

**SMART START OF PENDER COUNTY, INC.  
BURGAW, 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 PENDER COUNTY, INC.**

**BURGAW, NORTH CAROLINA**

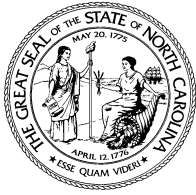
**FOR THE YEAR ENDED JUNE 30, 2008**

**BOARD OF DIRECTORS**

**EUGENE JORDAN, BOARD CHAIR**

**ADMINISTRATIVE OFFICER**

**CONNIE CARR-COSTIN, 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, Smart Start of Pender County, Inc.

This report presents the results of the financial statement audit of the Smart Start of Pender County, Inc. 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

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Board of Directors  
Smart Start of Pender County, Inc.  
Burgaw, North Carolina

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

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

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets of the Smart Start of Pender County, Inc. 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 Pender 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)

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Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Pender 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 Pender County, Inc.**  
**Statement of Receipts, Expenditures, and Net Assets - Modified Cash Basis**  
**For the Year Ended June 30, 2008**

**Exhibit A**

	Unrestricted Funds		Total Funds
	Smart Start Fund	Other Funds	
<b>Receipts:</b>			
State Awards	\$ 564,361	\$ 11,665	\$ 576,026
Federal Awards	-	38,661	38,661
Private Contributions	-	1,077	1,077
Special Fund Raising Events	-	818	818
Sales Tax Refunds	-	4,249	4,249
Other Receipts	-	4,165	4,165
<b>Total Receipts</b>	<b>564,361</b>	<b>60,635</b>	<b>624,996</b>
<b>Expenditures:</b>			
Programs:			
Child Care and Education Quality	253,237	38,497	291,734
Family Support	39,143	2,883	42,026
Health and Safety	51,307	-	51,307
More at Four	42,700	-	42,700
Support:			
Management and General	125,812	11,786	137,598
Program Coordination and Evaluation	52,162	450	52,612
Other:			
Sales Tax Paid	-	3,683	3,683
<b>Total Expenditures</b>	<b>564,361</b>	<b>57,299</b>	<b>621,660</b>
<b>Excess of Receipts Over Expenditures</b>	<b>-</b>	<b>3,336</b>	<b>3,336</b>
<b>Net Assets at Beginning of Year</b>	<b>-</b>	<b>(319)</b>	<b>(319)</b>
<b>Net Assets at End of Year</b>	<b>\$ -</b>	<b>\$ 3,017</b>	<b>\$ 3,017</b>
<b>Net Assets Consisted of:</b>			
Cash and Cash Equivalents	\$ 4,601	\$ 4,282	\$ 8,883
Less: Due to the State	4,601	-	4,601
Funds Held for Others	-	1,265	1,265
<b>TOTAL NET ASSETS</b>	<b>\$ -</b>	<b>\$ 3,017</b>	<b>\$ 3,017</b>

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

***Smart Start of Pender County, Inc.  
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 Quality	\$ 253,237	\$ 119,103	\$ 35,266	\$ 22,159	\$ 27,431	\$ 20,710	\$ 1,433	\$ 27,135
Family Support	39,143	31,201	535	2,110	2,922	2,130	245	-
Health and Safety	51,307	-	-	-	-	-	-	51,307
More at Four	42,700	-	-	-	-	-	-	42,700
	<u>386,387</u>	<u>150,304</u>	<u>35,801</u>	<u>24,269</u>	<u>30,353</u>	<u>22,840</u>	<u>1,678</u>	<u>121,142</u>
<b>Support:</b>								
Management and General	125,812	93,393	3,536	3,959	13,463	8,297	3,164	-
Program Coordination and Evaluation	52,162	44,215	573	1,280	3,891	2,203	-	-
	<u>177,974</u>	<u>137,608</u>	<u>4,109</u>	<u>5,239</u>	<u>17,354</u>	<u>10,500</u>	<u>3,164</u>	<u>-</u>
<b>Total Smart Start Fund Expenditures</b>	<b>\$ 564,361</b>	<b>\$ 287,912</b>	<b>\$ 39,910</b>	<b>\$ 29,508</b>	<b>\$ 47,707</b>	<b>\$ 33,340</b>	<b>\$ 4,842</b>	<b>\$ 121,142</b>
<b>Other Funds:</b>								
<b>Programs:</b>								
Child Care and Education Quality	\$ 38,497	\$ 28,128	\$ 423	\$ 4,235	\$ 1,986	\$ 3,687	\$ 38	\$ -
Family Support	2,883	34	-	1,802	35	563	449	-
	<u>41,380</u>	<u>28,162</u>	<u>423</u>	<u>6,037</u>	<u>2,021</u>	<u>4,250</u>	<u>487</u>	<u>-</u>
<b>Support:</b>								
Management and General	11,786	-	5,999	1,130	2,958	21	1,678	-
Program Coordination and Evaluation	450	215	-	115	120	-	-	-
	<u>12,236</u>	<u>215</u>	<u>5,999</u>	<u>1,245</u>	<u>3,078</u>	<u>21</u>	<u>1,678</u>	<u>-</u>
<b>Other:</b>								
Sales Tax Paid	3,683	-	-	3,683	-	-	-	-
<b>Total Other Funds Expenditures</b>	<b>\$ 57,299</b>	<b>\$ 28,377</b>	<b>\$ 6,422</b>	<b>\$ 10,965</b>	<b>\$ 5,099</b>	<b>\$ 4,271</b>	<b>\$ 2,165</b>	<b>\$ -</b>

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



*Smart Start of Pender County, Inc.*  
*Notes to Financial Statements*  
*June 30, 2008*

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**NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES**

**A. Organization and Purpose** – The Smart Start of Pender County, Inc. (Pender County Partnership) is a legally separate nonprofit organization incorporated on June 16, 1998. The Pender County Partnership was established to develop and provide, through public and private means, early childhood education and developmental services for children and families. The Pender 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 Pender County Partnership's Board of Directors is responsible. Pursuant to the provisions of Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-For-Profit Organizations*, the accompanying financial statements present information according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. As permitted by this statement, temporarily restricted contributions received and expended in the same year are reported as unrestricted receipts rather than as temporarily restricted receipts.

The Pender County Partnership did not have any temporarily or 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 does not recognize the value of in-kind goods and services received; it recognizes revenue when received rather than when earned; and it recognizes expenditures when paid rather than when incurred.

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

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

*Smart Start of Pender County, Inc.*  
*Notes to Financial Statements*  
*June 30, 2008*

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**NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

- E. 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.
- F. Funds Held for Others** – Funds held for others includes amounts received that are fiduciary in nature in which Smart Start of Pender County, Inc. acts in an agency capacity. For the year ended June 30, 2008, Smart Start of Pender County, Inc. was holding amounts withheld from paychecks for distribution to the appropriate designee.
- 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, the Pender County Partnership is required by contract regulation to track and maintain property and equipment items as presented in Schedule 4 of this report. The Pender 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 8.
- I. Use of Estimates** – The preparation of financial statements in conformity with the modified cash basis of accounting used by the Pender County Partnership requires management to make estimates and assumptions that affect certain reported amounts and disclosures (such as allocation of joint costs); accordingly, actual results could differ from those estimates. It is management's belief that these estimates are reasonable and fair.

**NOTE 2 - DEPOSITS**

All funds of the Pender County Partnership are deposited with commercial banks and insured by the Federal Deposit Insurance Corporation (FDIC) up to \$100,000 per bank. Deposits over this amount subject the Pender County Partnership to a concentration of credit risk. At June 30, 2008, the Pender County Partnership did not have any bank deposits in excess of the FDIC insured limit.

*Smart Start of Pender County, Inc.*  
*Notes to Financial Statements*  
*June 30, 2008*

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**NOTE 3 - FUNDING FROM GRANT AWARDS**

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

Associated with these contracts, the Pender 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 Pender 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 Pender County Partnership was awarded and has received \$568,962 under a current year Smart Start contract with NCPC. The unexpended balance of this contract is subject to reversion to the State. The Pender County Partnership has returned \$4,601 of this contract to the State based on financial status reports submitted to NCPC subsequent to June 30, 2008.

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

**NOTE 4 - RELATED PARTY TRANSACTIONS**

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

**NOTE 5 - FUNCTIONAL EXPENDITURES**

The costs of providing the various programs and activities have been summarized on a functional basis in the Statement of Receipts, Expenditures, and Net Assets – Modified Cash Basis. Also, the Statement of Functional Expenditures – Modified Cash Basis provides detail of the functional costs by 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:

**NOTE 5 - FUNCTIONAL EXPENDITURES (CONTINUED)**

**A. Program Functions**

**Child Care and Education Quality** – Used to account for service activities including or associated with quality enhancement grants for upgrades, quality enhancement grants for maintenance, child care resource and referral, and professional development.

**Family Support** – Used to account for service activities including or associated with ongoing parenting education.

**Health and Safety** – Used to account for service activities including or associated with child care health consultants, special needs early intervention services and special education.

**More-at-Four** – Used to account for development and implementation of More-at-Four Pre-Kindergarten Program for at-risk four-year-olds who are at risk of failure in kindergarten. The goal is to provide quality pre-kindergarten 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 the performance of in-house and direct service providers as to the delivery of services and adherence to the specific terms and conditions of the contracts.

**C. Allocation of Joint Costs**

Expenditures benefiting more than one purpose were allocated as follows:

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

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

*Smart Start of Pender County, Inc.*  
*Notes to Financial Statements*  
*June 30, 2008*

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**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 Years</u>	<u>Operating Leases</u>
2009	\$ 30,000
2010	33,000
2011	<u>36,000</u>
<b>Total Minimum Lease Payments</b>	<b>\$ <u>99,000</u></b>

Rental expense for all operating leases during the year was \$29,600.

**NOTE 7 - RISK MANAGEMENT**

The Pender 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 Pender 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 Pender County 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 Pender 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 \$7,064. No funds or reservation of net assets has been made for this commitment.

*Smart Start of Pender County, Inc.*  
*Notes to Financial Statements*  
*June 30, 2008*

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**NOTE 9 - PENSION PLAN**

All permanent employees who are at least half time may participate in a tax sheltered annuity plan (Plan) created under Internal Revenue Code Section 403(b). 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 types of plans are exclusively for employees of universities and certain charitable and other nonprofit organizations. All costs of administering and funding this Plan are the responsibility of the Plan participants. No costs were incurred by Smart Start of Pender County, Inc.

**Smart Start of Pender County, Inc.**  
**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
<b><i>Paid to Organizations:</i></b>				
Pender County Schools - More-at-Four	* \$ 42,700	\$ -	\$ -	\$ -
Pender County Health Department - Child Care Health Project	* 51,307	-	-	-
Little Town Learning Center - QM Grant	* 2,500	-	-	-
QM Grants	(201)	-	-	-
Various Day Care Grants	(114)	-	-	-
	<u>96,192</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b><i>Paid to Individuals:</i></b>				
QM Grants to various Daycare Providers	5,250	-	-	-
Professional Developments Grants	9,000	-	-	-
PD Grant to Little Town Learning Center	* 1,000	-	-	-
QE Grants to various Daycare Providers	9,700	-	-	-
	<u>24,950</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ 121,142</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

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

***Smart Start of Pender County, Inc.***  
***Schedule of State Level Service Provider Contracts***  
***For the Year Ended June 30, 2008***

***Schedule 2***

<b>Organization Name</b>	<b>DHHS Contracts</b>
Child Care Services Association - WAGE\$	\$ 48,300
* Pender County Department of Social Services	<u>263,725</u>
	<u><u>\$ 312,025</u></u>

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

The information on this schedule provides a listing of service provider contracts entered into by the North Carolina Department of Health and Human Services (DHHS) as described in Note 3 - Funding from Grant Awards.



**Smart Start of Pender County, Inc.**  
**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>
<b>Federal Awards:</b>				
U.S. Department of Health and Human Services				
North Carolina Department of Health and Human Services				
Division of Child Development				
Pass-through from the Southeastern Community College				
Child Development Grant	93.575	107104P	\$ 38,661	\$ 37,562
<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 *		N/A	564,361	564,361
Multi-County Accounting and Contracting Grant		N/A	11,665	11,665
<b>Total State Awards</b>			<u>576,026</u>	<u>576,026</u>
<b>Total Federal and State Awards</b>			<u>\$ 614,687</u>	<u>\$ 613,588</u>

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

***Smart Start of Pender County, Inc.  
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	\$ 40,249
Computer Equipment/Printers	<u>23,266</u>
<b>Total Property and Equipment</b>	<b><u>\$ 63,515</u></b>

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 Pender County, Inc.  
Schedule of Qualifying Match (Non-GAAP)  
For the Year Ended June 30, 2008***

***Schedule 5***

**Match Provided at the Partnership Level:**

Cash	\$	18,961
In-Kind Goods and Services		<u>52,243</u>
	\$	<u><u>71,204</u></u>

**Match Provided at the Contractor Level:**

Cash	\$	16,061
In-Kind Goods and Services		<u>11,522</u>
	\$	<u><u>27,583</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.

**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  
Smart Start of Pender County, Inc.  
Concord, North Carolina

We have audited the financial statements of the Smart Start of Pender County, Inc. (Pender 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 Pender 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 Pender County Partnership's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Pender 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 Pender 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 Pender County Partnership's financial statements that is more than inconsequential will not be prevented or detected by the Pender 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)**

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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 Pender 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 Pender 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*.

We noted certain matters that we reported to management of the Pender Partnership in a separate letter dated November 30, 2008.

This report is intended solely for the information and use of the Pender County's Board of Directors, management of the Pender 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 Henderson LLP*

Raleigh, North Carolina  
November 30, 2008

## ORDERING INFORMATION

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