

**FINANCIAL STATEMENT AUDIT REPORT OF
CATAWBA COUNTY PARTNERSHIP FOR CHILDREN
HICKORY, 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

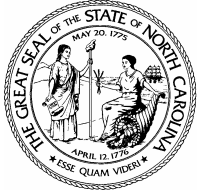
**FINANCIAL STATEMENT AUDIT REPORT OF
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HICKORY, NORTH CAROLINA
FOR THE YEAR ENDED JUNE 30, 2006**

BOARD OF DIRECTORS

ADINA ANDREU, BOARD CHAIR

ADMINISTRATIVE OFFICER

KIM SALYARDS, EXECUTIVE DIRECTOR



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

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AUDITOR'S TRANSMITTAL

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

This report presents the results of the financial statement audit of Catawba County 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 Catawba Partnership 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 Catawba County Partnership for Children is one of these local partnerships. As such, the Catawba County Partnership for Children is a private nonprofit 501(c)(3) organization and is required by G.S. 143 B-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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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Catawba County Partnership for Children
Hickory, North Carolina

We have audited the accompanying Statement of Receipts, Expenditures, and Net Assets – Modified Cash Basis of the Catawba County Partnership for Children (Catawba 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 Catawba 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 Catawba County 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 November 10, 2006, on our consideration of the Catawba 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)

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 Catawba County 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

November 10, 2006

Catawba County 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	Total Funds
	Smart Start Fund	Other Funds		
Receipts:				
State Awards (less refunds of \$14,243)	\$ 1,854,378	\$ 690,375	\$ 0	\$ 2,544,753
Federal Awards	0	74,534	0	74,534
Private Contributions	0	5,030	11,970	17,000
Special Fund Raising Events	0	(184)	875	691
Interest and Investment Earnings	0	6,836	0	6,836
Sales Tax Refunds	0	1,835	0	1,835
Other Receipts	0	2,219	0	2,219
Total Receipts	1,854,378	780,645	12,845	2,647,868
Net Assets Released from Restrictions:				
Satisfaction of Program Restrictions	0	728	(728)	0
	1,854,378	781,373	12,117	2,647,868
Expenditures:				
Programs:				
Child Care and Education Affordability	0	74,534	0	74,534
Child Care and Education Quality	600,494	5,410	0	605,904
Family Support	689,794	1,176	0	690,970
Health and Safety	284,197	0	0	284,197
More at Four	0	678,996	0	678,996
Support:				
Management and General	285,640	13,468	0	299,108
Other:				
Sales Tax Paid	0	1,939	0	1,939
Total Expenditures	1,860,125	775,523	0	2,635,648
Excess of Receipts Over Expenditures	(5,747)	5,850	12,117	12,220
Net Assets at Beginning of Year	5,747	48,091	728	54,566
Net Assets at End of Year	\$ 0	\$ 53,941	\$ 12,845	\$ 66,786
Net Assets Consisted of:				
Cash and Cash Equivalents	\$ 6,322	\$ 53,941	\$ 12,845	\$ 73,108
Refunds Due From Contractors	2,159	0	0	2,159
	8,481	53,941	12,845	75,267
Less: Due to the State	(8,481)	0	0	(8,481)
	\$ 0	\$ 53,941	\$ 12,845	\$ 66,786

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

***Catawba County 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 Quality	\$ 600,494	\$ 0	\$ 5,661	\$ 0	\$ 108	\$ 8	\$ 0	\$ 594,717
Family Support	689,794	0	0	0	0	0	0	689,794
Health and Safety	284,197	0	0	0	0	0	0	284,197
	<u>1,574,485</u>	<u>0</u>	<u>5,661</u>	<u>0</u>	<u>108</u>	<u>8</u>	<u>0</u>	<u>1,568,708</u>
Support:								
Management and General	285,640	212,628	7,001	5,094	24,332	32,588	3,997	0
Total Smart Start Fund Expenditures	<u>\$ 1,860,125</u>	<u>\$ 212,628</u>	<u>\$ 12,662</u>	<u>\$ 5,094</u>	<u>\$ 24,440</u>	<u>\$ 32,596</u>	<u>\$ 3,997</u>	<u>\$ 1,568,708</u>
Other Funds:								
Programs:								
Child Care and Education Affordability	\$ 74,534	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 74,534
Child Care and Education Quality	5,410	0	112	564	439	1,015	0	3,280
Family Support	1,176	0	0	0	174	0	0	1,002
More at Four	678,996	10,000	15,328	102	2,909	2,491	0	648,166
	<u>760,116</u>	<u>10,000</u>	<u>15,440</u>	<u>666</u>	<u>3,522</u>	<u>3,506</u>	<u>0</u>	<u>726,982</u>
Support:								
Management and General	13,468	0	12,000	195	678	20	575	0
Other:								
Sales Tax Paid	1,939	0	0	1,939	0	0	0	0
Total Other Funds Expenditures	<u>\$ 775,523</u>	<u>\$ 10,000</u>	<u>\$ 27,440</u>	<u>\$ 2,800</u>	<u>\$ 4,200</u>	<u>\$ 3,526</u>	<u>\$ 575</u>	<u>\$ 726,982</u>

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

CATAWBA COUNTY PARTNERSHIP FOR CHILDREN
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2006

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

A. Organization and Purpose - The Catawba County Partnership for Children (Catawba Partnership) is a legally separate nonprofit organization incorporated on August 23, 1994. The Catawba Partnership was established to develop and provide, through public and private means, early childhood education and developmental services for children and families. The Catawba 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 Catawba 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.

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

However, unexpended advances to contractors that revert back to the State of North Carolina are recognized as a reduction to expenditures and an increase to net assets. 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

- 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. 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.
- F. 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.
- G. Funds Held For Others** - Funds held for others includes amounts received that are fiduciary in nature in which the Catawba Partnership acts in an agency capacity. For the year ended, the Catawba Partnership had no funds held for others.
- 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, Catawba Partnership is required by contract regulation to track and maintain property and equipment items as presented in Schedule 4 of this report. The Catawba 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.
- 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 Catawba Partnership requires management to make estimates and assumptions that affect certain reported amounts and disclosures (such as allocation of joint

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 Catawba 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 Catawba Partnership to a concentration of credit risk. At June 30, 2006, the Catawba Partnership's bank deposits in excess of the FDIC insured limit was \$145,684.

NOTE 3 - FUNDING FROM GRANT AWARDS

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

Associated with these contracts, the Catawba 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 Catawba 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 Catawba Partnership was awarded and has received \$1,868,621 under a current year Smart Start contract with NCPC. The unexpended balance of this contract is subject to reversion to the State. The Catawba Partnership has returned \$8,481 of this contract to the State based on financial status reports submitted to NCPC subsequent to June 30, 2006.

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

More at Four - The Catawba Partnership also received revenue and support from the State of North Carolina for the More at Four Program. The Catawba Partnership was awarded \$709,500 and received \$678,375 under a current year

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

contract. The Catawba Partnership expects to receive continued funding through new More at Four contracts with the State.

Early Learning Opportunities Act Grant - The Catawba Partnership also received revenue and support from the U.S. DHHS by the Administration for Children, Youth and Families. The Catawba Partnership was awarded \$394,060 and received \$74,534 as of June 30, 2006. The Catawba Partnership expects to receive the balance of this award during FYE June 30, 2007.

NOTE 4 - RELATED PARTY TRANSACTIONS

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

B. Other Related Parties - The Catawba Partnership entered into transactions for contracted services with a private business associated with a board member of the Catawba Partnership. The amounts paid included:

<u>Expenditures</u>	<u>Amount</u>
Translation Services	<u>\$ 3,369</u>

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/Preschool classes and Head Start expansion.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

Family Support - Used to account for service activities including ongoing parenting education, general family support and family crisis intervention.

Health and Safety - Used to account for service activities including oral health 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

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.

NOTE 6 - OPERATING LEASE OBLIGATIONS

Future minimum lease payments under noncancelable operating leases consist of the following at June 30, 2006:

<u>Fiscal Year</u>	<u>Operating Leases</u>
2007	\$ 54,840
2008	54,700
2009	<u>53,575</u>
Total Minimum Lease Payments	<u>\$ 163,115</u>

Rental expense for all operating leases during the year was \$55,297.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 7 - 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 Catawba Partnership, as a condition of employment, is provided an individual annuity through an outside insurance company. The Catawba Partnership contributed 5% of gross wages for the year ended June 30, 2006. 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 charitable and other nonprofit organizations. All costs of administering and funding these Plans are the responsibility of the Plan participants. The Catawba Partnership contributed \$8,443 for retirement benefits during the year.

NOTE 8 - RISK MANAGEMENT

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

NOTE 9 - COMMITMENTS AND CONTINGENCIES

A. Compensated Absences - As a result of the Catawba 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

NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

financial statements. The compensated absences commitment for vacation leave at June 30, 2006, is \$12,452. No funds or reservation of net assets have been made for this commitment.

- B. Commitments on Contracts** - The Catawba Partnership had outstanding commitments of \$263,724 on cost-reimbursement contracts that had not been paid at June 30, 2006.

NOTE 10 - 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
Information & Resource – Family Fair	\$ 875
Special Needs & Early Intervention/Special Education	1,750
Inclusion Support – United Way	10,220
	<u>\$ 12,845</u>

- 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
Information & Resource – Family Fair	<u>\$ 728</u>

***Catawba County 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
<i>Paid to Organizations:</i>				
Catawba County Department of Social Services	* \$ 543,841	\$ 0	\$ 0	\$ 0
Catawba County Public Health	* 264,824	2,159		
Catawba County Public Library	*		500	
Catawba County Public Schools	* 368,750		261,694	
Catawba Valley Community College	* 19,000			
Catawba Valley Medical Center	* 142,420			
Children's Advocacy Center		10,000		
Children's Resource Center	* 200,500			
Hickory City Public Library			500	
Hickory City Public Schools	*		123,510	
Hickory Foundation YMCA			1,200	
Newton-Conover Public Schools	*		147,996	
Puckett Institute			74,534	
Sipes Orchard Home	21,532		114,968	
Tender Care Child Development			655	
The Sandbox	*		450	
	<u>1,570,867</u>	<u>2,159</u>	<u>726,007</u>	<u>0</u>
<i>Paid to Individuals:</i>				
Child Care Expense Reimbursements	0	0	975	0
	<u>\$ 1,570,867</u>	<u>\$ 2,159</u>	<u>\$ 726,982</u>	<u>\$ 0</u>

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

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

Schedule 2

Organization Name	DHHS Contracts
Catawba County Department of Social Services	* \$ 1,600,000
Child Care Services Association	<u>212,000</u>
	<u>\$ 1,812,000</u>

* These organizations are represented on the Partnership's Board as described in Note 4A - 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.

Catawba County 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:				
Department of Health and Human Services Administration for Children and Families Early Learning Opportunities Act	93.577	90LO0172/01	\$ 74,534	\$ 74,534
Total Federal Awards			<u>74,534</u>	<u>74,534</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	(5,762)	
Early Childhood Initiatives Program (Current Year)	*	N/A	1,868,621	1,860,125
Early Childhood Initiatives Program (Current Year)		N/A	(8,481)	
Multi-County Accounting and Contracting Grant		N/A	12,000	12,000
North Carolina Department of Health and Human Services More at Four Pre-Kindergarten Program		* 20900004409	<u>678,375</u>	<u>678,996</u>
Total State Awards			<u>2,544,753</u>	<u>2,551,121</u>
Total Federal and State Awards			<u>\$ 2,619,287</u>	<u>\$ 2,625,655</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.

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

Schedule 4

Furniture and Noncomputer Equipment	\$	18,647
Computer Equipment/Printers		<u>13,387</u>
Total Property and Equipment	\$	<u><u>32,034</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.

**Catawba County 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	\$	92,879
In-Kind Goods and Services		<u>3,899</u>
	\$	<u><u>96,778</u></u>

Match Provided at the Contractor Level:

Cash	\$	192,589
In-Kind Goods and Services		<u>100,332</u>
	\$	<u><u>292,921</u></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

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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
Catawba County Partnership for Children
Hickory, North Carolina

We have audited the financial statements of the Catawba County Partnership for Children (Catawba Partnership) as of and for the year ended June 30, 2006, and have issued our report thereon dated November 10, 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 Catawba 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)**

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Catawba 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 Catawba 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

November 10, 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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