

**Financial Statement Audit Report of
Children's Council of Watauga County, Inc.
Boone, 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
Children's Council of Watauga County, Inc.
Boone, North Carolina
For the Year Ended June 30, 2006**

**Board of Directors
Cindy Long, Chair**

**Administrative Officer
Jennifer Wilson-Kearse, Executive Director**



STATE OF NORTH CAROLINA
Office of the State Auditor

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AUDITOR'S TRANSMITTAL

The Honorable Michael F. Easley, Governor
The General Assembly of North Carolina
Board of Directors, Children's Council of Watauga County, Inc.

This report presents the results of the financial statement audit of Children's Council of Watauga County, Inc. for the year ended June 30, 2006. Winston, Williams, Creech, Evans and Company, LLP performed the audit under contract with the Office of the State Auditor, and their report is submitted herewith.

The audit of the Children's Council of Watauga County, 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 Children's Council of Watauga County, Inc. is one of these local partnerships. As such, the Children's Council of Watauga County, 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 all audit reports issued by the Office of the State Auditor may be obtained through one of the options listed on the back of this report.

Leslie W. Merritt, Jr.

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

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Winston, Williams, Creech, Evans & Company, LLP

Certified Public Accountants



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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Children's Council of Watauga County, Inc.
Boone, North Carolina

We have audited the accompanying Statement of Receipts, Expenditures, and Net Assets – Modified Cash Basis of the Children's Council of Watauga County, Inc. (Watauga 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 Watauga Partnership's management. Our responsibility is to express an opinion on these financial statements based on our audit.

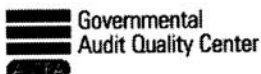
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the accompanying financial statements were prepared on the modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets of Children's Council of Watauga County, 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 a report dated January 17, 2007, on our consideration of the Watauga Partnership's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations,

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INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with the independent auditor's report in considering the results of our audit.

Our audit was conducted for the purpose of forming opinions on the basic financial statements that collectively comprise the Children's Council of Watauga County, 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.

Winston, Williams, Creech, Evans and Company, LLP

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

January 17, 2007

Children's Council of Watauga County, 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 \$53) | \$ 267,012 | \$ 12,000 | \$ 0 | \$ 279,012 |
| Federal Awards | 0 | 261,300 | 1,775 | 263,075 |
| Local Awards | 0 | 5,000 | 0 | 5,000 |
| Private Contributions | 0 | 63,721 | 3,575 | 67,296 |
| Interest and Investment Earnings | 0 | 335 | 0 | 335 |
| Sales Tax Refunds | 0 | 3,533 | 0 | 3,533 |
| Other Receipts | 0 | 2,324 | 0 | 2,324 |
| Total Receipts | 267,012 | 348,213 | 5,350 | 620,575 |
| Net Assets Released from Restrictions: | | | | |
| Satisfaction of Program Restrictions | 0 | 11,211 | (11,211) | 0 |
| | 267,012 | 359,424 | (5,861) | 620,575 |
| Expenditures: | | | | |
| Programs: | | | | |
| Child Care and Education Affordability | 0 | 15,000 | 0 | 15,000 |
| Child Care and Education Quality | 101,443 | 116,793 | 0 | 218,236 |
| Family Support | 44,360 | 160,099 | 0 | 204,459 |
| Health and Safety | 15,947 | 2,364 | 0 | 18,311 |
| Support: | | | | |
| Management and General | 97,262 | 30,050 | 0 | 127,312 |
| Program Coordination | 8,000 | 23,515 | 0 | 31,515 |
| Other: | | | | |
| Refund of Prior Year Grant | 0 | 1,284 | 0 | 1,284 |
| Sales Tax Paid | 0 | 4,307 | 0 | 4,307 |
| Total Expenditures | 267,012 | 353,412 | 0 | 620,424 |
| Excess of Receipts Over Expenditures | 0 | 6,012 | (5,861) | 151 |
| Net Assets at Beginning of Year | 0 | 26,114 | 11,211 | 37,325 |
| Net Assets at End of Year | \$ 0 | \$ 32,126 | \$ 5,350 | \$ 37,476 |
| Net Assets Consisted of: | | | | |
| Cash and Cash Equivalents | \$ 0 | \$ 32,478 | \$ 5,350 | \$ 37,828 |
| Refunds Due From Contractors | 53 | 0 | 0 | 53 |
| | 53 | 32,478 | 5,350 | 37,881 |
| Less: Due to the State | (53) | 0 | 0 | (53) |
| Funds Held for Others | 0 | (352) | 0 | (352) |
| | \$ 0 | \$ 32,126 | \$ 5,350 | \$ 37,476 |

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

Children's Council of Watauga County, 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 Quality | \$ 101,443 | \$ 65,115 | \$ 0 | \$ 11,657 | \$ 9,561 | \$ 14,980 | \$ 130 | \$ 0 | \$ 0 |
| Family Support | 44,360 | 29,712 | 0 | 700 | 3,609 | 339 | 0 | 10,000 | 0 |
| Health and Safety | 15,947 | 0 | 0 | 0 | 0 | 0 | 0 | 15,947 | 0 |
| | <u>161,750</u> | <u>94,827</u> | <u>0</u> | <u>12,357</u> | <u>13,170</u> | <u>15,319</u> | <u>130</u> | <u>25,947</u> | <u>0</u> |
| Support: | | | | | | | | | |
| Management and General | 97,262 | 79,759 | 1,279 | 1,780 | 8,780 | 5,146 | 518 | 0 | 0 |
| Program Coordination | 8,000 | 8,000 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| | <u>105,262</u> | <u>87,759</u> | <u>1,279</u> | <u>1,780</u> | <u>8,780</u> | <u>5,146</u> | <u>518</u> | <u>0</u> | <u>0</u> |
| Total Smart Start Fund Expenditures | \$ 267,012 | \$ 182,586 | \$ 1,279 | \$ 14,137 | \$ 21,950 | \$ 20,465 | \$ 648 | \$ 25,947 | \$ 0 |
| Other Funds: | | | | | | | | | |
| Programs: | | | | | | | | | |
| Child Care and Education Affordability | \$ 15,000 | \$ 0 | \$ 0 | \$ 0 | \$ 0 | \$ 0 | \$ 0 | \$ 15,000 | \$ 0 |
| Child Care and Education Quality | 116,793 | 45,082 | 18,708 | 11,019 | 1,413 | 17 | 20,276 | 13,744 | 6,534 |
| Family Support | 160,099 | 52,809 | 298 | 3,653 | 12,325 | 9,236 | 64,743 | 16,985 | 50 |
| Health and Safety | 2,364 | 1,699 | 0 | 615 | 0 | 50 | 0 | 0 | 0 |
| | <u>294,256</u> | <u>99,590</u> | <u>19,006</u> | <u>15,287</u> | <u>13,738</u> | <u>9,303</u> | <u>85,019</u> | <u>45,729</u> | <u>6,584</u> |
| Support: | | | | | | | | | |
| Management and General | 30,050 | 18,122 | 9,197 | 720 | 143 | 1,868 | 0 | 0 | 0 |
| Program Coordination | 23,515 | 21,220 | 105 | 493 | 1,457 | 240 | 0 | 0 | 0 |
| | <u>53,565</u> | <u>39,342</u> | <u>9,302</u> | <u>1,213</u> | <u>1,600</u> | <u>2,108</u> | <u>0</u> | <u>0</u> | <u>0</u> |
| Other: | | | | | | | | | |
| Refund of Prior Year Grant | 1,284 | 0 | 0 | 0 | 1,284 | 0 | 0 | 0 | 0 |
| Sales Tax Paid | 4,307 | 0 | 0 | 4,307 | 0 | 0 | 0 | 0 | 0 |
| | <u>5,591</u> | <u>0</u> | <u>0</u> | <u>4,307</u> | <u>1,284</u> | <u>0</u> | <u>0</u> | <u>0</u> | <u>0</u> |
| Total Other Funds Expenditures | \$ 353,412 | \$ 138,932 | \$ 28,308 | \$ 20,807 | \$ 16,622 | \$ 11,411 | \$ 85,019 | \$ 45,729 | \$ 6,584 |

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

CHILDREN'S COUNCIL OF WATAUGA COUNTY, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2006

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

A. Organization and Purpose - The Children's Council of Watauga County, Inc. (Watauga Partnership) is a legally separate nonprofit organization incorporated on December 8, 1977. The Watauga Partnership was established to develop and provide, through public and private means, early childhood education and developmental services for children and families. The Watauga 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 Watauga 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 Watauga 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.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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. Funds Held For Others** - Funds held for others includes amounts received that are fiduciary in nature in which the Watauga Partnership acts in an agency capacity. For the year ended June 30, 2006, the Watauga Partnership was holding funds in the amount of \$352 for the Local Interagency Coordinating Council of Watauga County.
- 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, Watauga Partnership is required by contract regulation to track and maintain property and equipment items as presented in Schedule 4 of this report. The Watauga 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 8.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

J. Use of Estimates - The preparation of financial statements in conformity with the modified cash basis of accounting used by the Watauga 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 Watauga 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 Watauga Partnership and represents a concentration of credit risk as to the generation of revenue.

Associated with these contracts, the Watauga 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 Watauga 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 Watauga Partnership was awarded and has received \$267,065 under a current year Smart Start contract with NCPC. The unexpended balance of this contract is subject to reversion to the State. The Watauga Partnership has returned \$53 of this contract to the State based on financial status reports submitted to NCPC subsequent to June 30, 2006.

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

Early Learning Fund - The Watauga Partnership also received revenue and support from the US Department of Health and Human Services under the Early Learning Opportunities Act - Project C.H.I.L.D. (Children Having Increased Literacy Development) Program. The Watauga Partnership was awarded \$369,450 and has received \$209,910 under a multi-year cost-reimbursement contract. The unexpended balance of this contract is subject to reversion to the US Department of Health and Human Services. As allowed by program regulations, the unexpended balance of the multi-year contract is approved for carry forward to the subsequent year. The Watauga Partnership

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

does not expect to receive continued funding through new Early Learning Opportunities Act – Project C.H.I.L.D. program contracts.

NOTE 3 - RELATED PARTY TRANSACTIONS

Service Provider Contracts with Board Member Organizations - The board members of the Watauga Partnership are representative of various organizations that benefit from actions taken by the Board. It is the policy of the Watauga Partnership that board members not be involved with decisions regarding organizations they represent. During the year, the Watauga 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 Watauga 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 associated with child care subsidy administration (Division of Child Development), and child care cost supports (DCD).

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

Family Support - Used to account for service activities including family resource centers.

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

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), supplies and materials, and communication costs (telephone and printing) were indirectly 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 | \$ 13,707 |
| 2008 | 1,980 |
| 2009 | 1,650 |
| Total Minimum Lease Payments | <u>\$ 17,337</u> |

Rental expense for all operating leases during the year was \$23,008.

NOTE 6 - PENSION PLAN

Retirement Plans - The Watauga Partnership has a SIMPLE IRA Plan covering all full time employees who earn at least \$5,000. Each full time

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

employee of the Watauga Partnership has an option to participate in the Plan. An Individual Retirement Account is provided to the employee through an outside financial institution. The Watauga Partnership contributed 3% of gross wages for eligible employees for the year ended June 30, 2006. The Watauga Partnership does not own the accounts nor is it liable for any other cost other than the required contribution. The Watauga Partnership contributed \$7,535 for pension benefits during the year.

NOTE 7 - RISK MANAGEMENT

The Watauga 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 Watauga 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 Watauga 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 Watauga 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 \$19,561. 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 |
|---|-----------------|
| NCPC Private Sector Grant - Parents as Teachers | \$ 489 |
| Early Learning Fund | 1,775 |
| Friends of Young Mothers' Support Group | 1,336 |
| United Way - Parent Pal | 1,000 |
| Wal-Mart Foundation | 250 |
| ASU Grant | 500 |
| | <u>\$ 5,350</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 |
|--|------------------|
| NCPC Private Sector Grant - Inclusive Learning Environment | \$ 10,414 |
| Friends of Young Mothers' Support Group | 797 |
| | <u>\$ 11,211</u> |

Children's Council of Watauga County, 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> | | | | |
| * Appalachian District Health Department | \$ 16,000 | \$ 53 | \$ 0 | \$ 0 |
| Sugar Grove Developmental Day School | | | 5,880 | |
| The Children's Playhouse, Inc. | 10,000 | | 11,175 | |
| * Watauga County Schools | | | 15,000 | |
| Watauga Medical Center - Health Carolians | | | 1,463 | |
| | <u>26,000</u> | <u>53</u> | <u>33,518</u> | <u>0</u> |
| <i>Paid to Individuals:</i> | | | | |
| Child Care Expense Reimbursements | | | 4,347 | |
| Scholarships/Bonus Awards | | | 7,864 | |
| | <u>0</u> | <u>0</u> | <u>12,211</u> | <u>0</u> |
| | <u>\$ 26,000</u> | <u>\$ 53</u> | <u>\$ 45,729</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.

Children's Council of Watauga County, Inc.
Schedule of State Level Service Provider Contracts
For the Year Ended June 30, 2006

Schedule 2

| Organization Name | DHHS Contracts |
|--|---------------------------|
| * Watauga County Department of Social Services | \$ 164,000 |
| Child Care Services Association - WAGE\$ | <u>50,000</u> |
| | <u>\$ 214,000</u> |

* This organization is 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.

Children's Council of Watauga County, 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: | | | | |
| US Department of Health and Human Services Pass-through from the North Carolina Department of Health and Human Services - Division of Child Development Pass-through from the Iredell Partnership for Young Children, Inc. Early Childhood Initiatives Program (Current Year) | 93.575 | DCD-0506-3 | \$ 53,165 | \$ 45,082 |
| US Department of Health and Human Services Administration for Children and Families Early Learning Fund | 93.577 | * 90LO0179/01 | 209,910 | 208,135 |
| Total Federal Awards | | | <u>263,075</u> | <u>253,217</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 (Current Year) | | * 2005/2006 | 267,012 | 267,012 |
| Multi-County Accounting and Contracting Grant | | 2005/2006 | 12,000 | 12,000 |
| Total State Awards | | | <u>279,012</u> | <u>279,012</u> |
| Total Federal and State Awards | | | <u>\$ 542,087</u> | <u>\$ 532,229</u> |

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

** Major Programs per OMB Circular A-133

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

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

Children's Council of Watauga County, Inc.
Schedule of Property and Equipment - Modified Cash Basis
For the Year Ended June 30, 2006

Schedule 4

| | | |
|-------------------------------------|----|-----------------------|
| Furniture and Noncomputer Equipment | \$ | 3,237 |
| Computer Equipment/Printers | | 38,509 |
| Motor Vehicles | | <u>61,089</u> |
| Total Property and Equipment | \$ | <u><u>102,835</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.

Children's Council of Watauga County, Inc.
Schedule of Qualifying Match (Non-GAAP)
For the Year Ended June 30, 2006

Schedule 5

Match Provided at the Partnership Level:

| | | |
|----------------------------|----|-------------|
| Cash | \$ | 73,076 |
| In-Kind Goods and Services | | 11,189 |
| | | <hr/> |
| | \$ | 84,265 |
| | | <hr/> <hr/> |

Match Provided at the Contractor Level:

| | | |
|----------------------------|----|-------------|
| Cash | \$ | 20,457 |
| In-Kind Goods and Services | | 3,937 |
| | | <hr/> |
| | \$ | 24,394 |
| | | <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.

Winston, Williams, Creech, Evans & Company, LLP

Certified Public Accountants



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

Board of Directors
Children's Council of Watauga County, Inc.
Boone, North Carolina

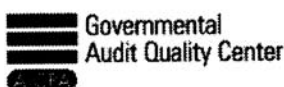
We have audited the financial statements of the Children's Council of Watauga County, Inc. (Watauga Partnership) as of and for the year ended June 30, 2006, and have issued our report thereon dated January 17, 2007. We conducted our audit in accordance with auditing standards generally accepted in the 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 Watauga 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.

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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 (CONCLUDED)**

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Watauga 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 Watauga Partnership, The North Carolina Partnership for Children, Inc., the Governor, and the General Assembly and is not intended to be and should not be used by anyone other than these specified parties.

Winston, Williams, Creech, Evans and Company, LLP

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

January 17, 2007

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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