

**FINANCIAL STATEMENT AUDIT REPORT OF**

**WAKE COUNTY SMARTSTART**

**RALEIGH, NORTH CAROLINA**

**FOR THE YEAR ENDED JUNE 30, 2012**

**BOARD OF DIRECTORS**

**SHANTE` MARTIN,**

**BOARD CHAIR**

**ADMINISTRATIVE OFFICER**

**PAMELA DOWDY, EXECUTIVE DIRECTOR**

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**INDEPENDENT AUDITOR'S REPORT**

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Board of Directors  
Wake County SmartStart  
Raleigh, North Carolina

We have audited the accompanying Statement of Receipts, Expenditures, and Net Assets - Modified Cash Basis of the Wake County SmartStart as of and for the year ended June 30, 2012, and the related Statement of Functional Expenditures - Modified Cash Basis for the year then ended. These financial statements are the responsibility of the Wake County SmartStart's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the accompanying 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets of the Wake County SmartStart as of June 30, 2012, and the results of its operations arising from the modified cash basis for the year then ended, on a basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 15, 2013, on our consideration of the Wake County SmartStart's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over

## INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

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financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Schedule 2 on page 15 is 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 Schedule 2.

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplementary Schedules 1, 3, 4 and 5 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 to the financial statements themselves, and 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 a whole.

*Tichenor & Associates, LLP*

Louisville, Kentucky  
February 15, 2013

*Wake County SmartStart*

*Statement of Receipts, Expenditures, and Net Assets - Modified Cash Basis*

*For the Year Ended June 30, 2012*

*Exhibit A*

	Unrestricted Funds		Temporarily Restricted Funds	Total Funds
	Smart Start Fund	Other Funds		
<b>Receipts:</b>				
State Awards	\$ 6,115,165	\$ 5,587,370	\$	\$ 11,702,535
Private Contributions		16,209	49,271	65,480
Interest and Investment Earnings		6,787		6,787
Sales Tax Refunds		14,124		14,124
Other Receipts		79,767		79,767
<b>Total Receipts</b>	<b>6,115,165</b>	<b>5,704,257</b>	<b>49,271</b>	<b>11,868,693</b>
Net Assets Released from Restrictions:				
Satisfaction of Program Restrictions		23,877	(23,877)	
	<b>6,115,165</b>	<b>5,728,134</b>	<b>25,394</b>	<b>11,868,693</b>
<b>Expenditures:</b>				
Programs:				
Child Care and Education Quality	965,638	15,027		980,665
Family Support	942,902			942,902
Health and Safety	541,682			541,682
NC Pre-Kindergarten	3,027,768	5,452,043		8,479,811
Support:				
Management and General	361,881	285,531		647,412
Program Coordination and Evaluation	275,294	51,333		326,627
Other:				
Sales Tax Paid		8,793		8,793
<b>Total Expenditures</b>	<b>6,115,165</b>	<b>5,812,727</b>		<b>11,927,892</b>
<b>Excess of Receipts Over Expenditures</b>		(84,593)	25,394	(59,199)
<b>Net Assets at Beginning of Year</b>		<b>1,878,964</b>	<b>28,594</b>	<b>1,907,558</b>
<b>Net Assets at End of Year</b>	<b>\$</b>	<b>\$ 1,794,371</b>	<b>\$ 53,988</b>	<b>\$ 1,848,359</b>
<b>Net Assets Consisted of:</b>				
Cash and Cash Equivalents	\$ 10,523	\$ 1,794,371	\$ 53,988	\$ 1,858,882
Refunds Due From Contractors	23,412			23,412
	<b>33,935</b>	<b>1,794,371</b>	<b>53,988</b>	<b>1,882,294</b>
Less: Due to the State	31,471			31,471
Funds Held for Others	2,464			2,464
	<b>\$</b>	<b>\$ 1,794,371</b>	<b>\$ 53,988</b>	<b>\$ 1,848,359</b>

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

**Wake County County SmartStart  
Statement of Functional Expenditures - Modified Cash Basis  
For the Year Ended June 30, 2012**

**Exhibit B**

	<b>Total</b>	<b>Personnel</b>	<b>Contracted Services</b>	<b>Supplies and Materials</b>	<b>Other Operating Expenditures</b>	<b>Fixed Charges and Other Expenditures</b>	<b>Property and Equipment Outlay</b>	<b>Services/ Contracts/ Grants</b>
<b>Smart Start Fund:</b>								
<b>Programs:</b>								
Child Care and Education Quality	\$ 965,638	\$ 530,904	\$	\$ 3,079	\$ 16,133	\$ 11,241	\$ 1,708	\$ 402,573
Family Support	942,902							942,902
Health and Safety	541,682							541,682
NC Pre-Kindergarten	3,027,768	183,554	1,950	671	5,929	15,354	156	2,820,154
	<u>5,477,990</u>	<u>714,458</u>	<u>1,950</u>	<u>3,750</u>	<u>22,062</u>	<u>26,595</u>	<u>1,864</u>	<u>4,707,311</u>
<b>Support:</b>								
Management and General	361,881	239,715	54,911	5,159	18,808	42,146	1,142	
Program Coordination and Evaluation	275,294	215,337		13,172	32,904	12,688		1,193
	<u>637,175</u>	<u>455,052</u>	<u>54,911</u>	<u>18,331</u>	<u>51,712</u>	<u>54,834</u>	<u>1,142</u>	<u>1,193</u>
<b>Total Smart Start Fund Expenditures</b>	<b><u>\$ 6,115,165</u></b>	<b><u>\$ 1,169,510</u></b>	<b><u>\$ 56,861</u></b>	<b><u>\$ 22,081</u></b>	<b><u>\$ 73,774</u></b>	<b><u>\$ 81,429</u></b>	<b><u>\$ 3,006</u></b>	<b><u>\$ 4,708,504</u></b>
<b>Other Funds:</b>								
<b>Programs:</b>								
Child Care and Education Quality	\$ 15,027	\$ 15,027	\$	\$	\$	\$	\$	\$
NC Pre-K	5,452,043	85,586	4,776		139			5,361,542
	<u>5,467,070</u>	<u>100,613</u>	<u>4,776</u>		<u>139</u>			<u>5,361,542</u>
<b>Support:</b>								
Management and General	285,531	262,216	14,112	286	4,092	4,825		
Program Coordination and Evaluation	51,333	23,974	3,482		674			23,203
	<u>336,864</u>	<u>286,190</u>	<u>17,594</u>	<u>286</u>	<u>4,766</u>	<u>4,825</u>		<u>23,203</u>
<b>Other:</b>								
Sales Tax Paid	8,793			8,793				
	<u>8,793</u>			<u>8,793</u>				
<b>Total Other Funds Expenditures</b>	<b><u>\$ 5,812,727</u></b>	<b><u>\$ 386,803</u></b>	<b><u>\$ 22,370</u></b>	<b><u>\$ 9,079</u></b>	<b><u>\$ 4,905</u></b>	<b><u>\$ 4,825</u></b>	<b><u>\$</u></b>	<b><u>\$ 5,384,745</u></b>

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

**WAKE COUNTY SMARTSTART  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2012**

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**NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES**

- A. Organization and Purpose** - Wake County SmartStart is a legally separate nonprofit organization incorporated on August 18, 1994. Wake County SmartStart was established to develop and provide, through public and private means, early childhood education and developmental services for children and families. Wake County SmartStart 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 Wake County SmartStart's Board of Directors is responsible. Pursuant to the provisions of Financial Accounting Standards Board's Accounting Standards for *Not-For-Profit Entities*, the accompanying financial statements present information according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. As permitted by this Statement, temporarily restricted contributions received and expended in the same year are reported as unrestricted receipts rather than as temporarily restricted receipts.

Contributions that are temporarily restricted and not expended within the year received are reported as an increase in temporarily restricted net assets. When the restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Receipts, Expenditures, and Net Assets as net assets released from restrictions.

Wake County SmartStart did not have any permanently restricted net assets at June 30, 2012.

- 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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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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. 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.
- F. 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.
- G. Funds Held For Others** - Funds held for others includes amounts received that are fiduciary in nature in which Wake County SmartStart acts in an agency capacity. For the year ended, the Wake County SmartStart Partnership was holding amounts withheld from employee paychecks for distribution to the appropriate designee.
- H. 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 SmartStart is required by contract regulation to track and maintain property and equipment items as presented in Schedule 4 of this report. Wake County SmartStart 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, 2012.
- I. Compensated Absences** - As a result of the use of the modified cash basis of accounting, liabilities related to accrued compensated absences are not recorded in the financial statements. Expenditures related to compensated absences are recorded when paid. The amount of accrued compensated absences for accumulated, unpaid leave that would be due to employees upon termination is reported as a commitment in Note 9.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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- J. Use of Estimates** - The preparation of financial statements in conformity with the modified cash basis of accounting used by Wake County SmartStart 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.

### NOTE 2 - DEPOSITS

All funds of the Wake County SmartStart 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 SmartStart to a concentration of credit risk. Wake County SmartStart 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** - Wake County SmartStart'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 Wake County SmartStart and represents a concentration of credit risk as to the generation of revenue.

Associated with these contracts, the Wake County SmartStart is responsible for developing a comprehensive, collaborative, long-range plan of services to children and families for the service-delivery area. During the year, the North Carolina Department of Health and Human Services (DHHS) entered into contracts with and made payments to service providers selected by the Wake County SmartStart. 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.

Wake County SmartStart was awarded and has received \$6,148,605 under a current year Smart Start contract with NCPC. The unexpended balance of this contract is subject to reversion to the State. The Wake County SmartStart has returned \$31,471 of this contract to the State based on financial status reports submitted to NCPC subsequent to June 30, 2012.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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The Wake County SmartStart also refunded \$1,969 of a prior year contract during the fiscal year ended June 30, 2012.

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

**NC Pre-Kindergarten Program** - The Wake County SmartStart also received revenue and support from the State of North Carolina for the NC Pre-Kindergarten Program. The Wake County SmartStart was awarded \$5,922,700 and received \$5,565,733 under a current year purchase-of-service contract. The Wake County SmartStart received these payments from the State for services provided as a vendor.

Wake County SmartStart expects to receive continued funding through new NC Pre-Kindergarten contracts with the State.

### NOTE 4 - RELATED PARTY TRANSACTIONS

**Service Provider Contracts with Board Member Organizations** - The board members of the Wake County SmartStart are representative of various organizations that benefit from actions taken by the Board. It is the policy of Wake County SmartStart that board members not be involved with decisions regarding organizations they represent. During the year, Wake County SmartStart 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 Quality** - Used to account for service activities including quality enhancement grants for upgrades, quality enhancement grants for maintenance, child care resource and referral, professional development, provider training, mentoring programs, learning materials and teaching aids, child care needs and resources assessments, or kindergarten orientation/transition.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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**Family Support** - Used to account for service activities including parent education, parents as teachers, family support general, family intervention, literacy projects, transportation services, community outreach information and resources, or family support needs and resources assessment.

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

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

### **B. Support Functions**

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

**Program Coordination and Evaluation** - Expenditures that are incurred to coordinate the policies, procedures, and daily practices of service delivery. Also, costs associated with monitoring in-house and direct service provider activities as to the delivery of services and adherence to the specific terms and conditions of the contracts.

### **C. Allocation of Joint Costs**

Expenditures benefiting more than one purpose were allocated as follows:

**Salaries and Benefits** - Direct allocation based on employee time reports.

**Other Costs** - Other costs including occupancy cost (rent, utilities and maintenance), supplies and materials, and communication costs (telephone and printing) were indirectly allocated based on utilization data.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

**NOTE 6 - OPERATING LEASE OBLIGATIONS**

Future minimum lease payments under noncancelable operating leases consist of the following at June 30, 2012:

<u>Fiscal Year</u>	<u>Operating Leases</u>
2013	\$ 68,348
2014	69,292
2015	71,371
2016	73,512
2017	<u>22,580</u>
Total Minimum Lease Payments	<u>\$ 305,103</u>

Rental expense for all operating leases during the year was \$59,849.

**NOTE 7 - PENSION PLAN**

**IRC Section 401(k) Plan** - Wake County SmartStart has an IRC Section 401(k) plan (Plan). Wake County SmartStart contributed up to 5% of gross wages for the year ended June 30, 2012. Employees may make voluntary contributions to the Plan. For the year ended June 30, 2012, the Wake County SmartStart contributed \$65,655.

**NOTE 8 - RISK MANAGEMENT**

Wake County SmartStart 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 SmartStart 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 SmartStart. Settled claims have not exceeded this insurance coverage in any of the past three fiscal years.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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### NOTE 9 - COMMITMENTS AND CONTINGENCIES

**A. Compensated Absences** - As a result of Wake County SmartStart'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, 2012, is \$54,199. No funds or reservation of net assets has been made for this commitment.

**B. Commitments on Contracts** - Wake County SmartStart had outstanding commitments of \$332,160 on purchase of service contracts that will be paid after June 30, 2012.

### NOTE 10 - RESTRICTIONS ON NET ASSETS

**A. Temporarily Restricted Net Assets** - Temporarily restricted net assets at June 30, 2012 are available for the following purposes:

Purpose	Amount
Home Based Services Integration	\$ 49,271
Partnership Communication Collaborative	<u>4,717</u>
Total	<u>\$ 53,988</u>

**B. Net Assets Released From Donor Restrictions** - Net assets were released from donor restrictions during the fiscal year ended June 30, 2012, by incurring expenditures satisfying the restricted purposes as follows:

Purpose	Amount
Young Child Mental Health Collaborative	\$ 23,877
Total	<u>\$ 23,877</u>

### NOTE 11 - INCOME TAXES

Wake County SmartStart 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.

## **NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)**

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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 SmartStart does not believe there are any unrecognized tax benefits or costs as of June 30, 2012.

### **NOTE 12 - SUBSEQUENT EVENTS**

Wake County SmartStart has evaluated events and transactions that occurred between June 30, 2012 and February 15, 2013, 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, 2012 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, 2012.

This information is an integral part of the financial statements.

**Wake County SmartStart  
Schedule of Contract and Grant Expenditures - Modified Cash Basis  
For the Year Ended June 30, 2012**

**Schedule 1**

Organization Name	Smart Start Fund		Other Funds	
	Amount Advanced	Refund Due	Amount Advanced	Refund Due
<b>Organizations:</b>				
A Safe Place	\$ 179,052	\$	\$ 319,565	\$
ABC Land, Inc.	120,957		222,120	
Academically Based Child	178,248		319,068	
Appletree Daycare	119,232		199,440	
Babes & Kids Creative Center	48,799		82,134	
Bright Beginnings	* 121,765		236,687	
Buttons & Bows	151,452		253,181	
Catholic Charities	108,781			
Child Care Services Assoc.	* 103,481			
Childcare Network	410,358		721,063	
Childtime Childcare	9,802			
Country Day Montessori	9,982			
Early Preschool & Learning	92,665		192,420	
Happy Tots Preschool Center	2,725			
Harps Mill Creative School	58,416		98,488	
Heather Park Child Development Center	61,317		122,400	
Jordan Children & Family Enrichment Center (The Methodist Home for Children)	105,684		176,727	
Kiddie Academy of Holly Springs	59,136		99,347	
Kidzone Learning Center	9,121			
Kindercare	18,298			
La Petite	118,552		199,247	
Learning Together, Inc.	32,520		55,274	
Little Pros Academy Operated by REE Southeast, Inc.	59,616		99,720	
Lord of Life Preschool	119,232		199,440	
Lucy Daniels Center	213,034			
Mariah's Child Preschool Center, Inc.	3,689			
Method Child Development Center	58,976		98,614	
Motheread	122,632			
Mount Peace Daycare	4,878			

**Wake County SmartStart  
Schedule of Contract and Grant Expenditures - Modified Cash Basis  
For the Year Ended June 30, 2012**

**Schedule 1**

Organization Name	Smart Start Fund		Other Funds	
	Amount Advanced	Refund Due	Amount Advanced	Refund Due
<b>Organizations:</b>				
Pam's Daycare of North Raleigh	3,962			
Preston Children's Academy	59,766		119,431	
Primary Beginnings Child Development Center	121,598		266,248	
SAFEchild	78,384	2,489		
Salvation Army	55,889			
Shaw University Center for Early Childhood	59,616		99,720	
Spanish For Fun	9,176			
Sunny Christian Child Care	1,980			
Tammy Lynn Center	56,775		98,766	
Telamon Corporation	* 114,540		120,660	
The Happy Face Preschool	122,931		244,800	
Unique Creations Child Care Center Fuquay Varina	6,939			
Upper Room Christian Academy	149,447		269,955	
Various Child Care Centers (Classroom Curriculum)	85,779		41,062	
Wake County Human Services	* 418,578	14,928		
Wake County Public Schools	* 532,389	5,995	104,888	
Wakefield Children's Center	89,568		170,955	
Wanda's Little Hands Education Center	61,006		130,122	
	<u>4,730,723</u>	<u>23,412</u>	<u>5,361,542</u>	
<b>Individuals:</b>				
Awards/Scholarships	753		23,203	
Training	440			
	<u>1,193</u>		<u>23,203</u>	
	<u>\$ 4,731,916</u>	<u>\$ 23,412</u>	<u>\$ 5,384,745</u>	<u>\$</u>

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

***Wake County SmartStart  
Schedule of State Level Service Provider Contracts  
For the Year Ended June 30, 2012***

***Schedule 2***

<b>Organization Name</b>	<b>DHHS Contracts</b>
* Wake County Human Services	<u>\$ 6,683,695</u>

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

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

**Wake County SmartStart**  
**Schedule of State Awards - Modified Cash Basis**  
**For the Year Ended June 30, 2012**

**Schedule 3**

Federal/State Grantor/Pass-through Grantor/Program	Federal CFDA Number	Contract #	Receipts	Expenditures
<b>State Awards:</b>				
North Carolina Department of Health and Human Services				
Division of Child Development				
Pass-through from The North Carolina Partnership for Children, Inc.				
Early Childhood Initiatives Program (Prior Year)		N/A	\$ (1,969)	\$ (1,969)
Early Childhood Initiatives Program (Current Year)	*	N/A	6,117,134	6,117,134
Multi-County Accounting and Contracting Grant		N/A	<u>21,637</u>	<u>21,637</u>
<b>Total State Awards</b>			<u>\$ 6,136,802</u>	<u>\$ 6,136,802</u>

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

*Wake County SmartStart*

*Schedule of Property and Equipment - Modified Cash Basis*

*For the Year Ended June 30, 2012*

*Schedule 4*

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Furniture and Noncomputer Equipment	\$ 26,710
Computer Equipment/Printers	<u>62,044</u>
Total Property and Equipment	<u><u>\$ 88,754</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 basis of accounting, these items are expensed in the year of purchase.

**Wake County SmartStart  
 Schedule of Qualifying Match (Non-GAAP)  
 For the Year Ended June 30, 2012**

**Schedule 5**

***Match Provided at the Partnership Level:***

Cash	\$ 64,250
In-Kind Goods and Services	<u>94,474</u>
	<u>\$ 158,724</u>

***Match Provided at the Contractor Level:***

Cash	\$ 786,846
In-Kind Goods and Services	<u>913,230</u>
	<u>\$ 1,700,076</u>

Note: This schedule is presented in accordance with the program match requirement as provided for by North Carolina Session Law 2011-145, Section 10.5(e). 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.

**TICHENOR & ASSOCIATES, LLP**  
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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF  
THE FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

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Board of Directors  
Wake County SmartStart  
Raleigh, North Carolina

We have audited the financial statements of Wake County SmartStart as of and for the year ended June 30, 2012, and have issued our report thereon dated February 15, 2013. 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.

As described in Note 1, the accompanying 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

Management of Wake County SmartStart is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Wake County SmartStart's internal control over financial reporting as a basis for designing our auditing procedures 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 SmartStart's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Wake County SmartStart's internal control over financial reporting.

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 combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF  
THE FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS (CONCLUDED)**

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Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in the internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined previously.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Wake County SmartStart'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*.

This report is intended solely for the information and use of Wake County SmartStart's Board of Directors, management of the Wake County SmartStart, The North Carolina Partnership for Children, Inc., the Governor, and the General Assembly of North Carolina and is not intended to be and should not be used by anyone other than these specified parties.

*Fichenor & Associates, LLP*

Louisville, Kentucky  
February 15, 2013