

# STATE OF NORTH CAROLINA

**FINANCIAL STATEMENT AUDIT REPORT OF**

**WAKE COUNTY SMART START, INC.**

**RALEIGH, NORTH CAROLINA**

**FOR THE YEAR ENDED JUNE 30, 2006**

**OFFICE OF THE STATE AUDITOR**

**LESLIE W. MERRITT, JR., CPA, CFP**

**STATE AUDITOR**

**FINANCIAL STATEMENT AUDIT REPORT OF**

**WAKE COUNTY SMART START, INC.**

**RALEIGH, NORTH CAROLINA**

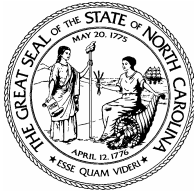
**FOR THE YEAR ENDED JUNE 30, 2006**

**BOARD OF DIRECTORS**

**HANNAH POTEAT, BOARD CHAIR**

**ADMINISTRATIVE OFFICER**

**PAMELA J. DOWDY, EXECUTIVE DIRECTOR**



STATE OF NORTH CAROLINA  
Office of the State Auditor

Leslie W. Merritt, Jr., CPA, CFP  
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.ncauditor.net>

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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 Smart Start, Inc.

We have completed a financial statement and compliance audit of the Wake County Smart Start, Inc. (Wake Partnership) for the year ended June 30, 2006, and our audit results are included in this report. You will note from the independent auditor's report that we determined that the financial statements are presented fairly in all material aspects.

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 subject to audit and review by the State Auditor under Article 5A of Chapter 147 of the General Statutes and as authorized in General Statute 143B-168.12(a)(7).

Our consideration of internal control over financial reporting and compliance and other matters based on an audit of the financial statements resulted in no audit findings.

*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.

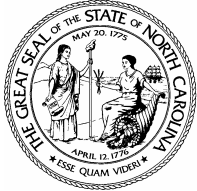
*Leslie W. Merritt, Jr.*

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

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Leslie W. Merritt, Jr.,  
CPA, CFP  
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 Smart Start, Inc.  
Raleigh, North Carolina

We have audited the accompanying Statement of Receipts, Expenditures, and Net Assets – Modified Cash Basis of the Wake County Smart Start, Inc. (Wake Partnership) as of June 30, 2006, 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 Smart Start, Inc. as of June 30, 2006, 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 June 30, 2006, 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

## INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

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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 Smart Start, Inc.'s basic financial statements. The information in Schedules 1 through 5 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Schedules 1, 3, 4 and 5 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.*

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

May 17, 2007

**Wake County Smart Start, Inc.**  
**Statement of Receipts, Expenditures, and Net Assets - Modified Cash Basis**  
**For the Year Ended June 30, 2006**

**Exhibit A**

	Unrestricted Funds		Total Funds
	Smart Start Fund	Other Funds	
<b>Receipts:</b>			
State Awards (less refunds of \$23)	\$ 7,297,555	2,630,542	\$ 9,928,097
Private Contributions		6,596	6,596
Interest and Investment Earnings		21,017	21,017
Sales Tax Refunds		14,075	14,075
Other Receipts		41,200	41,200
<b>Total Receipts</b>	<b>7,297,555</b>	<b>2,713,430</b>	<b>10,010,985</b>
<b>Expenditures:</b>			
Programs:			
Child Care and Education Quality	1,174,208	998	1,175,206
Family Support	1,042,920	9,177	1,052,097
Health and Safety	1,597,422		1,597,422
More at Four	2,479,916	2,502,547	4,982,463
Support:			
Management and General	568,919	15,429	584,348
Program Coordination	239,777	170	239,947
Program Evaluation	194,393	727	195,120
Other:			
Sales Tax Paid		15,381	15,381
<b>Total Expenditures</b>	<b>7,297,555</b>	<b>2,544,429</b>	<b>9,841,984</b>
<b>Excess of Receipts Over Expenditures</b>		169,001	169,001
<b>Net Assets at Beginning of Year</b>		36,593	36,593
<b>Net Assets at End of Year</b>	<b>\$ 0</b>	<b>\$ 205,594</b>	<b>\$ 205,594</b>
<b>Net Assets Consisted of:</b>			
Cash and Cash Equivalents	\$ 316	\$ 205,594	\$ 205,910
Refunds Due From Contractors	21,623		21,623
	21,939	205,594	227,533
Less: Due to the State	20,807		20,807
Funds Held for Others	1,132		1,132
	<b>\$ 0</b>	<b>\$ 205,594</b>	<b>\$ 205,594</b>

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

**Wake County Smart Start, Inc.**  
**Statement of Functional Expenditures - Modified Cash Basis**  
**For the Year Ended June 30, 2006**

**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	\$ 1,174,208	\$ 529,517	\$ 9,680	\$ 12,540	\$ 39,993	\$ 40,905	\$ 4,924	\$ 536,649	\$ 0
Family Support	1,042,920							1,042,920	
Health and Safety	1,597,422							1,597,422	
More at Four	2,479,916	199,785	2,609	1,368	12,216	15,219	1,556	2,247,163	
	<u>6,294,466</u>	<u>729,302</u>	<u>12,289</u>	<u>13,908</u>	<u>52,209</u>	<u>56,124</u>	<u>6,480</u>	<u>5,424,154</u>	
<b>Support:</b>									
Management and General	568,919	419,877	37,011	6,639	33,389	71,239	764		
Program Coordination	239,777	203,165	8,912	839	7,527	16,805	2,529		
Program Evaluation	194,393	171,514		421	4,535	15,202	2,721		
	<u>1,003,089</u>	<u>794,556</u>	<u>45,923</u>	<u>7,899</u>	<u>45,451</u>	<u>103,246</u>	<u>6,014</u>		
<b>Total Smart Start Fund Expenditures</b>	<u>\$ 7,297,555</u>	<u>\$ 1,523,858</u>	<u>\$ 58,212</u>	<u>\$ 21,807</u>	<u>\$ 97,660</u>	<u>\$ 159,370</u>	<u>\$ 12,494</u>	<u>\$ 5,424,154</u>	<u>\$ 0</u>
<b>Other Funds:</b>									
<b>Programs:</b>									
Child Care and Education Quality	\$ 998	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 998	\$ 0
Family Support	9,177							9,177	
More at Four	2,502,547			595				2,501,952	
	<u>2,512,722</u>			<u>595</u>				<u>2,512,127</u>	
<b>Support:</b>									
Management and General	15,429	3,218	7,963	375	1,324	2,549			
Program Coordination	170	170							
Program Evaluation	727	341		386					
	<u>16,326</u>	<u>3,729</u>	<u>7,963</u>	<u>761</u>	<u>1,324</u>	<u>2,549</u>			
<b>Other:</b>									
Sales Tax Paid	15,381			15,381					
<b>Total Other Funds Expenditures</b>	<u>\$ 2,544,429</u>	<u>\$ 3,729</u>	<u>\$ 7,963</u>	<u>\$ 16,737</u>	<u>\$ 1,324</u>	<u>\$ 2,549</u>	<u>\$ 0</u>	<u>\$ 2,512,127</u>	<u>\$ 0</u>

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



**WAKE COUNTY SMART START, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2006**

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**NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES**

- A. Organization and Purpose** - The Wake County Smart Start, Inc. (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.

The Wake Partnership did not have any temporarily or permanently or permanently restricted net assets at June 30, 2006.

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

However, unexpended advances to contractors that revert back to the State of North Carolina are recognized as a reduction to expenditures and an increase to net assets. Amounts withheld from employee paychecks or other amounts received in an agency capacity are recorded as funds held for others. In addition, Smart Start funds advanced to the local Partnership that are unexpended and unearned at year-end are recorded as a Due to the State.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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- 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. Due to the State** – The funding provided by the State of North Carolina for the Smart Start program is funded on a cost reimbursement basis. The money is earned to the extent of allowable costs incurred. Any unexpended funds as of June 30 are required to be reverted to The North Carolina Partnership for Children, Inc. to be returned to the State of North Carolina.
- G. Funds Held For Others** - Funds held for others includes amounts received that are fiduciary in nature in which 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.
- H. 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, 2006. Donated items are recorded at estimated fair market value at the date of donation.
- I. Compensated Absences** – As a result of the use of the modified cash basis of accounting, liabilities related to accrued compensated absences are not recorded in the financial statements. Expenditures related to compensated absences are recorded when paid. The amount of accrued compensated absences for accumulated, unpaid leave that would be due to employees upon termination is reported as a commitment in Note 9.
- J. Use of Estimates** - The preparation of financial statements in conformity with the modified cash basis of accounting used by the Wake Partnership requires management to make estimates and assumptions that affect

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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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. 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 needed to pay items presented for payment in the checking accounting. 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, 2006, the Wake Partnership's bank deposits in excess of the FDIC insured limit was \$576,139.

### 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 \$7,323,385 and has received \$7,318,385 under a current year contract with NCPC. The unexpended balance of this contract is subject to reversion to the State. The Wake Partnership has returned \$20,807 of this contract to the State based on financial status reports submitted to NCPC subsequent to June 30, 2006.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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Wake 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 Pre-Kindergarten Program. The Wake Partnership was awarded \$2,697,636 and received \$2,618,542 under a current year contract. 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 Quality** - Used to account for service activities including quality enhancement grants for upgrades, professional development, child care support services, or kindergarten orientation/transition.

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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

**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 effectiveness and feasibility of Partnership activities and contract agencies to determine if the short-term and long-term goals are being achieved.

### **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 allocated based on utilization.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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### NOTE 6 - OPERATING LEASE OBLIGATIONS

Future minimum lease payments under noncancelable operating leases consist of the following at June 30, 2006:

<u>Fiscal Year</u>	<u>Operating Leases</u>
2007	\$ 125,833
2008	124,098
2009	125,276
2010	129,010
2011	<u>120,523</u>
Total Minimum Lease Payments	<u>\$ 624,740</u>

Rental expense for all operating leases during the year was \$127,012.

### 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, 2006. Employees may make voluntary contributions to the Plan. For the year ended June 30, 2006, the Wake Partnership contributed \$55,967.

## NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

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### 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, 2006, is \$41,832. No funds or reservation of net assets has been made for this commitment.

**Wake County Smart Start, Inc.**  
**Schedule of Contract and Grant Expenditures - Modified Cash Basis**  
**For the Year Ended June 30, 2006**

*Schedule 1*

Organization Name	Smart Start Fund		Other Funds	
	Amount Advanced	Refund Due	Amount Advanced	Refund Due
ABC Land, Inc. II	\$ 153,200	\$ 0	\$ 127,341	\$ 0
Academically Based Child Care	57,594		67,392	
Appletree Day Care, Inc. #3	70,167		72,556	
Bright Beginnings Child Development Center	119,340		99,555	
Bright Horizons Children's Centers, Inc.	160,292		154,073	
Buttons and Bows I	42,402		47,688	
Buttons and Bows II	114,150		114,085	
Catholic Charities	79,420	(1,008)		
Child Care Services Association, Inc.	343,606	(187)		
Child Development Schools, Inc.	500,220		492,946	
Children's Campus at Preston	74,415		61,973	
Community Partnerships, Inc.	254,591			
El Pueblo	55,600	(4,204)		
Family Support Network of Wake County	62,400			
Harps Mill Creative School	58,121		67,197	
Healthy Mothers, Healthy Babies Coalition of Wake County	64,603		9,177	
Kid Ventures, Inc. (Heather Park Child Development Center)	64,889		63,958	
Learning Together, Inc.	* 95,280			
Literacy Council of Wake County	35,357	(48)		
Little Pros Academy Holdings, Inc.	34,665		28,900	
Lord of Life Preschool and Kindergarten Academy	60,620		51,805	
Lucy Daniels Center for Early Childhood	150,804			
Lutheran Family Services	85,255			
Method Child Development Center, Inc.	64,528		63,630	
Methodist Home for Children, Inc.	151,743		126,450	
Motheread, Inc.	74,698			
Pleasant Day Preschool Center, Inc.	57,399		66,691	
Raleigh Nursery School, Inc.	77,040		64,118	
SAFEchild, Inc.	* 82,421	(3,764)		
The Salvation Army	46,614	(2,188)		
Telamon North Carolina Head Start Programs	* 19,489		320,909	
The Early Preschool and Learning Center, LLC	76,600		63,703	
The Happy Face Preschool and Child Care, Inc.	76,175		65,878	
Tuttle Community Center, Inc.	59,038		58,305	
Upper Room Christian Academy and Preschool, Inc.	155,076		151,781	
Various Child Care Providers	97,379		1,073	
Wake County Public Schools (Project Enlightenment)	* 770,742	(4,684)	70,943	
Wake County Human Services	* 748,168	(5,540)		
Wake Medical Center	151,676			
	<u>\$ 5,445,777</u>	<u>\$ (21,623)</u>	<u>\$ 2,512,127</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 Smart Start, Inc.**  
**Schedule of State Level Service Provider Contracts**  
**For the Year Ended June 30, 2006**

**Schedule 2**

<b>Organization Name</b>	<b>DHHS Contracts</b>
Child Care Services Association - WAGE\$ Program	\$ 1,120,073
Wake County Human Services	* 8,382,272
	<u>\$ 9,502,345</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 Smart Start, Inc.**  
**Schedule of State Awards - Modified Cash Basis**  
**For the Year Ended June 30, 2006**

**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)	N/A	\$ (23)	\$ (23)
Early Childhood Initiatives Program (Current Year)	*	7,297,578	7,297,578
Multi-County Accounting and Contracting Grant	N/A	12,000	10,007
North Carolina Department of Health and Human Services			
More at Four Pre-Kindergarten Program	*	2,618,542	2,502,647
<b>Total State Awards</b>		<b>\$ 9,928,097</b>	<b>\$ 9,810,209</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 Smart Start, Inc.**  
**Schedule of Property and Equipment - Modified Cash Basis**  
**For the Year Ended June 30, 2006**

**Schedule 4**

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Furniture and Noncomputer Equipment	\$ 42,801
Computer Equipment/Printers	<u>52,806</u>
Total Property and Equipment	<u><u>\$ 95,607</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 Smart Start, Inc.**  
**Schedule of Qualifying Match (Non-GAAP)**  
**For the Year Ended June 30, 2006**

**Schedule 5**

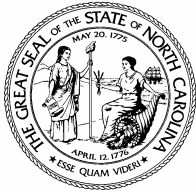
***Match Provided at the Partnership Level:***

Cash	\$	5,863
In-Kind Goods and Services		<u>70,352</u>
	\$	<u><u>76,215</u></u>

***Match Provided at the Contractor Level:***

Cash	\$	2,062,608
In-Kind Goods and Services		<u>526,935</u>
	\$	<u><u>2,589,543</u></u>

Note: This schedule is presented in accordance with the program match requirement as provided for by North Carolina Session Law 2005-276, Section 10.64(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.



STATE OF NORTH CAROLINA  
**Office of the State Auditor**

**Leslie W. Merritt, Jr., CPA, CFP**  
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.ncauditor.net>

**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**

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Board of Directors  
Wake County Smart Start, Inc.  
Raleigh, North Carolina

We have audited the financial statements of the Wake County Smart Start, Inc. (Wake Partnership) as of and for the year ended June 30, 2006, and have issued our report thereon dated June 30, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

As described in Note 1, the 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.

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

**INDEPENDENT AUDITOR'S REPORT  
ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF  
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GOVERNMENT AUDITING STANDARDS (CONCLUDED)**

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which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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 17, 2007

## ORDERING INFORMATION

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