

FINANCIAL STATEMENT AUDIT REPORT OF

BURKE COUNTY SMART START, INC.

MORGANTON, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2007

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

**LESLIE W. MERRITT, JR., CPA, CFP
STATE AUDITOR**

FINANCIAL STATEMENT AUDIT REPORT OF

BURKE COUNTY SMART START, INC.

MORGANTON, NORTH CAROLINA

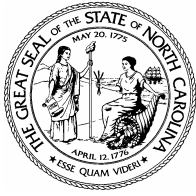
FOR THE YEAR ENDED JUNE 30, 2007

BOARD OF DIRECTORS

SPRING WILLIAMS, BOARD CHAIR

ADMINISTRATIVE OFFICER

JOAN B. ROVENSTINE, 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, Burke County Smart Start, Inc.

This report presents the results of the financial statement audit of Burke County Smart Start, Inc. for the year ended June 30, 2007. 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 Burke County 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. The Burke County Smart Start, Inc. is one of these local partnerships. As such, the Burke County Smart Start, Inc. is a private nonprofit 501(c)(3) organization and is required by G.S. 143B-168.14(b) to have a 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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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Burke County Smart Start, Inc.
Morganton, North Carolina

We have audited the accompanying Statement of Receipts, Expenditures, and Net Assets – Modified Cash Basis of the Burke County Smart Start, Inc. (Burke Partnership) as of June 30, 2007, and the related Statement of Functional Expenditures – Modified Cash Basis for the year then ended. These financial statements are the responsibility of the Burke 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 Burke County Smart Start, Inc. as of June 30, 2007, and its receipts and expenditures 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 8, 2007, on our consideration of the Burke 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

INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

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 Burke County 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.

Tichenor & Associates, LLP

Tichenor & Associates, LLP

November 8, 2007

Burke County Smart Start, Inc.

Statement of Receipts, Expenditures, and Net Assets - Modified Cash Basis

For the Year Ended June 30, 2007

Exhibit A

	Unrestricted Funds		Total Funds
	Smart Start Fund	Other Funds	
Receipts:			
State Awards	\$ 2,175,882	\$ 1,724,854	\$ 3,900,736
Private Contributions		736	736
Interest Earnings		11,488	11,488
Sales Tax Refunds		6,044	6,044
Total Receipts	2,175,882	1,743,122	3,919,004
Expenditures:			
Programs:			
Child Care and Education Affordability	762,754	1,200	763,954
Child Care and Education Quality	500,595		500,595
Family Support	328,900	2,000	330,900
Health and Safety	285,051	7,593	292,644
More at Four		1,678,716	1,678,716
Support:			
Management and General	238,794	15,121	253,915
Program Evaluation	59,788	800	60,588
Other:			
Sales Tax Paid		5,869	5,869
Total Expenditures	2,175,882	1,711,299	3,887,181
Excess of Receipts Over Expenditures		31,823	31,823
Net Assets at Beginning of Year		61,586	61,586
Net Assets at End of Year	\$ 0	\$ 93,409	\$ 93,409
Net Assets Consisted of:			
Cash and Cash Equivalents	\$ 1,888	\$ 67,312	\$ 69,200
Investments		26,097	26,097
Refunds Due From Contractors	18,071		18,071
	19,959	93,409	113,368
Less: Funds Held for Others	37		37
Due to State	19,922		19,922
	\$ 0	\$ 93,409	\$ 93,409

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

Burke County Smart Start, Inc.
Statement of Functional Expenditures - Modified Cash Basis
For the Year Ended June 30, 2007

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 Fund:								
Programs:								
Child Care and Education Affordability	\$ 762,754	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 762,754
Child Care and Education Quality	500,595							500,595
Family Support	328,900							328,900
Health and Safety	285,051							285,051
	<u>1,877,300</u>							<u>1,877,300</u>
Support:								
Management and General	238,794	171,616	575	6,402	27,649	27,491	5,061	
Program Evaluation	59,788	54,644		1,617	1,565		1,962	
	<u>298,582</u>	<u>226,260</u>	<u>575</u>	<u>8,019</u>	<u>29,214</u>	<u>27,491</u>	<u>7,023</u>	
Total Smart Start Fund Expenditures	\$ 2,175,882	\$ 226,260	\$ 575	\$ 8,019	\$ 29,214	\$ 27,491	\$ 7,023	\$ 1,877,300
Other Funds:								
Programs:								
Child Care and Education Affordability	\$ 1,200	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 1,200
Family Support	2,000							2,000
Health and Safety	7,593							7,593
More at Four	1,678,716	85,765	848	5,517	9,062	110	2,335	1,575,079
	<u>1,689,509</u>	<u>85,765</u>	<u>848</u>	<u>5,517</u>	<u>9,062</u>	<u>110</u>	<u>2,335</u>	<u>1,585,872</u>
Support:								
Management and General	15,121		12,000	993	1,460	668		
Program Evaluation	800			580	220			
	<u>15,921</u>		<u>12,000</u>	<u>1,573</u>	<u>1,680</u>	<u>668</u>		
Other:								
Sales Tax Paid	5,869			5,869				
Total Other Funds Expenditures	\$ 1,711,299	\$ 85,765	\$ 12,848	\$ 12,959	\$ 10,742	\$ 778	\$ 2,335	\$ 1,585,872

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

BURKE COUNTY SMART START, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2007

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

A. Organization and Purpose - Burke County Smart Start, Inc. (Burke Partnership) is a legally separate nonprofit organization incorporated on November 17, 1993. The Burke Partnership was established to develop and provide, through public and private means, early childhood education and developmental services for children and families. The Burke 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 Burke Partnership's Board of Directors is responsible. Pursuant to the provisions of Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-For-Profit Organizations*, the accompanying financial statements present information according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. As permitted by this Statement, temporarily restricted contributions received and expended in the same year are reported as unrestricted receipts rather than as temporarily restricted receipts.

The Burke Partnership did not have any temporarily or permanently restricted net assets at June 30, 2007.

C. Basis of Accounting - The accompanying financial statements were prepared on the modified cash basis of accounting. This basis differs from accounting principles generally accepted in the United States of America primarily because it recognizes long lived assets and other costs which benefit more than one period as expended in the year purchased; it recognizes revenue when received rather than when earned; and it recognizes expenditures when paid rather than when incurred.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

- D. Cash and Cash Equivalents** - This classification appears on the Statement of Receipts, Expenditures, and Net Assets – Modified Cash Basis and includes all demand and savings accounts and certificate of deposits or short-term investments with an original maturity of three months or less.
- E. Investments** - This classification includes mutual funds. Investments are reported at cost.
- F. 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.
- G. 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.
- H. Funds Held For Others** - Funds held for others includes amounts received that are fiduciary in nature in which the Burke Partnership acts in an agency capacity. For the year ended, the Burke Partnership was holding amounts withheld from employee paychecks for insurance payments.
- I. Property and Equipment** - Under the modified cash basis of accounting, purchases of property and equipment are reported as expenditures in the year occurred. However, Burke Partnership is required by contract regulation to track and maintain property and equipment items as presented in Schedule 4 of this report. The Burke 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, 2007. Donated items are recorded at estimated fair market value at the date of donation.
- J. 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

K. Use of Estimates - The preparation of financial statements in conformity with the modified cash basis of accounting used by the Burke 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 AND INVESTMENTS

A. Deposits - All funds of the Burke Partnership are deposited with a commercial bank and insured by the Federal Deposit Insurance Corporation (FDIC) up to \$100,000. The account has a money market sweep option whereby balances in excess of an established threshold are transferred into a separate money market deposits account to earn interest until the funds are needed for payments in the checking account. A maximum of six transfers may occur per month, after which all funds in the money market are transferred back into the checking account. Deposits over \$100,000 subject the Burke Partnership to a concentration of credit risk. At June 30, 2007, the Burke Partnership's bank deposits in excess of the FDIC insured was \$17,910.

B. Investments - The Burke Partnership held mutual fund investments with a cost value of \$26,097 and a market value of \$30,381 as of June 30, 2007. Custodial credit risk is the risk that, in the event of a brokerage failure, securities owned by the Partnership may not be returned to it. The Burke Partnership's mutual fund investments are not classified as to custodial risk since they are not evidenced by specific investment securities, but rather are interests in the assets of the funds.

NOTE 3 - FUNDING FROM GRANT AWARDS

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

Associated with these contracts, the Burke 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, the North Carolina Department of Health and Human Services (DHHS) entered into contracts with and made payments to service providers selected by the Burke

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 Burke Partnership was awarded and has received \$2,195,804 under a current year Smart Start contract with NCPC. The unexpended balance of this contract is subject to reversion to the State. The Burke Partnership has returned \$19,922 of this contract to the State based on financial status reports submitted to NCPC subsequent to June 30, 2007.

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

More at Four - The Burke Partnership also received revenue and support from the State of North Carolina for the More at Four Program. The Burke Partnership was awarded \$1,731,300 and received \$1,712,854 under a current year contract. The Burke 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 Burke Partnership are representative of various organizations that benefit from actions taken by the Board. It is the policy of the Burke Partnership that board members not be involved with decisions regarding organizations they represent. During the year, the Burke 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 Burke 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:

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

A. Program Functions

Child Care and Education Affordability - Used to account for service activities including Head Start expansion, part-day programs, and supplements for quality outside DCD reimbursement system.

Child Care and Education Quality - Used to account for service activities including, child care resource and referral services, salary supplements, and health insurance benefits for child care providers.

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

Health and Safety - Used to account for service activities including prenatal/newborn services, child care health consultants, special needs - early intervention services/special education, and intensive 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 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 estimated time spent by employees for each function.

Other Costs - Other costs including occupancy cost rent, utilities, and maintenance, were allocated based on estimates of utilization.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 6 - OPERATING LEASE OBLIGATIONS

Future minimum lease payments under operating leases consist of the following at June 30, 2007:

<u>Fiscal Year</u>	<u>Operating Leases</u>
2008	\$ 22,400
2009	22,400
2010	20,350
2011	500
2012	<u>375</u>
Total Minimum Lease Payments	<u>\$ 66,025</u>

The Burke Partnership leases its office for \$18,600 per year. At June 30, 2007 there were three years remaining under this lease. The terms of the lease provide the Burke Partnership the right to terminate the lease without any future liability in the event that the State of North Carolina reduces funding for leasing purposes.

Rental expense for all operating leases during the year was \$21,838.

NOTE 7 - PENSION PLAN

- A. Retirement Plans** - The Burke Partnership has a Simplified Employee Pension plan covering all full-time employees. Each full-time employee of the Burke Partnership, as a condition of employment, is provided an Individual Retirement Account through an outside insurance company. The Burke Partnership contributed 6% of gross wages for the year ended June 30, 2007. The Burke Partnership does not own the accounts nor is liable for any other cost other than the required contribution. The Burke Partnership contributed \$12,672 for pension benefits during the year.
- B. IRC Section 403(b) Plans** - All permanent employees who are at least half time can participate in tax sheltered annuity plans (Plans) created under Internal Revenue Code Section 403(b). The employee's eligible contributions, made through salary reduction agreements, are exempt from federal and State income taxes until the annuity is received or the contributions are withdrawn. These Plans are exclusively for employees of universities and certain charitable and other nonprofit organizations. All costs of administering and funding these Plans are the responsibility of the Plan participants. No costs were incurred by the Burke Partnership.

NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

NOTE 8 - RISK MANAGEMENT

The Burke 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 Burke 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 Burke 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 Burke 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, 2007, is \$10,892. No funds or reservation of net assets has been made for this commitment.

Burke County Smart Start, Inc.
Schedule of Contract and Grant Expenditures - Modified Cash Basis
For the Year Ended June 30, 2007

Schedule 1

Organization Name	Smart Start Fund		Other Funds	
	Amount Advanced	Refund Due	Amount Advanced	Refund Due
<i>Paid to Organizations:</i>				
Appalachian Family Innovations	\$ 92,723	\$ 0	\$ (2,407)	\$ 0
As We Grow Child Development Center			31,025	
Blue Ridge Community Action	*		220,460	
Burke County Health Department	*	1,033	10,000	
Burke County Literacy Council			2,000	
Burke County Public Schools	*	147	1,177,574	
Child Care Connections of Burke County, Inc.	*	16,891		
Creative Beginnings, LLC	*		65,700	
Giggles N' Grins Child Care Learning Center			24,090	
Hopewell Baptist Pre-School/School Age Care			54,385	
The Riddle Institute	58,171			
Various Centers			3,045	
	<u>\$ 1,895,371</u>	<u>\$ 18,071</u>	<u>\$ 1,585,872</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.

Burke County Smart Start, Inc.
Schedule of State Level Service Provider Contracts
For the Year Ended June 30, 2007

Schedule 2

Organization Name	DHHS Contracts
Burke County Department of Social Services	* \$ <u>869,965</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.

Burke County Smart Start, Inc.
Schedule State Awards - Modified Cash Basis
For the Year Ended June 30, 2007

Schedule 3

<u>State Grantor/Pass-through Grantor/Program</u>	<u>Contract #</u>	<u>Receipts</u>	<u>Expenditures</u>
State Awards:			
North Carolina Department of Health and Human Services			
Division of Child Development			
Pass-through from the North Carolina Partnership for Children, Inc.			
Early Childhood Initiatives Program		\$ 2,175,882	\$ 2,175,882
Multi-County Accounting and Contracting Grant		12,000	12,000
North Carolina Department of Public Instruction			
Office of School Readiness			
More at Four Pre-Kindergarten Program (Prior Year)	#0012-06		19,458
More at Four Pre-Kindergarten Program	* #0012-07	<u>1,712,854</u>	<u>1,659,258</u>
Total State Awards		<u><u>\$ 3,900,736</u></u>	<u><u>\$ 3,866,598</u></u>

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

Burke County Smart Start, Inc.
Schedule of Property and Equipment - Modified Cash Basis
For the Year Ended June 30, 2007

Schedule 4

Furniture and Noncomputer Equipment	\$	19,230
Computer Equipment/Printers		<u>14,494</u>
Total Property and Equipment	\$	<u><u>33,724</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.

Burke County Smart Start, Inc.
Schedule of Qualifying Match (Non-GAAP)
For the Year Ended June 30, 2007

Schedule 5

Match Provided at the Partnership Level:

Cash	\$	365
In-Kind Goods and Services		10,549
		<hr/>
	\$	10,914
		<hr/>

Match Provided at the Contractor Level:

Cash	\$	361,282
In-Kind Goods and Services		68,751
		<hr/>
	\$	430,033
		<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.

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
Burke County Smart Start, Inc.
Morganton, North Carolina

We have audited the financial statements of the Burke County Smart Start, Inc. (Burke Partnership) as of and for the year ended June 30, 2007, and have issued our report thereon dated November 8, 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 Burke Partnership's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Burke Partnership's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Burke Partnership's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Burke Partnership's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Burke Partnership's financial statements that is more than inconsequential will not be prevented or detected by the Burke Partnership's internal control.

**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)**

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Burke Partnership's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Burke 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 Burke Partnership's Board of Directors, management of the Burke Partnership, The North Carolina Partnership for Children, Inc., the Governor, and the General Assembly of North Carolina 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 8, 2007

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