

FINANCIAL STATEMENT AUDIT REPORT OF
SMART START OF DAVIDSON COUNTY, INC.
LEXINGTON, NORTH CAROLINA
FOR THE YEAR ENDED JUNE 30, 2014

BOARD OF DIRECTORS

AMANDA COOK, BOARD CHAIR

ADMINISTRATIVE OFFICER

BILL PLESS, EXECUTIVE DIRECTOR

Smart Start of Davidson County, Inc.

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Independent Auditor's Report

To Board Members of
Smart Start of Davidson County, Inc.
Lexington, North Carolina

Report on Financial Statements

We have audited the accompanying financial statements of Smart Start of Davidson County, Inc. which comprise the Statement of Receipts, Expenditures, and Net Assets - Modified Cash Basis 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 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 Davidson County, Inc., as of and for the year ended June 30, 2014, 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 19 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 of Davidson County, 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 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 January 7, 2015, on our consideration of Smart Start of Davidson County, Inc. 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 Smart Start of Davidson County, Inc.'s internal control over financial reporting and compliance.

CohnReznick LLP

Charlotte, North Carolina
January 7, 2015

Smart Start of Davidson County, 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		
Receipts:				
State Awards and Contracts	\$ 2,627,483	\$ 1,710,999	\$ -	\$ 4,338,482
Federal Awards	-	2,159	6,216	8,375
Private Contributions	-	25,075	6,940	32,015
Interest and Investment Earnings	-	574	-	574
Sales Tax Refunds	-	3,993	-	3,993
Other funds	-	4,582	-	4,582
Total Receipts	2,627,483	1,747,382	13,156	4,388,021
Net Assets Released from Restrictions:				
Satisfaction of Program Restrictions	-	6,412	(6,412)	-
	<u>2,627,483</u>	<u>1,753,794</u>	<u>6,744</u>	<u>4,388,021</u>
Expenditures:				
Programs:				
Child Care and Education Affordability	1,063,926	832	-	1,064,758
Child Care and Education Quality	867,184	2,609	-	869,793
Family Support	465,373	21,103	-	486,476
NC Pre-K	-	1,696,263	-	1,696,263
Support:				
Management and General	219,613	18,997	-	238,610
Program Coordination and Evaluation	11,387	-	-	11,387
Other:				
Sales Tax Paid	-	4,481	-	4,481
Total Expenditures	2,627,483	1,744,285	-	4,371,768
Excess (Deficiency) of Receipts Over Expenditures	-	9,509	6,744	16,253
Net Assets at Beginning of Year	-	136,768	13,024	149,792
Net Assets at End of Year	\$ -	\$ 146,277	\$ 19,768	\$ 166,045
Net Assets Consisted of:				
Cash and Cash Equivalents	\$ 14	\$ 146,277	\$ 19,768	\$ 166,059
Less: Due to State	14	-	-	14
	<u>\$ -</u>	<u>\$ 146,277</u>	<u>\$ 19,768</u>	<u>\$ 166,045</u>

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

Smart Start of Davidson County, Inc.
 Statement of Functional Expenditures - Modified Cash Basis
 For the Year Ended June 30, 2014

Exhibit B

	Total	Personnel	Contracted Services	Supplies and Materials	Other Operating Expenditures	Fixed Charges and Other Expenditures	Property and Equipment Outlay	Services/Contracts/Grants
Smart Start Fund:								
Programs:								
Child Care and Education Affordability	\$ 1,063,925	\$ 36,703	\$ 772	\$ 724	\$ 2,903	\$ 851	\$ 1,344	\$ 1,020,628
Child Care and Education Quality	867,184	347,921	-	9,144	36,647	22,420	10,018	441,034
Family Support	465,373	1,000	13,495	225	9,168	1,052	-	440,433
	<u>2,396,482</u>	<u>385,624</u>	<u>14,267</u>	<u>10,093</u>	<u>48,718</u>	<u>24,323</u>	<u>11,362</u>	<u>1,902,095</u>
Support:								
Management and General	219,614	191,944	2,256	2,441	12,307	10,458	208	-
Program Coordination and Evaluation	11,387	1,599	9,788	-	-	-	-	-
	<u>231,001</u>	<u>193,543</u>	<u>12,044</u>	<u>2,441</u>	<u>12,307</u>	<u>10,458</u>	<u>208</u>	<u>-</u>
Total Smart Start Fund Expenditures	<u>\$ 2,627,483</u>	<u>\$ 579,167</u>	<u>\$ 26,311</u>	<u>\$ 12,534</u>	<u>\$ 61,025</u>	<u>\$ 34,781</u>	<u>\$ 11,570</u>	<u>\$ 1,902,095</u>
Other Funds:								
Programs:								
Child Care and Education Affordability	\$ 832	\$ 2	\$ 20	\$ -	\$ 10	\$ -	\$ -	\$ 800
Child Care and Education Quality	2,609	3	-	2,107	499	-	-	-
Family Support	21,103	-	6,558	333	12,135	600	-	1,477
NC Pre-K	1,696,263	63,069	-	1,156	3,890	1,320	-	1,626,828
	<u>1,720,807</u>	<u>63,074</u>	<u>6,578</u>	<u>3,596</u>	<u>16,534</u>	<u>1,920</u>	<u>-</u>	<u>1,629,105</u>
Support:								
Management and General	18,997	5,357	4	3,181	6,219	4,236	-	-
	<u>18,997</u>	<u>5,357</u>	<u>4</u>	<u>3,181</u>	<u>6,219</u>	<u>4,236</u>	<u>-</u>	<u>-</u>
Other:								
Sales Tax Paid	4,481	-	-	4,481	-	-	-	-
	<u>4,481</u>	<u>-</u>	<u>-</u>	<u>4,481</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Other Funds Expenditures	<u>\$ 1,744,285</u>	<u>\$ 68,431</u>	<u>\$ 6,582</u>	<u>\$ 11,258</u>	<u>\$ 22,753</u>	<u>\$ 6,156</u>	<u>\$ -</u>	<u>\$ 1,629,105</u>

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

SMART START OF DAVIDSON COUNTY, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

A. Organization and Purpose - The Smart Start of Davidson County, Inc. (SSDC Partnership) is a legally separate nonprofit organization incorporated on February 10, 1994. The SSDC Partnership was established to develop and provide, through public and private means, early childhood education and developmental services for children and families. The SSDC 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 SSDC Partnership's Board of Directors is responsible. Pursuant to the provisions of Financial Accounting Standards Board's accounting standards for *not-for-profit entities*, the accompanying financial statements present information according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. As permitted by the standards, 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 SSDC 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. Property and Equipment** - Under the modified cash basis of accounting, purchases of property and equipment are reported as expenditures in the year incurred. However, the SSDC Partnership is required by contract regulation to track and maintain property and equipment items as presented in Schedule 4 of this report. The SSDC 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.

- 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 SSDC 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 - The SSDC Partnership, 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. The SSDC Partnership also benefits from donor volunteer hours which do not require specific expertise but which are nonetheless central to the SSD Partnership's operations. See supplemental Schedule 5 for more information on contributions in-kind.

NOTE 2 - DEPOSITS

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

Deposits over insured amounts subject the SSDC Partnership to a concentration of credit risk. At June 30, 2014, the SSDC Partnership did not have any bank deposits not insured by FDIC.

NOTE 3 - FUNDING FROM GRANT AWARDS AND CONTRACTS

Smart Start Program Grant - One of the SSDC Partnership's major sources 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 SSDC Partnership and represents a concentration of credit risk as to the generation of revenue.

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

The SSDC Partnership was awarded and has received \$2,627,497 under a current year Smart Start grant contract with NCPC. The unexpended balance of this grant contract is subject to reversion to the State. The SSDC Partnership has refunded \$14 of this contract to the State based on financial status reports submitted to NCPC subsequent to June 30, 2014.

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

NC Pre-K - The SSDC Partnership also received revenue and support from the State of North Carolina for the NC Pre-K program. The SSDC Partnership was awarded \$1,700,343 and received \$1,694,386 under a current year financial assistance contract.

The SSDC Partnership expects to receive continued funding through new NC Pre-K contracts with the State.

NOTE 4 - RELATED PARTY TRANSACTIONS

A. Service Provider Contracts with Board Member Organizations -

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

B. The SSDC Partnership entered into transactions for contracted services with a relative of an employee of the SSDC Partnership. The amounts paid during the year ended June 30, 2014 included the following:

<u>Expenditure</u>	<u>Amount</u>
Event Assistance	\$ 550
Provider Training	45
	<u>\$ 595</u>

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 dual subsidy and subsidy administration.

Child Care and Education Quality - Used to account for service activities including *or* associated with quality enhancement and maintenance, child care resource and referral, professional development and supplements, literacy, provider training, mentoring programs, special needs - early intervention support for child care professionals, learning materials and teaching aids, curriculum enhancements, child care needs and resources assessments, kindergarten orientation/transition, or health insurance benefits for child care providers.

Family Support - Used to account for service activities including *or* associated with family resource centers, teen parent/child programs, ongoing parenting education, general family support, family intervention, literacy or family literacy projects, community outreach information and resources, home visiting or family support needs and resources assessments.

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 on utilization data.

NOTE 6 - LEASE OBLIGATIONS

Operating Lease - Future minimum lease payments under noncancelable operating leases consist of the following at June 30, 2014:

<u>Fiscal Year</u>	<u>Operating Leases</u>
2015	\$ 3,018
2016	518
2017	130
Total Minimum Lease Payments	<u>\$ 3,666</u>

Subsequent to year end the lease for the office space was renewed and extended through July 31, 2017 with a monthly rental amount of \$2,500. This renewal is not reflected in the schedule above.

Rental expense for all operating leases during the year was \$30,480.

NOTE 7 - PENSION PLAN

Retirement Plan - The SSDC Partnership has a Simplified Employee Pension plan (SEP Plan) covering all full-time employees. Each full-time employee of the SSDC Partnership, as a condition of employment, is provided an Individual Retirement Account through an outside insurance company. The SSDC Partnership contributed 6% of gross wages for the year ended June 30, 2014. The SSDC Partnership does not own the

accounts nor is it liable for any other cost other than the required contribution. The SSDC Partnership contributed \$27,506 for pension benefits during the year.

NOTE 8 - RISK MANAGEMENT

The SSDC 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 SSDC 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
Worker Compensation - employee injury	Purchased commercial insurance	None
Physical property loss and natural disasters	Purchased commercial insurance	None

Management believes such coverage is sufficient to preclude any significant losses to the SSDC 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 SSDC 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, 2014, is \$23,317. 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>
Parents as Teachers	\$ 6,216
Parents Break/Meeting	221
Preschool Literacy	1,543
School Readiness	11,688
Children's Health Fund	100
	<u>\$ 19,768</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>
Parents as Teachers Grant	\$ 5,100
Parents Break/Meeting	158
Wal-Mart - Grandparent's Day	151
Pre-School Literacy Grant	873
School Readiness Fund	130
	<u>\$ 6,412</u>

NOTE 11 - INCOME TAXES

The SSDC 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 SSDC Partnership does not believe there are any unrecognized tax benefits or costs as of June 30, 2014. Income tax returns from 2011 through 2013 are open to examination by the tax authorities.

NOTE 12 - SUBSEQUENT EVENTS

The SSDC Partnership has evaluated events and transactions that occurred between June 30, 2014 and January 7, 2015, which is the date the financial statements were available to be issued, for possible recognition or disclosure in the financial statements. Except as noted in Note 6, 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.

SUPPLEMENTARY INFORMATION

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

Schedule 1

Organization Name	Smart Start Funds		Other Funds	
	Amount Advanced	Refund Due	Amount Advanced	Refund Due
Organizations:				
A Child's World	\$ -	\$ -	\$ 10,500	\$ -
Amparo Ibarra dba Little Hands	935	-	-	-
Aunt Kayes Daycare	* 6,480	-	-	-
Baptist Children's Home	* 51,000	-	188,999	-
Carol Cone dba Noah's Ark	3,245	-	-	-
Coggins Mem. Baptist	13,227	-	-	-
Cradles 2 Crayons Development Center	9,720	-	-	-
Davidson County Comm. College CDC	24,990	-	47,250	-
Davidson County Schools	* 435,514	-	297,074	-
Debbie Fowler dba Debbie's Little Darlings	1,295	-	-	-
Elaine Leonard dba Around the Clock Daycare	3,245	-	-	-
Elizabeth Ray dba Elizabeth's Playhouse	1,175	-	-	-
Evans Child Development Center	12,690	-	-	-
First Baptist Child Learning Center - Denton	* 6,210	-	171,408	-
First Baptist Child Development Center	8,150	-	-	-
Lisa Grooms dba Little Blessings Childcare	1,890	-	-	-
Growing in Grace	8,667	-	-	-
Heritage Child Enrichment	12,948	-	-	-
Joyland Child Development	6,210	-	-	-
Kennie Sledge dba Kiddie Casa	* 2,730	-	-	-
Kid City Children Center	6,120	-	-	-
Kid City DayCare	5,400	-	-	-
Kids Only	17,340	-	-	-
Kids World BiLingual	11,730	-	-	-
Laurel Oak	26,730	-	-	-
Lexington City Schools	* -	-	297,636	-
Lexington Day Care, Inc.	5,934	-	-	-
Little Bo Peep Day Care	3,240	-	94,500	-
Little Heartstrings	8,100	-	-	-
Martha Best Childrens Center	* 27,000	-	-	-
Mary Myers Child Care	8,700	-	94,237	-
New Beginnings	4,350	-	-	-
Son Shine Daycare	6,596	-	-	-
Teresa Hedrick	1,260	-	-	-
The Learning Place	* 42,328	-	94,237	-
Thomasville City Schools	* -	-	210,587	-
Tyro Learning Center	26,517	-	26,250	-
Von's Kids	39,780	-	94,500	-
Wesleyan CDC - Denton	14,040	-	-	-
West Davidson Child Dev. Center	6,480	-	-	-
	<u>871,966</u>	<u>-</u>	<u>1,627,178</u>	<u>-</u>
Individuals:				
Childcare Scholarships	1,020,628	-	800	-
School Readiness Books & Materials	4,401	-	1,127	-
Parent Information	181	-	-	-
Reach Out and Read Materials	4,919	-	-	-
	<u>1,030,129</u>	<u>-</u>	<u>1,927</u>	<u>-</u>
	<u>\$ 1,902,095</u>	<u>\$ -</u>	<u>\$ 1,629,105</u>	<u>\$ -</u>

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

**Smart Start of Davidson County, Inc.
Schedule of State Level Service Provider Contracts
For the Year Ended June 30, 2014**

Schedule 2

Organization Name	DHHS Contracts
Child Care Services Association - WAGE\$	\$ 162,765

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.

Smart Start of Davidson County, Inc.
Schedule of Federal and State Awards - Modified Cash Basis
For the Year Ended June 30, 2014

Schedule 3

<u>Federal/State Grantor/Pass-through Grantor/Program</u>	Federal CFDA Number	<u>Contract Number</u>	<u>Receipts</u>	<u>Expenditures</u>
Federal Awards:				
U.S. Department of Education Passed-through from Parents as Teachers National Center, Inc. Fund for the Improvement of Education	84.215G		\$ 8,375	\$ 7,259
Total Federal awards			<u>8,375</u>	<u>7,259</u>
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)	*		2,627,483	2,627,483
Multi-Partnership Accounting and Contracting Grant (Current Year)			16,613	16,613
North Carolina Department of Health and Human Services, Division of Child Development and Early Education NC Pre-K Program	*		<u>1,694,386</u>	<u>1,694,386</u>
Total State awards			<u>4,338,482</u>	<u>4,338,482</u>
Total Federal and State Awards			<u>\$ 4,346,857</u>	<u>\$ 4,345,741</u>

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

Smart Start of Davidson County, Inc.
Schedule of Property and Equipment - Modified Cash Basis
For the Year Ended June 30, 2014

Schedule 4

Furniture and Noncomputer Equipment	\$ 60,311
Computer Equipment / Printers	<u>43,874</u>
Total Property and Equipment	<u><u>\$ 104,185</u></u>

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

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

Schedule 5

Match Provided at the Partnership Level:

Cash	\$ 252,278
In-Kind Goods and Services	<u>74,757</u>
Total	<u>\$ 327,035</u>

Match Provided at the Contractor Level:

Cash	\$ 15,315
In-Kind Goods and Services	<u>70,317</u>
Total	<u>\$ 85,632</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.

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 Davidson County, Inc.
Lexington, North Carolina

We have audited the financial statements of Smart Start of Davidson County, Inc. (the "Organization"), as of and for the year ended June 30, 2014, and have issued our report thereon dated January 7, 2015. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

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

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Organization'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 the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization'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 Organization'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 the Organization'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.

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

Charlotte, North Carolina
January 7, 2015