

FINANCIAL STATEMENT AUDIT REPORT OF

SMART START ROWAN, INC.

SALISBURY, 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 ROWAN, INC.

SALISBURY, NORTH CAROLINA

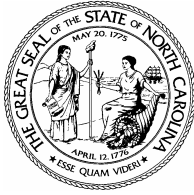
FOR THE YEAR ENDED JUNE 30, 2006

BOARD OF DIRECTORS

MARY PONDS, BOARD CHAIR

ADMINISTRATIVE OFFICER

KAREN CAMPBELL, 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 Rowan, Inc.

This report presents the results of the financial statement audit of Smart Start Rowan, Inc. (Rowan 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 Rowan 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 Rowan, Inc. is one of these local partnerships. As such, the Smart Start Rowan, 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 Rowan, Inc.
Salisbury, North Carolina

We have audited the accompanying Statement of Receipts, Expenditures, and Net Assets – Modified Cash Basis of the Smart Start Rowan, Inc. (Rowan 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 Rowan 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 Rowan, 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 10, 2006 on our consideration of the Rowan 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 Rowan 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 10, 2006

Smart Start Rowan, 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 \$14,342)	\$ 1,789,377	\$ 565,260	\$ 0	\$ 2,354,637
Federal Awards	0	31,800	0	31,800
Local Awards	0	1,588	0	1,588
Private Contributions	0	26,444	4,344	30,788
Sales Tax Refunds	0	7,476	0	7,476
Other Receipts	0	14,262	0	14,262
Total Receipts	1,789,377	646,830	4,344	2,440,551
Net Assets Released from Restrictions:				
Satisfaction of Program Restrictions	0	7,072	(7,072)	0
	1,789,377	653,902	(2,728)	2,440,551
Expenditures:				
Programs:				
Child Care and Education Affordability	0	1,207	0	1,207
Child Care and Education Quality	911,159	59,518	0	970,677
Family Support	175,708	19,460	0	195,168
Health and Safety	291,219	0	0	291,219
More at Four	113,101	558,312	0	671,413
Support:				
Management and General	211,677	13,339	0	225,016
Program Evaluation	91,509	120	0	91,629
Other:				
Sales Tax Paid	0	3,889	0	3,889
Total Expenditures	1,794,373	655,845	0	2,450,218
Excess of Receipts Over Expenditures	(4,996)	(1,943)	(2,728)	(9,667)
Net Assets at Beginning of Year	4,996	52,770	7,722	65,488
Net Assets at End of Year	\$ 0	50,827	4,994	\$ 55,821
Net Assets Consisted of:				
Cash and Cash Equivalents	\$ 9,996	50,827	4,994	\$ 65,817
	9,996	50,827	4,994	65,817
Less: Due to the State	(9,996)	0	0	(9,996)
	\$ 0	\$ 50,827	\$ 4,994	\$ 55,821

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

Smart Start Rowan, 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
Smart Start Funds:								
Programs:								
Child Care and Education Quality	\$ 911,159	\$ 305,849	\$ 23,844	\$ 11,570	\$ 46,903	\$ 48,178	\$ 6,664	\$ 468,151
Family Support	175,708	0	0	0	0	0	0	175,708
Health and Safety	291,219	0	0	0	0	0	0	291,219
More at Four	113,101	14,626	0	0	0	0	0	98,475
	<u>1,491,187</u>	<u>320,475</u>	<u>23,844</u>	<u>11,570</u>	<u>46,903</u>	<u>48,178</u>	<u>6,664</u>	<u>1,033,553</u>
Support:								
Management and General	211,677	156,388	13,437	3,910	18,463	17,394	2,085	0
Program Evaluation	91,509	66,044	13,183	1,200	5,343	4,896	843	0
	<u>303,186</u>	<u>222,432</u>	<u>26,620</u>	<u>5,110</u>	<u>23,806</u>	<u>22,290</u>	<u>2,928</u>	<u>0</u>
Total Smart Start Fund Expenditures	<u>\$ 1,794,373</u>	<u>\$ 542,907</u>	<u>\$ 50,464</u>	<u>\$ 16,680</u>	<u>\$ 70,709</u>	<u>\$ 70,468</u>	<u>\$ 9,592</u>	<u>\$ 1,033,553</u>
Other Funds:								
Programs:								
Child Care and Education Affordability	\$ 1,207	\$ 989	\$ 0	\$ 0	\$ 218	\$ 0	\$ 0	\$ 0
Child Care and Education Quality	59,518	0	31,358	4,602	2,203	1,212	2,978	17,165
Family Support	19,460	9,287	85	767	8,578	0	0	743
More at Four	558,312	35,820	0	5,930	612	0	3,202	512,748
	<u>638,497</u>	<u>46,096</u>	<u>31,443</u>	<u>11,299</u>	<u>11,611</u>	<u>1,212</u>	<u>6,180</u>	<u>530,656</u>
Support:								
Management and General	13,339	2,977	7,896	1,312	1,069	60	0	25
Program Evaluation	120	0	0	0	120	0	0	0
	<u>13,459</u>	<u>2,977</u>	<u>7,896</u>	<u>1,312</u>	<u>1,189</u>	<u>60</u>	<u>0</u>	<u>25</u>
Other:								
Sales Tax Paid	3,889	0	0	3,889	0	0	0	0
	<u>3,889</u>	<u>0</u>	<u>0</u>	<u>3,889</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total Other Funds Expenditures	<u>\$ 655,845</u>	<u>\$ 49,073</u>	<u>\$ 39,339</u>	<u>\$ 16,500</u>	<u>\$ 12,800</u>	<u>\$ 1,272</u>	<u>\$ 6,180</u>	<u>\$ 530,681</u>

SMART START ROWAN, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2006

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

- A. Organization and Purpose** – Smart Start Rowan, Inc. is a legally separate nonprofit organization incorporated on February 22, 1994. Smart Start Rowan, Inc. (Rowan Partnership) was established to develop and provide, through public and private means, early childhood education and developmental services for children and families. The Rowan 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 Rowan 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 Rowan 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. Additionally, Smart Start funds advanced to the Local Partnership that are unexpended and unearned at year end are recorded as funds Due to the State.

- D. Cash and Cash Equivalents** – This classification appears on the Statement of Receipts, Expenditures, and Net Assets – Modified Cash Basis and includes all demand and savings accounts and certificate of deposits or short-term investments with an original maturity of three months or less.
- E. 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 must be reverted to The North Carolina Partnership for Children, Inc. to be returned to the State of North Carolina.
- F. 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 Rowan Partnership is required by contract regulation to track and maintain property and equipment items as presented in Schedule 4 of this report. The Rowan 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.
- G. 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.
- H. Use of Estimates** – The preparation of financial statements in conformity with the other comprehensive basis of accounting used by the Rowan 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

All funds of the Rowan 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 Rowan Partnership to a concentration of credit risk. At June 30, 2006, the Rowan Partnership's bank deposits in excess of the FDIC insured limit was \$79,348.

NOTE 3 - FUNDING FROM GRANT AWARDS

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

Associated with these contracts, the Rowan 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 Rowan 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 Rowan Partnership was awarded and received \$1,803,719 under a current year Smart Start contract with NCPC. The unexpended balance of this contract is subject to reversion to the State. The Rowan Partnership has returned \$9,996 of this contract to the State based on financial status reports submitted to NCPC subsequent to June 30, 2006.

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

More at Four – The Rowan Partnership also received revenue and support from the State of North Carolina for the More at Four Program. The Rowan Partnership was awarded \$562,524 and received \$553,260 under a current year

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

cost-reimbursement contract. The unexpended balance of this contract is subject to reversion to the State. The Rowan 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 Rowan Partnership are representative of various organizations that benefit from actions taken by the Board. It is the policy of the Rowan Partnership that board members not be involved with decisions regarding organizations they represent. During the year, the Rowan 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 Rowan 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 Affordability – Used to account for service activities associated with pre-K/Preschool classes.

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, special needs – support for child care professionals, and curriculum enhancements.

Family Support – Used to account for service activities including ongoing parenting education, general family support, and family literacy.

Health and Safety – Used to account for service activities including oral health services, speech and hearing screenings, comprehensive health services, and comprehensive health support.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 record keeping, budgeting, and related purposes.

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 (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	\$ 66,618
2008	62,343
2009	55,764
2010	<u>18,320</u>
Total Minimum Lease Payments	<u>\$ 203,045</u>

Rental expense for all operating leases during the year was \$ 65,249.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 7 - PENSION PLAN

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 Plan is a defined contribution plan in which each employee of the Rowan Partnership, as a condition of employment, is provided an individual annuity through an outside insurance company. The Rowan Partnership contributed 6% of gross wages for the year ended June 30, 2006. 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 Rowan Partnership contributed \$24,166 for retirement benefits during the year.

NOTE 8 - RISK MANAGEMENT

The Rowan 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 Rowan 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 Rowan 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 Rowan 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 \$23,540. No funds or reservation of net assets has been made for this commitment.

NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

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:

Purpose	Amount
Champion for Young Children	\$ 580
Families & Children's Education Services	2,196
Smart Start Tour	69
Child Care Appreciation Dinner	149
Latino Resource Center	2,000
	<u>\$ 4,994</u>

- 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
Family Support	\$ 743
Families & Children's Education Services	5,021
Smart Start Tour	308
Include Me	1,000
	<u>\$ 7,072</u>

NOTE 11 - OTHER ITEM

Name Change – Effective February 23, 2006 the Rowan Partnership changed its legal name from Rowan Partnership for Children, Inc. to Smart Start Rowan, Inc.

Smart Start Rowan, 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:				
Adolesent & Family Enrichment Council	\$ 175,708	\$ 0	\$ 743	\$ 0
Advantage Children's Center	13,350	0	64,436	0
Kannapolis City Schools	13,500	0	65,160	0
Noah's Playloft Preschool	32,250	0	155,660	0
* Partners In Learning CDC	137,741	0	1,000	0
* Rowan County Health Department	153,479	0	0	0
* Rowan Public Library	63,899	0	0	0
* Rowan Salisbury Schools	25,875	0	162,332	0
South Rowan Academy	13,500	0	65,160	0
	<u>629,302</u>	<u>0</u>	<u>514,491</u>	<u>0</u>
Paid to Individuals:				
Cash Grants and Awards	500	0	775	0
Scholarships/Bonus Awards	403,751	0	15,415	0
	<u>404,251</u>	<u>0</u>	<u>16,190</u>	<u>0</u>
	<u>\$ 1,033,553</u>	<u>\$ 0</u>	<u>\$ 530,681</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 Rowan, Inc.
Schedule of State Level Service Provider Contracts
For the Year Ended June 30, 2006

Schedule 2

Organization Name	DHHS Contracts
* Rowan County Department of Social Services	<u>\$ 852,791</u>

* This organization is represented on the Partnership's Board as described in Note 4 - Service Provider Contracts with Board Member Organizations.

The information on this schedule provides a listing of service provider contracts entered into by the North Carolina Department of Health and Human Services (DHHS) as described in Note 3 - Funding from Grant Awards.

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

Schedule 3

Federal/State Grantor/Pass-through Grantor/Program	Federal CFDA Number	Contract #	Receipts	Expenditures
Federal Awards:				
Child Care Resource & Referral	93.575	6345-01	\$ 31,800	\$ 37,750
Total Federal Awards			<u>31,800</u>	<u>37,750</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)		NA	(4,346)	
Early Childhood Initiatives Program (Current Year)	*	NA	1,803,719	1,793,723
Early Childhood Initiatives Program (Current Year)		NA	(9,996)	
Multi-County Accounting and Contracting Grant		NA	12,000	10,000
North Carolina Department of Health and Human Services More at Four Pre-Kindergarten Program				
		0073-06	553,260	553,260
Total State Awards			<u>2,354,637</u>	<u>2,356,983</u>
Total Federal and State Awards			<u>\$ 2,386,437</u>	<u>\$ 2,394,733</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 Rowan, Inc.

**Schedule of Property and Equipment - Modified Cash Basis
For the Year Ended June 30, 2006**

Schedule 4

Furniture and Noncomputer Equipment	\$	11,993
Computer Equipment/Printers		<u>38,104</u>
Total Property and Equipment	\$	<u><u>50,097</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 Rowan, Inc.
Schedule of Qualifying Match (Non-GAAP)
For the Year Ended June 30, 2006

Schedule 5

Match Provided at the Partnership Level:

Cash	\$	43,601
In-Kind Goods and Services		<u>26,293</u>
	\$	<u><u>69,894</u></u>

Match Provided at the Contractor Level:

Cash	\$	177,797
In-Kind Goods and Services		<u>116,674</u>
	\$	<u><u>294,471</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

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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 Rowan, Inc.
Salisbury, North Carolina

We have audited the financial statements of Smart Start Rowan, Inc. (Rowan Partnership) as of and for the year ended June 30, 2006, and have issued our report thereon dated November 10, 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 Rowan 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 (CONCLUDED)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Rowan 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 Rowan 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 10, 2006

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