

**FINANCIAL STATEMENT AUDIT REPORT OF
REGION A PARTNERSHIP FOR CHILDREN**

SYLVA, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2006

**PERFORMED UNDER CONTRACT WITH
THE NORTH CAROLINA OFFICE OF THE STATE AUDITOR**

LESLIE W. MERRITT, JR., CPA, CFP

STATE AUDITOR

FINANCIAL STATEMENT AUDIT REPORT OF

REGION A PARTNERSHIP FOR CHILDREN

SYLVA, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2006

BOARD OF DIRECTORS

RUFUS STARK, BOARD CHAIRMAN

ADMINISTRATIVE OFFICER

JUNE T. SMITH, EXECUTIVE DIRECTOR



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>

AUDITOR'S TRANSMITTAL

The Honorable Michael F. Easley, Governor
The General Assembly of North Carolina
Board of Directors, Region A Partnership For Children

This report presents the results of the financial statement audit of Region A Partnership for Children for the year ended June 30, 2006. Tichenor & Associates, LLP performed the audit under contract with the Office of the State Auditor, and their report is submitted herewith.

The audit of the Region A 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 Region A Partnership for Children is one of these local partnerships. As such, the Region A 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 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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TICHENOR & ASSOCIATES, LLP
CERTIFIED PUBLIC ACCOUNTANTS and MANAGEMENT CONSULTANTS

304 MIDDLETOWN PARK PLACE SUITE C
LOUISVILLE, KY 40243

BUSINESS: (502) 245-0775
FAX: (502) 246-0725
E-MAIL: WTICHENOR@TICHENORASSOCIATES.COM

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Region A Partnership for Children
Sylva, North Carolina

We have audited the accompanying Statement of Receipts, Expenditures, and Net Assets - Modified Cash Basis of the Region A Partnership for Children (Region A Partnership) as of June 30, 2006, and the related Statement of Functional Expenditures - Modified Cash Basis for the year then ended. These financial statements are the responsibility of the Region A 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 Region A Partnership for Children as of June 30, 2006, 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 December 14, 2006, on our consideration of the Region A Partnership's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or

INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

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 Region A Partnership for Children's basic financial statements. The information in Schedules 1 through 5 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Schedules 1, 3, 4 and 5 have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The information in Schedule 2 has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on Schedule 2.

Tichenor & Associates, LLP

Tichenor & Associates, LLP

December 14, 2006

Region A Partnership for Children
Statement of Receipts, Expenditures, and Net Assets - Modified Cash Basis
For the Year Ended June 30, 2006

Exhibit A

	Unrestricted Funds		Temporarily Restricted Funds	Permanently Restricted Funds	Total Funds
	Smart Start Fund	Other Funds			
Receipts:					
State Awards (less refunds of \$13,289)	\$ 1,661,480	\$ 1,222,020	\$ 0	\$ 0	\$ 2,883,500
Federal Awards		271,742			271,742
Private Contributions		326,585	273,310	269,562	869,457
Interest and Investment Earnings		19,644			19,644
Sales Tax Refunds		6,554			6,554
Other Receipts		31,750			31,750
Total Receipts	1,661,480	1,878,295	273,310	269,562	4,082,647
Net Assets Released from Restrictions:					
Satisfaction of Program Restrictions		269,438	(269,438)		
	1,661,480	2,147,733	3,872	269,562	4,082,647
Expenditures:					
Programs:					
Child Care and Education Affordability	168,600	7,401			176,001
Child Care and Education Quality	239,155	514,743			753,898
Family Support	338,483	34,078			372,561
Health and Safety	522,299	80,803			603,102
More at Four		1,458,813			1,458,813
Support:					
Fund Raising	66,630	5,322			71,952
Management and General	266,281	156,998			423,279
Program Coordination	10,213				10,213
Program Evaluation	54,630				54,630
Other:					
Sales Tax Paid		6,568			6,568
Total Expenditures	1,666,291	2,264,726			3,931,017
Excess of Receipts Over Expenditures	(4,811)	(116,993)	3,872	269,562	151,630
Net Assets at Beginning of Year	4,811	138,648	457,474	28,378	629,311
Net Assets at End of Year	\$ 0	\$ 21,655	\$ 461,346	\$ 297,940	\$ 780,941
Net Assets Consisted of:					
Cash and Cash Equivalents	\$ 0	\$ 21,683	\$ 461,346	\$ 0	\$ 483,029
Investments		881			881
Benefit Interest in Community Foundation				297,940	297,940
Refunds Due From Contractors	8,479				8,479
	8,479	22,564	461,346	297,940	790,329
Less: Due to the State	8,479				8,479
Funds Held for Others		909			909
	\$ 0	\$ 21,655	\$ 461,346	\$ 297,940	\$ 780,941

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

**Region A Partnership for Children
Statement of Functional Expenditures - Modified Cash Basis
For the Year Ended June 30, 2006**

Exhibit B

	Total	Personnel	Contracted Services	Supplies and Materials	Other Operating Expenditures	Fixed Charges and Other Expenditures	Property and Equipment Outlay	Services/Contracts/Grants
Smart Start Fund:								
Programs:								
Child Care and Education Accessibility and Availability	\$ 168,600	\$ 101,703	\$ 0	\$ 1,435	\$ 11,962	\$ 0	\$ 0	\$ 53,500
Child Care and Education Quality	239,155							239,155
Family Support	338,483							338,483
Health and Safety	522,299							522,299
	<u>1,268,537</u>	<u>101,703</u>		<u>1,435</u>	<u>11,962</u>			<u>1,153,437</u>
Support:								
Fund Raising	66,630	66,630						
Management and General	266,281	157,860	18,846	15,213	66,649	6,179	1,534	
Program Coordination	10,213	10,213						
Program Evaluation	54,630	54,630						
	<u>397,754</u>	<u>289,333</u>	<u>18,846</u>	<u>15,213</u>	<u>66,649</u>	<u>6,179</u>	<u>1,534</u>	
Total Smart Start Fund Expenditures	<u>\$ 1,666,291</u>	<u>\$ 391,036</u>	<u>\$ 18,846</u>	<u>\$ 16,648</u>	<u>\$ 78,611</u>	<u>\$ 6,179</u>	<u>\$ 1,534</u>	<u>\$ 1,153,437</u>
Other Funds:								
Programs:								
Child Care and Education Affordability	\$ 7,401	\$ 4,380	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 3,021
Child Care and Education Quality	514,743	178,579	91,972	10,097	46,172	(65)	854	187,134
Family Support	34,078							34,078
Health and Safety	80,803	66,215		4,444	10,109	35		
More at Four	1,458,813	112,543	2,250	88,737	15,666	110		1,239,507
	<u>2,095,838</u>	<u>361,717</u>	<u>94,222</u>	<u>103,278</u>	<u>71,947</u>	<u>80</u>	<u>854</u>	<u>1,463,740</u>
Support:								
Fund Raising	5,322	5,322						
Management and General	156,998	89,746	18,235	11,010	11,261	26,358		388
	<u>162,320</u>	<u>95,068</u>	<u>18,235</u>	<u>11,010</u>	<u>11,261</u>	<u>26,358</u>		<u>388</u>
Other:								
Sales Tax Paid	6,568			6,568				
	<u>6,568</u>			<u>6,568</u>				
Total Other Funds Expenditures	<u>\$ 2,264,726</u>	<u>\$ 456,785</u>	<u>\$ 112,457</u>	<u>\$ 120,856</u>	<u>\$ 83,208</u>	<u>\$ 26,438</u>	<u>\$ 854</u>	<u>\$ 1,464,128</u>

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

REGION A PARTNERSHIP FOR CHILDREN
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2006

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

A. Organization and Purpose - The Region A Partnership for Children (Region A Partnership) is a legally separate nonprofit organization incorporated on April 15, 1994. The Region A Partnership was established to develop and provide, through public and private means, early childhood education and developmental services for children and families. The Region A 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 Region A 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 Region A 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 recognizes revenue when received rather than when earned; and it recognizes expenditures when paid rather than when incurred.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

However, unexpended advances to contractors that revert back to the State of North Carolina are recognized as a reduction to expenditures and an increase to net assets. Amounts withheld from employee paychecks or other amounts received in an agency capacity are recorded as funds held for others. In addition, Smart Start funds advanced to the local Partnership that are unexpended and unearned at year-end are recorded as 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. Investments** - This classification includes stock owned and permanently restricted net assets invested in perpetuity as described in Note 10. Investments are reported at fair value.
- 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 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.
- H. Funds Held For Others** - Funds held for others includes amounts received that are fiduciary in nature in which the Region A Partnership acts in an agency capacity and amounts withheld from sale of educational materials for distribution to taxing authorities.
- I. Property and Equipment** - Under the modified cash basis of accounting, purchases of property and equipment are reported as expenditures in the year occurred. However, Region A Partnership is required by contract regulation to track and maintain property and equipment items as presented in Schedule 4 of this report. The Region A 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, 2006. Donated items are recorded at estimated fair market value at the date of donation.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

J. 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.

K. Use of Estimates - The preparation of financial statements in conformity with the modified cash basis of accounting used by the Region A 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 Region A Partnership are deposited with commercial banks and insured by the Federal Deposit Insurance Corporation (FDIC) up to \$100,000 per bank. Deposits over this amount subjects the Region A Partnership to a concentration of credit risk. At June 30, 2006, the Region A Partnership's bank deposits in excess of the FDIC insured limit was \$408,107.

NOTE 3 - FUNDING FROM GRANT AWARDS

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

Associated with these contracts, the Region A 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 Region A 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 Region A Partnership was awarded and has received \$1,674,70 under a current year Smart Start contract with NCPC. The unexpended balance of this

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

contract is subject to reversion to the State. The Region A Partnership has returned \$8,479 of this contract to the State based on financial status reports submitted to NCPC subsequent to June 30, 2006.

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

More at Four - The Region A Partnership also received revenue and support from the State of North Carolina for the More at Four Program. The Region A Partnership was awarded \$1,151,888 and received \$1,125,008 during the fiscal year ended June 30, 2006. The Region A Partnership expects to receive continued funding through new More at Four contracts with the State.

Appalachian Regional Commission - The Region A Partnership was awarded \$200,000 in additional grants for the year ended June 30, 2006, to provide support for the Region A More At Four Pre-Kindergarten program. The Region A Partnership has received \$195,012 and expended \$288,457 from these grants during the fiscal year ended June 30, 2006.

Kellogg SPARK - Supporting Partnerships to Assure Ready Kids (“SPARK”) - The Region A Partnership received a funding commitment of \$1,911,050 for the period from June 2003 through May 2008 for the purpose of improving learning outcomes for children by strengthening partnerships and their efforts to align early learning resources, services, practices and policies. The Region A Partnership received \$535,100 and expended \$491,036 of SPARK funds during the fiscal year ended June 30, 2006. In addition, \$6,426 of interest and investment earnings was received and re-invested for program purposes on SPARK funds deposited during the fiscal year ended June 30, 2006.

NOTE 4 - RELATED PARTY TRANSACTIONS

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 Pre-K classes, Head Start wraparound/extended day, part-day care or supplemental quality programs.

Child Care and Education Quality - Used to account for service activities including child care resource and referral, the SPARK initiative, salary supplements, provider training, special needs - support for child care professionals, learning materials and teaching aids, and child care needs and resource assessments.

Family Support - Used to account for service activities including family resource centers, ongoing parenting education and literacy projects.

Health and Safety - Used to account for service activities including oral health services, comprehensive screenings, prenatal/newborn services, child care health consultants and special needs - early intervention services/special education.

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

Fund Raising - Expenditures that are incurred in inducing others to contribute money, securities, time, materials, or facilities for which the contributor will receive no direct economic benefit.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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.

Program Evaluation - Expenditures that are incurred to monitor the effectiveness and feasibility of Partnership activities and contract agencies to determine if the short-term and long-term goals are being achieved.

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 cost (telephone and printing) were allocated based on utilization data.

NOTE 6 - PENSION PLAN

The Region A Partnership has a Simplified Employee Pension plan (SEP Plan) covering all full-time employees. Each full-time employee of the Region A Partnership, as a condition of employment, is provided an Individual Retirement Account through an outside insurance company. The Region A Partnership contributed 8.3% of gross wages for the fiscal year ended June 30, 2006. The Region A Partnership does not own the accounts nor is liable for any other cost other than the required contribution. The Region A Partnership contributed \$58,598 for pension benefits during the fiscal year ended June 30, 2006.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 7 - RISK MANAGEMENT

The Region A 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 Region A 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 Region A Partnership. Settled claims have not exceeded this insurance coverage in any of the past three fiscal years.

NOTE 8 - COMMITMENTS AND CONTINGENCIES

A. Compensated Absences - As a result of the Region A 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, 2006, is \$27,980. No funds or reservation of net assets has been made for this commitment.

B. Loan Commitment - At June 30, 2006, the Region A Partnership has a note with a balance of \$167,023 for the sole purpose of financing a social enterprise, is secured by a negative pledge agreement on the Region A Partnership's office building and payable to the Bank in monthly installments of interest only through August 2005 and principal and interest thereafter in monthly installments of \$2,157. The interest rate is fixed at an annual rate of 5.875%.

Interest expense for the fiscal year ended June 30, 2006, was \$10,446.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

The future scheduled maturities of long-term debt are as follows:

Fiscal Year	Principal Amount	Interest Amount
2007	\$ 14,942	\$ 8,786
2008	17,269	8,617
2009	18,351	7,535
2010	19,674	6,212
2011	20,466	5,420
2012 through 2015	76,321	7,830
Total Loan Payments	\$ 167,023	\$ 44,400

NOTE 9 - RESTRICTIONS ON NET ASSETS

A. Temporarily Restricted Net Assets - Temporarily restricted net assets at June 30, 2006, are available for the following purposes:

Purpose	Amount
Kellogg SPARK-Supporting Partnerships to Assure Ready Kids	\$ 257,875
Model Child Development Center at Haywood Community College	180,694
Early Learning Programs	900
Hayesville Child Development Center	480
Assuring Better Child Health and Development Initiatives	20
Quality Enhancement Project - Webster Child Development Center	5,080
CH Training Outreach	250
Bank of America	15,000
Public Awareness Campaign for Early Intervention for Children	1,047
	\$ 461,346

B. Net Assets Released From Donor Restrictions - Net assets were released from donor restrictions during the fiscal year ended June 30, 2006, by incurring expenditures satisfying the restricted purposes as follows:

Purpose	Amount
Apalachian Regional Commission	\$ 39,282
Medicaid Assuring Better Child Health and Development Initiative	66
Kellogg SPARK - Supporting Partnerships to Assure Ready Kids	207,060
Model Child Development Center at Haywood Community College	2,356
Wachovia Circle of Parents	17,039
Quality Enhancement Project - Webster Child Development Center	3,635.00
	\$ 269,438

NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

NOTE 10 - PERMANENTLY RESTRICTED NET ASSETS

Included in Investments in the Statement of Receipts, Expenditures, and Net Assets - Modified Cash Basis are the following permanently restricted net assets as of June 30, 2006:

Purpose	Amount
Carolina Mountain Trust for Children and Youth Endowment	\$ 33,303
Edward E. Jr. and Margaret G. Brown Endowment	244,402
Save the Children Federation	20,235
	<hr/>
	\$ 297,940

The Region A Partnership established the Carolina Mountain Trust for Children and Youth Endowment, in conjunction with the Region A Child and Youth Planning Council, through the North Carolina Community Foundation, Inc., in 1995 for the purpose of supporting the planning and coordination of services to children, youth and families in southwestern North Carolina.

In addition, during 2006 the Region A Partnership became the recipient of two additional permanently restricted endowments to support specific programs in western North Carolina. Annual distributions from these two endowments to the Region A Partnership are included in private contributions in the Statement of Receipts, Expenditures, and Net Assets - Modified Cash Basis.

The agreements between the Region A Partnership and each of the above (Collectively "Endowment") provide that all the contributions to the Endowment are irrevocable. The Endowment, including all investment income, capital gains and subsequent contributions, are the property of the Endowment. The Endowment, subject to its spending policy, will make annual distributions of the income earned and may distribute all or any part of the Endowment at the Endowment's discretion. The agreement also permits the Endowment to substitute another beneficiary in place of the Region A Partnership if it ceases to exist. Therefore, the Region A Partnership has explicitly granted variance power to the Endowment. The Region A 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.

NOTE 11 - ADDITIONAL INFORMATION

The Region A Partnership received donations of \$4,105 from Board members and staff, representing a 100% participation rate for both categories.

**Region A Partnership for Children
Schedule of Contract and Grant Expenditures - Modified Cash Basis
For the Year Ended June 30, 2006**

Schedule 1

Organization Name	Smart Start Fund		Other Funds	
	Amount Advanced	Refund Due	Amount Advanced	Refund Due
Paid to Organizations:				
Cherokee County Schools	\$ 0	\$ 0	\$ 303,481	\$ 0
Clay County Health Department	31,255			
Clay County Schools	27,125		125,233	
Family Resources of Cherokee County	* 81,164			
Fontana Regional Library, Inc.	50,351			
Graham County Board of Education	22,737	492	131,189	
Graham County Health Department	28,623			
Haywood Community College			2,261	
Haywood County Consolidated Schools	*		63,042	
Haywood County Health Department	59,175	147		
Haywood County Public Library	* 20,804			
Jackson County Health Department	83,419	6,625	34,078	
Jackson County Schools			107,696	
K.A.R.E., Inc.	55,151		48,227	
Little Hands Playskool, Inc.			33,218	
Macon County Public Health Center	80,144			
Macon County Schools	*		64,751	
Macon Program for Progress, Inc.	* 129,575		45,060	
Meridian Behavioral Health Services	132,525		145,500	
Mountain Projects, Inc.	* 53,500			
Swain County	14,714			
Swain County Department of Public Health	* 30,500	5		
Swain County Schools	54,160		171,973	
The Southwestern Child Development Commission, Inc.	* 127,348		173,433	
Western Carolina University	* 40,054	1,210		
	<u>1,122,324</u>	<u>8,479</u>	<u>1,449,142</u>	<u>0</u>
Paid to Individuals:				
Scholarships/Bonus Awards			14,986	
Children with Special Needs	39,592			
	<u>39,592</u>		<u>14,986</u>	
	<u>\$ 1,161,916</u>	<u>\$ 8,479</u>	<u>\$ 1,464,128</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.

**Region A Partnership for Children
 Schedule of State Level Service Provider Contracts
 For the Year Ended June 30, 2006**

Schedule 2

Organization Name	DHHS Contracts
Child Care Services Association - WAGES	\$ 466,850
The Southwestern Child Development Commission, Inc.	* 931,646
	<u>\$ 1,398,496</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.

**Region A Partnership for Children
Schedule of Federal and State Awards - Modified Cash Basis
For the Year Ended June 30, 2006**

Schedule 3

Federal/State Grantor/Pass-through Grantor/Program	Federal CFDA Number	Contract #	Receipts	Expenditures
Federal Awards:				
Appalachian Regional Commission Appalachian State Research, Technical Assistance, and Demonstration Projects	23.011			
More at Four Pre-Kindergarten Enhanced Resources		NC-14298-C2-04	\$ 82,934	\$ 107,584
More at Four Pre-Kindergarten Staff & Educational Materials		NC-14297-C2-04	62,078	76,710
Intervention to Maximize Opportunities for Preschoolers		NC-15186-05	50,000	104,163
US Department of Health and Human Services Administration for Children and Families Child Care and Development Fund	93.575			
Pass-through from the North Carolina Department of Health and Human Services, Division of Child Development		#6391		
Pass-through from the University of North Carolina at Chapel Hill Quality Enhancement Project for Infants and Toddlers		#5-41462	72,693	75,236
Center for Medicare and Medicaid Services Medical Assistance Program (Medicaid; Title XIX)	93.778			
Pass-through from the North Carolina Department of Health and Human Services, Division of Medical Assistance				
Pass-through from the North Carolina Department of Health and Human Services, Office of Research, Demonstrations, and Rural Health Development		#12985		
Medicaid ABCD Child Development Grant Assuring Better Child Health & Development Initiative		#90005724	4,037	4,037
Total Federal Awards			<u>271,742</u>	<u>367,730</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)			(4,810)	
Early Childhood Initiatives Program (Current Year)	*		1,674,770	1,666,291
Early Childhood Initiatives Program (Current Year)			(8,479)	
Multi-County Accounting and Contracting Grant			84,000	84,000
North Carolina Department of Health and Human Services Division of Public Health				
Pass-through from the University of North Carolina at Chapel Hill Family Support Network of Region A		#01182-06 #5-46779	11,312	15,000
Family Support Network of Region A		#3-61249-SUB-17	1,700	2,715
North Carolina Department of Health and Human Services More at Four Pre-Kindergarten Program	*	#0069-06	1,125,007	1,166,024
Total State Awards			<u>2,883,500</u>	<u>2,934,030</u>
Total Federal and State Awards			<u>\$ 3,155,242</u>	<u>\$ 3,301,760</u>

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

Note: 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.

***Region A Partnership for Children
Schedule of Property and Equipment - Modified Cash Basis
For the Year Ended June 30, 2006***

Schedule 4

Furniture and Noncomputer Equipment	\$	25,360
Computer Equipment/Printers		88,281
Buildings and Land		<u>175,064</u>
Total Property and Equipment	\$	<u><u>288,705</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.

**Region A Partnership for Children
Schedule of Qualifying Match (Non-GAAP)
For the Year Ended June 30, 2006**

Schedule 5

Match Provided at the Partnership Level:

Cash	\$ 805,160
In-Kind Goods and Services	<u>40,133</u>
	<u>\$ 845,293</u>

Match Provided at the Contractor Level:

Cash	\$ 67,802
In-Kind Goods and Services	<u>567,576</u>
	<u>\$ 635,378</u>

Note: This schedule is presented in accordance with the program match requirement as provided for by North Carolina Session Law 2005-276, Section 10.64(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.

TICHENOR & ASSOCIATES, LLP
CERTIFIED PUBLIC ACCOUNTANTS and MANAGEMENT CONSULTANTS

304 MIDDLETOWN PARK PLACE SUITE C
LOUISVILLE, KY 40243

BUSINESS: (502) 245-0775
FAX: (502) 246-0725
E-MAIL: WTICHENOR@TICHENORASSOCIATES.COM

**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
Region A Partnership for Children
Sylva, North Carolina

We have audited the financial statements of the Region A Partnership for Children (Region A Partnership) as of and for the year ended June 30, 2006, and have issued our report thereon dated December 14, 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 Region A 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 Region A 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

**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)**

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 Region A 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.

Tichenor & Associates, LLP

Tichenor & Associates, LLP

December 14, 2006

ORDERING INFORMATION

Audit reports issued by the Office of the State Auditor can be obtained from the web site at www.ncauditor.net. Also, parties may register on the web site to receive automatic email notification whenever reports of interest are issued. Otherwise, copies of audit reports may be obtained by contacting the:

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