

FINANCIAL STATEMENT AUDIT REPORT OF
WAKE COUNTY SMARTSTART
RALEIGH, NORTH CAROLINA
FOR THE YEAR ENDED JUNE 30, 2016

BOARD OF DIRECTORS
MIKE SMITH, BOARD CHAIR

ADMINISTRATIVE OFFICER
PAMELA DOWDY, EXECUTIVE DIRECTOR

Wake County SmartStart

Index

	<u>Page</u>
Independent Auditor's Report	3
Financial Statements	
Exhibits	
A Statement of Receipts, Expenditures, and Net Assets - Modified Cash Basis	6
B Statement of Functional Expenditures - Modified Cash Basis	7
Notes to Financial Statements	8
Supplementary Information	
1 Schedule of Contract and Grant Expenditures - Modified Cash Basis	18
2 Schedule of State Level Service Provider Contracts	24
3 Schedule of State Awards - Modified Cash Basis	25
4 Schedule of Property and Equipment - Modified Cash Basis	26
5 Schedule of Qualifying Match (Non-GAAP)	27
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 <i>Government Auditing Standards</i>	28

Independent Auditor's Report

To Board Members of
Wake County SmartStart
Raleigh, North Carolina

Report on Financial Statements

We have audited the accompanying financial statements of Wake County SmartStart, which comprise the Statement of Receipts, Expenditures, and Net Assets - Modified Cash Basis as of and for the year ended June 30, 2016, 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 SmartStart, as of and for the year ended June 30, 2016, 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 24 and Schedule 5 on page 27 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 SmartStart. 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 November 29, 2016, on our consideration of Wake County SmartStart's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over

financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Wake County SmartStart's internal control over financial reporting and compliance.

CohnReznick LLP

Charlotte, North Carolina
November 29, 2016

**Wake County SmartStart
Statement of Receipts, Expenditures, and Net Assets - Modified Cash Basis
For the Year Ended June 30, 2016**

Exhibit A

	Unrestricted Funds		Temporarily Restricted Funds	Total Funds
	Smart Start Fund	Other Funds		
Receipts:				
State Awards and Contracts	\$ 7,537,985	\$ 6,014,172	\$ -	\$ 13,552,157
Federal Awards	-	5,220	-	5,220
Local Governments	-	86,795	238,933	325,728
Private Contributions	-	76,841	402,055	478,896
Interest and Investment Earnings	-	9,947	-	9,947
Sales Tax Refunds	-	8,009	-	8,009
Other Receipts	-	78,108	-	78,108
Total Receipts	7,537,985	6,279,092	640,988	14,458,065
Net Assets Released from Restrictions:				
Satisfaction of Program Restrictions	-	255,028	(255,028)	-
	7,537,985	6,534,120	385,960	14,458,065
Expenditures:				
Programs:				
Child Care and Education Quality	1,861,497	244,067	-	2,105,564
Family Support	1,344,408	38,392	-	1,382,800
Health and Safety	701,389	-	-	701,389
NC Pre-K	3,027,086	5,800,938	-	8,828,024
Support:				
Management and General	372,318	308,218	-	680,536
Program Coordination and Evaluation	231,287	130,356	-	361,643
Other:				
Refund of Prior Year Grant	-	8,045	-	8,045
Sales Tax Paid	-	5,245	-	5,245
Total Expenditures	7,537,985	6,535,261	-	14,073,246
Excess (Deficiency) of Receipts Over Expenditures	-	(1,141)	385,960	384,819
Net Assets at Beginning of Year	-	1,847,105	255,028	2,102,133
Net Assets at End of Year	\$ -	\$ 1,845,964	\$ 640,988	\$ 2,486,952
Net Assets Consisted of:				
Cash and Cash Equivalents	\$ 34,600	\$ 1,596,483	\$ 640,988	\$ 2,272,071
Investments	-	250,000	-	250,000
Refunds Due from Contractors	46,333	-	-	46,333
	80,933	1,846,483	640,988	2,568,404
Less: Due to State	80,428	-	-	80,428
Funds Held for Others	505	519	-	1,024
	80,933	519	-	81,452
TOTAL NET ASSETS	\$ -	\$ 1,845,964	\$ 640,988	\$ 2,486,952

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

Wake County SmartStart
Statement of Functional Expenditures - Modified Cash Basis
For the Year Ended June 30, 2016

Exhibit B

	Total	Personnel	Contracted Services	Supplies and Materials	Other Operating Expenditures	Fixed Charges and Other Expenditures	Property and Equipment Outlay	Services/Contracts/Grants
Smart Start Fund:								
Programs:								
Child Care and Education Quality	\$ 1,861,497	\$ 205,555	\$ -	\$ 828	\$ 12,021	\$ 9,623	\$ 1,651	\$ 1,631,819
Family Support	1,344,408	147,543	13,636	975	5,308	12,636	1,083	1,163,227
Health and Safety	701,389	-	-	-	-	-	-	701,389
NC Pre-K	3,027,086	279,664	-	913	7,219	17,637	-	2,721,653
	<u>6,934,380</u>	<u>632,762</u>	<u>13,636</u>	<u>2,716</u>	<u>24,548</u>	<u>39,896</u>	<u>2,734</u>	<u>6,218,088</u>
Support:								
Management and General	372,318	256,988	38,607	3,056	21,644	37,253	14,770	-
Program Coordination and Evaluation	231,287	204,719	5,937	377	4,596	15,658	-	-
	<u>603,605</u>	<u>461,707</u>	<u>44,544</u>	<u>3,433</u>	<u>26,240</u>	<u>52,911</u>	<u>14,770</u>	<u>-</u>
Total Smart Start Fund Expenditures	<u>\$ 7,537,985</u>	<u>\$ 1,094,469</u>	<u>\$ 58,180</u>	<u>\$ 6,149</u>	<u>\$ 50,788</u>	<u>\$ 92,807</u>	<u>\$ 17,504</u>	<u>\$ 6,218,088</u>
Other Funds:								
Programs:								
Child Care and Education Quality	\$ 244,067	\$ 114,916	\$ -	\$ 3,147	\$ 5,863	\$ -	\$ 825	\$ 119,316
Family Support	38,392	1,393	25,688	-	2,000	-	-	9,311
NC Pre-K	5,800,938	32,409	1,481	361	778	3,966	-	5,761,943
	<u>6,083,397</u>	<u>148,718</u>	<u>27,169</u>	<u>3,508</u>	<u>8,641</u>	<u>3,966</u>	<u>825</u>	<u>5,890,570</u>
Support:								
Management and General	308,218	289,536	544	341	3,129	14,668	-	-
Program Coordination and Evaluation	130,356	83,333	36,106	320	1,025	6,118	3,454	-
	<u>438,574</u>	<u>372,869</u>	<u>36,650</u>	<u>661</u>	<u>4,154</u>	<u>20,786</u>	<u>3,454</u>	<u>-</u>
Other:								
Refund of Prior Year Grant	8,045	-	-	-	-	8,045	-	-
Sales Tax Paid	5,245	-	-	5,245	-	-	-	-
	<u>13,290</u>	<u>-</u>	<u>-</u>	<u>5,245</u>	<u>-</u>	<u>8,045</u>	<u>-</u>	<u>-</u>
Total Other Funds Expenditures	<u>\$ 6,535,261</u>	<u>\$ 521,587</u>	<u>\$ 63,819</u>	<u>\$ 9,414</u>	<u>\$ 12,795</u>	<u>\$ 32,797</u>	<u>\$ 4,279</u>	<u>\$ 5,890,570</u>

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

**WAKE COUNTY SMARTSTART
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016**

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 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.

C. 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 had no permanently restricted net assets at June 30, 2016.

D. 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.

- E. 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.
- F. Investments** - This classification includes certificates of deposit. Under the modified cash basis of accounting, investments in marketable securities are reported at cost, which may differ significantly from their fair values.
- G. Refunds Due From Contractors** - Refunds due from contractors represent the unexpended amount of advances to contractors at year-end that are to be refunded back to the State. As recoveries are collected, the receivable balance is reduced. Payments to the State for the recovered advances are recorded as a reduction to the State awards balance.
- H. Due to the State** - The funding provided by the State of North Carolina for the Smart Start program is funded on a cost reimbursement basis. The money is earned to the extent of allowable costs incurred. Any unexpended funds as of June 30 are required to be reverted to the North Carolina Partnership for Children, Inc. to be returned to the State of North Carolina.
- I. Funds Held For Others** - Funds held for others includes amounts received that are fiduciary in nature in which the 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.
- J. 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, 2016. Donated items are recorded at estimated fair market value at the date of donation.

- K. Compensated Absences** - As a result of the use of the modified cash basis of accounting, liabilities related to accrued compensated absences are not recorded in the financial statements. Expenditures related to compensated absences are recorded when paid. The amount of accrued compensated absences for accumulated, unpaid leave that would be due to employees upon termination is reported as a commitment in Note 9.

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

- M. Qualifying Match and Contributions In-Kind** - Wake County SmartStart, 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 SmartStart also benefits from donor volunteer hours which do not require specific expertise but which are nonetheless central to Wake County SmartStart's operations. See supplemental Schedule 5 for more information on contributions in-kind.

NOTE 2 - DEPOSITS

- A. 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. At June 30, 2016, the Wake County SmartStart bank deposits in excess of the FDIC insured limit was \$1,845,234 at June 30, 2016.

B. Investments - 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, 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 a contract with and made payments to a service provider selected by Wake County SmartStart. 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 SmartStart was awarded and has received \$7,618,802 under a current year Smart Start contract with NCPC. The unexpended balance of this contract is subject to reversion to the State. Wake County SmartStart has returned \$80,428 of this contract to the State based on financial status reports submitted to NCPC subsequent to June 30, 2016. In addition, Wake County SmartStart returned \$389 of a prior year financial assistance contract to the State during the year ended June 30, 2016.

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

Multi-Partnership Accounting and Contracting Grant - The Wake County SmartStart was awarded and has received \$108,614 under a current year grant with NCPC. The unexpended balance of this contract is subject to reversion to the State. The Wake County SmartStart 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, 2016.

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

NC Pre-K - Wake County SmartStart also received revenue and support from the State of North Carolina for the NC Pre-K Program. The Wake County SmartStart was awarded and received \$5,905,836 under a current year financial assistance contract. The Wake County SmartStart has refunded \$278 of the current year contract to the State during the year ended June 30, 2016.

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 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 are not 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. In addition, Schedule 2 identifies contracts entered into by DHHS with board member organizations for activities funded by Wake County SmartStart's Smart Start allocation.

NOTE 5 - FUNCTIONAL EXPENDITURES

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

A. Program Functions

Child Care and Education Quality - Used to account for service activities including quality enhancement and maintenance, provider training, mentoring programs, learning materials and teaching aids, child care needs and resources assessments, and kindergarten orientation/transition.

Family Support - Used to account for service activities including parent education, 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, special needs – screening and referral support for early intervention services/special education, health needs and resources assessment.

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

B. Support Functions

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

Program Coordination and Evaluation - Expenditures that are incurred to coordinate the policies, procedures, and daily practices of service delivery. Also, costs associated with 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.

NOTE 6 - OPERATING LEASE OBLIGATIONS

Operating Lease Obligations - Future minimum lease payments under noncancelable operating leases consist of the following at June 30, 2016:

<u>Fiscal Year</u>	<u>Operating Leases</u>
2017	\$ 78,914
2018	104,221
2019	107,348
2020	110,568
2021	113,885
Thereafter	<u>57,784</u>
Total Minimum Lease Payments	<u>\$ 572,720</u>

Rental expense for all operating leases during the year was \$88,939.

NOTE 7 - PENSION PLAN

Deferred Compensation and Supplemental Retirement Income Plans IRC Section 401(k) Plan - Wake County SmartStart has an IRC Section 401(k) plan (Plan). Wake County SmartStart contributed matching contributions up to 5% of gross wages under plan provisions for the year ended June 30, 2016. Employees may make voluntary contributions to the Plan. For the year ended June 30, 2016, Wake County SmartStart contributed \$72,028.

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
Worker Compensation - employee injury	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.

NOTE 9 - COMMITMENTS AND CONTINGENCIES

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, 2016, is \$66,773. No funds or reservation of net assets has been made for this commitment.

NOTE 10 - RESTRICTIONS ON NET ASSETS

A. Temporarily Restricted Net Assets - Temporarily restricted net assets at June 30, 2016 are available for the following purposes:

<u>Purpose</u>	<u>Amount</u>
Home Based Services Integration Implementation	\$ 246,208
Farm to Child Care	155,847
Wake County NC PreK	238,933
	<u>\$ 640,988</u>

B. Net Assets Released From Donor Restrictions - Net assets were released from donor restrictions during the fiscal year ended June 30, 2016, by incurring expenditures satisfying the restricted purposes as follows:

<u>Purpose</u>	<u>Amount</u>
Home Based Services Integration Implementation	\$ 123,746
Literacy Fund	1,500
Farm to Child Care	125,776
Increasing Physical activity Thru Bike Riding and Gardening	4,006
	<u>\$ 255,028</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. 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, 2016. Income tax returns from 2013 through 2015 are open to examination by the tax authorities.

NOTE 12 - SUBSEQUENT EVENTS

Wake County SmartStart has evaluated events and transactions that occurred between June 30, 2016 and November 29, 2016, 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, 2016 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, 2016.

SUPPLEMENTARY INFORMATION

Wake County SmartStart
Schedule of Contract and Grant Expenditures - Modified Cash Basis
For the Year Ended June 30, 2016

Schedule 1

Organization Name	Smart Start Funds		Other Funds	
	Amount Advanced	Refund Due	Amount Advanced	Refund Due
Organizations:				
A Bright Future Too dba Primrose	\$ 2,616	\$ -	\$ -	\$ -
A Kind Garden Inc.	3,726	-	979	-
A New Beginning Child Care Center	1,233	-	-	-
A Safe Place	* 133,959	-	228,971	-
ABC Land, Inc.	115,665	-	203,435	-
Academically Based Child Care Center	148,608	-	315,002	-
Advocates for Health in Action	-	-	33,967	-
All About Kids	8,384	-	-	-
Appletree Child Development Center	145,374	-	1,044	-
AsheBridge Children's Academy	4,347	-	-	-
Babes & Kids (Creative Learning Enterprise, Inc.)	51,815	-	100,034	-
Bedford School of Discovery	4,485	-	-	-
Beginning & Beyond	-	-	1,305	-
Bright Beginnings	113,430	-	185,929	-
Bright Horizons at Raleigh Corporate Center	47,209	-	105,041	-
Bright Start Child Care Center	1,863	-	-	-
Busy Bees II	2,160	-	-	-
Buttons & Bows	123,615	-	265,572	-
Catholic Charities	128,290	14	-	-
Charlie Gaddy Developmental Center	8,384	-	-	-
Child Care Services Association	266,327	-	-	-
Childcare Network	570,282	-	923,597	-
Children's Academy Spring Forest	19,170	-	-	-

Wake County SmartStart
Schedule of Contract and Grant Expenditures - Modified Cash Basis
For the Year Ended June 30, 2016

Schedule 1

Organization Name	Smart Start Funds		Other Funds	
	Amount Advanced	Refund Due	Amount Advanced	Refund Due
Clinkscales Child Care Center	8,892	-	-	-
Community Care of Wake and Johnston County	38,035	-	-	-
Convergent Holdings dba Holly Spring Academy	3,105	-	2,545	-
Country Sunshine Children's	2,916	-	-	-
Early Preschool & Learning	97,255	-	206,201	-
Early Stages Child Care	1,863	-	-	-
Earnest Myatt Children's Development	2,329	-	-	-
Education One, DBA Goddard	374	-	-	-
Elaine's Home Day	129	-	-	-
Family Resource Center of Raleigh, Inc.	259,398	5,143	-	-
Foundation Academy	16,678	-	-	-
Gingerbread Learning Center	3,726	-	-	-
Goddard - AAN Enterprises	7,142	-	-	-
Goddard - Follow the Leader Child Care LLC	11,178	-	-	-
Goddard Sch DBA Little Kingdom Preschool	2,846	-	-	-
Goddard School of Apex	4,485	-	-	-
Growing Years	11,178	-	-	-
Harps Mill Creative School	57,292	-	103,869	-
Hatcher Groves Christian Academy	5,589	-	-	-
Hearts At Work for Kids	1,397	-	-	-
Heather Park Child Development Center	129,678	-	206,533	-
Hocutt's Childcare Center	2,592	-	-	-
Holly Springs School	1,620	-	-	-
Honeybee's Nest Child Care	2,430	-	-	-

**Wake County SmartStart
Schedule of Contract and Grant Expenditures - Modified Cash Basis
For the Year Ended June 30, 2016**

Schedule 1

Organization Name	Smart Start Funds		Other Funds	
	Amount Advanced	Refund Due	Amount Advanced	Refund Due
Huckleberry's Friends Inc.	11,362	-	-	-
I Believe in You	1,480	-	-	-
Irregular Time Childcare Center	16,767	-	-	-
Johnson Pond Learning Center	17,043	-	4,611	-
Jordan Child & Family Enrichment Center	55,240	-	121,588	-
Jo's Daycare	864	-	-	-
Keisha's Kreative Kids	2,960	-	-	-
Kiddie Academy of Holly Springs	56,423	-	105,516	-
Kiddie University	12,782	-	-	-
Kids Educational Center	-	-	1,892	-
Kids First Academy	108,284	-	170,395	-
Kids First Pediatric	2,980	-	2,809	-
Kids Party Zone & Daycare Center	621	-	-	-
Kid's World Learning Academy	9,781	-	-	-
KidsRKids	1,035	-	-	-
KinderCare	84,147	-	2,132	-
King's Kids EE & Learn Center	2,070	-	-	-
Knowledge Beginnings	7,452	-	-	-
La Petite Academy	238,474	-	299,476	-
Learning Star Preschool	7,512	-	-	-
Learning Together, Inc.	40,629	-	52,519	-
Learning Tots Academy	29,061	-	50,067	-
Little Angels	8,019	-	-	-
Little Footsteps	2,960	-	-	-

Wake County SmartStart
Schedule of Contract and Grant Expenditures - Modified Cash Basis
For the Year Ended June 30, 2016

Schedule 1

Organization Name	Smart Start Funds		Other Funds	
	Amount Advanced	Refund Due	Amount Advanced	Refund Due
Little Hands and Feet	13,973	-	-	-
Little Pros Academy Operated by REE Southeast, Inc.	79,314	-	106,614	-
Little Treasures Day Care	2,070	-	-	-
Lots of Love and Learning Family Child Care Center	6,540	-	-	-
Lucy Daniels Center	257,922	-	-	-
Mariah's Child Preschool Center, Inc.	8,019	-	-	-
Method Child Developmental Center	12,575	-	-	-
Miss Faye's Loving Hands	3,498	-	348	-
Morrisville Square Creative School	4,968	-	-	-
Motheread	130,154	-	-	-
Mount Peace Daycare	11,178	-	-	-
Ms. Van's Childcare Center	1,620	-	-	-
North Carolina State University	-	-	37,813	-
OB Learning Family Child Care	432	-	-	-
Pam's School of Raleigh	7,047	-	-	-
Precious Lambs Early Learning Center	2,588	-	-	-
Preston Children's Academy	92,057	-	153,709	-
Priceless Child Care	8,384	-	-	-
Primary Beginnings LLC	212,299	-	347,851	-
Promise Land Child Care Academy	4,536	-	-	-
Raleigh Nursery School Inc.	20,959	-	1,675	-
Ready or Not, Here I Grow	12,774	-	-	-
Room for One More	1,121	-	-	-
S&R Home Day Care	987	-	-	-

Wake County SmartStart
Schedule of Contract and Grant Expenditures - Modified Cash Basis
For the Year Ended June 30, 2016

Schedule 1

Organization Name	Smart Start Funds		Other Funds	
	Amount Advanced	Refund Due	Amount Advanced	Refund Due
Safe Haven Learning Center	2,444	-	-	-
SAFEchild	81,591	75	-	-
Shaw University Center for Early Childhood	81,832	-	158,064	-
South Wake Preschool & Academy	5,793	-	-	-
Spanish For Fun	2,734	-	-	-
Sunny Christian Child Care	7,633	-	-	-
Tammy Lynn Center	46,970	-	98,883	-
Taylor's Day Care Inc.	5,037	-	-	-
Telamon Corporation *	134,834	37,103	176,680	-
The Growing Years	7,101	-	-	-
The Happy Face Preschool	154,305	-	319,842	-
The King's Kids	4,347	-	-	-
The Learning Experience	8,982	-	-	-
The Right Direction Child Care	2,960	-	218	-
Three Girls & Me	3,726	-	-	-
Tiny Treasures Kids	6,900	-	-	-
Touched by an Angel	1,080	-	-	-
Truly Unique Day Care	869	-	348	-
Upper Room Christian Academy	105,167	-	155,221	-
Various Child Care Centers and Service Providers	30,912	-	9,220	-
Wake County Human Services *	480,432	-	-	-
Wake County Public School System *	597,447	3,998	105,028	-
Wakefield Children's Center	170,988	-	315,658	-

Wake County SmartStart
Schedule of Contract and Grant Expenditures - Modified Cash Basis
For the Year Ended June 30, 2016

Schedule 1

Organization Name	Smart Start Funds		Other Funds	
	Amount Advanced	Refund Due	Amount Advanced	Refund Due
Wanda's Little Hands Education Center	114,185	-	208,369	-
White Plains Children's Center Inc.	10,652	-	-	-
Widewaters Learning Center Village Park	9,470	-	-	-
	<u>\$ 6,264,421</u>	<u>\$ 46,333</u>	<u>\$ 5,890,570</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, 2016**

Schedule 2

Organization Name		DHHS Contracts
Wake County Human Services	*	\$ 4,894,672

* This organization is 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 as described in Note 3 - Funding from Grant Awards and Contracts.

**Wake County SmartStart
Schedule of State Awards - Modified Cash Basis
For the Year Ended June 30, 2016**

Schedule 3

Federal/State Grantor/Pass-through Grantor/Program	Federal CFDA Number	Contract Number	Receipts	Expenditures
Federal Awards:				
U.S. Department of Education				
Pass-through from the North Carolina Department of Health and Human Services				
Pass-through from the North Carolina Partnership for Children, Inc.				
Data Capacity Building Project	84.412 *	320: 15/16-063	\$ 5,220	\$ 5,220
Total Federal Awards			<u>5,220</u>	<u>5,220</u>
State Awards:				
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	(389)	(389)
Early Childhood Initiatives Program (Current Year)	*	N/A	7,538,374	7,538,374
Multi-County Accounting and Contracting Grant		N/A	108,614	108,614
NC PreKindergarten Program (Current Year)	*	N/A	<u>5,905,558</u>	<u>5,905,820</u>
Total State Awards			<u>13,552,157</u>	<u>13,552,419</u>
Total Federal and State Awards			<u>\$ 13,557,377</u>	<u>\$ 13,557,639</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, 2016**

Schedule 4

Furniture and Noncomputer Equipment	\$ 34,595
Computer Equipment / Printers	<u>69,196</u>
Total Property and Equipment	<u><u>\$ 103,791</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.

**Wake County SmartStart
Schedule of Qualifying Match (Non-GAAP)
For the Year Ended June 30, 2016**

Schedule 5

Match Provided at the Partnership Level:

Cash	\$ 540,597
In-Kind Goods and Services	<u>117,338</u>
Total	<u><u>\$ 657,935</u></u>

Match Provided at the Contractor Level:

Cash	\$ 605,783
In-Kind Goods and Services	<u>1,286,484</u>
Total	<u><u>\$ 1,892,267</u></u>

Note: This schedule is presented in accordance with the program match requirement as provided for by North Carolina Session Law 2015-241, Section 12B.7.(d). The match is comprised of both cash and in-kind amounts. Only in-kind contributions that are verifiable, quantifiable, and related to the Smart Start Program can be applied to the in-kind match requirement, including volunteer services. The law allows for volunteer services to be valued for match purposes, a concept that deviates from generally accepted accounting principles. This schedule identifies those amounts allowable for this Partnership in meeting the statewide match requirement.

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

To Board Members of
Wake County SmartStart
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 SmartStart (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, 2016, 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 November 29, 2016.

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 SmartStart'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 SmartStart's internal control. Accordingly, we do not express an opinion on the effectiveness of Wake County SmartStart'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 SmartStart'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 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*.

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 SmartStart'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 SmartStart's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in cursive script that reads "Cohn Reznick LLP".

Charlotte, North Carolina
November 29, 2016