

FINANCIAL STATEMENT AUDIT REPORT OF
PARTNERSHIP FOR CHILDREN OF LINCOLN/GASTON
COUNTIES, INC.

DALLAS, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2007

PERFORMED UNDER CONTRACT WITH THE
OFFICE OF THE STATE AUDITOR

LESLIE W. MERRITT, JR., CPA, CFP
STATE AUDITOR

FINANCIAL STATEMENT AUDIT REPORT OF
PARTNERSHIP FOR CHILDREN OF LINCOLN/GASTON
COUNTIES, INC.

DALLAS, NORTH CAROLINA

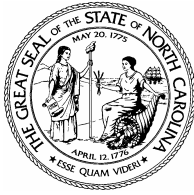
FOR THE YEAR ENDED JUNE 30, 2007

BOARD OF DIRECTORS

MELINDA HOUSER, BOARD CHAIR

ADMINISTRATIVE OFFICER

SHERRY L. BROWNING, 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, Partnership for Children of Lincoln/Gaston Counties, Inc.

This report presents the results of the financial statement audit of Partnership for Children of Lincoln/Gaston Counties, Inc. for the year ended June 30, 2007. 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 Partnership for Children of Lincoln/Gaston Counties, 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 Partnership for Children of Lincoln/Gaston Counties, Inc. is one of these local partnerships. As such, the Partnership for Children of Lincoln/Gaston Counties, Inc. is a private nonprofit 501(c)(3) organization and is required by G.S. 143B-168.14(b) to have a 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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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Partnership for Children of Lincoln/Gaston Counties, Inc.
Dallas, North Carolina

We have audited the accompanying Statement of Receipts, Expenditures, and Net Assets – Modified Cash Basis of the Partnership for Children of Lincoln/Gaston Counties, Inc. (Lincoln/Gaston Partnership) as of June 30, 2007, and the related Statement of Functional Expenditures – Modified Cash Basis for the year then ended. These financial statements are the responsibility of the Lincoln/Gaston 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 Partnership for Children of Lincoln/Gaston Counties, Inc. as of June 30, 2007, and its receipts and expenditures for the year then ended, on the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 1, 2007, on our consideration of the Lincoln/Gaston 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

INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

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 Partnership for Children of Lincoln/Gaston Counties, 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

November 1, 2007

Partnership For Children of Lincoln/Gaston Counties, Inc.
Statement of Receipts, Expenditures, and Net Assets - Modified Cash Basis
For the Year Ended June 30, 2007

Exhibit A

	Unrestricted Funds		Temporarily	Total
	Smart Start	Other	Restricted	Funds
	Fund	Funds	Funds	
Receipts:				
State Awards (less refunds of \$702)	\$ 3,405,824	\$ 723,920	\$ 0	\$ 4,129,744
Federal Awards		70,000		70,000
Private Contributions		5,810		5,810
Interest Earnings		19,253		19,253
Sales Tax Refunds		17,853		17,853
Total Receipts	3,405,824	836,836		4,242,660
Net Assets Released from Restrictions:				
Satisfaction of Program Restrictions		2,352	(2,352)	
	3,405,824	839,188	(2,352)	4,242,660
Expenditures:				
Programs:				
Child Care and Education Quality	1,633,030	70,793		1,703,823
Family Support	239,631			239,631
Health and Safety	173,641			173,641
More at Four	808,325	716,017		1,524,342
Support:				
Management and General	382,976	25,191		408,167
Program Coordination	168,221	53		168,274
Other:				
Program Income Reversion		2,255		2,255
Refund of Prior Year Grant		1,979		1,979
Sales Tax Paid		11,481		11,481
Total Expenditures	3,405,824	827,769		4,233,593
Excess of Receipts Over Expenditures		11,419	(2,352)	9,067
Net Assets at Beginning of Year		3,541	2,815	6,356
Net Assets at End of Year	\$ 0	\$ 14,960	\$ 463	\$ 15,423
Net Assets Consisted of:				
Cash and Cash Equivalents	\$ 33,071	\$ 14,960	\$ 463	\$ 48,494
Refunds Due From Contractors	3,209			3,209
	36,280	14,960	463	51,703
Less: Due to the State	(36,280)			(36,280)
	\$ 0	\$ 14,960	\$ 463	\$ 15,423

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

Partnership for Children and of Lincoln/Gaston Counties, Inc.
Statement of Functional Expenditures - Modified Cash Basis
For the Year Ended June 30, 2007

Exhibit B

	Total	Personnel	Contracted Services	Supplies and Materials	Other Operating Expenditures	Fixed Charges and Other Expenditures	Property and Equipment Outlay	Services/Contracts/Grants
Smart Start Fund:								
Programs:								
Child Care and Education Quality	\$ 1,633,030	\$ 70,762	\$ 268,864	\$ 8,296	\$ 19,279	\$ 13,281	\$ 7,272	\$ 1,245,276
Family Support	239,631	15,512		343	412	581	366	222,417
Health and Safety	173,641							173,641
More at Four	808,325							808,325
	<u>2,854,627</u>	<u>86,274</u>	<u>268,864</u>	<u>8,639</u>	<u>19,691</u>	<u>13,862</u>	<u>7,638</u>	<u>2,449,659</u>
Support:								
Management and General	382,976	295,326	14,720	6,550	41,779	19,019	5,582	
Program Coordination	168,221	130,011	1,329	2,248	21,748	8,712	4,173	
	<u>551,197</u>	<u>425,337</u>	<u>16,049</u>	<u>8,798</u>	<u>63,527</u>	<u>27,731</u>	<u>9,755</u>	
Total Smart Start Fund Expenditures	<u>\$ 3,405,824</u>	<u>\$ 511,611</u>	<u>\$ 284,913</u>	<u>\$ 17,437</u>	<u>\$ 83,218</u>	<u>\$ 41,593</u>	<u>\$ 17,393</u>	<u>\$ 2,449,659</u>
Other Funds:								
Programs:								
Child Care and Education Quality	\$ 70,793	\$ 63,561	\$ 0	\$ 479	\$ 4,145	\$ 1,858	\$ 185	\$ 565
More at Four	716,017							716,017
	<u>786,810</u>	<u>63,561</u>		<u>479</u>	<u>4,145</u>	<u>1,858</u>	<u>185</u>	<u>716,582</u>
Support:								
Management and General	25,191	6,592	16,708		837	100	954	
Program Coordination	53	53						
	<u>25,244</u>	<u>6,645</u>	<u>16,708</u>		<u>837</u>	<u>100</u>	<u>954</u>	
Other:								
Refund of Prior Year Grant	4,234					4,234		
Sales Tax Paid	11,481			11,481				
	<u>15,715</u>			<u>11,481</u>		<u>4,234</u>		
Total Other Funds Expenditures	<u>\$ 827,769</u>	<u>\$ 70,206</u>	<u>\$ 16,708</u>	<u>\$ 11,960</u>	<u>\$ 4,982</u>	<u>\$ 6,192</u>	<u>\$ 1,139</u>	<u>\$ 716,582</u>

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

PARTNERSHIP FOR CHILDREN OF LINCOLN/GASTON COUNTIES, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2007

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

A. Organization and Purpose - The Partnership for Children of Lincoln/Gaston Counties, Inc. (Lincoln/Gaston Partnership) is a legally separate nonprofit organization incorporated on May 3, 1996. The Lincoln/Gaston Partnership was established to develop and provide, through public and private means, early childhood education and developmental services for children and families. The Lincoln/Gaston 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 Lincoln/Gaston 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 Lincoln/Gaston Partnership did not have any permanently restricted net assets at June 30, 2007.

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, Lincoln/Gaston Partnership is required by contract regulation to track and maintain property and equipment items as presented in Schedule 4 of this report. The Lincoln/Gaston 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, 2007. 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 9.

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 Lincoln/Gaston Partnership requires management to make estimates and assumptions that affect certain reported amounts and disclosures (such as allocation of joint costs); accordingly, actual results could differ from those estimates. It is management's belief that these estimates are reasonable and fair.

NOTE 2 - DEPOSITS

All funds of the Lincoln/Gaston Partnership are deposited with a commercial bank and insured by the Federal Deposit Insurance Corporation (FDIC) up to \$100,000. Deposits over this amount subjects the Lincoln/Gaston Partnership to a concentration of credit risk. At June 30, 2007, the Lincoln/Gaston Partnership's bank deposits in excess of the FDIC insured limit was \$256,112.

NOTE 3 - FUNDING FROM GRANT AWARDS

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

Associated with these contracts, the Lincoln/Gaston 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, NCPC and the North Carolina Department of Health and Human Services (DHHS) entered into contracts with and made payments to service providers selected by the Lincoln/Gaston Partnership. These service provider contracts are not reflected on the accompanying financial statements. However, a summary of the service provider contracts entered into by NCPC and DHHS is presented on Schedule 2 accompanying the financial statements.

The Lincoln/Gaston Partnership was awarded and has received \$3,442,104 under a current year Smart Start contract with NCPC. The unexpended balance of this contract is subject to reversion to the State. The Lincoln/Gaston Partnership has returned \$36,280 of this contract to the State based on financial status reports submitted to NCPC subsequent to June 30, 2007.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

More at Four - The Lincoln/Gaston Partnership also received revenue and support from the State of North Carolina for the More at Four Program. The Lincoln/Gaston Partnership was awarded \$751,310 and has received \$700,622 under a current year contract. The Lincoln/Gaston Partnership expects to receive continued funding through new More at Four contracts with the State.

NOTE 4 - RELATED PARTY TRANSACTIONS

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

NOTE 5 - FUNCTIONAL EXPENDITURES

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

A. Program Functions

Child Care and Education Quality - Used to account for service activities including quality enhancement grants to improve quality, quality enhancement grants to maintain quality, child care resource and referral services and professional development for child care providers.

Family Support - Used to account for service activities including family resource centers, teen parent/child programs, parenting education and general family support.

Health and Safety - Used to account for service activities child care health consultants, health services and support, child abuse and neglect intervention and special needs - early intervention services/special education.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

More at Four - Used to account for development and implementation of More at Four prekindergarten program for at-risk four-year-olds who are at risk of failure in kindergarten. The goal is to provide quality prekindergarten services in order to enhance kindergarten readiness.

B. Support Functions

Management and General - Expenditures that are not identifiable with a single program or fund-raising activity but are indispensable to the conduct of those activities and to an organization's existence, including expenditures for the overall direction of the organization, its general board activities, business management, general recordkeeping, budgeting, and related purposes.

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 6 - OPERATING LEASE OBLIGATIONS

Future minimum lease payments under operating leases consist of the following at June 30, 2007:

<u>Fiscal Year</u>	<u>Operating Leases</u>
2008	\$ 33,665
2009	31,203
2010	<u>30,510</u>
Total Minimum Lease Payments	<u>\$ 95,378</u>

At June 30, 2007 the Lincoln/Gaston Partnership had three years remaining under this lease. The terms of the lease provide the Lincoln/Gaston

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Partnership a one time right to terminate the lease in the event that the Lincoln/Gaston Partnership's revenue is reduced by one third or more.

Rental expense for all operating leases during the year was \$36,741.

NOTE 7 - PENSION PLAN

Deferred Compensation and Supplemental Retirement Income Plans - IRC Section 401(k) Plan - The Lincoln/Gaston Partnership has an IRC Section 401(k) plan (Plan). All costs of administering the Plan are the responsibility of the Plan participants. Eligible employees may make voluntary contributions to the Plan. The Lincoln/Gaston Partnership makes a matching contribution of up to 2% of the employee's gross salaries. In addition, the Lincoln/Gaston Partnership makes an employer base contribution of 4% of eligible employee's gross salaries. For the year ended June 30, 2007, the Lincoln/Gaston Partnership contributed \$22,545.

NOTE 8 - RISK MANAGEMENT

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

NOTE 9 - COMMITMENTS AND CONTINGENCIES

Compensated Absences - As a result of the Lincoln/Gaston 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

NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

June 30, 2007, is \$18,321. No funds or reservation of net assets has been made for this commitment.

NOTE 10 - RESTRICTIONS ON NET ASSETS

- A. Temporarily Restricted Net Assets** - Temporarily restricted net assets at June 30, 2007 are available for the following purposes:

Purpose	Amount
Child Care Quality Assessment Pilot Project	\$ 50
Lincoln and Gaston Counties Child Care	<u>413</u>
	<u>\$ 463</u>

- B. Net Assets Released From Donor Restrictions** - Net assets were released from donor restrictions during the fiscal year ended June 30, 2007, by incurring expenditures satisfying the restricted purposes as follows:

Purpose	Amount
Welcome Baby Project	\$ 373
Child Care Resource and Referral	<u>1,979</u>
	<u>\$ 2,352</u>

Partnership for Children of Lincoln/Gaston Counties, Inc.
Schedule of Contract and Grant Expenditures - Modified Cash Basis
For the Year Ended June 30, 2007

Schedule 1

Organization Name	Smart Start Fund		Other Funds	
	Amount Advanced	Refund Due	Amount Advanced	Refund Due
<i>Paid to Organizations:</i>				
A Place to Grow	\$ 0	\$ 0	\$ 26,590	\$ 0
Carolina Kids Club	* 184,409			
Communities in Schools	* 60,172			
Community Health Partners	* 79,592	3,105		
Gaston County Health Department	* 45,490	3		
Kenlin Academy	* 16,685			
Lincoln County DSS	* 80,847			
Lincoln County Health Department	* 51,667			
Lincoln County Schools	*		541,789	
Mini Academy at Denver	46,230		68,170	
Ms. Em's Child Development Center			66,379	
North Carolina Cooperative Extension In Gaston County	* 81,500	101		
Tonya Helms A to Z Childcare	* 2,400			
Various Daycare Facilities (More at Four Services in Gaston County)	697,720		13,089	
Various Daycare Facilities (Quality Enhancement)	131,251			
Various Daycare Facilities (Quality Sustainability)	834,325		565	
	<u>2,312,288</u>	<u>3,209</u>	<u>716,582</u>	
<i>Paid to Individuals:</i>				
Various Individuals (Individual Professional Development Plan)	140,580			
	<u>\$ 2,452,868</u>	<u>\$ 3,209</u>	<u>\$ 716,582</u>	<u>\$ 0</u>

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

Partnership for Children of Lincoln/Gaston Counties, Inc.
Schedule of State Level Service Provider Contracts
For the Year Ended June 30, 2007

Schedule 2

Organization Name		DHHS Contracts
Child Care Services Association		\$ 382,695
Gaston County Department of Social Services	*	730,002
Lincoln County Department of Social Services	*	370,312
		<u>\$ 1,483,009</u>

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

The information on this schedule provides a listing of service provider contracts entered into by the North Carolina Department of Health and Human Services (DHHS) as described in Note 3 - Funding from Grant Awards.

Partnership for Children Lincoln/Gaston Counties, Inc.
Schedule of Federal and State Awards - Modified Cash Basis
For the Year Ended June 30, 2007

Schedule 3

<u>Federal/State Grantor/Pass-through Grantor/Program</u>	<u>Federal CFDA Number</u>	<u>Contract #</u>	<u>Receipts</u>	<u>Expenditures</u>
Federal Awards:				
U.S. 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 Child Care Connections of Cleveland County, Inc.				
Child Care and Development Block Grant	93.575	008-002	\$ 70,000	\$ 69,712
Total Federal Awards			<u>70,000</u>	<u>69,712</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)	*		3,405,824	3,405,824
Multi-County Accounting and Contracting Grant			24,000	23,733
Multi-County Accounting and Contracting Grant (Prior Year)			(702)	
North Carolina Department of Public Instruction				
Office of School Readiness				
More at Four Pre-Kindergarten Program	*	0048-07	<u>700,622</u>	<u>700,622</u>
Total State Awards			<u>4,129,744</u>	<u>4,130,179</u>
Total Federal and State Awards			<u>\$ 4,199,744</u>	<u>\$ 4,199,891</u>

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

***Partnership for Children of Lincoln/Gaston Counties, Inc.
Schedule of Property and Equipment - Modified Cash Basis
For the Year Ended June 30, 2007***

Schedule 4

Furniture and Noncomputer Equipment	\$ 20,964
Computer Equipment/Printers	<u>38,262</u>
Total Property and Equipment	<u><u>\$ 59,226</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.

Partnership for Children of Lincoln/Gaston Counties, Inc.
Schedule of Qualifying Match (Non-GAAP)
For the Year Ended June 30, 2007

Schedule 5

Match Provided at the Partnership Level:

Cash	\$	50,465
In-Kind Goods and Services		<u>131,207</u>
	\$	<u>181,672</u>

Match Provided at the Contractor Level:

Cash	\$	302,425
In-Kind Goods and Services		<u>10,242</u>
	\$	<u>312,667</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
Partnership for Children of Lincoln/Gaston Counties, Inc.
Dallas, North Carolina

We have audited the financial statements of the Partnership for Children of Lincoln/Gaston Counties, Inc. (Lincoln/Gaston Partnership) as of and for the year ended June 30, 2007, and have issued our report thereon dated November 1, 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 Lincoln/Gaston Partnership's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Lincoln/Gaston Partnership's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Lincoln/Gaston Partnership's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Lincoln/Gaston Partnership's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Lincoln/Gaston Partnership's financial statements that is more than inconsequential will not be prevented or detected by the Lincoln/Gaston Partnership's internal control.

**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)**

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Lincoln/Gaston Partnership's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

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

Tichenor & Associates, LLP

Tichenor & Associates, LLP

November 1, 2007

ORDERING INFORMATION

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