

**WAKE COUNTY SMARTSTART  
Raleigh, North Carolina**

**FINANCIAL STATEMENTS  
June 30, 2008**

**PERFORMED UNDER CONTRACT WITH THE  
OFFICE OF THE STATE AUDITOR**

**BETH A. WOOD, CPA  
STATE AUDITOR**

**FINANCIAL STATEMENT AUDIT REPORT OF**

**WAKE COUNTY SMARTSTART**

**RALEIGH, NORTH CAROLINA**

**FOR THE YEAR ENDED JUNE 30, 2008**

**BOARD OF DIRECTORS**

**DAVID ZONDERMAN, BOARD CHAIR**

**ADMINISTRATIVE OFFICER**

**PAM DOWDY, EXECUTIVE DIRECTOR**



**Beth A. Wood, CPA**  
State Auditor

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**AUDITOR'S TRANSMITTAL**

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The Honorable Beverly E. Perdue, Governor  
The General Assembly of North Carolina  
Board of Directors, Wake County SmartStart

This report presents the results of the financial statement audit of Wake County SmartStart for the year ended June 30, 2008. Clifton Gunderson LLP performed the audit under contract with the Office of the State Auditor, and their report is submitted herewith.

You will note from the independent auditor's report that the auditor determined that the financial statements are presented fairly in all material aspects. The results of their tests disclosed no deficiencies in internal control over financial reporting that were considered to be material weaknesses in relation to their audit scope or any instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

A handwritten signature in cursive script that reads "Beth A. Wood".

Beth A. Wood, CPA  
State Auditor

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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 Wake County SmartStart, as of and for the year ended June 30, 2008, and the related Statement of Functional Expenditures – Modified Cash Basis for the year then ended. These financial statements are the responsibility of the Wake County SmartStart'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 Wake County SmartStart as of and for the year ended June 30, 2008, and its receipts and expenditures 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 March 31, 2009 on our consideration of Wake County SmartStart'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.

## INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

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Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Wake County SmartStart'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.

*Clifton Gunderson LLP*

Raleigh, North Carolina  
March 31, 2009

**Wake County SmartStart**  
**Statement of Receipts, Expenditures, and Net Assets - Modified Cash Basis**  
**For the Year Ended June 30, 2008**

**Exhibit A**

	Unrestricted Funds		Total Funds
	Smart Start Fund	Other Funds	
<b>Receipts:</b>			
State Awards	\$ 8,153,657	\$ 4,124,304	\$ 12,277,961
Private Contributions	-	4,862	4,862
Interest and Investment Earnings	-	28,476	28,476
Sales Tax Refunds	-	18,524	18,524
Other Receipts	-	60,505	60,505
<b>Total Receipts</b>	<b>8,153,657</b>	<b>4,236,671</b>	<b>12,390,328</b>
<b>Expenditures:</b>			
Programs:			
Child Care and Education Quality	1,415,704	-	1,415,704
Family Support	1,159,795	-	1,159,795
Health and Safety	1,786,689	3,732	1,790,421
More at Four	2,679,319	3,789,177	6,468,496
Support:			
Management and General	597,184	81,710	678,894
Program Coordination and Evaluation	514,966	28,208	543,174
Other:			
Sales Tax Paid	-	21,417	21,417
<b>Total Expenditures</b>	<b>8,153,657</b>	<b>3,924,244</b>	<b>12,077,901</b>
<b>Excess of Receipts Over Expenditures</b>	<b>-</b>	<b>312,427</b>	<b>312,427</b>
<b>Net Assets at Beginning of Year</b>	<b>-</b>	<b>345,654</b>	<b>345,654</b>
<b>Net Assets at End of Year</b>	<b>\$ -</b>	<b>\$ 658,081</b>	<b>\$ 658,081</b>
<b>Net Assets Consisted of:</b>			
Cash and Cash Equivalents	\$ 22,322	\$ 658,081	\$ 680,403
Refunds Due From Contractors	87,969	-	87,969
	110,291	658,081	768,372
Less: Due to the State	108,459	-	108,459
Funds Held for Others	1,832	-	1,832
<b>TOTAL NET ASSETS</b>	<b>\$ -</b>	<b>\$ 658,081</b>	<b>\$ 658,081</b>

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

**Wake County SmartStart**  
**Statement of Functional Expenditure – Modified Cash Basis**  
**For the Year Ended June 30, 2008**

**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>
<b>Smart Start Fund:</b>								
<b>Programs:</b>								
Child Care and Education Quality	\$ 1,415,704	\$ 564,629	\$ 24,290	\$ 26,996	\$ 29,575	\$ 35,673	\$ 5,719	\$ 728,822
Family Support	1,159,795	-	-	-	-	-	-	1,159,795
Health and Safety	1,786,689	-	-	-	-	-	-	1,786,689
More at Four	2,679,319	224,298	35,190	2,975	12,064	15,397	1,235	2,388,160
	<u>7,041,507</u>	<u>788,927</u>	<u>59,480</u>	<u>29,971</u>	<u>41,639</u>	<u>51,070</u>	<u>6,954</u>	<u>6,063,466</u>
<b>Support:</b>								
Management and General	597,184	471,634	17,400	9,243	22,995	74,218	1,694	-
Program Coordination and Evaluation	514,966	408,761	2,403	1,258	28,321	31,263	718	42,242
	<u>1,112,150</u>	<u>880,395</u>	<u>19,803</u>	<u>10,501</u>	<u>51,316</u>	<u>105,481</u>	<u>2,412</u>	<u>42,242</u>
<b>Total Smart Start Fund Expenditures</b>	<u>\$ 8,153,657</u>	<u>\$ 1,669,322</u>	<u>\$ 79,283</u>	<u>\$ 40,472</u>	<u>\$ 92,955</u>	<u>\$ 156,551</u>	<u>\$ 9,366</u>	<u>\$ 6,105,708</u>
<b>Other Funds:</b>								
<b>Programs:</b>								
Health and Safety	\$ 3,732	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 3,732
More at Four	3,789,177	-	9,709	-	85	-	-	3,779,383
	<u>3,792,909</u>	<u>-</u>	<u>9,709</u>	<u>-</u>	<u>85</u>	<u>-</u>	<u>-</u>	<u>3,783,115</u>
<b>Support:</b>								
Management and General	81,710	61,249	1,198	-	6,085	5,702	7,476	-
Program Coordination and Evaluation	28,208	-	-	-	-	-	-	28,208
	<u>109,918</u>	<u>61,249</u>	<u>1,198</u>	<u>-</u>	<u>6,085</u>	<u>5,702</u>	<u>7,476</u>	<u>28,208</u>
<b>Other:</b>								
Sales Tax Paid	21,417	-	-	21,417	-	-	-	-
<b>Total Other Funds Expenditures</b>	<u>\$ 3,924,244</u>	<u>\$ 61,249</u>	<u>\$ 10,907</u>	<u>\$ 21,417</u>	<u>\$ 6,170</u>	<u>\$ 5,702</u>	<u>\$ 7,476</u>	<u>\$ 3,811,323</u>

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



**NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES**

- A. Organization and Purpose** – Wake County SmartStart is a legally separate nonprofit organization incorporated on August 18, 1994. Wake County SmartStart was established to develop and provide, through public and private means, early childhood education and developmental services for children and families. Wake County SmartStart 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 Wake County SmartStart'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.

Wake County SmartStart did not have any temporarily or permanently restricted net assets at June 30, 2008.

- 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 does not recognize the value of in-kind goods and services received; 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.

- D. Cash and Cash Equivalents** – This classification appears on the Statement of Receipts, Expenditures, and Net Assets – Modified Cash Basis and includes all demand and savings accounts and certificates of deposit or short-term investments with an original maturity of three months or less.

*Wake County SmartStart*  
*Notes to Financial Statements*  
*June 30, 2008*

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**NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

- 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 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 Wake County SmartStart acts in an agency capacity. For the year ended June 30, 2008, Wake County SmartStart was holding amounts withheld from paychecks for distribution to the appropriate designee.
- H. Property and Equipment** – Under the modified cash basis of accounting, purchases of property and equipment are reported as expenditures in the year purchased. However, Wake County SmartStart is required by contract regulation to track and maintain property and equipment items as presented in Schedule 4 of this report. Wake County SmartStart 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, 2008. 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 County SmartStart 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.

*Wake County SmartStart*  
*Notes to Financial Statements*  
*June 30, 2008*

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**NOTE 2 - DEPOSITS**

All funds of Wake County SmartStart are deposited with a commercial bank and insured by the Federal Deposit Insurance Corporation (FDIC) up to \$100,000. Deposits over this amount subject Wake County SmartStart to a concentration of credit risk. At June 30, 2008, the Wake County Partnership had \$890,311 of bank deposits in excess of the FDIC insured limit.

**NOTE 3 - FUNDING FROM GRANT AWARDS**

**Smart Start Program** – Wake County SmartStart’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 Wake County SmartStart and represents a concentration of credit risk as to the generation of revenue.

Associated with these contracts, Wake County SmartStart is responsible for developing a comprehensive, collaborative, long-range plan of services to children and families for the service-delivery area. During the year, the North Carolina Department of Health and Human Services (DHHS) entered into contracts with and made payments to service providers selected by Wake County SmartStart. These service provider contracts are not reflected on the accompanying financial statements. However, a summary of the service provider contracts entered into by DHHS is presented on Schedule 2 accompanying the financial statements.

Wake County SmartStart was awarded and has received \$8,262,116 under a current year Smart Start contract with NCPC. The unexpended balance of this contract is subject to reversion to the State. Wake County SmartStart has returned \$108,459 of this contract to the State based on financial status reports submitted to NCPC subsequent to June 30, 2008.

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

**More at Four** – Wake County SmartStart also received revenue and support from the State of North Carolina for the More at Four Program. Wake County SmartStart was awarded \$4,163,004 and received \$4,112,639 under a current year contract. Wake County SmartStart 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 Wake County SmartStart are representative of various organizations that benefit from actions taken by the Board. It is the policy of Wake County SmartStart that board members not be involved with decisions regarding organizations they represent. During the year, Wake County SmartStart 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 County SmartStart'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 or associated with quality enhancement grants for upgrades, quality enhancement grants for maintenance, child care resource and referral, professional development, child care substitutes, salary supplements, provider training, mentoring programs, health and safety training for child care professionals, special needs support for child care professionals, child care data and workforce studies, learning materials and teaching aids, curriculum enhancements, child care needs and resources assessments, kindergarten orientation and transition, or health insurance benefits for child care providers.

**Family Support** – Used to account for service activities including or associated with family resource centers, mobile family resource center, parenting skills training, teen parent and child programs, ongoing parenting education, general family support, family crisis intervention, literacy projects, family literacy projects, transportation services, community outreach information and resources or family needs support needs and resources assessments.

**Health and Safety** – Used to account for service activities including or associated with speech and hearing screenings, vision screenings, comprehensive screenings, comprehensive health services, prenatal and newborn services, child care health consultants, comprehensive health support, child abuse and neglect intervention, special needs early intervention services and special education, transportation to health services, health needs and resources assessment, developmental screenings, nutrition program, or home visiting.

*Wake County SmartStart*  
*Notes to Financial Statements*  
*June 30, 2008*

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**NOTE 5 - FUNCTIONAL EXPENDITURES (CONTINUED)**

**A. Program Functions (continued)**

**More-at-Four** – Used to account for development and implementation of More-at-Four Pre-Kindergarten Program for at-risk four-year-olds who are at risk of failure in kindergarten. The goal is to provide quality pre-kindergarten 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 and Evaluation** – Expenditures that are incurred to coordinate the policies, procedures, and daily practices of service delivery. Also, costs associated with monitoring the performance of in-house and direct 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 allocated based on utilization data.

**NOTE 6 - OPERATING LEASE OBLIGATIONS**

Future minimum lease payments under noncancelable operating leases consist of the following at June 30, 2008:

<u>Fiscal Years</u>	<u>Operating Leases</u>
2009	\$ 127,084
2010	130,816
2011	134,553
2012	2,148
2013	<u>1,074</u>
<b>Total Minimum Lease Payments</b>	<b>\$ <u>395,675</u></b>

Rental expense for all operating leases during the year was \$128,757.

*Wake County SmartStart  
Notes to Financial Statements  
June 30, 2008*

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**NOTE 7 - PENSION PLAN**

**Deferred Compensation and Supplemental Retirement Income Plans - IRC Section 401(k) Plan** – County Wake SmartStart has an IRC Section 401(k) Plan (the Plan). Wake County SmartStart contributed up to 5% of gross wages for the year ended June 30, 2008. Employees may make voluntary contributions to the Plan. For the year ended June 30, 2008, Wake County SmartStart contributed \$69,651.

**NOTE 8 - RISK MANAGEMENT**

Wake County SmartStart is exposed to various risks of loss related to torts, theft of, damage to, or destruction of assets; errors and omissions; injuries to employees; employees' health and life; and natural disasters. Wake County SmartStart manages these various risks of loss as follows:

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

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

**NOTE 9 - COMMITMENTS AND CONTINGENCIES**

**Compensated Absences** – As a result of Wake County SmartStart'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, 2008, is \$51,075. No funds or reservation of net assets has been made for this commitment.

**Wake County SmartStart  
Schedule of Contract and Grant Expenditures - Modified Cash Basis  
For the Year Ended June 30, 2008**

**Schedule 1**

Organization Name	Smart Start Fund		Other Funds	
	Amount Advanced	Refund Due	Amount Advanced	Refund Due
<b>Paid to Organizations:</b>				
ABC Land Inc.	\$ 185,834	\$ -	\$ 233,816	\$ -
Academically Based Child	151,764	-	217,218	-
Appletree 3	118,006	-	152,858	-
Bright Beginnings	123,818	-	144,308	-
Bright Horizons at Raleigh Corp. Center	55,110	-	78,822	-
Buttons & Bows	162,001	-	207,973	-
Cary Children's Center	67,551	-	77,235	-
Catholic Charities	97,843	-	-	-
Child Care Services Association	337,968	(12,314)	-	-
Childcare Network	285,806	-	407,014	-
Community Partnerships	272,748	(33,304)	-	-
Early Preschool & Learning	92,770	-	116,963	-
El Pueblo *	60,218	(4)	-	-
Family Support Network	70,470	-	-	-
Fuquay-Varina Early Learning Center	168,529	-	228,736	-
Harps Mill Creative School	58,720	-	79,589	-
Heather Park Child Development Center	59,166	-	79,917	-
Jordan Child & Family Enrichment Center	173,318	-	203,251	-
Kidworks Operated by Little Pro	63,910	-	79,540	-
La Petite - Pleasant Pines	54,638	-	76,765	-
Learning Together *	160,161	-	-	-
Literacy Council of Wake County *	63,470	-	-	-
Lord of Life Preschool	78,230	-	93,230	-
Lucy Daniel Center for Early Childhood	174,984	-	-	-
Lutheran Family Services	95,081	(5,924)	-	-
Method Child Development Center	58,792	-	79,748	-
Motheread	82,695	-	-	-
Preston Children's Academy	-	-	615	-
Primary Beginnings Child Development	48,776	-	74,336	-
Raleigh Nursery School	57,878	-	71,666	-
SAFEChild *	86,116	-	-	-
Salvation Army	94,543	-	-	-
Tammy Lynn Center	30,814	-	56,662	-
Telability	42,242	-	3,638	-
Telamon NC Head Start	-	-	371,445	-
The Happy Face Preschool	68,382	-	80,960	-
Upper Room Christian Academy	142,535	-	193,071	-
Various Child Care Centers	179,904	-	-	-
Wake AHEC	-	-	24,570	-
Wake County Human Services *	693,784	(25,321)	3,732	-
Wake County Public Schools *	841,917	(10,240)	252,913	-
Wake Tech Community College *	123,434	-	-	-
Wakefield Children's Center	57,241	-	80,879	-
WakeMed Hospital	234,926	(862)	-	-
Youth Education Achievement Center	92,403	-	-	-
	6,168,496	(87,969)	3,771,470	-
<b>Paid to Individuals:</b>				
Scholarships/Bonus Awards	25,181	-	39,853	-
	\$ 6,193,677	\$ (87,969)	\$ 3,811,323	\$ -

\* 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, 2008***

***Schedule 2***

<b>Organization Name</b>	<b>DHHS Contracts</b>
Child Care Services Association - WAGE\$	\$ 1,293,000
* Wake County Human Services	<u>8,115,520</u>
	<u>\$ 9,408,520</u>

\* This organization is 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, 2008**

**Schedule 3**

<u>State Grantor/Pass-through Grantor/Program</u>	<u>Contract #</u>	<u>Receipts</u>	<u>Expenditures</u>
<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	* N/A	\$ 8,153,657	\$ 8,153,657
Multi-County Accounting and Contracting Grant	N/A	11,665	11,665
North Carolina Department of Public Instruction			
Office of School Readiness			
More at Four Pre-Kindergarten Program	* 0084-08	<u>4,112,639</u>	<u>3,787,256</u>
<b>Total State Awards</b>		<u><u>\$ 12,277,961</u></u>	<u><u>\$ 11,952,578</u></u>

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

*Wake County SmartStart  
Schedule of Property and Equipment - Modified Cash Basis  
For the Year Ended June 30, 2008*

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*Schedule 4*

Furniture and Noncomputer Equipment	\$ 40,259
Computer Equipment and Printers	<u>37,179</u>
<b>Total Property and Equipment</b>	<b><u><u>\$ 77,438</u></u></b>

Note: The information on this schedule provides a summary of property and equipment with acquisition or donated cost of \$500 or more which were held by the Partnership at year-end. The valuations represent historical cost. On the modified 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, 2008**

**Schedule 5**

**Match Provided at the Partnership Level:**

Cash	\$	3,901
In-Kind Goods and Services		<u>169,452</u>
<b>Total</b>	<b>\$</b>	<b><u>173,353</u></b>

**Match Provided at the Contractor Level:**

Cash	\$	923,474
In-Kind Goods and Services		<u>1,121,652</u>
<b>Total</b>	<b>\$</b>	<b><u>2,045,126</u></b>

Note: This schedule is presented in accordance with the program match requirement as provided for by North Carolina Session Law 2007-323, Section 10.19(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.

**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 SmartStart  
Raleigh, North Carolina

We have audited the financial statements of the Wake County SmartStart as of and for the year ended June 30, 2008, and have issued our report thereon dated March 31, 2009. 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 Wake County SmartStart's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Wake County SmartStart's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Wake County SmartStart's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects Wake County SmartStart's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of Wake County SmartStart's financial statements that is more than inconsequential will not be prevented or detected by Wake County SmartStart's internal control.

**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 (CONCLUDED)**

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A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by Wake County SmartStart's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Wake County SmartStart'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 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*.

We noted certain matters that we reported to management of Wake County SmartStart in a separate letter dated March 31, 2009.

This report is intended solely for the information and use of Wake County SmartStart's Board of Directors, management of the Wake County SmartStart, others within the Partnership, The North Carolina Partnership for Children, Inc., the Governor, and the General Assembly of North Carolina and is not intended to be and should not be used by anyone other than these specified parties.

*Clifton Henderson LLP*

Raleigh, North Carolina  
March 31, 2009

## ORDERING INFORMATION

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Audit reports issued by the Office of the State Auditor can be obtained from the website at [www.ncauditor.net](http://www.ncauditor.net). Also, parties may register on the website to receive automatic email notification whenever reports of interest are issued. Otherwise, copies of audit reports 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

Telephone: 919/807-7500

Facsimile: 919/807-7647