

**FINANCIAL STATEMENT AUDIT REPORT OF
CALDWELL COUNTY SMART START A PARTNERSHIP FOR
YOUNG CHILDREN**

LENOIR, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2005

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

LESLIE W. MERRITT, JR., CPA, CFP

STATE AUDITOR

**FINANCIAL STATEMENT AUDIT REPORT OF
CALDWELL COUNTY SMART START A PARTNERSHIP FOR
YOUNG CHILDREN**

LENOIR, NORTH CAROLINA

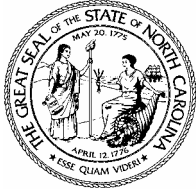
FOR THE YEAR ENDED JUNE 30, 2005

BOARD OF DIRECTORS

R. DALE FISHER, BOARD CHAIRMAN

ADMINISTRATIVE OFFICER

CARLA D. PATTERSON, 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>

AUDITOR'S TRANSMITTAL

The Honorable Michael F. Easley, Governor
The General Assembly of North Carolina
Board of Directors, Caldwell County Smart Start A Partnership For Young Children

This report presents the results of the financial statement audit of Caldwell County Smart Start A Partnership For Young Children for the year ended June 30, 2005. Tichenor & Associates, LLP performed the audit under contract with the Office of the State Auditor, and their report is submitted herewith.

The audit of the Caldwell County Smart Start A Partnership For Young Children was made in conjunction with the Early Childhood Initiatives (Smart Start) program authorized by G.S. 143B-168.10-16. This statute created The North Carolina Partnership for Children, Inc., and required the implementation of local partnerships. The Caldwell County Smart Start A Partnership For Young Children is one of these local partnerships. As such, the Caldwell County Smart Start A Partnership For Young Children is a private nonprofit 501(c)(3) organization and is required by G.S. 143B-168.14 to have an annual financial and compliance audit conducted by the State Auditor. The State Auditor's authority to perform or coordinate all audit functions for state government is set forth in Article 5 of Chapter 147 of the North Carolina General Statutes.

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.

Leslie W. Merritt, Jr.

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

TABLE OF CONTENTS

	PAGE
INDEPENDENT AUDITOR’S REPORT	1
FINANCIAL STATEMENTS	
EXHIBITS	
A Statement of Receipts, Expenditures, and Net Assets – Modified Cash Basis	3
B Statement of Functional Expenditures – Modified Cash Basis.....	4
Notes to the Financial Statements.....	5
SUPPLEMENTARY SCHEDULES	
1 Schedule of Contract and Grant Expenditures – Modified Cash Basis	12
2 Schedule of State Level Service Provider Contracts.....	13
3 Schedule of Federal and State Awards – Modified Cash Basis	14
4 Schedule of Property and Equipment – Modified Cash Basis	15
5 Schedule of Qualifying Match (Non-GAAP).....	16
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 <i>GOVERNMENT AUDITING STANDARDS</i>	17
ORDERING INFORMATION	19

TICHENOR & ASSOCIATES, LLP
CERTIFIED PUBLIC ACCOUNTANTS and MANAGEMENT CONSULTANTS

304 MIDDLETOWN PARK PLACE SUITE C
LOUISVILLE, KY 40243

BUSINESS: (502) 245-0775
FAX: (502) 245-0725
E-MAIL: wtichenor@tichenorassociates.com

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Caldwell County Smart Start A Partnership For Young Children
Lenoir, North Carolina

We have audited the accompanying Statement of Receipts, Expenditures, and Net Assets – Modified Cash Basis of the Caldwell County Smart Start A Partnership For Young Children (Caldwell Partnership) as of June 30, 2005, and the related Statement of Functional Expenditures – Modified Cash Basis for the year then ended. These financial statements are the responsibility of the Caldwell 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 Caldwell County Smart Start A Partnership For Young Children as of June 30, 2005, 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 March 22, 2006, on our consideration of the Caldwell 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

INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

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 Caldwell County Smart Start A Partnership For Young Children'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.

Tichenor & Associates, LLP

Tichenor & Associates, LLP

March 22, 2006

**Caldwell County Smart Start A Partnership For Young Children
Statement of Receipts, Expenditures, and Net Assets - Modified Cash Basis
For the Year Ended June 30, 2005**

Exhibit A

	Unrestricted Funds		Temporarily Restricted Funds	Total Funds
	Smart Start Fund	Other Funds		
Receipts:				
State Awards (less refunds of \$48,897)	\$ 1,686,477	\$ 191,193	\$ 0	\$ 1,877,670
Federal Awards	0	185,675	0	185,675
Private Contributions	0	2,590	0	2,590
Special Fund Raising Events	0	238	0	238
Interest and Investment Earnings	0	117	0	117
Sales Tax Refunds	0	1,514	0	1,514
Other Receipts	0	4,346	0	4,346
Total Receipts	1,686,477	385,673	0	2,072,150
Net Assets Released from Restrictions:				
Satisfaction of Program Restrictions	0	1,760	(1,760)	0
	1,686,477	387,433	(1,760)	2,072,150
Expenditures:				
Programs and Support:				
Child Care and Education Affordability	90,283	40,000	0	130,283
Child Care and Education Quality	841,142	27,569	0	868,711
Family Support	407,551	36,904	0	444,455
Health and Safety	157,538	20,210	0	177,748
More at Four	16,989	191,210	0	208,199
Support:				
Management and General	195,534	59,686	0	255,220
Program Coordination	26,337	0	0	26,337
Other:				
Sales Tax Paid	0	2,996	0	2,996
Total Expenditures	1,735,374	378,575	0	2,113,949
Excess of Receipts Over Expenditures	(48,897)	8,858	(1,760)	(41,799)
Net Assets at Beginning of Year	48,897	4,260	1,760	54,917
Net Assets at End of Year	\$ 0	\$ 13,118	\$ 0	\$ 13,118
Net Assets Consisted of:				
Cash and Cash Equivalents	\$ 6,401	\$ 13,118	\$ 0	\$ 19,519
Refunds Due from Contractors	13,851	0	0	13,851
Total Net Assets:	20,252	13,118	0	33,370
Less: Due to the State	(20,252)	0	0	(20,252)
	\$ 0	\$ 13,118	\$ 0	\$ 13,118

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

***Caldwell County Smart Start A Partnership For Young Children
Statement of Functional Expenditures - Modified Cash Basis
For the Year Ended June 30, 2005***

Exhibit B

	Total	Personnel	Contracted Services	Supplies and Materials	Other Operating Expenditures	Fixed Charges and Other Expenditures	Property and Equipment Outlay	Services/ Contracts/ Grants
Smart Start Funds:								
Programs:								
Child Care and Education Affordability	\$ 90,283	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 90,283
Child Care and Education Quality	841,142	50,408	40,770	802	1,795	15	205	747,147
Family Support	407,551	0	5,964	394	17,656	4,310	0	379,227
Health and Safety	157,538	0	0	0	0	0	0	157,538
More At Four	16,989	13,393	0	91	1,577	1,774	154	0
	<u>1,513,503</u>	<u>63,801</u>	<u>46,734</u>	<u>1,287</u>	<u>21,028</u>	<u>6,099</u>	<u>359</u>	<u>1,374,195</u>
Support:								
Management and General	195,534	122,020	3,090	7,009	28,002	25,407	10,006	0
Program Coordination	26,337	22,222	0	315	2,015	1,631	154	0
	<u>221,871</u>	<u>144,242</u>	<u>3,090</u>	<u>7,324</u>	<u>30,017</u>	<u>27,038</u>	<u>10,160</u>	<u>0</u>
Total Smart Start Fund Expenditures	<u>\$ 1,735,374</u>	<u>\$ 208,043</u>	<u>\$ 49,824</u>	<u>\$ 8,611</u>	<u>\$ 51,045</u>	<u>\$ 33,137</u>	<u>\$ 10,519</u>	<u>\$ 1,374,195</u>
Other Funds:								
Programs:								
Child Care and Education Affordability	\$ 40,000	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 40,000
Child Care and Education Quality	27,569	1,503	45	216	2,546	160	86	23,013
Family Support	36,904	0	0	1,214	666	10	0	35,014
Health and Safety	20,210	0	0	0	0	0	0	20,210
More At Four	191,210	1,666	0	6,837	1,431	111	1,230	179,935
	<u>315,893</u>	<u>3,169</u>	<u>45</u>	<u>8,267</u>	<u>4,643</u>	<u>281</u>	<u>1,316</u>	<u>298,172</u>
Support:								
Management and General	59,686	0	37,546	7,216	1,723	3,083	700	9,418
Other:								
Sales Tax Paid	2,996	0	0	2,996	0	0	0	0
Total Other Funds Expenditures	<u>\$ 378,575</u>	<u>\$ 3,169</u>	<u>\$ 37,591</u>	<u>\$ 18,479</u>	<u>\$ 6,366</u>	<u>\$ 3,364</u>	<u>\$ 2,016</u>	<u>\$ 307,590</u>

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

CALDWELL COUNTY SMART START A PARTNERSHIP FOR YOUNG CHILDREN
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2005

NOTES 1 - SIGNIFICANT ACCOUNTING POLICIES

A. Organization and Purpose – The Caldwell County Smart Start A Partnership For Young Children (Caldwell Partnership) is a legally separate nonprofit organization incorporated on April 8, 2004. The Caldwell Partnership was established to develop and provide, through public and private means, early childhood education and developmental services for children and families. The Caldwell 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 Caldwell 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 Caldwell Partnership did not have any temporarily or permanently restricted net assets at June 30, 2005.

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)

- 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. Property and Equipment** – Under the modified cash basis of accounting, purchases of property and equipment are reported as expenditures in the year occurred. However, Caldwell Partnership is required by contract regulation to track and maintain property and equipment items as presented in Schedule 4 of this report. The Caldwell 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, 2005. 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 7.
- I. Use of Estimates** – The preparation of financial statements in conformity with the modified cash basis of accounting used by the Caldwell Partnership requires management to make estimates and assumptions that affect certain reported amounts and disclosures (such as allocation of joint costs); accordingly, actual results could differ from those estimates. It is management's belief that these estimates are reasonable and fair.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 2 - FUNDING FROM GRANT AWARDS

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

Associated with these contracts, the Caldwell Partnership is responsible for developing a comprehensive, collaborative, long-range plan of services to children and families for the service-delivery area. During the year, NCPC and the North Carolina Department of Health and Human Services (DHHS) entered into contracts with and made payments to service providers selected by the Caldwell 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 Caldwell Partnership was awarded and has received \$1,755,626 under a current year Smart Start contract with NCPC. The unexpended balance of this contract is subject to reversion to the State. The Caldwell Partnership has returned \$20,252 of this contract to the State based on financial status reports submitted to NCPC subsequent to June 30, 2005.

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

More at Four – The Caldwell Partnership also received revenue and support from the State of North Carolina for the More at Four Program. The Caldwell Partnership was awarded \$181,790 and received \$179,193 under a current year contract. The Caldwell Partnership expects to receive continued funding through new More at Four contracts with the State.

Early Learning Opportunities Act Discretionary Grant Program – The Caldwell Partnership administered a federal assistance award from the U.S. Department of Health and Human Services – Administration for Children and Families. The award is based on a cost-reimbursement contract issued through Learning Opportunities Act Discretionary grant that ended February 28, 2005.

NOTE 3 - RELATED PARTY TRANSACTIONS

Service Provider Contracts with Board Member Organizations – The board members of the Caldwell Partnership are representative of various

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

organizations that benefit from actions taken by the Board. It is the policy of the Caldwell Partnership that board members not be involved with decisions regarding organizations they represent. During the year, the Caldwell 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 Caldwell Partnership's Smart Start Allocation.

NOTE 4 - 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 including part-day care programs.

Child Care and Education Quality – Used to account for service activities including quality enhancement grants for upgrades, quality enhancement grants for maintenance, child care resource and referral, professional development, child care substitutes, salary supplements, special needs – support for child care professionals, or health insurance benefits for child care providers.

Family Support – Used to account for service activities including family resource centers, ongoing parenting education, literacy projects or family support needs and resources assessments.

Health and Safety – Used to account for service activities including comprehensive health services or child care health consultants.

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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.

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 5 - LEASE OBLIGATIONS

A. **Operating Lease Obligations** – Future minimum lease payments under noncancelable operating leases consist of the following at June 30, 2005:

<u>Fiscal Year</u>	<u>Operating Leases</u>
2006	\$ 30,000
2007	30,000
2008	30,000
2009	<u>7,500</u>
Total Minimum Lease Payments	<u>\$ 97,500</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

B. Capital Lease Obligations – Capital lease obligations relating to copier equipment are recorded at the present value of the minimum lease payments. Future minimum lease payments under capital lease obligations consist of the following at June 30, 2005:

<u>Fiscal Year</u>	<u>Capital Leases</u>
2006	\$ 5,667
2007	5,667
2008	<u>944</u>
Total Minimum Lease Payments	<u>\$ 12,278</u>

NOTE 6 - PENSION PLAN

Retirement Plans – The Caldwell Partnership has a SIMPLE - IRA Plan covering all full-time employees. Each full-time employee of the Caldwell Partnership has an option to participate in the Plan. An Individual Retirement Account is provided to the employee through an outside financial institution. The Caldwell Partnership contributed 4% of gross wages for the year ended June 30, 2005. The Caldwell Partnership does not own the accounts nor is liable for any other cost other than the required contribution. The Caldwell Partnership contributed \$3,036 for pension benefits during the year.

NOTE 7 - COMMITMENTS AND CONTINGENCIES

Compensated Absences – As a result of the Caldwell 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, 2005, is \$2,629. No funds or reservation of net assets has been made for this commitment.

NOTE 8 - RISK MANAGEMENT

The Caldwell 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; physical property loss and natural disasters. The Caldwell Partnership manages these various risks of loss as follows:

NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

<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 Caldwell Partnership. Settled claims have not exceeded this insurance coverage in any of the past three fiscal years.

NOTE 9 - RESTRICTIONS ON NET ASSETS

Net Assets Released From Donor Restrictions – Net assets were released from donor restrictions during the fiscal year ended June 30, 2005, by incurring expenditures satisfying the restricted purposes as follows:

<u>Purpose</u>	<u>Amount</u>
Literacy Program/Books	<u>\$ 1,760</u>

***Caldwell County Smart Start A Partnership for Young Children
Schedule of Contract and Grant Expenditures - Modified Cash Basis
For the Year Ended June 30, 2005***

Schedule 1

Organization Name	Smart Start Fund		Other Funds	
	Amount Advanced	Refund Due	Amount Advanced	Refund Due
* Blue Ridge Community Action	\$ 0	\$ 0	\$ 58,247	\$ 0
Caldwell Committee for Healthy Families	80,097	1,344	3,877	0
* Caldwell Community College and Technical Institute	144,050	3	0	0
* Caldwell County Health Department	163,985	6,446	20,210	0
* Caldwell County Schools	196,999	11	137,175	0
* Child Care Connections of Burke County	468,018	6,047	23,013	0
Creative Beginnings of Lenoir	0	0	55,650	0
* The Riddle Institute	212,200	0	0	0
Shelter Home of Caldwell County	11,289	0	0	0
	<u>1,276,638</u>	<u>13,851</u>	<u>298,172</u>	<u>0</u>
Individuals:				
Insurance Benefit Package for Providers	110,928	0	0	0
Stipends (Family Fun Day, Site Coordinators)	480	0	9,418	0
	<u>111,408</u>	<u>0</u>	<u>9,418</u>	<u>0</u>
	<u>\$ 1,388,046</u>	<u>\$ 13,851</u>	<u>\$ 307,590</u>	<u>\$ 0</u>

* These organizations are represented on the Partnership's Board as described in Note 3 - Service Provider Contracts with Board Member Organizations.

***Caldwell County Smart Start A Partnership for Young Children
Schedule of State Level Service Provider Contracts (Unaudited)
For the Year Ended June 30, 2005***

Schedule 2

Organization Name	DHHS Contracts
* Caldwell County Department of Social Services	<u>\$ 721,261</u>

* These organizations are represented on the Partnership's Board as described in Note 3 - 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 2 - Funding from Grant Awards.

See Independent Auditor's Report.

**Caldwell County Smart Start A Partnership for Young Children
Schedule of Federal and State Awards - Modified Cash Basis
For the Year Ended June 30, 2005**

Schedule 3

Federal/State Grantor/Pass-through Grantor/Program	Federal CFDA Number	Contract #	Receipts	Expenditures
Federal Awards:				
Department of Health and Human Services Administration for Children and Families				
Early Learning Opportunities Act Discretionary Grant Program	93.577	90LO0034/01	\$ 170,675	\$ 170,675
US Department of Education Pass-through from the North Carolina Department of Public Instruction Pass-through from Caldwell County Schools Title I Grants to Local Educational Agencies More at Four - Valmead Basic School				
	84.010A	N/A	15,000	15,000
Total Federal Awards			<u>185,675</u>	<u>185,675</u>
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)		N/A	(48,897)	
Early Childhood Initiatives Program (Current Year)	*	N/A	1,735,374	1,735,374
Multi-County Accounting and Contracting Grant (Current Year)		N/A	12,000	12,000
North Carolina Department of Health and Human Services More at Four Pre-Kindergarten Program				
		2090004512	179,193	168,983
Total State Awards			<u>1,877,670</u>	<u>1,916,357</u>
Total Federal and State Awards			<u>\$ 2,063,345</u>	<u>\$ 2,102,032</u>

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

** Major Programs per OMB Circular A-133

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.

***Caldwell County Smart Start A Partnership for Young Children
Schedule of Property and Equipment - Modified Cash Basis
For the Year Ended June 30, 2005***

Schedule 4

Furniture and Noncomputer Equipment	\$	12,192
Computer Equipment/Printers		18,584
Motor Vehicles		<u>164,215</u>
Total Property and Equipment	\$	<u>194,991</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.

***Caldwell County Smart Start A Partnership for Young Children
Schedule of Qualifying Match (Non-GAAP)
For the Year Ended June 30, 2005***

Schedule 5

Match Provided at the Partnership Level:

Cash	\$	211,186
In-Kind Goods and Services		<u>1,988</u>
	\$	<u><u>213,174</u></u>

Match Provided at the Contractor Level:

Cash	\$	144,457
In-Kind Goods and Services		<u>49,500</u>
	\$	<u><u>193,957</u></u>

Note: This schedule is presented in accordance with the program match requirement as provided for by North Carolina Session Law 2003-397, 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.

TICHENOR & ASSOCIATES, LLP
CERTIFIED PUBLIC ACCOUNTANTS and MANAGEMENT CONSULTANTS

304 MIDDLETOWN PARK PLACE SUITE C
LOUISVILLE, KY 40243

BUSINESS: (502) 245-0775
FAX: (502) 245-0725
E-MAIL: wtichenor@tichenorassociates.com

**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
Caldwell County Smart Start A Partnership For Young Children
Lenoir, North Carolina

We have audited the financial statements of the Caldwell County Smart Start A Partnership For Young Children (Caldwell Partnership) as of and for the year ended June 30, 2005, and have issued our report thereon dated March 22, 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Caldwell 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 Caldwell 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
THE FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS (CONCLUDED)**

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 Caldwell 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.

Tichenor & Associates, LLP

Tichenor & Associates, LLP

March 22, 2006

ORDERING INFORMATION

Audit reports issued by the Office of the State Auditor can be obtained from the web site at www.ncauditor.net. Also, parties may register on the web site to receive automatic email notification whenever reports of interest are issued. Otherwise, copies of this report may be obtained by contacting the:

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

Telephone: 919/807-7500

Facsimile: 919/807-7647