

**FINANCIAL STATEMENT AUDIT REPORT OF
CHILDREN'S COUNCIL OF WATAUGA COUNTY, INC.**

BOONE, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2008

**PERFORMED UNDER CONTRACT WITH THE
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

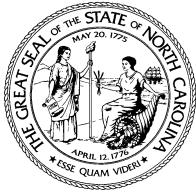
FOR THE YEAR ENDED JUNE 30, 2008

BOARD OF DIRECTORS

LAILA PATRICK, BOARD 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 the Children's Council of Watauga County, Inc. for the year ended June 30, 2008. Tichenor & Associates, LLP performed the audit under contract with the Office of the State Auditor, and their report is submitted herewith.

You will note from the independent auditor's report that the auditor determined that the financial statements are presented fairly in all material aspects. The results of their tests disclosed no deficiencies in internal control over financial reporting that were considered to be material weaknesses in relation to their audit scope or any instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

Leslie W. Merritt, Jr.

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

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
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, 2008, 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 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 Watauga Partnership as of June 30, 2008, and the results of its operations arising from modified cash basis transactions for the year then ended, on the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 30, 2008, 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, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Watauga Partnership'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

October 30, 2008

Children's Council of Watauga County, Inc.
Statement of Receipts, Expenditures, and Net Assets - Modified Cash Basis
For the Year Ended June 30, 2008

Exhibit A

	Unrestricted Funds		Temporarily Restricted Funds	Total Funds
	Smart Start Fund	Other Funds		
Receipts:				
State Awards	\$ 356,137	\$ 11,665	\$ 0	\$ 367,802
Federal Awards		50,838		50,838
Local Awards		35,000		35,000
Private Contributions		41,884	1,708	43,592
Special Fund Raising Events		300	30	330
Interest and Investment Earnings		226		226
Sales Tax Refunds		1,958		1,958
Other Receipts		5,335		5,335
Total Receipts	356,137	147,206	1,738	505,081
Net Assets Released from Restrictions:				
Satisfaction of Program Restrictions		5,285	(5,285)	
	356,137	152,491	(3,547)	505,081
Expenditures:				
Programs:				
Child Care and Education Quality	116,421	43,371		159,792
Family Support	103,516	85,775		189,291
Health and Safety	17,500	878		18,378
Support:				
Management and General	110,700	18,271		128,971
Program Coordination	8,000	4,000		12,000
Other:				
Sales Tax Paid		2,060		2,060
Total Expenditures	356,137	154,355	0	510,492
Excess of Receipts Over Expenditures	0	(1,864)	(3,547)	(5,411)
Net Assets at Beginning of Year	0	30,897	5,285	36,182
Net Assets at End of Year	\$ 0	\$ 29,033	\$ 1,738	\$ 30,771
Net Assets Consisted of:				
Cash and Cash Equivalents	\$ 0	\$ 29,033	\$ 1,738	\$ 30,771

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, 2008

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	\$ 116,421	\$ 69,854	\$ 0	\$ 8,867	\$ 9,980	\$ 21,630	\$ 6,090	\$ 0
Family Support	103,516	39,201		30,364	12,381	9,609	1,961	10,000
Health and Safety	17,500							17,500
	<u>237,437</u>	<u>109,055</u>	<u>0</u>	<u>39,231</u>	<u>22,361</u>	<u>31,239</u>	<u>8,051</u>	<u>27,500</u>
Support:								
Management and General	110,700	55,716	36,877	1,381	8,666	5,273	2,787	
Program Coordination	8,000	8,000						
	<u>118,700</u>	<u>63,716</u>	<u>36,877</u>	<u>1,381</u>	<u>8,666</u>	<u>5,273</u>	<u>2,787</u>	<u>0</u>
Total Smart Start Fund Expenditures	<u>\$ 356,137</u>	<u>\$ 172,771</u>	<u>\$ 36,877</u>	<u>\$ 40,612</u>	<u>\$ 31,027</u>	<u>\$ 36,512</u>	<u>\$ 10,838</u>	<u>\$ 27,500</u>
Other Funds:								
Programs:								
Child Care and Education Quality	\$ 43,371	\$ 36,659	\$ 0	\$ 2,535	\$ 3,595	\$ 517	\$ 65	\$ 0
Family Support	85,775	60,000	4,945	1,256	7,298	586	8,039	3,651
Health and Safety	878	828				50		
	<u>130,024</u>	<u>97,487</u>	<u>4,945</u>	<u>3,791</u>	<u>10,893</u>	<u>1,153</u>	<u>8,104</u>	<u>3,651</u>
Support:								
Management and General	18,271	4,943	10,306	75	2,636	36	275	
Program Coordination	4,000		4,000					
	<u>22,271</u>	<u>4,943</u>	<u>14,306</u>	<u>75</u>	<u>2,636</u>	<u>36</u>	<u>275</u>	<u>0</u>
Other:								
Sales Tax Paid	2,060			2,060				
Total Other Funds Expenditures	<u>\$ 154,355</u>	<u>\$ 102,430</u>	<u>\$ 19,251</u>	<u>\$ 5,926</u>	<u>\$ 13,529</u>	<u>\$ 1,189</u>	<u>\$ 8,379</u>	<u>\$ 3,651</u>

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, 2008

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 9, 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, 2008.

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 certificates of deposit or short-term investments with an original maturity of three months or less.
- E. Property and Equipment** - Under the modified cash basis of accounting, purchases of property and equipment are reported as expenditures in the year purchased. 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, 2008. Donated items are recorded at estimated fair market value at the date of donation.
- F. 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.
- G. 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 \$356,137 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 expended all funds received for this contract based on financial status reports submitted to NCPC subsequent to June 30, 2008.

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 and has received \$369,450 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 this contract is approved for carry forward to the subsequent year. The Watauga Partnership 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 Quality - Used to account for service activities including child care resource and referral 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.

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 as to the delivery of services and adherence to the specific terms and conditions of the contracts.

C. Allocation of Joint Costs

Expenditures benefiting more than one purpose were allocated as follows:

Salaries and Benefits - Direct allocation based on employee time reports.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Other Costs - Other costs associated with 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, 2008:

<u>Fiscal Year</u>	<u>Operating Lease</u>
2009	\$ 24,030
2010	22,380
2011	22,380
2012	22,380
2013	22,380
For Years 2014-2019	111,900
For Years 2020-2024	111,900
For Years 2025-2029	<u>111,900</u>
Total Minimum Lease Payments	<u>\$ 449,250</u>

Rental expense for all operating leases during the year was \$23,000.

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 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, 2008. 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 \$5,990 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:

NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

<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, 2008, is \$12,806. No funds or reservation of net assets has been made for this commitment.

NOTE 9 - RESTRICTIONS ON NET ASSETS

A. Temporarily Restricted Net Assets - Temporarily restricted net assets at June 30, 2008, are available for the following purposes:

<u>Purpose</u>	<u>Amount</u>
Valle Fair	\$ 1,409
Wal-Mart Foundation	176
Parents As Teachers Contributions	153
	<u>\$ 1,738</u>

B. Net Assets Released From Donor Restrictions - Net assets were released from donor restrictions during the fiscal year ended June 30, 2008, by incurring expenditures satisfying the restricted purposes as follows:

<u>Purpose</u>	<u>Amount</u>
Friends of Young Mothers' Support Group	\$ 1,065
United Way - Parent Pals	938
Rumple Presbyterian Church	565
Parents as Teachers Contributions	2,717
	<u>\$ 5,285</u>

Children's Council of Watauga County, Inc.
Schedule of Contract and Grant Expenditures - Modified Cash Basis
For the Year Ended June 30, 2008

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	* \$ 17,500	\$ 0	\$ 0	\$ 0
Greenway Child Development Center			1,063	
Merryland			472	
Sugar Grove Development Day School			833	
The Children's Playhouse, Inc.	10,000			
	<u>27,500</u>	<u>0</u>	<u>2,368</u>	<u>0</u>
<i>Paid to Individuals:</i>				
Child Care Expense Reimbursements			983	
Scholarships/Bonus Awards			300	
			<u>1,283</u>	
	<u>\$ 27,500</u>	<u>\$ 0</u>	<u>\$ 3,651</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, 2008

Schedule 2

Organization Name	DHHS Contracts
Child Care Services Association - WAGE\$	\$ 50,000
Watauga County Department of Social Services *	134,000
	<u>\$ 184,000</u>

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

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

Children's Council of Watauga County, Inc.
Schedule of Federal and State Awards - Modified Cash Basis
For the Year Ended June 30, 2008

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.				
Child Care and Development Block Grant (Prior Year)	93.575	312-WAT	\$ 6,145	\$ 0
Child Care and Development Block Grant (Current Year)	93.575	407-WAT	36,659	36,659
US Department of Health and Human Services				
Administration for Children and Families				
Early Learning Opportunitites Act - Project C.H.I.L.D. Program	93.577	90LO0179	8,034	7,784
Total Federal Awards			<u>\$ 50,838</u>	<u>\$ 44,443</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		* N/A	\$ 356,137	\$ 356,137
Multi-County Accounting and Contracting Grant		N/A	11,665	11,665
Total State Awards			<u>367,802</u>	<u>367,802</u>
Total Federal and State Awards			<u>\$ 418,640</u>	<u>\$ 412,245</u>

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

Children's Council of Watauga County, Inc.
Schedule of Property and Equipment - Modified Cash Basis
For the Year Ended June 30, 2008

Schedule 4

Furniture and Noncomputer Equipment	\$	2,537
Computer Equipment/Printers		38,143
Motor Vehicles		<u>68,589</u>
Total Property and Equipment	\$	<u><u>109,269</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, 2008

Schedule 5

Match Provided at the Partnership Level:

Cash	\$	78,323
In-Kind Goods and Services		<u>1,578</u>
	\$	<u>79,901</u>

Match Provided at the Contractor Level:

Cash	\$	8,010
In-Kind Goods and Services		<u>4,308</u>
	\$	<u>12,318</u>

Note: This schedule is presented in accordance with the program match requirement as provided for by North Carolina Session Law 2007-323, Section 10.19(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
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, 2008, and have issued our report thereon dated October 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 Watauga 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 Watauga Partnership's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Watauga 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 Watauga 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 Watauga Partnership's financial statements that is more than inconsequential will not be prevented or detected by the Watauga 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 Watauga 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 all deficiencies in the 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 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 management of the Watauga Partnership, the Watauga Partnership's Board of Directors, others within the Partnership, The North Carolina Partnership for Children, Inc., the Governor, and the General Assembly and is not intended to be and should not be used by anyone other than these specified parties.

Tichenor & Associates, LLP

Tichenor & Associates, LLP

October 30, 2008

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