



STATE OF NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT OF

SMART START OF FORSYTH COUNTY

WINSTON-SALEM, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2006

OFFICE OF THE STATE AUDITOR

LESLIE W. MERRITT, JR., CPA, CFP

STATE AUDITOR

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WINSTON-SALEM, NORTH CAROLINA

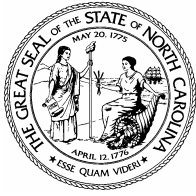
FOR THE YEAR ENDED JUNE 30, 2006

BOARD OF DIRECTORS

RODESSA MITCHELL, BOARD CHAIRPERSON

ADMINISTRATIVE OFFICER

PAMELA H. WYATT, 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 Forsyth County

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

The audit of the Forsyth Partnership was made in conjunction with the Early Childhood Initiatives (Smart Start) program authorized by General Statutes 143B-168.10-16. These statutes created The North Carolina Partnership for Children, Inc., and required the implementation of local demonstration projects (local partnerships). The Forsyth Partnership is one of these local partnerships. As such, the Forsyth Partnership is a private nonprofit 501(c)(3) organization and is subject to audit and review by the State Auditor under Article 5A of Chapter 147 of the General Statutes and as authorized in General Statute 143B-168.12(a)(7).

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

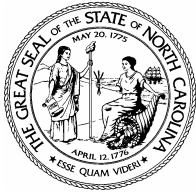
North Carolina General Statutes require the State Auditor to make audit reports available to the public. Copies of audit reports issued by the Office of the State Auditor may be obtained through one of the options listed in the back of this report.

Leslie W. Merritt, Jr.

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

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Smart Start of Forsyth County
Winston-Salem, North Carolina

We have audited the accompanying Statement of Receipts, Expenditures, and Net Assets – Modified Cash Basis of the Smart Start of Forsyth County (Forsyth 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 Forsyth 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 Smart Start of Forsyth County 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 March 30, 2007, on our consideration of the Forsyth Partnership's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or

INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

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 Smart Start of Forsyth County's basic financial statements. The information in Schedules 1 through 4 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.

Leslie W. Merritt, Jr.

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

March 30, 2007

Smart Start of Forsyth County
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 \$1,846)	\$ 6,170,496	\$ 1,516,758	\$ 0	\$ 7,687,254
Federal Awards		205,950	18,300	224,250
Private Contributions		15,290	15,295	30,585
Interest and Investment Earnings		25,950		25,950
Sales Tax Refunds		22,643		22,643
Other Receipts		19,655		19,655
Total Receipts	6,170,496	1,806,246	33,595	8,010,337
Net Assets Released from Restrictions:				
Satisfaction of Program Restrictions		23,047	(23,047)	
	6,170,496	1,829,293	10,548	8,010,337
Expenditures:				
Programs:				
Child Care and Education Affordability	1,489,832	6,710		1,496,542
Child Care and Education Quality	2,350,095	21,161		2,371,256
Family Support	557,669	1,164		558,833
Health and Safety	391,603	760		392,363
More at Four	785,200	1,774,920		2,560,120
Support:				
Management and General	454,931	31,664		486,595
Program Coordination	77,105			77,105
Program Evaluation	64,061			64,061
Other:				
Refund of Prior Year Grant		89		89
Sales Tax Paid		18,636		18,636
Total Expenditures	6,170,496	1,855,104		8,025,600
Excess of Receipts Over Expenditures		(25,811)	10,548	(15,263)
Net Assets at Beginning of Year		188,648	35,502	224,150
Net Assets at End of Year	\$ 0	\$ 162,837	\$ 46,050	\$ 208,887
Net Assets Consisted of:				
Cash and Cash Equivalents	\$ 18,459	\$ 162,837	\$ 46,050	\$ 227,346
Refunds Due From Contractors	6,852			6,852
	25,311	162,837	46,050	234,198
Less: Due to the State	25,347			25,347
Funds Held for Others	(36)			(36)
	\$ 0	\$ 162,837	\$ 46,050	\$ 208,887

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

Smart Start of Forsyth County
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 Fund:									
Programs:									
Child Care and Education Affordability	\$ 1,489,832	\$ 44,022	\$ 0	\$ 814	\$ 2,780	\$ 5,303	\$ 0	\$ 1,436,913	\$ 0
Child Care and Education Quality	2,350,095	608,222	6,755	11,189	39,645	96,065	1,509	1,586,710	
Family Support	557,669	45,365	2,619	6,251	22,442	8,021		472,971	
Health and Safety	391,603							391,603	
More at Four	785,200	169,575	316,371	6,648	12,040	21,727	4,262	254,577	
	<u>5,574,399</u>	<u>867,184</u>	<u>325,745</u>	<u>24,902</u>	<u>76,907</u>	<u>131,116</u>	<u>5,771</u>	<u>4,142,774</u>	
Support:									
Management and General	454,931	353,445	10,922	14,194	28,642	46,825	903		
Program Coordination	77,105	69,399		311	2,572	4,823			
Program Evaluation	64,061	96	60,498		1,315	2,152			
	<u>596,097</u>	<u>422,940</u>	<u>71,420</u>	<u>14,505</u>	<u>32,529</u>	<u>53,800</u>	<u>903</u>		
Total Smart Start Fund Expenditures	<u>\$ 6,170,496</u>	<u>\$ 1,290,124</u>	<u>\$ 397,165</u>	<u>\$ 39,407</u>	<u>\$ 109,436</u>	<u>\$ 184,916</u>	<u>\$ 6,674</u>	<u>\$ 4,142,774</u>	<u>\$ 0</u>
Other Funds:									
Programs:									
Child Care and Education Affordability	\$ 6,710	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 6,710	\$ 0
Child Care and Education Quality	21,161		20,120	1,003	38				
Family Support	1,164			1,088		76			
Health and Safety	760		579		181				
More at Four	1,774,920		177,539	10,772	1,487			1,585,122	
	<u>1,804,715</u>		<u>198,238</u>	<u>12,863</u>	<u>1,706</u>	<u>76</u>		<u>1,591,832</u>	
Support:									
Management and General	31,664	17,076	3,297	427	3,771	60	7,033		
Other:									
Refund of Prior Year Grant	89					89			
Sales Tax Paid	18,636			18,636					
	<u>18,725</u>			<u>18,636</u>		<u>89</u>			
Total Other Funds Expenditures	<u>\$ 1,855,104</u>	<u>\$ 17,076</u>	<u>\$ 201,535</u>	<u>\$ 31,926</u>	<u>\$ 5,477</u>	<u>\$ 225</u>	<u>\$ 7,033</u>	<u>\$ 1,591,832</u>	<u>\$ 0</u>

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

SMART START OF FORSYTH COUNTY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2006

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

A. Organization and Purpose – The Smart Start of Forsyth County (Forsyth Partnership) is a legally separate nonprofit organization incorporated on December 1, 1994. The Forsyth Partnership was established to develop and provide, through public and private means, early childhood education and developmental services for children and families. The Forsyth 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 Forsyth 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 Forsyth 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. 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 petty cash and cash on deposit with private bank accounts.
- E. Refunds Due From Contractors** – Refunds due from contractors represent the unexpended amount of advances to contractors at year end that are to be refunded back to the State. As recoveries are collected, the receivable balance is reduced. Payments to the State for the recovered advances are recorded as a reduction to the State awards balance.
- F. Due to the State** – The funding provided by the State of North Carolina for the Smart Start program is funded on a cost reimbursement basis. The money is earned to the extent of allowable costs incurred. Any unexpended funds as of June 30 are required to be reverted to The North Carolina Partnership for Children, Inc., to be returned to the State of North Carolina.
- G. Funds Held For Others** – Funds held for others includes amounts received that are fiduciary in nature in which the Forsyth Partnership acts in an agency capacity. For the year ended, the Forsyth Partnership was owed \$36 by employees for health insurance premiums paid in excess of amounts withheld from employee paychecks.
- H. Property and Equipment** – Under the modified cash basis of accounting, purchases of property and equipment are reported as expenditures in the year occurred. However, Forsyth Partnership is required by contract regulation to track and maintain property and equipment items as presented in Schedule 3 of this report. The Forsyth Partnership has a policy to track purchases of property and equipment items with an individual cost of \$500 or more and an estimated useful life greater than one year. Such items are valued at their original purchase price, which may be different from their valuation as of June 30, 2006. Donated items are recorded at estimated fair market value at the date of donation.
- I. Compensated Absences** – As a result of the use of the modified cash basis of accounting, liabilities related to accrued compensated absences are not recorded in the financial statements. Expenditures related to

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 Forsyth 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.

NOTE 2 - DEPOSITS

All funds of the Forsyth Partnership are deposited with a commercial bank and insured by the Federal Deposit Insurance Corporation (FDIC) up to \$100,000. Deposits over this amount subjects the Forsyth Partnership to a concentration of credit risk. At June 30, 2006, the Forsyth Partnership's bank deposits in excess of the FDIC insured limit was \$435,780.

NOTE 3 - FUNDING FROM GRANT AWARDS

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

Associated with these contracts, the Forsyth Partnership is responsible for developing a comprehensive, collaborative, long-range plan of services to children and families for the service-delivery area.

The Forsyth Partnership was awarded \$6,202,689 and has received \$6,197,689 under a current year Smart Start contract with NCPC. The unexpended balance of this contract is subject to reversion to the State. The Forsyth Partnership has returned \$25,347 of this contract to the State based on financial status reports submitted to NCPC subsequent to June 30, 2006.

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

More at Four – The Forsyth Partnership also received revenue and support from the State of North Carolina for the More at Four Program. The Forsyth Partnership was awarded \$1,533,040 and received \$1,504,758 under a current

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

year contract. The Forsyth Partnership expects to receive continued funding through new More at Four contracts with the State.

NOTE 4 - RELATED PARTY TRANSACTIONS

- A. Service Provider Contracts with Board Member Organizations** – The board members of the Forsyth Partnership are representative of various organizations that benefit from actions taken by the Board. It is the policy of the Forsyth Partnership that board members not be involved with decisions regarding organizations they represent. During the year, the Forsyth Partnership entered into contracts with board member organizations for program activities as identified on Schedule 1 accompanying the financial statements.
- B. Other Related Parties** – The Forsyth Partnership entered into transactions for various services (described below) with organizations that employ one or more board members of the Forsyth Partnership. The amounts paid included:

<u>Expenditures</u>	<u>Amount</u>
Credit Card Purchases with Bank Issued Card	\$ 11,825
Various Training Classes	2,042
City Transit Bus Passes	1,500
Cultural Discovery Sessions	1,425
	<u>\$ 16,792</u>

NOTE 5 - FUNCTIONAL EXPENDITURES

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

A. Program Functions

Child Care and Education Affordability – Used to account for service activities including child care subsidy programs outside of the Division of Child Development (DCD), child care transportation, child care subsidy administration outside of DCD, or supplements for quality outside DCD.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Child Care and Education Quality – Used to account for service activities including quality enhancement grants for upgrades, child care resource and referral, professional development, salary supplements, or provider training.

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

Health and Safety – Used to account for service activities including oral health services, comprehensive health support, special needs – early intervention services/special education, nutrition programs, or home visiting.

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

B. Support Functions

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

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

Program Evaluation – Expenditures that are incurred to monitor the effectiveness and feasibility of Partnership activities and contract agencies to determine if the short-term and long-term goals are being achieved.

C. Allocation of Joint Costs

Expenditures benefiting more than one purpose were allocated as follows:

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

Other Costs – Other costs including rent, supplies and materials, and communication costs (telephone and printing) were allocated based on utilization data.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 6 - OPERATING LEASE OBLIGATIONS

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

<u>Fiscal Year</u>	<u>Operating Leases</u>
2007	\$ 173,934
2008	179,793
2009	181,496
2010	185,592
2011	192,088
Total Minimum Lease Payments	<u>\$ 912,903</u>

Rental expense for all operating leases during the year was \$174,860.

NOTE 7 - PENSION PLAN

- A. Retirement Plans** – The Forsyth Partnership has a Simplified Employee Pension plan (SEP Plan) covering all permanent employees. After a 6-month waiting period, each permanent employee working at least 20 hours per week is provided an Individual Retirement Account through an outside insurance company. The Forsyth Partnership contributed 6% of gross wages for the year ended June 30, 2006. The Forsyth Partnership does not own the accounts nor is liable for any other cost other than the required contribution. The Forsyth Partnership contributed \$59,455 for pension benefits during the year.
- B. Deferred Compensation and Supplemental Retirement Income Plans – IRC Sections 403(b) and 403(b)(7) Plans** – All permanent employees who are at least half-time can participate in tax sheltered annuity plans (Plans) created under Internal Revenue Code Sections 403(b) and 403(b)(7). 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 8 - RISK MANAGEMENT

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

NOTE 9 - COMMITMENTS AND CONTINGENCIES

Compensated Absences – As a result of the Forsyth 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 \$47,649. No funds or reservation of net assets has been made for this commitment.

NOTE 10 - RESTRICTIONS ON NET ASSETS

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

<u>Purpose</u>	<u>Amount</u>
Blended Classrooms – Head Start/More at Four	\$ 18,300
Forsyth Medical Center	2,566
Z. Smith Reynolds – School Readiness Evaluation	9,800
Sam's Club Foundation – Speas Elementary School MAF Site	565
NCPC Private Sector Grant	14,819
	<u>\$ 46,050</u>

NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

B. Net Assets Released From Donor Restrictions – Net assets were released from donor restrictions during the fiscal year ended June 30, 2006, by incurring expenditures satisfying the restricted purposes as follows:

Purpose	Amount
Forsyth Medical Center	\$ 579
Provident Benevolent Foundation – Curriculum Enhancement	15,000
Sam’s Club Foundation – Speas Elementary School MAF Site	1,000
NCPC Private Sector Grant	6,468
	<u>\$ 23,047</u>

Smart Start of Forsyth County
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:				
Bethlehem Community Center	* \$ 126,587	\$ 0	\$ 122,887	\$ 0
Catholic Social Services	71,672	(791)		
Child Care Scholarship Program	966,006		6,710	
Creative Learning Center for Very Young Children	36,960			
Downtown Health Plaza of Baptist Hospital	* 80,000			
Epiphany Early Childhood Center	* 14,480			
Exchange/SCAN	41,425			
Family Services	* 19,961		101,474	
Forsyth County Department of Public Health	* 86,540			
Forsyth County Department of Social Services	* 31,990			
Forsyth Technical Community College	* 81,489			
Franciscan Child Development Center	* 23,024			
Gentilesse Place	* 5,516			
Imprints	453,548			
Journey to the Stars	382,371			
New Horizons Childcare	29,223		60,587	
North Carolina Cooperative Extension Service	* 75,225			
Northwest Child Development Council, Inc.	* 19,997		126,685	
Quality Enhancement Grants	61,525			
Salem College	46,129			
Special Children's School	44,400			
The Children's Center	* 58,210			
The Sunshine House, Inc.	86,780		140,162	
Wake Forest University School of Medicine	* (171)			
Winston-Salem Forsyth County Schools	* 229,113	(1,406)	1,033,327	
Winston-Salem State University	* 31,410			
Work Family Resource Center	* 442,882	(4,654)		
	<u>3,546,292</u>	<u>(6,851)</u>	<u>1,591,832</u>	
Paid to Individuals:				
Salary Supplements	603,025			
Teacher Scholarships	308			
	<u>603,333</u>			
	<u>\$ 4,149,625</u>	<u>\$ (6,851)</u>	<u>\$ 1,591,832</u>	<u>\$ 0</u>

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

Smart Start of Forsyth County
Schedule of Federal and State Awards - Modified Cash Basis
For the Year Ended June 30, 2006

Schedule 2

Federal/State Grantor/Pass-through Grantor/Program	Federal CFDA Number	Contract #	Receipts	Expenditures
Federal Awards:				
US Department of Health and Human Services - Administration for Children and Families				
Pass-through from Family Services, Inc. Head Start				
Blended Classrooms - Head Start/More at Four (Prior Year)	93.600	N/A	\$ 15,000	\$ 21,231
Blended Classrooms - Head Start/More at Four (Current Year)	93.600	N/A	<u>209,250</u>	<u>190,950</u>
Total Federal Awards			<u>224,250</u>	<u>212,181</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	(1,846)	(1,846)
Early Childhood Initiatives Program (Current Year)		*	6,172,342	6,172,342
Multi-County Accounting and Contracting Grant		N/A	12,000	10,330
North Carolina Department of Health and Human Services				
More at Four Pre-Kindergarten Program (Prior Year)		#2090004395		50,143
More at Four Pre-Kindergarten Program (Current Year)		* #0031-06	<u>1,504,758</u>	<u>1,504,758</u>
Total State Awards			<u>7,687,254</u>	<u>7,735,727</u>
Total Federal and State Awards			<u>\$ 7,911,504</u>	<u>\$ 7,947,908</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 Forsyth County
Schedule of Property and Equipment - Modified Cash Basis
For the Year Ended June 30, 2006***

Schedule 3

Furniture and Noncomputer Equipment	\$	27,438
Computer Equipment/Printers		115,487
Leasehold Improvements		5,425
		<hr/>
Total Property and Equipment	\$	148,350
		<hr/> <hr/>

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 Forsyth County
Schedule of Qualifying Match (Non-GAAP)
For the Year Ended June 30, 2006**

Schedule 4

Match Provided at the Partnership Level:

Cash	\$	254,835
In-Kind Goods and Services		397,515
		<hr/>
	\$	652,350
		<hr/> <hr/>

Match Provided at the Contractor Level:

Cash	\$	8,000
In-Kind Goods and Services		165,016
		<hr/>
	\$	173,016
		<hr/> <hr/>

Note: This schedule is presented in accordance with the program match requirement as provided for by North Carolina Session Law 2005-276, Section 10.64(c). The North Carolina Partnership for Children, Inc. and all local partnerships are required to match the total amount budgeted for the Smart Start Program in each fiscal year. The match is comprised of both cash and in-kind amounts. Only in-kind contributions that are verifiable, quantifiable, and related to the Smart Start Program can be applied to the in-kind match requirement, including volunteer services. The law allows for volunteer services to be valued for match purposes, a concept that deviates from generally accepted accounting principles. This schedule identifies those amounts allowable for this partnership in meeting the statewide match requirement.



STATE OF NORTH CAROLINA
Office of the State Auditor

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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 Forsyth County
Winston-Salem, North Carolina

We have audited the financial statements of the Smart Start of Forsyth County (Forsyth Partnership) as of and for the year ended June 30, 2006, and have issued our report thereon dated March 30, 2007. 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 Forsyth 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 Forsyth 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*.

We noted an additional matter that we reported to management of the Forsyth Partnership in a separate letter dated April 13, 2007.

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

Leslie W. Merritt, Jr.

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

March 30, 2007

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