love and Learning	41,311	-	2,952	-
Mills River Elementary School	-	-	3,000	-
Montessori Country Day	10,692	-	2,900	-
Mt. Pisgah Lutheran Preschool	-	-	2,826	-
Mud Creek Christian School	-	-	418	-
Nessa's Young'uns Natural Play Centers I and II	-	-	10,918	-
Steps to Hope	42,368	-	2,110	-
Sugarloaf Elementary School	-	-	500	-
The Beacon Child Development Center	-	-	1,420	-
The Play and Learning Center	2,574	-	1,564	-
Tifco Toddlers	-	-	1,098	-
Tomorrow's Hope Child Development Center	* 6,746	-	6,983	-
Tori Tots and Friends	-	-	1,123	-
Tumblin Toddler	3,249	-	1,348	-
Upward Elementary School	-	-	500	-
Western Carolina Community Action	* 33	-	-	-
	<u>664,500</u>	<u>-</u>	<u>86,538</u>	<u>-</u>

See Independent Auditor's Report

Smart Start Partnership for Children, Inc.
Schedule of Contract and Grant Expenditures - Modified Cash Basis
For the Year Ended June 30, 2021

Schedule 1

Organization Name	Smart Start Fund		Other Funds	
	Amount Advanced	Refund Due	Amount Advanced	Refund Due
Individuals:				
Car Seat Recipients	1,900	-	-	-
Community Needs Assessment Participants	440	-	-	-
Dolly Parton Imagination Library Books	16,352	-	11,029	-
Kindergarten Transition	2,243	-	1,265	-
NAPSACC	-	-	1,000	-
Reach Out and Read Books	1,583	-	7,722	-
	<u>22,518</u>	<u>-</u>	<u>21,016</u>	<u>-</u>
	<u>\$ 687,018</u>	<u>\$ -</u>	<u>\$ 107,554</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 Partnership for Children, Inc.
Schedule of State Level Service Provider Contracts (Unaudited)
For the Year Ended June 30, 2021

Schedule 2

Organization Name	DHHS Contracts
Child Care Services Association - WAGE\$	\$ 150,000

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 Partnership for Children, Inc.
Schedule of Federal and State Awards - Modified Cash Basis
For the Year Ended June 30, 2021

Schedule 3

Federal/State Grantor/Pass-through Grantor/Program	Federal Assistance Listing Number	Contract Number	Receipts	Expenditures
Federal Awards:				
United States Department of Treasury Pass-through 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. Coronavirus Relief Fund (Current Yr.)	21.019	309: 20/21-038	\$ 4,000	\$ 4,000
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 The North Carolina Partnership for Children, Inc. Preschool Development Grant-Family Connects (Current Yr.)	93.434	312:20/21-08935	<u>7,754</u>	<u>12,588</u>
Total Receipts and Expenditures of Federal Awards			<u>11,754</u>	<u>16,588</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 (Prior Year)			(441)	(441)
Early Childhood Initiatives Program (Current Year)	*		942,774	942,774
Dolly Parton Imagination Library Expansion (Current Year)			<u>12,000</u>	<u>8,258</u>
Total Receipts and Expenditures of State Awards			<u>954,333</u>	<u>950,591</u>
Total Receipts and Expenditures of Federal and State Awards			<u>\$ 966,087</u>	<u>\$ 967,179</u>

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

See Independent Auditor's Report

Smart Start Partnership for Children, Inc.
Schedule of Property and Equipment - Modified Cash Basis
For the Year Ended June 30, 2021

Schedule 4

Furniture and Noncomputer Equipment	\$ 8,230
Computer Equipment/Printers	<u>24,919</u>
Total Property and Equipment	<u><u>\$ 33,149</u></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 Partnership for Children, Inc.
Schedule of Qualifying Match (Non-GAAP) (Unaudited)
For the Year Ended June 30, 2021

Schedule 5

Match Provided at the Partnership Level:

Cash	\$ 155,339
In-Kind Goods and Services	<u>165,537</u>
	<u>\$ 320,876</u>

Match Provided at the Contractor Level:

Cash	\$ 14,878
In-Kind Goods and Services	<u>57,519</u>
	<u>\$ 72,397</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.

For the fiscal year ended June 30, 2021, 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, 2021.

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 Partnership for Children, Inc.
Hendersonville, 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 Partnership for Children, Inc. (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, 2021, 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 13, 2022.

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 Smart Start Partnership for Children, Inc.'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 Partnership for Children, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of Smart Start Partnership for Children, Inc.'s internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of Smart Start Partnership for Children, Inc.'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 Partnership for Children, Inc.'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 Partnership for Children, Inc.'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 Partnership for Children, Inc.'s internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

CohnReznick LLP

Charlotte, North Carolina
January 13, 2022