

SMART START OF HENDERSON COUNTY, INC.
Hendersonville, 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

SMART START OF HENDERSON COUNTY, INC.

HENDERSONVILLE, NORTH CAROLINA

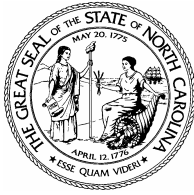
FOR THE YEAR ENDED JUNE 30, 2007

BOARD OF DIRECTORS

EARL MEDLIN, BOARD CHAIR

ADMINISTRATIVE OFFICER

SHEA HENSON, EXECUTIVE DIRECTOR



STATE OF NORTH CAROLINA
Office of the State Auditor

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AUDITOR'S TRANSMITTAL

The Honorable Michael F. Easley, Governor
The General Assembly of North Carolina
Board of Directors, Smart Start of Henderson County, Inc.

This report presents the results of the financial statement audit of Smart Start of Henderson County, Inc. 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 Smart Start of Henderson County was made in conjunction with the Early Childhood Initiatives (Smart Start) program authorized by G.S. 143B-168.10-16. This statute created The North Carolina Partnership for Children, Inc. and required the implementation of local partnerships. The Smart Start of Henderson County, Inc. is one of these local partnerships. As such, the Smart Start of Henderson County, 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
Smart Start of Henderson County, Inc.
Hendersonville, North Carolina

We have audited the accompanying Statement of Receipts, Expenditures, and Net Assets – Modified Cash Basis of the Smart Start of Henderson County, Inc. 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 Smart Start of Henderson County, Inc. Partnership's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the accompanying financial statements were prepared on the modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets of the Smart Start of Henderson County, 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 March 31, 2008, on our consideration of the Smart Start of Henderson County, Inc.'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 the Smart Start of Henderson County, 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.

Clifton Henderson LLP

Raleigh, North Carolina
March 31, 2008

Smart Start of Henderson County, Inc.**Statement of Receipts, Expenditures, and Net Assets – 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	\$ 967,597	\$ 7,497	\$ -	\$ 975,094
Private Contributions	-	3,145	-	3,145
Interest and Investment Earnings	-	3,987	-	3,987
Sales Tax Refunds	-	1,189	-	1,189
Other Receipts	-	714	-	714
Total Receipts	967,597	16,532	-	984,129
Net Assets Released from Restrictions:				
Satisfaction of Program Restrictions	-	520	(520)	-
Total Receipts and Net Assets Released from Restrictions	967,597	17,052	(520)	984,129
Expenditures:				
Programs:				
Child Care and Education Accessibility and Availability	34,955	-	-	34,955
Child Care and Education Quality	347,418	-	-	347,418
Family Support	162,610	2,280	-	164,890
Health and Safety	153,549	581	-	154,130
More at Four	19,637	10	-	19,647
Support:				
Management and General	127,722	12,527	-	140,249
Program Evaluation	121,706	332	-	122,038
Other:				
Sales Tax Paid	-	1,797	-	1,797
Total Expenditures	967,597	17,527	-	985,124
Excess of Expenditures Over Receipts and Net Assets Released from Retrictions	-	(475)	(520)	(995)
Net Assets at Beginning of Year	-	11,571	6,503	18,074
Net Assets at End of Year	\$ -	\$ 11,096	\$ 5,983	\$ 17,079
Net Assets Consisted of:				
Cash and Cash Equivalents	\$ 105	\$ 11,096	\$ 5,983	\$ 17,184
Refunds Due From Contractors	7,431	-	-	7,431
	7,536	11,096	5,983	24,615
Less: Due to the State	7,536	-	-	7,536
	\$ -	\$ 11,096	\$ 5,983	\$ 17,079

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

Smart Start of Henderson County, 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 Accessibility and Availability	\$ 34,955	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 34,955
Child Care and Education Quality	347,418	-	-	-	-	-	-	347,418
Family Support	162,610	-	-	-	-	-	-	162,610
Health and Safety	153,549	-	-	-	-	-	-	153,549
More at Four	19,637	1,276	-	106	34	21	-	18,200
	<u>718,169</u>	<u>1,276</u>	<u>-</u>	<u>106</u>	<u>34</u>	<u>21</u>	<u>-</u>	<u>716,732</u>
Support:								
Management and General	127,722	101,163	1,450	2,104	11,752	10,668	585	-
Program Evaluation	121,706	69,358	12,982	2,564	23,101	5,795	2,767	5,139
	<u>249,428</u>	<u>170,521</u>	<u>14,432</u>	<u>4,668</u>	<u>34,853</u>	<u>16,463</u>	<u>3,352</u>	<u>5,139</u>
Total Smart Start Fund Expenditures	<u><u>\$ 967,597</u></u>	<u><u>\$ 171,797</u></u>	<u><u>\$ 14,432</u></u>	<u><u>\$ 4,774</u></u>	<u><u>\$ 34,887</u></u>	<u><u>\$ 16,484</u></u>	<u><u>\$ 3,352</u></u>	<u><u>\$ 721,871</u></u>
Other Funds:								
Programs:								
Family Support	\$ 2,280	\$ -	\$ -	\$ 1,738	\$ 542	\$ -	\$ -	\$ -
Health and Safety	581	-	-	-	-	-	-	581
More at Four	10	10	-	-	-	-	-	-
	<u>2,871</u>	<u>10</u>	<u>-</u>	<u>1,738</u>	<u>542</u>	<u>-</u>	<u>-</u>	<u>581</u>
Support:								
Management and General	12,527	89	11,904	129	122	283	-	-
Program Evaluation	332	160	-	-	172	-	-	0
	<u>12,859</u>	<u>249</u>	<u>11,904</u>	<u>129</u>	<u>294</u>	<u>283</u>	<u>-</u>	<u>0</u>
Other:								
Sales Tax Paid	1,797	-	-	1,797	-	-	-	-
Total Other Funds Expenditures	<u><u>\$ 17,527</u></u>	<u><u>\$ 259</u></u>	<u><u>\$ 11,904</u></u>	<u><u>\$ 3,664</u></u>	<u><u>\$ 836</u></u>	<u><u>\$ 283</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 581</u></u>

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

Smart Start of Henderson County, Inc.
Notes to Financial Statements
June 30, 2007

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

- A. Organization and Purpose** – The Smart Start of Henderson County, Inc. (Henderson Partnership) is a legally separate nonprofit organization incorporated on October 21, 1997. The Henderson Partnership was established to develop and provide, through public and private means, early childhood education and developmental services for children and families. The Henderson 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 Henderson 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 Henderson Partnership had no 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 does not recognize the value of in-kind goods and services received; 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 Due to the State.

Smart Start of Henderson County, Inc.
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. Property and Equipment** – Under the modified cash basis of accounting, purchases of property and equipment are reported as expenditures in the year incurred. However, Henderson Partnership is required by contract regulation to track and maintain property and equipment items as presented in Schedule 4 of this report. The Henderson 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.
- H. 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.
- I. Use of Estimates** – The preparation of financial statements in conformity with the modified cash basis of accounting used by the Henderson 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.

Smart Start of Henderson County, Inc.
Notes to Financial Statements
June 30, 2007

NOTE 2 - DEPOSITS

All funds of the Henderson Partnership are deposited with a commercial bank and insured by the Federal Deposit Insurance Corporation (FDIC) up to \$100,000. Deposits over this amount subjects the Henderson Partnership to a concentration of credit risk. At June 30, 2007, the Henderson Partnership's bank deposits in excess of the FDIC insured limit was \$1,284.

NOTE 3 - FUNDING FROM GRANT AWARDS

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

Associated with these contracts, the Henderson 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 Henderson 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 Henderson Partnership was awarded and has received \$975,133 under a current year Smart Start contract with NCPC. The unexpended balance of this contract is subject to reversion to the State. The Henderson Partnership has returned \$7,536 of this contract to the State based on financial status reports submitted to NCPC subsequent to June 30, 2007.

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

NOTE 4 - RELATED PARTY TRANSACTIONS

A. Service Provider Contracts with Board Member Organizations – The board members of the Henderson Partnership are representative of various organizations that benefit from actions taken by the Board. It is the policy of the Henderson Partnership that board members not be involved with decisions regarding organizations they represent. During the year, the Henderson 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 Henderson Partnership's allocation.

Smart Start of Henderson County, Inc.
Notes to Financial Statements
June 30, 2007

NOTE 4 - RELATED PARTY TRANSACTIONS (CONTINUED)

- B. Other Related Parties** – The Henderson Partnership entered into transactions for the leasing of office space with a non-profit organization associated with a board member. The amounts paid included:

<u>Expenditures</u>	<u>Amount</u>
Office Rent	<u>\$ 12,120</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 Accessibility and Availability – Used to account for service activities associated with increasing child care availability.

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

Family Support – Used to account for service activities including ongoing parenting skills training, ongoing parenting education, and/or general family support.

Health and Safety – Used to account for service activities including oral health services and/or child care health consultants.

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.

Smart Start of Henderson County, Inc.
Notes to Financial Statements
June 30, 2007

NOTE 5 - FUNCTIONAL EXPENDITURES (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 performance of service providers as to the delivery of services and adherence to the specific terms and conditions of the contracts.

C. Allocation of Joint Costs

Expenditures benefiting more than one purpose were allocated as follows:

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

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

NOTE 6 - 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	\$ 1,998
2009	888
2010	<u>888</u>
Total Minimum Lease Payments	<u>\$ 2,876</u>

Rental expense for all operating leases during the year was \$13,041.

NOTE 7 - PENSION PLAN

IRC Section 403(b) Plan – All permanent employees who are at least half time can participate in a tax sheltered annuity plan (Plan) created under Internal Revenue Code Section 403(b). The Plan is a defined contribution plan in which each employee of the Henderson Partnership, as a condition of employment, is provided an individual annuity through an outside insurance company.

Smart Start of Henderson County, Inc.
Notes to Financial Statements
June 30, 2007

NOTE 7 - PENSION PLAN (CONTINUED)

The Henderson Partnership contributed up to 7% of gross wages for the year ended June 30, 2007. 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. The Henderson Partnership pays the annual employee service fee for maintaining the plan, subject to approval by the Executive Committee. The Henderson Partnership contributed \$8,540 for retirement benefits during the year.

NOTE 8 - RISK MANAGEMENT

The Henderson 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 Henderson 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 Henderson County 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 Henderson 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 \$5,069. 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:

<u>Purpose</u>	<u>Amount</u>
Community Outreach	\$ 4,783
Dental Services for Children	1,200
Total	<u><u>\$ 5,983</u></u>

Smart Start of Henderson County, Inc.
Notes to Financial Statements
June 30, 2007

NOTE 10 - RESTRICTIONS ON NET ASSETS (CONTINUED)

- 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:

Purpose	Amount
Community Outreach	\$ 20
Dental Services for Children	500
Total	\$ 520

Smart Start of Henderson County, 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	
	Amount Advanced	Refund Due	Amount Advanced	Refund Due
Paid to Organizations:				
* Children & Family Resource Center	\$ 514,567	\$ 6,288	\$ -	\$ -
* Henderson County Cooperative Extension	37,403	699	-	-
* Henderson County Department of Public Health	153,993	444	-	-
* Henderson County Public Schools	18,200	-	-	-
	<u>724,163</u>	<u>7,431</u>	<u>-</u>	<u>-</u>
Paid to Individuals:				
Oral Health Related Services	-	-	500	-
Car Seats	5,139	-	81	-
	<u>5,139</u>	<u>-</u>	<u>581</u>	<u>-</u>
	<u>\$ 729,302</u>	<u>\$ 7,431</u>	<u>\$ 581</u>	<u>\$ -</u>

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

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

Schedule 2

Organization Name	DHHS Contracts
Child Care Services Association	\$ 123,361
* Henderson County Department of Social Services	492,214
	<u>\$ 615,575</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.

***Smart Start of Henderson County, Inc.
Schedule of State Awards – Modified Cash Basis
For the Year Ended June 30, 2007***

Schedule 3

<u>Federal/State Grantor/Pass-through Grantor/Program</u>	<u>CFDA Number</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	*	N/A	\$ 967,597	\$ 967,597
Multi-County Accounting and Contracting Grant		N/A	12,000	12,000
North Carolina Department of Public Instruction, Office of School Readiness				
More at Four Pre-Kindergarten Program		N/A	<u>(4,503)</u>	<u>(4,503)</u>
Total State Awards			<u><u>\$ 975,094</u></u>	<u><u>\$ 975,094</u></u>

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

Smart Start of Henderson County, Inc.

Schedule of Property and Equipment – Modified Cash Basis

For the Year Ended June 30, 2007

Schedule 4

Furniture and Noncomputer Equipment	\$ 6,974
Computer Equipment/Printers	<u>8,083</u>
Total Property and Equipment	<u><u>\$ 15,057</u></u>

Note: The information on this schedule provides a summary of property and equipment with acquisition or donated cost of \$500 or more which were held by the Partnership at year-end. The valuations represent historical cost. On the modified basis of accounting, these items are expensed in the year of purchase.

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

Schedule 5

Match Provided at the Partnership Level:

Cash	\$ 1,145
In-Kind Goods and Services	<u>13,797</u>
	<u>\$ 14,942</u>

Match Provided at the Contractor Level:

Cash	\$ 73,622
In-Kind Goods and Services	<u>124,962</u>
	<u>\$ 198,584</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.

**INDEPENDENT AUDITOR'S REPORT
ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
THE FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Board of Directors
Smart Start of Henderson County, Inc.
Hendersonville, North Carolina

We have audited the financial statements of the Smart Start of Henderson County, Inc. as of and for the year ended June 30, 2007, and have issued our report thereon dated March 31, 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 Smart Start of Henderson County, Inc.'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 Henderson County Partnership's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Smart Start of Henderson County, Inc.'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 Smart Start of Henderson County, Inc.'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 Smart Start of Henderson County, Inc.'s financial statements that is more than inconsequential will not be prevented or detected by the Henderson County Partnership's internal control.

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 Smart Start of Henderson County, Inc.'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)**

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 Smart Start of Henderson County, Inc.'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 Smart Start of Henderson County, Inc.'s Board of Directors, management of the Smart Start of Henderson County, Inc. 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.

Clifton Henderson LLP

Raleigh, North Carolina
March 31, 2008

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