



STATE OF NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT OF

WAKE COUNTY SMARTSTART

RALEIGH, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2004

OFFICE OF THE STATE AUDITOR

LESLIE W. MERRITT, JR., CPA, CFP

STATE AUDITOR

FINANCIAL STATEMENT AUDIT REPORT OF

WAKE COUNTY SMARTSTART

RALEIGH, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2004

BOARD OF DIRECTORS

PETER J. MORRIS, M.D., BOARD CHAIRMAN

ADMINISTRATIVE OFFICER

PAMELA J. DOWDY, EXECUTIVE DIRECTOR



Leslie W. Merritt, Jr., CPA, CFP
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, 2004. Our audit was made by authority of Article 5A of Chapter 147 of the *North Carolina General Statutes*.

The accounts and operations of the 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)

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 or other matters, if any, with laws, regulations, contracts, or grant agreements.

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

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



Leslie W. Merritt, Jr., CPA, CFP
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 – Modified Cash Basis of the Wake County SmartStart (Wake Partnership) as of June 30, 2004, and the related Statement of Functional Expenditures – Modified Cash Basis for the year then ended. These financial statements are the responsibility of the 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, 2004, and the results of its operations arising from modified cash basis transactions for the year then ended, on the basis of accounting described in Note 1.

INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

In accordance with *Government Auditing Standards*, we have also issued our report dated May 20, 2005, 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 grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Wake County SmartStart's basic financial statements. The information in Schedules 1, 3, 4, and 5 is presented for purposes of additional analysis and is not a required part of the basic financial statements. These Schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. 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.



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

May 20, 2005

Wake County SmartStart
Statement of Receipts, Expenditures, and Net Assets - Modified
For the Year Ended June 30, 2004

Exhibit A

	Unrestricted Funds		Temporarily Restricted Funds	Total Funds
	Smart Start Fund	Other Funds		
Receipts:				
State Awards (less refunds of \$75,842)	\$ 6,336,664	\$ 1,231,964	\$ 0	\$ 7,568,628
Private Contributions		8,246		8,246
Interest and Investment Earnings		185		185
Sales Tax Refunds		28,120		28,120
Other Receipts		6,500		6,500
Total Receipts	6,336,664	1,275,015		7,611,679
Net Assets Released from Restrictions:				
Satisfaction of Program Restrictions		5,000	(5,000)	
	6,336,664	1,280,015	(5,000)	7,611,679
Expenditures:				
Programs:				
Child Care and Education Affordability		1,943		1,943
Child Care and Education Quality	1,914,663	9		1,914,672
Family Support	879,927			879,927
Health and Safety	1,153,504	5,000		1,158,504
More at Four	1,279,416	1,223,748		2,503,164
Support:				
Management and General	542,695	18,767		561,462
Program Coordination	264,523			264,523
Program Evaluation	168,064			168,064
Other:				
Sales Tax Paid		15,246		15,246
Total Expenditures	6,202,792	1,264,713		7,467,505
Excess of Receipts Over Expenditures	133,872	15,302	(5,000)	144,174
Net Assets at Beginning of Year	64,935	21,523	5,000	91,458
Net Assets at End of Year	\$ 198,807	\$ 36,825	\$ 0	\$ 235,632
Net Assets Consisted of:				
Cash and Cash Equivalents	\$ 171,362	\$ 36,825	\$ 0	\$ 208,187
Refunds Due From Contractors	29,505			29,505
	200,867	36,825		237,692
Less: Funds Held for Others	2,060			2,060
	\$ 198,807	\$ 36,825	\$ 0	\$ 235,632

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, 2004**

Exhibit B

	<u>Total</u>	<u>Personnel</u>	<u>Contracted Services</u>	<u>Supplies and Materials</u>	<u>Other Operating Expenditures</u>	<u>Fixed Charges and Other Expenditures</u>	<u>Property and Equipment Outlay</u>	<u>Services/ Contracts/ Grants</u>	<u>Participant Training Expenditures</u>
Smart Start Fund:									
Programs:									
Child Care and Education Quality	\$ 1,914,663	\$ 596,833	\$ 4,756	\$ 14,513	\$ 40,571	\$ 27,357	\$ 1,481	\$ 1,229,152	\$ 0
Family Support	879,927							879,927	
Health and Safety	1,153,504							1,153,504	
More at Four	1,279,416	83,655		8,164	3,954	4,175	651	1,178,817	
	<u>5,227,510</u>	<u>680,488</u>	<u>4,756</u>	<u>22,677</u>	<u>44,525</u>	<u>31,532</u>	<u>2,132</u>	<u>4,441,400</u>	
Support:									
Management and General	542,695	370,956	25,550	11,652	32,768	92,496	9,273		
Program Coordination	264,523	226,213	17,889	789	6,113	13,519			
Program Evaluation	168,064	152,998	1,650	321	5,255	7,110	730		
	<u>975,282</u>	<u>750,167</u>	<u>45,089</u>	<u>12,762</u>	<u>44,136</u>	<u>113,125</u>	<u>10,003</u>		
Total Smart Start Fund Expenditures	<u>\$ 6,202,792</u>	<u>\$ 1,430,655</u>	<u>\$ 49,845</u>	<u>\$ 35,439</u>	<u>\$ 88,661</u>	<u>\$ 144,657</u>	<u>\$ 12,135</u>	<u>\$ 4,441,400</u>	<u>\$ 0</u>
Other Funds:									
Programs:									
Child Care and Education Affordability	\$ 1,943	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 1,943	\$ 0
Child Care and Education Quality	9							9	
Health and Safety	5,000							5,000	
More at Four	1,223,748							1,223,748	
	<u>1,230,700</u>							<u>1,230,700</u>	
Support:									
Management and General	18,767		15,295	970	1,592		910		
Other:									
Sales Tax Paid	15,246			15,246					
Total Other Funds Expenditures	<u>\$ 1,264,713</u>	<u>\$ 0</u>	<u>\$ 15,295</u>	<u>\$ 16,216</u>	<u>\$ 1,592</u>	<u>\$ 0</u>	<u>\$ 910</u>	<u>\$ 1,230,700</u>	<u>\$ 0</u>

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

**WAKE COUNTY SMARTSTART
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004**

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 temporarily or permanently restricted net assets at June 30, 2004.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

- D. Cash and Cash Equivalents** – This classification appears on the Statement of Receipts, Expenditures, and Net Assets – Modified Cash Basis and includes all demand and savings accounts and certificate of deposits or short-term investments with an original maturity of three months or less.
- E. Refunds Due From Contractors** - Refunds due from contractors represent the unexpended amount of advances to contractors at year end that are to be refunded back to the State. As recoveries are collected, the receivable balance is reduced. Payments to the State for the recovered advances are recorded as a reduction to the State awards balance.
- F. Funds Held For Others** - Funds held for others includes amounts received that are fiduciary in nature in which the Wake 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. Property and Equipment** – Under the modified cash basis of accounting, purchases of property and equipment are reported as expenditures in the year occurred. However, Wake Partnership is required by contract regulation to track and maintain property and equipment items as presented in Schedule 4 of this report. The Wake Partnership has a policy to track purchases of property and equipment items with an individual cost of \$500 or more and an estimated useful life greater than one year. Such items are valued at their original purchase price, which may be different from their valuation as of June 30, 2004. Donated items are recorded at estimated fair market value at the date of donation.
- H. 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.
- I. Use of Estimates** - The preparation of financial statements in conformity with the modified cash 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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. The account has a money market sweep option whereby balances in excess of an established threshold are transferred into a separate money market deposits account to earn interest until the funds are needed to pay items presented for payment in the checking account. A maximum of six transfers may occur, after which all funds in the money market account are transferred back into the checking account. Deposits over the \$100,000 amount subjects the Wake Partnership to a concentration of credit risk. At June 30, 2004, the Wake Partnership's bank deposits in excess of the FDIC insured limit was \$445,185.

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 \$6,402,254 under a current year Smart Start contract with NCPC. The unexpended balance of this contract is subject to reversion to the State. The Wake Partnership has returned \$198,787 of this contract to the State based on financial status reports submitted to NCPC subsequent to June 30, 2004.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 \$1,373,520 under a current year cost-reimbursement contract and has received \$1,230,216 of this amount. 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 Wake Partnership entered into contracts with board member organizations for program activities as identified on Schedule 1 accompanying the financial statements. In addition, Schedule 2 identifies contracts entered into by DHHS with board member organizations for activities funded by the Wake Partnership's Smart Start Allocation.

NOTE 5 - FUNCTIONAL EXPENDITURES

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

A. Program Functions

Child Care and Education Affordability - Used to account for service activities associated with child care subsidy programs outside of the Division of Child Development.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

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

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

B. Support Functions

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

Program Coordination - Expenditures that are incurred to coordinate the policies, procedures, and daily practices of service delivery. Also, costs associated with monitoring in-house and direct service provider activities.

Program Evaluation - Expenditures that are incurred to monitor the performance of service providers as to the delivery of services and adherence to the specific terms and conditions of the contracts.

C. Allocation of Joint Costs

Expenditures benefiting more than one purpose were allocated as follows:

Salaries and Benefits – Direct allocation based on employee time reports.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 6 - OPERATING LEASE OBLIGATIONS

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

<u>Fiscal Year</u>	<u>Operating Leases</u>
2005	\$ 112,830
2006	111,293
2007	10,602
2008	<u>354</u>
Total Minimum Lease Payments	<u>\$ 235,079</u>

Rental expense for all operating leases during the year was \$117,363.

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 Plan participants. The Wake Partnership contributed up to 5% of gross wages for the year ended June 30, 2004. Employees may make voluntary contributions to the Plan. For the year ended June 30, 2004, the Wake Partnership contributed \$37,757.

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

NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

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, 2004, is \$37,201. No funds or reservation of net assets has been made for this commitment.

NOTE 10 - RESTRICTIONS ON NET ASSETS

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

Purpose	Amount
Wake Children Special Needs Assessment	\$ 5,000

NOTE 11 SUBSEQUENT EVENTS

A direct service provider, Family Services Network d/b/a Child Care Resource and Referral of Wake County (FSN) filed for bankruptcy protection and dissolved its corporate status subsequent to June 30, 2004. Prior to the bankruptcy filing, the Wake Partnership had suspended funding to FSN due to problems identified during the Wake Partnership’s monitoring efforts. Several investigations of FSN are pending as to the proper use of funds provided by the Wake Partnership and various State and county agencies. Because of the uncertainty surrounding the investigations, the amount of contingency that may result from any identified noncompliance is not determinable at this time.

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

Schedule 1

Organization Name	Smart Start Fund		Other Funds	
	Amount Advanced	Refund Due	Amount Advanced	Refund Due
ABC Land, Inc. II	\$ 145,254	\$ 0	\$ 131,283	\$ 0
All Star Children's Academy of Preston, LLC	26,390		28,936	
Bright Horizons at Raleigh Corporate Center	67,239		73,278	
Buttons & Bows Preschool II	30,738		35,602	
Child Development Schools, Inc.	327,881		330,073	
Community Partnerships, Inc.	226,949			
Early Preschool & Learning Center, LLC	52,762		45,940	
East Wake Education Foundation	171,960	(52)		
Family Service Network	* 632,461			
Fuquay Varina Community Development Corporation	54,587		51,718	
Healthy Mothers, Health Babies Coalition of Wake County	55,293			
Kids Ventures, Inc.	65,070		61,650	
Lucy Daniels Center for Early Childhood	33,790			
Method Child Development Center, Inc.	32,174		30,483	
Methodist Home for Children, Inc.	115,589		92,375	
Motheread, Inc.	253,142			
Raleigh Nursery School, Inc.	87,228		71,027	
SAFEchild, Inc.	45,597			
Triangle United Way, Inc.	53,606	(4,757)	5,000	
Tuttle Community Center, Inc.	14,099		17,503	
Upper Room Christian Academy Preschool	125,441		119,248	
Various Day Care Providers	141,280		20,550	
Volunteer Families for Children of North Carolina	60,000			
Wake County Public Schools	* 607,002	(1,406)	114,092	
Wake County Human Services	* 845,391	(16,541)	1,942	
WakeMed	199,982	(6,749)		
	<u>\$ 4,470,905</u>	<u>\$ (29,505)</u>	<u>\$ 1,230,700</u>	<u>\$ 0</u>

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

***Wake County SmartStart
Schedule of State Level Service Provider Contracts
For the Year Ended June 30, 2004***

Schedule 2

Organization Name	DHHS Contracts
Child Care Services Association - WAGE\$ Program	\$ 1,086,131
Wake County Human Services	* 9,047,230
	<u>\$ 10,133,361</u>

* 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 the North Carolina Department of Health and Human Services (DHHS) as described in Note 3 - Funding from Grant Awards.

**Wake County SmartStart
Schedule of State Awards - Modified Cash Basis
For the Year Ended June 30, 2004**

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 Year)	Various	\$ (65,590)	\$ (656)
Early Childhood Initiatives Program (Current Year) *	N/A	6,402,254	6,203,448
Multi-County Accounting and Contracting Grant (Prior \	N/A	(10,252)	
Multi-County Accounting and Contracting Grant (Curren	N/A	12,000	12,000
North Carolina Department of Health and Human Services			
More at Four Pre-Kindergarten Program *	2090003609	1,230,216	1,223,748
Total State Awards		\$ 7,568,628	\$ 7,438,540

* 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, 2004

Schedule 4

Furniture and Noncomputer Equipment	\$ 67,416
Computer Equipment/Printers	<u>125,167</u>
Total Property and Equipment	<u><u>\$ 192,583</u></u>

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

**Wake County SmartStart
Schedule of Qualifying Match (Non-GAAP)
For the Year Ended June 30, 2004**

Schedule 5

Match Provided at the Partnership Level:

Cash	\$ 6,540
In-Kind Goods and Services	<u>177,224</u>
	<u>\$ 183,764</u>

Match Provided at the Contractor Level:

Cash	\$ 1,890,876
In-Kind Goods and Services	<u>511,007</u>
	<u>\$ 2,401,883</u>

Note: This schedule is presented in accordance with the program match requirement as provided for by North Carolina Session Law 2003-284, Section 10.38(c). The North Carolina Partnership for Children, Inc. and all local partnerships are required to match the total amount budgeted for the Smart Start Program in each fiscal year. The match is comprised of both cash and in-kind amounts. Only in-kind contributions that are verifiable, quantifiable, and related to the Smart Start Program can be applied to the in-kind match requirement, including volunteer services. The law allows for volunteer services to be valued for match purposes, a concept that deviates from generally accepted accounting principles. This schedule identifies those amounts allowable for this partnership in meeting the statewide match requirement.



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

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

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, 2004, and have issued our report thereon dated May 20, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Wake Partnership's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an

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GOVERNMENT AUDITING STANDARDS (CONCLUDED)**

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

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

Leslie W. Merritt, Jr.

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

May 20, 2005

DISTRIBUTION OF AUDIT REPORT

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

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

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Mr. James D. Johnson	Director, Fiscal Research Division
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August 4, 2005

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