

FINANCIAL STATEMENT AUDIT REPORT OF  
WAKE COUNTY SMART START  
RALEIGH, NORTH CAROLINA  
FOR THE YEAR ENDED JUNE 30, 2019

BOARD OF DIRECTORS  
BARBARA MORALES-BURKE, BOARD CHAIR

ADMINISTRATIVE OFFICER  
GAYLE HEADEN, EXECUTIVE DIRECTOR

# Wake County Smart Start

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## Independent Auditor's Report

To Board Members of  
Wake County Smart Start  
Raleigh, North Carolina

### Report on Financial Statements

We have audited the accompanying financial statements of Wake County Smart Start, which comprise the Statement of Receipts, Expenditures, and Net Assets - Modified Cash Basis as of and for the year ended June 30, 2019, 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 Wake County Smart Start, as of and for the year ended June 30, 2019, and the Statement of Functional Expenditures for the year then ended in accordance with the modified cash basis of accounting as described in Note 1.

## *Other Matters*

### *Basis of Accounting*

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

## Report on Supplementary Information

Schedule 2 on page 23 and Schedule 5 on page 26 are not a required part of the basic financial statements but is supplementary information required by the North Carolina Office of the State Auditor. In accordance with auditing standards generally accepted in the United States of America, we have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion or provide any assurance on Schedules 2 and 5.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 16, 2020, on our consideration of Wake County Smart Start'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 Wake County Smart Start'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 Wake County Smart Start's internal control over financial reporting and compliance.



Charlotte, North Carolina  
January 16, 2020

**Wake County Smart Start  
Statement of Receipts, Expenditures, and Net Assets - Modified Cash Basis  
For the Year Ended June 30, 2019**

**Exhibit A**

	<b>Without Donor Restrictions</b>	<b>With Donor Restrictions</b>	<b>Total Funds</b>
<b>Receipts:</b>			
State Awards and Contracts	\$ 9,080,551	\$ 1,229	\$ 9,081,780
Federal Awards	7,371,661	-	7,371,661
Local Awards	1,039,996	148,596	1,188,592
Private Contributions	35,487	60,000	95,487
Interest and Investment Earnings	13,126	-	13,126
Sales Tax Refunds	13,802	-	13,802
Other Receipts	63,103	-	63,103
<b>Total Receipts</b>	<b>17,617,726</b>	<b>209,825</b>	<b>17,827,551</b>
Net Assets Released from Restrictions:			
Satisfaction of Program Restrictions	827,267	(827,267)	-
	<b>18,444,993</b>	<b>(617,442)</b>	<b>17,827,551</b>
<b>Expenditures:</b>			
Programs:			
Child Care and Education Quality	902,896	-	902,896
Family Support	1,793,340	-	1,793,340
Health and Safety	1,041,861	-	1,041,861
NC Pre-K	13,336,762	-	13,336,762
Support:			
Fund Raising	96,762	-	96,762
Management and General	990,814	-	990,814
Program Planning, Coordination and Evaluation	153,884	-	153,884
Other:			
Sales Tax Paid	10,798	-	10,798
<b>Total Expenditures</b>	<b>18,327,117</b>	<b>-</b>	<b>18,327,117</b>
<b>Excess (Deficiency) of Receipts Over Expenditures</b>	<b>117,876</b>	<b>(617,442)</b>	<b>(499,566)</b>
<b>Net Assets at Beginning of Year</b>	<b>1,877,311</b>	<b>930,615</b>	<b>2,807,926</b>
<b>Net Assets at End of Year</b>	<b>\$ 1,995,187</b>	<b>\$ 313,173</b>	<b>\$ 2,308,360</b>
<b>Net Assets Consisted of:</b>			
Cash and Cash Equivalents	\$ 1,316,256	\$ 313,173	\$ 1,629,429
Investments	760,694	-	760,694
Refunds Due From Contractors	19,068	-	19,068
	<b>2,096,018</b>	<b>313,173</b>	<b>2,409,191</b>
Less: Due to State	100,198	-	100,198
Funds Held for Others	633	-	633
<b>Total Net Assets</b>	<b>\$ 1,995,187</b>	<b>\$ 313,173</b>	<b>\$ 2,308,360</b>

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

Wake County Smart Start  
Statement of Functional Expenditures - Modified Cash Basis  
For the Year Ended June 30, 2019

Exhibit B

	Total	Personnel	Contracted Services	Supplies and Materials	Other Operating Expenditures	Fixed Charges and Other Expenditures	Property and Equipment Outlay	Services/Contracts/Grants
<b>Smart Start Fund:</b>								
<b>Programs:</b>								
Child Care and Education Quality	\$ 861,896	\$ 217,721	\$ 10,000	\$ 2,823	\$ 11,471	\$ 10,470	\$ 2,727	\$ 606,684
Family Support	1,522,503	263,579	22,357	744	5,862	20,856	3,123	1,205,982
Health and Safety	875,598	25,000	-	-	-	-	-	850,598
NC Pre-K	3,032,740	303,850	123	975	9,718	21,795	-	2,696,279
	<u>6,292,737</u>	<u>810,150</u>	<u>32,480</u>	<u>4,542</u>	<u>27,051</u>	<u>53,121</u>	<u>5,850</u>	<u>5,359,543</u>
<b>Support:</b>								
Fund Raising	94,817	82,679	-	20	5,027	6,923	168	-
Management and General	333,582	163,320	72,583	4,568	42,248	42,284	8,579	-
Program Planning, Coordination and Evaluation	153,884	141,557	4,776	283	2,719	4,549	-	-
	<u>582,283</u>	<u>387,556</u>	<u>77,359</u>	<u>4,871</u>	<u>49,994</u>	<u>53,756</u>	<u>8,747</u>	<u>-</u>
<b>Total Smart Start Fund Expenditures</b>	<u>\$ 6,875,020</u>	<u>\$ 1,197,706</u>	<u>\$ 109,839</u>	<u>\$ 9,413</u>	<u>\$ 77,045</u>	<u>\$ 106,877</u>	<u>\$ 14,597</u>	<u>\$ 5,359,543</u>
<b>Other Funds:</b>								
<b>Programs:</b>								
Child Care and Education Quality	\$ 41,000	\$ 29,361	\$ 10,950	\$ -	\$ 689	\$ -	\$ -	\$ -
Family Support	270,837	185,411	52,187	289	11,602	10,498	2,087	8,763
Health and Safety	166,263	91,092	274	769	5,311	62	1,364	67,391
NC Pre-K	10,304,022	110,294	1,032	362	4,764	-	-	10,187,570
	<u>10,782,122</u>	<u>416,158</u>	<u>64,443</u>	<u>1,420</u>	<u>22,366</u>	<u>10,560</u>	<u>3,451</u>	<u>10,263,724</u>
<b>Support:</b>								
Fund Raising	1,945	-	1,193	-	752	-	-	-
Management and General	657,232	581,103	34,951	1,117	11,231	26,100	2,730	-
	<u>659,177</u>	<u>581,103</u>	<u>36,144</u>	<u>1,117</u>	<u>11,983</u>	<u>26,100</u>	<u>2,730</u>	<u>-</u>
<b>Other:</b>								
Sales Tax Paid	10,798	-	-	10,798	-	-	-	-
<b>Total Other Funds Expenditures</b>	<u>\$ 11,452,097</u>	<u>\$ 997,261</u>	<u>\$ 100,587</u>	<u>\$ 13,335</u>	<u>\$ 34,349</u>	<u>\$ 36,660</u>	<u>\$ 6,181</u>	<u>\$ 10,263,724</u>

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

**WAKE COUNTY SMART START  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2019**

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**NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES**

- A. Organization and Purpose** - Wake County Smart Start is a legally separate nonprofit organization incorporated on August 18, 1994. Wake County Smart Start was established to develop and provide, through public and private means, early childhood education and developmental services for children and families. Wake County Smart Start 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 Wake County Smart Start'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 certificate of deposits or short-term investments with an original maturity of three months or less.
- E. Investments** - This classification includes certificates of deposit for which the original maturity exceeds 3 months. Under the modified cash basis of accounting, investments in marketable securities are reported at cost, which may differ significantly from their fair values.
- F. 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.
- G. 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.
- H. Funds Held For Others** - Funds held for others includes amounts received that are fiduciary in nature in which the Wake County Smart Start acts in an agency capacity. For the year ended, the Wake County Smart Start Partnership was holding amounts withheld from employee paychecks for distribution to the appropriate designee.
- I. Property and Equipment** - Under the modified cash basis of accounting, purchases of property and equipment are reported as expenditures in the year occurred. However, Wake County Smart Start is required by contract regulation to track and maintain property and equipment items as presented in Schedule 4 of this report. Wake County Smart Start 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, 2019. 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.
- J. 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.

- K. Use of Estimates** - The preparation of financial statements in conformity with the modified cash basis of accounting used by the Wake County Smart Start 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.
- L. Qualifying Match and Contributions In-Kind** - Wake County Smart Start, 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. Wake County Smart Start also benefits from donor volunteer hours which do not require specific expertise but which are nonetheless central to Wake County Smart Start's operations. See supplemental Schedule 5 for more information on contributions in-kind.
- M. Change in Accounting Principle** - During 2019, Wake County Smart Start adopted the provisions of Accounting Standards Update 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities* ("ASU 2016-14"). The update addresses the complexity and understandability of net asset classifications, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. Wake County Smart Start has adjusted the presentation of these statements accordingly. ASU 2016-14 has been applied on a retrospective basis.

**NOTE 2 - DEPOSITS**

- A. Deposits** - All funds of the Wake County Smart Start are deposited with commercial banks and insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000.

Deposits over insured amounts subjects Wake County Smart Start to a concentration of credit risk. At June 30, 2019, the Wake County Smart Start bank deposits in excess of the FDIC insured limit was \$1,658,953.

- B. Investments** - Wake County Smart Start has an Automated Investment Plan to invest excess balances over an established target amount. These funds are collateralized by United States government-backed securities and are not insured by the FDIC.

**NOTE 3 - FUNDING FROM GRANT AWARDS**

**Smart Start Program** - One of Wake County Smart Start's 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 Wake County Smart Start and represents a concentration of credit risk as to the generation of revenue.

Associated with these contracts, Wake County Smart Start 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 a contract with and made payments to a service provider selected by Wake County Smart Start. The service provider contract is not reflected on the accompanying financial statements. However, a summary of the service provider contract entered into by DHHS is presented on Schedule 2 accompanying the financial statement.

Wake County Smart Start was awarded and has received \$6,975,666 under a current year Smart Start contract with NCPC. The unexpended balance of this contract is subject to reversion to the State. Wake County Smart Start has returned \$100,198 of this contract to the State based on financial status reports submitted to NCPC subsequent to June 30, 2019. In addition, Wake County Smart Start returned \$448 of a prior year financial assistance contract to the State during the year ended June 30, 2019.

Wake County Smart Start expects to receive continued funding through new Smart Start contracts with the State.

**NC Pre-K** - Wake County Smart Start also received revenue and support from the State of North Carolina for the NC Pre-K Program. The Wake County Smart Start was awarded and received \$9,232,306 under a current year financial assistance contract. Wake County Smart Start also received \$56,983 in state funds under a prior year contract.

Wake County Smart Start expects to receive continued funding through new NC Pre-K grant contracts with the State.

**Wake County** - Wake County Smart Start also received revenue and support from Wake County for the NC Pre-K program. Wake County Smart Start was awarded and received \$1,188,592 under a current year grant contract.

Wake County Smart Start expects to receive continued funding through new NC Pre-K contracts with Wake County.

**Multi-Partnership Accounting and Contracting Grant** - The Wake County Smart Start was awarded and has received \$94,432 and expended \$98,432 under a current year grant with NCPC. The unexpended balance of this contract is subject to reversion to the State. The Wake County Smart Start has expended all awards and therefore has returned none of this amount to the State based on financial status reports submitted subsequent to June 30, 2019.

Wake County Smart Start expects to receive continued funding through new contracts with the State.

**Dolly Parton Imagination Library Expansion** - Wake County Smart Start was also awarded \$15,000 plus \$1.80 annually per enrolled child from the State of North Carolina for the Dolly Parton Imagination Library program. Wake County Smart Start received \$101,521 and expended \$100,292 under a current year contract with the State. As allowed by program regulation, the unexpended balance of the current year contract is available to carry-forward to the subsequent year.

Wake County Smart Start expects to receive continued funding through new contracts with the State.

**Social Innovation Grant (Shape NC)** - Wake County Smart Start was awarded \$500,000 and has received \$92,501 in federal funds and expended \$94,293 under a contract with NCPC for a Shape NC grant. The term of this contract is March 15, 2017 through May 14, 2021. The balance of the award of the contract will be received and expended after June 30, 2019.

Wake County Smart Start expects to receive continued funding through new contracts with the State.

**NOTE 4 - RELATED PARTY TRANSACTIONS**

**A. Service Provider Contracts with Board Member Organizations** - The board members of Wake County Smart Start are representative of various organizations that benefit from actions taken by the Board. It is the policy of Wake County Smart Start that board members are not involved with decisions regarding organizations they represent. During the year, Wake County Smart Start 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 Wake County Smart Start's Smart Start allocation.

**B. Other Related Parties** - Wake County Smart Start entered into transactions for contracted services with a private business associated with a board member of Wake County Smart Start. The amounts paid included:

Expenditures	Amount
Executive Search	\$ 9,013

## 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 Quality** - Used to account for service activities including quality enhancement and maintenance, professional development and supplements, literacy for child care providers, child care substitutes, provider training, mentoring programs, learning materials and teaching aids, curriculum enhancements, child care needs and resources assessments, and kindergarten orientation/transition.

**Family Support** - Used to account for service activities including ongoing parenting education, general family support, family intervention, literacy or family literacy projects, transportation services, community systems building and public awareness, and home visiting.

**Health and Safety** - Used to account for service activities including comprehensive medical home services, child care health consultations, prenatal/newborn services, health care access and support, special needs – early intervention services/special education, or nutrition programs.

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

### B. Support Functions

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

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

**Program 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 utilization data.

**NOTE 6 - OPERATING LEASE OBLIGATIONS**

Future minimum lease payments under noncancelable operating leases consist of the following at June 30, 2019:

Fiscal Year	Operating Leases
2020	\$ 110,568
2021	113,885
2022	57,784
Total Minimum Lease Payments	<u>\$ 282,237</u>

Rental expense for all operating leases during the year was \$107,612.

**NOTE 7 - PENSION PLAN**

**Deferred Compensation and Supplemental Retirement Income Plans IRC Section 401(k) Plan** - Wake County Smart Start has an IRC Section 401(k) plan (Plan). Wake County Smart Start contributed matching contributions up to 5% and an additional contribution of 2% of gross wages under plan provisions for the year ended June 30, 2019. Employees may make voluntary contributions to the Plan. For the year ended June 30, 2019, Wake County Smart Start contributed \$104,238.

**NOTE 8 - RISK MANAGEMENT**

Wake County Smart Start 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. Wake County Smart Start 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 Wake County Smart Start. 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 Wake County Smart Start'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, 2019 is \$75,143. No funds or reservation of net assets has been made for this commitment.

**NOTE 10 - RESTRICTIONS ON NET ASSETS**

**A. Net Assets With Donor Restrictions** - Net assets with donor restrictions at June 30, 2019 are available for the following purposes:

<u>Purpose</u>	<u>Amount</u>
Dolly Parton Imagination Library	\$ 1,229
Farm to Child Care Implementation	47,457
Home Based Services Integration Implementation	50
Program Services	83,981
Technical Assistance Coalition (TAC)	31,860
Wake County NC PreK	148,596
	<u>\$ 313,173</u>

**B. Net Assets Released From Donor Restrictions** - Net assets were released from donor restrictions during the fiscal year ended June 30, 2019 by incurring expenditures satisfying the restricted purposes as follows:

Purpose	Amount
Home Based Services Integration Implementation	\$ 163,594
Farm to Child Care Implementation	62,406
Wake County NC PreK	587,627
Program Services	2,000
Technical Assistance Coalition (TAC)	11,640
	<u>\$ 827,267</u>

**NOTE 11 - BOARD DESIGNATED FUNDS**

Occasionally, the Board designates a portion of financial assets for various programs. In the event of an unanticipated liquidity need, Wake County Smart Start's Board could use these designated financial assets to meet unanticipated liquidity needs. At June 30, 2019, Wake County Smart Start had Board designated funds of \$1,679,409 for the following programs:

Purpose	Amount
Development, operation and administration of services	<u>\$ 1,679,409</u>

**NOTE 12 - FINANCIAL ASSETS AVAILABLE TO MEET CASH NEEDS**

The following reflects Wake County Smart Start's financial assets as of June 30, 2019 reduced by amounts not available for general use because of contractual or donor-imposed restrictions within one year of June 30, 2019:

Financial assets at year end	\$ 2,308,360
Less those unavailable for general expenditures within one year, due to:	
Contractual or donor imposed restrictions:	
Restricted by donor with time and purpose restriction (See Note 10A)	(313,173)
Board Designations (See Note 11)	<u>(1,679,409)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 315,778</u>

Wake County Smart Start 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, Wake County Smart Start 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 Wake County Smart Start's liquidity plan, excess cash is invested in short term investments, including money market accounts and certificates of deposits. Wake County Smart Start has Board Designated funds of \$1,679,409 to meet cash flow needs.

**NOTE 13 - INCOME TAXES**

Wake County Smart Start 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.

Wake County Smart Start does not believe there are any unrecognized tax benefits or costs as of June 30, 2019. Income tax returns from 2016 through 2018 are open to examination by the tax authorities.

**NOTE 14 - SUBSEQUENT EVENTS**

Wake County Smart Start has evaluated events and transactions that occurred between June 30, 2019 and January 16, 2020, 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, 2019 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, 2019.

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

SUPPLEMENTARY INFORMATION

**Wake County Smart Start  
Schedule of Contract and Grant Expenditures - Modified Cash Basis  
For the Year Ended June 30, 2019**

**Schedule 1**

Organization Name	Smart Start Fund		Other Funds	
	Amount Advanced	Refund Due	Amount Advanced	Refund Due
<b>Organizations:</b>				
A Safe Place Child Enrichment Center, Inc.	* \$ 50,882	\$ -	\$ 129,524	\$ -
ABC Land, Inc.	124,227	-	473,765	-
Academically Based Child Care	85,398	-	469,195	-
AHA c/o YMCA of the Triangle	-	-	4,943	-
Appletree Child Development Center, Inc.	20,490	-	-	-
AsheBridge, Inc.	3,768	-	-	-
Bacilio, LLC (Kiddie Academy of Holly Springs	53,569	-	139,245	-
Bedford School of Discovery	1,216	-	-	-
Bright Beginnings	66,083	-	400,664	-
Bright Start Child Care, LLC	1,208	-	-	-
Buttons and Bows Preschool & Kindergarten	141,854	-	401,346	-
Catholic Charities	140,822	1,357	-	-
Child Care Services Association	220,694	-	-	-
Childcare Network, Inc.	495,664	-	1,475,429	-
Community Care of Wake & Johnston Counties	33,637	-	-	-
Creative Learning Center	7,498	-	-	-
Creative Learning Enterprise, Inc. (Babes & Kids)	29,511	-	162,234	-
Creative Schools, Inc.(Wakefield Children's Center)	166,317	-	407,559	-
Discovery Point Heritage Child Development Center	2,736	-	987	-
Early Preschool and Learning Center, LLC	84,411	-	291,014	-
Early Stages Child Care	1,446	-	-	-
Edenton Street United Methodist Child Development Center	2,334	-	-	-
Especially for U Childcare	798	-	-	-
Family Resource Center South Atlantic	262,536	15,109	-	-
Foundation Academy	-	-	5,599	-
Frankie Lemmon School & Development Center	51,865	-	139,132	-
Gingerbread Learning Center	1,216	-	1,464	-
Goddard School (AAN Enterprises, Inc.)	972	-	-	-
Goddard School (Follow the Leader, LLC)	2,553	-	-	-
Goddard School DBA Little Kingdom Preschool	1,824	-	-	-

**Wake County Smart Start  
Schedule of Contract and Grant Expenditures - Modified Cash Basis  
For the Year Ended June 30, 2019**

**Schedule 1 (continued)**

Organization Name	Smart Start Fund		Other Funds	
	Amount Advanced	Refund Due	Amount Advanced	Refund Due
Harps Mill Creative School	58,168	-	136,621	-
Highland Children's Center	778	-	-	-
Holly Spring School	670	-	-	-
Huckleberry's Friends, Inc.	2,800	-	-	-
HugsRPRECIOUS Child Enrichment Center	7,474	-	-	-
Irregular Time Childcare Center, LLC.	5,256	-	-	-
Johnson Pond Learning Center, Inc.	11,820	-	-	-
Kid Ventures, Inc.(Heather Park Child Development Center)	45,094	-	220,355	-
Kiddie Academy of Briar Creek	-	-	948	-
Kids First Academy, Inc.	48,367	-	284,259	-
Kids Party Zone & Daycare Center	1,208	-	-	-
Kids R Kids, Inc.	1,580	-	-	-
Kindercare Learning Center	10,059	-	-	-
King's Kids Early Education & Learning Center, Inc.	22,473	-	67,838	-
Kreepers-N-Krawlers	-	-	874	-
La Petite Academy, Inc.	170,082	-	429,672	-
Learning Together, Inc.	32,070	-	71,564	-
Learning Tots Academy	58,816	-	308,088	-
Little Believers Academy	21,439	-	73,188	-
Little Destiny Literacy	65,541	-	161,781	-
Little Footsteps Child Care	1,510	-	-	-
Little Hands N Feet Child Care Center, Inc.	31,174	-	104,425	-
Little Makers Academy	9,987	-	-	-
Lots of Love and Learning Family Child Care Center	2,700	-	6,950	-
Lucy Daniels Center	375,311	-	-	-
Lynn Road Child Care Academy	59,584	-	54,092	-
Method Child Development Center, Inc.	54,452	-	128,291	-
Methodist Home for Children, Inc.(Jordan Child & Family Enrichment Center)	46,418	-	217,398	-
Morrisville Sq. Creative School	1,556	-	874	-

**Wake County Smart Start  
Schedule of Contract and Grant Expenditures - Modified Cash Basis  
For the Year Ended June 30, 2019**

**Schedule 1 (continued)**

Organization Name	Smart Start Fund		Other Funds	
	Amount Advanced	Refund Due	Amount Advanced	Refund Due
NC Partnership for Children	-	-	3,000	-
NC Pre-Kindergarten Sites-Assessment Materials	-	-	17,940	-
NC Pre-Kindergarten Sites-Curriculum	27,893	-	44,038	-
Pam's School of Raleigh	6,326	-	-	-
Preston Children's Academy, Inc.	78,223	-	206,998	-
Priceless Child Care, Inc.	2,735	-	938	-
Primary Beginnings, LLC	177,794	-	472,465	-
Raleigh Nursery School, Inc.	14,775	-	-	-
Reach Out and Read Carolinas	47,015	-	258	-
Ready or Not, Here I Grow, Inc.	4,200	-	-	-
REE Southeast, Inc.(Little Pros Academy)	52,584	-	136,489	-
SAFEchild, Inc.	84,015	2,060	-	-
Shape NC Sites - Educational Materials	-	-	835	-
Shaw University Center for Early Childhood	82,693	-	221,409	-
Smart Start Advocates	-	-	5,250	-
Sounds & Colors @ Carpenter Village	972	-	-	-
Spanish for Fun, Inc.	2,955	-	-	-
Sunny Christian Childcare, Inc.	1,800	-	-	-
Tammy Lynn Center	41,305	-	128,523	-
Telamon Corporation	* 86,718	-	451,482	-
The Growing Years Learning Center	8,211	-	-	-
The Happy Face Preschool & Childcare, Inc.	93,042	-	285,781	-
The Right Direction Child Care)	906	-	-	-
Upper Room Christian Academy and Preschool, Inc.	86,127	-	289,132	-
Wake County Human Services	* 459,501	-	-	-
Wake County Public School System	* 672,810	542	964,441	-
Wanda's Little Hands Educational Center, Inc.	102,320	-	265,172	-
White Plains Children's Center, Inc.	2,430	-	-	-
	<u>5,339,266</u>	<u>19,068</u>	<u>10,263,469</u>	<u>-</u>

**Wake County Smart Start  
Schedule of Contract and Grant Expenditures - Modified Cash Basis  
For the Year Ended June 30, 2019**

**Schedule 1 (continued)**

<b>Organization Name</b>	<b>Smart Start Fund</b>		<b>Other Funds</b>	
	<b>Amount Advanced</b>	<b>Refund Due</b>	<b>Amount Advanced</b>	<b>Refund Due</b>
<b>Individuals:</b>				
Dolly Parton Imagination Library-Educational Materials	-	-	255	-
NC Pre-Kindergarten-Professional Development (NCAEYC)	23,513	-	-	-
Quality Enhancement-Professional Development (NCAEYC)	15,832	-	-	-
	<u>39,345</u>	<u>-</u>	<u>255</u>	<u>-</u>
	<u>\$ 5,378,611</u>	<u>\$ 19,068</u>	<u>\$ 10,263,724</u>	<u>\$ -</u>

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

**Wake County Smart Start  
Schedule of State Level Service Provider Contracts  
For the Year Ended June 30, 2019**

**Schedule 2**

<u>Organization Name</u>	<u>DHHS Contracts</u>
Wake County Human Services	* \$ 5,583,458
	\$ 5,583,458

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

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

**Wake County Smart Start  
Schedule of Federal and State Awards - Modified Cash Basis  
For the Year Ended June 30, 2019**

**Schedule 3**

Federal/State Grantor/Pass-through Grantor/Program	Federal CFDA Number	Contract #	Receipts	Expenditures
<b>Federal Awards:</b>				
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				
Child Care and Development Fund (NC Pre-K) (Prior Year)	*	93.575	\$ 33,127	\$ -
Child Care and Development Fund (NC Pre-K) (Current Year)	*	93.575	177,496	177,299
Temporary Assistance for Needy Families (NC Pre-K) (Current Year)	**	*	93.558	36888
			7,067,859	7,067,859
United States Department of Health and Human Services				
Pass-through from the Corporation for National Community Service				
Social Innovation Fund				
Pass-through from The North Carolina Partnership for Children, Inc.				
Social Innovation Grant Fund (Shape NC) (Current Year)		94.019	303-16/17-014	92,501
				94,293
United States Department of Health and Human Services				
Pass-through from the North Carolina Department of Health and Human Services				
Pass-through from The North Carolina Partnership for Children, Inc.				
Child Care and Development Fund (Healthy Start for Infants and Toddlers: Shape NC) (Current Year)	*	93.575	305:18/19-022	678
				21,244
United States Department of Health and Human Services				
Pass-through from the North Carolina Department of Health and Human Services				
Pass-through from The North Carolina Partnership for Children, Inc.				
Preschool Development Grant Birth through Five (Current Year)		93.434	38577	-
				1,241
<b>Total Federal Awards</b>			<u>7,371,661</u>	<u>7,361,936</u>
<b>State Awards:</b>				
North Carolina Department of Health and Human Services				
Division of Child Development and Early Education				
Pass-through from The North Carolina Partnership for Children, Inc.				
Early Childhood Initiatives Program (Prior Year)			(448)	(448)
Early Childhood Initiatives Program (Current Year)	*		6,875,468	6,875,468
Multi-Partnership Accounting and Contracting Grant (Current Year)			94,432	98,432
Dolly Parton's Imagination Library Expansion (Current Year)			101,521	100,292
North Carolina Department of Health and Human Services				
Division of Child Development and Early Education				
NC Pre-K (Prior Year)	*	34980	23,856	-
NC Pre-K (Current Year)	*	36888	1,986,951	1,959,008
<b>Total State Awards</b>			<u>9,081,780</u>	<u>9,032,752</u>
<b>Total Federal and State Awards</b>			<u>\$ 16,453,441</u>	<u>\$ 16,394,688</u>

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

\*\* Major Programs per the Uniform Guidance



**Wake County Smart Start**  
**Schedule of Property and Equipment - Modified Cash Basis**  
**For the Year Ended June 30, 2019**

**Schedule 4**

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Furniture and Noncomputer Equipment	\$ 31,048
Computer Equipment/Printers	<u>69,732</u>
<b>Total Property and Equipment</b>	<b><u><u>\$ 100,780</u></u></b>

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

**Wake County Smart Start  
Schedule of Qualifying Match (Non-GAAP)  
For the Year Ended June 30, 2019**

**Schedule 5**

**Match Provided at the Partnership Level:**

Cash	\$ 1,330,203
In-Kind Goods and Services	<u>56,747</u>
	<u>\$ 1,386,950</u>

**Match Provided at the Contractor Level:**

Cash	\$ 500
In-Kind Goods and Services	<u>597,580</u>
	<u>\$ 598,080</u>

Note: This schedule is presented in accordance with the program match requirement as provided for by North Carolina Session Law 2018-5, Section 11B.8.(d). The match is comprised of both cash and in-kind amounts. Only in-kind contributions that are verifiable, quantifiable, and related to the Smart Start Program can be applied to the in-kind match requirement, including volunteer services. The law allows for volunteer services to be valued for match purposes, a concept that deviates from generally accepted accounting principles. This schedule identifies those amounts allowable for this Partnership in meeting the statewide match requirement.

The amounts shown above as allowable for this Partnership in meeting its match requirement do not include allowable amounts included in the North Carolina Families Accessing Services through Technology (NCFAST) system, as this information was not available in a timely manner for fiscal year ended June 30, 2019. For the fiscal year ended June 30, 2019, 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, 2019.

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  
Wake County Smart Start  
Raleigh, 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 Wake County Smart Start (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, 2019, 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 16, 2020.

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

#### Internal Control over Financial Reporting

In planning and performing our audit, we considered Wake County Smart Start'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 Wake County Smart Start's internal control. Accordingly, we do not express an opinion on the effectiveness of Wake County Smart Start'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 Wake County Smart Start'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 Wake County Smart Start'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 Wake County Smart Start's internal control or compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Wake County Smart Start's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Charlotte, North Carolina  
January 16, 2020