



# STATE OF NORTH CAROLINA

**FINANCIAL STATEMENT AUDIT REPORT OF**

**SMART START OF FORSYTH COUNTY**

**WINSTON-SALEM, NORTH CAROLINA**

**FOR THE YEAR ENDED JUNE 30, 2004**

**OFFICE OF THE STATE AUDITOR**

**LESLIE W. MERRITT, JR., CPA, CFP**

**STATE AUDITOR**

**FINANCIAL STATEMENT AUDIT REPORT OF**

**SMART START OF FORSYTH COUNTY**

**WINSTON-SALEM, NORTH CAROLINA**

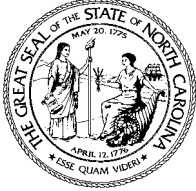
**FOR THE YEAR ENDED JUNE 30, 2004**

**BOARD OF DIRECTORS**

**JO ELLEN CARSON, BOARD CHAIR**

**ADMINISTRATIVE OFFICER**

**CAROLE YARDLY, INTERIM EXECUTIVE DIRECTOR**



Leslie W. Merritt, Jr., CPA, CFP  
State Auditor

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Office of the State Auditor

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**AUDITOR'S TRANSMITTAL**

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The Honorable Michael F. Easley, Governor  
The General Assembly of North Carolina  
Board of Directors, Smart Start of Forsyth County

This report presents the results of our financial statement audit of the Smart Start of Forsyth County (Forsyth Partnership) for the year ended June 30, 2004. Our audit was made by authority of Article 5A of Chapter 147 of the *North Carolina General Statutes*.

The accounts and operations of the Forsyth Partnership were subject to audit procedures as we considered necessary for us to report on the accompanying financial statements and supplementary information. The audit procedures were conducted in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards* issued by the Comptroller General of the United States.

The audit of the Forsyth Partnership was made in conjunction with the Early Childhood Initiatives (Smart Start) program authorized by General Statutes 143B-168.10-.16. These statutes created The North Carolina Partnership for Children, Inc., and required the implementation of local demonstration projects (local partnerships). The Forsyth Partnership is one of these local partnerships. As such, the Forsyth Partnership is a private nonprofit 501(c)(3) organization and is required by General Statute 143B-168.14(b) to have a financial and compliance audit conducted by the Office of the State Auditor.

The purpose of this report is to present the results of our audit on the accompanying financial statements. A summary of our reporting objectives and audit results are:

**1. Objective** – To express an opinion on the accompanying financial statements.

**Results** – The accompanying financial statements present fairly, in all material respects, the amounts and disclosures made in accordance with the modified cash basis of accounting, a comprehensive basis of accounting other than generally accepted accounting principles.

## AUDITOR'S TRANSMITTAL (CONCLUDED)

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2. **Objective** – To present significant deficiencies, if any, in internal control over financial reporting which could adversely affect the Forsyth Partnership's ability to record, process, summarize, and report financial data in the financial statements and present instances of noncompliance or other matters, if any, with laws, regulations, contracts, or grant agreements.

**Results** - Our tests disclosed no significant deficiencies in the internal control over financial reporting and no instances of noncompliance or other matters that require disclosure herein under *Government Auditing Standards*.

*North Carolina General Statutes* require the State Auditor to make audit reports available to the public. Copies of audit reports issued by the Office of the State Auditor may be obtained through one of the options listed in the back of this report.

*Leslie W. Merritt, Jr.*

Leslie W. Merritt, Jr., CPA, CFP  
State Auditor

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**INDEPENDENT AUDITOR'S REPORT**

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Board of Directors  
Smart Start of Forsyth County  
Winston-Salem, North Carolina

We have audited the accompanying Statement of Receipts, Expenditures, and Net Assets – Modified Cash Basis of the Smart Start of Forsyth County (Forsyth Partnership) as of June 30, 2004, and the related Statement of Functional Expenditures – Modified Cash Basis for the year then ended. These financial statements are the responsibility of the Forsyth Partnership's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets of the Smart Start of Forsyth County as of June 30, 2004, and the results of its operations arising from modified cash basis transactions for the year then ended, on the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 28, 2005, on our consideration of the Forsyth Partnership's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the

## INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

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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* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Smart Start of Forsyth County's basic financial statements. The information in Schedules 1 through 4 is presented for purposes of additional analysis and is not a required part of the basic financial statements. These Schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Leslie W. Merritt, Jr.*

Leslie W. Merritt, Jr., CPA, CFP  
State Auditor

June 28, 2005

**Smart Start of Forsyth County**  
**Statement of Receipts, Expenditures, and Net Assets - Modified Cash Basis**  
**For the Year Ended June 30, 2004**

**Exhibit A**

	Unrestricted Funds		Temporarily Restricted Funds	Total Funds
	Smart Start Fund	Other Funds		
<b>Receipts:</b>				
State Awards (less refunds of \$82,505)	\$ 5,997,722	\$ 912,142	\$ 0	\$ 6,909,864
Federal Awards		11,365		11,365
Private Contributions		77,779	42,127	119,906
Special Fund Raising Events		2,512		2,512
Interest and Investment Earnings		5,842		5,842
Sales Tax Refunds		20,511		20,511
Other Receipts	2,480	21,831		24,311
<b>Total Receipts</b>	<b>6,000,202</b>	<b>1,051,982</b>	<b>42,127</b>	<b>7,094,311</b>
Net Assets Released from Restrictions:				
Satisfaction of Program Restrictions		68,263	(68,263)	
	6,000,202	1,120,245	(26,136)	7,094,311
<b>Expenditures:</b>				
Programs:				
Child Care and Education Affordability	1,368,163	19,937		1,388,100
Child Care and Education Quality	2,306,157	5,435		2,311,592
Family Support	678,356	20,618		698,974
Health and Safety	409,622	17,529		427,151
More at Four	548,150	894,582		1,442,732
Support:				
Management and General	460,678	56,531		517,209
Program Coordination	71,974	8,000		79,974
Program Evaluation	109,917	35,200		145,117
Other:				
Refund of Prior Year Grant		8,564		8,564
Sales Tax Paid		22,255		22,255
<b>Total Expenditures</b>	<b>5,953,017</b>	<b>1,088,651</b>		<b>7,041,668</b>
<b>Excess of Receipts Over Expenditures</b>	<b>47,185</b>	<b>31,594</b>	<b>(26,136)</b>	<b>52,643</b>
<b>Net Assets at Beginning of Year</b>	<b>74,533</b>	<b>165,941</b>	<b>92,894</b>	<b>333,368</b>
<b>Net Assets at End of Year</b>	<b>\$ 121,718</b>	<b>\$ 197,535</b>	<b>\$ 66,758</b>	<b>\$ 386,011</b>
<b>Net Assets Consisted of:</b>				
Cash and Cash Equivalents	\$ 95,675	\$ 197,535	\$ 66,758	\$ 359,968
Refunds Due From Contractors	26,043			26,043
	\$ 121,718	\$ 197,535	\$ 66,758	\$ 386,011

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



**Smart Start of Forsyth County**  
**Statement of Functional Expenditures - Modified Cash Basis**  
**For the Year Ended June 30, 2004**

**Exhibit B**

	Total	Personnel	Contracted Services	Supplies and Materials	Other Operating Expenditures	Fixed Charges and Other Expenditures	Property and Equipment Outlay	Services/Contracts/Grants	Participant Training Expenditures
<b>Smart Start Fund:</b>									
<b>Programs:</b>									
Child Care and Education Affordability	\$ 1,368,163	\$ 46,820	\$ 0	\$ 1,002	\$ 2,742	\$ 4,991	\$ 0	\$ 1,312,608	\$ 0
Child Care and Education Quality	2,306,157	609,049	35,312	14,789	31,443	102,215	3,596	1,509,753	
Family Support	678,356	27,154	4,729	8,004	41,560	9,369		587,540	
Health and Safety	409,622							409,622	
More at Four	548,150	88,305	7,573	1,614	3,425	8,568	471	438,194	
	<u>5,310,448</u>	<u>771,328</u>	<u>47,614</u>	<u>25,409</u>	<u>79,170</u>	<u>125,143</u>	<u>4,067</u>	<u>4,257,717</u>	
<b>Support:</b>									
Management and General	460,678	318,469	54,323	10,955	32,724	42,727	1,480		
Program Coordination	71,974	64,776		123	1,888	5,187			
Program Evaluation	109,917		107,058	91	438	2,330			
	<u>642,569</u>	<u>383,245</u>	<u>161,381</u>	<u>11,169</u>	<u>35,050</u>	<u>50,244</u>	<u>1,480</u>		
<b>Total Smart Start Fund Expenditures</b>	<u>\$ 5,953,017</u>	<u>\$ 1,154,573</u>	<u>\$ 208,995</u>	<u>\$ 36,578</u>	<u>\$ 114,220</u>	<u>\$ 175,387</u>	<u>\$ 5,547</u>	<u>\$ 4,257,717</u>	<u>\$ 0</u>
<b>Other Funds:</b>									
<b>Programs:</b>									
Child Care and Education Affordability	\$ 19,937	\$ 0	\$ 504	\$ 0	\$ 0	\$ 0	\$ 0	\$ 19,433	\$ 0
Child Care and Education Quality	5,435		5,435						
Family Support	20,618		2,050	1,068				17,500	
Health and Safety	17,529	13,183	1,997	19	2,311	19			
More at Four	894,582	3,365	2,500	7,898	8,783			872,036	
	<u>958,101</u>	<u>16,548</u>	<u>12,486</u>	<u>8,985</u>	<u>11,094</u>	<u>19</u>		<u>908,969</u>	
<b>Support:</b>									
Management and General	56,531	19,348	22,470	330	3,922	10,461			
Program Coordination	8,000		8,000						
Program Evaluation	35,200		35,200						
	<u>99,731</u>	<u>19,348</u>	<u>65,670</u>	<u>330</u>	<u>3,922</u>	<u>10,461</u>			
<b>Other:</b>									
Refund of Prior Year Grant	8,564					8,564			
Sales Tax Paid	22,255			22,255					
	<u>30,819</u>			<u>22,255</u>		<u>8,564</u>			
<b>Total Other Funds Expenditures</b>	<u>\$ 1,088,651</u>	<u>\$ 35,896</u>	<u>\$ 78,156</u>	<u>\$ 31,570</u>	<u>\$ 15,016</u>	<u>\$ 19,044</u>	<u>\$ 0</u>	<u>\$ 908,969</u>	<u>\$ 0</u>

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

**SMART START OF FORSYTH COUNTY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2004**

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**NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES**

- A. Organization and Purpose** - The Smart Start of Forsyth County (Forsyth Partnership) is a legally separate nonprofit organization incorporated on December 1, 1994. The Forsyth Partnership was established to develop and provide, through public and private means, early childhood education and developmental services for children and families. The Forsyth 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 Forsyth Partnership’s Board of Directors is responsible. Pursuant to the provisions of Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-For-Profit Organizations*, the accompanying financial statements present information according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. As permitted by this Statement, temporarily restricted contributions received and expended in the same year are reported as unrestricted receipts rather than as temporarily restricted receipts.

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

The Forsyth Partnership did not have any permanently restricted net assets at June 30, 2004.

- 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.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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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.

- D. Cash and Cash Equivalents** – This classification appears on the Statement of Receipts, Expenditures, and Net Assets – Modified Cash Basis and includes all demand and savings accounts and certificate of deposits or short-term investments with an original maturity of three months or less.
- E. Refunds Due From Contractors** - Refunds due from contractors represent the unexpended amount of advances to contractors at year end that are to be refunded back to the State. As recoveries are collected, the receivable balance is reduced. Payments to the State for the recovered advances are recorded as a reduction to the State awards balance.
- F. Property and Equipment** – Under the modified cash basis of accounting, purchases of property and equipment are reported as expenditures in the year occurred. However, Forsyth Partnership is required by contract regulation to track and maintain property and equipment items as presented in Schedule 4 of this report. The Forsyth 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, 2004. Donated items are recorded at estimated fair market value at the date of donation.
- 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 the Forsyth 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.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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### NOTE 2 - DEPOSITS

All funds of the Forsyth Partnership are deposited with commercial banks and insured by the Federal Deposit Insurance Corporation (FDIC) up to \$100,000. Deposits over this amount subjects the Forsyth Partnership to a concentration of credit risk. At June 30, 2004, the Forsyth Partnership's bank deposits in excess of the FDIC insured limit was \$611,654.

### NOTE 3 - FUNDING FROM GRANT AWARDS

**Smart Start Program** - The Forsyth 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 Forsyth Partnership and represents a concentration of credit risk as to the generation of revenue.

Associated with these contracts, the Forsyth 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 Forsyth Partnership. 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 Forsyth Partnership was awarded and has received \$6,074,735 under a current year Smart Start contract with NCPC. The unexpended balance of this contract is subject to reversion to the State. The Forsyth Partnership has returned \$123,265 of this contract to the State based on financial status reports submitted to NCPC subsequent to June 30, 2004.

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

**More at Four** – The Forsyth Partnership also received revenue and support from the State of North Carolina for the More at Four Program. The Forsyth Partnership was awarded \$908,490 and received \$874,582 under a current year cost-reimbursement contract. The Forsyth Partnership expects to receive continued funding through new More at Four contracts with the State.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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### NOTE 4 - RELATED PARTY TRANSACTIONS

**Service Provider Contracts with Board Member Organizations** - The board members of the Forsyth Partnership are representative of various organizations that benefit from actions taken by the Board. It is the policy of the Forsyth Partnership that board members not be involved with decisions regarding organizations they represent. During the year, the Forsyth Partnership 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 Forsyth Partnership'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 Affordability** - Used to account for service activities including pre-K classes, child care subsidy programs outside of the Division of Child Development (DCD), child care transportation, part-day care programs, child care subsidy administration outside of DCD, or supplements for quality outside DCD.

**Child Care and Education Quality** - Used to account for service activities including quality enhancement grants for upgrades, child care resource and referral, professional development, salary supplements, provider training, special needs – support for child care professionals, or curriculum enhancements.

**Family Support** - Used to account for service activities including family resource centers, parenting skills training, teen parent/child programs, ongoing parenting education, general family support, literacy projects, or community outreach information and resources.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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**Health and Safety** - Used to account for service activities including oral health services, child care health consultants, comprehensive health support, special needs – early intervention services/special education, or nutrition programs.

**More at Four** – Used to account for development and implementation of More at Four prekindergarten program for at-risk 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** - 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.

**Program Evaluation** - Expenditures that are incurred to monitor the performance of service providers 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 allocated based on utilization data.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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### NOTE 6 - OPERATING LEASE OBLIGATIONS

Future minimum lease payments under noncancelable operating leases consist of the following at June 30, 2004:

<u>Fiscal Year</u>	<u>Operating Leases</u>
2005	\$ 157,629
2006	161,445
2007	6,540
2008	6,540
2009	<u>2,180</u>
Total Minimum Lease Payments	<u>\$ 334,334</u>

Rental expense for all operating leases during the year was \$165,803.

### NOTE 7 - PENSION PLAN

**A. Retirement Plans** - The Forsyth Partnership has a Simplified Employee Pension plan (SEP Plan) covering all permanent employees. After a 6-month waiting period, each permanent employee working at least 20 hours per week is provided an Individual Retirement Account through an outside insurance company. The Forsyth Partnership contributed 6% of gross wages for the year ended June 30, 2004. The Forsyth Partnership does not own the accounts nor is liable for any other cost other than the required contribution. The Forsyth Partnership contributed \$51,508 for pension benefits during the year.

**B. Deferred Compensation and Supplemental Retirement Income Plans - IRC Sections 403(b) and 403(b)(7) Plans** - 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.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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### NOTE 8 - RISK MANAGEMENT

The Forsyth 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 Forsyth 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 Forsyth 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 Forsyth Partnership'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, 2004, is \$17,253. 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, 2004, are available for the following purposes:

<u>Purpose</u>	<u>Amount</u>
Duke Power	\$ 20,000
Forsyth Medical Center	4,631
Walkertown Project – Mebane Foundation	24,082
Z. Smith Reynolds – School Readiness Evaluation	4,800
Winston-Salem Foundation – Community Outreach	7,950
NCPC Private Sector Grant	5,295
	\$ 66,758



## NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

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**B. Net Assets Released From Donor Restrictions** - Net assets were released from donor restrictions during the fiscal year ended June 30, 2004, by incurring expenditures satisfying the restricted purposes as follows:

Purpose	Amount
Sisters of Mercy Grant	\$ 10,462
Forsyth Medical Center	9,668
Walkertown Project – Mebane Foundation	9,403
Target Stores Project	750
Winston – Salem Foundation – Kindergarten Readiness Assessment	8,000
Sara Lee – Enrichment Grant	880
Hanes Foundation – Pre-K Parent Education	20,000
Arts Council – Art Education Program	1,600
NCPC Private Sector Grant	7,500
	<u>\$ 62,263</u>

### NOTE 11 - SUBSEQUENT EVENTS

The Forsyth Early Childhood Partnership amended its Articles of Incorporation on May 19, 2004, to formally change its name to the Smart Start of Forsyth County. This amendment became effective on July 1, 2004; however, this name change was implemented for presentation purposes for this audit.

**Smart Start of Forsyth County**  
**Schedule of Contract and Grant Expenditures - Modified Cash Basis**  
**For the Year Ended June 30, 2004**

*Schedule 1*

Organization Name	Smart Start Fund		Other Funds	
	Amount Advanced	Refund Due	Amount Advanced	Refund Due
Association for the Benefit of Child Development	\$ 709,218	\$ (1,799)	\$ 117,073	\$ 0
Bethlehem Community Center	* 125,009		80,083	
Catholic Social Services	69,309	(1,830)		
CenterPoint Human Services	* 40,807			
Child Care Scholarship Program	868,894	(710)	7,616	
Creative Learning Center for Very Young Childrer	33,798			
Downtown Health Plaza of Baptist Hospital	* 103,540	(6,021)		
Epiphany Early Childhood Center	* 17,044			
Exchange/SCAN	6,235			
First Start, Inc.	28,864			
Forsyth County Department of Public Health	* 34,399	(827)		
Forsyth County Department Social Services	* 18,400			
Forsyth County Public Library	* 43,901			
Forsyth Technical Community College	* 86,913	(107)		
Gentilesse Place	* 14,634			
Journey to the Stars	341,906			
Junior League of Winston-Salem, Inc.	1,833		2,500	
Medical Center Child Care	* 30,072			
North Carolina Cooperative Extension Service	* 59,180	(6,437)		
North West Child Development Center	20,976		81,363	
Quality Enhancement Grants	76,545			
Special Children's School	86,902			
St. Peters Child Development Center	35,796		41,495	
Sunshine House	35,568		43,586	
The Children's Center	* 63,000			
Various Day Care Providers	48,087		27,642	
Wake Forest University School of Medicine	* 82,983			
Winston-Salem Forsyth County Schools	* 105,564		507,611	
Winston-Salem Urban League	* 19,310			
Work Family Resource Center	* 437,670	(8,312)		
	<u>3,646,357</u>	<u>(26,043)</u>	<u>908,969</u>	
<b>Individuals:</b>				
Salary Supplements	590,575			
Teacher Scholarships	46,828			
	<u>637,403</u>			
	<u>\$ 4,283,760</u>	<u>\$ (26,043)</u>	<u>\$ 908,969</u>	<u>\$ 0</u>

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

**Smart Start of Forsyth County**  
**Schedule of Federal and State Awards - Modified Cash Basis**  
**For the Year Ended June 30, 2004**

**Schedule 2**

Federal/State Grantor/Pass-through Grantor/Program	Federal CFDA Number	Contract #	Receipts	Expenditures
<b>Federal Awards:</b>				
United States Department of Agriculture				
Pass-through from the North Carolina Department of Health and Human Services - Division of Social Services				
State Administrative Matching for Food Stamp Program	10.561	00671-03	\$ 11,365	\$ 7,861
<b>State Awards:</b>				
North Carolina Department of Health and Human Services				
Division of Child Development				
Pass-through from the North Carolina Partnership for Children, Inc.				
Early Childhood Initiatives Program (Various)		Various	(5,272)	
Early Childhood Initiatives Program (Prior Year)		N/A	(71,741)	
Early Childhood Initiatives Program (Current Year)	*	N/A	6,074,735	5,953,017
Multi-County Accounting and Contracting Grant (Prior Year)		N/A	(5,492)	
Multi-County Accounting and Contracting Grant (Current Year)		N/A	12,000	18
North Carolina Department of Health and Human Services				
More at Four Pre-Kindergarten Program	*	#2090003754	905,634	874,582
<b>Total State Awards</b>			<u>6,909,864</u>	<u>6,827,617</u>
<b>Total Federal and State Awards</b>			<u>\$ 6,921,229</u>	<u>\$ 6,835,478</u>

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

Note: The More at Four Pre-Kindergarten Program is contracted jointly by the North Carolina Department of Health and Human Services and the Office of the Governor. The allocations for the More at Four program are included in the budget for the North Carolina Department of Health and Human Services; therefore, the above schedule identifies that agency as the State Grantor. The Office of the Governor is responsible for oversight of the More at Four Program.

***Smart Start of Forsyth County  
Schedule of Property and Equipment - Modified Cash Basis  
For the Year Ended June 30, 2004***

***Schedule 3***

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Furniture and Noncomputer Equipment	\$ 26,138
Computer Equipment/Printers	118,588
Leasehold Improvements	<u>5,425</u>
Total Property and Equipment	<u><u>\$ 150,151</u></u>

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

**Smart Start of Forsyth County  
Schedule of Qualifying Match (Non-GAAP)  
For the Year Ended June 30, 2004**

**Schedule 4**

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

Cash	\$	527,805
In-Kind Goods and Services		<u>48,661</u>
	\$	<u><u>576,466</u></u>

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

Cash	\$	2,188
In-Kind Goods and Services		<u>263,051</u>
	\$	<u><u>265,239</u></u>

Note: This schedule is presented in accordance with the program match requirement as provided for by North Carolina Session Law 2003-284, Section 10.38(c). The North Carolina Partnership for Children, Inc. and all local partnerships are required to match the total amount budgeted for the Smart Start Program in each fiscal year. 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.



Leslie W. Merritt, Jr., CPA, CFP  
State Auditor

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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  
THE FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

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Board of Directors  
Smart Start of Forsyth County  
Winston-Salem, North Carolina

We have audited the financial statements of the Smart Start of Forsyth County (Forsyth Partnership) as of and for the year ended June 30, 2004, and have issued our report thereon dated June 28, 2005. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Forsyth Partnership's internal control over financial reporting in order to determine our auditing procedures for the purposes of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Forsyth Partnership'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

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

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objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the audit committee, management of the Forsyth Partnership, The North Carolina Partnership for Children, Inc., the Governor, and the General Assembly and is not intended to be and should not be used by anyone other than these specified parties.

*Leslie W. Merritt, Jr.*

Leslie W. Merritt, Jr., CPA, CFP  
State Auditor

June 28, 2005

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In accordance with General Statutes 147-64.5 and 147-64.6(c)(14), copies of this report have been distributed to the public officials listed below. Additional copies are provided to other legislators, state officials, the press, and the general public upon request.

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The Honorable Beverly M. Perdue	Lieutenant Governor of North Carolina
The Honorable Richard H. Moore	State Treasurer
The Honorable Roy A. Cooper, III	Attorney General
Mr. David T. McCoy	State Budget Officer
Mr. Robert L. Powell	State Controller
Ms. Carmen Hooker Odom	Secretary, Department of Health and Human Services
Mr. Ashley Thrift	Chairman, Board of Directors
	The North Carolina Partnership for Children, Inc.
Ms. Karen Ponder	Executive Director
	The North Carolina Partnership for Children, Inc.

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### Other Legislative Officials

Mr. James D. Johnson	Director, Fiscal Research Division
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August 23, 2005



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