

**FINANCIAL STATEMENT AUDIT REPORT OF
MCDOWELL COUNTY PARTNERSHIP FOR CHILDREN
AND FAMILIES, INC.**

MARION, 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
MCDOWELL COUNTY PARTNERSHIP FOR CHILDREN
AND FAMILIES, INC.

MARION, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2006

BOARD OF DIRECTORS

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STATE OF NORTH CAROLINA
Office of the State Auditor

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AUDITOR'S TRANSMITTAL

The Honorable Michael F. Easley, Governor
The General Assembly of North Carolina
Board of Directors, McDowell County Partnership for Children and Families, Inc.

This report presents the results of the financial statement audit of McDowell County Partnership for Children and Families, Inc. 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 McDowell County Partnership for Children and Families, Inc. 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 McDowell County Partnership for Children and Families, Inc. is one of these local partnerships. As such, the McDowell County Partnership for Children and Families, Inc. 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

TABLE OF CONTENTS

	PAGE
INDEPENDENT AUDITOR’S REPORT	1
FINANCIAL STATEMENTS	
EXHIBITS	
A Statement of Receipts, Expenditures, and Net Assets – Modified Cash Basis	3
B Statement of Functional Expenditures – Modified Cash Basis.....	4
Notes to the Financial Statements.....	5
SUPPLEMENTARY SCHEDULES	
1 Schedule of Contract and Grant Expenditures – Modified Cash Basis	11
2 Schedule of State Level Service Provider Contracts.....	12
3 Schedule of State Awards – Modified Cash Basis	13
4 Schedule of Property and Equipment – Modified Cash Basis	14
5 Schedule of Qualifying Match (Non-GAAP).....	15
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 <i>GOVERNMENT AUDITING STANDARDS</i>	17
ORDERING INFORMATION	19

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
McDowell County Partnership for Children and Families, Inc.
Marion, North Carolina

We have audited the accompanying Statement of Receipts, Expenditures, and Net Assets – Modified Cash Basis of the McDowell County Partnership for Children and Families, Inc. (McDowell 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 McDowell 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 McDowell County Partnership for Children and Families, 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 December 7, 2006, on our consideration of the McDowell 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 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.

INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the McDowell County Partnership for Children and Families, 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.

Tichenor & Associates, LLP

Tichenor & Associates, LLP

December 7, 2006

McDowell County Partnership for Children and Families, 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 \$3,143)	\$ 687,974	\$ 12,000	\$ 0	\$ 699,974
Private Contributions		4,230		4,230
Special Fund Raising Events		1,036		1,036
Interest and Investment Earnings		67		67
Sales Tax Refunds		1,265		1,265
Total Receipts	687,974	18,598		706,572
Net Assets Released from Restrictions:				
Satisfaction of Program Restrictions		7,431	(7,431)	
	687,974	26,029	(7,431)	706,572
Expenditures:				
Programs:				
Child Care and Education Affordability	265,701			265,701
Child Care and Education Quality	135,103	70		135,173
Family Support	55,185	7,727		62,912
Health and Safety	71,544	50		71,594
Other Services		1,400		1,400
Support:				
Management and General	115,108	14,803		129,911
Program Evaluation	46,942			46,942
Other:				
Refund of Prior Year Grant		12		12
Sales Tax Paid		688		688
Total Expenditures	689,583	24,750		714,333
Excess of Receipts Over Expenditures	(1,609)	1,279	(7,431)	(7,761)
Net Assets at Beginning of Year	1,609	6,344	7,431	15,384
Net Assets at End of Year	\$ 0	\$ 7,623	\$ 0	\$ 7,623
Net Assets Consisted of:				
Cash and Cash Equivalents	\$ 163	\$ 7,623	\$ 0	\$ 7,786
Refunds Due From Contractors	1,371			1,371
	1,534	7,623		9,157
Less: Due to the State	1,534			1,534
	\$ 0	\$ 7,623	\$ 0	\$ 7,623

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

McDowell County Partnership for Children and Families, 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
Smart Start Fund:								
Programs:								
Child Care and Education Affordability	\$ 265,701	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 265,701
Child Care and Education Quality	135,103							135,103
Family Support	55,185							55,185
Health and Safety	71,544							71,544
	<u>527,533</u>							<u>527,533</u>
Support:								
Management and General	115,108	89,058	753	2,432	10,269	12,266	330	
Program Evaluation	46,942	41,949		378	858	3,373	384	
	<u>162,050</u>	<u>131,007</u>	<u>753</u>	<u>2,810</u>	<u>11,127</u>	<u>15,639</u>	<u>714</u>	
Total Smart Start Fund Expenditures	<u>\$ 689,583</u>	<u>\$ 131,007</u>	<u>\$ 753</u>	<u>\$ 2,810</u>	<u>\$ 11,127</u>	<u>\$ 15,639</u>	<u>\$ 714</u>	<u>\$ 527,533</u>
Other Funds:								
Programs:								
Child Care and Education Quality	\$ 70	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 70
Family Support	7,727			45	2,083			5,599
Health and Safety	50			50				
Other Services	1,400							1,400
	<u>9,247</u>			<u>95</u>	<u>2,083</u>			<u>7,069</u>
Support:								
Management and General	14,803	11,380		38	2,541	344		500
Other:								
Refund of Prior Year Grant	12				12			
Sales Tax Paid	688				688			
	<u>700</u>				<u>700</u>			
Total Other Funds Expenditures	<u>\$ 24,750</u>	<u>\$ 11,380</u>	<u>\$ 0</u>	<u>\$ 133</u>	<u>\$ 5,324</u>	<u>\$ 344</u>	<u>\$ 0</u>	<u>\$ 7,569</u>

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

MCDOWELL COUNTY PARTNERSHIP FOR CHILDREN AND FAMILIES, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2006

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

- A. Organization and Purpose** - The McDowell County Partnership for Children and Families, Inc. (McDowell Partnership) is a legally separate nonprofit organization incorporated on August 25, 1994. The McDowell Partnership was established to develop and provide, through public and private means, early childhood education and developmental services for children and families. The McDowell 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 McDowell 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 McDowell Partnership did not have any temporarily or 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. 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. Property and Equipment** - Under the modified cash basis of accounting, purchases of property and equipment are reported as expenditures in the year occurred. However, McDowell Partnership is required by contract regulation to track and maintain property and equipment items as presented in Schedule 4 of this report. The McDowell 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.
- H. Compensated Absences** - As a result of the use of the modified cash basis of accounting, liabilities related to accrued compensated absences are not recorded in the financial statements. Expenditures related to compensated absences are recorded when paid. The amount of accrued compensated absences for accumulated, unpaid leave that would be due to employees upon termination is reported as a commitment in Note 8.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

NOTE 2 - FUNDING FROM GRANT AWARDS

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

Associated with these contracts, the McDowell 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 McDowell 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 McDowell Partnership was awarded and has received \$691,117 under a current year Smart Start contract with NCPC. The unexpended balance of this contract is subject to reversion to the State. The McDowell Partnership has returned \$1,534 of this contract to the State based on financial status reports submitted to NCPC subsequent to June 30, 2006.

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

NOTE 3 - RELATED PARTY TRANSACTIONS

Service Provider Contracts with Board Member Organizations - The board members of the McDowell Partnership are representative of various organizations that benefit from actions taken by the Board. It is the policy of the McDowell Partnership that board members not be involved with decisions regarding organizations they represent. During the year, the McDowell Partnership entered into contracts with board member organizations for

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 McDowell 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 part-day care programs and supplements for quality outside the Division of Child Development.

Child Care and Education Quality - Used to account for service activities including child care resource and referral and professional development supplements.

Family Support - Used to account for service activities including family resource centers, parenting skills training, ongoing parenting education, general family support, family literacy projects, and community outreach information and resources.

Health and Safety - Used to account for service activities including prenatal/newborn services and home visiting.

Other Services – Used to account for non-Smart Start services which are: Training Material for Needy Children - grants to Keep McDowell Beautiful, Inc. for the “Wheels of Love” program, Developmental Camp - service activities including a grant to the Old Fort Crisis Ministry for “Project Excel”, and Health Coalition - service activities including a grant to the Rutherford-Polk-McDowell District Health Department for the “Healthy Carolinians” Health Summit.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

expenditures for the overall direction of the organization, its general board activities, business management, general recordkeeping, budgeting, and related purposes.

Program Evaluation - Expenditures that are incurred to monitor the performance of service providers as to the delivery of services and adherence to the specific terms and conditions of the contracts.

C. Allocation of Joint Costs

Expenditures benefiting more than one purpose were allocated as follows:

Other Costs - Occupancy costs for Program Evaluation (rent) were directly allocated based on actual square footage.

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	\$ 11,963
2008	8,192
2009	8,917
2010	8,917
Total Minimum Lease Payments	<u>\$ 37,989</u>

Rental expense for all operating leases during the year was \$12,909.

NOTE 6 - PENSION PLAN

IRC Section 403(b) Plan - All permanent employees who are at least half time can participate in a tax sheltered annuity plan (Plan) created under Internal Revenue Code Section 403(b). The 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. No costs were incurred by the McDowell Partnership.

NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

NOTE 7 - RISK MANAGEMENT

The McDowell 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 McDowell 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 McDowell 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 McDowell 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 \$4,339. No funds or reservation of net assets has been made for this commitment.

NOTE 9 - RESTRICTIONS ON NET ASSETS

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:

<u>Purpose</u>	<u>Amount</u>
English for Families	\$ 5,600
Outreach Grant	1,831
	<u>\$ 7,431</u>

McDowell County Partnership for Children and Families, 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
Endowment Fund of the Public Schools of McDowell County, North Carolina	* \$ 38,659	\$ 13	\$ 5,599	\$ 0
Health Department-Health Coalition	*		500	
McDowell County Department of Social Services	* 212,017			
McDowell County Schools	* 53,684			
McDowell Technical Community College	* 136,121	1,019	570	
North Carolina Cooperative Extension Service, McDowell County Center	* 16,542	2		
Project Excel			100	
The McDowell Hospital	* 71,881	337		
Wheels of Love Program			800	
	<u>\$ 528,904</u>	<u>\$ 1,371</u>	<u>\$ 7,569</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.

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

Schedule 2

Organization Name	DHHS Contracts
McDowell County Department of Social Services	\$ 251,817

* 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.

McDowell County Partnership for Children and Families, Inc.
Schedule of State Awards - Modified Cash Basis
For the Year Ended June 30, 2006

Schedule 3

State Grantor/Pass-through Grantor/Program	Contract #	Receipts	Expenditures
State Awards:			
North Carolina Department of Health and Human Services			
Division of Child Development			
Pass-through from the North Carolina Partnership for Children, Inc.			
Early Childhood Initiatives Program (Prior Year)	N/A	\$ (1,609)	\$ 0
Early Childhood Initiatives Program (Current Year)	*	691,117	689,583
Early Childhood Initiatives Program (Current Year)		(1,534)	
Multi-County Accounting and Contracting Grant	N/A	<u>12,000</u>	<u>12,000</u>
Total State Awards		<u>\$ 699,974</u>	<u>\$ 701,583</u>

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

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

Schedule 4

Furniture and Noncomputer Equipment	\$ 2,362
Computer Equipment/Printers	<u>28,881</u>
Total Property and Equipment	<u><u>\$ 31,243</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.

McDowell County Partnership for Children and Families, Inc.
Schedule of Qualifying Match (Non-GAAP)
For the Year Ended June 30, 2006

Schedule 5

Match Provided at the Partnership Level:

Cash	\$	5,200
In-Kind Goods and Services		<u>7,062</u>
	\$	<u><u>12,262</u></u>

Match Provided at the Contractor Level:

Cash	\$	15,934
In-Kind Goods and Services		<u>98,733</u>
	\$	<u><u>114,667</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.

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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

McDowell County Partnership for Children and Families, Inc.
Marion, North Carolina

We have audited the financial statements of the McDowell County Partnership for Children and Families, Inc. (McDowell Partnership) as of and for the year ended June 30, 2006, and have issued our report thereon dated December 7, 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 McDowell 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 McDowell 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

**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)**

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 McDowell 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 7, 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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