

**SMART START OF NEW HANOVER COUNTY
WILMINGTON, NORTH CAROLINA**

**FINANCIAL STATEMENTS
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 OF

SMART START OF NEW HANOVER COUNTY

WILMINGTON, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2008

BOARD OF DIRECTORS

GEORGE GATES, BOARD CHAIR

ADMINISTRATIVE OFFICER

JANET NELSON, EXECUTIVE DIRECTOR



Leslie W. Merritt, Jr., CPA, CFP
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 New Hanover County

This report presents the results of the financial statement audit of the Smart Start of New Hanover County for the year ended June 30, 2008. Clifton Gunderson LLP performed the audit under contract with the Office of the State Auditor, and their report is submitted herewith.

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

Board of Directors
Smart Start of New Hanover County
Wilmington, North Carolina

We have audited the accompanying Statement of Receipts, Expenditures, and Net Assets – Modified Cash Basis of the Smart Start of New Hanover County (New Hanover County Partnership) as of and for the year ended 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 New Hanover 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 New Hanover County Partnership as of June 30, 2008, and its receipts and expenditures for the year then ended, on the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 30, 2008 on our consideration of the New Hanover 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 an opinion on the financial statements that collectively comprise the New Hanover County Partnership's basic financial statements. The information in Schedules 1 through 5 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Schedules 1, 3, 4 and 5 have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The information in Schedule 2 has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on Schedule 2.

Clifton Gunderson LLP

Raleigh, North Carolina
November 30, 2008

Smart Start of New Hanover County**Statement of Receipts, Expenditures, and Net Assets– Modified Cash Basis
For the Year Ended June 30, 2008****Exhibit A**

	Smart Start Fund	Other Funds	Temporarily Restricted Funds	Total Funds
Receipts:				
State Awards	\$ 1,631,717	\$ 11,665	\$ -	\$ 1,643,382
Federal Awards	-	11,837	-	11,837
Local Awards	-	2,626	-	2,626
Private Contributions	-	39,538	4,749	44,287
Special Fund Raising Events	-	26,038	-	26,038
Interest and Investment Earnings	-	895	-	895
Sales Tax Refunds	-	3,096	-	3,096
Other Receipts	-	6,143	-	6,143
Total Receipts	1,631,717	101,838	4,749	1,738,304
Net Assets Released from Restrictions:				
Satisfaction of Program Restrictions	-	38,898	(38,898)	-
	1,631,717	140,736	(34,149)	1,738,304
Expenditures:				
Programs:				
Child Care and Education Affordability	-	1,381	-	1,381
Child Care and Education Quality	665,747	16,843	-	682,590
Family Support	315,714	51,976	-	367,690
Health and Safety	364,526	316	-	364,842
Support:				
Fund Raising	-	4,517	-	4,517
Management and General	203,152	25,316	-	228,468
Program Coordination and Evaluation	82,578	-	-	82,578
Other:				
Sales Tax Paid	-	3,925	-	3,925
Total Expenditures	1,631,717	104,274	-	1,735,991
Excess of Receipts Over Expenditures	-	36,462	(34,149)	2,313
Net Assets at Beginning of Year	-	10,158	45,998	56,156
Net Assets at End of Year	\$ -	\$ 46,620	\$ 11,849	\$ 58,469
Net Assets Consisted of:				
Cash and Cash Equivalents	\$ 44,833	\$ 46,345	\$ 11,849	\$ 103,027
Less: Due to the State	(44,833)	-	-	(44,833)
Funds Held for Others	-	275	-	275
	\$ -	\$ 46,620	\$ 11,849	\$ 58,469

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

***Smart Start of New Hanover County
Statement of Functional Expenditures – Modified Cash Basis
For the Year Ended June 30, 2008***

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 Quality	\$ 665,747	\$ 327,766	\$ 22,737	\$ 10,922	\$ 46,387	\$ 73,847	\$ 10,798	\$ 173,290
Family Support	315,714	185,941	16,914	10,851	32,081	19,298	6,559	44,070
Health and Safety	364,526	-	-	-	-	-	-	364,526
	<u>1,345,987</u>	<u>513,707</u>	<u>39,651</u>	<u>21,773</u>	<u>78,468</u>	<u>93,145</u>	<u>17,357</u>	<u>581,886</u>
Support:								
Management and General	203,152	178,010	2,834	1,727	11,900	8,506	175	-
Program Coordination and Evaluation	82,578	66,652	164	2,183	4,979	8,207	393	-
	<u>285,730</u>	<u>244,662</u>	<u>2,998</u>	<u>3,910</u>	<u>16,879</u>	<u>16,713</u>	<u>568</u>	<u>-</u>
Total Smart Start Fund Expenditures	<u><u>\$ 1,631,717</u></u>	<u><u>\$ 758,369</u></u>	<u><u>\$ 42,649</u></u>	<u><u>\$ 25,683</u></u>	<u><u>\$ 95,347</u></u>	<u><u>\$ 109,858</u></u>	<u><u>\$ 17,925</u></u>	<u><u>\$ 581,886</u></u>
Other Funds:								
Programs:								
Child Care and Education Affordability	\$ 1,381	\$ -	\$ -	\$ -	\$ -	\$ 1,381	\$ -	\$ -
Child Care and Education Quality	16,843	13,738	441	-	2,664	-	-	-
Family Support	51,976	(79)	-	622	49,046	2,387	-	-
Health and Safety	316	-	-	-	-	-	-	316
	<u>70,516</u>	<u>13,659</u>	<u>441</u>	<u>622</u>	<u>51,710</u>	<u>3,768</u>	<u>-</u>	<u>316</u>
Support:								
Fund Raising	4,517	4,517	-	-	-	-	-	-
Management and General	25,316	4,258	12,124	441	3,431	5,062	-	-
	<u>29,833</u>	<u>8,775</u>	<u>12,124</u>	<u>441</u>	<u>3,431</u>	<u>5,062</u>	<u>-</u>	<u>-</u>
Other:								
Sales Tax Paid	3,925	-	-	3,925	-	-	-	-
Total Other Funds Expenditures	<u><u>\$ 104,274</u></u>	<u><u>\$ 22,434</u></u>	<u><u>\$ 12,565</u></u>	<u><u>\$ 4,988</u></u>	<u><u>\$ 55,141</u></u>	<u><u>\$ 8,830</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 316</u></u>

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

Smart Start of New Hanover County
Notes to Financial Statements
June 30, 2008

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

A. Organization and Purpose – The Smart Start of New Hanover County (New Hanover County Partnership) is a legally separate nonprofit organization incorporated on April 18, 1995. The New Hanover County Partnership was established to develop and provide, through public and private means, early childhood education and developmental services for children and families. The New Hanover 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 New Hanover 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.

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 New Hanover County 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; it recognizes expenditures when paid rather than when incurred; and it does not recognize the value of in-kind goods and services received.

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.

Smart Start of New Hanover County
Notes to Financial Statements
June 30, 2008

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. Funds Held for Others** – Funds held for others includes amounts received that are fiduciary in nature in which the New Hanover County Partnership acts in an agency capacity. At June 30, 2008 the New Hanover County Partnership was holding amounts for insurance that were distributed on behalf of its employees, for which a corresponding amount would be withheld from employees paychecks in the next month.
- 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 purchased. However, New Hanover County Partnership is required by contract regulation to track and maintain property and equipment items as presented in Schedule 4 of this report. The New Hanover 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, 2008. 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 New Hanover 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.

Smart Start of New Hanover County
Notes to Financial Statements
June 30, 2008

NOTE 2 - DEPOSITS

All funds of the New Hanover 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 New Hanover County Partnership to a concentration of credit risk. At June 30, 2008, the New Hanover County Partnership's bank deposits in excess of the FDIC insured limit was \$49,234.

NOTE 3 - FUNDING FROM GRANT AWARDS

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

Associated with these contracts, the New Hanover 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 New Hanover 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 New Hanover County Partnership was awarded and has received \$1,676,550 under a current year Smart Start contract with NCPC. The unexpended balance of this contract is subject to reversion to the State. The New Hanover County Partnership has returned \$44,833 of this contract to the State based on financial status reports submitted to NCPC subsequent to June 30, 2008.

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

Regional Child Care Resource and Referral Program (CCR&R) – The New Hanover County Partnership received revenue and support from the North Carolina Department of Health and Human Services based on a cost reimbursement pass-through contract with Region 4 for the Regional Child Care Resource and Referral Program. The New Hanover County Partnership was awarded \$18,000 and has received \$11,837 under a current year contract.

The New Hanover County Partnership expects to receive continued funding through new CCR&R contracts.

Smart Start of New Hanover County
Notes to Financial Statements
June 30, 2008

NOTE 4 - RELATED PARTY TRANSACTIONS

- A. Service Provider Contracts with Board Member Organizations** – The board members of the New Hanover County Partnership are representative of various organizations that benefit from actions taken by the Board. It is the policy of the New Hanover County Partnership that board members not be involved with decisions regarding organizations they represent. During the year, the New Hanover 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 DHHS with board member organizations for activities funded by the New Hanover County Partnership's Smart Start Allocation.
- B. Other Related Parties** – The New Hanover County Partnership entered into transactions for contracted services with a private business associated with a board member of the New Hanover County Partnership. The amounts paid to T.R.L. Real Estate during the current period were \$88,141.

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 Affordability – Used to account for service activities including or associated with child care subsidy administration.

Child Care and Education Quality – Used to account for service activities including quality enhancement grants for upgrades, quality enhancement grants for maintenance, professional development, salary supplements, provider training, mentoring programs, health and safety training for child care professionals, special needs support for child care professionals, learning materials and teaching aids, curriculum enhancements and kindergarten transition.

Family Support – Used to account for service activities including parenting skills training, teen parent and child programs, general family support, community outreach information and resources, family support needs and resources assessments.

Health and Safety – Used to account for service activities including comprehensive health services, prenatal and newborn services, child care health consultants, comprehensive health support, special needs early intervention services and special education, and nutrition programs.

Smart Start of New Hanover County
Notes to Financial Statements
June 30, 2008

NOTE 5 - FUNCTIONAL EXPENDITURES (CONTINUED)

B. Support Functions

Fund Raising – Expenditures that are incurred in inducing others to contribute money, securities, time, materials or facilities for which the contributor will receive no direct economic benefit.

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 Coordination and Evaluation – Expenditures that are incurred to coordinate the policies, procedures, and daily practices of service delivery. Also, costs associated with monitoring in-house and direct service provider activities 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, 2008:

<u>Fiscal Year</u>	<u>Operating Leases</u>
2009	\$ 104,107
2010	106,041
2011	108,068
2012	<u>54,833</u>
Total Minimum Lease Payments	\$ <u>373,049</u>

Rental expense for all operating leases during the year was \$88,768.

Smart Start of New Hanover County
Notes to Financial Statements
June 30, 2008

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 New Hanover County Partnership, as a condition of employment, is provided an individual annuity through an outside insurance company. The New Hanover County Partnership contributed up to 6% of gross wages in July and August 2007, then up to 3% for the remainder of 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 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 New Hanover County Partnership contributed \$17,682 for retirement benefits during the year.

NOTE 8 - RISK MANAGEMENT

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

NOTE 9 - COMMITMENTS AND CONTINGENCIES

A. Compensated Absences – As a result of the New Hanover 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, 2008, is \$18,014. No funds or reservation of net assets have been made for this commitment.

Smart Start of New Hanover County
Notes to Financial Statements
June 30, 2008

NOTE 9 - COMMITMENTS AND CONTINGENCIES (CONTINUED)

B. Commitments on Contracts – The New Hanover County Partnership had outstanding commitments of \$873 on purchase orders that had not been paid at June 30, 2008.

NOTE 10 - RESTRICTIONS ON NET ASSETS

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

<u>Purpose</u>	<u>Amount</u>
U.S. Coast Guard for Children	\$ 1,141
Share the Care DSS	3,684
Cover Kids & Families	602
Reading is Fundamental	2,713
Landfall Parenting Project	3,463
International Paper	<u>246</u>
Total	<u>\$ 11,849</u>

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:

<u>Purpose</u>	<u>Amount</u>
Touchpoints Cape Fear MF	\$ 34,921
Landfall Parenting Project	659
International Paper	1,937
Reading is Fundamental	<u>1,381</u>
Total	<u>\$ 38,898</u>

This information is an integral part of the financial statements.

***Smart Start of New Hanover County
Schedule of Contract and Grant Expenditures – Modified Cash Basis
For the Year Ended June 30, 2008***

Schedule 1

Organization Name	Smart Start Fund		Other Funds	
	Amount Advanced	Refund Due	Amount Advanced	Refund Due
<i>Paid to Organizations:</i>				
AAI Learning Center *	\$ 3,200	\$ -	\$ -	\$ -
Cape Fear Communities Schools	44,070	-	-	-
Cape Fear Community College *	3,200	-	-	-
Easter Seals UCP *	194,526	-	316	-
Mary Washington Howe Center *	3,200	-	-	-
Milestones Learning Center *	2,600	-	-	-
New Hanover County Health Department *	170,000	-	-	-
New Hanover County Library *	130,837	-	-	-
Various Child Care Centers	15,300	-	-	-
Various Child Care Non-Cash Grant Awards	2,267	-	-	-
	<u>569,200</u>	<u>-</u>	<u>316</u>	<u>-</u>
<i>Paid to Individuals:</i>				
Cash Grants to Individual Child Care Workers for Professional Development	11,300	-	-	-
Parents Child Care Training	1,386	-	-	-
	<u>12,686</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ 581,886</u>	<u>\$ -</u>	<u>\$ 316</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 New Hanover County
Schedule of State Level Service Provider Contracts
For the Year Ended June 30, 2008***

Schedule 2

Organization Name	DHHS Contracts
Child Care Services Association - WAGE\$	\$ 139,726
New Hanover County Department of Social Services *	794,987
	<u>\$ 934,713</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 New Hanover County
Schedule of Federal and State Awards – Modified Cash Basis
For the Year Ended June 30, 2008***

Schedule 3

<u>Federal/State Grantor/Pass-through Grantor/Program</u>	<u>Federal CFDA Number</u>	<u>Contract #</u>	<u>Receipts</u>	<u>Expenditures</u>
Federal Awards:				
U.S. Department of Health and Human Services				
Pass-through from the North Carolina Department of				
Health and Human Services - Division of Child Development				
Pass-through from Child Care Resources Incorporated (CCRI)				
Child Care Resource and Referral	93.575	407-04-05	\$ 11,837	\$ 16,843
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	\$ 1,631,717	\$ 1,631,717
Multi-County Accounting and Contracting Grant		N/A	11,665	11,665
Total State Awards			<u>1,643,382</u>	<u>1,643,382</u>
Total Federal and State Awards			<u>\$ 1,655,219</u>	<u>\$ 1,660,225</u>

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

***Smart Start of New Hanover County
Schedule of Property and Equipment - Modified Cash Basis
For the Year Ended June 30, 2008***

Schedule 4

Furniture and Noncomputer Equipment	\$ 36,632
Computer Equipment and Printers	78,072
Leasehold Improvements	<u>85,057</u>
Total Property and Equipment	<u>\$ 199,761</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 New Hanover County
Schedule of Qualifying Match (Non-GAAP)
For the Year Ended June 30, 2008***

Schedule 5

Match Provided at the Partnership Level:

Cash	\$ 54,941
In-Kind Goods and Services	<u>25,222</u>
	<u>\$ 80,163</u>

Match Provided at the Contractor Level:

Cash	\$ 177,513
In-Kind Goods and Services	<u>156,893</u>
	<u>\$ 334,406</u>

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.

**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 New Hanover County
Wilmington, North Carolina

We have audited the financial statements of the Smart Start of New Hanover County (New Hanover County Partnership) as of and for the year ended June 30, 2008, and have issued our report thereon dated November 30, 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 New Hanover 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 New Hanover County Partnership's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the New Hanover 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 New Hanover 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 New Hanover County Partnership's financial statements that is more than inconsequential will not be prevented or detected by the New Hanover 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 New Hanover 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 New Hanover 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 New Hanover County Partnership's Board of Directors, management of the New Hanover County Partnership, others within the 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
November 30, 2008

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