

FINANCIAL STATEMENT AUDIT REPORT OF  
WAKE COUNTY SMART START  
RALEIGH, NORTH CAROLINA  
FOR THE YEAR ENDED JUNE 30, 2023

BOARD OF DIRECTORS  
SHERRY HEUSER, BOARD CHAIR

ADMINISTRATIVE OFFICER  
GAYLE HEADEN, EXECUTIVE DIRECTOR

## Wake County Smart Start

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Independent Auditor's Report

To Board Members of  
Wake County Smart Start  
Raleigh, North Carolina

Report on the Audit of the Financial Statements

*Opinion*

We have audited the accompanying financial statements of Wake County Smart Start, which comprise the Statement of Receipts, Expenditures, and Net Assets - Modified Cash Basis as of and for the year ended June 30, 2023, and the related Statement of Functional Expenditures - Modified Cash Basis for the year then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the Statement of Receipts, Expenditures and Net Assets - Modified Cash Basis of the Wake County Smart Start as of and for the year ended June 30, 2023, and the Statement of Functional Expenditures - Modified Cash Basis for the year then ended in accordance with the modified cash basis of accounting described in Note 1.

*Basis for Opinion*

We conducted our audit in accordance with auditing standards generally accepted in the United States of America ("GAAS") and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Wake County Smart Start, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

*Emphasis of 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 this matter.

*Responsibilities of Management 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, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Wake County Smart Start's ability to continue as a going concern for one year after the date that the financial statements are available to be issued.

*Auditor's Responsibilities for the Audit of the Financial Statements*

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Wake County Smart Start's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Wake County Smart Start's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

*Supplementary Information*

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplementary information in Schedule 2 on page 22 and Schedule 5 on page 25 is presented for purposes of additional analysis as required by the North Carolina Office of the State Auditor, and is not a required part of the financial statements. In accordance with auditing standards generally accepted in the United States of America, we have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion or provide any assurance on Schedules 2 and 5.

The accompanying supplementary information in Schedules 1, 3, and 4 on pages 20, 23, and 24 is presented for purposes of additional analysis and is 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 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 2, 2024, on our consideration of Wake County Smart Start's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Wake County Smart Start's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Wake County Smart Start's internal control over financial reporting and compliance.



Charlotte, North Carolina  
February 2, 2024

**Wake County Smart Start  
Statement of Receipts, Expenditures, and Net Assets - Modified Cash Basis  
For the Year Ended June 30, 2023**

**Exhibit A**

	<b>Without Donor Restrictions</b>	<b>With Donor Restrictions</b>	<b>Total Funds</b>
<b>Receipts:</b>			
State Awards and Contracts	\$ 13,275,480	\$ 43,821	\$ 13,319,301
Federal Awards	4,608,778	3,221	4,611,999
Local Awards	3,403,935	838,670	4,242,605
Private Contributions	148,244	534,722	682,966
Interest and Investment Earnings	78,125	-	78,125
Sales Tax Refunds	25,161	-	25,161
<b>Total Receipts</b>	<b>21,539,723</b>	<b>1,420,434</b>	<b>22,960,157</b>
<b>Net Assets Released from Restrictions:</b>			
Satisfaction of Program Restrictions	941,544	(941,544)	-
	<b>22,481,267</b>	<b>478,890</b>	<b>22,960,157</b>
<b>Expenditures:</b>			
Programs:			
Child Care and Education Quality	829,493	-	829,493
Family Support	2,719,043	-	2,719,043
Health and Safety	1,064,286	-	1,064,286
NC Pre-K	14,285,841	-	14,285,841
Wake ThreeSchool	1,656,625	-	1,656,625
Support:			
Fundraising	108,984	-	108,984
Management and General	1,193,913	-	1,193,913
Program Planning, Coordination and Evaluation	532,250	-	532,250
Other:			
Refund of Prior Year Grant	48,684	-	48,684
Sales Tax Paid	36,869	-	36,869
<b>Total Expenditures</b>	<b>22,475,988</b>	<b>-</b>	<b>22,475,988</b>
<b>Excess (Deficiency) of Receipts Over Expenditures</b>	<b>5,279</b>	<b>478,890</b>	<b>484,169</b>
<b>Net Assets at Beginning of Year</b>	<b>1,999,281</b>	<b>1,024,036</b>	<b>3,023,317</b>
<b>Net Assets at End of Year</b>	<b>\$ 2,004,560</b>	<b>\$ 1,502,926</b>	<b>\$ 3,507,486</b>
<b>Net Assets Consisted of:</b>			
Cash and Cash Equivalents	\$ 2,689,989	\$ 1,502,926	\$ 4,192,915
Refunds Due From Contractors	111,654	-	111,654
	<b>2,801,643</b>	<b>1,502,926</b>	<b>4,304,569</b>
Less: Due to State	795,815	-	795,815
Funds Held for Others	1,268	-	1,268
<b>Total Net Assets</b>	<b>\$ 2,004,560</b>	<b>\$ 1,502,926</b>	<b>\$ 3,507,486</b>

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

**Wake County Smart Start**  
**Statement of Functional Expenditures - Modified Cash Basis**  
**For the Year Ended June 30, 2023**

**Exhibit B**

	<b>Total</b>	<b>Personnel</b>	<b>Contracted Services</b>	<b>Supplies and Materials</b>	<b>Other Operating Expenditures</b>	<b>Fixed Charges and Other Expenditures</b>	<b>Property and Equipment Outlay</b>	<b>Services/Contracts/Grants</b>
<b>Smart Start Funds:</b>								
<b>Programs:</b>								
Child Care and Education Quality	\$ 767,706	\$ 523,685	\$ 35,058	\$ 9,650	\$ 21,456	\$ 20,087	\$ 5,588	\$ 152,182
Family Support	2,268,572	507,977	41,077	6,134	17,099	36,011	5,546	1,654,728
Health and Safety	1,064,286	-	-	-	-	-	-	1,064,286
NC Pre-K	2,979,269	133,660	82	730	3,246	18,294	794	2,822,463
	<u>7,079,833</u>	<u>1,165,322</u>	<u>76,217</u>	<u>16,514</u>	<u>41,801</u>	<u>74,392</u>	<u>11,928</u>	<u>5,693,659</u>
<b>Support:</b>								
Fundraising	108,984	91,421	2,440	1,053	2,226	11,351	493	-
Management and General	464,761	251,933	58,500	14,744	49,827	63,305	26,452	-
Program Planning, Coordination and Evaluation	532,200	343,619	138,992	8,103	11,270	23,657	6,559	-
	<u>1,105,945</u>	<u>686,973</u>	<u>199,932</u>	<u>23,900</u>	<u>63,323</u>	<u>98,313</u>	<u>33,504</u>	<u>-</u>
<b>Total Smart Start Fund Expenditures</b>	<b>\$ 8,185,778</b>	<b>\$ 1,852,295</b>	<b>\$ 276,149</b>	<b>\$ 40,414</b>	<b>\$ 105,124</b>	<b>\$ 172,705</b>	<b>\$ 45,432</b>	<b>\$ 5,693,659</b>
<b>Other Funds:</b>								
<b>Programs:</b>								
Child Care and Education Quality	\$ 61,787	\$ 689	\$ 43,574	\$ 448	\$ 1,252	\$ -	\$ -	\$ 15,824
Family Support	450,471	61,057	306,041	556	1,164	-	9,230	72,423
NC Pre-K	11,306,572	511,072	109,322	3,395	14,066	87,481	17,698	10,563,538
Wake ThreeSchool	1,656,625	324,379	60,342	6,013	10,392	(30,455)	14,737	1,271,217
	<u>13,475,455</u>	<u>897,197</u>	<u>519,279</u>	<u>10,412</u>	<u>26,874</u>	<u>57,026</u>	<u>41,665</u>	<u>11,923,002</u>
<b>Support:</b>								
Management and General	729,152	611,214	51,803	7,559	23,878	26,090	8,608	-
Program Planning, Coordination and Evaluation	50	-	-	50	-	-	-	-
	<u>729,202</u>	<u>611,214</u>	<u>51,803</u>	<u>7,609</u>	<u>23,878</u>	<u>26,090</u>	<u>8,608</u>	<u>-</u>
<b>Other:</b>								
Refund of Prior Year Grant	48,684	-	-	-	-	48,684	-	-
Sales Tax Paid	36,869	-	-	36,869	-	-	-	-
	<u>85,553</u>	<u>-</u>	<u>-</u>	<u>36,869</u>	<u>-</u>	<u>48,684</u>	<u>-</u>	<u>-</u>
<b>Total Other Funds Expenditures</b>	<b>\$ 14,290,210</b>	<b>\$ 1,508,411</b>	<b>\$ 571,082</b>	<b>\$ 54,890</b>	<b>\$ 50,752</b>	<b>\$ 131,800</b>	<b>\$ 50,273</b>	<b>\$ 11,923,002</b>

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

**WAKE COUNTY SMART START**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2023**

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**NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES**

- A. Organization and Purpose** - The Wake County Smart Start is a legally separate nonprofit organization incorporated on August 18, 1994. Wake County Smart Start was established to develop and provide, through public and private means, early childhood education and developmental services for children and families. Wake County Smart Start is tax-exempt as an organization described in Section 501(c)(3) of the Internal Revenue Code.
- B. Basis of Presentation** - The accompanying financial statements present all funds for which the Wake County Smart Start's Board of Directors is responsible. Pursuant to the provisions of Financial Accounting Standards Board's Accounting Standard for *Not-For-Profit Entities*, the accompanying financial statements present information according to two classes of net assets: without donor restrictions and with donor restrictions. Net assets without donor restrictions are the part of net assets not subject to donor-imposed restrictions (donors include other types of contributors, including makers of certain grants). Net assets with donor restrictions are the part of net assets subject to donor-imposed restrictions. As permitted by this Standard, contributions with donor restrictions received and expended in the same year are reported as receipts without donor restrictions rather than receipts with donor restrictions.

Contributions with donor restrictions that are not expended within the year received are reported as an increase in net assets with donor restrictions. When the restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the Statement of Receipts, Expenditures, and Net Assets - Modified Cash Basis as net assets released from restrictions.

- 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 certificates of deposit and other 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 advances are recorded as a reduction to the State awards balance.
- F. Due to 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.
- G. Funds Held for Others** - Funds Held for Others includes amounts received that are fiduciary in nature in which Wake County Smart Start acts in an agency capacity. For the year ended June 30, 2023, Wake County Smart Start was holding amounts withheld from employee paychecks for social security contributions, retirement contributions and optional life insurance premiums. As of June 30, 2023, Funds Held for Others were as follows:

Funds Held for Others	Amount
Social Security Contribution Payable	\$ 5
Optional Employee Insurance Payable	1,263
	<u>\$ 1,268</u>

- H. Property and Equipment** - Under the modified cash basis of accounting, purchases of property and equipment are reported as expenditures in the year incurred. However, Wake County Smart Start is required by contract regulation to track and maintain property and equipment items as presented in Schedule 4 of this report. Wake County Smart Start 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, 2023. Donated items are recorded on the property and equipment log at estimated fair market value at the date of donation, which is defined as the price that would be paid to acquire an asset with equivalent service capacity in an orderly market transaction at the acquisition date.
- I. 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.

- J. Use of Estimates** - The preparation of financial statements in conformity with the modified cash basis of accounting used by Wake County Smart Start 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.
- K. Qualifying Match and Contributions of Financial and Nonfinancial Assets** - Wake County Smart Start, 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 contributions of cash and other financial assets, and nonfinancial assets. Contributions of cash and other financial assets, received and expended at the Partnership level, are recognized as revenue when they are received and as expenditures when they are paid and are included in the modified cash basis financial statements. For valuation of contributions of other financial assets and nonfinancial assets, the Wake County Smart Start utilizes fair value on the date of the gift. Nonfinancial assets could be donated equipment, supplies, office space, or services. The Wake County Smart Start also benefits from donor volunteer hours which do not require special expertise, but which are nonetheless central to Wake County Smart Start's operations. During the year ended June 30, 2023, Wake County Smart Start did not receive any contributions of other financial assets. Under the modified cash basis of accounting, the qualifying match reported on Schedule 5 for cash provided at the contractor level and for donated assets and services at both the Partnership and contractor levels is not recorded. See supplemental Schedule 5 for more information on the contributions of nonfinancial assets.

**NOTE 2 - DEPOSITS**

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

Deposits over insured amounts subjects the Wake County Smart Start to a concentration of credit risk. At June 30, 2023, the Wake County Smart Start's bank deposits in excess of the FDIC insured limit was \$3,445,621.

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

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

Associated with these contracts, Wake County Smart Start 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 Wake County Smart Start. 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.

Wake County Smart Start was awarded and received \$8,985,901 under a current year Smart Start contract with NCPC. The unexpended balance of this contract is subject to reversion to the State. Wake County Smart Start refunded \$795,815 of this contract to the State based on financial status reports submitted to NCPC subsequent to June 30, 2023. Wake County Smart Start has also refunded \$4,308 in prior year contracts during the year ended June 30, 2023.

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

**NC Pre-K** - Wake County Smart Start received revenue and support from the State of North Carolina and DHHS for the NC Pre-K program. A significant reduction in the level of funding from the State could have an adverse effect on the operations of Wake County Smart Start and represents a concentration of credit risk as to the generation of revenue. Wake County Smart Start was awarded \$10,596,878, received \$9,424,155 and expended \$9,406,073 under a current year financial assistance contract. Additionally, Wake County Smart Start reverted \$48,659 in unexpended grant funds under a prior year NC Pre-K contract during the year ended June 30, 2023.

Wake County Smart Start expects to receive continued funding through new NC Pre-K contracts with the State and DHHS.

**Dolly Parton Imagination Library Expansion Program** - Wake County Smart Start was awarded, received and expended \$52,500 under a current year Dolly Parton Imagination Library Expansion Grant (DPIL) with NCPC. As allowed by program regulation, the unexpended balance of the current year contract is available to carry forward to the subsequent year.

Wake County Smart Start does not expect to receive continued funding through new DPIL contracts with NCPC.

**Wake County Pre-K and ThreeSchool** - Wake County Smart Start also received revenue and support from Wake County for the NC Pre-K and ThreeSchool program. A significant reduction in the level of funding from the County could have an adverse effect on the operations of Wake County Smart Start and represents a concentration of credit risk as to the generation of revenue. Wake County Smart Start was awarded and received \$4,242,605 and expended \$3,944,472 under a current year contract.

Wake County Smart Start expects to receive continued funding through new Wake Pre-K and ThreeSchool contracts with Wake County.

**Multi-Partnership Accounting and Contracting Grant** - The Wake County Smart Start was awarded, received, and expended \$134,165 under a current year grant with NCPC.

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

**State Physical Activity and Nutrition (REACH)** - Wake County Smart Start was awarded \$63,554 under a contract for the period October 1, 2021 through September 29, 2022. Wake County Smart Start received \$37,754 and expended \$34,735 during the year ended June 30, 2023.

Wake County Smart Start was awarded \$48,334 under a contract for the period of October 1, 2022 through September 30, 2023. Wake County Smart Start received \$24,133 and expended \$27,357 during the year ended June 30, 2023.

Wake County Smart Start does not expect to receive continued funding through new REACH contracts with DHHS.

**Every School Succeeds Act/Preschool Development Grants** - Wake County Smart Start was awarded \$24,330, received \$15,446 and expended \$14,341 under a prior year contract with DHHS for a preschool development grant. The term of this contract is November 1, 2021, to June 30, 2023. Wake County Smart Start also received \$3,108 under a prior year contract.

Wake County Smart Start does not expect to receive continued funding through new preschool development grants with DHHS.

Wake County Smart Start was awarded \$25,000, received \$3,564 and expended \$3,564 under a contract with NCPC for a family engagement and leadership grant. The term of this contract is September 1, 2021 to August 31, 2022.

Wake County Smart Start does not expect to receive continued funding through new Family Engagement and Leadership grant contracts with NCPC.

**Coronavirus State and Local Fiscal Recovery Funds-** Wake County Smart Start was awarded \$285,000 under a contract for the period of July 1, 2022 through June 30, 2024. Wake County Smart Start received \$50,697 and expended \$73,879 during the year ended June 30, 2023.

Wake County Smart Start does not expect to receive continued funding through new contracts with the Triangle J Council of Governments, North Carolina.

**The Kaleidoscope Project** - The Wake County Smart Start was awarded \$1,927,433, under a contract for the period of January 1, 2022 through December 30, 2026. Wake County Smart Start received \$600,070 and expended \$302,336 during the year ended June 30, 2023.

Wake County Smart Start does not expect to receive continued funding through new contracts with the John Rex Endowment.

**NOTE 4 - RELATED PARTY TRANSACTIONS**

**A. Service Provider Contracts with Board Member Organizations** - The board members of Wake County Smart Start are representative of various organizations that benefit from actions taken by the Board. It is the policy of Wake County Smart Start that board members not be involved with decisions regarding organizations they represent. During the year, Wake County Smart Start entered into contracts with board member organizations for program activities as identified on Schedule 1 accompanying the financial statements. In addition, Schedule 2 identifies contracts entered into by DHHS with board member organizations for activities funded by Wake County Smart Start's Smart Start allocation.

**B. Other Related Parties** - Wake County Smart Start served as a fiscal agent for an organization contracting with a board member of Wake County Smart Start. Wake County Smart Start also entered transactions for contracted services with a private business associated with a board member of Wake County Smart Start. The amounts paid included:

<u>Expenditures</u>	<u>Amount</u>
Kaleidoscope	\$ 10,496
Director Search	4,175
Total	<u>\$ 14,671</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 Quality** - Used to account for service activities including quality enhancement and maintenance, professional development and supplements, literacy for child care providers, child care substitutes, provider training, mentoring programs, learning materials and teaching aids, curriculum enhancements, child care needs and resources assessments, and kindergarten orientation/transition.

**Family Support** - Used to account for service activities including ongoing parenting education, general family support, family intervention, literacy or family literacy projects, transportation services, community systems building and public awareness, and home visiting.

**Health and Safety** - Used to account for service activities including comprehensive medical home services, child care health consultations, prenatal/newborn services, health care access and support, special needs - early intervention services/special education, or nutrition programs.

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

**Wake ThreeSchool** - Used to account for development and implementation of Wake ThreeSchool program for three-year-olds. The goal is to provide high-quality educational experiences to enhance school readiness for eligible three-year-olds.

## **B. Support Functions**

**Fundraising** - Expenditures that are incurred in inducing others to contribute money, securities, time, materials, or facilities for which the contributor will receive no direct economic benefit.

**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 Planning, 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 estimates of utilization.

**NOTE 6 - OPERATING LEASE OBLIGATIONS**

Future minimum lease payments under non-cancelable operating leases consist of the following at June 30, 2023:

<u>Fiscal Year</u>	<u>Operating Leases</u>
2024	\$ 230,366
2025	237,277
2026	244,395
2027	251,727
Total Minimum Lease Payments	<u>\$ 963,765</u>

Rental expense for all operating leases during the year was \$244,216.

**NOTE 7 - PENSION PLAN**

**Deferred Compensation and Supplemental Retirement Income Plans - IRC Section 401(k) Plan** - Wake County Smart Start has an IRC Section 401(k) plan (Plan). Wake County Smart Start contributed matching contributions up to 5% under plan provisions for the year ended June 30, 2023. Employees may make voluntary contributions to the Plan. For the year ended June 30, 2023, Wake County Smart Start contributed \$184,996.

**NOTE 8 - RISK MANAGEMENT**

Wake County Smart Start is exposed to various risks of loss related to torts, theft of, damage to, or destruction of assets; errors and omissions; injuries to employees; employees' health and life; and natural disasters. Wake County Smart Start 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 Wake County Smart Start. Settled claims have not exceeded this insurance coverage in any of the past three fiscal years.

**NOTE 9 - COMMITMENTS AND CONTINGENCIES**

**Compensated Absences** - As a result of Wake County Smart Start'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, 2023 is \$114,945. No funds or reservation of net assets has been made for this commitment.

**NOTE 10 - RESTRICTIONS ON NET ASSETS**

**A. Net Assets With Donor Restrictions** - Net assets with donor restrictions at June 30, 2023 are restricted for the following purposes:

Purpose	Amount
Wake County NC Pre-K	\$ 506,977
Wake County ThreeSchool	331,693
Program Services	43,214
Technical Assistance Coalition (TAC)	10,677
The Kaleidoscope Project	534,722
Blue Cross Blue Shield - Exclusionary Discipline	26,102
Capacity Building for Wake YCMHC	2,500
DCDEE NC Pre-K	45,937
Pre-School Development Grant - Pyramid	1,104
	<u>\$ 1,502,926</u>

**B. Net Assets Released From Donor Restrictions** - Net assets were released from donor restrictions during the fiscal year ended June 30, 2023 by incurring expenditures satisfying the restricted purposes as follows:

Purpose	Amount
Wake County NC Pre-K	\$ 540,537
Technical Assistance Coalition (TAC)	2,940
The Kaleidoscope Project	236,988
Blue Cros Blue Shield - Exclusionary Discipline	98,056
Capacity Building for Wake YCMHC	12,500
DCDEE NC Pre-K	50,523
	<u>\$ 941,544</u>



**NOTE 11 - BOARD DESIGNATED FUNDS**

Occasionally, Wake County Smart Start's Board designates a portion of financial assets for various programs. In the event of an unanticipated liquidity need, the Wake County Smart Start's Board could use these designated financial assets to meet unanticipated liquidity needs. At June 30, 2023, the Wake County Smart Start's had Board designated funds of \$1,686,204 for the development, operation, and administration of program services.

**NOTE 12 - FINANCIAL ASSETS AVAILABLE TO MEET CASH NEEDS**

The following reflects Wake County Smart Start's financial assets as of June 30, 2023 reduced by amounts not available for general use because of contractual or donor-imposed restrictions within one year of June 30, 2023:

Financial assets at year-end	\$ 3,507,486
Less those unavailable for general expenditures within one year due to:	
Contractual or donor-imposed restrictions:	
Restricted by donor with time and purpose restrictions (See Note 10A)	(1,502,926)
Board Designated Funds (see Note 11)	<u>(1,686,204)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 318,356</u>

Wake County Smart Start is supported by contributions with donor restrictions. Because a donor's restriction requires resources to be used in a particular manner or in a future period, Wake County Smart Start must maintain sufficient resources to meet these responsibilities to its donors. Thus, financial assets may not be available for general expenditures within one year.

As part of Wake County Smart Start's liquidity plan, excess cash is invested in money market accounts. Wake County Smart Start has Board Designated funds of \$1,686,204 to meet cash flow needs.

**NOTE 13 - INCOME TAXES**

Wake County Smart Start 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. Management has analyzed the tax positions taken by the Wake County Smart Start and has concluded that, as of June 30, 2023, there are no uncertain tax positions taken or expected to be taken that would require recognition or disclosure in the financial statements.

Income tax returns for 2020 through 2022 remain open to examination by the tax authorities.

**NOTE 14 - SUBSEQUENT EVENTS**

Wake County Smart Start has evaluated events and transactions that occurred between June 30, 2023 and February 2, 2024, 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, 2023 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, 2023.

This information is an integral part of the financial statements.

## SUPPLEMENTARY INFORMATION

**Wake County Smart Start**  
**Schedule of Contract and Grant Expenditures - Modified Cash Basis**  
**For the Year Ended June 30, 2023**

**Schedule 1**

Organizations:	Organization Name	Smart Start Funds		Other Funds	
		Amount Advanced	Refund Due	Amount Advanced	Refund Due
	A Safe Place Child Enrichment Center, Inc.	* \$ 64,031	\$ -	\$ 362,382	\$ -
	ABC Land, Inc.	185,749	-	691,530	-
	Academically Based Child Care	167,717	-	611,641	-
	Arrow Christian Preschool	3,329	-	-	-
	AsheBridge Children's Academy	10,000	-	-	-
	Banbino's Playschool	7,931	-	-	-
	Bright Beginnings of Cary, Inc.	286,232	-	815,998	-
	Catholic Charities	166,103	3,005	-	-
	Child Care Services Association	140,087	305	-	-
	Childcare Network, Inc.	709,036	-	2,183,901	-
	Creative Learning Enterprise, Inc. (Babes & Kids)	76,415	-	218,396	-
	Creative Schools, Inc.(Wakefield Children's Center)	143,763	-	689,906	-
	DGIC, Inc.	-	-	23,350	-
	Early Preschool and Learning Center, LLC	120,053	-	338,960	-
	Family Resource Center South Atlantic	437,173	53,136	-	-
	Frankie Lemmon School & Development Center	48,780	-	151,836	-
	Harps Mill Creative School	57,840	-	159,671	-
	Happy Place to Bee	9,061	-	-	-
	Iglesia Fiesta Cristiana	45,750	6,533	-	-
	Kemetic Cultural Science and System of Unity	50	-	-	-
	Kiddie Care Academy	7,038	-	-	-
	KinderCare Education DBA Heather Park CDC	64,227	-	-	-
	Kindercare South	8,316	-	171,393	-
	Kids First Academy, Inc.	107,937	-	315,994	-
	Little Believers Academy	22,551	-	86,762	-
	Little Destiny Literacy & Discovery Child Development	108,355	-	345,536	-
	Little Hands N Feet Child Care Center, Inc.	45,816	-	152,829	-
	Little People Preschool	2,960	-	-	-
	Little Sprouts Academy	3,332	-	-	-
	Lucy Daniels Center	397,159	-	-	-
	Martin-Pitt Partnership for Children, Inc.	-	-	10,560	-
	Mecklenburg Partnership for Children	-	-	10,560	-
	Method Child Development Center, Inc.	52,368	-	245,588	-
	Oak Village Academy	15,144	-	-	-
	Passage Home, Inc.	91,932	8,842	-	-

**Wake County Smart Start**

## For the Year Ended June 30, 2023

Organization Name	Smart Start Funds		Other Funds	
	Amount Advanced	Refund Due	Amount Advanced	Refund Due
<b>Organizations:</b>				
Precious Resources, Inc.	-	-	247	-
Preston Children's Academy, Inc.	91,421	-	246,787	-
Primary Beginnings, LLC	187,222	-	565,965	-
Randolph County Partnership for Children	-	-	10,560	-
Reach Out and Read Carolinas	2,477	-	-	-
Ready or Not Here I Grow	4,722	-	-	-
REE Southeast, Inc.(Little Pros Academy)	65,853	-	158,846	-
Rex Child Development Center	4	-	-	-
SAFEchild, Inc.	107,176	9,556	-	-
Shaw University Center for Early Childhood	31,707	-	154,274	-
Sonflower Seeds Preschool and Learning Center	-	-	49	-
Steps and Stages Child Care	11,058	-	-	-
Tammy Lynn Center	11,653	-	108,885	-
Telamon Corporation (Head Start)	-	-	530,460	-
The Goddard School	2,416	-	-	-
The Happy Face Preschool & Childcare, Inc.	128,548	-	551,341	-
The North Carolina Community of Coalitions	-	-	10,000	-
Triangle Area Parenting Support	117,087	4,607	-	-
Trogdons Day Care	-	-	41	-
Unique Creations Child Care Center	3,326	-	-	-
Wake County Human Services	649,098	16,291	-	-
Wake County Public School System	716,123	9,380	1,562,648	-
Wanda's Little Hands Educational Center, Inc.	58,504	-	306,734	-
	5,794,630	111,654	11,793,630	-
<b>Individuals:</b>				
Child Care Quality Program Materials	8,144	-	14,770	-
Child Care Quality-Healthy Habits Stipends	200	-	677	-
Community Outreach and Strategic Planning Stipends and Incentives	675	-	5,593	-
Community Outreach Program Materials	1,664	-	1,800	-
NC Pre-Kindergarten-Classroom Materials and Training	-	-	57,876	-
Wake ThreeSchool-Classroom Materials	-	-	48,656	-
	10,683	-	129,372	-
	5,805,313	111,654	11,923,002	\$
	\$	\$	\$	\$

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See Independent Auditor's Report

**Wake County Smart Start**  
**Schedule of State Level Service Provider Contracts (Unaudited)**  
**For the Year Ended June 30, 2023**

**Schedule 2**

Organization Name	DHHS Contracts
Wake County Human Services	* \$ 4,983,458

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.

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

**Wake County Smart Start**  
**Schedule of Federal and State Awards - Modified Cash Basis**  
**For the Year Ended June 30, 2023**

**Schedule 3**

Federal/State Grantor/Pass-through Grantor/Program	Federal Assistance Listing Number	Contract Number	Receipts	Expenditures
<b>Federal Awards:</b>				
United States Department of Health and Human Services				
Pass-through from the North Carolina Department of Health and Human Services				
Division of Child Development and Early Education				
Child Care and Development Block Grant (NC Pre-K) (Prior Year)	93.575	42031	\$ -	\$ 2
Child Care and Development Block Grant (NC Pre-K) (Current Year)	93.575	43859	154,716	154,716
COVID-19 - Child Care and Development Block Grant (ARPA) (NC Pre-K) (Current Year)	93.575	43859	141,911	139,796
Temporary Assistance For Needy Families (NC Pre-K) (Current Year)	**	43859	4,180,670	4,180,670
United States Department of Health and Human Services				
Pass through from the North Carolina Department of Health and Human Services				
Division of Child Development and Early Education				
Every Student Succeeds Act/Preschool Development Grants (Prior Year)	93.434	43474	15,446	14,341
Every Student Succeeds Act/Preschool Development Grants (Prior Year)	93.434	43474	3,108	-
Pass through from The North Carolina Partnership for Children, Inc.				
Every Student Succeeds Act/Preschool Development Grants (Prior Year)	93.434	315:21/22-02075	3,564	3,564
United States Department of Treasury				
Pass through from the Triangle J Council of Governments, North Carolina				
COVID-19 - Coronavirus State and Local Fiscal Recovery Funds (Current Year)	21.027	WPDLD5FL79N5	50,697	73,879
United States Department of Health and Human Services				
Pass through from the North Carolina Department of Health and Human Services				
Division of Public Health				
State Physical Activity and Nutrition (Prior Year)	93.439	42521	37,754	34,735
State Physical Activity and Nutrition (Current Year)	93.439	44830	24,133	27,357
<b>Total Receipts and Expenditures of Federal Awards</b>			<u>4,611,999</u>	<u>4,629,060</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 (Prior Year)	*	264-07232021	(4,308)	(4,308)
Early Childhood Initiatives Program (Current Year)		318-07292022	8,190,086	8,190,086
Multi-Partnership Accounting and Contracting Grant (Current Year)		197:20/21-014	134,165	134,165
Dolly Parton's Imagination Library Expansion (Current Year)		N/A	52,500	52,500
North Carolina Department of Health and Human Services				
Division of Child Development and Early Education				
NC Pre-K (Prior Year)	*	42031	-	48,657
NC Pre-K (Current Year)		43859	4,946,858	4,930,891
<b>Total Receipts and Expenditures of State Awards</b>			<u>13,319,301</u>	<u>13,351,991</u>
<b>Total Receipts and Expenditures of Federal and State Awards</b>			<u>\$ 17,931,300</u>	<u>\$ 17,981,051</u>

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

\*\* Major Programs per Uniform Guidance

See Independent Auditor's Report

**Wake County Smart Start**  
**Schedule of Property and Equipment - Modified Cash Basis**  
**For the Year Ending June 30, 2023**

**Schedule 4**

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Furniture and Noncomputer Equipment	\$ 99,063
Computer Equipment/Printers	99,088
Leasehold Improvements	<u>17,303</u>
<b>Total Property and Equipment</b>	<b><u><u>\$ 215,454</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.



**Wake County Smart Start  
Schedule of Qualifying Match (Non-GAAP) (Unaudited)  
For the Year Ended June 30, 2023**

**Schedule 5**

**Match Provided at the Partnership Level:**

Cash	\$ 4,247,887
Contributions of Nonfinancial Assets	-
	<u>\$ 4,247,887</u>

**Match Provided at the Contractor Level:**

Cash	\$ -
Contributions of Nonfinancial Assets	-
	<u>\$ -</u>

Note: This schedule is presented in accordance with the program match requirement as provided for by North Carolina Session Law 2021-180, Section 9C.6(d). The match is comprised of both cash and contributions of nonfinancial assets. Only contributions of nonfinancial assets that are verifiable, quantifiable, and related to the Smart Start Program can be applied to the 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.

For the fiscal year ended June 30, 2023, Smart Start met the legislative statewide match requirement and will be waving penalties for local partnerships that do not meet their match requirement for the fiscal year ended June 30, 2023.

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

To Board Members of  
Wake County Smart Start  
Raleigh, North Carolina

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Wake County Smart Start (a nonprofit organization), which comprise the Statement of Receipts, Expenditures, and Net Assets - Modified Cash Basis as of and for the year ended June 30, 2023, 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 2, 2024.

As described in Note 1, the financial statements were 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.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Wake County Smart Start's internal control over financial reporting as a basis for designing the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Wake County Smart Start's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Wake County Smart Start's internal control over financial reporting.

*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 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 over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

## Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether Wake County Smart Start'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 financial statements. 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 over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control over financial reporting or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control over financial reporting and compliance. Accordingly, this communication is not suitable for any other purpose.



Charlotte, North Carolina  
February 2, 2024

