

**SMART START OF TRANSYLVANIA COUNTY
Brevard, 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 TRANSYLVANIA COUNTY

BREVARD, NORTH CAROLINA

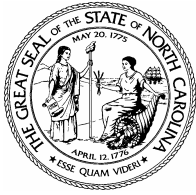
FOR THE YEAR ENDED JUNE 30, 2007

BOARD OF DIRECTORS

KATHY HAEHNEL, BOARD CHAIR

ADMINISTRATIVE OFFICER

JOE CASTRO, EXECUTIVE DIRECTOR



STATE OF NORTH CAROLINA
Office of the State Auditor

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

2 S. Salisbury Street
20601 Mail Service Center
Raleigh, NC 27699-0601
Telephone: (919) 807-7500
Fax: (919) 807-7647
Internet
<http://www.ncauditor.net>

AUDITOR'S TRANSMITTAL

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

This report presents the results of the financial statement audit of Smart Start of Transylvania County 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 Transylvania 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 Transylvania County is one of these local partnerships. As such, the Smart Start of Transylvania County 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

TABLE OF CONTENTS

	PAGE
INDEPENDENT AUDITOR'S REPORT	1
FINANCIAL STATEMENTS	
EXHIBITS	
A Statement of Receipts, Expenditures, and Net Assets – Modified Cash Basis.....	3
B Statement of Functional Expenditures – Modified Cash Basis.....	4
Notes to Financial Statements.....	5
SUPPLEMENTARY SCHEDULES	
1 Schedule of Contract and Grant Expenditures – Modified Cash Basis	11
2 Schedule of State Level Service Provider Contracts.....	12
3 Schedule of State Awards – Modified Cash Basis	13
4 Schedule of Property and Equipment – Modified Cash Basis	14
5 Schedule of Qualifying Match (Non-GAAP).....	15
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 <i>GOVERNMENT AUDITING STANDARDS</i>	16
ORDERING INFORMATION	18

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Smart Start of Transylvania County
Brevard, North Carolina

We have audited the accompanying Statement of Receipts, Expenditures, and Net Assets – Modified Cash Basis of the Smart Start of Transylvania County (Transylvania County 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 Transylvania County 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 Transylvania County 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 Transylvania County Partnership's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Smart Start of Transylvania County'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
March 31, 2008

Smart Start of Transylvania County**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 (less refunds of \$2,763)	\$ 203,745	\$ 9,237	\$ -	\$ 212,982
Sales Tax Refunds	-	92	-	92
Other Receipts	-	1,588	-	1,588
Total Receipts	203,745	10,917	-	214,662
Net Assets Released from Restrictions:				
Satisfaction of Program Restrictions		485	(485)	
Expiration of Time Restrictions	-	580	(580)	-
	203,745	11,982	(1,065)	214,662
Expenditures:				
Programs:				
Child Care and Education Quality	36,516	-	-	36,516
Family Support	25,741	485	-	26,226
Health and Safety	26,500	-	-	26,500
Support:				
Management and General	96,000	11,801	-	107,801
Program Evaluation	18,988	-	-	18,988
Other:				
Refund of Prior Year Grant	-	611	-	611
Sales Tax Paid	-	298	-	298
Total Expenditures	203,745	13,195	-	216,940
Excess of Expenditures Over Receipts	-	(1,213)	(1,065)	(2,278)
Net Assets at Beginning of Year	-	3,215	1,065	4,280
Net Assets at End of Year	\$ -	\$ 2,002	\$ -	\$ 2,002
Net Assets Consisted of:				
Cash and Cash Equivalents	\$ 1,731	\$ 2,002	\$ -	\$ 3,733
Refunds Due From Contractors	12	-	-	12
	1,743	2,002	-	3,745
Less: Due to the State	1,743	-	-	1,743
	\$ -	\$ 2,002	\$ -	\$ 2,002

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

***Smart Start of Transylvania County
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	\$ 36,516	\$ 10,158	\$ -	\$ 446	\$ 1,017	\$ -	\$ -	\$ 24,895
Family Support	25,741	-	-	-	-	-	-	25,741
Health and Safety	26,500	-	-	-	-	-	-	26,500
	<u>88,757</u>	<u>10,158</u>	<u>-</u>	<u>446</u>	<u>1,017</u>	<u>-</u>	<u>-</u>	<u>77,136</u>
Support:								
Management and General	96,000	76,115	-	1,312	11,266	6,830	477	-
Program Evaluation	18,988	-	-	-	-	-	-	18,988
	<u>114,988</u>	<u>76,115</u>	<u>-</u>	<u>1,312</u>	<u>11,266</u>	<u>6,830</u>	<u>477</u>	<u>18,988</u>
Total Smart Start Fund Expenditures	<u>\$ 203,745</u>	<u>\$ 86,273</u>	<u>\$ -</u>	<u>\$ 1,758</u>	<u>\$ 12,283</u>	<u>\$ 6,830</u>	<u>\$ 477</u>	<u>\$ 96,124</u>
Other Funds:								
Programs:								
Family Support	\$ 485	\$ -	\$ 60	\$ 267	\$ 83	\$ 75	\$ -	\$ -
Support:								
Management and General	11,801	-	11,449	-	352	-	-	-
Other:								
Refund of Prior Year Grant	611	-	-	-	611	-	-	-
Sales Tax Paid	298	-	-	298	-	-	-	-
	<u>909</u>	<u>-</u>	<u>-</u>	<u>298</u>	<u>611</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Other Funds Expenditures	<u>\$ 13,195</u>	<u>\$ -</u>	<u>\$ 11,509</u>	<u>\$ 565</u>	<u>\$ 1,046</u>	<u>75</u>	<u>\$ -</u>	<u>\$ -</u>

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

Smart Start of Transylvania County
Notes to Financial Statements
June 30, 2007

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

- A. Organization and Purpose** – The Smart Start of Transylvania County (Transylvania County Partnership) is a legally separate nonprofit organization incorporated on April 1, 1996. The Transylvania County Partnership was established to develop and provide, through public and private means, early childhood education and developmental services for children and families. The Transylvania County 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 Transylvania County 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 Transylvania County 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 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 a Due to the State.

- D. Cash and Cash Equivalents** – This classification appears on the Statement of Receipts, Expenditures, and Net Assets – Modified Cash Basis and includes all demand and savings accounts and certificate of deposits or short-term investments with an original maturity of three months or less.

Smart Start of Transylvania County
Notes to Financial Statements
June 30, 2007

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- 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, Transylvania County Partnership is required by contract regulation to track and maintain property and equipment items as presented in Schedule 4 of this report. The Transylvania County 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 Transylvania County 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 Transylvania County 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 Transylvania County Partnership to a concentration of credit risk.

Smart Start of Transylvania County
Notes to Financial Statements
June 30, 2007

NOTE 3 - FUNDING FROM GRANT AWARDS

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

Associated with these contracts, the Transylvania County 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 Transylvania County 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 Transylvania County Partnership was awarded and has received \$205,488 under a current year Smart Start contract with NCPC. The unexpended balance of this contract is subject to reversion to the State. The Transylvania County Partnership has returned \$1,743 of this contract to the State based on financial status reports submitted to NCPC subsequent to June 30, 2007.

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

NOTE 4 - RELATED PARTY TRANSACTIONS

Service Provider Contracts with Board Member Organizations – The board members of the Transylvania County Partnership are representative of various organizations that benefit from actions taken by the Board. It is the policy of the Transylvania County Partnership that board members not be involved with decisions regarding organizations they represent. During the year, the Transylvania County 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 NCPC and DHHS with board member organizations for activities funded by the Transylvania County 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

NOTE 5 - FUNCTIONAL EXPENDITURES (CONTINUED)

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 child care resource and referral, professional development, salary supplements, provider training, health/safety training materials and teaching aids, curriculum enhancements, kindergarten orientation/transition.

Family Support – Used to account for service activities including parenting skills training, ongoing parenting education, general family support, community outreach information and resources.

Health and Safety – Used to account for service activities associated with oral health services

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 actual time spent by employees for each function supported by employee time reports.

Smart Start of Transylvania County
Notes to Financial Statements
June 30, 2007

NOTE 6 - OPERATING LEASE OBLIGATIONS

Operating Lease - 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	\$ <u>3,600</u>

Rental expense for all operating leases during the year was \$3,600.

NOTE 7 - PENSION PLAN

The Transylvania County Partnership did not have a pension plan in place for its employees. However, each employee of the Transylvania County Partnership is provided, as part of the benefit package, an additional 6% of his/her salary to be applied to an individual retirement plan. The Transylvania County Partnership has no liability for any other cost other than the required percentage. The Transylvania County Partnership contributed \$4,005 for retirement benefits during the year.

NOTE 8 - RISK MANAGEMENT

The Transylvania County 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 Transylvania County 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 Transylvania 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 Transylvania County 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 \$4,225. No funds or reservation of net assets has been made for this commitment.

Smart Start of Transylvania County
Notes to Financial Statements
June 30, 2007

NOTE 10 - RESTRICTIONS ON NET ASSETS

Net Assets Released From Donor Restrictions – Net assets were released from donor restrictions during the fiscal year ended June 30, 2007, by either incurring expenditures satisfying the restricted purposes or by the expiration of time restrictions as follows:

<u>Purpose</u>	<u>Amount</u>
Expenses – Outreach and Education Grant	\$ 485
Expiration of Time Restrictions	<u>580</u>
Total	<u>\$ 1,065</u>

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

***Smart Start of Transylvania County
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>				
The Children's Center	\$ 25,741	\$ -	\$ -	\$ -
Transylvania County Child Development *	16,500	-	-	-
Transylvania County Health Department *	26,500	-	-	-
	<u>68,741</u>	<u>-</u>	<u>-</u>	<u>-</u>
<i>Paid to Individuals:</i>				
Karen -Weller - Program Evaluation	19,000	12	-	-
Scholarships/Bonus Awards	8,395	-	-	-
	<u>27,395</u>	<u>12</u>	<u>-</u>	<u>-</u>
	<u>\$ 96,136</u>	<u>\$ 12</u>	<u>\$ -</u>	<u>\$ -</u>

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

***Smart Start of Transylvania County
Schedule of State Level Service Provider Contracts
For the Year Ended June 30, 2007***

Schedule 2

Organization Name	DHHS Contracts
* Transylvania County Child Development	\$ 130,000
Child Care Services Association - WAGE\$	<u>74,600</u>
	<u>\$ 204,600</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.

**Smart Start of Transylvania County
Schedule of 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 *	n/a	\$ 203,745	\$ 203,745
Multi-County Accounting and Contracting Grant (Prior Year)	n/a	(2,763)	(2,763)
Multi-County Accounting and Contracting Grant (Current Year)	n/a	12,000	12,000
Total State Awards		<u>\$ 212,982</u>	<u>\$ 212,982</u>

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

*Smart Start of Transylvania County
Schedule of Property and Equipment – Modified Cash Basis
For the Year Ended June 30, 2007*

Schedule 4

Furniture and Noncomputer Equipment	\$ 549
Computer Equipment/Printers	<u>15,693</u>
Total Property and Equipment	<u><u>\$ 16,242</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 Transylvania County
Schedule of Qualifying March (Non-GAAP)
For the Year Ended June 30, 2007***

Schedule 5

Match Provided at the Partnership Level:

In-Kind Goods and Services	<u>\$ 2,554</u>
----------------------------	-----------------

Match Provided at the Contractor Level:

Cash	\$ 13,771
In-Kind Goods and Services	<u>46,322</u>
	<u>\$ 60,093</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 Transylvania County
Brevard, North Carolina

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

Clifton Gunderson LLP

Raleigh, North Carolina
March 31, 2008

ORDERING INFORMATION

Audit reports issued by the Office of the State Auditor can be obtained from the web site at www.ncauditor.net. Also, parties may register on the web site to receive automatic email notification whenever reports of interest are issued. Otherwise, copies of audit reports may be obtained by contacting the:

Office of the State Auditor
State of North Carolina
2 South Salisbury Street
20601 Mail Service Center
Raleigh, North Carolina 27699-0601

Telephone: 919/807-7500

Facsimile: 919/807-7647