



# STATE OF NORTH CAROLINA

## FINANCIAL STATEMENT AUDIT REPORT OF CHILDREN'S COUNCIL OF WATAUGA COUNTY, INC.

BOONE, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2004

OFFICE OF THE STATE AUDITOR

LESLIE W. MERRITT, JR., CPA, CFP

STATE AUDITOR

**FINANCIAL STATEMENT AUDIT REPORT OF  
CHILDREN'S COUNCIL OF WATAUGA COUNTY, INC.**

**BOONE, NORTH CAROLINA**

**FOR THE YEAR ENDED JUNE 30, 2004**

**BOARD OF DIRECTORS**

**PATRICK MORGAN, BOARD CHAIRMAN**

**ADMINISTRATIVE OFFICER**

**JENNIFER WILSON-KEARSE, 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, Children's Council of Watauga County, Inc.

This report presents the results of our financial statement audit of the Children's Council of Watauga County, Inc. (Watauga Partnership), for the year ended June 30, 2004. Our audit was made by authority of Article 5A of Chapter 147 of the *North Carolina General Statutes*.

The accounts and operations of the Watauga Partnership were subject to audit procedures as we considered necessary for us to report on the accompanying financial statements and supplementary information. The audit procedures were conducted in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards* issued by the Comptroller General of the United States.

The audit of the Watauga Partnership was made in conjunction with the Early Childhood Initiatives (Smart Start) program authorized by General Statutes 143B-168.10-.16. These statutes created The North Carolina Partnership for Children, Inc., and required the implementation of local demonstration projects (local partnerships). The Watauga Partnership is one of these local partnerships. As such, the Watauga Partnership is a private nonprofit 501(c)(3) organization and is required by General Statute 143B-168.14(b) to have a financial and compliance audit conducted by the Office of the State Auditor.

The purpose of this report is to present the results of our audit on the accompanying financial statements. A summary of our reporting objectives and audit results are:

- 1. Objective** - To express an opinion on the accompanying financial statements.

**Results** - The accompanying financial statements present fairly, in all material respects, the amounts and disclosures made in accordance with the modified cash basis of accounting, a comprehensive basis of accounting other than generally accepted accounting principles.

## AUDITOR'S TRANSMITTAL (CONCLUDED)

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2. **Objective** - To present significant deficiencies, if any, in internal control over financial reporting which could adversely affect the Watauga Partnership's ability to record, process, summarize, and report financial data in the financial statements and present instances of noncompliance or other matters, if any, with laws, regulations, contracts, or grant agreements.

**Results** - Our tests disclosed no significant deficiencies in the internal control over financial reporting and no instances of noncompliance or other matters that require disclosure herein 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.

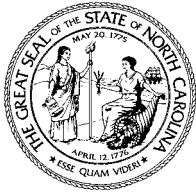
*Leslie W. Merritt, Jr.*

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

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**INDEPENDENT AUDITOR'S REPORT**

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Board of Directors  
Children's Council of Watauga County, Inc.  
Boone, North Carolina

We have audited the accompanying Statement of Receipts, Expenditures, and Net Assets – Modified Cash Basis of the Children's Council of Watauga County, Inc. (Watauga Partnership), as of June 30, 2004, and the related Statement of Functional Expenditures – Modified Cash Basis for the year then ended. These financial statements are the responsibility of the Watauga 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 Children's Council of Watauga County, Inc. as of June 30, 2004, 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 June 24, 2005, on our consideration of the Watauga 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

## INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

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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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Children's Council of Watauga County, Inc.'s basic financial statements. The information in Schedules 1, 3, 4, and 5 is presented for purposes of additional analysis and is not a required part of the basic financial statements. These Schedules 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.



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

June 24, 2005

**Children's Council of Watauga County, Inc.**  
**Statement of Receipts, Expenditures, and Net Assets - Modified Cash Basis**  
**For the Year Ended June 30, 2004**

**Exhibit A**

	Unrestricted Funds		Total Funds
	Smart Start Fund	Other Funds	
<b>Receipts:</b>			
State Awards (less refunds of \$ 8,217)	\$ 359,997	\$ 12,000	\$ 371,997
Federal Awards		59,229	59,229
Local Awards		2,000	2,000
Private Contributions		11,792	11,792
Special Fund Raising Events		20	20
Interest and Investment Earnings		274	274
Sales Tax Refunds		1,313	1,313
Other Receipts		5,182	5,182
<b>Total Receipts</b>	<b>359,997</b>	<b>91,810</b>	<b>451,807</b>
<b>Expenditures:</b>			
Programs:			
Child Care and Education Accessibility and Availability	76,750		76,750
Child Care and Education Quality	84,419	65,324	149,743
Family Support	26,328	10,037	36,365
Health and Safety	16,200	1,460	17,660
More at Four	48,000		48,000
Support:			
Management and General	107,425	18,750	126,175
Program Coordination	6,424		6,424
Other:			
Refund of Prior Year Grant		146	146
Sales Tax Paid		1,920	1,920
<b>Total Expenditures</b>	<b>365,546</b>	<b>97,637</b>	<b>463,183</b>
<b>Excess of Receipts Over Expenditures</b>	<b>(5,549)</b>	<b>(5,827)</b>	<b>(11,376)</b>
<b>Net Assets at Beginning of Year</b>	<b>8,217</b>	<b>45,720</b>	<b>53,937</b>
<b>Net Assets at End of Year</b>	<b>\$ 2,668</b>	<b>\$ 39,893</b>	<b>\$ 42,561</b>
<b>Net Assets Consisted of:</b>			
Cash and Cash Equivalents	\$ 2,668	\$ 40,393	\$ 43,061
Less: Funds Held for Others		500	500
	<b>\$ 2,668</b>	<b>\$ 39,893</b>	<b>\$ 42,561</b>

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



**Children's Council of Watauga County, Inc.**  
**Statement of Functional Expenditures - Modified Cash Basis**  
**For the Year Ended June 30, 2004**

**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>Participant Training Expenditures</b>
<b>Smart Start Fund:</b>									
<b>Programs:</b>									
Child Care and Education Accessibility and Availability	\$ 76,750	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 76,750	\$ 0
Child Care and Education Quality	84,419	55,002		4,613	8,168	10,809	5,827		
Family Support	26,328							26,328	
Health and Safety	16,200							16,200	
More at Four	48,000							48,000	
	<u>251,697</u>	<u>55,002</u>		<u>4,613</u>	<u>8,168</u>	<u>10,809</u>	<u>5,827</u>	<u>167,278</u>	
<b>Support:</b>									
Management and General	107,425	84,511	3,790	3,104	7,318	3,659	5,043		
Program Coordination	6,424	6,173			251				
	<u>113,849</u>	<u>90,684</u>	<u>3,790</u>	<u>3,104</u>	<u>7,569</u>	<u>3,659</u>	<u>5,043</u>		
<b>Total Smart Start Fund Expenditures</b>	<b>\$ 365,546</b>	<b>\$ 145,686</b>	<b>\$ 3,790</b>	<b>\$ 7,717</b>	<b>\$ 15,737</b>	<b>\$ 14,468</b>	<b>\$ 10,870</b>	<b>\$ 167,278</b>	<b>\$ 0</b>
<b>Other Funds:</b>									
<b>Programs:</b>									
Child Care and Education Quality	\$ 65,324	\$ 44,982	\$ 0	\$ 2,530	\$ 4,222	\$ 11,724	\$ 722	\$ 854	\$ 290
Family Support	10,037	3,607		269	1,304	1,164		3,418	275
Health and Safety	1,460	1,460							
	<u>76,821</u>	<u>50,049</u>		<u>2,799</u>	<u>5,526</u>	<u>12,888</u>	<u>722</u>	<u>4,272</u>	<u>565</u>
<b>Support:</b>									
Management and General	18,750	3,403	8,339	136	773	6,099			
<b>Other:</b>									
Refund of Prior Year Grant	146					146			
Sales Tax Paid	1,920			1,920					
	<u>2,066</u>			<u>1,920</u>		<u>146</u>			
<b>Total Other Funds Expenditures</b>	<b>\$ 97,637</b>	<b>\$ 53,452</b>	<b>\$ 8,339</b>	<b>\$ 4,855</b>	<b>\$ 6,299</b>	<b>\$ 19,133</b>	<b>\$ 722</b>	<b>\$ 4,272</b>	<b>\$ 565</b>

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

**CHILDREN'S COUNCIL OF WATAUGA COUNTY, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2004**

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**NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES**

- A. Organization and Purpose** - The Children's Council of Watauga County, Inc. (Watauga Partnership), is a legally separate nonprofit organization incorporated on December 8, 1977. The Watauga Partnership was established to develop and provide, through public and private means, early childhood education and developmental services for children and families. The Watauga 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 Watauga 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 Watauga Partnership did not have any temporarily or permanently restricted net assets at June 30, 2004.

- 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.

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. In addition, amounts withheld from employee paychecks or other amounts received in an agency capacity are recorded as funds held for others.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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- 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, money market 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 Watauga Partnership acts in an agency capacity. For the year ended, the Watauga Partnership was holding funds in the amount of \$500.00 for the Local Interagency Coordinating Council.
- F. Property and Equipment** - Under the modified cash basis of accounting, purchases of property and equipment are reported as expenditures in the year occurred. However, Watauga Partnership is required by contract regulation to track and maintain property and equipment items as presented in Schedule 4 of this report. The Watauga 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, 2004. Donated items are recorded at estimated fair market value at the date of donation.
- G. 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.
- H. Use of Estimates** - The preparation of financial statements in conformity with the modified cash basis of accounting used by the Watauga 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 Watauga 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 Watauga Partnership to a concentration of credit risk.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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### NOTE 3 - FUNDING FROM GRANT AWARDS

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

Associated with these contracts, the Watauga 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 Watauga 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 Watauga Partnership was awarded and has received \$368,214 under a current year Smart Start contract with NCPC. The unexpended balance of this contract is subject to reversion to the State. The Watauga Partnership has returned \$2,668 of this contract to the State based on financial status reports submitted to NCPC subsequent to June 30, 2004.

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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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### 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 Accessibility and Availability** - Used to account for service activities associated with increasing child care availability.

**Child Care and Education Quality** - Used to account for service activities including child care resource and referral, professional development and salary supplements.

**Family Support** - Used to account for service activities including family resource centers.

**Health and Safety** - Used to account for service activities associated with prenatal/newborn services.

**More at Four** - Used to account for development and implementation of 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** - 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.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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### 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.

### NOTE 6 - OPERATING LEASE OBLIGATIONS

Future minimum lease payments under noncancelable operating leases consist of the following at June 30, 2004:

<u>Fiscal Year</u>	<u>Operating Leases</u>
2005	\$ 10,560
2006	2,460
2007	2,100
2008	1,980
2009	<u>1,485</u>
Total Minimum Lease Payments	<u>\$ 18,585</u>

Rental expense for all operating leases during the year was \$16,188.

### NOTE 7 - PENSION PLAN

**Retirement Plans** - The Watauga Partnership has a SIMPLE - IRA Plan covering all employees who earn at least \$5,000. Each employee of the Watauga Partnership has an option to participate in the Plan. An Individual Retirement Account is provided to the employee through an outside financial institution. The Watauga Partnership contributed 3% of gross wages for the year ended June 30, 2004. The Watauga Partnership does not own the accounts nor is liable for any other cost other than the required contribution. The Watauga Partnership contributed \$4,644 for pension benefits during the year.

### NOTE 8 - RISK MANAGEMENT

The Watauga Partnership is exposed to various risks of loss related to torts, theft of, damage to, or destruction of assets; errors and omissions; injuries to

## NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

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employees; employees' health and life; and natural disasters. The Watauga 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 Watauga 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 Watauga 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, 2004, is \$8,515. No funds or reservation of net assets has been made for this commitment.

**Children's Council of Watauga County, Inc.**  
**Schedule of Contract and Grant Expenditures - Modified Cash Basis**  
**For the Year Ended June 30, 2004**

**Schedule 1**

Organization Name	Smart Start Fund		Other Funds	
	Amount Advanced	Refund Due	Amount Advanced	Refund Due
Appalachian District Health Department	* \$ 16,200	\$ 0	\$ 0	\$ 0
Caldwell Community College	* 17,050			
Infant Toddler Assistance	* 600			
The Children's Playhouse, Inc.	10,000			
Watauga County Schools	* 52,800			
	<u>96,650</u>			
<b><i>Paid to Individuals:</i></b>				
Emergency Assistance Grants			3,327	
Parents as Teachers	11,528			
Salary Supplements	59,100			
Various Day Care Providers			945	
	<u>70,628</u>		<u>4,272</u>	
	<u>\$ 167,278</u>	<u>\$ 0</u>	<u>\$ 4,272</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.



***Children's Council of Watauga County, Inc.  
Schedule of State Level Service Provider Contracts  
For the Year Ended June 30, 2004***

***Schedule 2***

<b>Organization Name</b>	<b>DHHS Contracts</b>
Watauga County Department of Social Services	* \$ <u>115,030</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.

**Children's Council of Watauga County, Inc.**  
**Schedule of Federal and State Awards - Modified Cash Basis**  
**For the Year Ended June 30, 2004**

**Schedule 3**

<u>Federal/State Grantor/Pass-through Grantor/Program</u>	<u>Contract #</u>	<u>Receipts</u>	<u>Expenditures</u>
<b>Federal Awards:</b>			
Appalachian Regional Commission Pass-through from the North Carolina Department of Health and Human Services - Division of Child Development Child Care Resource and Referral	6009	\$ 18,063	\$ 15,500
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 the Iredell County Partnership for Young Children Child Care Resource and Referral	0304-3	<u>41,166</u>	<u>46,500</u>
<b>Total Federal Awards</b>		<u>59,229</u>	<u>62,000</u>
<b>State Awards:</b>			
North Carolina Department of Health and Human Services Division of Child Development Pass-through from the North Carolina Partnership for Children, Inc.			
Early Childhood Initiatives Program (Prior Year)	Various	(8,217)	
Early Childhood Initiatives Program (Current Year)	*	368,214	365,546
Multi-County Accounting and Contracting Grant	N/A	<u>12,000</u>	<u>12,000</u>
<b>Total State Awards</b>		<u>371,997</u>	<u>377,546</u>
<b>Total Federal and State Awards</b>		<u>\$ 431,226</u>	<u>\$ 439,546</u>

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

***Children's Council of Watauga County, Inc.***  
***Schedule of Property and Equipment - Modified Cash Basis***  
***For the Year Ended June 30, 2004***

***Schedule 4***

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Furniture and Noncomputer Equipment	\$	3,237
Computer Equipment/Printers		<u>17,178</u>
Total Property and Equipment	\$	<u><u>20,415</u></u>

Note: The information on this schedule provides a summary of property and equipment with acquisition or donated cost of \$500 or more which were held by the Partnership at year end. The valuations represent historical cost. On the modified basis of accounting, these items are expensed in the year of purchase.

***Children's Council of Watauga County, Inc.  
Schedule of Qualifying Match (Non-GAAP)  
For the Year Ended June 30, 2004***

***Schedule 5***

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

Cash	\$	14,043
In-Kind Goods and Services		<u>12,972</u>
	\$	<u><u>27,015</u></u>

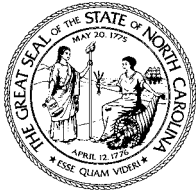
***Match Provided at the Contractor Level:***

Cash	\$	47,885
In-Kind Goods and Services		<u>3,286</u>
	\$	<u><u>51,171</u></u>

Note: This schedule is presented in accordance with the program match requirement as provided for by North Carolina Session Law 2003-284, Section 10.38(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

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Office of the State Auditor

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

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Board of Directors  
Children's Council of Watauga County, Inc.  
Boone, North Carolina

We have audited the financial statements of the Children's Council of Watauga County, Inc. (Watauga Partnership), as of and for the year ended June 30, 2004, and have issued our report thereon dated June 24, 2005. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Watauga Partnership's internal control over financial reporting in order to determine our auditing procedures for the purposes of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Watauga 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

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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 Watauga Partnership in a separate letter dated August 29, 2005.

This report is intended solely for the information and use of the audit committee, management of the Watauga Partnership, The North Carolina Partnership for Children, Inc., the Governor, and the General Assembly and is not intended to be and should not be used by anyone other than these specified parties.

*Leslie W. Merritt, Jr.*

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

June 24, 2005



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In accordance with General Statutes 147-64.5 and 147-64.6(c)(14), copies of this report have been distributed to the public officials listed below. Additional copies are provided to other legislators, state officials, the press, and the general public upon request.

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The North Carolina Partnership for Children, Inc.  
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The North Carolina Partnership for Children, Inc.

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Director, Fiscal Research Division

August 31, 2005

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