



# STATE OF NORTH CAROLINA

**FINANCIAL STATEMENT AUDIT REPORT OF**

**WAKE COUNTY SMARTSTART**

**RALEIGH, NORTH CAROLINA**

**FOR THE YEAR ENDED JUNE 30, 2003**

**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, 2003**

**BOARD OF DIRECTORS**

**PETER MORRIS, CHAIRMAN**

**ADMINISTRATIVE OFFICER**

**PAMELA J. DOWDY, EXECUTIVE DIRECTOR**



Ralph Campbell, Jr.  
State Auditor

STATE OF NORTH CAROLINA  
Office of the State Auditor

2 S. Salisbury Street  
20601 Mail Service Center  
Raleigh, NC 27699-0601  
Telephone: (919) 807-7500  
Fax: (919) 807-7647  
Internet <http://www.osa.state.nc.us>

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**AUDITOR'S TRANSMITTAL**

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The Honorable Michael F. Easley, Governor  
The General Assembly of North Carolina  
Board of Directors, 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, 2003. Our audit was made by authority of Article 5A of Chapter 147 of the *North Carolina 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 General Statutes 143B-168.10-.16. These statutes created the North Carolina Partnership for Children, Inc. and required the implementation of local demonstration projects (local partnerships). The 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 General Statute 143B-168.14(b) to have a financial and compliance audit conducted by the Office of the State Auditor.

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

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

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

## AUDITOR'S TRANSMITTAL (CONCLUDED)

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

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

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



Ralph Campbell, Jr.  
State Auditor

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Ralph Campbell, Jr.  
State Auditor

STATE OF NORTH CAROLINA  
Office of the State Auditor

2 S. Salisbury Street  
20601 Mail Service Center  
Raleigh, NC 27699-0601  
Telephone: (919) 807-7500  
Fax: (919) 807-7647  
Internet <http://www.osa.state.nc.us>

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**INDEPENDENT AUDITOR'S REPORT**

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Board of Directors  
Wake County SmartStart  
Raleigh, North Carolina

We have audited the accompanying Statement of Receipts, Expenditures, and Net Assets – Modified Cash Basis of the Wake County SmartStart (Wake Partnership) as of June 30, 2003, and the related Statement of Functional Expenditures – Modified Cash 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 modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets of the Wake County SmartStart as of June 30, 2003, and the results of its operations arising from modified cash basis transactions for the year then ended, on the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 10, 2003 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)

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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 Schedules 1, 3, 4, and 5 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. The information in Schedule 2 has not been subjected to the auditing procedures applied in the audit of the basic financial statements and accordingly, we express no opinion on Schedule 2.

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 10, 2003

**Wake County SmartStart****Statement of Receipts, Expenditures, and Net Assets - Modified Cash Basis****For the Year Ended June 30, 2003****Exhibit A**

	Unrestricted Funds		Temporarily Restricted Funds	Total Funds
	Smart Start Fund	Other Funds		
<b>Receipts:</b>				
State Awards (less refunds of \$78,840)	\$ 6,135,327	\$ 591,547	\$ 0	\$ 6,726,874
Private Contributions		58,662		58,662
Interest and Investment Earnings		4,723		4,723
Sales Tax Refunds		29,450		29,450
Other Receipts		502		502
<b>Total Receipts</b>	<b>6,135,327</b>	<b>684,884</b>		<b>6,820,211</b>
Net Assets Released from Restrictions:				
Expiration of Time Restrictions		173	(173)	
	<b>6,135,327</b>	<b>685,057</b>	<b>(173)</b>	<b>6,820,211</b>
<b>Expenditures:</b>				
Programs:				
Child Care and Education Quality	2,520,886	7,469		2,528,355
Health and Safety	1,038,299			1,038,299
Family Support	840,102	12,980		853,082
More at Four	731,456	585,931		1,317,387
Support:				
Management and General	517,430	3,034		520,464
Program Evaluation	174,830			174,830
Program Coordination	324,587	5,970		330,557
Other:				
Sales Tax Paid		27,862		27,862
Refund of Prior Year Grant		52,613		52,613
<b>Total Expenditures</b>	<b>6,147,590</b>	<b>695,859</b>		<b>6,843,449</b>
<b>Excess of Receipts Over Expenditures</b>	<b>(12,263)</b>	<b>(10,802)</b>	<b>(173)</b>	<b>(23,238)</b>
<b>Net Assets at Beginning of Year</b>	<b>77,198</b>	<b>32,325</b>	<b>5,173</b>	<b>114,696</b>
<b>Net Assets at End of Year</b>	<b>\$ 64,935</b>	<b>\$ 21,523</b>	<b>\$ 5,000</b>	<b>\$ 91,458</b>
<b>Net Assets Consisted of:</b>				
Cash and Cash Equivalents	\$ 13,259	\$ 11,523	\$ 5,000	\$ 29,782
Refunds Due From Contractors	54,442	10,000		64,442
	67,701	21,523	5,000	94,224
Less: Funds Held for Others	2,766			2,766
	<b>\$ 64,935</b>	<b>\$ 21,523</b>	<b>\$ 5,000</b>	<b>\$ 91,458</b>

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



**Wake County SmartStart**  
**Statement of Functional Expenditures - Modified Cash Basis**  
**For the Year Ended June 30, 2003**

**Exhibit B**

	Total	Personnel	Contracted Services	Supplies and Materials	Other Operating Expenditures	Fixed Charges and Other Expenditures	Property and Equipment Outlay	Services/ Contracts/ Grants	Participant Training Expenditures
<b>Smart Start Fund:</b>									
<b>Programs:</b>									
Child Care and Education Quality	\$ 2,520,886	625,126	7,740	19,387	51,239	47,095	8,105	1,752,617	9,577
Health and Safety	\$ 1,038,299							1,038,299	
Family Support	\$ 840,102							840,102	
More at Four	\$ 731,456	31,156		1,484	821			697,795	200
	\$ 5,130,743	\$ 656,282	\$ 7,740	\$ 20,871	\$ 52,060	\$ 47,095	\$ 8,105	\$ 4,328,813	\$ 9,777
<b>Support:</b>									
Management and General	\$ 517,430	372,525	26,909	9,457	30,671	65,566	12,302		
Program Evaluation	\$ 174,830	159,228		571	4,961	10,070			
Program Coordination	\$ 324,587	243,634	33,894	2,448	13,162	29,348	2,078	23	
	\$ 1,016,847	\$ 775,387	\$ 60,803	\$ 12,476	\$ 48,794	\$ 104,984	\$ 14,380	\$ 23	\$ 0
<b>Total Smart Start Fund Expenditures</b>	<b>\$ 6,147,590</b>	<b>\$ 1,431,669</b>	<b>\$ 68,543</b>	<b>\$ 33,347</b>	<b>\$ 100,854</b>	<b>\$ 152,079</b>	<b>\$ 22,485</b>	<b>\$ 4,328,836</b>	<b>\$ 9,777</b>
<b>Other Funds:</b>									
<b>Programs:</b>									
Child Care and Education Quality	\$ 7,469		1,544	5,775	150				
Family Support	\$ 12,980							12,980	
More at Four	\$ 585,931							585,931	
	\$ 606,380	\$ 0	\$ 1,544	\$ 5,775	\$ 150	\$ 0	\$ 0	\$ 598,911	\$ 0
<b>Support:</b>									
Management and General	\$ 3,034		594	16	557	119	1,748		
Program Coordination	\$ 5,970				811				5,159
	\$ 9,004	\$ 0	\$ 594	\$ 16	\$ 1,368	\$ 119	\$ 1,748	\$ 0	\$ 5,159
<b>Other:</b>									
Sales Tax Paid	\$ 27,862			27,862					
Refund of Prior Year Grant	\$ 52,613					52,613			
	\$ 80,475	\$ 0	\$ 0	\$ 27,862	\$ 0	\$ 52,613	\$ 0	\$ 0	\$ 0
<b>Total Other Funds Expenditures</b>	<b>\$ 695,859</b>	<b>\$ 0</b>	<b>\$ 2,138</b>	<b>\$ 33,653</b>	<b>\$ 1,518</b>	<b>\$ 52,732</b>	<b>\$ 1,748</b>	<b>\$ 598,911</b>	<b>\$ 5,159</b>

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

**WAKE COUNTY SMARTSTART  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2003**

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**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, 2003.

- C. Basis of Accounting** - The accompanying financial statements were prepared on the modified cash basis of accounting. This basis differs from accounting principles generally accepted in the United States of America primarily because it recognizes long lived assets and other costs which benefit more than one period as expended in the year purchased; it recognizes revenue when received rather than when earned; and it recognizes expenditures when paid rather than when incurred.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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However, unexpended advances to contractors that revert back to the State are recognized as a reduction to expenditures and an increase to net assets. In addition, amounts withheld from employee paychecks or other amounts received in an agency capacity are recorded as funds held for others.

- D. Cash and Cash Equivalents** – This classification appears on the Statement of Receipts, Expenditures, and Net Assets – Modified Cash Basis and consists of petty cash, 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. 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 and compensatory time, along with the related employer costs 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 other comprehensive basis of accounting used by the Wake 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.

### 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, 2003, the Wake Partnership's bank deposits in excess of the FDIC insured limit was \$295,496.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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### 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.

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, the North Carolina 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 DHHS is presented on Schedule 2 accompanying the financial statements.

The Wake Partnership was awarded and has received \$6,212,525 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 \$64,900 of this contract to the State based on financial status reports submitted to NCPC subsequent to June 30, 2003.

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

**More at Four** – The Wake Partnership also received revenue and support from the State of North Carolina for the More at Four Program. The Wake Partnership was awarded \$722,642 under a current year cost-reimbursement contract and has received \$581,189 of this amount. The unexpended balance of this contract is subject to reversion to the State. The Wake Partnership expects to receive continued funding through new More at Four 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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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as identified on Schedule 1 accompanying the financial statements. In addition, Schedule 2 identifies contracts entered into by DHHS with board member organizations for activities funded by the Partnership's Smart Start Allocation.

### NOTE 5 - FUNCTIONAL EXPENDITURES

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

#### A. Program Functions

**Child Care and Education Quality** - Used to account for service activities including quality enhancement grants for upgrades, professional development, child care substitutes, provider training, special needs – support for child care professionals, curriculum enhancements, and, kindergarten orientation/transition.

**Health and Safety** - Used to account for service activities including oral health services, speech and hearing screenings, child care health consultants, special needs – early intervention services/special education, and developmental screenings.

**Family Support** - Used to account for service activities including teen parent/child programs, ongoing parenting education, general family support, family crisis intervention, and community outreach information and resources.

**More at Four** – Used to account for development and implementation of More at Four prekindergarten program for at-risk four-year-olds who are at risk of failure in kindergarten. The goal is to provide quality prekindergarten services in order to enhance kindergarten readiness.

#### B. Support Functions

**Management and General** - Expenditures that are not identifiable with a single program or fund-raising activity but are indispensable to the conduct of those activities and to an organization's existence, including expenditures for the overall direction of the organization, its general

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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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.

### 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, office equipment, and communication costs (telephone, internet and postage) were allocated based on utilization data.

### NOTE 6 - LEASE OBLIGATIONS

Future minimum lease payments under noncancelable operating leases consist of the following at June 30, 2003:

<u>Fiscal Year</u>	<u>Operating Leases</u>
2004	\$ 114,524
2005	108,934
2006	109,877
2007	<u>9,186</u>
Total Minimum Lease Payments	<u>\$ 342,521</u>

Rental expense for all operating leases during the year was \$123,094.

### 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 (Plan). All costs of administering the Plan are the responsibility of the

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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Plan participants. The Wake Partnership contributed up to 5% of gross wages for the year ended June 30, 2003. Employees may make voluntary contributions to the Plan. For the year ended June 30, 2003, the Wake Partnership contributed \$39,801.

### NOTE 8 - RISK MANAGEMENT

The Wake 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 Wake Partnership manages these various risks of loss as follows:

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

Management believes such coverage is sufficient to preclude any significant losses to the Wake Partnership. Settled claims have not exceeded this insurance coverage in any of the past three fiscal years.

### NOTE 9 - COMMITMENTS AND CONTINGENCIES

**Compensated Absences** – As a result of the Wake 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, 2003, is \$34,475. 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, 2003 are available for the following purposes:

<u>Purpose</u>	<u>Amount</u>
Wake Children Special Needs Assessment	<u>\$ 5,000</u>

**NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)**

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**B. Net Assets Released From Donor Restrictions** - Net assets were released from donor restrictions during the fiscal year ended June 30, 2003, by the time period of restrictions expiring as follows:

<u>Purpose</u>	<u>Amount</u>
More At Four Program	<u>\$ 173</u>



**Wake County SmartStart  
Schedule of Contract and Grant Expenditures - Modified Cash Basis  
For the Year Ended June 30, 2003**

**Schedule 1**

Organization Name	Smart Start Fund		Other Funds	
	Amount Advanced	Refund Due	Amount Advanced	Refund Due
ABC Land II	18,269		21,995	
Athens Drive Child Development Center	10,211		9,848	
Chapel Hill Training Outreach Project, Inc. - Fuquay Early Learning Center	150,005		100,951	
Child Care Network - Brentwood Center	162,820		111,561	
Community Partnerships, Inc.	424,864	(1,441)		
Early Preschool and Learning Center	15,441		12,059	
East Wake Education Foundation	144,493	(20)		
Easter Seals of North Carolina	72,917	(314)	10,000	(10,000)
Family Service Network, Inc. *	491,270	(1,853)		
Family Support Network of Wake County	27,900			
Healthy Mothers, Healthy Babies	48,527	(183)		
Heather Park Center	51,660		44,572	
Lucy Daniels Center for Early Childhood	30,802	(3,026)		
Method Child Development Center, Inc.	30,253		24,519	
Methodist Home for Children - Jordan Center	87,824		56,584	
Motheread, Inc. *	272,598			
Raleigh Nursery School, Inc.	119,178		35,173	
SafeChild, Inc.	33,669			
The Raleigh Rescue Mission, Inc.			12,980	
Triangle United Way	56,250			
Upper Room Children's Center	109,082		89,172	
Various Daycare Providers	281,560		72	
Volunteer Families for Children of NC, Inc.	54,955			
Wake County Human Services *	764,328	(15,600)		
Wake County Public School System - Lynn Road Elementary *			63,973	
Wake County Public School System - Project Enlightenment *	751,582	(16,846)		
Wake Technical Community College *	47,212	(640)		
WakeMed	111,443	(14,719)		
Walnut Terrace Child Development Center	14,165		15,452	
	<b>\$ 4,383,278</b>	<b>\$ (54,442)</b>	<b>\$ 608,911</b>	<b>\$ (10,000)</b>

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

**Wake County SmartStart  
 Schedule of State Level Service Provider Contracts  
 For the Year Ended June 30, 2003**

**Schedule 2**

Organization Name	DHHS Contracts
Child Care Services Association - WAGES Program	1,154,531
Wake County Human Services	9,096,043
	<b>\$ 10,250,574</b>
<p>* These organizations are represented on the Partnership's Board as described in Note 4 - Service Provider Contracts with Board Member Organizations.</p>	
<p>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.</p>	

**Wake County SmartStart**  
**Schedule of State Awards - Modified Cash Basis**  
**For the Year Ended June 30, 2003**

**Schedule 3**

State Grantor/Pass-through Grantor/Program	Contract #	Receipts	Expenditures
<b>State Awards:</b>			
North Carolina Department of Health and Human Services			
Division of Child Development			
Pass-through from the North Carolina Partnership for Children, Inc.			
Early Childhood Initiatives Program (Prior Year)	1-12-3-09-001	\$ (77,198)	\$ 0
Early Childhood Initiatives Program (Current Year)	*	6,212,525	6,147,590
Multi-County Accounting and Contracting Grant (Prior Year)	N/A	(1,642)	
Multi-County Accounting and Contracting Grant (Current Year)	N/A	12,000	1,748
North Carolina Department of Health and Human Services			
More at Four Pre-Kindergarten Program	*	581,189	581,189
<b>Total State Awards</b>		<b>\$ 6,726,874</b>	<b>\$ 6,730,527</b>

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

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

*Wake County SmartStart*  
*Schedule of Property and Equipment - Modified Cash Basis*  
*For the Year Ended June 30, 2003* *Schedule 4*

Furniture and Noncomputer Equipment	\$	66,026	
Computer Equipment/Printers		114,201	
		180,227	
Total Property and Equipment	\$	180,227	

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

<i>Wake County SmartStart</i>			
<i>Schedule of Qualifying Match (Non-GAAP)</i>			
<i>For the Year Ended June 30, 2003</i>			<i>Schedule 5</i>
<b><i>Match Provided at the Partnership Level:</i></b>			
Cash		\$	58,662
In-Kind Goods and Services			229,362
		\$	<u>288,024</u>
<b><i>Match Provided at the Contractor Level:</i></b>			
Cash		\$	2,120,345
In-Kind Goods and Services			443,063
		\$	<u>2,563,408</u>
<p>Note: This schedule is presented in accordance with the program match requirement as provided for by North Carolina Session Law 2001-424, Section 21.72(c). The law allows for volunteer services to be valued for match purposes, a concept that deviates from generally accepted accounting principles.</p>			



Ralph Campbell, Jr.  
State Auditor

STATE OF NORTH CAROLINA  
Office of the State Auditor

2 S. Salisbury Street  
20601 Mail Service Center  
Raleigh, NC 27699-0601  
Telephone: (919) 807-7500  
Fax: (919) 807-7647  
Internet <http://www.osa.state.nc.us>

**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**

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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, 2003, and have issued our report thereon dated December 10, 2003. 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  
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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 10, 2003

## DISTRIBUTION OF AUDIT REPORT

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

### EXECUTIVE BRANCH

The Honorable Michael F. Easley  
The Honorable Beverly M. Perdue  
The Honorable Richard H. Moore  
The Honorable Roy A. Cooper, III  
Mr. David T. McCoy  
Mr. Robert L. Powell  
Ms. Carmen Hooker Odom  
Mr. Ashley Thrift

Ms. Karen Ponder

Governor of North Carolina  
Lieutenant Governor of North Carolina  
State Treasurer  
Attorney General  
State Budget Officer  
State Controller  
Secretary, Department of Health and Human Services  
Chairman, Board of Directors  
The North Carolina Partnership for Children, Inc.  
Executive Director  
The North Carolina Partnership for Children, Inc.

### LEGISLATIVE BRANCH

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### Other Legislative Officials

Mr. James D. Johnson

Director, Fiscal Research Division

March 5, 2004



## ORDERING INFORMATION

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Copies of this report may be obtained by contacting the:

Office of the State Auditor  
State of North Carolina  
2 South Salisbury Street  
20601 Mail Service Center  
Raleigh, North Carolina 27699-0601

Internet: <http://www.ncauditor.net>

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