



STATE OF NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT OF

WAKE COUNTY SMARTSTART

RALEIGH, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2002

OFFICE OF THE STATE AUDITOR

RALPH CAMPBELL, JR.

STATE AUDITOR

FINANCIAL STATEMENT AUDIT REPORT OF

WAKE COUNTY SMARTSTART

RALEIGH, NORTH CAROLINA

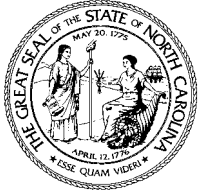
FOR THE YEAR ENDED JUNE 30, 2002

BOARD OF DIRECTORS

NEILL MCLEOD, BOARD CHAIR

ADMINISTRATIVE OFFICER

PAMELA J. DOWDY, EXECUTIVE DIRECTOR



Ralph Campbell, Jr.
State Auditor

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AUDITOR'S TRANSMITTAL

The Honorable Michael F. Easley, Governor
The General Assembly of North Carolina
Board of Directors, Wake County SmartStart

This report presents the results of our financial statement audit of the Wake County SmartStart (Wake Partnership) for the year ended June 30, 2002. Our audit was made by authority of Article 5A Chapter 147 of the General Statutes.

The accounts and operations of the Wake 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 Wake Partnership was made in conjunction with the Early Childhood Initiatives (Smart Start) program authorized by G.S. 143B-168.10-.16. This statute created the North Carolina Partnership for Children, Inc. and required the implementation of local demonstration projects (local partnerships). The Wake Partnership is one of these local partnerships. As such, the Wake Partnership is a private nonprofit 501(c)(3) organization and is required by G.S. 143B-168.14(b) to have an annual financial and compliance audit conducted by 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** - Express an opinion on the accompanying financial statements and supplementary information.

Results – The accompanying financial statements present fairly, in all material respects, the amounts and disclosures made in accordance with the regulatory basis of accounting established by the North Carolina Partnership for Children, Inc. The accompanying supplementary information presents information that is fairly stated in all material respects in relation to the basic financial statements.

AUDITOR'S TRANSMITTAL (CONCLUDED)

2. **Objective** - Present instances of noncompliance, if any, with laws, regulations, contracts, or grants.

Results - Our tests disclosed no instances of noncompliance that require disclosure herein under *Government Auditing Standards*.

3. **Objective** - Present significant deficiencies, if any, in internal control over financial reporting which could adversely affect the Wake Partnership's ability to record, process, summarize, and report financial data in the financial statements.

Results - Our tests disclosed no material weaknesses in the internal control over financial reporting which require disclosure herein under *Government Auditing Standards*.

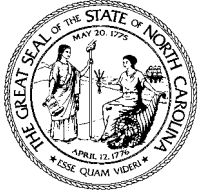
North Carolina General Statutes require the State Auditor to make audit reports available to the public. Copies of audit reports issued by the Office of the State Auditor may be obtained through one of the options listed in the back of this report.



Ralph Campbell, Jr.
State Auditor

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Ralph Campbell, Jr.
State Auditor

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Wake County SmartStart
Raleigh, North Carolina

We have audited the accompanying Statement of Receipts, Expenditures, and Net Assets - Regulatory Basis of the Wake County SmartStart (Wake Partnership) as of June 30, 2002, and the related Statement of Functional Expenditures – Regulatory Basis for the year then ended. These financial statements are the responsibility of the Wake 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 regulatory basis of accounting as prescribed by the North Carolina Partnership for Children, Inc., which is a comprehensive basis of accounting other than generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets of the Wake County SmartStart as of June 30, 2002, and the results of its operations 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 December 11, 2002 on our consideration of the Wake Partnership's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with the independent auditor's report in considering the results of our audit.

INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

Our audit was made for the purpose of forming an opinion on the basic financial statements of the Wake County SmartStart taken as a whole. The accompanying supplementary schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. The information in these schedules has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the management of the 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.



Ralph Campbell, Jr.
State Auditor

December 11, 2002

**Wake County SmartStart
Statement of Receipts, Expenditures, and Net Assets - Regulatory Basis
For the Year Ended June 30, 2002**

Exhibit A

	Unrestricted Funds		Temporarily Restricted Funds	Total Funds
	Smart Start Fund	Other Funds		
Receipts:				
State Awards (less refunds of \$420,039)	\$ 13,373,727	\$ 139,300	\$ 0	\$ 13,513,027
Private Contributions		62,663		62,663
Special Fund Raising Events		870		870
Interest and Investment Earnings		9,176	173	9,349
Sales Tax Refunds		37,944		37,944
Other Receipts	250			250
Total Receipts	13,373,977	249,953	173	13,624,103
Net Assets Released from Restrictions:				
Satisfaction of Program Restrictions		1,500	(1,500)	
	13,373,977	251,453	(1,327)	13,624,103
Expenditures:				
Programs:				
Child Care and Education Quality	2,306,562	1,000		2,307,562
Child Care and Education Accessibility and Availability	277,007			277,007
Child Care and Education Affordability	8,691,335			8,691,335
Health and Safety	644,659	5,890		650,549
Family Support	706,152	87,940		794,092
More at Four	46,057	145,412		191,469
Support:				
Management and General	521,950	11,980		533,930
Program Evaluation	159,215	6,000		165,215
Program Coordination	363,367			363,367
Other:				
Sales Tax Paid		28,360		28,360
Refund of Prior Year Grant		431		431
Total Expenditures	13,716,304	287,013	0	14,003,317
Excess of Receipts Over Expenditures	(342,327)	(35,560)	(1,327)	(379,214)
Net Assets at Beginning of Year	419,525	67,885	6,500	493,910
Net Assets at End of Year	\$ 77,198	\$ 32,325	\$ 5,173	\$ 114,696
Net Assets Consisted of:				
Cash and Cash Equivalents	\$ 35,574	\$ 32,265	\$ 5,173	\$ 73,012
Refunds Due From Contractors	42,544	60		42,604
	78,118	32,325	5,173	115,616
Less: Funds Held for Others	920			920
	\$ 77,198	\$ 32,325	\$ 5,173	\$ 114,696

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

**Wake County SmartStart
Statement of Functional Expenditures - Regulatory Basis
For the Year Ended June 30, 2002**

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
Smart Start Fund:									
Programs:									
Child Care and Education Quality	\$ 2,306,562	685,635	12,212	33,951	66,054	40,257	2,846	1,465,607	
Child Care and Education Accessibility and Availability	\$ 277,007							277,007	
Child Care and Education Affordability	\$ 8,691,335							8,691,335	
Health and Safety	\$ 644,659							644,659	
Family Support	\$ 706,152							706,152	
More at Four	\$ 46,057							46,057	
	\$12,671,772	\$ 685,635	\$ 12,212	\$ 33,951	\$ 66,054	\$ 40,257	\$ 2,846	\$ 11,830,817	\$ 0
Support:									
Management and General	\$ 521,950	372,763	22,897	14,363	40,175	61,694	10,058		
Program Evaluation	\$ 159,215	140,923	379	728	5,512	11,519	154		
Program Coordination	\$ 363,367	274,713	42,978	7,090	19,561	18,510	515		
	\$ 1,044,532	\$ 788,399	\$ 66,254	\$ 22,181	\$ 65,248	\$ 91,723	\$ 10,727	\$ 0	\$ 0
Total Smart Start Fund Expenditures	\$13,716,304	\$ 1,474,034	\$ 78,466	\$ 56,132	\$ 131,302	\$ 131,980	\$ 13,573	\$ 11,830,817	\$ 0
Other Funds:									
Programs:									
Child Care and Education Quality	\$ 1,000							1,000	
Health and Safety	\$ 5,890							5,890	
Family Support	\$ 87,940							87,940	
More at Four	\$ 145,412							145,412	
	\$ 240,242	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 240,242	\$ 0
Support:									
Management and General	\$ 11,980		1,122	10,858					
Program Evaluation	\$ 6,000		6,000						
	\$ 17,980	\$ 0	\$ 7,122	\$ 10,858	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Other:									
Sales Tax Paid	\$ 28,360			28,360					
Refund of Prior Year Grant	\$ 431					431			
	\$ 28,791	\$ 0	\$ 0	\$ 28,360	\$ 0	\$ 431	\$ 0	\$ 0	\$ 0
Total Other Funds Expenditures	\$ 287,013	\$ 0	\$ 7,122	\$ 39,218	\$ 0	\$ 431	\$ 0	\$ 240,242	\$ 0

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

**WAKE COUNTY SMARTSTART
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2002**

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

A. Organization and Purpose - The Wake County SmartStart (Wake Partnership) is a legally separate nonprofit organization incorporated on January 5, 1996. The Wake Partnership was established to develop and provide, through public and private means, early childhood education and developmental services for children and families. The Wake 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 Wake 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 Wake Partnership did not have any permanently restricted net assets at June 30, 2002.

C. Basis of Accounting - The accompanying financial statements were prepared on the regulatory basis of accounting as prescribed by the North Carolina Partnership for Children, Inc. This basis differs from generally accepted accounting principles 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)

However, unexpended advances to contractors that revert back to the State 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 –Regulatory Basis and consists of cash on deposit with a private bank account and a money market account.
- 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. Funds Held For Others** - Funds held for others includes amounts received that are fiduciary in nature in which the Partnership acts in an agency capacity. For the year ended, the Wake Partnership was holding amounts withheld from employee paychecks for benefits and insurance payments.
- G. Use of Estimates** - The financial statements include estimates and assumptions made by management for the allocation of joint costs. It is management's belief that these estimates are reasonable and fair.

NOTE 2 - DEPOSITS

All funds of the Wake Partnership are deposited with a commercial bank and insured by the Federal Deposit Insurance Corporation (FDIC) up to \$100,000. Deposits over this amount subjects the Wake Partnership to a concentration of credit risk. At June 30, 2002, the Wake Partnership's bank deposits in excess of the FDIC insured limit was \$210,578.

NOTE 3 - FUNDING FROM GRANT AWARDS

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Associated with these contracts, the Wake 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, NCPC and the Department of Health and Human Services (DHHS) entered into contracts with and made payments to service providers selected by the Wake Partnership. These service provider contracts are not reflected on the accompanying financial statements. However, a summary of the service provider contracts entered into by NCPC and DHHS are presented on Schedule 2 accompanying the financial statements.

The Wake Partnership was awarded and has received \$13,755,989 under a current year Smart Start contract with NCPC. The unexpended balance of this contract is subject to reversion to the State. The Partnership has returned \$73,467 of this contract to the State based on financial status reports submitted to NCPC subsequent to June 30, 2002.

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

NOTE 4 - RELATED PARTY TRANSACTIONS

Service Provider Contracts with Board Member Organizations - The board members of the Wake Partnership are representative of various organizations that benefit from actions taken by the Board. It is the policy of the Wake Partnership that board members not be involved with decisions regarding organizations they represent. During the year, the 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 NCPC and DHHS with board member organizations for activities funded by the 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 – Regulatory Basis. Also, the Statement of Functional Expenditures – Regulatory 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:

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

A. Program Functions

Child Care and Education Quality - Used to account for service activities including quality enhancement grants for upgrades, professional development, child care substitutes, provider training, mentoring programs, and curriculum enhancements.

Child Care and Education Accessibility and Availability - Used to account for service activities including inclusion support or increasing child care availability.

Child Care and Education Affordability - Used to account for service activities associated with child care subsidies.

Health and Safety - Used to account for service activities including comprehensive dental services, child care health consultants/outreach nurses, special needs – early intervention services, and developmental screenings.

Family Support - Used to account for service activities including ongoing parenting education, general family support, community leadership, support services for children and families in crisis, community outreach, and orientation to kindergarten.

More at Four – Used to account for development and implementation of the More at Four prekindergarten programs 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 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.

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

C. Allocation of Joint Costs

Expenditures benefiting more than one purpose were allocated as follows:

Salaries and Benefits - Allocated based on employee time reports.

Other Costs - Other costs including occupancy cost (rent, utilities and maintenance), supplies and materials, and communication costs (telephone and equipment) were allocated based on estimates of utilization or utilization data.

NOTE 6 - LEASE OBLIGATIONS

Operating Lease Obligations - Future minimum lease payments under non-cancelable operating leases consist of the following at June 30, 2002:

<u>Fiscal Year</u>	<u>Operating Leases</u>
2003	\$ 73,490
2004	12,962
2005	<u>3,320</u>
Total Minimum Lease Payments	<u>\$ 89,772</u>

Rental expense for all operating leases during the year was \$107,507.

NOTE 7 - PENSION PLAN

Deferred Compensation and Supplemental Retirement Income Plans

IRC Section 401(k) Plan— The Wake Partnership has an IRC Section 401(k) Plan. All costs of administering the Plan are the responsibility of the Plan participants. The Wake Partnership contributed up to 5% of gross wages for the year ended June 30, 2002. Employees may make voluntary contributions to the Plan. For the year ended June 30, 2002, the Wake Partnership contributed \$44,440. The voluntary contributions by employees amounted to \$60,117.

NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

NOTE 8 - RESTRICTIONS ON NET ASSETS

- A. Temporarily Restricted Net Assets** - Temporarily restricted net assets at June 30, 2002 are available for the following purposes:

<u>Purpose</u>	<u>Amount</u>
More at Four Program	\$ 173
Wake Children Special Needs Assessment	<u>5,000</u>
	<u>\$ 5,173</u>

- B. Net Assets Released From Donor Restrictions** - Net assets were released from donor restrictions during the fiscal year ended June 30, 2002, by incurring expenditures satisfying the restricted purposes as follows:

<u>Purpose</u>	<u>Amount</u>
Robinwood Family Resource Center	<u>\$ 1,500</u>

Wake County SmartStart
Schedule of Contract and Grant Expenditures - Regulatory Basis
For the Year Ended June 30, 2002

Schedule 1

Organization Name	Smart Start Fund		Other Funds	
	Amount Advanced	Refund Due	Amount Advanced	Refund Due
Alice Aycock Poe Center for Health Education	33,273			
Chapel Hill Training Outreach Project, Inc. - Fuquay Early Learning Center	46,964	(131)	32,735	
Child Care Network - Brentwood Center	17,287	(2,806)	58,549	
Child Care Resource and Referral of Wake County *	8,498,062	(5,013)		
City of Raleigh, Parks and Recreation	12,737			
Community Partnerships, Inc.	327,673	(877)		
Courthouse Kids Center, Inc.	35,901	(4,461)		
East Wake Education Foundation *	138,436	(1,413)	49,000	
Methodist Home for Children - Jordan Center	19,743		40,836	
Motheread, Inc. *	285,115			
Raleigh Nursery School, Inc. *	32,373	(227)	1,000	
SafeChild, Inc.	32,841			
The ARC of Wake County, Inc.	10,000	(1,075)		
The Raleigh Rescue Mission, Inc.			38,940	
Triangle United Way	25,000			
Various Daycare Providers	279,830		13,292	
Volunteer Families for Children of NC, Inc.	59,275			
Wake County Human Services *	1,190,693	(24,531)	5,950	(60)
Wake County Public School System - Project Enlightenment *	782,157	(1,706)		
Wake Technical Community College *	46,000	(304)		
	\$ 11,873,360	\$ (42,544)	\$ 240,302	\$ (60)

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

**Wake County SmartStart
 Schedule of State Level Service Provider Contracts
 For the Year Ended June 30, 2002**

Schedule 2

Organization Name	DHHS Contracts	NCPC Contracts	Total Contracts
Child Cares Services Association - WAGES Program	1,055,561		\$ 1,055,561
National Society to Prevent Blindness - North Carolina		138,500	\$ 138,500
Wake County Human Services	1,395,617		\$ 1,395,617
	\$ 2,451,178	\$ 138,500	\$ 2,589,678
* These organizations are represented on the Partnership's Board as described in Note 4 - Service Provider Contracts with Board Member Organizations			
The information on this schedule provides a listing of service provider contracts entered into by either the Department of Health and Human Services (DHHS) or the North Carolina Partnership for Children, Inc. (NCPC) as described in Note 3 - Funding from Grant Awards			

Wake County SmartStart
Schedule of State Awards - Regulatory Basis
For the Year Ended June 30, 2002

Schedule 3

State Grantor/Pass-through Grantor/Program	Contract #	Receipts	Expenditures
State Awards:			
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 (Prior Years)	* Various	\$ (419,775)	\$ (250)
Early Childhood Initiatives Program (Current Year)	* 1-12-3-09-001	13,755,989	13,678,791
Early Childhood Initiatives Program (Encumbrances)	1-12-3-09-001E	37,513	37,513
Multi-County Accounting and Contracting Grant (Prior Year)	N/A	(264)	
Multi-County Accounting and Contracting Grant (Current Year)	N/A	12,000	10,358
North Carolina Department of Health and Human Services			
More at Four Pre-Kindergarten Program	2090002891	127,564	127,564
Total State Awards		\$ 13,513,027	\$ 13,853,976

* 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 State 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.

*Wake County SmartStart
Schedule of Property and Equipment
For the Year Ended June 30, 2002*

Schedule 4

Furniture and Non-Computer Equipment		\$	68,976
Computer Equipment/Printers			115,785
Leasehold Improvements			30,347
Total Property and Equipment		\$	215,108
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. On the regulatory basis of accounting, these items are expensed in the year of purchase.			

**Wake County SmartStart
 Schedule of Qualifying Match (Non-GAAP)
 For the Year Ended June 30, 2002**

Schedule 5

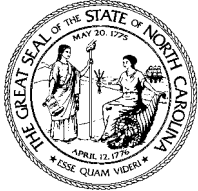
Match Provided at the Partnership Level:

Cash	\$	62,663
In-Kind Goods and Services		7,706
	\$	<u>70,369</u>

Match Provided at the Contractor Level:

Cash	\$	1,410,063
In-Kind Goods and Services		577,320
	\$	<u>1,987,383</u>

Note: This schedule is presented in accordance with the program match requirement as provided for by North Carolina Session Law 1999-237, Section 11.48(l). The law allows for volunteer services to be valued for match purposes, a concept that deviates from generally accepted accounting principles.



Ralph Campbell, Jr.
State Auditor

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

Board of Directors
Wake County SmartStart
Raleigh, North Carolina

We have audited the financial statements of the Wake County SmartStart (Wake Partnership) as of and for the year ended June 30, 2002, and have issued our report thereon dated December 11, 2002. 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.

Compliance

As part of obtaining reasonable assurance about whether the Wake Partnership's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Wake 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 assurance 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 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 in amounts that would be material

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

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.

This report is intended solely for the information and use of the management of the 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.



Ralph Campbell, Jr.
State Auditor

December 11, 2002

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February 20, 2003

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