

Financial Statement Audit Report of
Montgomery County Partnership for Children
Troy, North Carolina
For the Year Ended June 30, 2005

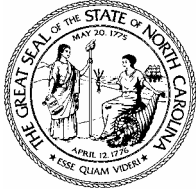
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North Carolina Office of the State Auditor

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

Financial Statement Audit Report of
Montgomery County Partnership for Children
Troy, North Carolina
For the Year Ended June 30, 2005

Board of Directors
Laurie Trexler, Chair

Administrative Officer
Deborah S. Musika, Executive Director



STATE OF NORTH CAROLINA
Office of the State Auditor

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AUDITOR'S TRANSMITTAL

The Honorable Michael F. Easley, Governor
The General Assembly of North Carolina
Board of Directors, Montgomery County Partnership for Children

This report presents the results of the financial statement audit of Montgomery County Partnership for Children for the year ended June 30, 2005. Winston, Williams, Creech, Evans and Company, LLP performed the audit under contract with the Office of the State Auditor, and their report is submitted herewith.

The audit of the Montgomery County Partnership for Children was made in conjunction with the Early Childhood Initiatives (Smart Start) program authorized by G.S. 143B-168.10-16. This statute created The North Carolina Partnership for Children, Inc., and required the implementation of local partnerships. The Montgomery County Partnership for Children is one of these local partnerships. As such, the Montgomery County Partnership for Children is a private nonprofit 501(c)(3) organization and is required by G.S. 143B-168.14 to have an annual financial and compliance audit conducted by the State Auditor. The State Auditor's authority to perform or coordinate all audit functions for state government is set forth in Article 5 of Chapter 147 of the *North Carolina General Statutes*.

North Carolina General Statutes require the State Auditor to make audit reports available to the public. Copies of all audit reports issued by the Office of the State Auditor may be obtained through one of the options listed on the back of this report.

Leslie W. Merritt, Jr.

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

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Winston, Williams, Creech, Evans & Company, LLP

Certified Public Accountants



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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Montgomery County Partnership for Children
Troy, North Carolina

We have audited the accompanying Statement of Receipts, Expenditures, and Net Assets – Modified Cash Basis of the Montgomery County Partnership for Children (Montgomery 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 Montgomery 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 misstatement. 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 Montgomery County Partnership for Children 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 a report dated May 3, 2006, on our consideration of the Montgomery Partnership's internal control over

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INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

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. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with the independent auditor's report in considering the results of our audit.

Our audit was performed for the purpose of forming an opinion on the basic financial statements that collectively comprise the Montgomery County Partnership for Children's basic financial statements. The information in Schedules 1 through 4 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, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Winston, Williams, Creech, Evans and Company, LLP

Winston, Williams, Creech, Evans and Company, LLP
Certified Public Accountants

May 3, 2006

Montgomery County Partnership for Children
Statement of Receipts, Expenditures, and Net Assets - Modified Cash Basis
For the Year Ended June 30, 2005

Exhibit A

	Unrestricted Funds		Temporarily Restricted Funds	Permanently Restricted Funds	Total Funds
	Smart Start Fund	Other Funds			
Receipts:					
State Awards (less refunds of \$4,803)	\$ 704,357	\$ 646,343	\$ 0	\$ 0	\$ 1,350,700
Federal Awards	0	2,867	0	0	2,867
Private Contributions	0	62,183	300	5,000	67,483
Special Fund Raising Events	0	825	0	0	825
Interest and Investment Earnings	0	0	732	0	732
Sales Tax Refunds	0	8,033	0	0	8,033
Other Receipts	0	2,203	0	0	2,203
Total Receipts	704,357	722,454	1,032	5,000	1,432,843
Net Assets Released from Restrictions:					
Satisfaction of Program Restrictions	0	62	(62)	0	0
	704,357	722,516	970	5,000	1,432,843
Expenditures:					
Programs:					
Child Care and Education Affordability	31,192	0	0	0	31,192
Child Care and Education Quality	227,163	13,058	0	0	240,221
Family Support	75,421	1,111	0	0	76,532
Health and Safety	62,078	0	0	0	62,078
More at Four	160,000	663,681	0	0	823,681
Support:					
Management and General	117,190	19,134	0	0	136,324
Program Coordination	32,750	0	0	0	32,750
Other:					
Sales Tax Paid	0	7,713	0	0	7,713
Total Expenditures	705,794	704,697	0	0	1,410,491
Excess of Receipts Over Expenditures	(1,437)	17,819	970	5,000	22,352
Net Assets at Beginning of Year	1,437	19,562	470	10,432	31,901
Net Assets at End of Year	\$ 0	\$ 37,381	\$ 1,440	\$ 15,432	\$ 54,253
Net Assets Consisted of:					
Cash and Cash Equivalents	\$ 2,968	\$ 37,381	\$ 300	\$ 0	\$ 40,649
Benefit Interest in Community Foundation	0	0	1,140	15,432	16,572
Refunds Due From Contractors	398	0	0	0	398
	3,366	37,381	1,440	15,432	57,619
Less: Due to the Primary Government	(3,366)	0	0	0	(3,366)
	\$ 0	\$ 37,381	\$ 1,440	\$ 15,432	\$ 54,253

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

Montgomery County Partnership for Children
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
Smart Start Fund:									
Programs:									
Child Care and Education Affordability	\$ 31,192	\$ 0	\$ 0	\$ 1,148	\$ 0	\$ 0	\$ 0	\$ 30,044	\$ 0
Child Care and Education Quality	227,163	69,135	5,116	17,369	15,799	24,764	17,673	74,963	2,344
Family Support	75,421	46,444	241	4,454	5,306	3,363	1,972	13,641	0
Health and Safety	62,078	0	0	0	0	0	0	62,078	0
More at Four	160,000	34,318	326	25,384	4,905	3,610	1,673	89,784	0
	<u>555,854</u>	<u>149,897</u>	<u>5,683</u>	<u>48,355</u>	<u>26,010</u>	<u>31,737</u>	<u>21,318</u>	<u>270,510</u>	<u>2,344</u>
Support:									
Management and General	117,190	77,362	7,262	1,967	8,907	14,213	7,479	0	0
Program Coordination	32,750	14,766	5,659	2,349	1,354	3,792	4,830	0	0
	<u>149,940</u>	<u>92,128</u>	<u>12,921</u>	<u>4,316</u>	<u>10,261</u>	<u>18,005</u>	<u>12,309</u>	<u>0</u>	<u>0</u>
Total Smart Start Fund Expenditures	<u>\$ 705,794</u>	<u>\$ 242,025</u>	<u>\$ 18,604</u>	<u>\$ 52,671</u>	<u>\$ 36,271</u>	<u>\$ 49,742</u>	<u>\$ 33,627</u>	<u>\$ 270,510</u>	<u>\$ 2,344</u>
Other Funds:									
Programs:									
Child Care and Education Quality	\$ 13,058	\$ 5,552	\$ 2,573	\$ 1,998	\$ 57	\$ 0	\$ 2,878	\$ 0	\$ 0
Family Support	1,111	0	0	949	162	0	0	0	0
More at Four	663,681	0	6,952	0	707	11	251	655,760	0
	<u>677,850</u>	<u>5,552</u>	<u>9,525</u>	<u>2,947</u>	<u>926</u>	<u>11</u>	<u>3,129</u>	<u>655,760</u>	<u>0</u>
Support:									
Management and General	19,134	0	15,048	3,793	231	62	0	0	0
Other:									
Sales Tax Paid	7,713	0	0	7,713	0	0	0	0	0
Total Other Funds Expenditures	<u>\$ 704,697</u>	<u>\$ 5,552</u>	<u>\$ 24,573</u>	<u>\$ 14,453</u>	<u>\$ 1,157</u>	<u>\$ 73</u>	<u>\$ 3,129</u>	<u>\$ 655,760</u>	<u>\$ 0</u>

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

MONTGOMERY COUNTY PARTNERSHIP FOR CHILDREN
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2005

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

A. Organization and Purpose – The Montgomery County Partnership for Children (Montgomery Partnership) is a legally separate nonprofit organization incorporated on October 4, 1994. The Montgomery Partnership was established to develop and provide, through public and private means, early childhood education and developmental services for children and families. The Montgomery 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 Montgomery 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.

Permanently restricted net assets include gifts and contributions that are limited by donor-imposed stipulations that neither expire with the passage of time nor can be fulfilled or otherwise removed by the actions of the Montgomery Partnership. The net assets are invested in perpetuity with only the income from such investments available for program operations.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 advances to the local Partnership that are unexpended and unearned at year end are recorded as a Due to the Primary Government.

- 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. Investments** – This classification consists of funds invested in an endowment fund with the North Carolina Community Foundation, Inc. as reported in Note 10.
- F. Refunds Due From Contractors** – Refunds due from contractors represent the unexpended amount of advances to contractors at year end that are to be refunded back to the State. As recoveries are collected, the receivable balance is reduced. Payments to the State for the recovered advances are recorded as a reduction to the State awards balance.
- G. Due to the Primary Government** – 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.
- H. Property and Equipment** – Under the modified cash basis of accounting, purchases of property and equipment are reported as expenditures in the year occurred. However, Montgomery Partnership is required by contract regulation to track and maintain property and equipment items as presented in Schedule 3 of this report. The Montgomery 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

- I. 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.
- J. Use of Estimates** – The preparation of financial statements in conformity with the modified cash basis of accounting used by the Montgomery 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 Montgomery 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 Montgomery Partnership to a concentration of credit risk. At June 30, 2005, the Montgomery Partnership bank deposits in excess of the FDIC insured limit was \$128,967.

NOTE 3 - FUNDING FROM GRANT AWARDS

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

Associated with these contracts, the Montgomery Partnership is responsible for developing a comprehensive, collaborative, long-range plan of services to children and families for the service-delivery area.

The Montgomery Partnership was awarded and has received \$709,160 under a current year Smart Start contract with NCPC. The unexpended balance of this contract is subject to reversion to the State. The Montgomery Partnership has returned \$ 3,366 of this contract to the State based on financial status reports submitted to NCPC subsequent to June 30, 2005.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

More at Four – The Montgomery Partnership also received revenue and support from the State of North Carolina for the More at Four Program. The Montgomery Partnership was awarded \$644,360 and received \$634,343 under a current year cost-reimbursement contract. The Montgomery Partnership expects to receive continued funding through new More at Four contracts with the State.

NOTE 4 - RELATED PARTY TRANSACTIONS

Service Provider Contracts with Board Member Organizations – The board members of the Montgomery Partnership are representative of various organizations that benefit from actions taken by the Board. It is the policy of the Montgomery Partnership that board members not be involved with decisions regarding organizations they represent. During the year, the Montgomery Partnership entered into contracts with board member organizations for program activities as identified on Schedule 1 accompanying the financial statements.

NOTE 5 - FUNCTIONAL EXPENDITURES

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

A. Program Functions

Child Care and Education Affordability – Used to account for service activities including Head Start classrooms.

Child Care and Education Quality – Used to account for service activities including child care resource and referral or salary supplements.

Family Support – Used to account for service activities including parenting skills training, literacy projects, or community outreach information and resources.

Health and Safety – Used to account for service activities including prenatal/newborn services or special needs – early intervention services.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 – 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.

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, 2005:

<u>Fiscal Year</u>	<u>Operating Leases</u>
2006	\$ 56,400
2007	8,400
2008	<u>8,400</u>
Total Minimum Lease Payments	<u>\$ 73,200</u>

Rental expense for all operating leases during the year was \$ 41,780.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 7 - PENSION PLAN

Retirement Plans – The Montgomery Partnership has a Simplified Employee Pension (SEP) plan covering all full-time employees after one year of employment. Each full-time employee of the Montgomery Partnership, as a condition of employment, is provided an Individual Retirement Account through an outside insurance company. The Montgomery Partnership contributed 12% of gross wages for the year ended June 30, 2005. The Montgomery Partnership does not own the accounts nor is liable for any other cost other than the required contribution. The Montgomery Partnership contributed \$16,769 for pension benefits during the year.

NOTE 8 - RISK MANAGEMENT

The Montgomery 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 Montgomery 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 Montgomery 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 Montgomery Partnership 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 \$6,959. No funds or reservation of net assets has been made for this commitment.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 10 - RESTRICTIONS ON NET ASSETS

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

Purpose	Amount
Montgomery County Partnership for Children Endowment	\$ 1,140
Books for Kids	<u>300</u>
	<u>\$ 1,440</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:

Purpose	Amount
Montgomery County Partnership for Children Endowment	<u>\$ 62</u>

- C. Permanently Restricted Net Assets** – Permanently restricted net assets at June 30, 2005 are restricted for the following purposes:

Purpose	Amount
Montgomery County Partnership for Children Endowment	<u>\$ 15,432</u>

The Board of the Montgomery Partnership authorized the establishment of the Montgomery County Partnership for Children Endowment (Endowment) through the North Carolina Community Foundation (Foundation). The Endowment was established with the Foundation on September 9, 2003. The Endowment shall be devoted to the support of Montgomery County Partnership for Children and its programs. The Montgomery Partnership presents the above amount as a beneficial interest in the foundation.

The agreement between the Montgomery Partnership and the Foundation provides that all the contributions to the Endowment are irrevocable. The Endowment, including all investment income, capital gains, and subsequent contributions, are the Foundation's property. The Foundation will make annual distributions of the income earned on the Endowment, subject to Foundation's spending policy and the Partnership's discretion. The Board of the Montgomery Partnership has currently approved to not receive an annual distribution. The Foundation may distribute all or any part of the Endowment

NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

at the Foundation's discretion; however, it is the Foundation's general policy that a substantial part of the Endowment remains as a permanent endowment of the Foundation. The agreement also permits the Community Foundation to substitute another beneficiary in the place of the Montgomery Partnership if the organization ceases to exist. Therefore, the Montgomery Partnership has explicitly granted variance power to the Community Foundation. The Montgomery Partnership's endowment position is identified on the Statement of Receipts, Expenditures, and Net Assets – Modified Cash Basis as a Benefit Interest in the Community Foundation.

Montgomery County Partnership for Children
Schedule of Contract and Grant Expenditures - Modified Cash Basis
For the Year Ended June 30, 2005

Schedule 1

Organization Name	Smart Start Fund		Other Funds	
	Amount Advanced	Refund Due	Amount Advanced	Refund Due
A Brighter World	\$ 6,516	\$	\$ 31,500	\$
Kountry Kids	12,548		74,713	
Little Friends of Troy	2,880		31,860	
Montgomery Community College	* 54,363			
Montgomery County Cooperative Extension Service	* 13,400	398		
Montgomery County Health Department	* 62,078			
Montgomery County Schools	* 67,840		517,687	
Salisbury-Rowan Community Service Council, Inc.	* 30,044			
	<u>249,669</u>	<u>398</u>	<u>655,760</u>	<u>0</u>
Individuals				
Education Incentive Supplements	20,600			
Photo Contest Winners	639			
	<u>21,239</u>	<u>0</u>	<u>0</u>	<u>0</u>
	<u>\$ 270,908</u>	<u>\$ 398</u>	<u>\$ 655,760</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.

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

Schedule 2

Federal/State Grantor/Pass-through Grantor/Program	Federal CFDA Number	Contract #	Receipts	Expenditures
Federal Awards:				
US Department of Health and Human Services				
Pass-through from the North Carolina Department of Health and Human Services - Division of Child Development				
Pass-through from Child Care Connections, Inc. of Moore County				
DCD Region 6 Block Grant				
	93.575	006-03-62-001	\$ 2,867	\$ 10,432
Total Federal Awards			<u>2,867</u>	<u>10,432</u>
State Awards:				
North Carolina Department of Health and Human Services				
Division of Child Development				
Pass-through from the North Carolina Partnership for Children, Inc.				
Early Childhood Initiatives Program (Prior Year)				
		N/A	(1,437)	0
Early Childhood Initiatives Program (Current Year)				
		N/A *	705,794	705,794
Multi-County Accounting and Contracting Grant (Current Year)				
		N/A	12,000	12,000
North Carolina Department of Health and Human Services				
More at Four Pre-Kindergarten Program				
		2090004372 *	<u>634,343</u>	<u>603,865</u>
Total State Awards			<u>1,350,700</u>	<u>1,321,659</u>
Total Federal and State Awards			<u>\$ 1,353,567</u>	<u>\$ 1,332,091</u>

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

Notes to the Schedule of Federal and State Awards - Modified Cash Basis

1. The accompanying schedule of federal and state awards includes the federal and State grant activity of the Montgomery County Partnership for Children and is presented on the modified cash basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the financial statements.

2. The More at Four Pre-Kindergarten Program is contracted jointly by the North Carolina Department of Health and Human Services and the Office of the Governor. The allocations for the More at Four program are included in the budget for the North Carolina Department of Health and Human Services, therefore, the above schedule identifies that agency as the State Grantor. The Office of the Governor is responsible for oversight of the More at Four Program.

Montgomery County Partnership for Children
Schedule of Property and Equipment - Modified Cash Basis
For the Year Ended June 30, 2005

Schedule 3

Furniture and Noncomputer Equipment	\$	58,784
Computer Equipment/Printers		47,951
Leasehold Improvements		<u>780</u>
Total Property and Equipment	\$	<u><u>107,515</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 cash basis of accounting, these items are expensed in the year of purchase.

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

Schedule 4

Match Provided at the Partnership Level:

Cash	\$	13,963
In-Kind Goods and Services		<u>32,017</u>
	\$	<u><u>45,980</u></u>

Match Provided at the Contractor Level:

Cash	\$	41,688
In-Kind Goods and Services		<u>67,608</u>
	\$	<u><u>109,296</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 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.

Winston, Williams, Creech, Evans & Company, LLP

Certified Public Accountants



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

Board of Directors
Montgomery County Partnership for Children
Troy, North Carolina

We have audited the accompanying financial statements of the Montgomery County Partnership for Children (Montgomery Partnership) as of and for the year ended June 30, 2005, and have issued our report thereon dated May 3, 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Montgomery Partnership's internal control over financial reporting in order to determine our auditing procedures for the purpose 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.

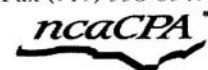
Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Montgomery County Partnership's financial statements are free of material misstatement, we performed tests of its

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**INDEPENDENT AUDITOR'S REPORT
ON INTERNAL CONTROL OVER FINANCIAL REPORTING
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WITH *GOVERNMENT AUDITING STANDARDS* (CONCLUDED)**

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 Montgomery 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.

Winston, Williams, Creech, Evans and Company, LLP

Winston, Williams, Creech, Evans and Company, LLP
Certified Public Accountants

May 3, 2006

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