



STATE OF NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT OF ALLEGHANY PARTNERSHIP FOR CHILDREN, INC.

SPARTA, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2006

OFFICE OF THE STATE AUDITOR

LESLIE W. MERRITT, JR., CPA, CFP

STATE AUDITOR

**FINANCIAL STATEMENT AUDIT REPORT OF
ALLEGHANY PARTNERSHIP FOR CHILDREN, INC.**

SPARTA, NORTH CAROLINA

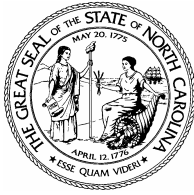
FOR THE YEAR ENDED JUNE 30, 2006

BOARD OF DIRECTORS

JOHN BRADY, BOARD CHAIRMAN

ADMINISTRATIVE OFFICER

KIMBERLY W. SHAW, EXECUTIVE DIRECTOR



STATE OF NORTH CAROLINA
Office of the State Auditor

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, Alleghany Partnership for Children, Inc.

We have completed a financial statement and compliance audit of the Alleghany Partnership for Children, Inc., (Alleghany Partnership) for the year ended June 30, 2006, and our audit results are included in this report. You will note from the independent auditor's report that we determined that the financial statements are presented fairly in all material aspects.

The audit of the Alleghany Partnership was made in conjunction with the Early Childhood Initiatives (Smart Start) program authorized by General Statutes 143B-168.10-16. These statutes created The North Carolina Partnership for Children, Inc., and required the implementation of local demonstration projects (local partnerships). The Alleghany Partnership is one of these local partnerships. As such, the Alleghany Partnership is a private nonprofit 501(c)(3) organization and is subject to audit and review by the State Auditor under Article 5A of Chapter 147 of the General Statutes and as authorized in General Statute 143B-168.12(a)(7).

Our consideration of internal control over financial reporting and compliance and other matters based on an audit of the financial statements resulted in no audit findings.

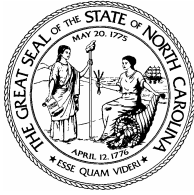
North Carolina General Statutes require the State Auditor to make audit reports available to the public. Copies of audit reports issued by the Office of the State Auditor may be obtained through one of the options listed in the back of this report.

Leslie W. Merritt, Jr.

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

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Alleghany Partnership for Children, Inc.
Sparta, North Carolina

We have audited the accompanying Statement of Receipts, Expenditures, and Net Assets – Modified Cash Basis of the Alleghany Partnership for Children, Inc. (Alleghany 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 Alleghany 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 Alleghany Partnership for Children, Inc., 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 April 30, 2007, on our consideration of the Alleghany 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 Alleghany Partnership for Children, Inc.'s basic financial statements. The information in Schedules 1 through 5 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Schedules 1, 3, 4 and 5 have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The information in Schedule 2 has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on Schedule 2.



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

April 30, 2007

Allegheny Partnership for Children, Inc.
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 \$40)	\$ 188,349	\$ 71,498	\$ 0	\$ 259,847
Federal Awards (less refunds of \$1,396)		131,247		131,247
Private Contributions		23,293	1,968	25,261
Special Fund Raising Events		1,460	2,668	4,128
Interest and Investment Earnings		1,964		1,964
Sales Tax Refunds		1,953		1,953
Other Receipts		9,873		9,873
Total Receipts	188,349	241,288	4,636	434,273
Net Assets Released from Restrictions:				
Satisfaction of Program Restrictions		6,177	(6,177)	
	188,349	247,465	(1,541)	434,273
Expenditures:				
Programs:				
Child Care and Education Affordability	72,701	15,446		88,147
Child Care and Education Quality	34,085	9,923		44,008
Domestic Violence		122,339		122,339
Family Support	22,050	86,918		108,968
Support:				
Management and General	56,256	25,309		81,565
Program Coordination	3,257			3,257
Other:				
Refund of Prior Year Grant		12,122		12,122
Sales Tax Paid		2,165		2,165
Total Expenditures	188,349	274,222		462,571
Excess of Receipts Over Expenditures		(26,757)	(1,541)	(28,298)
Net Assets at Beginning of Year		35,569	14,078	49,647
Net Assets at End of Year	\$ 0	\$ 8,812	\$ 12,537	\$ 21,349
Net Assets Consisted of:				
Cash and Cash Equivalents	\$ 0	\$ 8,934	\$ 12,537	\$ 21,471
Less: Funds Held for Others		123		123
	\$ 0	\$ 8,812	\$ 12,537	\$ 21,349

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

Alleghany Partnership for Children, Inc.
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	Participant Training Expenditures
Smart Start Fund:									
Programs:									
Child Care and Education Affordability	\$ 72,701	\$ 32,151	\$ 349	\$ 1,971	\$ 3,554	\$ 125	\$ 0	\$ 34,551	\$ 0
Child Care and Education Quality	34,085	30,120			2,165	1,800			
Family Support	22,050	16,997		2,214	1,814		1,025		
	<u>128,836</u>	<u>79,268</u>	<u>349</u>	<u>4,185</u>	<u>7,533</u>	<u>1,925</u>	<u>1,025</u>	<u>34,551</u>	
Support:									
Management and General	56,256	39,354	4,768	915	5,269	5,950			
Program Coordination	3,257	3,125		25	107				
	<u>59,513</u>	<u>42,479</u>	<u>4,768</u>	<u>940</u>	<u>5,376</u>	<u>5,950</u>			
Total Smart Start Fund Expenditures	\$ 188,349	\$ 121,747	\$ 5,117	\$ 5,125	\$ 12,909	\$ 7,875	\$ 1,025	\$ 34,551	\$ 0
Other Funds:									
Programs:									
Child Care and Education Affordability	\$ 15,446	\$ 10,768	\$ 725	\$ 1,105	\$ 621	\$ 0	\$ 2,200	\$ 27	\$ 0
Child Care and Education Quality	9,923	2,964	800	1,626	3,250	1,048	235		
Domestic Violence	122,339	61,399	4,708	16,858	14,850	18,225	6,089	210	
Family Support	86,918	56,238		3,699	11,841	9,786	2,448	2,906	
	<u>234,626</u>	<u>131,369</u>	<u>6,233</u>	<u>23,288</u>	<u>30,562</u>	<u>29,059</u>	<u>10,972</u>	<u>3,143</u>	
Support:									
Management and General	25,309	11,279	12,288	6	576	700	460		
Other:									
Refund of Prior Year Grant	12,122					12,122			
Sales Tax Paid	2,165			2,165					
	<u>14,287</u>			<u>2,165</u>		<u>12,122</u>			
Total Other Funds Expenditures	\$ 274,222	\$ 142,648	\$ 18,521	\$ 25,459	\$ 31,138	\$ 41,881	\$ 11,432	\$ 3,143	\$ 0

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

ALLEGHANY PARTNERSHIP FOR CHILDREN, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2006

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

- A. Organization and Purpose** – The Alleghany Partnership for Children, Inc. (Alleghany Partnership) is a legally separate nonprofit organization incorporated on December 12, 1994. The Alleghany Partnership was established to develop and provide, through public and private means, early childhood education and developmental services for children and families. The Alleghany 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 Alleghany Partnership’s Board of Directors is responsible. Pursuant to the provisions of Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-For-Profit Organizations*, the accompanying financial statements present information according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. As permitted by this Statement, temporarily restricted contributions received and expended in the same year are reported as unrestricted receipts rather than as temporarily restricted receipts.

Contributions that are temporarily restricted and not expended within the year received are reported as an increase in temporarily restricted net assets. When the restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Receipts, Expenditures, and Net Assets as net assets released from restrictions.

The Alleghany Partnership did not have any permanently restricted net assets at June 30, 2006.

- 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. Funds Held For Others** – Funds held for others includes amounts received that are fiduciary in nature in which the Alleghany Partnership acts in an agency capacity. For the year ended, the Alleghany Partnership was holding funds in an agency capacity for two local organizations.
- F. Property and Equipment** – Under the modified cash basis of accounting, purchases of property and equipment are reported as expenditures in the year occurred. However, Alleghany Partnership is required by contract regulation to track and maintain property and equipment items as presented in Schedule 4 of this report. The Alleghany 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.
- G. Compensated Absences** – As a result of the use of the modified cash basis of accounting, liabilities related to accrued compensated absences are not recorded in the financial statements. Expenditures related to compensated absences are recorded when paid. The amount of accrued compensated absences for accumulated, unpaid leave that would be due to employees upon termination is reported as a commitment in Note 8.
- H. Use of Estimates** – The preparation of financial statements in conformity with the modified cash basis of accounting used by the Alleghany 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 2 - FUNDING FROM GRANT AWARDS

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

Associated with these contracts, the Alleghany 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 Alleghany 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 Alleghany Partnership was awarded and has received \$188,389 under a current year Smart Start contract with NCPC. The unexpended balance of this contract is subject to reversion to the State. However, all funds have been expended on this contract based on financial status reports submitted to NCPC subsequent to June 30, 2006.

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

Family Resource Center Program – The Alleghany Partnership’s other major source of revenue and support is from the State of North Carolina based on a cost-reimbursement contract with DHHS for the Family Resource Center (FRC) Program.

The Alleghany Partnership was awarded \$100,000 under a current year FRC contract with DHHS and has received \$77,062 of this amount. The unexpended balance of this contract is subject to reversion to the State. This activity is blended with other Smart Start funded family resource activities.

The Alleghany Partnership expects to receive continued funding through new FRC Program contracts with the State.

Domestic Violence Program – The Alleghany Partnership also received revenue and support from the State of North Carolina based on a contract with North Carolina Department of Administration for a Domestic Violence Program. The Alleghany Partnership was awarded a base amount of \$45,907,

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

plus a pro-rated share of marriage license fees collected in North Carolina. At June 30, 2006, the Alleghany Partnership had received \$59,498 in grant revenue.

The Alleghany Partnership expects to receive continued funding through new Domestic Violence Program contracts with the State.

NOTE 3 - RELATED PARTY TRANSACTIONS

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

NOTE 4 - FUNCTIONAL EXPENDITURES

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

A. Program Functions

Child Care and Education Affordability – Used to account for service activities including public pre-K classes or part-day care programs.

Child Care and Education Quality – Used to account for service activities associated with child care resource and referral.

Family Support – Used to account for service activities including family resource centers, ongoing parent education, family crisis intervention, or community outreach information and resources.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

NOTE 5 - 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	\$ 16,200

Rental expense for all operating leases during the year was \$17,500.

NOTE 6 - PENSION PLAN

Deferred Compensation and Supplemental Retirement Income Plans – 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 Alleghany Partnership, as a condition of employment, is provided an individual annuity through an outside insurance company. The Alleghany Partnership contributed 8% of gross wages for the

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 Alleghany Partnership contributed \$4,278 for retirement benefits during the year.

NOTE 7 - RISK MANAGEMENT

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

NOTE 8 - COMMITMENTS AND CONTINGENCIES

Compensated Absences – As a result of the Alleghany 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 \$8,830. No funds or reservation of net assets has been made for this commitment.

NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

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
Domestic Violence	\$ 8,839
Education Station	3,564
Family Resource Center	134
	<u>\$ 12,537</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
Domestic Violence	\$ 1,602
Education Station	4,076
Family Resource Center	499
	<u>\$ 6,177</u>

Allegheny Partnership for Children, Inc.
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>				
Allegheny County Board of Education	* \$ 34,551	\$ 0	\$ 0	\$ 0
Allegheny in Motion			2,529	
Family Resource Center			404	
Small World Learning Center			210	
	<u>\$ 34,551</u>	<u>\$ 0</u>	<u>\$ 3,143</u>	<u>\$ 0</u>

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

Alleghany Partnership for Children, Inc.
Schedule of State Level Service Provider Contracts
For the Year Ended June 30, 2006

Schedule 2

Organization Name	DHHS Contracts
Alleghany County Department of Social Services	\$ 20,298
Child Care Services Association - WAGE\$ Program	16,500
	<u>\$ 36,798</u>

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

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

Allegheny Partnership for Children, Inc.
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				
Pass-through from the North Carolina Department of Health and Human Services - Division of Social Services				
Promoting Safe and Stable Families (Prior Year)	93.556	01099-05	\$ (1,396)	\$ 0
Promoting Safe and Stable Families (Current Year)	93.556 *	01099-06	77,062	85,037
Pass-through from the Allegheny County Department of Social Services				
Temporary Assistance for Needy Families	93.558	N/A	5,833	5,833
Pass-through from the North Carolina Department of Health and Human Services - Division of Child Development				
Child Care and Development Block Grant (Prior Year)	93.575	6227-01	1,938	
Child Care and Development Block Grant (Current Year)	93.575	013-06-01	3,700	5,801
US Department of Justice Office of the Juvenile Justice and Delinquency Prevention				
Pass-through from the North Carolina Department of Crime Control and Public Safety				
Division of Governor's Crime Commission (Prior Year)	16.575	003-1-04-B10-AV-208	5,409	
Division of Governor's Crime Commission (Current Year)	16.575 *	003-1-05-A13-AV-031	38,701	44,833
Total Federal Awards			<u>131,247</u>	<u>141,504</u>
State Awards:				
North Carolina Department of Administration				
Pass-through from the North Carolina Council for Women				
Domestic Violence Grant	N/A	N/A	59,498	58,136
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	N/A	(40)	(40)
Early Childhood Initiatives Program (Current Year)	N/A *	N/A	188,389	188,389
Multi-County Accounting and Contracting Grant	N/A	N/A	12,000	12,000
Total State Awards			<u>259,847</u>	<u>258,485</u>
Total Federal and State Awards			<u>\$ 391,094</u>	<u>\$ 399,989</u>

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

Alleghany Partnership for Children, Inc.
Schedule of Property and Equipment - Modified Cash Basis
For the Year Ended June 30, 2006

Schedule 4

Furniture and Noncomputer Equipment	\$	18,403
Computer Equipment/Printers		51,166
Leasehold Improvements		70,814
Motor Vehicles		14,803
		<hr/>
Total Property and Equipment	\$	<u>155,186</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.

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

Schedule 5

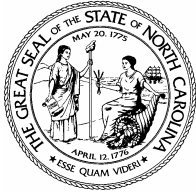
Match Provided at the Partnership Level:

Cash	\$	6,945
In-Kind Goods and Services		17,694
		<hr/>
	\$	24,639
		<hr/> <hr/>

Match Provided at the Contractor Level:

Cash	\$	4,961
		<hr/> <hr/>

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.



STATE OF NORTH CAROLINA
Office of the State Auditor

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

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

Board of Directors
Alleghany Partnership for Children, Inc.
Sparta, North Carolina

We have audited the financial statements of the Alleghany Partnership for Children, Inc. (Alleghany Partnership) as of and for the year ended June 30, 2006, and have issued our report thereon dated April 30, 2007. 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 Alleghany 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 Alleghany Partnership's financial statements are free of material misstatement, we performed tests of its compliance with

**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)**

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*.

We noted certain additional matters that we reported to management of the Alleghany Partnership in a separate letter dated May 18, 2007.

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

Leslie W. Merritt, Jr.

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

April 30, 2007

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