

**MONTGOMERY COUNTY PARTNERSHIP
FOR CHILDREN
Troy, North Carolina**

**FINANCIAL STATEMENTS
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
MONTGOMERY COUNTY PARTNERSHIP FOR CHILDREN
TROY, NORTH CAROLINA
FOR THE YEAR ENDED JUNE 30, 2007

BOARD OF DIRECTORS

BERNARD DAVIS, BOARD CHAIR

ADMINISTRATIVE OFFICER

DEBORAH MUSIKA, EXECUTIVE DIRECTOR



Leslie W. Merritt, Jr.,
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AUDITOR'S TRANSMITTAL

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

This report presents the results of the financial statement audit of the Montgomery County Partnership for Children for the year ended June 30, 2007. Clifton Gunderson LLP performed the audit under contract with the Office of the State Auditor, and their report is submitted herewith.

The audit of the Montgomery County Partnership for Children 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 Montgomery County Partnership for Children is one of these local partnerships. As such, the Montgomery County Partnership for Children 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
Montgomery County Partnership for Children
Troy, North Carolina

We have audited the accompanying Statement of Receipts, Expenditures, and Net Assets – Modified Cash Basis of the Montgomery County Partnership for Children (Montgomery County Partnership) as of and for the year ended 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 Montgomery County 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 Montgomery County Partnership for Children as of June 30, 2007, and its receipts, expenditures, and net assets for the year then ended, on the basis of accounting described in Note 1.

The Montgomery County Partnership has adjusted its opening temporarily restricted net assets to properly account for the Endowment Fund under terms of its agreement with the North Carolina Community Foundation as described in Note 11.

INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

In accordance with *Government Auditing Standards*, we have also issued our report dated June 30, 2008 on our consideration of the Montgomery County 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.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Montgomery County Partnership for Children's basic financial statements. The information in Schedules 1 through 4 is presented for purposes of additional analysis and is not a required part of the basic financial statements and 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.

Clifton Henderson LLP

Raleigh, North Carolina
June 30, 2008

Montgomery County Partnership for Children
Statement of Receipts, Expenditures, and Net Assets – Modified Cash Basis
For the Year Ended June 30, 2007

Exhibit A

| | Unrestricted Funds | | Temporarily Restricted Funds | Permanently Restricted Funds | Total Funds |
|----------------------------------------------------------|--------------------|------------------|------------------------------|------------------------------|-------------------|
| | Smart Start Fund | Other Funds | | | |
| Receipts: | | | | | |
| State Awards | \$ 727,166 | \$ 707,532 | \$ - | \$ - | \$ 1,434,698 |
| Federal Awards | - | 17,473 | - | - | 17,473 |
| Private Contributions | - | 14,285 | - | 5,500 | 19,785 |
| Special Fund Raising Events | - | 13,606 | - | - | 13,606 |
| Sales Tax Refunds | - | 3,147 | - | - | 3,147 |
| Other Receipts | - | 5,706 | - | - | 5,706 |
| Total Receipts | 727,166 | 761,749 | - | 5,500 | 1,494,415 |
| Net Assets Released from Restrictions: | | | | | |
| Satisfaction of Program Restrictions | - | 457 | (457) | - | - |
| | 727,166 | 762,206 | (457) | 5,500 | 1,494,415 |
| Expenditures: | | | | | |
| Programs: | | | | | |
| Child Care and Education Quality | 222,744 | 20,054 | - | - | 242,798 |
| Family Support | 110,818 | 10,385 | - | - | 121,203 |
| Health and Safety | - | 1,547 | - | - | 1,547 |
| More at Four | 244,924 | 695,913 | - | - | 940,837 |
| Support: | | | | | |
| Fund Raising | - | 143 | - | - | 143 |
| Management and General | 123,680 | 16,737 | - | - | 140,417 |
| Program Coordination | 25,000 | - | - | - | 25,000 |
| Other: | | | | | |
| Sales Tax Paid | - | 2,707 | - | - | 2,707 |
| Total Expenditures | 727,166 | 747,486 | - | - | 1,474,652 |
| Excess (Deficiency) of Receipts Over Expenditures | - | 14,720 | (457) | 5,500 | 19,763 |
| Net Assets at Beginning of Year | | 60,106 | 2,302 | 20,432 | 82,840 |
| Prior Period Adjustment | - | - | (1,845) | - | (1,845) |
| Net Assets at Beginning of Year as Restated | - | 60,106 | 457 | 20,432 | 80,995 |
| Net Assets at End of Year | \$ - | \$ 74,826 | \$ - | \$ 25,932 | \$ 100,758 |
| Net Assets Consisted of: | | | | | |
| Cash and Cash Equivalents | \$ 620 | \$ 74,826 | \$ - | \$ - | \$ 75,446 |
| Benefit Interest in the Community Foundation | - | - | - | 25,932 | 25,932 |
| | 620 | 74,826 | - | 25,932 | 101,378 |
| Less: Due to the State | 620 | - | - | - | 620 |
| | \$ - | \$ 74,826 | \$ - | \$ 25,932 | \$ 100,758 |

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

Montgomery County Partnership for Children
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 | Participant Training Expenditures |
|--------------------------------------------|-------------------|-------------------|--------------------------------|---------------------------------------|---------------------------------------------|---------------------------------------------------------|----------------------------------------------|--------------------------------------------|--------------------------------------------------|
| Smart Start Fund: | | | | | | | | | |
| Programs: | | | | | | | | | |
| Child Care and Education Quality | \$ 222,744 | \$ 59,129 | \$ 415 | \$ 9,727 | \$ 20,102 | \$ 42,443 | \$ 188 | \$ 79,256 | \$ 11,484 |
| Family Support | 110,818 | 74,902 | 415 | 2,181 | 12,085 | 6,062 | 194 | 14,979 | - |
| More at Four | 244,924 | 60,146 | 680 | 3,192 | 8,020 | 4,962 | 4,469 | 162,764 | 691 |
| | <u>578,486</u> | <u>194,177</u> | <u>1,510</u> | <u>15,100</u> | <u>40,207</u> | <u>53,467</u> | <u>4,851</u> | <u>256,999</u> | <u>12,175</u> |
| Support: | | | | | | | | | |
| Management and General | 123,680 | 93,570 | 5,750 | 2,560 | 9,456 | 12,264 | 80 | - | - |
| Program Coordination | 25,000 | 6,377 | 14,937 | 730 | 2,466 | 490 | - | - | - |
| | <u>148,680</u> | <u>99,947</u> | <u>20,687</u> | <u>3,290</u> | <u>11,922</u> | <u>12,754</u> | <u>80</u> | <u>-</u> | <u>-</u> |
| Total Smart Start Fund Expenditures | <u>\$ 727,166</u> | <u>\$ 294,124</u> | <u>\$ 22,197</u> | <u>\$ 18,390</u> | <u>\$ 52,129</u> | <u>\$ 66,221</u> | <u>\$ 4,931</u> | <u>\$ 256,999</u> | <u>\$ 12,175</u> |
| Other Funds: | | | | | | | | | |
| Programs: | | | | | | | | | |
| Child Care and Education Quality | \$ 20,054 | \$ 5,000 | \$ - | \$ 500 | \$ 3,527 | \$ - | \$ 11,027 | \$ - | \$ - |
| Family Support | 10,385 | - | - | 70 | - | - | - | 10,315 | - |
| Health and Safety | 1,547 | - | - | - | 70 | - | - | 1,477 | - |
| More at Four | 695,913 | - | - | 1,021 | - | - | - | 694,892 | - |
| | <u>727,899</u> | <u>5,000</u> | <u>-</u> | <u>1,591</u> | <u>3,597</u> | <u>-</u> | <u>11,027</u> | <u>706,684</u> | <u>-</u> |
| Support: | | | | | | | | | |
| Fund Raising | 143 | - | - | - | - | 143 | - | - | - |
| Management and General | 16,737 | - | 12,150 | 206 | 1,505 | 381 | 2,295 | 200 | - |
| | <u>16,880</u> | <u>-</u> | <u>12,150</u> | <u>206</u> | <u>1,505</u> | <u>524</u> | <u>2,295</u> | <u>200</u> | <u>-</u> |
| Other: | | | | | | | | | |
| Sales Tax Paid | 2,707 | - | - | 2,707 | - | - | - | - | - |
| Total Other Funds Expenditures | <u>\$ 747,486</u> | <u>\$ 5,000</u> | <u>\$ 12,150</u> | <u>\$ 4,504</u> | <u>\$ 5,102</u> | <u>\$ 524</u> | <u>\$ 13,322</u> | <u>\$ 706,884</u> | <u>\$ -</u> |

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

Montgomery County Partnership for Children
Notes to Financial Statements
June 30, 2007

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

- A. Organization and Purpose** – The Montgomery County Partnership for Children (Montgomery County Partnership) is a legally separate nonprofit organization incorporated on October 4, 1994. The Montgomery County Partnership was established to develop and provide, through public and private means, early childhood education and developmental services for children and families. The Montgomery County 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 Montgomery County 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 SFAS No. 117, 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.

Permanently restricted net assets include gifts and contributions that are limited by donor-imposed stipulations that neither expire with the passage of time nor can be fulfilled or otherwise removed by actions of the Montgomery County Partnership. The net assets are invested in perpetuity with only the income from such investments available for program operations.

- 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 does not recognize the value of contributed goods and services; it recognizes revenue when received rather than when earned; and it recognizes expenditures when paid rather than when incurred.

However, unexpended advances to contractors that revert back to the State of North Carolina are recognized as a reduction to expenditures and an increase to net assets. Amounts withheld from employee paychecks or other amounts received in an agency capacity are recorded as funds held for others. In addition, Smart Start funds advanced to the Montgomery County Partnership that are unexpended and unearned at year-end are recorded as a Due to the State.

Montgomery County Partnership for Children
Notes to Financial Statements
June 30, 2007

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- D. Cash and Cash Equivalents** – This classification appears on the Statement of Receipts, Expenditures, and Net Assets – Modified Cash Basis and includes all demand and savings accounts and certificate of deposits or short-term investments with an original maturity of three months or less.
- E. Benefit Interest in Community Foundation** – This classification consists of funds invested with the North Carolina Community Foundation, Inc. as reported in Note 10. The amounts shown in the permanently restricted column of Exhibit A represent the irrevocable principal in an endowment fund as described more fully in Note 10B.
- 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, Montgomery County Partnership is required by contract regulation to track and maintain property and equipment items as presented in Schedule 4 of this report. The Montgomery County 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.
- I. Use of Estimates** – The preparation of financial statements in conformity with the modified cash basis of accounting used by the Montgomery County 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.

Montgomery County Partnership for Children
Notes to Financial Statements
June 30, 2007

NOTE 2 - DEPOSITS

All funds of the Montgomery County 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 Montgomery County Partnership to a concentration of credit risk. At June 30, 2007, the Montgomery County Partnership's bank deposits were in excess of the FDIC insured limit of \$39,003.

NOTE 3 - FUNDING FROM GRANT AWARDS

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

Associated with these contracts, the Montgomery County 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 may enter into contracts with and make payments to service providers selected by the Montgomery County 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 is presented on Schedule 2 accompanying the financial statements.

The Montgomery County Partnership was awarded and has received \$727,466 under a current year Smart Start contract with NCPC. The unexpended balance of this contract is subject to reversion to the State. The Montgomery County Partnership has returned \$300 of this contract to the State based on financial status reports submitted to NCPC subsequent to June 30, 2007.

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

More at Four – The Montgomery County Partnership also received revenue and support from the State of North Carolina for the More at Four Program. The Montgomery County Partnership was awarded \$709,166 and received \$695,532 under a current year contract.

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

Montgomery County Partnership for Children
Notes to Financial Statements
June 30, 2007

NOTE 3 - FUNDING FROM GRANT AWARDS (CONTINUED)

DCD Block Grant (Regional Child Care Resource and Referral) – The Montgomery County Partnership also received revenue and support from the State of North Carolina based on a cost-reimbursement contract with Child Care Connections (Regional Lead Agency), Southern Pines, NC as part of the Regional Child Care Resource and Referral (CCR&R) Program. The Montgomery County Partnership was awarded \$9,026 under a current year contract and was reimbursed \$8,447 from a prior year contract for a total amount received in the current year of \$17,473 with Child Care Connections. The Montgomery County Partnership expects to receive continued funding through new Regional CCR&R contracts with Child Care Connections.

NOTE 4 - RELATED PARTY TRANSACTIONS

Service Provider Contracts with Board Member Organizations – The board members of the Montgomery County Partnership are representative of various organizations that benefit from actions taken by the Board. It is the policy of the Montgomery County Partnership that board members not be involved with decisions regarding organizations they represent. During the year, the Montgomery County Partnership entered into contracts with board member organizations for program activities as identified on Schedule 1 accompanying the financial statements.

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 child care resource and referral services, professional development, and salary supplements.

Family Support – Used to account for service activities including ongoing parenting education, literacy projects and community outreach, and information and resources.

Health and Safety – Used to account for service activities including family resource centers, and community outreach information and resources.

More at Four – Used to account for development and implementation of the More at Four Pre-Kindergarten Program for at-risk four-year-olds who are at risk of failure in kindergarten. The goal is to provide quality pre-kindergarten services in order to enhance kindergarten readiness.

Montgomery County Partnership for Children
Notes to Financial Statements
June 30, 2007

NOTE 5 - FUNCTIONAL EXPENDITURES (CONTINUED)

B. Support Functions

Fund Raising – Expenditures that are incurred in inducing others to contribute money, securities, time, materials, or facilities for which the contributor will receive no direct economic benefit.

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:

Other Costs – Other costs including occupancy cost (rent, utilities and maintenance), supplies and materials, and communication costs (telephone and printing) were directly allocated based on utilization data.

NOTE 6 - OPERATING LEASE OBLIGATIONS

Operating Lease Obligations – Future minimum lease payments under noncancelable operating leases consist of the following at June 30, 2007:

| <u>Fiscal Year</u> | <u>Operating Leases</u> |
|-------------------------------------|-----------------------------|
| 2008 | \$ 58,800 |
| 2009 | 58,800 |
| Total Minimum Lease Payments | \$ 117,600 |

Rental expense for all operating leases during the year was \$58,800.

Montgomery County Partnership for Children
Notes to Financial Statements
June 30, 2007

NOTE 7 - PENSION PLAN

Retirement Plans – The Montgomery County Partnership has a Simplified Employee Pension plan (SEP Plan) covering all full-time employees. Each full-time employee of the Montgomery County Partnership, as a condition of employment, is provided an Individual Retirement Account through an outside insurance company. The Montgomery County Partnership contributed 12% of gross wages for the year ended June 30, 2007. The Montgomery County Partnership does not own the accounts, nor is it liable for any other cost other than the required contribution. The Montgomery County Partnership contributed \$22,871 for pension benefits during the year.

NOTE 8 - RISK MANAGEMENT

The Montgomery County 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 Montgomery County 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 Montgomery County 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 Montgomery County 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, 2007, is \$9,101. No funds or reservation of net assets has been made for this commitment.

Montgomery County Partnership for Children
Notes to Financial Statements
June 30, 2007

NOTE 10 - RESTRICTIONS ON NET ASSETS

- A. 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:

| <u>Purpose</u> | <u>Amount</u> |
|----------------|---------------|
| Alandale BFK | <u>\$ 457</u> |

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

| <u>Purpose</u> | <u>Amount</u> |
|----------------|------------------|
| MCPC Endowment | <u>\$ 25,932</u> |

Montgomery County Partnership for Children Endowment Fund
(Endowment) through North Carolina Community Foundation
(Foundation):

The Endowment shall be devoted to the support of Montgomery County Partnership for Children and its programs.

The agreement between Montgomery County Partnership and the Foundation provides that all contributions to the Endowment are irrevocable. The Endowment, including all investment income, capital gains, and subsequent contributions, are the Foundation's property. The Foundation will make annual distributions of the income earned on the Endowment, subject to the Foundation's spending policy and the Montgomery County Partnership's discretion. The Foundation may distribute all or any part of the Endowment at the Foundation's discretion; however, it is the Foundation's general policy that a substantial part of the Endowment remains as a permanent Endowment of the Foundation. The agreement also permits the Foundation to substitute another beneficiary in place of the Montgomery County Partnership if the organization ceases to exist. Therefore, the Montgomery County Partnership has explicitly granted variance power to the Foundation. The Montgomery County Partnership's endowment position is identified on the Statement of Receipts, Expenditures, and Net Assets – Modified Cash Basis as a Benefit Interest in the Foundation. For the year ended June 30, 2007, the Montgomery County Partnership waived the receipt of its annual income distribution, electing for those monies to be added to its existing Endowment balance. At June 30, 2007 the Endowment had a market value of \$30,124.

Montgomery County Partnership for Children
Notes to Financial Statements
June 30, 2007

NOTE 11 - RECLASSIFICATION OF NET ASSETS

During the year ended June 30, 2007, it was determined that certain assets were incorrectly classified as temporarily restricted at June 30, 2006. These amounts, totaling \$1,845 have been reclassified through a prior period adjustment on Exhibit A.

Montgomery County Partnership for Children
Schedule of Contract and Grant Expenditures – Modified Cash Basis
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> | | | | |
| Buckle Up Signs | \$ - | \$ - | \$ 270 | \$ - |
| Candor Elementary MAF* | - | - | 409 | - |
| ECE Specialist Montgomery Community College* | 46,343 | - | - | - |
| Highland Community Center * | - | - | 100 | - |
| Kountry Kids | 12,572 | - | 83,197 | - |
| Kountry Kids Learning Center* | 14,553 | - | - | - |
| Little Friends of Troy | 20,553 | - | 59,047 | - |
| Montgomery County Schools* | 90,540 | - | 551,776 | - |
| Mt. Gilead Elementary | - | - | 200 | - |
| Sandhills Regional Library* | 6,500 | - | - | - |
| Star-Biscoe Elementary | - | - | 163 | - |
| Troy Elementary | - | - | 100 | - |
| | <u>191,061</u> | <u>-</u> | <u>695,262</u> | <u>-</u> |
| <i>Paid to Individuals:</i> | | | | |
| Books for Kids | - | - | 1,824 | - |
| Bike Helmets | - | - | 375 | - |
| Bright and Beyond Activity Decks | 2,719 | - | - | - |
| BTL | 100 | - | 100 | - |
| Car Seats | 5,518 | - | - | - |
| Education Incentive Supplements | 29,200 | - | - | - |
| DNA ID Kits | 0 | - | 804 | - |
| Imagination Library Books | 7,937 | - | 7,966 | - |
| Kindergarten Transition Calenders | 507 | - | - | - |
| More at Four Stipends | 1,320 | - | - | - |
| My ABC Journals | 89 | - | - | - |
| Parade Outreach Materials | 609 | - | - | - |
| Pregnancy Fair Door Prize | 75 | - | - | - |
| Provider Appreciation Gifts | 1,567 | - | - | - |
| Safe Kids Materials | 0 | - | 553 | - |
| Regional Conference* | 2,269 | - | - | - |
| School Readiness Backpacks | 14,028 | - | - | - |
| WPYC Prizes | 124 | - | 1,832 | - |
| | <u>65,938</u> | <u>-</u> | <u>11,622</u> | <u>-</u> |
| | <u>\$ 256,999</u> | <u>\$ -</u> | <u>\$ 706,884</u> | <u>\$ -</u> |

* These organizations are represented on the Montgomery County Partnership's Board as described in Note 4 - Service Provider Contracts with board member organizations.

Montgomery County Partnership for Children
Schedule of Federal and State Awards – Modified Cash Basis
Year Ended June 30, 2007

Schedule 2

| Federal/State Grantor/Pass-through Grantor/Program | Federal CFDA Number | Contract # | Receipts | Expenditures |
|---------------------------------------------------------------|------------------------------------|-------------------|---------------------|---------------------|
| Federal Awards: | | | | |
| North Carolina Division of Child Development | | | | |
| Child Care Connections of Moore County | | | | |
| DCD Region 6 Block Grant | | 0506-162 | \$ 8,447 | \$ 8,447 |
| DCD Region 6 Block Grant | | 306-362 | 9,026 | 9,026 |
| Total Federal Awards | | | <u>17,473</u> | <u>17,473</u> |
| State Awards: | | | | |
| North Carolina Department of Health and Human Services | | | | |
| Division of Child Development | | | | |
| Early Childhood Incentives Program * | | NA | 727,166 | 727,166 |
| Multi-County Accounting and Contracting Grant | | NA | 12,000 | 12,000 |
| North Carolina Department of Public Instruction | | | | |
| Office of School Readiness | | | | |
| More at Four Pre-Kindergarten Program * | | 0054-07 | 695,532 | 695,913 |
| Total State Awards | | | <u>1,434,698</u> | <u>1,435,079</u> |
| Total Federal and State Awards | | | <u>\$ 1,452,171</u> | <u>\$ 1,452,552</u> |

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

***Montgomery County Partnership for Children
Schedule of Property and Equipment – Modified Cash Basis
Year Ended June 30, 2007***

Schedule 3

| | |
|-------------------------------------|--------------------------|
| Furniture and Noncomputer Equipment | \$ 72,304 |
| Computer Equipment/Printers | 52,401 |
| Leasehold Improvements | <u>780</u> |
| Total Property and Equipment | <u>\$ 125,485</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 Montgomery County Partnership at year-end. The valuations represent historical cost. On the modified basis of accounting, these items are expensed in the year of purchase.

Montgomery County Partnership for Children
Schedule of Qualifying Match (Non-GAAP)
Year Ended June 30, 2007

Schedule 4

Match Provided at the Partnership Level:

| | |
|----------------------------|------------------|
| Cash | \$ 28,015 |
| In-Kind Goods and Services | <u>50,798</u> |
| | <u>\$ 78,813</u> |

Match Provided at the Contractor Level:

| | |
|----------------------------|------------------|
| Cash | \$ 66,742 |
| In-Kind Goods and Services | <u>14</u> |
| | <u>\$ 66,756</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.

**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
Montgomery County Partnership for Children
Troy, North Carolina

We have audited the financial statements of the Montgomery County Partnership for Children (Montgomery County Partnership) as of and for the year ended June 30, 2007, and have issued our report thereon dated June 30, 2008. 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 Montgomery County 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 Montgomery County Partnership's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Montgomery County Partnership's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency.

**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 (CONTINUED)**

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 Montgomery County 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 Montgomery County Partnership's financial statements that is more than inconsequential will not be prevented or detected by the Montgomery County Partnership's internal control. We consider the deficiency described in the accompanying schedule of audit findings and responses as Finding 2007-1 to be a significant deficiency in internal control over financial reporting.

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 Montgomery County Partnership's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify the deficiency in the internal control that might be a significant deficiency and, accordingly, would not necessarily disclose a significant deficiency that is also considered to be material weaknesses. However, we believe that the significant deficiency described above is not a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Montgomery County 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 *Governmental Auditing Standards*.

Montgomery County Partnership's response to the finding identified in our audit is described in the accompanying schedule of audit findings and responses. We did not audit Montgomery County Partnership's response and, accordingly, we express no opinion on it.

**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)**

This report is intended solely for the information and use of the Montgomery County Partnership's Board of Directors, management of the Montgomery County 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.

Clifton Henderson LLP

Raleigh, North Carolina
June 30, 2008

***Montgomery County Partnership for Children
Audit Findings and Responses
Year Ended June 30, 2007***

Matters Related to Financial Reporting

The following findings and responses were identified during the current audit and describe conditions that represent significant deficiencies in internal control or noncompliance with laws, regulations, contracts, and grant agreements.

2007-1, ACCOUNTING FOR ENDOWMENT FUND TRANSACTIONS

During the course of our audit, we discovered a misstatement related to accounting for temporarily restricted net assets that required a reclassification of temporarily restricted net assets at June 30, 2006.

Partnership Response:

The Partnership was advised by its previous auditors as to how to properly account for permanently restricted net assets and temporarily restricted net assets, specific to the Partnership's Endowment and related annual investment earnings. The Partnership did not independently implement the current accounting procedures, but rather recorded the audit adjustments given to it by its external auditors at the conclusion of its most recent audit engagement performed by an independent CPA. The Partnership's Board and management are troubled by the lack of consistency among CPA firms and strongly disagree that the reclassification referenced above represents a significant, reportable deficiency in internal control or noncompliance with laws, regulations, contracts, or grant agreements.

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