FINANCIAL STATEMENT AUDIT REPORT OF

SMART START OF DAVIE COUNTY, INC.

MOCKSVILLE, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2017

BOARD OF DIRECTORS

ANNA JENKINS, BOARD CHAIR

ADMINSTRATIVE OFFICER

GENA TAYLOR, EXECUTIVE DIRECTOR

Smart Start of Davie County, Inc.

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# Independent Auditor's Report

To Board Members of
Smart Start of Davie County, Inc.
Mocksville, North Carolina

Report on Financial Statements

We have audited the accompanying financial statements of Smart Start of Davie County, Inc., which comprise the Statement of Receipts, Expenditures, and Net Assets - Modified Cash Basis as of and for the year ended June 30, 2017, and the related Statement of Functional Expenditures - Modified Cash Basis for the year then ended, and the related notes to the financial statements.

*Management's Responsibilities for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the modified cash basis of accounting described in Note 1; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

*Auditor's Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

*Opinion*

In our opinion, the financial statements referred to above present fairly, in all material respects, the Statement of Receipts, Expenditures and Net Assets of Smart Start of Davie County, Inc., as of and for the year ended June 30, 2017, and the Statement of Functional Expenditures for the year then ended in accordance with the modified cash basis of accounting as described in Note 1.

*Other Matter*

*Basis of Accounting*

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

Report on Supplementary Information

Schedule 2 on page 17 and Schedule 5 on page 20 are not required parts of the basic financial statements but is supplementary information required by the North Carolina Office of the State Auditor. In accordance with auditing standards generally accepted in the United States of America, we have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion or provide any assurance on Schedules 2 and 5.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 30, 2017, on our consideration of Smart Start of Davie County, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Smart Start of Davie County, Inc.'s internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Smart Start of Davie County, Inc.'s internal control over financial reporting and compliance.

CohnReznick LLP

Charlotte, North Carolina
November 30, 2017

*Smart Start of Davie County, Inc.*
*Statement of Receipts, Expenditures, and Net Assets - Modified Cash Basis*
*For the Year Ended June 30, 2017* *Exhibit A*

| | Unrestricted Funds | | Temporarily | |
|---|---|---|---|---|
| | **Smart Start Fund** | **Other Funds** | **Restricted Funds** | **Total Funds** |
| **Receipts:** | | | | |
| State Awards and Contracts | $ 291,749 | $ - | $ - | $ 291,749 |
| Private Contributions | - | 32,568 | 17,022 | 49,590 |
| Special Fund Raising Events | - | 35,367 | - | 35,367 |
| Interest and Investment Earnings | - | 34 | - | 34 |
| Sales Tax Refunds | - | 876 | - | 876 |
| Other Receipts | - | 2,161 | - | 2,161 |
| **Total Receipts** | 291,749 | 71,006 | 17,022 | 379,777 |
| Net Assets Released from Restrictions: | | | | |
| Satisfaction of Program Restrictions | - | 15,727 | (15,727) | - |
| | 291,749 | 86,733 | 1,295 | 379,777 |
| **Expenditures:** | | | | |
| Programs: | | | | |
| Child Care and Education Quality | 75,439 | 4,915 | - | 80,354 |
| Family Support | 101,923 | 43,079 | - | 145,002 |
| Health and Safety | 7,447 | 1,760 | - | 9,207 |
| Support: | | | | |
| Management and General | 88,440 | 1,568 | - | 90,008 |
| Program Coordination and Evaluation | 18,500 | 8 | - | 18,508 |
| Other: | | | | |
| Sales Tax Paid | - | 1,345 | - | 1,345 |
| **Total Expenditures** | 291,749 | 52,675 | - | 344,424 |
| **Excess (Deficiency) of Receipts Over Expenditures** | - | 34,058 | 1,295 | 35,353 |
| **Net Assets at Beginning of Year** | - | 73,185 | 16,710 | 89,895 |
| **Net Assets at End of Year** | $ - | $ 107,243 | $ 18,005 | $ 125,248 |
| **Net Assets Consisted of:** | | | | |
| Cash and Cash Equivalents | $ - | $ 109,505 | $ 18,005 | $ 127,510 |
| Less: Funds Held for Others | - | 2,262 | - | 2,262 |
| **Total Net Assets** | $ - | $ 107,243 | $ 18,005 | $ 125,248 |

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

*Smart Start of Davie County, Inc.*
*Statement of Functional Expenditures - Modified Cash Basis*
*For the Year Ended June 30, 2017*

*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 Funds:** | | | | | | | | |
| **Programs:** | | | | | | | | |
| Child Care and Education Quality | $ 75,439 | $ 57,599 | $ - | $ 2,480 | $ 7,323 | $ 7,896 | $ 141 | $ - |
| Family Support | 101,923 | 71,064 | 3,578 | 3,501 | 15,318 | 7,702 | 28 | 732 |
| Health and Safety | 7,447 | - | - | - | - | - | - | 7,447 |
| | 184,809 | 128,663 | 3,578 | 5,981 | 22,641 | 15,598 | 169 | 8,179 |
| **Support:** | | | | | | | | |
| Management and General | 88,440 | 66,073 | 4,810 | 1,953 | 7,597 | 5,818 | 2,189 | - |
| Program Coordination and Evaluation | 18,500 | 16,709 | 365 | 98 | 594 | 720 | 14 | - |
| | 106,940 | 82,782 | 5,175 | 2,051 | 8,191 | 6,538 | 2,203 | - |
| **Total Smart Start Fund Expenditures** | $ 291,749 | $ 211,445 | $ 8,753 | $ 8,032 | $ 30,832 | $ 22,136 | $ 2,372 | $ 8,179 |
| **Other Funds:** | | | | | | | | |
| **Programs:** | | | | | | | | |
| Child Care and Education Quality | $ 4,915 | $ - | $ 30 | $ 2,758 | $ 1,852 | $ - | $ 74 | $ 201 |
| Family Support | 43,079 | 17,056 | 249 | 1,566 | 2,779 | 1,548 | 29 | 19,852 |
| Health and Safety | 1,760 | - | - | - | 160 | - | - | 1,600 |
| | 49,754 | 17,056 | 279 | 4,324 | 4,791 | 1,548 | 103 | 21,653 |
| **Support:** | | | | | | | | |
| Management and General | 1,568 | - | - | 175 | 719 | 674 | - | - |
| Program Coordination and Evaluation | 8 | - | - | 8 | - | - | - | - |
| | 1,576 | - | - | 183 | 719 | 674 | - | - |
| **Other:** | | | | | | | | |
| Sales Tax Paid | 1,345 | - | - | 1,345 | - | - | - | - |
| | 1,345 | - | - | 1,345 | - | - | - | - |
| **Total Other Funds Expenditures** | $ 52,675 | $ 17,056 | $ 279 | $ 5,852 | $ 5,510 | $ 2,222 | $ 103 | $ 21,653 |

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

## NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

**A. Organization and Purpose** - Smart Start of Davie County, Inc. (Smart Start of Davie) is a legally separate nonprofit organization incorporated on November 24, 1997. Smart Start of Davie was established to develop and provide, through public and private means, early childhood education and developmental services for children and families. Smart Start of Davie 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 Smart Start of Davie'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 three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. As permitted by this Standard, 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.

Smart Start of Davie did not have any permanently restricted net assets at June 30, 2017.

**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. **Funds Held for Others** - Funds Held for Others includes amounts received that are fiduciary in nature in which Smart Start of Davie acts in an agency capacity. For the year ended June 30, 2017, the Smart Start of Davie was holding funds for the Local Inter-agency Coordinating Council (LICC), which is a collaborative organization of agencies in our community serving young children.

F. **Property and Equipment** - Under the modified cash basis of accounting, purchases of property and equipment are reported as expenditures in the year incurred. However, Smart Start of Davie is required by contract regulation to track and maintain property and equipment items as presented in Schedule 4 of this report. The Smart Start of Davie 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, 2017. 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.

G. **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.

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

I. **Qualifying Match and Contributions In-kind –** Smart Start of Davie, 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. Smart Start of Davie also benefits from donor volunteer hours which do not require specific expertise but which are nonetheless central to Smart Start of Davie's operations. See supplemental Schedule 5 for more information on contributions in-kind.

## NOTE 2 - DEPOSITS

All funds of Smart Start of Davie are deposited with a commercial bank and insured by the Federal Deposit Insurance Corporation (FDIC) up to $250,000.

Deposits over insured amounts subjects Smart Start of Davie to a concentration of credit risk. At June 30, 2017, the Smart Start of Davie did not have any bank deposits not insured by FDIC.

## NOTE 3 - FUNDING FROM GRANT AWARDS AND CONTRACTS

**Smart Start Program** - Smart Start of Davie'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 Smart Start of Davie and represents a concentration of credit risk as to the generation of revenue.

Associated with these contracts, Smart Start of Davie 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 Smart Start of Davie. These service provider contracts are not reflected on the accompanying financial statements. However, a summary of the service provider contracts entered into by DHHS is presented on Schedule 2 accompanying the financial statements.

The Smart Start of Davie was awarded and has received $291,749 under a current year Smart Start contract with NCPC. The unexpended balance of this contract is subject to reversion to the State. Smart Start of Davie has expended all awarded funds and therefore has returned none of this contract to the State based on financial status reports submitted to NCPC subsequent to June 30, 2017.

Smart Start of Davie expects to receive continued funding through new Smart Start contracts with the State.

## NOTE 4 - RELATED PARTY TRANSACTIONS

**Service Provider Contracts with Board Member Organizations** - The board members of Smart Start of Davie are representative of various organizations that benefit from actions taken by the Board. It is the policy of Smart Start of Davie that board members not be involved with decisions regarding organizations they represent. During the year, the Smart Start of Davie entered into contracts with board member organizations for program activities as identified on Schedule 1 accompanying the financial statements. In addition, Schedule 2 identifies contracts entered into by DHHS with board member organizations for activities funded by the Smart Start of Davie'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 professional development supplements, provider training, learning materials and teaching aids.

**Family Support –** Used to account for service activities including community outreach, information and resources, home visiting or family support needs through Parents as Teachers

**Health and Safety** – Used to account for service activities including or associated with child care health consultations.

### 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 –** 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 costs (rent, utilities, and maintenance), supplies and materials, and communication costs (telephone and printing) were indirectly allocated based on estimates of utilization.

## NOTE 6 - LEASE OBLIGATIONS

**Operating Lease Obligations** - Future minimum lease payments under non-cancelable operating leases consist of the following at June 30, 2017:

| Fiscal Year | Operating Leases |
|---|---|
| 2018 | $ 21,000 |
| 2019 | 24,000 |
| 2020 | 24,000 |
| 2021 | 24,000 |
| 2022 | 24,000 |
| Total Minimum Lease Payments | $ 117,000 |

Rental expense for all operating leases during the year was $18,000.

## NOTE 7 - PENSION PLANS

A. **Retirement Plan** - The Smart Start of Davie has a Simplified Employee Pension plan (SEP Plan) covering all full-time employees. Each full-time employee of the Smart Start of Davie, as a condition of employment, is provided an Individual Retirement Account through an outside insurance company. The Smart Start of Davie contributed 5% of gross wages for the year ended June 30, 2017. The Smart Start of Davie does not own the accounts nor is it liable for any other cost other than the required contribution. The Smart Start of Davie contributed $5,457 for pension benefits during the year.

B. **IRC Section 403(b) Plan** - All permanent employees who are at least half-time can participate in tax sheltered annuity plans (Plans) created under Internal Revenue Code Sections 403(b) and 403(b)(7). The employee's eligible contributions, made through salary reduction agreements, are exempt from federal and State income taxes until the annuity is received or the contributions are withdrawn. These Plans are exclusively for employees of universities and certain charitable and other nonprofit organizations. All costs of administering and funding these Plans are the responsibility of the Plan participants.

## NOTE 8 - RISK MANAGEMENT

Smart Start of Davie 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. Smart Start of Davie manages these various risks of loss as follows:

| Type of Loss | Method Managed | Risk of Loss Retained |
|---|---|---|
| Torts, errors and ommissions, 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 Smart Start of Davie. 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 Smart Start of Davie'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, 2017 is $5,659. 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, 2017 are available for the following purposes:

| Purpose | Amount |
|---|---|
| Mebane Foundation Grant - part time educator for family support programing | $ 13,273 |
| Imagination Library - to support Dolly Parton Imagination Library program | 1,120 |
| Pearls of Empowerment - family support programing | 2,256 |
| Gaither Dunn - early education | 243 |
| Healthy Davie Curriculum - early education curriculum | 740 |
| Mocksville Rotary - reach out and read literacy program | 373 |
| | $ 18,005 |

**B. Net Assets Released From Donor Restrictions** - Net assets were released from donor restrictions during the fiscal year ended June 30, 2017 by incurring expenditures satisfying the restricted purposes as follows:

| Purpose | Amount |
|---|---|
| Mebane Foundation Grant - early education and family support programing | $ 3 |
| Imagination Library - to support Dolly Parton Imagination Library program | 7,197 |
| Pearls of Empowerment - family support programing | 1,991 |
| Gaither Dunn - early education | 702 |
| Davie Community Foundation- family support programing | 4,000 |
| Healthy Davie Curriculum - Early education curriculum | 1,760 |
| SURF - early education programing and resource library | 74 |
| | $ 15,727 |

## NOTE 11 - INCOME TAXES

Smart Start of Davie 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.

Smart Start of Davie does not believe there are any unrecognized tax benefits or costs as of June 30, 2017. Income tax returns from 2014 through 2016 are open for examination by the tax authorities.

## NOTE 12 - SUBSEQUENT EVENTS

Smart Start of Davie has evaluated events and transactions that occurred between June 30, 2017 and November 30, 2017, 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, 2017 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, 2017.

SUPPLEMENTARY INFORMATION

*Smart Start of Davie County, Inc.*
*Schedule of Contract and Grant Expenditures - Modified Cash Basis*
*For the Year Ended June 30, 2017* *Schedule 1*

| Organization Name | | Smart Start Funds Amount Advanced | Smart Start Funds Refund Due | Other Funds Amount Advanced | Other Funds Refund Due |
|---|---|---|---|---|---|
| ***Organizations:*** | | | | | |
| Davie County Health Department | * | $ 7,447 | $ - | $ - | $ - |
| Smart Start of Davie County - Community Education | * | 360 | - | - | - |
| Smart Start of Davie County - Reach Out and Read | * | 372 | - | - | - |
| | | 8,179 | - | - | - |
| ***Individuals:*** | | | | | |
| Community Education -Private Funds - KidsFest T-Shirts | | - | - | 2,100 | - |
| Imagination Library Grants | | - | - | 16,906 | - |
| NAPSACC - Healthy Davie Curriculum - Grant - Color Me Healthy Kits | | - | - | 1,600 | - |
| Reach Out and Read - Fundraiser - Advance Pediatric | | - | - | 846 | - |
| Strengthening the Foundation of Quality - County of Davie -Early Education Conference | | - | - | 201 | - |
| | | - | - | 21,653 | - |
| | | $ 8,179 | $ - | $ 21,653 | $ - |

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

| Organization Name | | DHHS Contracts |
|---|---|---|
| Davie County Department of Social Services | * | $ 163,200 |
| Child Care Services (WAGE$) | * | 34,900 |
| | | $ 198,100 |

* 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 and Contracts.

| State Grantor/Pass-through Grantor/Program | Federal CFDA Number | Contract # | Receipts | Expenditures |
|---|---|---|---|---|
| **State Awards:** | | | | |
| North Carolina Department of Health and Human Services | | | | |
| Division of Child Development and Early Education | | | | |
| Pass-through from the North Carolina Partnership for Children, Inc. | | | | |
| Early Childhood Initiatives Program (Current Year) | * | n/a | $ 291,749 | $ 291,749 |
| **Total State Awards** | | | $ 291,749 | $ 291,749 |

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

***Smart Start of Davie County, Inc.***
***Schedule of Property and Equipment - Modified Cash Basis***
***For the Year Ended June 30, 2017*** ***Schedule 4***

| | | |
|---|---|---|
| Furniture and Noncomputer Equipment | $ | 25,518 |
| Computer Equipment/Printers | | 35,745 |
| **Total Property and Equipment** | $ | 61,263 |

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.

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

| | | |
|---|---|---|
| Cash | $ | 97,551 |
| In-Kind Goods and Services | | 12,039 |
| | $ | 109,590 |

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

| | | |
|---|---|---|
| Cash | $ | 53,468 |
| In-Kind Goods and Services | | - |
| | $ | 53,468 |

Note: This schedule is presented in accordance with the program match requirement as provided for by North Carolina Session Law 2016-94, 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
Smart Start of Davie County, Inc.
Mocksville, North Carolina

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Smart Start of Davie County, Inc. (a nonprofit organization), which comprise the Statement of Receipts, Expenditures, and Net Assets - Modified Cash Basis as of and for the year ended June 30, 2017, and the related Statement of Expenditures - Modified Cash Basis, and the related notes to the financial statements, and have issued our report thereon dated November 30, 2017. As described in Note 1, the financial statements were prepared on the modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Smart Start of Davie County, Inc.'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 Smart Start of Davie County, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of Smart Start of Davie County, Inc.'s internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of Smart Start of Davie County, Inc.'s financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given those limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Smart Start of Davie County, Inc.'s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the organization's internal control or compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

CohnReznick LLP

Charlotte, North Carolina
November 30, 2017