

**FINANCIAL STATEMENT AUDIT REPORT**

**AVERY COUNTY SMART START: A PARTNERSHIP FOR CHILDREN**

**NEWLAND, NORTH CAROLINA**

**FOR THE YEAR ENDED JUNE 30, 2008**

**PERFORMED UNDER CONTRACT WITH THE**

**OFFICE OF THE STATE AUDITOR**

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

**STATE AUDITOR**

**FINANCIAL STATEMENT AUDIT REPORT**

**AVERY COUNTY SMART START: A PARTNERSHIP FOR CHILDREN**

**NEWLAND, NORTH CAROLINA**

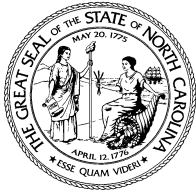
**FOR THE YEAR ENDED JUNE 30, 2008**

**BOARD OF DIRECTORS**

**SUSAN T. CARTER, BOARD CHAIR**

**ADMINISTRATIVE OFFICER**

**SARA B. YACKEY, EXECUTIVE DIRECTOR**



STATE OF NORTH CAROLINA  
Office of the State Auditor

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**AUDITOR'S TRANSMITTAL**

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The Honorable Michael F. Easley, Governor  
The General Assembly of North Carolina  
Board of Directors, Avery County Smart Start: A Partnership for Children

This report presents the results of the financial statement audit of Avery County Smart Start: A Partnership for Children for the year ended June 30, 2008. Tichenor & Associates, LLP performed this audit under contract with the Office of the State Auditor.

You will note from the independent auditor's report that the auditor determined that the financial statements are presented fairly in all material aspects. The results of their tests disclosed no deficiencies in internal control over financial reporting that were considered to be material weaknesses in relation to their audit scope or any instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

*North Carolina General Statutes* require the State Auditor to make audit reports available to the public. Copies of audit reports issued by the Office of the State Auditor may be obtained through one of the options listed in 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

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Board of Directors

Avery County Smart Start: A Partnership for Children  
Newland, North Carolina

We have audited the accompanying Statement of Receipts, Expenditures, and Net Assets – Modified Cash Basis of the Avery County Smart Start: A Partnership for Children (Avery Partnership) as of June 30, 2008, and the related Statement of Functional Expenditures – Modified Cash Basis for the year then ended. These financial statements are the responsibility of the Avery 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 Avery Partnership as of June 30, 2008, and the results of its operations arising from modified cash basis transactions for the year then ended, on the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 16, 2008, on our consideration of the Avery Partnership's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with

## INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

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*Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Avery 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.

*Tichenor & Associates, LLP*

Tichenor & Associates, LLP

October 16, 2008

***Avery County Smart Start: A Partnership for Children  
Statement of Receipts, Expenditures, and Net Assets - Modified Cash Basis  
For the Year Ended June 30, 2008***

***Exhibit A***

	Unrestricted Funds		Temporarily Restricted Funds	Total Funds
	Smart Start Fund	Other Funds		
<b>Receipts:</b>				
State Awards	\$ 264,694	\$ 11,665	\$ 0	\$ 276,359
Private Contributions		27,903	450	28,353
Special Fund Raising Events		7,907		7,907
Sales Tax Refunds		1,383		1,383
<b>Total Receipts</b>	<b>264,694</b>	<b>48,858</b>	<b>450</b>	<b>314,002</b>
Net Assets Released from Restrictions:				
Satisfaction of Program Restrictions		257	(257)	
	<b>264,694</b>	<b>49,115</b>	<b>193</b>	<b>314,002</b>
<b>Expenditures:</b>				
Programs:				
Child Care and Education Affordability	51,788			51,788
Child Care and Education Quality	38,256			38,256
Family Support	49,689	21,175		70,864
Health and Safety	24,555			24,555
Support:				
Management and General	84,406	21,496		105,902
Program Coordination and Evaluation	16,000	3,542		19,542
Other:				
Sales Tax Paid		1,262		1,262
<b>Total Expenditures</b>	<b>264,694</b>	<b>47,475</b>		<b>312,169</b>
<b>Excess of Receipts Over Expenditures</b>	<b>0</b>	<b>1,640</b>	<b>193</b>	<b>1,833</b>
<b>Net Assets at Beginning of Year</b>	<b>0</b>	<b>(437)</b>	<b>400</b>	<b>(37)</b>
<b>Net Assets at End of Year</b>	<b>\$ 0</b>	<b>\$ 1,203</b>	<b>\$ 593</b>	<b>\$ 1,796</b>
<b>Net Assets Consisted of:</b>				
Cash and Cash Equivalents	\$ 0	\$ 1,645	\$ 593	\$ 2,238
Refunds Due From Contractors	188			188
	<b>188</b>	<b>1,645</b>	<b>593</b>	<b>2,426</b>
Less: Due to the State	188			188
Funds Held for Others		442		442
	<b>\$ 0</b>	<b>\$ 1,203</b>	<b>\$ 593</b>	<b>\$ 1,796</b>

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

***Avery County Smart Start: A Partnership for Children  
Statement of Functional Expenditures - Modified Cash Basis  
For the Year Ended June 30, 2008***

***Exhibit B***

	<b>Total</b>	<b>Personnel</b>	<b>Contracted Services</b>	<b>Supplies and Materials</b>	<b>Other Operating Expenditures</b>	<b>Fixed Charges and Other Expenditures</b>	<b>Property and Equipment Outlay</b>	<b>Services/ Contracts/ Grants</b>
<b>Smart Start Fund:</b>								
<b>Programs:</b>								
Child Care and Education Affordability	\$ 51,788	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 51,788
Child Care and Education Quality	38,256							38,256
Family Support	49,689	31,618	1,625	3,300	3,325	6,421		3,400
Health and Safety	24,555							24,555
	<u>164,288</u>	<u>31,618</u>	<u>1,625</u>	<u>3,300</u>	<u>3,325</u>	<u>6,421</u>		<u>117,999</u>
<b>Support:</b>								
Management and General	84,406	65,505	40	4,062	5,834	8,315	650	
Program Coordination and Evaluation	16,000	15,432		568				
	<u>100,406</u>	<u>80,937</u>	<u>40</u>	<u>4,630</u>	<u>5,834</u>	<u>8,315</u>	<u>650</u>	
<b>Total Smart Start Fund Expenditures</b>	<u>\$ 264,694</u>	<u>\$ 112,555</u>	<u>\$ 1,665</u>	<u>\$ 7,930</u>	<u>\$ 9,159</u>	<u>\$ 14,736</u>	<u>\$ 650</u>	<u>\$ 117,999</u>
<b>Other Funds:</b>								
<b>Programs:</b>								
Family Support	\$ 21,175	\$ 0	\$ 4,484	\$ 1,212	\$ 3,469	\$ 3,284	\$ 1,615	\$ 7,111
<b>Support:</b>								
Management and General	21,496		11,438	1,199	6,627	392	1,773	67
Program Coordination	3,542		2,275	55	1,134			78
	<u>25,038</u>		<u>13,713</u>	<u>1,254</u>	<u>7,761</u>	<u>392</u>	<u>1,773</u>	<u>145</u>
<b>Other:</b>								
Sales Tax Paid	1,262			1,262				
<b>Total Other Funds Expenditures</b>	<u>\$ 47,475</u>	<u>\$ 0</u>	<u>\$ 18,197</u>	<u>\$ 3,728</u>	<u>\$ 11,230</u>	<u>\$ 3,676</u>	<u>\$ 3,388</u>	<u>\$ 7,256</u>

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



**AVERY COUNTY SMART START: A PARTNERSHIP FOR CHILDREN**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2008**

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**NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES**

- A. Organization and Purpose** - The Avery County Smart Start: A Partnership for Children (Avery Partnership) is a legally separate nonprofit organization incorporated on September 20, 1994. The Avery Partnership was established to develop and provide, through public and private means, early childhood education and developmental services for children and families. The Avery 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 Avery 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 Avery Partnership did not have any permanently restricted net assets at June 30, 2008.

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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

- D. Cash and Cash Equivalents** - This classification appears on the Statement of Receipts, Expenditures, and Net Assets – Modified Cash Basis and includes all demand and savings accounts and certificates of deposit 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 Avery Partnership acts in an agency capacity. At year end, the Avery Partnership was holding amounts for Avery R.A.P.S. and the Local Interagency Coordinating Council and prepaid employee insurance in the net amount of \$442.
- H. Property and Equipment** - Under the modified cash basis of accounting, purchases of property and equipment are reported as expenditures in the year purchased. However, Avery Partnership is required by contract regulation to track and maintain property and equipment items as presented in Schedule 4 of this report. The Avery 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, 2008. 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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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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 8.

- J. Use of Estimates** - The preparation of financial statements in conformity with the modified cash basis of accounting used by the Avery 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 - FUNDING FROM GRANT AWARDS

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

Associated with these contracts, the Avery 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 Avery 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 Avery Partnership was awarded and has received \$264,694 under a current year Smart Start contract with NCPC. The unexpended balance of this contract is subject to reversion to the State. The Avery Partnership has returned \$188 of this contract to the State based on financial status reports submitted to NCPC subsequent to June 30, 2008.

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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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### NOTE 3 - RELATED PARTY TRANSACTIONS

**Service Provider Contracts with Board Member Organizations** - The board members of the Avery Partnership are representative of various organizations that benefit from actions taken by the Board. It is the policy of the Avery Partnership that board members not be involved with decisions regarding organizations they represent. During the year, the Avery 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 Avery Partnership's Smart Start Allocation.

### NOTE 4 - 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 Affordability** - Used to account for service activities associated with supplements for quality outside the Division of Child Development.

**Child Care and Education Quality** - Used to account for service activities including child care resource and referral and provider training.

**Family Support** - Used to account for service activities associated with transportation services.

**Health and Safety** - Used to account for service activities including health services and support and 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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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activities, business management, general recordkeeping, budgeting, and related purposes.

**Program Coordination and Evaluation** - Expenditures that are incurred to coordinate the policies, procedures, and daily practices of service delivery including costs associated with monitoring in-house and direct service provider activities. In addition, 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 associated with occupancy cost (rent, utilities and maintenance) were allocated based on utilization data.

### NOTE 5 - OPERATING LEASE OBLIGATIONS

Future minimum lease payments under noncancelable operating leases consist of the following at June 30, 2008:

<u>Fiscal Year</u>	<u>Operating Leases</u>
2009	\$ 13,891
2010	14,491
2011	2,491
Total Minimum Lease Payments	<u>\$ 30,873</u>

Rental expense for all operating leases during the year was \$13,291.

### NOTE 6 - 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 Avery Partnership, as a condition of employment, is provided an individual annuity through an outside insurance company. The Avery Partnership contributed up to 5% of gross wages for the year ended June 30, 2008. The employee's eligible contributions, made through salary reduction agreements, are exempt from federal and State income taxes until the

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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annuity is received or the contributions are withdrawn. These Plans are exclusively for employees of universities and certain charitable and other nonprofit organizations. All costs of administering and funding these Plans are the responsibility of the Plan participants. The Avery Partnership contributed \$1,545 for retirement benefits during the year.

### NOTE 7 - RISK MANAGEMENT

The Avery 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 Avery 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 Avery Partnership. Settled claims have not exceeded this insurance coverage in any of the past three fiscal years.

### NOTE 8 - COMMITMENTS AND CONTINGENCIES

**Compensated Absences** - As a result of the Avery 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, 2008, is \$1,458. No funds or reservation of net assets has been made for this commitment.

## NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

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### NOTE 9 - RESTRICTIONS ON NET ASSETS

- A. Temporarily Restricted Net Assets** - Temporarily restricted net assets at June 30, 2008, are available for the following purposes:

Purpose	Amount
Childfest	\$ 593

- B. Net Assets Released From Donor Restrictions** - Net assets were released from donor restrictions during the fiscal year ended June 30, 2008, by incurring expenditures satisfying the restricted purposes as follows:

Purpose	Amount
Health Items for Infants	\$ 200
Childfest	57
	<u>\$ 257</u>

***Avery County Smart Start: A Partnership for Children  
Schedule of Contract and Grant Expenditures - Modified Cash Basis  
For the Year Ended June 30, 2008***

***Schedule 1***

<b>Organization Name</b>	<b>Smart Start Fund</b>		<b>Other Funds</b>	
	<b>Amount Advanced</b>	<b>Refund Due</b>	<b>Amount Advanced</b>	<b>Refund Due</b>
<b>Paid to Organization:</b>				
Avery County Schools/Pre-K	* \$ 10,680	\$ 0	\$ 0	\$ 0
Avery County Transportation	* 3,400		5,800	
Banner Elk Child Development Center	* 3,480			
Child Care Connections of Burke County	38,444	(188)		
Dr. Emma Sloop Fink Child Development Center	* 13,258			
Intermountain Children's Services, Inc.	* 7,640			
Munchinkinland Child Development Center	* 2,340			
Parent to Parent-Family Services Network of the High Country	6,800			
Phillips Gwaltney Child Development Center	13,580			
Toe River Health District	* 17,755			
Ang's Angels Child Care Home	810			
	<u>118,187</u>	<u>(188)</u>	<u>5,800</u>	
<b>Paid to Individuals:</b>				
Car Seat Distribution			716	
Community Outreach Activities			740	
			<u>1,456</u>	
	<u>\$ 118,187</u>	<u>\$ (188)</u>	<u>\$ 7,256</u>	<u>\$ 0</u>

\* These organizations are represented on the Partnership's Board as described in Note 3 - Service Provider Contracts with Board Member Organizations.



***Avery County Smart Start: A Partnership for Children  
Schedule of State Level Service Provider Contracts  
For the Year Ended June 30, 2008***

***Schedule 2***

<b>Organization Name</b>	<b>DHHS Contracts</b>
Avery County Department of Social Services	\$ 90,230
Child Care Services Association-WAGE\$ Program	30,110
	<u>\$ 120,340</u>

\* These organizations are represented on the Partnership's Board as described in Note 3 - 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 2 - Funding from Grant Awards.

***Avery County Smart Start: A Partnership for Children  
Schedule of State Awards - Modified Cash Basis  
For the Year Ended June 30, 2008***

***Schedule 3***

<u>State Grantor/Pass-through Grantor/Program</u>	<u>Contract #</u>	<u>Receipts</u>	<u>Expenditures</u>
<b>State Awards:</b>			
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	*	\$ 264,694	\$ 264,694
Multi-County Accounting and Contracting Grant	N/A	<u>11,665</u>	<u>11,665</u>
<b>Total State Awards</b>		<u>\$ 276,359</u>	<u>\$ 276,359</u>

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

***Avery County Smart Start: A Partnership for Children  
Schedule of Property and Equipment - Modified Cash Basis  
For the Year Ended June 30, 2008***

***Schedule 4***

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Furniture and Noncomputer Equipment	\$ 4,359
Computer Equipment/Printers	<u>11,091</u>
Total Property and Equipment	<u><u>\$ 15,450</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.

***Avery County Smart Start: A Partnership for Children  
Schedule of Qualifying Match (Non-GAAP)  
For the Year Ended June 30, 2008***

***Schedule 5***

***Match Provided at the Partnership Level:***

Cash	\$	26,133
In-Kind Goods and Services		<u>16,270</u>
	\$	<u><u>42,403</u></u>

***Match Provided at the Contractor Level:***

Cash	\$	<u><u>29,998</u></u>
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Note: This schedule is presented in accordance with the program match requirement as provided for by North Carolina Session Law 2007-323, Section 10.19(c). The North Carolina Partnership for Children, Inc. and all local partnerships are required to match the total amount budgeted for the Smart Start Program in each fiscal year. The match is comprised of both cash and in-kind amounts. Only in-kind contributions that are verifiable, quantifiable, and related to the Smart Start Program can be applied to the in-kind match requirement, including volunteer services. The law allows for volunteer services to be valued for match purposes, a concept that deviates from generally accepted accounting principles. This schedule identifies those amounts allowable for this partnership in meeting the statewide match requirement.

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

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Board of Directors

Avery County Smart Start: A Partnership for Children.  
Newland, North Carolina

We have audited the financial statements of the Avery County Smart Start: A Partnership for Children (Avery Partnership) as of and for the year ended June 30, 2008, and have issued our report thereon dated October 16, 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 Avery 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 Avery Partnership's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Avery 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 Avery 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 Avery Partnership's financial statements that is more than inconsequential will not be prevented or detected by the entity'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)**

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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 Avery 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 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 Avery 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 management of the Avery Partnership, the Avery Partnership's Board of Directors, others within the Partnership, The North Carolina Partnership for Children, Inc., the Governor, and the General Assembly and is not intended to be and should not be used by anyone other than these specified parties.

*Tichenor & Associates, LLP*

Tichenor & Associates, LLP

October 16, 2008

## ORDERING INFORMATION

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