

**FINANCIAL STATEMENT AUDIT REPORT OF  
SMART START ROWAN, INC.  
SALISBURY, NORTH CAROLINA  
FOR THE YEAR ENDED JUNE 30, 2014**

**BOARD OF DIRECTORS  
PHILLIP BARTON, CHAIRMAN**

**ADMINISTRATIVE OFFICER  
AMY BROWN, EXECUTIVE DIRECTOR**

Smart Start Rowan, Inc.  
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June 30, 2014

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## INDEPENDENT AUDITOR'S REPORT

To the Board Members of  
Smart Start Rowan, Inc.  
Salisbury, North Carolina

### Report on Financial Statements

We have audited the accompanying statement of receipts, expenditures, and net assets – modified cash basis of Smart Start Rowan, Inc. as of and for the year ended June 30, 2014, 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 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

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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 Rowan, Inc., as of and for the year ended June 30, 2014, and the statement of functional expenses 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 18 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 of Smart Start Rowan, Inc. 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 other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

#### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated February 26, 2015, on our consideration of Smart Start Rowan, 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 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 the Smart Start Rowan, Inc.'s internal control over financial reporting and compliance.

*Winston, Williams, Creech, Evans & Company, LLP*

Oxford, North Carolina  
February 26, 2015

*Smart Start Rowan, Inc.*  
*Statement of Receipts, Expenditures, and Net Assets - Modified Cash Basis*  
*For the Year Ended June 30, 2014*

*Exhibit A*

	Unrestricted Funds		Temporarily Restricted Funds	Total Funds
	Smart Start Fund	Other Funds		
<b>Receipts:</b>				
State Awards and Contracts	\$ 1,708,586	\$ 1,360,734	\$ -	\$ 3,069,320
Federal Awards	-	31,227	64	31,291
Private Contributions	-	9,922	2,984	12,906
Sales Tax Refunds	-	3,922	-	3,922
Other Receipts	-	11,265	-	11,265
<b>Total Receipts</b>	<b>1,708,586</b>	<b>1,417,070</b>	<b>3,048</b>	<b>3,128,704</b>
<b>Net Assets Released from Restrictions:</b>				
Satisfaction of Program Restrictions		11,872	(11,872)	-
				-
	<b>1,708,586</b>	<b>1,428,942</b>	<b>(8,824)</b>	<b>3,128,704</b>
<b>Expenditures:</b>				
<b>Programs:</b>				
Child Care and Education Affordability	789,317	687	-	790,004
Child Care and Education Quality	174,550	15,214	-	189,764
Family Support	241,200	13,750	-	254,950
Health and Safety	210,794	24,259	-	235,053
NC Pre-K	-	1,417,766	-	1,417,766
<b>Support:</b>				
Management and General	156,276	3,984	-	160,260
Program Coordination & Evaluation	136,449	59	-	136,508
<b>Other:</b>				
Refund of Prior Year Grant	-	3,835	-	3,835
Sales Tax Paid	-	3,214	-	3,214
<b>Total Expenditures</b>	<b>1,708,586</b>	<b>1,482,768</b>	<b>-</b>	<b>3,191,354</b>
<b>Excess of Receipts Over Expenditures</b>	<b>-</b>	<b>(53,826)</b>	<b>(8,824)</b>	<b>(62,650)</b>
<b>Net Assets at Beginning of Year</b>	<b>-</b>	<b>258,273</b>	<b>34,341</b>	<b>292,614</b>
<b>Net Assets at End of Year</b>	<b>\$ -</b>	<b>\$ 204,447</b>	<b>\$ 25,517</b>	<b>\$ 229,964</b>
<b>Net Assets Consisted of:</b>				
Cash and Cash Equivalents	\$ 41,176	\$ 205,005	\$ 25,517	\$ 271,698
	41,176	205,005	25,517	271,698
Less: Due to State	41,176	-	-	41,176
Funds Held for Others	-	558	-	558
	<b>\$ -</b>	<b>\$ 204,447</b>	<b>\$ 25,517</b>	<b>\$ 229,964</b>

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

Smart Start Rowan, Inc.

Statement of Functional Expenditures - Modified Cash Basis

For the Year Ended June 30, 2014

Exhibit B

Smart Start Funds:	Total	Personnel	Contracted Services	Supplies and Materials	Other Operating Expenditures	Fixed Charges and Other Expenditures	Property and Equipment Outlay	Services/Contracts/Grants
<b>Programs:</b>								
Child Care and Education Affordability	\$ 789,317	\$ 26,782	\$ -	\$ 494	\$ 847	\$ 1,548	\$ 6	\$ 759,640
Child Care and Education Quality	174,550	119,480	1,100	11,327	16,251	14,875	1,374	10,143
Family Support	241,200	182,319	17,519	3,233	18,149	9,342	2,133	8,505
Health and Safety	210,794	-	28,491	691	512	-	-	181,100
	<u>1,415,861</u>	<u>328,581</u>	<u>47,110</u>	<u>15,745</u>	<u>35,759</u>	<u>25,765</u>	<u>3,513</u>	<u>959,388</u>
<b>Support:</b>								
Management and General	156,276	121,141	8,037	1,644	12,574	11,707	1,173	-
Program Coordination and Evaluation	196,449	85,646	37,401	729	4,266	5,872	2,535	-
	<u>292,725</u>	<u>206,787</u>	<u>45,438</u>	<u>2,373</u>	<u>16,840</u>	<u>17,579</u>	<u>3,708</u>	<u>-</u>
	<u>\$ 1,708,586</u>	<u>\$ 535,368</u>	<u>\$ 92,548</u>	<u>\$ 18,118</u>	<u>\$ 52,599</u>	<u>\$ 43,344</u>	<u>\$ 7,221</u>	<u>\$ 959,388</u>
<b>Total Smart Start Fund Expenditures</b>								
<b>Other Funds:</b>								
<b>Programs:</b>								
Child Care and Education Affordability	687	-	-	36	-	-	-	651
Child Care and Education Quality	15,214	14,416	-	73	125	-	-	600
Family Support	13,750	-	-	1,124	288	330	-	12,008
Health and Safety	24,259	4,475	6,314	-	532	-	-	12,938
NC Pre-K	1,417,766	56,600	2,358	528	3,511	1,946	8	1,352,815
	<u>1,471,676</u>	<u>75,491</u>	<u>8,672</u>	<u>1,761</u>	<u>4,456</u>	<u>2,276</u>	<u>8</u>	<u>1,379,012</u>
<b>Support:</b>								
Management and General	3,984	1,970	-	312	1,572	130	-	-
Program Coordination and Evaluation	59	(339)	-	218	35	145	-	-
	<u>4,043</u>	<u>1,631</u>	<u>-</u>	<u>530</u>	<u>1,607</u>	<u>275</u>	<u>-</u>	<u>-</u>
<b>Other:</b>								
Refund of Prior Year Grant	3,835	-	-	-	-	3,835	-	-
Sales Tax Paid	3,214	-	-	3,214	-	-	-	-
	<u>7,049</u>	<u>-</u>	<u>-</u>	<u>3,214</u>	<u>-</u>	<u>3,835</u>	<u>-</u>	<u>-</u>
	<u>\$ 1,482,768</u>	<u>\$ 77,122</u>	<u>\$ 8,672</u>	<u>\$ 5,505</u>	<u>\$ 6,063</u>	<u>\$ 6,388</u>	<u>\$ 8</u>	<u>\$ 1,379,012</u>

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

**SMART START ROWAN**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2014**

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**NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES**

- A. Organization and Purpose** – The Smart Start Rowan, Inc (the Rowan Partnership) is a legally separate nonprofit organization incorporated on February 22, 1994. The Rowan Partnership was established to develop and provide, through public and private means, early childhood education and developmental services for children and families. The Rowan Partnership is tax-exempt as an organization described in Section 501(c)(3) of the Internal Revenue Code.
- B. Basis of Presentation** - The accompanying financial statements present all funds for which the Rowan Partnership 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 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.

The Rowan Partnership did not have any permanently restricted net assets at June 30, 2014.

- 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. Due to the State** - The funding provided by the State of North Carolina for the Smart Start Initiative is funded on a cost-reimbursement basis. The money is earned to the extent of allowable costs incurred. Any unexpended funds as of June 30 are required to be reverted to The North Carolina Partnership for Children, Inc. to be returned to the State of North Carolina.
- F. Funds Held For Others** - Funds Held for Others includes amounts received that are fiduciary in nature in which the Rowan Partnership acts in an agency capacity. For the year ended June 30, 2014, the Rowan Partnership was holding amounts withheld from employee paychecks in the amount of \$293 for Flexible Spending Accounts, \$111 for Dental Insurance, and Garnishments \$154.
- G. Property and Equipment** - Under the modified cash basis of accounting, purchases of property and equipment are reported as expenditures in the year incurred. However, Rowan Partnership is required by contract regulation to track and maintain property and equipment items as presented in Schedule 4 of this report. The Rowan Partnership has a policy to track purchases of property and equipment items with an individual cost of \$500 or more and an estimated useful life greater than one year. Such items are valued at their original purchase price, which may be different from their valuation as of June 30, 2014. Donated items are recorded on the property and equipment log at estimated fair market value at the date of donation.
- H. Use of Estimates** - The preparation of financial statements in conformity with the modified cash basis of accounting used by the Rowan Partnership requires management to make estimates and assumptions that affect certain reported amounts and disclosures (such as allocation of joint costs); accordingly, actual results could differ from those estimates. It is management's belief that these estimates are reasonable and fair.
- I. Qualifying Match and Contributions In-Kind** - Smart Start Rowan, Inc., 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 Rowan, Inc. also benefits from donor volunteer hours which do not require specific expertise but which are nonetheless central to Smart Start Rowan, Inc.'s operations. See supplemental Schedule 5 for more information on contributions in-kind.

**NOTE 2 - DEPOSITS**

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

Deposits over insured amounts subjects the Rowan Partnership to a concentration of credit risk. At June 30, 2014, the Rowan Partnership's bank deposits in excess of the FDIC insured limit was \$81,322.

**NOTE 3 - FUNDING FROM GRANT AWARDS AND CONTRACTS**

**Smart Start Program** - The Rowan Partnership's major source of revenue and support is from the State of North Carolina based on cost-reimbursement contracts with The North Carolina Partnership for Children, Inc. (NCPC) for the Smart Start program. A significant reduction in the level of funding from the State could have an adverse effect on the operations of the Rowan Partnership and represents a concentration of credit risk as to the generation of revenue.

Associated with these contracts, the Rowan Partnership is responsible for developing a comprehensive, collaborative, long-range plan of services to children and families for the service-delivery area. During the year, the North Carolina Department of Health and Human Services (DHHS) entered into contracts with and made payments to service providers selected by the Rowan Partnership. These service provider contracts are not reflected on the accompanying financial statements. However, a summary of the service provider contracts entered into DHHS is presented on Schedule 2 accompanying the financial statements.

The Rowan Partnership was awarded and has received \$1,749,762 under a current year Smart Start contract with NCPC. The unexpended balance of this contract is subject to reversion to the State. The Rowan Partnership has refunded \$41,176 of this contract to the State based on financial status reports submitted to NCPC subsequent to June 30, 2014.

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

**NC Pre-K** - The Rowan Partnership also received revenue and support from the State of North Carolina for the NC Pre-K program. The Rowan Partnership was awarded \$1,419,675 and received \$1,360,734 under a current year financial assistance contract.

**Regional Child Care Resource and Referral Program (CCRR)** – The Rowan Partnership also received revenue and support from Child Care Resources Incorporated (CCRI) based on a cost-reimbursement contract with Child Care Resource & Referral Core Services. The Rowan Partnership was awarded and has received \$14,416 under a current year contract with Child Care Resources Incorporated. The unexpended balance of this contract is subject to reversion to CCRI. The Rowan Partnership expects to receive funding through CCRI contracts.

**Race to the Top—Early Learning Challenge Grant** - The Rowan Partnership also received revenue and support from the North Carolina Department of Health and Human Services (DHHS) for the Race to the Top—Early Learning Challenge grant (RTT-ELC). The RTT-ELC grant is a federally funded initiative to reduce disparities in school readiness among children with high needs and their peers. The Rowan Partnership was awarded \$20,000 and received \$10,000 under a prior year RTT-ELC grant and was also awarded \$148,588 and received \$6,875 under a current year RTT-ELC grant.

The Rowan Partnership expects to continue receiving funding through DHHS for the RTT-ELC grant.

**NOTE 4 - RELATED PARTY TRANSACTIONS**

**Service Provider Contracts with Board Member Organizations** - The board members of the Rowan Partnership are representative of various organizations that benefit from actions taken by the Board. It is the policy of the Rowan Partnership that board members not be involved with decisions regarding organizations they represent. During the year, the Rowan Partnership entered into contracts with board member organizations for program activities as identified on Schedule 1 accompanying the financial statements.

**NOTE 5 - FUNCTIONAL EXPENDITURES**

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

**A. Program Functions**

**Child Care and Education Affordability** - Used to account for service activities associated State subsidy contract and administration (Division of Child Development and Early Education) [DCDEE], Head Start wraparound/extended day, dual subsidy and dual subsidy administration, supplements for quality, Head Start classrooms and coordination, child care transportation, part-day care programs, preschool classes and coordination, and public pre-K subsidy.

**Child Care and Education Quality** - Used to account for service activities associated with child care resource and referral, professional development and supplements, and provider training.

**Family Support** - Used to account for service activities associated with teen parent/child programs, ongoing parenting education, and literacy or family literacy projects.

**Health and Safety** - Used to account for service activities associated with prenatal/newborn services, healthcare access and support, special needs – early intervention services/special education, and nutrition programs.

**NC Pre-K** - Used to account for development and implementation of NC Pre-K prekindergarten 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 utilization data.

**NOTE 6 - OPERATING LEASE**

**A. Operating Lease Obligations** - Future minimum lease payments under non-cancelable operating leases consist of the following at June 30, 2014:

<u>Fiscal Year</u>	<u>Operating Leases</u>
2015	\$ 11,014
2016	5,219
2017	1,670
Total Minimum Lease Payments	<u>\$ 17,903</u>

Rental expense for all operating leases during the year was \$39,158.

**Note 7 - Pension Plan**

**IRC Section 403(b) Plan** - All permanent employees who are at least half time can participate in a tax sheltered annuity plan (Plan) created under Internal Revenue Code Section 403(b). The Plan is a defined contribution plan in which each employee of the Rowan Partnership, as a condition of employment, is provided an individual annuity through an outside insurance company. The Rowan Partnership contributed 6% of gross wages for the year ended June 30, 2014. 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. The Rowan Partnership contributed \$22,916 for retirement benefits during the year.

**NOTE 8 - RISK MANAGEMENT**

The Rowan Partnership is exposed to various risks of loss related to torts, theft of, damage to, or destruction of assets; errors and omissions; injuries to employees; employees' health and life; and natural disasters. The Rowan Partnership manages these various risks of loss as follows:

<u>Type of Loss</u>	<u>Method Managed</u>	<u>Risk of Loss Retained</u>
Torts, errors and omissions, health and life	Purchased commercial insurance	None
Workers Compensation - employee injuries	Purchased commercial insurance	None
Physical property loss and natural disasters	Purchased commercial insurance	None

Management believes such coverage is sufficient to preclude any significant losses to the Rowan Partnership. 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 the Smart Start Rowan, Inc.'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, 2014, is \$21,275. 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, 2014 are available for the following purposes:

<u>Purpose</u>	<u>Amount</u>
Race To The Top- ABCD Expansion	\$ 64
Dental Varnishes for Rowan County preschool children	2,923
Literacy initiative provides a book subscriptions through Dollywood foundation to pre-school children	19,097
Parents as Teachers Imagination Library	3,263
Circle of Parents	170
	<u>\$ 25,517</u>

**B. Net Assets Released From Donor Restrictions** - Net assets were released from donor restrictions during the fiscal year ended June 30, 2014, by incurring expenditures satisfying the restricted purposes as follows:

<u>Purpose</u>	<u>Amount</u>
Race to the Top - ABCD	\$ 1,765
Dental Varnishes for Rowan County preschool children	1,132
Literacy initiative provides a book subscriptions through Dollywood foundation to pre-school children	7,814
Parents as Teachers Imagination Library	<u>1,161</u>
	<u>\$ 11,872</u>

**NOTE 11 - INCOME TAXES**

The Rowan Partnership is exempt from payment of income taxes under the provision of Section 501(c)(3) of the Internal Revenue Code, except to the extent of taxes on any unrelated business income.

FASB ASC 740 provides guidance for how uncertain tax positions should be recognized, measured, presented and disclosed in the financial statements. FASB ASC 740 requires the evaluation of tax positions taken or expected to be taken in the course of preparing financial statements to determine whether the tax positions are "more-likely-than-not" to be sustained by the applicable tax authority.

The Rowan Partnership does not believe there are any unrecognized tax benefits or costs as of June 30, 2014. Income tax returns from 2011 through 2014 are open to examination by the tax authorities.

**NOTE 12 - SUBSEQUENT EVENTS**

The Rowan Partnership has evaluated events and transactions that occurred between June 30, 2014 and February 26, 2015 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, 2014 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, 2014.

This information is an integral part of the financial statements.

**SUPPLEMENTARY SCHEDULES**



Smart Start Rowan  
 Schedule of Contract and Grant Expenditures - Modified Cash Basis  
 For the Year Ended June 30, 2014

6101 Schedule 1

Organization Name	Smart Start Fund		Other Funds	
	Amount Advanced	Refund Due	Amount Advanced	Refund Due
Organizations:				
- Advantage Children's Center	\$ 79,686	\$ -	\$ 52,650	\$ -
- Brighter Beginnings	5,619	-	-	-
- Central CDC	210	-	-	-
- Chamber of Commerce	41	-	-	-
- Community Care of Southern Piedmont	-	-	12,938	-
- Cornerstone Child Day Care - City	13,077	-	-	-
- Cornerstone Child Day Care - East	42,485	-	87,050	-
- Cornerstone Child Day Care - Main	42,449	-	82,800	-
- Cornerstone Child Day Care - North	10,203	-	-	-
- Ford's Child Care	3,790	-	-	-
- First United Methodist Church CDC	6,680	-	-	-
- First United Methodist Church ELC	5,845	-	-	-
- God's Little Blessings	4,845	-	-	-
- Golden Child Christian Academy	3,885	-	-	-
- Grace Academy	210	-	-	-
- Haley's Future Leaders	210	-	-	-
- Happy Day Child Development Center	11,080	-	-	-
- Home Away From Home	210	-	-	-
- Joy-N-The Morning Home Child Care	3,570	-	-	-
- Joy's Tenderloving Home Care	7,630	-	-	-
- Kannapolis City Schools	-	-	218,500	-
- Kiddie Land Kindergarten	96,783	-	73,776	-
- LAS Learning Center	3,335	-	-	-
- Learning Step by Step	210	-	-	-
- Little Angels	504	-	-	-
- Nanny's Daycare	210	-	-	-
- Noah's Ark Day Care	6,541	-	-	-
- Noah's Playloft Preschool #1	39,870	-	-	-
- North Hills Christian School	210	-	-	-
- Partners In Learning Child Day Care	189,335	-	136,825	-
- Rowan County Health Department	125,359	-	-	-
- Rowan Medical Child Day Care	15,130	-	320	-
- Rowan-Salisbury Schools	80,999	-	504,490	-
- Salisbury CC & Fine Arts	8,523	-	-	-
- Salisbury Rowan Community Action Agency	7,899	-	65,125	-
- Sandra's Playhouse	1,498	-	-	-
- South Rowan Academy	49,548	-	73,450	-
- St. John's Child Day Care	80,887	-	58,800	-
- Tiny Tots In Home CC	210	-	-	-
- Wee Center	210	-	-	-
- Wonder Years	210	-	-	-
	<u>949,176</u>	<u>-</u>	<u>1,366,724</u>	<u>-</u>
Individuals:				
- Child Care Conference Awards	1,590	-	600	-
- Literacy Initiative Participants	7,942	-	11,155	-
- Group Connections Participants	680	-	533	-
	<u>10,212</u>	<u>-</u>	<u>12,288</u>	<u>-</u>
	<u>\$ 959,388</u>	<u>\$ -</u>	<u>\$ 1,379,012</u>	<u>\$ -</u>

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

*Smart Start Rowan*  
*Schedule of State Level Service Provider Contracts*  
*For the Year Ended June 30, 2014*

*Schedule 2*

<u>Organization Name</u>	<u>DHHS Contracts</u>
Child Care Services Association-WAGE\$ Program	\$ 235,529
	<u>\$ 235,529</u>

This 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.

Smart Start Rowan

Schedule of Federal and State Awards - Modified Cash Basis  
for the Year Ended June 30, 2014

Schedule 3

Federal/State Grantor/Pass-through Grantor/Program	Federal CFDA Number	Contract #	Receipts	Expenditures
<b>Federal Awards:</b>				
North Carolina Department of Health and Human Services Pass-through from the North Carolina Partnership for Children, Inc.				
RTT-ELC Grant (Prior Year)	84.412	320:12-13-018	\$ 10,000	\$ 11,701
RTT-ELC Grant (Current Year)	84.412	320:13/14-021	6,875	15,009
United States Department of Health and Human Services Passed-through from the North Carolina Department of Health and Human Services - Division of Child Development and Early Education				
Passed-through from Child Care Resource Inc. (current year)	93.575	FY13/14 26859 RI7	14,416	14,416
<b>Total Federal Awards</b>			<u>31,291</u>	<u>41,126</u>
<b>State Awards:</b>				
North Carolina Department of Health and Human Services Division of Child Development and Early Education Pass-through from the North Carolina Partnership for Children, Inc.				
Early Childhood Initiatives Program (current year)*		NA	1,708,586	1,708,586
North Carolina Department of Health and Human Services Division of Child Development and Early Education NC Pre-K (Current Year)				
	*	29078	<u>1,360,734</u>	<u>1,409,960</u>
<b>Total State Awards</b>			<u>3,069,320</u>	<u>3,118,546</u>
<b>Total Federal and State Awards</b>			<u>\$ 3,100,611</u>	<u>\$ 3,159,672</u>

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

*Smart Start Rowan*  
*Schedule of Property and Equipment - Modified Cash Basis*  
*For the Year Ended June 30, 2014*

*Schedule 4*

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Furniture and Noncomputer Equipment	\$ 12,235
Computer Equipment/Printers	<u>29,399</u>
<b>Total Property and Equipment</b>	<b><u><u>\$ 41,634</u></u></b>

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

*Smart Start Rowan, Inc.*  
*Schedule of Qualifying Match (Non-GAAP)*  
*For the Year Ended June 30, 2014*

*Schedule 5*

*Match Provided at the Partnership Level:*

Cash	\$	96,972
In-Kind Goods and Services		<u>10,966</u>
	\$	<u><u>107,938</u></u>

*Match Provided at the Contractor Level:*

Cash	\$	81,448
In-Kind Goods and Services		<u>185,429</u>
	\$	<u><u>266,877</u></u>

Note: This schedule is presented in accordance with the program match requirement as provided for by North Carolina Session Law 2013-360, Section 12B.9(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.

# Winston, Williams, Creech, Evans, & Company, LLP

Certified Public Accountants



America Counts on CPAs

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## 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 the Board Members of  
Smart Start Rowan, Inc.  
Salisbury, North Carolina

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Smart Start Rowan, Inc. (a nonprofit organization), which comprise the statement of receipts, expenditures, and net assets – modified cash basis as of June 30, 2014, 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 February 26, 2015.

### Internal Control Over Financial Reporting

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

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### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Smart Start Rowan, Inc.'s financial statements are free from 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 on 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.

*Winston, Williams, Creech, Evans & Company, LLP*

Oxford, North Carolina  
February 26, 2015