

FINANCIAL STATEMENT AUDIT REPORT OF

CRAVEN SMART START, INC.
(*FORMERLY KNOWN AS CRAVEN COUNTY*
***PARTNERSHIP FOR CHILDREN*)**

NEW BERN, 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

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NEW BERN, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2006

BOARD OF DIRECTORS

DR. BART SPANO, BOARD CHAIRMAN

ADMINISTRATIVE OFFICER

PATRICIA PURNELL, 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, Craven Smart Start, Inc. (*formerly known as Craven County Partnership for Children*)

This report presents the results of our financial statement audit of Craven Smart Start, Inc. for the year ended June 30, 2006. Langdon & Company performed the audit under contract with the Office of the State Auditor, and their report is submitted herewith.

The audit of Craven Smart Start, Inc. 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. Craven Smart Start, Inc. is one of these local partnerships. As such, Craven Smart Start, Inc. is a private nonprofit 501(c)(3) organization and is required by G.S. 143B-168.14 to have an annual financial and compliance audit conducted by the State Auditor. The State Auditor's authority to perform or coordinate all audit functions for state government is set forth in Article 5 of Chapter 147 of the *North Carolina General Statutes*.

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

Leslie W. Merritt, Jr.

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

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Langdon & Company

Certified Public Accountants

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INDEPENDENT AUDITOR'S REPORT

Board of Directors

Craven Smart Start, Inc. *(formerly known as Craven County Partnership for Children)*

New Bern, North Carolina

We have audited the accompanying Statement of Receipts, Expenditures, and Net Assets – Modified Cash Basis of Craven Smart Start, Inc. (Craven 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 Craven 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 Craven Smart Start, 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 October 4, 2006 on our consideration of Craven 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 on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.



INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Craven Smart Start, Inc.'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.

Garner, North Carolina

October 4, 2006

Craven Smart Start Inc. (formerly known as Craven County Partnership for Children)
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 \$26,807)	\$ 772,195	\$ 23,924	\$ 0	\$ 796,119
Federal Awards (less refunds of \$ 6,992)	-	197,288	-	197,288
Local Awards	-	5,478	9,085	14,563
Private Contributions	-	3,926	2,000	5,926
Special Fund Raising Events	-	1,413	-	1,413
Interest and Investment Earnings	-	81	-	81
Sales Tax Refunds	-	4,542	-	4,542
Other Receipts	-	3,891	-	3,891
Total Receipts	772,195	240,543	11,085	1,023,823
Net Assets Released from Restrictions:				
Satisfaction of Program Restrictions	-	233	(233)	-
	772,195	240,776	10,852	1,023,823
Expenditures:				
Programs:				
Child Care and Education Accessibility and Availability	45,560	-	-	45,560
Child Care and Education Affordability	50,350	-	-	50,350
Child Care and Education Quality	239,867	199,971	-	439,838
Family Support	210,169	233	-	210,402
Health and Safety	80,792	18,029	-	98,821
Support:				
Management and General	124,662	13,308	-	137,970
Program Evaluation	46,929	32	-	46,961
Other:				
Sales Tax Paid	-	5,084	-	5,084
Total Expenditures	798,329	236,657	-	1,034,986
Excess of Expenditures Over Receipts	(26,134)	4,119	10,852	(11,163)
Net Assets at Beginning of Year	26,134	11,737	650	38,521
Net Assets at End of Year	\$ 0	\$ 15,856	\$ 11,502	\$ 27,358
Net Assets Consisted of:				
Cash and Cash Equivalents	\$ 11,758	\$ 15,899	\$ 11,502	\$ 39,159
Refunds Due From Contractors	1,135	-	-	1,135
	12,893	15,899	11,502	40,294
Less: Due to the State	12,808	-	-	12,808
Funds Held for Others	85	43	-	128
	12,893	43	-	12,936
	\$ 0	\$ 15,856	\$ 11,502	\$ 27,358

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

Craven Smart Start Inc. (formerly known as Craven County Partnership for Children)
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 Accessibility and Availability	\$ 45,560	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 45,560	\$ 0
Child Care and Education Affordability	50,350	-	-	-	-	-	0	50,350	-
Child Care and Education Quality	239,867	136,441	195	26,864	36,629	23,420	2,479	10,595	3,244
Family Support	210,169	-	62,500	-	-	-	-	147,669	-
Health and Safety	80,792	-	66,420	-	-	-	-	14,372	-
	<u>626,738</u>	<u>136,441</u>	<u>129,115</u>	<u>26,864</u>	<u>36,629</u>	<u>23,420</u>	<u>2,479</u>	<u>268,546</u>	<u>3,244</u>
Support:									
Management and General	124,662	103,380	1,887	1,701	9,709	7,985	-	-	-
Program Evaluation	46,929	40,274	31	1,039	3,698	1,012	875	-	-
	<u>171,591</u>	<u>143,654</u>	<u>1,918</u>	<u>2,740</u>	<u>13,407</u>	<u>8,997</u>	<u>875</u>	<u>-</u>	<u>-</u>
Total Smart Start Fund Expenditures	\$ 798,329	\$ 280,095	\$ 131,033	\$ 29,604	\$ 50,036	\$ 32,417	\$ 3,354	\$ 268,546	\$ 3,244
Other Funds:									
Programs:									
Child Care and Education Quality	199,971	149,064	1,444	12,192	24,740	5,741	1,690	5,100	-
Family Support	233	-	-	233	-	-	-	-	-
Health and Safety	18,029	17,250	-	-	779	-	-	-	-
	<u>218,233</u>	<u>166,314</u>	<u>1,444</u>	<u>12,425</u>	<u>25,519</u>	<u>5,741</u>	<u>1,690</u>	<u>5,100</u>	<u>-</u>
Support:									
Management and General	13,308	4,806	5,722	-	2,675	105	-	-	-
Program Evaluation	32	-	-	-	32	-	-	-	-
	<u>13,340</u>	<u>4,806</u>	<u>5,722</u>	<u>-</u>	<u>2,707</u>	<u>105</u>	<u>-</u>	<u>-</u>	<u>-</u>
Other:									
Sales Tax Paid	5,084	-	-	5,084	-	-	-	-	-
	<u>5,084</u>	<u>-</u>	<u>-</u>	<u>5,084</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Other Funds Expenditures	\$ 236,657	\$ 171,120	\$ 7,166	\$ 17,509	\$ 28,226	\$ 5,846	\$ 1,690	\$ 5,100	\$ 0

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

CRAVEN SMART START, INC.
(FORMERLY KNOWN AS CRAVEN COUNTY PARTNERSHIP FOR CHILDREN)
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2006

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

A. Organization and Purpose – Craven Smart Start Inc. (Craven Partnership) is a legally separate nonprofit organization incorporated on August 6, 1998. The Craven Partnership was established to develop and provide, through public and private means, early childhood education and developmental services for children and families. The Craven 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 Craven 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 Craven Partnership did not have any permanently restricted net assets as of 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 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 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. 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 Craven Partnership acts in an agency capacity. For the year ended June 30, 2006, the Craven Partnership was holding amounts withheld from employee paychecks for distribution to benefit accounts (health and life insurance premiums).
- H. Property and Equipment** - Under the modified cash basis of accounting, purchases of property and equipment are reported as expenditures in the year incurred. However, Craven Partnership is required by contract regulation to track and maintain property and equipment items as presented in Schedule 4 of this report. The Craven 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.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

- I. Compensated Absences** - As a result of the use of the modified cash basis of accounting, liabilities related to accrued compensated absences are not recorded in the financial statements. Expenditures related to compensated absences are recorded when paid. The amount of accrued compensated absences for accumulated, unpaid leave that would be due to employees upon termination is reported as a commitment in Note 9.
- J. Use of Estimates** - The preparation of financial statements in conformity with the modified cash basis of accounting used by the Craven 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 Craven Partnership are deposited with a commercial bank and insured by the Federal Deposit Insurance Corporation (FDIC) up to \$100,000. Deposits over this amount subject the Craven Partnership to a concentration of credit risk. At June 30, 2006, Craven Partnership's bank deposits were not in excess of the FDIC insured limit.

NOTE 3 - FUNDING FROM GRANT AWARDS

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

Associated with these contracts, the Craven 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 Craven Partnership. These service provider contracts are not reflected on the accompanying financial statements. However, a summary of the service provider contracts entered into by NCPC and/or DHHS is presented on Schedule 2 accompanying the financial statements.

The Craven Partnership was awarded and has received \$811,810 under a current year Smart Start contract with NCPC. The unexpended balance of this contract is subject to reversion to the State. The Craven Partnership has

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

returned \$12,808 of this contract to the State based on financial status reports submitted to NCPC subsequent to June 30, 2006.

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

Child Care Resource & Referral Program (CCR&R) - The Craven Partnership's other major source of revenue and support is from the North Carolina Department of Health and Human Services based on a cost-reimbursement pass-through contract with Child Care Resources Inc. (CCRI) for the Child Care Resource & Referral Program.

The Craven Partnership was awarded \$265,931 and has received \$ 197,729 of this amount. The unexpended balance of this contract is subject to reversion to CCRI. The Craven Partnership has returned \$5,658 of this contract to CCRI based on financial status reports submitted to CCRI subsequent to June 30, 2006.

The Craven Partnership expects to receive continued funding through new Child Care Resource & Referral Program contracts with Child Care Resources, Inc.

Family Support Network Program - The Craven Partnership also received revenue and support from the North Carolina Department of Health and Human Services based on a cost-reimbursement pass-through contract with the University of North Carolina at Chapel Hill (UNC-CH) for the Family Support Network Regional Services Initiative.

The Craven Partnership was awarded \$14,700 and has received \$11,924 of this amount.

The Craven Partnership expects to receive continued funding through new Regional contracts with UNC-CH.

Multi-County Accounting and Contracting – The Craven Partnership also received revenue and support from the State of North Carolina for their participation in the Multi-County Accounting and Contracting Program. The unexpended balance of this contract is subject to reversion to the State. The Craven Partnership was awarded and has received \$12,000 under a current year contract for the payment of administrative and accounting services. The Craven Partnership expended the entire balance during the current year.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE 4 - RELATED PARTY TRANSACTIONS

Service Provider Contracts with Board Member Organizations - The board members of the Craven Partnership are representative of various organizations that benefit from actions taken by the Board. It is the policy of the Craven Partnership that board members not be involved with decisions regarding organizations they represent. During the year, the Craven 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 Craven 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 Accessibility and Availability - Used to account for service activities associated with increasing child care availability.

Child Care and Education Affordability - Used to account for service activities including pre-K/preschool classes or part-day care programs.

Child Care and Education Quality - Used to account for service activities including quality enhancement grants for upgrades or child care resource and referral.

Family Support - Used to account for service activities including ongoing parenting education, literacy projects, or community outreach information and resources.

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

B. Support Functions

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

Program 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 occupancy cost (rent, utilities and maintenance), and communication costs (telephone and internet) were allocated based on utilization data.

NOTE 6 - OPERATING LEASE OBLIGATIONS

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

<u>Fiscal Year</u>	<u>Operating Leases</u>
2007	<u>\$ 15,884</u>

Rental expense for all operating leases during the year was \$20,064.

NOTE 7 - PENSION PLAN

Retirement Plans - The Craven Partnership has a SIMPLE - IRA Plan covering all full-time employees who receives a minimum of \$5,000 in compensation. Each full-time employee of the Craven Partnership has an option to participate in the Plan. An Individual Retirement Account is provided to the employee through an outside financial institution. The Craven Partnership makes a dollar-for-dollar matching contribution not to exceed 3% of the employee's salary. The Craven Partnership does not own the accounts

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

nor is liable for any other cost other than the required contribution. The Craven Partnership contributed \$4,797 for pension benefits during the year.

NOTE 8 - RISK MANAGEMENT

The Craven 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 Craven 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 Craven 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 Craven 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 \$2,525. No funds or reservation of net assets has been made for this commitment.

NOTES TO 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
Basic School Aged Children	\$ 76
Welcome Baby Project	2,050
Bates Foundation-Family Support Network	7,195
Conference	291
United Way-Parent to Parent Program	1,890
	<u>\$ 11,502</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
Welcome Baby Project	<u>\$ 233</u>

NOTE 11 - NAME CHANGE

Effective December 29, 2005 the Partnership changed its name from Craven County Partnership for Children to Craven Smart Start, Inc.

Craven Smart Start Inc. (formerly known as Craven County Partnership for Children)
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
Coastal Community Action	* \$ 15,000	\$ 628	\$ 0	\$ 0
Craven County Board of Education	* 99,837	-	-	-
Craven County Cooperative Extension	* 47,974	142	-	-
Craven Cherry Point CDC	45,925	365	-	-
Miracle Learning Centers	50,350	-	-	-
	259,086	1,135	-	-
<i>Individuals:</i>				
Scholarships/Bonus Awards	10,595	-	5,100	-
	<u>\$ 269,681</u>	<u>\$ 1,135</u>	<u>\$ 5,100</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.

Craven Smart Start Inc. (formerly known as Craven County Partnership for Children)
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\$	\$ 169,876
Craven County Department of Social Services *	<u>575,832</u>
	<u>\$ 745,708</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.

Craven Smart Start Inc. (formerly known as Craven County Partnership for Children)
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:				
North Carolina Department of Health and Human Services Division of Child Development Child Care Resource and Referral Program (Prior Year)		N/A	\$ (1,621)	\$ 0
North Carolina Department of Health and Human Services Division of Child Development Pass-through from Child Care Resources, Inc. Child Care Resource and Referral Program (Prior Year)	93.575	N/A	(5,371)	-
Child Care Resource and Referral Program (Current Year)	93.575 *	#107-102	204,280	192,071
Total Federal Awards			197,288	192,071
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)			(26,807)	(673)
Early Childhood Initiatives Program (Current Year)	*	N/A	799,002	799,002
Multi-County Accounting and Contracting Grant		N/A	12,000	12,000
North Carolina Department of Health and Human Services Division of Public Health Pass-through from the University of North Carolina at Chapel Hill Family Support Network		N/A	11,924	11,780
Total State Awards			796,119	822,782
Total Federal and State Awards			\$ 993,407	\$ 1,014,853

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

Craven Smart Start Inc. (formerly known as Craven County Partnership for Children)
Schedule of Property and Equipment - Modified Cash Basis
For the Year Ended June 30, 2006

Schedule 4

Furniture and Noncomputer Equipment	\$ 18,906
Computer Equipment/Printers	<u>57,874</u>
Total Property and Equipment	<u><u>\$ 76,780</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 cash basis of accounting, these items are expensed in the year of purchase.

Craven Smart Start Inc (formerly known as Craven County Partnership for Children)
Schedule of Qualifying Match (Non-GAAP)
For the Year Ended June 30, 2006

Schedule 5

Match Provided at the Partnership Level:

Cash	\$	11,176
In-Kind Goods and Services		<u>5,811</u>
	\$	<u><u>16,987</u></u>

Match Provided at the Contractor Level:

Cash	\$	156,485
In-Kind Goods and Services		<u>18,353</u>
	\$	<u><u>174,838</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.

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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

Craven Smart Start, Inc. *(formerly known as Craven County Partnership for Children)*
New Bern, North Carolina

We have audited the financial statements of the Craven Smart Start, Inc. (Craven Partnership) as of and for the year ended June 30, 2006, and have issued our report thereon dated October 4, 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 Craven Partnership's internal control over financial reporting in order to determine our auditing procedures for the purposes of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Craven 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

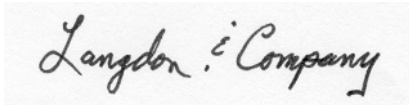


**INDEPENDENT AUDITOR'S REPORT
ON INTERNAL CONTROL OVER FINANCIAL REPORTING
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amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain additional matters that we reported to management of the Craven Partnership in a separate letter dated October 4, 2006.

This report is intended solely for the information and use of the audit committee, management of the Craven 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.



Garner, North Carolina
October 4, 2006

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