

FINANCIAL STATEMENT AUDIT REPORT OF

SMART START ROWAN, INC.

SALISBURY, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2008

PERFORMED UNDER CONTRACT WITH THE

OFFICE OF THE STATE AUDITOR

BETH A. WOOD, CPA

STATE AUDITOR

FINANCIAL STATEMENT AUDIT REPORT

SMART START ROWAN, INC.

SALISBURY, NORTH CAROLINA

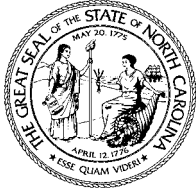
FOR THE YEAR ENDED JUNE 30, 2008

BOARD OF DIRECTORS

LEDA BELK, BOARD CHAIR

ADMINISTRATIVE OFFICER

JOHN D. GERSTENMIER, EXECUTIVE DIRECTOR



Beth A. Wood, CPA
State Auditor

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AUDITOR'S TRANSMITTAL

The Honorable Beverly E. Perdue, Governor
The General Assembly of North Carolina
Board of Directors, Smart Start Rowan, Inc.

This report presents the results of the financial statement audit of Smart Start Rowan, Inc. for the year ended June 30, 2008. Tichenor & Associates, 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.

A handwritten signature in black ink that reads "Beth A. Wood".

Beth A. Wood, CPA
State Auditor

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Smart Start Rowan, Inc.
Salisbury, North Carolina

We have audited the accompanying Statement of Receipts, Expenditures, and Net Assets – Modified Cash Basis of the Smart Start Rowan, Inc. (Rowan 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 Rowan 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 Rowan 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 February 5, 2009, on our consideration of the Rowan 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)

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 Rowan 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

February 5, 2009

Rowan Smart Start, Inc.

**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		
Receipts:				
State Awards	\$ 2,345,179	\$ 1,103,289	\$ 0	\$ 3,448,468
Federal Awards		50,317		50,317
Private Contributions		38,633	817	39,450
Interest and Investment Earnings		3,536		3,536
Sales Tax Refunds		5,780		5,780
Other Receipts		7,371		7,371
Total Receipts	2,345,179	1,208,926	817	3,554,922
Net Assets Released from Restrictions:				
Satisfaction of Program Restrictions		8,175	(8,175)	
	2,345,179	1,217,101	(7,358)	3,554,922
Expenditures:				
Programs:				
Child Care and Education Affordability	367,908	180		368,088
Child Care and Education Quality	1,002,044	55,376		1,057,420
Family Support	253,529	34,180		287,709
Health and Safety	351,507	4,586		356,093
More at Four	98,190	1,100,818		1,199,008
Support:				
Management and General	199,756	12,387		212,143
Program Coordination and Evaluation	72,245	2,744		74,989
Other:				
Sales Tax Paid		10,286		10,286
Total Expenditures	2,345,179	1,220,557		3,565,736
Excess of Receipts Over Expenditures	0	(3,456)	(7,358)	(10,814)
Net Assets at Beginning of Year	0	67,899	8,825	76,724
Net Assets at End of Year	\$ 0	\$ 64,443	\$ 1,467	\$ 65,910
Net Assets Consisted of:				
Cash and Cash Equivalents	\$ 22,517	\$ 64,443	\$ 1,467	\$ 88,427
Refunds Due From Contractors	2,777			2,777
	25,294	64,443	1,467	91,204
Less: Due to the State	25,294			25,294
	\$ 0	\$ 64,443	\$ 1,467	\$ 65,910

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

Rowan Smart Start, Inc.
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 Affordability	\$ 367,908	\$ 35,063	\$ 60	\$ 1,034	\$ 2,325	\$ 2,681	\$ 120	\$ 326,625
Child Care and Education Quality	1,002,044	331,556	4,982	14,459	44,664	38,921	2,556	564,906
Family Support	253,529	53,218		580	6,738	2,180		190,813
Health and Safety	351,507							351,507
More at Four	98,190	1,185						97,005
	<u>2,073,178</u>	<u>421,022</u>	<u>5,042</u>	<u>16,073</u>	<u>53,727</u>	<u>43,782</u>	<u>2,676</u>	<u>1,530,856</u>
Support:								
Management and General	199,756	149,102	16,681	2,710	12,763	17,400	1,100	
Program Coordination and Evaluation	72,245	53,971	10,621	764	4,422	2,467		
	<u>272,001</u>	<u>203,073</u>	<u>27,302</u>	<u>3,474</u>	<u>17,185</u>	<u>19,867</u>	<u>1,100</u>	
Total Smart Start Fund Expenditures	<u>\$ 2,345,179</u>	<u>\$ 624,095</u>	<u>\$ 32,344</u>	<u>\$ 19,547</u>	<u>\$ 70,912</u>	<u>\$ 63,649</u>	<u>\$ 3,776</u>	<u>\$ 1,530,856</u>
Other Funds:								
Programs:								
Child Care and Education Affordability	\$ 180	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 180	\$ 0
Child Care and Education Quality	55,376	37,829	1,345	9,131	1,834	3,156		2,081
Family Support	34,180	29,000	3,583	1,002	595			
Health and Safety	4,586		4,586					
More at Four	1,100,818	70,647	4,116	5,994	13,280	6,186	2,041	998,554
	<u>1,195,140</u>	<u>137,476</u>	<u>13,630</u>	<u>16,127</u>	<u>15,709</u>	<u>9,342</u>	<u>2,221</u>	<u>1,000,635</u>
Support:								
Management and General	12,387	2,881	8,250	1,085	152	19		
Program Coordination and Evaluation	2,744		1,808		936			
	<u>15,131</u>	<u>2,881</u>	<u>10,058</u>	<u>1,085</u>	<u>1,088</u>	<u>19</u>		
Other:								
Sales Tax Paid	10,286			10,286				
Total Other Funds Expenditures	<u>\$ 1,220,557</u>	<u>\$ 140,357</u>	<u>\$ 23,688</u>	<u>\$ 27,498</u>	<u>\$ 16,797</u>	<u>\$ 9,361</u>	<u>\$ 2,221</u>	<u>\$ 1,000,635</u>

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

SMART START ROWAN, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

A. Organization and Purpose - Smart Start Rowan, Inc. (Rowan Partnership) is a legally separate nonprofit organization incorporated on February 22, 1994. The Rowan Partnership was established to develop and provide, through public and private means, early childhood education and developmental services for children and families. The Rowan 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 Rowan 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 Rowan 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)

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. Additionally, at year end the Rowan Partnership was owed medical insurance refunds for advance premiums paid for two employees who quit in May 2008.
- 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, Rowan Partnership is required by contract regulation to track and maintain property and equipment items as presented in Schedule 4 of this report. The Rowan 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 Rowan 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 Rowan Partnership are deposited with a commercial bank and insured by the Federal Deposit Insurance Corporation (FDIC) up to \$100,000 at June 30, 2008. Deposits over this amount subjects the Rowan Partnership to a concentration of credit risk. At June 30, 2008, the Rowan Partnership's bank deposits in excess of the FDIC insured limit was \$390,650.

NOTE 3 - FUNDING FROM GRANT AWARDS

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

Associated with these contracts, the Rowan 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 services providers selected by the Rowan 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 Rowan Partnership was awarded and has received \$2,370,473 under a current year Smart Start contract with NCPC. The unexpended balance of this contract is subject to reversion to the State. The Rowan Partnership has returned \$25,294 of this contract to the State based on financial status reports submitted to NCPC subsequent to June 30, 2008.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

More at Four - The Rowan Partnership also received revenue and support from the State of North Carolina for the More at Four Program. The Rowan Partnership was awarded \$1,128,196 and received \$1,091,624 under a current year cost-reimbursement contract. The unexpended balance of this contract is subject to reversion to the State. The Rowan Partnership expects to receive continued funding through new More at Four contracts with the State.

NOTE 4 - RELATED PARTY TRANSACTIONS

Service Provider Contracts with Board Member Organizations - The board members of the Rowan Partnership are representative of various organizations that benefit from actions taken by the Board. It is the policy of the Rowan Partnership that board members not be involved with decisions regarding organizations they represent. During the year, the Rowan 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 Rowan 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 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 a subsidy program outside the Division of Child Development (DCD) and supplement for quality outside DCD.

Child Care and Education Quality - Used to account for service activities including child care resource and referral, professional development supplements, provider training, and kindergarten orientation/transition.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Family Support - Used to account for service activities including a family resource center, parent education, literacy programs, and community outreach, information, and resources.

Health and Safety - Used to account for service activities including oral health services, child care health consultation, health services and support, and special needs: early intervention/special education.

More at Four - Used to account for development and implementation of the More at Four prekindergarten program for at-risk four-year-olds who are at risk of failure in kindergarten. The goal is to provide quality prekindergarten services in order to enhance kindergarten readiness.

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 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 costs (rent, supplies, and maintenance), supplies and materials, and communication costs (telephone and printing) were indirectly allocated based on utilization data.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 6 - 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	\$ 71,400
2010	33,956
2011	8,127
Total Minimum Lease Payments	<u>\$ 113,483</u>

Rental expense for all operating leases during the year was \$63,692.

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 Rowan Partnership, as a condition of employment, is provided an individual annuity through an outside insurance company. The Rowan Partnership contributed 6% per year of gross wages for the year ended June 30, 2008. The employee's eligible contributions, made through salary deduction 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 Rowan Partnership contributed \$32,103 for retirement benefits during the year.

NOTE 8 - RISK MANAGEMENT

The Rowan 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 Rowan 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

NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

Management believes such coverage is sufficient to preclude any significant losses to the Rowan 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 Rowan 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 \$12,978. No funds or reservation of net assets has been made for this commitment.

NOTE 10 - RESTRICTIONS ON NET ASSETS

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

Purpose	Amount
Champion for Young Children	\$ 581
Kindergarten Readiness	817
Smart Start Tour	69
	<u>\$ 1,467</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:

Purpose	Amount
Child Care Recognition Dinner	\$ 119
Dental Health	4,328
Latino Outreach	3,728
	<u>\$ 8,175</u>

Smart Start Rowan, Inc.
Schedule of Contract and Grant Expenditures - Modified Cash Basis
For the Year Ended June 30, 2008

Schedule 1
Page 1

Organization Name	Smart Start Fund		Other Funds	
	Amount Advanced	Refund Due	Amount Advanced	Refund Due
Paid to Organization:				
Adolescent & Family Enrichment Council	\$ 190,813	\$ 0	\$	\$ 0
Advantage Children's Center	21,227		111,400	
Bright Star Academy	7,966			
Brighter Beginnings Family Child Care Home	2,773			
Child Care Resource and Referral Non-Cash Grants	52,213			
Children's Center	1,907			
Child's Play Day Care	2,893			
China Grove Elementary School			4,975	
Concord Community Child Care Center	102			
Cornerstone Child Development Center - City	11,708			
Cornerstone Child Development Center - East	10,662			
Cornerstone Child Development Center - Webb	26,725			
D&D Tots and Toddlers	1,959			
East Spencer Head Start	3,966			
Ethan Shive Elementary School			6,297	
First United Methodist Child Development Center	5,626			
Ford's Child Care	1,648			
God's Little Blessings	2,612			
Grace Academy	1,395			
Granite Quarry Elementary School			3,189	
Happy Day Child Development Center	3,068			
Incredible Years Non-Cash Grants	4,990			
Joy-N-The Morning Home Childcare	1,163			
Joy's Tenderloving Home Child Care	3,207			
Kannapolis City Schools	13,680		196,590	
Kiddie Land Kindergarten, Inc.	* 31,665			
Kid's Korner	1,343			
Kids Pix	25			
Kids Play, Inc.	209			

Smart Start Rowan, Inc.
Schedule of Contract and Grant Expenditures - Modified Cash Basis
For the Year Ended June 30, 2008

Schedule 1
Page 2

Organization Name	Smart Start Fund		Other Funds	
	Amount Advanced	Refund Due	Amount Advanced	Refund Due
Little Angels Home Child Care *	1,593			
Livingstone Head Start	2,247			
Mary's Day Care	195			
McKnight Head Start			6,454	
Millbridge Elementary School			1,263	
Morgan Elementary School			1,112	
Noah's Ark	48,213		46,866	
Noah's Playloft Preschool I				
Noah's Playloft Preschool II	14,044		49,590	
Noah's Playloft Preschool II				
Noah's Playloft Preschool II				
Noah's Playloft Preschool II				
North Rowan Elementary School *			9,554	
Partners in Learning Child Development Center *	191,824	235	67,812	
Pitty Pat Day Care	440			
Precious Moments Child Care	4,047			
RCCC Early Childhood Center *	11,442			
Richfield Child Development Center	5,437			
Rosie Blackwell's Day Care Home	55			
Rowan County Health Department *	211,198	135		
Rowan Medical Child Development Center	1,125			
Rowan Public Library *	83,569			
Rowan Salisbury Schools *	37,130		411,400	
Salisbury Rowan Community Action Agency			162	
Sandra's Playhouse	324			
South Rowan Academy of Child Development	18,370		76,680	
St. John's Child Development Center	29,926			
Taylor Land Day Care	200			
The Golden Child Christian Academy	1,836			
Tiny Tots Playland	2,379			
Tonya's Child Care	1,233			
Trinity Wesleyan Preschool	13,823			

Smart Start Rowan, Inc.
Schedule of Contract and Grant Expenditures - Modified Cash Basis
For the Year Ended June 30, 2008

Schedule 1
Page 3

Organization Name	Smart Start Fund		Other Funds	
	Amount Advanced	Refund Due	Amount Advanced	Refund Due
Veronica's Little Angels	285			
We Love Um	2,225			
West 22nd Street Head Start	897			
Westside Head Start	622			
Wiley Lash Head Start	7,816			
Wonder Years	480			
Woodrow Wilson Elementary School			5,210	
World of Joy	327			
WOT Fleming Early Head Start	2,057			
Other	2,140	2,140		
	<u>1,103,044</u>	<u>2,510</u>	<u>998,554</u>	
Paid to Individuals:				
ABCD Project	6,454	267		
Cash Grants and Awards			1,191	
Scholarships/Bonus Awards	424,135		890	
	<u>430,589</u>	<u>267</u>	<u>2,081</u>	
	<u>\$ 1,533,633</u>	<u>\$ 2,777</u>	<u>\$ 1,000,635</u>	<u>\$ 0</u>

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

Smart Start Rowan, Inc.

Schedule of State Level Service Provider Contracts

For the Year Ended June 30, 2008

Schedule 2

Organization Name	DHHS Contracts
* Rowan County Department of Social Services	<u>\$ 339,167</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 Rowan, Inc.
Schedule of Federal and State Awards - Modified Cash Basis
For the Year Ended June 30, 2008

Schedule 3

Federal/State Grantor/Pass-through Grantor/Program	Federal CFDA Number	Contract #	Receipts	Expenditures
Federal Awards:				
US 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 Childcare Resources, Inc. Child Care Resource and Referral	93.575	6345-4-1	\$ 50,317	\$ 42,604
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	2,345,179	2,345,179
Multi-County Accounting and Contracting Grant		N/A	11,665	11,665
North Carolina Department of Public Instruction, Office of School Readiness More at Four Pre-Kindergarten Program	*	0073-08	1,091,624	1,100,818
Total State Awards			<u>3,448,468</u>	<u>3,457,662</u>
Total Federal and State Awards			<u>\$ 3,498,785</u>	<u>\$ 3,500,266</u>

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

Smart Start Rowan, Inc.

Schedule of Property and Equipment - Modified Cash Basis

For the Year Ended June 30, 2008

Schedule 4

Furniture and Noncomputer Equipment	\$ 12,093
Computer Equipment/Printers	<u>25,721</u>
Total Property and Equipment	<u>\$ 37,814</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 Rowan, Inc.
Schedule of Qualifying Match (Non-GAAP)
For the Year Ended June 30, 2008

Schedule 5

Match Provided at the Partnership Level:

Cash	\$	121,660
In-Kind Goods and Services		<u>17,790</u>
	\$	<u><u>139,450</u></u>

Match Provided at the Contractor Level:

Cash	\$	82,562
In-Kind Goods and Services		<u>130,371</u>
	\$	<u><u>212,933</u></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.

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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

Board of Directors
Smart Start Rowan, Inc.
Salisbury, North Carolina

We have audited the financial statements of Smart Start Rowan, Inc. (Rowan Partnership) as of and for the year ended June 30, 2008, and have issued our report thereon dated February 5, 2009. 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 Rowan 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 Rowan Partnership's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Rowan 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 Rowan 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 Rowan 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)**

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 Rowan 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 Rowan 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 Rowan Partnership's Board of Directors, management of the Rowan 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.

Tichenor & Associates, LLP

Tichenor & Associates, LLP

February 5, 2009

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
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