

**FINANCIAL STATEMENT AUDIT REPORT OF
SMART START OF DAVIDSON COUNTY, INC.**

LEXINGTON, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2006

**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

SMART START OF DAVIDSON COUNTY, INC.

LEXINGTON, NORTH CAROLINA

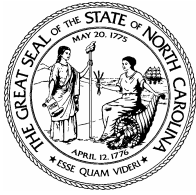
FOR THE YEAR ENDED JUNE 30, 2006

BOARD OF DIRECTORS

DONNA BLACK, BOARD CHAIR

ADMINISTRATIVE OFFICER

LINDA LEONARD, EXECUTIVE DIRECTOR



STATE OF NORTH CAROLINA
Office of the State Auditor

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AUDITOR'S TRANSMITTAL

The Honorable Michael F. Easley, Governor
The General Assembly of North Carolina
Board of Directors, Smart Start of Davidson County, Inc.

This report presents the results of the financial statement audit of Smart Start of Davidson County, Inc. (Davidson Partnership) for the year ended June 30, 2006. 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 Davidson Partnership 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 Smart Start of Davidson County, Inc. is one of these local partnerships. As such, the Smart Start of Davidson County, Inc. is a private nonprofit 501(c)(3) organization and is required by G.S. 143 B-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 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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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Smart Start of Davidson County, Inc.
Lexington, North Carolina

We have audited the accompanying Statement of Receipts, Expenditures, and Net Assets – Modified Cash Basis of the Smart Start of Davidson County, Inc. (Davidson 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 Davidson 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 Smart Start of Davidson County, 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 November 17, 2006, on our consideration of the Davidson 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

INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

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 Davidson Partnership'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.

Tichenor & Associates, LLP

Tichenor & Associates, LLP

November 17, 2006

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

Exhibit A

	Unrestricted Funds		Temporarily Restricted Funds	Total Funds
	Smart Start Fund	Other Funds		
Receipts:				
State Awards (less refunds of \$ 40,650)	\$ 2,299,072	\$ 1,047,472	\$ 0	\$ 3,346,544
Private Contributions		2,912	5,000	7,912
Special Fund Raising Events		179		179
Interest and Investment Earnings		8,563		8,563
Sales Tax Refunds		12,031		12,031
Total Receipts	2,299,072	1,071,157	5,000	3,375,229
Expenditures:				
Programs:				
Child Care and Education Quality	1,114,047	20,214		1,134,261
Family Support	683,203	1,048		684,251
Health and Safety	163,394			163,394
More at Four		1,010,374		1,010,374
Support:				
Management and General	298,369	15,493		313,862
Program Coordination	36,921			36,921
Program Evaluation	43,788			43,788
Other:				
Sales Tax Paid		11,632		11,632
Total Expenditures	2,339,722	1,058,761		3,398,483
Excess of Receipts Over Expenditures	(40,650)	12,396	5,000	(23,254)
Net Assets at Beginning of Year	40,650	45,611	5,861	92,122
Net Assets at End of Year	\$ 0	\$ 58,007	\$ 10,861	\$ 68,868
Net Assets Consisted of:				
Cash and Cash Equivalents	\$ 18,541	\$ 58,007	\$ 10,861	\$ 87,409
Refunds Due From Contractors	2,401			2,401
	20,942	58,007	10,861	89,810
Less: Due to the State	(20,942)			(20,942)
	\$ 0	\$ 58,007	\$ 10,861	\$ 68,868

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

*Smart Start of Davidson County, 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
Smart Start Funds:									
Programs:									
Child Care and Education Quality	\$ 1,114,047	\$ 463,379	\$ 6,755	\$ 20,888	\$ 44,214	\$ 34,907	\$ 4,670	\$ 539,234	\$ 0
Family Support	683,203		45,359	17,628	21,461	768		597,987	
Health and Safety	163,394							160,344	3,050
	<u>1,960,644</u>	<u>463,379</u>	<u>52,114</u>	<u>38,516</u>	<u>65,675</u>	<u>35,675</u>	<u>4,670</u>	<u>1,297,565</u>	<u>3,050</u>
Support:									
Management and General	298,369	190,750	21,662	13,456	26,989	21,378	24,134		
Program Coordination	36,921	32,972		791	1,429	1,524	205		
Program Evaluation	43,788		40,899	1,295	826	768			
	<u>379,078</u>	<u>223,722</u>	<u>62,561</u>	<u>15,542</u>	<u>29,244</u>	<u>23,670</u>	<u>24,339</u>		
Total Smart Start Fund Expenditures	<u>\$ 2,339,722</u>	<u>\$ 687,101</u>	<u>\$ 114,675</u>	<u>\$ 54,058</u>	<u>\$ 94,919</u>	<u>\$ 59,345</u>	<u>\$ 29,009</u>	<u>\$ 1,297,565</u>	<u>\$ 3,050</u>
Other Funds:									
Programs:									
Child Care and Education Quality	\$ 20,214	\$ 10,617	\$ 0	\$ 4,913	\$ 2,984	\$ 1,400	\$ 300	\$ 0	\$ 0
Family Support	1,048				1,048				
More at Four	1,010,374	20,472		106	6,980			982,816	
	<u>1,031,636</u>	<u>31,089</u>		<u>5,019</u>	<u>11,012</u>	<u>1,400</u>	<u>300</u>	<u>982,816</u>	
Support:									
Management and General	15,493		10,540	178	788	2,845	1,142		
	<u>15,493</u>		<u>10,540</u>	<u>178</u>	<u>788</u>	<u>2,845</u>	<u>1,142</u>		
Other:									
Sales Tax Paid	11,632			11,632					
	<u>11,632</u>			<u>11,632</u>					
Total Other Funds Expenditures	<u>\$ 1,058,761</u>	<u>\$ 31,089</u>	<u>\$ 10,540</u>	<u>\$ 16,829</u>	<u>\$ 11,800</u>	<u>\$ 4,245</u>	<u>\$ 1,442</u>	<u>\$ 982,816</u>	<u>\$ 0</u>

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

SMART START OF DAVIDSON COUNTY, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2006

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

A. Organization and Purpose - Smart Start of Davidson County, Inc. is a legally separate nonprofit organization incorporated on February 10, 1994. Smart Start of Davidson County, Inc. (Davidson Partnership) was established to develop and provide, through public and private means, early childhood education and developmental services for children and families. The Davidson 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 Davidson Partnership's Board of Directors is responsible. Pursuant to the provisions of Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-For-Profit Organizations*, the accompanying financial statements present information according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. As permitted by this Statement, temporarily restricted contributions received and expended in the same year are reported as unrestricted receipts rather than as temporarily restricted receipts.

Contributions that are temporarily restricted and not expended within the year received are reported as an increase in temporarily restricted net assets. When the restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Receipts, Expenditures, and Net Assets as net assets released from restrictions.

The Davidson Partnership did not have any 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

- D. Cash and Cash Equivalents** - This classification appears on the Statement of Receipts, Expenditures, and Net Assets – Modified Cash Basis and includes all demand and savings accounts and certificate of deposits or short-term investments with an original maturity of three months or less.
- E. Refunds Due From Contractors** - Refunds due from contractors represent the unexpended amount of advances to contractors at year-end that are to be refunded back to the State. As recoveries are collected, the receivable balance is reduced. Payments to the State for the recovered advances are recorded as a reduction to the State awards balance.
- F. Due to the State** – The funding provided by the State of North Carolina for the Smart Start program is received on a cost reimbursement basis. The money is earned to the extent of allowable costs incurred. The Davidson Partnership must revert any unexpended funds as of June 30 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, the Davidson Partnership is required by contract regulation to track and maintain property and equipment items as presented in Schedule 4 of this report. The Davidson 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.
- H. Compensated Absences** - As a result of the use of the modified cash basis of accounting, liabilities related to accrued compensated absences are not recorded in the financial statements. Expenditures related to compensated absences are recorded when paid. The amount of accrued compensated absences for accumulated, unpaid leave that would be due to employees upon termination is reported as a commitment in Note 9.
- I. Use of Estimates** - The preparation of financial statements in conformity with the other comprehensive basis of accounting used by the Davidson Partnership requires management to make estimates and assumptions that

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

affect certain reported amounts and disclosures (such as allocation of joint costs); accordingly, actual results could differ from those estimates. It is management's belief that these estimates are reasonable and fair.

NOTE 2 - DEPOSITS

The Davidson Partnership has an Automated Investment Plan to invest excess balances over an established target amount. The investment is in the bank's U.S. Government or U.S. Governmental Agency securities and is not insured by the FDIC. Consequently, the Davidson Partnership bank deposits in excess of the FDIC insured limit totaled \$41,933 at June 30, 2006.

NOTE 3 - FUNDING FROM GRANT AWARDS

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

Associated with these contracts, the Davidson 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 Davidson 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 Davidson Partnership was awarded and has received \$2,360,664 under a current year Smart Start contract with NCPC. The unexpended balance of this contract is subject to reversion to the State. The Davidson Partnership has returned \$20,942 of this contract to the State based on financial status reports submitted to NCPC subsequent to June 30, 2006.

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

More at Four - The Davidson Partnership also received revenue and support from the State of North Carolina for the More at Four Program. The Davidson Partnership was awarded \$1,022,758 under a current year cost-reimbursement

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

contract. The unexpended balance of this contract is subject to reversion to the State. The Davidson 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 Davidson Partnership are representative of various organizations that benefit from actions taken by the Board. It is the policy of the Davidson Partnership that board members not be involved with decisions regarding organizations they represent. During the year, the Davidson 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 Davidson 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, quality enhancement grants for maintenance, child care resource and referral, professional development, and kindergarten orientation/transition.

Family Support - Used to account for service activities including family parenting skills training, ongoing parenting education, literacy projects, transportation services, community outreach information and resources.

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 record keeping, budgeting, and related purposes.

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

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

C. Allocation of Joint Costs

Expenditures benefiting more than one purpose were allocated as follows:

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

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

NOTE 6 - LEASE OBLIGATIONS

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	\$ 39,768
2008	40,968
2009	42,168
2010	43,368
Total Minimum Lease Payments	<u>\$ 166,272</u>

Rental expense for all operating leases during the year was \$44,655.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 7 - PENSION PLAN

- A. Retirement Plans** - The Davidson Partnership has a Simplified Employee Pension plan (SEP Plan) covering all permanent employees who are at least half-time and have been employed six months. Each eligible employee is provided an Individual Retirement Account through an outside insurance company. The Davidson Partnership contributed 6% of gross wages for the year ended June 30, 2006. The Davidson Partnership does not own the accounts nor is liable for any other cost other than the required contribution. The Davidson Partnership contributed \$28,058 for pension benefits during the year.
- B. IRC Section 403(b) Plan** - All permanent employees who are at least half time can participate in a tax sheltered annuity plan (Plan) created under Internal Revenue Code Section 403(b). The employee's eligible contributions, made through salary reduction agreements, are exempt from federal and State income taxes until the annuity is received or the contributions are withdrawn. These Plans are exclusively for employees of universities and certain charitable and other nonprofit organizations. All costs of administering and funding these Plans are the responsibility of the Plan participants. The Davidson Partnership incurred no costs.

NOTE 8 - RISK MANAGEMENT

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

NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

NOTE 9 - COMMITMENTS AND CONTINGENCIES

Compensated Absences - As a result of the Davidson 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 \$20,724. No funds or reservation of net assets has been made for this commitment.

NOTE 10 - RESTRICTIONS ON NET ASSETS

Temporarily Restricted Net Assets - Temporarily restricted net assets at June 30, 2006, are available for the following purposes:

Purpose	Amount
Grandparent's Day	\$ 729
Parent Break	5,132
Preschool Literacy	<u>5,000</u>
	<u>\$ 10,861</u>

NOTE 11 - OTHER ITEM

Name Change - Effective June 1, 2006, the Davidson Partnership changed its legal name from Davidson County Partnership for Children to Smart Start of Davidson County, Inc.

Smart Start of Davidson County, 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
Paid to Organizations:				
Baptist Children's Home Robert Idol CDC	\$ 33,120	\$ 0	\$ 66,752	\$ 0
Barber's Learning Center	6,480			
Beth's Child Care Center	5,969			
Boys & Girls LTD	19,060	31	69,775	
Coggins Memorial Baptist Church CDC	19,080			
Davidson County Board of Education	* 584,923			
Davidson County Community College CDC	* 44,400		69,422	
Davidson County Health Department	* 118,828	2,370		
Davidson County Schools	*		190,987	
Family Services of Davidson County	60,000			
First Baptist CLC	16,517		64,026	
First Reformed CDC	15,600			
Fleshmen Pratt Education Center	27,360			
Heritage Child Enrichment	16,078			
Journey to the Stars - Various Child Care Centers	22,719			
Kids Only	8,280			
Lexington City Schools	*		259,290	
Little Heartstrings Day Care/Faith Chapel	21,960			
The Learning Place	* 31,320		68,647	
Thomasville City Schools	*		124,105	
Thomasville Head Start	* 10,800			
Tyro Learning Center	* 28,200			
Various Child Care Centers - Quality Assistance	50,052			
Von's Kids	52,080		69,812	
Wesleyan CDC	17,640			
	<u>1,210,466</u>	<u>2,401</u>	<u>982,816</u>	
Paid to Individuals:				
Various Individuals - Education for the Stars	89,500			
	<u>\$ 1,299,966</u>	<u>\$ 2,401</u>	<u>\$ 982,816</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.

Smart Start of Davidson County, Inc.
Schedule of State Level Service Provider Contracts
For the Year Ended June 30, 2006

Schedule 2

Organization Name	DHHS Contracts
Child Care Services Association - WAGE\$ Program	\$ 214,500
* Davidson County Department of Social Services	<u>1,418,974</u>
	<u>\$ 1,633,474</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.

Smart Start of Davidson County, Inc.
Schedule of State Awards - Modified Cash Basis
For the Year Ended June 30, 2006

Schedule 3

<u>State Grantor/Pass-through Grantor/Program</u>	<u>Contract #</u>	<u>Receipts</u>	<u>Expenditures</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)	Various	\$ (40,650)	\$ 0
Early Childhood Initiatives Program (Current Year)	*	2,360,664	2,339,722
Early Childhood Initiatives Program (Current Year)	N/A	(20,942)	
Multi-County Accounting and Contracting Grant (Current Year)		12,000	11,764
Pass-through from Work Family Resource Center Children, Inc.			
CCR&R Core Services	013-06-02	12,714	17,284
North Carolina Department of Health and Human Services			
More at Four Pre-Kindergarten Program	*	<u>1,022,758</u>	<u>1,010,374</u>
Total State Awards		<u><u>\$ 3,346,544</u></u>	<u><u>\$ 3,379,144</u></u>

* 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.

Smart Start of Davidson County, Inc.
Schedule of Property and Equipment - Modified Cash Basis
For the Year Ended June 30, 2006

Schedule 4

Furniture and Noncomputer Equipment	\$	62,176
Computer Equipment/Printers		<u>56,966</u>
Total Property and Equipment	\$	<u><u>119,142</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.

**Smart Start of Davidson County, Inc.
Schedule of Qualifying Match (Non-GAAP)
For the Year Ended June 30, 2006**

Schedule 5

Match Provided at the Partnership Level:

Cash	\$	17,343
In-Kind Goods and Services		<u>47,600</u>
	\$	<u><u>64,943</u></u>

Match Provided at the Contractor Level:

Cash	\$	318,517
In-Kind Goods and Services		<u>161,679</u>
	\$	<u><u>480,196</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.

TICHENOR & ASSOCIATES, LLP
CERTIFIED PUBLIC ACCOUNTANTS and MANAGEMENT CONSULTANTS

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

Board of Directors
Smart Start of Davidson County, Inc.
Lexington, North Carolina

We have audited the financial statements of Smart Start of Davidson County, Inc. (Davidson Partnership) as of and for the year ended June 30, 2006, and have issued our report thereon dated November 17, 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 Davidson 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.

**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)**

Compliance and Other Matters

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

November 17, 2006

ORDERING INFORMATION

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