

**THE CHOWAN/PERQUIMANS
SMART START PARTNERSHIP
Edenton, North Carolina**

**FINANCIAL STATEMENTS
June 30, 2007**

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

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

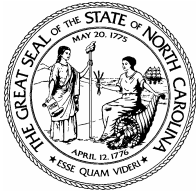
FINANCIAL STATEMENT AUDIT REPORT OF
THE CHOWAN/PERQUIMANS SMART START PARTNERSHIP
EDENTON, NORTH CAROLINA
FOR THE YEAR ENDED JUNE 30, 2007

BOARD OF DIRECTORS

FRED YATES, BOARD CHAIR

ADMINISTRATIVE OFFICER

HENRY FELTON, 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, The Chowan/Perquimans Smart Start Partnership

This report presents the results of the financial statement audit of The Chowan/Perquimans Smart Start Partnership for the year ended June 30, 2007. Clifton Gunderson LLP performed the audit under contract with the Office of the State Auditor, and their report is submitted herewith.

The audit of The Chowan/Perquimans Smart Start 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 Chowan/Perquimans Smart Start Partnership is one of these local partnerships. As such, The Chowan/Perquimans Smart Start Partnership 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
The Chowan/Perquimans Smart Start Partnership
Edenton, North Carolina

We have audited the accompanying Statement of Receipts, Expenditures, and Net Assets – Modified Cash Basis of The Chowan/Perquimans Smart Start Partnership (CP Partnership) as of and for the year ended 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 CP 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 Chowan/Perquimans Smart Start Partnership 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 January 15, 2008, on our consideration of the CP 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 an opinion on the financial statements that collectively comprise The Chowan/Perquimans Smart Start 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.

Clifton Gunderson LLP

Raleigh, North Carolina
January 15, 2008

***The Chowan/Perquimans Smart Start Partnership
Statement of Functional Expenditures – Modified Cash Basis
For the Year Ended June 30, 2007***

Exhibit A

	Unrestricted Funds		Temporarily Restricted Funds	Total Funds
	Smart Start Fund	Other Funds		
Receipts:				
State Awards	\$ 394,468	\$ 24,000	\$ -	\$ 418,468
Federal Awards	-	4,873	-	4,873
Private Contributions	-	1,799	233	2,032
Special Fund Raising Events	-	707	-	707
Sales Tax Refunds	-	2,263	-	2,263
Other Receipts	-	678	-	678
Total Receipts	394,468	34,320	233	429,021
Net Assets Released from Restrictions:				
Satisfaction of Program Restrictions	-	5,000	(5,000)	-
	394,468	39,320	(4,767)	429,021
Expenditures:				
Programs:				
Child Care and Education Quality	149,476	8,355	-	157,831
Family Support	63,995	6,296	-	70,291
Health and Safety	-	200	-	200
Support:				
Management and General	134,000	24,454	-	158,454
Program Evaluation	46,997	294	-	47,291
Other:				
Refund of Prior Year Grant	-	50	-	50
Sales Tax Paid	-	2,665	-	2,665
Total Expenditures	394,468	42,314	-	436,782
Excess of Receipts Over Expenditures	-	(2,994)	(4,767)	(7,761)
Net Assets at Beginning of Year	-	6,840	5,849	12,689
Net Assets at End of Year	\$ -	\$ 3,846	\$ 1,082	\$ 4,928
Net Assets Consisted of:				
Cash and Cash Equivalents	\$ 3,607	\$ 3,878	\$ 1,082	\$ 8,567
Refunds Due From Contractors	293	-	-	293
	3,900	3,878	1,082	8,860
Less: Due to the State	3,900	-	-	3,900
Funds Held for Others	-	32	-	32
	\$ -	\$ 3,846	\$ 1,082	\$ 4,928

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

*The Chowan/Perquimans Smart Start Partnership
Statement of Functional Expenditures – Modified Cash Basis
For the Year Ended June 30, 2007*

Exhibit B

	<u>Total</u>	<u>Personnel</u>	<u>Contracted Services</u>	<u>Supplies and Materials</u>	<u>Other Operating Expenditures</u>	<u>Fixed Charges and Other Expenditures</u>	<u>Property and Equipment Outlay</u>	<u>Services/ Contracts/ Grants</u>
Smart Start Fund:								
Programs:								
Child Care and Education Quality	\$ 149,476	\$ 113,735	\$ -	\$ 2,608	\$ 8,652	\$ 24	\$ -	\$ 24,457
Family Support	63,995	36,792	-	2,518	3,091	247	-	21,347
	<u>213,471</u>	<u>150,527</u>	<u>-</u>	<u>5,126</u>	<u>11,743</u>	<u>271</u>	<u>-</u>	<u>45,804</u>
Support:								
Management and General	134,000	91,247	1,920	3,262	16,839	17,227	3,505	-
Program Evaluation	46,997	44,981	-	-	2,016	-	-	-
	<u>180,997</u>	<u>136,228</u>	<u>1,920</u>	<u>3,262</u>	<u>18,855</u>	<u>17,227</u>	<u>3,505</u>	<u>-</u>
Total Smart Start Fund Expenditures	<u>\$ 394,468</u>	<u>\$ 286,755</u>	<u>\$ 1,920</u>	<u>\$ 8,388</u>	<u>\$ 30,598</u>	<u>\$ 17,498</u>	<u>\$ 3,505</u>	<u>\$ 45,804</u>
Other Funds:								
Programs:								
Child Care and Education Quality	\$ 8,355	\$ -	\$ -	\$ 1,999	\$ 4,964	\$ 942	\$ 450	\$ -
Family Support	6,296	-	-	-	827	325	-	5,144
Health and Safety	200	-	-	-	-	-	-	200
	<u>14,851</u>	<u>-</u>	<u>-</u>	<u>1,999</u>	<u>5,791</u>	<u>1,267</u>	<u>450</u>	<u>5,344</u>
Support:								
Management and General	24,454	10,880	12,000	359	1,215	-	-	-
Program Evaluation	294	-	-	-	294	-	-	-
	<u>24,748</u>	<u>10,880</u>	<u>12,000</u>	<u>359</u>	<u>1,509</u>	<u>-</u>	<u>-</u>	<u>-</u>
Other:								
Refund of Prior Year Grant	50	-	-	50	-	-	-	-
Sales Tax Paid	2,665	-	-	2,665	-	-	-	-
	<u>2,715</u>	<u>-</u>	<u>-</u>	<u>2,715</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Other Funds Expenditures	<u>\$ 42,314</u>	<u>\$ 10,880</u>	<u>\$ 12,000</u>	<u>\$ 5,073</u>	<u>\$ 7,300</u>	<u>\$ 1,267</u>	<u>\$ 450</u>	<u>\$ 5,344</u>

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

The Chowan/Perquimans Smart Start Partnership
Notes to Financial Statements
June 30, 2007

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

- A. Organization and Purpose** - The Chowan/Perquimans Smart Start Partnership (CP Partnership) is a legally separate nonprofit organization incorporated on July 7, 1998. The CP Partnership was established to develop and provide, through public and private means, early childhood education and developmental services for children and families. The CP 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 CP 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.

- 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 does not recognize the value of in-kind goods and services provided; 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.

The Chowan/Perquimans Smart Start Partnership
Notes to Financial Statements
June 30, 2007

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (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. 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 CP Partnership acts in an agency capacity. For the year ended, the CP Partnership was holding amounts withheld from employee paychecks for distribution to health insurance.
- 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, CP Partnership is required by contract regulation to track and maintain property and equipment items as presented in Schedule 4 of this report. The CP 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.
- 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.

The Chowan/Perquimans Smart Start Partnership
Notes to Financial Statements
June 30, 2007

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

J. Use of Estimates - The preparation of financial statements in conformity with the modified cash basis of accounting used by the CP 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 CP Partnership are deposited with a commercial bank and insured by the Federal Deposit Insurance Corporation (FDIC) up to \$100,000 per bank. Deposits over this amount subjects the CP Partnership to a concentration of credit risk. At June 30, 2007 the CP Partnership was not holding any bank deposits in excess of FDIC insured limits.

NOTE 3 - FUNDING FROM GRANT AWARDS

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

Associated with these contracts, the CP 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 CP 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 CP Partnership was awarded and has received \$398,368 under a current year Smart Start contract with NCPC. The unexpended balance of this contract is subject to reversion to the State. The CP Partnership has returned \$3,900 of this contract to the State based on financial status reports submitted to NCPC subsequent to June 30, 2007.

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

The Chowan/Perquimans Smart Start Partnership
Notes to Financial Statements
June 30, 2007

NOTE 4 - RELATED PARTY TRANSACTIONS

- A. Service Provider Contracts with Board Member Organizations** - The board members of the CP Partnership are representative of various organizations that benefit from actions taken by the Board. It is the policy of the CP Partnership that board members not be involved with decisions regarding organizations they represent. During the year, the CP 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 CP Partnership's Smart Start Allocation.
- B. Other Related Parties** - The CP Partnership entered into transactions for contracted services with a private business associated with a board member and a relative of an employee of the CP Partnership. The amounts paid included:

<u>Expenditures</u>	<u>Amount</u>
Shepard-Pruden Memorial Library	\$ 9,399
Perquimans County Library	<u>10,010</u>
	<u>\$ 19,409</u>

NOTE 5 - FUNCTIONAL EXPENDITURES

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

A. Program Functions

Child Care and Education Quality - Used to account for service activities including quality enhancement grants to improve quality, quality enhancement grants to maintain quality, child care resource and referral services, professional development for child care providers, child care substitutes, salary supplements, provider training, health/safety training for child care professionals, learning materials and teaching aids, and curriculum enhancements.

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

The Chowan/Perquimans Smart Start Partnership
Notes to Financial Statements
June 30, 2007

NOTE 5 - FUNCTIONAL EXPENDITURES (CONTINUED)

A. Program Functions (continued)

Health and Safety - Used to account for service activities including special needs – early intervention services/special education.

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), supplies and materials, and communication costs (telephone and printing) were allocated based on estimates of utilization or utilization data.

NOTE 6 - OPERATING LEASE OBLIGATIONS

Operating Lease Obligations - Future minimum lease payments under noncancelable operating leases consist of the following at June 30, 2007:

<u>Fiscal Year</u>	<u>Operating Leases</u>
2008	\$ 7,674
2009	3,624
2010	3,624
2011	2,718
Total Minimum Lease Payments	\$ 17,640

Rental expense for all operating leases during the year was \$12,024.

The Chowan/Perquimans Smart Start Partnership
Notes to Financial Statements
June 30, 2007

NOTE 7 - PENSION PLAN

Retirement Plans - The CP Partnership has a SIMPLE - IRA Plan covering all full-time employees. Each full-time employee of the CP Partnership has an option to participate in the Plan. An Individual Retirement Account is provided to the employee through an outside financial institution. The CP Partnership does not own the accounts, nor is it liable for any other cost other than the required contribution. The CP Partnership contributes up to 3% of gross wages. For the year ended June 30, 2007 the CP Partnership made contributions of \$4,406.

NOTE 8 - RISK MANAGEMENT

The CP 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 CP 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 CP 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 CP 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 \$3,369. No funds or reservation of net assets has been made for this commitment.

NOTE 10 - RESTRICTIONS ON NET ASSETS

A. Temporarily Restricted Net Assets - Temporarily restricted net assets at June 30, 2007 are available for the following purposes:

The Chowan/Perquimans Smart Start Partnership
Notes to Financial Statements
June 30, 2007

NOTE 10 - RESTRICTIONS ON NET ASSETS (CONTINUED)

<u>Purpose</u>	<u>Amount</u>
Child Care Related Activities	\$ 275
Family Support	45
Parents as Teachers	139
Literacy Outreach	75
Car Seats	208
Health Related Activities	340
	<u>\$ 1,082</u>

B. Net Assets Released From Donor Restrictions - Net assets were released from donor restrictions during the fiscal year ended June 30, 2007, by incurring expenditures satisfying the restricted purposes as follows:

<u>Purpose</u>	<u>Amount</u>
Literacy Outreach	<u>\$ 5,000</u>

This information is an integral part of the accompanying financial statements.

***The Chowan/Perquimans Smart Start Partnership
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>				
God Did It	\$ 1,677	\$ -	\$ -	\$ -
Linda's Little Bit of Heaven	4,526	-	-	-
Little Chick's	3,418	-	-	-
Ms. Chipmunks	5,940	-	-	-
Perquimans County Library	10,011	170	-	-
*Shepard-Pruden Memorial Library	9,399	123	5,000	-
*The Learning Center of Perquimans County	6,010	-	-	-
Wanda's Little Daycare	2,886	-	-	-
Car Seats to Individuals	2,230	-	144	-
	<u>46,097</u>	<u>293</u>	<u>5,144</u>	<u>-</u>
<i>Paid to Individuals:</i>				
Child Care Expense Reimbursements	-	-	200	-
	<u>-</u>	<u>-</u>	<u>200</u>	<u>-</u>
	<u>\$ 46,097</u>	<u>\$ 293</u>	<u>\$ 5,344</u>	<u>\$ -</u>

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

***The Chowan/Perquimans Smart Start Partnership
Schedule of State Level Service Provider Contracts– Modified Cash
For the Year Ended June 30, 2007***

Schedule 2

Organization Name	DHHS Contracts
Child Care Services Association	\$ 20,246
Chowan County Department of Social Services	80,564
* Perquimans County Department of Social Services	<u>42,479</u>
	<u><u>\$ 143,289</u></u>

* These organizations are represented on the Partnership's Board as described in Note 4a - 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.

***The Chowan/Perquimans Smart Start Partnership
Schedule of Federal and State Awards – Modified Cash Basis
For the Year Ended June 30, 2007***

Schedule 3

<u>Federal/State Grantor/Pass-through Grantor/Program</u>	<u>Federal CFDA Number</u>	<u>Contract #</u>	<u>Receipts</u>	<u>Expenditures</u>
Federal Awards:				
Pass-through from the North Carolina Department of Health and Human Services - Division of Child Development and Albemarle Smart Start Partnership, Inc.	93.575	07-CP	\$ 4,873	\$ 4,873
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			394,468	394,468
Multi-County Accounting and Contracting Grant			24,000	24,000
Total State Awards			<u>418,468</u>	<u>418,468</u>
Total Federal and State Awards			<u>\$ 423,341</u>	<u>\$ 423,341</u>

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

***The Chowan/Perquimans Smart Start Partnership
Schedule of Property and Equipment – Modified Cash Basis
For the Year Ended June 30, 2007***

Schedule 4

Furniture and Noncomputer Equipment	\$ 19,972
Computer Equipment/Printers	<u>30,417</u>
Total Property and Equipment	<u><u>\$ 50,389</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.

***The Chowan/Perquimans Smart Start Partnership
Schedule of Qualifying Match (Non-GAAP)
For the Year Ended June 30, 2007***

Schedule 5

Match Provided at the Partnership Level:

Cash	\$ 2,972
In-Kind Goods and Services	18,108
	<hr/>
	\$ 21,080
	<hr/> <hr/>

Match Provided at the Contractor Level:

Cash	\$ 20,813
In-Kind Goods and Services	14,759
	<hr/>
	\$ 35,572
	<hr/> <hr/>

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

**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
The Chowan/Perquimans Smart Start Partnership
Edenton, North Carolina

We have audited the financial statements of The Chowan/Perquimans Smart Start Partnership (CP Partnership) as of and for the year ended June 30, 2007, and have issued our report thereon dated January 15, 2008. 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 CP 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 CP Partnership's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the CP Partnership's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

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 CP 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 CP Partnership's financial statements that is more than inconsequential will not be prevented or detected by the CP Partnership's internal control. We consider the deficiencies described in the accompanying schedule of audit findings and responses as Findings 2007-1 and 2007-2 to be significant deficiencies in internal control over financial reporting.

**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 (CONTINUED)**

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 CP Partnership's internal control.

Our consideration of the 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 the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the CP 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 did not disclose any instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

We noted certain matters that we reported to management of the CP Partnership in a separate letter dated January 15, 2008.

This report is intended solely for the information and use of the CP Partnership's Board of Directors, management of the CP 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.

CP Partnership's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. We did not audit CP Partnership's response and, accordingly, we express no opinion on it.

Clifton Henderson LLP

Raleigh, North Carolina
January 15, 2008

*The Chowan/Perquimans Smart Start Partnership
Audit Findings and Responses
Year Ended June 30, 2007*

Matters Related to Financial Reporting

The following finding and response was identified during the current audit and describe conditions that represent significant deficiencies in internal control or noncompliance with laws, regulations, contracts, and grant agreements.

2007-1 Executive Director Approving Their Own Timesheet

We noted that the Executive Directors were approving their own timesheets for purposes of recording payroll and vacation time expended. This is a poor segregation of duties.

Response: The Partnership Board of Directors has hired a new Executive Director whose time records are verified by the Finance Officer/Personnel Director and approved by the Chairman of the Board or other designated Board member. Personnel Policies have also been revised as of November 2007 to reflect this change.

2007-2 Financial Statement Errors

We noted numerous errors contained in the Statements and Schedules of the CP Partnership. These errors required significant revisions to the financial statements in order to bring them into compliance under the requirements of The North Carolina Partnership for Children, Inc. standards. In addition, it appears the CP Partnership lacks an adequately trained finance manager capable of preparing such financial statements as required under *Government Auditing Standards*.

Response: At the time of financial statement presentation, there was employee turnover of four out of seven positions. The Partnership's new Finance Officer will attend The North Carolina Partnership for Children, Inc.'s financial statement training and will work with the MAC site in preparation of future financial statements.

ORDERING INFORMATION

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