



# STATE OF NORTH CAROLINA

## FINANCIAL STATEMENT AUDIT REPORT OF

**MITCHELL-YANCEY COUNTY PARTNERSHIP FOR CHILDREN, INC.**

**BURNSVILLE, NORTH CAROLINA**

**FOR THE YEAR ENDED JUNE 30, 2005**

**OFFICE OF THE STATE AUDITOR**

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

**STATE AUDITOR**

**FINANCIAL STATEMENT AUDIT REPORT OF**  
**MITCHELL-YANCEY COUNTY PARTNERSHIP FOR CHILDREN, INC.**

**BURNSVILLE, NORTH CAROLINA**

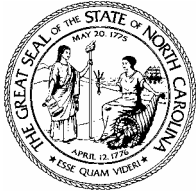
**FOR THE YEAR ENDED JUNE 30, 2005**

**BOARD OF DIRECTORS**

**NEIL BROWN, BOARD CHAIRMAN**

**ADMINISTRATIVE OFFICER**

**JENNIFER SIMPSON, EXECUTIVE DIRECTOR**



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

STATE OF NORTH CAROLINA  
Office of the State Auditor

2 S. Salisbury Street  
20601 Mail Service Center  
Raleigh, NC 27699-0601  
Telephone: (919) 807-7500  
Fax: (919) 807-7647  
Internet  
<http://www.ncauditor.net>

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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, Mitchell-Yancey County Partnership for Children, Inc.

This report presents the results of our financial statement audit of the Mitchell-Yancey County Partnership for Children, Inc. (Mitchell-Yancey Partnership) for the year ended June 30, 2005. Our audit was made by authority of Article 5A of Chapter 147 of the *North Carolina General Statutes*.

The accounts and operations of the Mitchell-Yancey 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 Mitchell-Yancey Partnership was made in conjunction with the Early Childhood Initiatives (Smart Start) program authorized by General Statute 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 Mitchell-Yancey Partnership is one of these local partnerships. As such, the Mitchell-Yancey 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 Mitchell-Yancey 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 *Governmental 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.

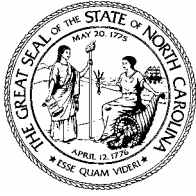


Leslie W. Merritt, Jr., CPA, CFP  
State Auditor

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STATE OF NORTH CAROLINA  
Office of the State Auditor

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

2 S. Salisbury Street  
20601 Mail Service Center  
Raleigh, NC 27699-0601  
Telephone: (919) 807-7500  
Fax: (919) 807-7647  
Internet  
<http://www.ncauditor.net>

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**INDEPENDENT AUDITOR'S REPORT**

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Board of Directors  
Mitchell-Yancey County Partnership for Children, Inc.  
Burnsville, North Carolina

We have audited the accompanying Statement of Receipts, Expenditures, and Net Assets – Modified Cash Basis of the Mitchell-Yancey County Partnership for Children, Inc. (Mitchell-Yancey Partnership) as of June 30, 2005, and the related Statement of Functional Expenditures – Modified Cash Basis for the year then ended. These financial statements are the responsibility of the Mitchell-Yancey 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 Mitchell-Yancey County Partnership for Children, Inc. as of June 30, 2005, 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 May 31, 2006 on our consideration of the Mitchell-Yancey 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 Mitchell-Yancey County Partnership for Children, Inc.'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.

*Leslie W. Merritt, Jr.*

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

May 31, 2006

**Mitchell-Yancey County Partnership for Children, Inc.**  
**Statement of Receipts, Expenditures, and Net Assets - Modified Cash Basis**  
**For the Year Ended June 30, 2005**

**Exhibit A**

	Unrestricted Funds		Temporarily Restricted Funds	Total Funds
	Smart Start Fund	Other Funds		
<b>Receipts:</b>				
State Awards (less refunds of \$14,119)	\$ 359,162	\$ 18,040	\$ 0	\$ 377,202
Federal Awards		11,785		11,785
Private Contributions		12,949	31,740	44,689
Special Fund Raising Events		4,677		4,677
Sales Tax Refunds		1,482		1,482
Other Receipts		595		595
<b>Total Receipts</b>	<b>359,162</b>	<b>49,528</b>	<b>31,740</b>	<b>440,430</b>
Net Assets Released from Restrictions:				
Satisfaction of Program Restrictions		847	(847)	
	<b>359,162</b>	<b>50,375</b>	<b>30,893</b>	<b>440,430</b>
<b>Expenditures:</b>				
Programs:				
Child Care and Education Affordability	4,500			4,500
Child Care and Education Quality	142,096	21,058		163,154
Family Support	41,452	15,371		56,823
Health and Safety	35,902	10,485		46,387
Support:				
Management and General	126,159	24,518		150,677
Program Coordination	17,212			17,212
Other:				
Sales Tax Paid		2,039		2,039
<b>Total Expenditures</b>	<b>367,321</b>	<b>73,471</b>		<b>440,792</b>
<b>Excess of Receipts Over Expenditures</b>	<b>(8,159)</b>	<b>(23,096)</b>	<b>30,893</b>	<b>(362)</b>
<b>Net Assets at Beginning of Year</b>	<b>8,159</b>	<b>32,191</b>	<b>847</b>	<b>41,197</b>
<b>Net Assets at End of Year</b>	<b>\$ 0</b>	<b>\$ 9,095</b>	<b>\$ 31,740</b>	<b>\$ 40,835</b>
<b>Net Assets Consisted of:</b>				
Cash and Cash Equivalents	\$ 765	\$ 10,067	\$ 31,740	\$ 42,572
Less: Due to the State	765			765
Funds Held for Others		972		972
	<b>\$ 0</b>	<b>\$ 9,095</b>	<b>\$ 31,740</b>	<b>\$ 40,835</b>

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



***Mitchell-Yancey County Partnership for Children, Inc.***  
***Statement of Functional Expenditures - Modified Cash Basis***  
***For the Year Ended June 30, 2005***

***Exhibit B***

	Total	Personnel	Contracted Services	Supplies and Materials	Other Operating Expenditures	Fixed Charges and Other Expenditures	Property and Equipment Outlay	Services/Contracts/Grants	Participant Training Expenditures
<b>Smart Start Fund:</b>									
<b>Programs:</b>									
Child Care and Education Affordability	\$ 4,500	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 4,500	\$ 0
Child Care and Education Quality	142,096	59,498	40	4,112	5,996	375	903	71,172	
Family Support	41,452							41,452	
Health and Safety	35,902							35,902	
More at Four									
	<u>223,950</u>	<u>59,498</u>	<u>40</u>	<u>4,112</u>	<u>5,996</u>	<u>375</u>	<u>903</u>	<u>153,026</u>	
<b>Support:</b>									
Management and General	126,159	85,942	1,766	3,944	17,875	15,610	1,022		
Program Coordination	17,212	16,680			532				
Program Evaluation									
System Integration									
	<u>143,371</u>	<u>102,622</u>	<u>1,766</u>	<u>3,944</u>	<u>18,407</u>	<u>15,610</u>	<u>1,022</u>		
<b>Total Smart Start Fund Expenditures</b>	<u>\$ 367,321</u>	<u>\$ 162,120</u>	<u>\$ 1,806</u>	<u>\$ 8,056</u>	<u>\$ 24,403</u>	<u>\$ 15,985</u>	<u>\$ 1,925</u>	<u>\$ 153,026</u>	<u>\$ 0</u>
<b>Other Funds:</b>									
<b>Programs:</b>									
Child Care and Education Quality	\$ 21,058	\$ 12,600	\$ 50	4,214	\$ 2,191	201	\$ 0	\$ 1,532	\$ 270
Family Support	15,371							15,371	
Health and Safety	10,485	7,783	900	953	781		68		
	<u>46,914</u>	<u>20,383</u>	<u>950</u>	<u>5,167</u>	<u>2,972</u>	<u>201</u>	<u>68</u>	<u>16,903</u>	<u>270</u>
<b>Support:</b>									
Management and General	24,518	2,158	17,718	5	606	3,840	191		
<b>Other:</b>									
Sales Tax Paid	2,039			2,039					
<b>Total Other Funds Expenditures</b>	<u>\$ 73,471</u>	<u>\$ 22,541</u>	<u>\$ 18,668</u>	<u>\$ 7,211</u>	<u>\$ 3,578</u>	<u>\$ 4,041</u>	<u>\$ 259</u>	<u>\$ 16,903</u>	<u>\$ 270</u>

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

**MITCHELL-YANCEY COUNTY PARTNERSHIP FOR CHILDREN, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2005**

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**NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES**

**A. Organization and Purpose** – The Mitchell-Yancey County Partnership for Children, Inc. (Mitchell-Yancey Partnership) is a legally separate nonprofit organization incorporated on April 18, 1995. The Mitchell-Yancey Partnership was established to develop and provide, through public and private means, early childhood education and developmental services for children and families. The Mitchell-Yancey 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 Mitchell-Yancey 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 Mitchell-Yancey Partnership did not have any permanently restricted net assets at June 30, 2005.

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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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However, unexpended advances to contractors that revert back to the State of North Carolina are recognized as a reduction to expenditures and an increase to net assets. Amounts withheld from employee paychecks or other amounts received in an agency capacity are recorded as funds held for others. In addition, Smart Start funds advanced to the local Partnership that are unexpended and unearned at year end are recorded as 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 certificate of deposits or short-term investments with an original maturity of three months or less.
- 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 the Mitchell-Yancey Partnership acts in an agency capacity. The Mitchell-Yancey Partnership acts as fiscal agent for the Yancey and Mitchell Local Interagency Coordinating Council.
- G. Property and Equipment** – Under the modified cash basis of accounting, purchases of property and equipment are reported as expenditures in the year occurred. However, Mitchell-Yancey Partnership is required by contract regulation to track and maintain property and equipment items as presented in Schedule 4 of this report. The Mitchell-Yancey 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, 2005. 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.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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- I. **Use of Estimates** – The preparation of financial statements in conformity with the modified cash basis of accounting used by the Mitchell-Yancey Partnership requires management to make estimates and assumptions that affect certain reported amounts and disclosures (such as allocation of joint costs); accordingly, actual results could differ from those estimates. It is management's belief that these estimates are reasonable and fair.

### NOTE 2 - FUNDING FROM GRANT AWARDS

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

Associated with these contracts, the Mitchell-Yancey 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, NCPC and the North Carolina Department of Health and Human Services (DHHS) entered into contracts with and made payments to service providers selected by the Mitchell-Yancey Partnership. These service provider contracts are not reflected on the accompanying financial statements. However, a summary of the service provider contracts entered into by NCPC and DHHS is presented on Schedule 2 accompanying the financial statements.

The Mitchell-Yancey Partnership was awarded and has received \$368,086 under a current year Smart Start contract with NCPC. The unexpended balance of this contract is subject to reversion to the State. The Mitchell-Yancey Partnership has returned \$765 of this contract to the State based on financial status reports submitted to NCPC subsequent to June 30, 2005.

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

### NOTE 3 - RELATED PARTY TRANSACTIONS

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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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Mitchell-Yancey 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 NCPC and DHHS with board member organizations for activities funded by the Mitchell-Yancey Partnership's Smart Start Allocation.

### NOTE 4 - FUNCTIONAL EXPENDITURES

The costs of providing the various programs and activities have been summarized on a functional basis in the Statement of Receipts, Expenditures, and Net Assets – Modified Cash Basis. Also, the Statement of Functional Expenditures – Modified Cash Basis, provides detail of the functional costs by their natural classification. Following are the services associated with the functional categories presented in the accompanying financial statements and the methods utilized to allocate joint cost:

#### A. Program Functions

**Child Care and Education Affordability** – Used to account for service activities including child care cost supports (Division of Child Development), and part-day care programs.

**Child Care and Education Quality** – Used to account for service activities including quality enhancement grants for upgrades, child care resource and referral, child care substitutes, salary supplements, and provider training.

**Family Support** – Used to account for service activities including ongoing parenting education and transportation services.

**Health and Safety** – Used to account for service activities including prenatal/newborn services

#### 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:

**Other Costs** – Postage costs were allocated based on utilization data noting the originating activity.

### NOTE 5 - LEASE OBLIGATIONS

**A. Operating Lease Obligations** – Future minimum lease payments under noncancelable operating leases consist of the following at June 30, 2005:

<u>Fiscal Year</u>	<u>Operating Leases</u>
2006	\$ <u>6,775</u>

Rental expense for all operating leases during the year was \$9,900.

**B. Capital Lease Obligations** – Capital lease obligations relating to photocopying equipment are recorded at the present value of the minimum lease payments. Future minimum lease payments under capital lease obligations consist of the following at June 30, 2005:

<u>Fiscal Year</u>	<u>Capital Leases</u>
2006	\$ 1,380
2007	1,453
2008	<u>124</u>
Total Minimum Lease Payments	\$ <u>2,957</u>

### NOTE 6 - PENSION PLAN

**IRC Section 403(b) Plan** – All permanent employees who are at least half time can participate in a tax sheltered annuity plan (Plan) created under Internal Revenue Code Section 403(b). The Plan is a defined contribution plan in which each employee of the Mitchell-Yancey Partnership, as a condition of employment, is provided an individual annuity through an outside insurance company. The Mitchell-Yancey Partnership contributed 5% of gross wages for the year ended June 30, 2005. The employee's eligible contributions, made through salary reduction agreements, are exempt from federal and State income taxes until the annuity is received or the contributions are withdrawn. These Plans are exclusively for employees of universities and certain

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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charitable and other nonprofit organizations. All costs of administering and funding these Plans are the responsibility of the Plan participants. The Mitchell-Yancey Partnership contributed \$5,921 for retirement benefits during the year.

### NOTE 7 - RISK MANAGEMENT

The Mitchell-Yancey 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 Mitchell-Yancey 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 Mitchell-Yancey 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 Mitchell-Yancey 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, 2005, is \$2,808. No funds or reservation of net assets has been made for this commitment.

**NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)**

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**NOTE 9 - RESTRICTIONS ON NET ASSETS**

**A. Temporarily Restricted Net Assets** – Temporarily restricted net assets at June 30, 2005, are available for the following purposes:

<u>Purpose</u>	<u>Amount</u>
Child Development Outreach	\$ 1000
Health Maintenance Program	5,740
Parenting Education Program	<u>25,000</u>
	<u>\$ 31,740</u>

**B. Net Assets Released From Donor Restrictions** – Net assets were released from donor restrictions during the fiscal year ended June 30, 2005, by incurring expenditures satisfying the restricted purposes as follows:

<u>Purpose</u>	<u>Amount</u>
Child Development Outreach	<u>\$ 847</u>



***Mitchell-Yancey County Partnership for Children, Inc.***  
***Schedule of Contract and Grant Expenditures - Modified Cash Basis***  
***For the Year Ended June 30, 2005***

***Schedule 1***

<b>Organization Name</b>	<b>Smart Start Fund</b>		<b>Other Funds</b>	
	<b>Amount Advanced</b>	<b>Refund Due</b>	<b>Amount Advanced</b>	<b>Refund Due</b>
Mayland Community College	\$ 16,201	\$ 0	\$ 0	\$ 0
* Mitchell County Cooperative Extension	9,750			
* Mitchell County Transportation Authority	12,000		15,000	
South Toe Preschool	4,500			
Toe River Arts Council	43,699			
* Toe River Health District	35,902			
Yancey County Transportation Authority	19,702			
	<u>141,754</u>		<u>15,000</u>	
<b>Individuals:</b>				
Playground of Learning Scholarships	500			
Quality Enhancement Purchases (in-house activity)	10,772			
Admin Discretionary funds for Intern Program - Mayland Community College			1,532	
Admin Discretionary funds for transportation services - YCTA & MCTA			371	
	<u>11,272</u>		<u>1,903</u>	
	<u>\$ 153,026</u>	<u>\$ 0</u>	<u>\$ 16,903</u>	<u>\$ 0</u>

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

***Mitchell-Yancey County Partnership for Children, Inc.***  
***Schedule of State Level Service Provider Contracts***  
***For the Year Ended June 30, 2005***

***Schedule 2***

<b>Organization Name</b>	<b>DHHS Contracts</b>
Child Care Services Association	\$ 67,790
* Mitchell County Department of Social Services	111,893
Yancey County Department of Social Services	<u>24,700</u>
	<u><u>\$ 204,383</u></u>

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

The information on this schedule provides a listing of service provider contracts entered into by the North Carolina Department of Health and Human Services (DHHS) as described in Note 2 - Funding from Grant Awards.

**Mitchell-Yancey County Partnership for Children, Inc.**  
**Schedule of Federal and State Awards - Modified Cash Basis**  
**For the Year Ended June 30, 2005**

**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>				
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 Child Care Connections of Burke County, Inc.				
Child Care Resource and Referral		DCD11-2	\$ 11,785	\$ 12,600
<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)			(8,159)	
Early Childhood Initiatives Program (Current Year)	*		367,321	367,321
Multi-County Accounting and Contracting Grant (Prior Year)			(5,960)	
Multi-County Accounting and Contracting Grant (Current Year)			24,000	24,000
<b>Total State Awards</b>			<u>377,202</u>	<u>391,321</u>
<b>Total Federal and State Awards</b>			<u>\$ 388,987</u>	<u>\$ 403,921</u>

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

***Mitchell-Yancey County Partnership for Children, Inc.***  
***Schedule of Property and Equipment - Modified Cash Basis***  
***For the Year Ended June 30, 2005***

***Schedule 4***

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Furniture and Noncomputer Equipment	\$	13,099
Computer Equipment/Printers		26,809
Leasehold Improvements		<u>984</u>
Total Property and Equipment	\$	<u><u>40,892</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.

***Mitchell-Yancey County Partnership for Children, Inc.***  
***Schedule of Qualifying Match (Non-GAAP)***  
***For the Year Ended June 30, 2005***

***Schedule 5***

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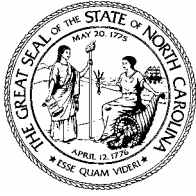
***Match Provided at the Partnership Level:***

Cash	\$	49,432
In-Kind Goods and Services		8,449
		<hr/>
	\$	57,880
		<hr/> <hr/>

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

Cash	\$	39,240
		<hr/> <hr/>

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 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.



STATE OF NORTH CAROLINA  
Office of the State Auditor

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

2 S. Salisbury Street  
20601 Mail Service Center  
Raleigh, NC 27699-0601  
Telephone: (919) 807-7500  
Fax: (919) 807-7647  
Internet  
<http://www.ncauditor.net>

**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  
Mitchell-Yancey County Partnership for Children, Inc.  
Burnsville, North Carolina

We have audited the financial statements of the Mitchell-Yancey County Partnership for Children, Inc. (Mitchell-Yancey Partnership) as of and for the year ended June 30, 2005, and have issued our report thereon dated May 31, 2006. 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 Mitchell-Yancey 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.

**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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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Mitchell-Yancey 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 audit committee, management of the Mitchell-Yancey 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

May 31, 2006

## ORDERING INFORMATION

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Raleigh, North Carolina 27699-0601

Telephone: 919/807-7500

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