



STATE OF NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT OF
DAVIE COUNTY PARTNERSHIP FOR CHILDREN, INC.
MOCKSVILLE, NORTH CAROLINA
FOR THE YEAR ENDED JUNE 30, 2003

OFFICE OF THE STATE AUDITOR

RALPH CAMPBELL, JR.

STATE AUDITOR

FINANCIAL STATEMENT AUDIT REPORT OF
DAVIE COUNTY PARTNERSHIP FOR CHILDREN, INC.

MOCKSVILLE, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2003

BOARD OF DIRECTORS

ED MORSE, BOARD CHAIR

ADMINISTRATIVE OFFICER

PEGGY NUCKOLLS, EXECUTIVE DIRECTOR



Ralph Campbell, Jr.
State Auditor

STATE OF NORTH CAROLINA
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AUDITOR'S TRANSMITTAL

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

This report presents the results of our financial statement audit of the Davie County Partnership for Children, Inc. (Davie Partnership) for the year ended June 30, 2003. Our audit was made by authority of Article 5A of Chapter 147 of the General Statutes.

The accounts and operations of the Davie Partnership were subject to audit procedures as we considered necessary for us to report on the accompanying financial statements and supplementary information. The audit procedures were conducted in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards* issued by the Comptroller General of the United States.

The audit of the Davie Partnership was made in conjunction with the Early Childhood Initiatives (Smart Start) program authorized by General Statutes 143B-168.10-.16. These statutes created the North Carolina Partnership for Children, Inc. and required the implementation of local demonstration projects (local partnerships). The Davie Partnership is one of these local partnerships. As such, the Davie Partnership is a private nonprofit 501(c)(3) organization and is required by General Statute 143B-168.14(b) to have a financial and compliance audit conducted by the State Auditor.

The purpose of this report is to present the results of our audit on the accompanying financial statements. A summary of our reporting objectives and audit results are:

- 1. Objective** – To express an opinion on the accompanying financial statements and supplementary information.

Results – The accompanying financial statements present fairly, in all material respects, the amounts and disclosures made in accordance with the modified cash basis of accounting, a comprehensive basis of accounting other than generally accepted accounting principles. The accompanying supplementary information presents information that is fairly stated in all material respects in relation to the basic financial statements.

AUDITOR'S TRANSMITTAL (CONCLUDED)

2. **Objective** – To present significant deficiencies, if any, in internal control over financial reporting which could adversely affect the Davie Partnership's ability to record, process, summarize, and report financial data in the financial statements and present instances of noncompliance, if any, with laws, regulations, contracts, or grants.

Results - Our tests disclosed no material weaknesses in the internal control over financial reporting and no instances of noncompliance that require disclosure herein 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.



Ralph Campbell, Jr.
State Auditor

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Ralph Campbell, Jr.
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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Davie County Partnership for Children, Inc.
Mocksville, North Carolina

We have audited the accompanying Statement of Receipts, Expenditures, and Net Assets – Modified Cash Basis of the Davie County Partnership for Children, Inc. (Davie Partnership) as of June 30, 2003, and the related Statement of Functional Expenditures – Modified Cash Basis for the year then ended. These financial statements are the responsibility of the Davie 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 generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets of the Davie County Partnership for Children, Inc. as of June 30, 2003, and the results of its operations 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 September 23, 2003 on our consideration of the Davie Partnership's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with the independent auditor's report in considering the results of our audit.

INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

Our audit was made for the purpose of forming an opinion on the basic financial statements of the Davie County Partnership for Children, Inc. taken as a whole. The accompanying supplementary schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. The information in these schedules has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the management of 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.



Ralph Campbell, Jr.
State Auditor

September 23, 2003

Davie County Partnership for Children, Inc.

Statement of Receipts, Expenditures, and Net Assets - Modified Cash Basis

For the Year Ended June 30, 2003

Exhibit A

	Unrestricted Funds		Temporarily Restricted Funds	Total Funds
	Smart Start Fund	Other Funds		
Receipts:				
State Awards (less refunds of \$17,426)	\$ 402,934	\$ 13,601	\$ 0	\$ 416,535
Private Contributions		11,165	5,536	16,701
Special Fund Raising Events		804		804
Sales Tax Refunds		483		483
Total Receipts	402,934	26,053	5,536	434,523
Expenditures:				
Programs:				
Child Care and Education Quality	196,959	1,104		198,063
Health and Safety	65,499			65,499
Family Support	41,403	5,664		47,067
Support:				
Management and General	105,959	10,734		116,693
Other:				
Sales Tax Paid		528		528
Total Expenditures	409,820	18,030		427,850
Excess of Receipts Over Expenditures	(6,886)	8,023	5,536	6,673
Net Assets at Beginning of Year	17,427	1,462		18,889
Net Assets at End of Year	\$ 10,541	\$ 9,485	\$ 5,536	\$ 25,562
Net Assets Consisted of:				
Cash and Cash Equivalents	\$ 6,258	\$ 9,485	\$ 5,536	\$ 21,279
Refunds Due From Contractors	4,283			4,283
	\$ 10,541	\$ 9,485	\$ 5,536	\$ 25,562

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

Davie County Partnership for Children, Inc.
Statement of Functional Expenditures - Modified Cash Basis
For the Year Ended June 30, 2003

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	\$ 196,959							196,959	
Health and Safety	\$ 65,499							65,499	
Family Support	\$ 41,403							41,403	
	\$ 303,861	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 303,861	\$ 0
Support:									
Management and General	\$ 105,959	\$ 87,520	\$ 1,205	\$ 2,125	\$ 10,439	\$ 2,876	\$ 1,794	\$ 0	\$ 0
Total Smart Start Fund Expenditures	\$ 409,820	\$ 87,520	\$ 1,205	\$ 2,125	\$ 10,439	\$ 2,876	\$ 1,794	\$ 303,861	\$ 0
Other Funds:									
Programs:									
Child Care and Education Quality	\$ 1,104			714		90		300	
Family Support	\$ 5,664			4,779	885				
	\$ 6,768	\$ 0	\$ 0	\$ 5,493	\$ 885	\$ 90	\$ 0	\$ 300	\$ 0
Support:									
Management and General	\$ 10,734	\$ 0	\$ 9,859	\$ 413	\$ 462	\$ 0	\$ 0	\$ 0	\$ 0
Other:									
Sales Tax Paid	\$ 528	\$ 0	\$ 0	\$ 528	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Total Other Funds Expenditures	\$ 18,030	\$ 0	\$ 9,859	\$ 6,434	\$ 1,347	\$ 90	\$ 0	\$ 300	\$ 0

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

DAVIE COUNTY PARTNERSHIP FOR CHILDREN, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

- A. Organization and Purpose** - The Davie County Partnership for Children, Inc. (Davie Partnership) is a legally separate nonprofit organization incorporated on November 24, 1997. The Davie Partnership was established to develop and provide, through public and private means, early childhood education and developmental services for children and families. The Davie 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 Davie 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 Davie Partnership did not have any permanently restricted net assets at June 30, 2003.

- C. Basis of Accounting** - The accompanying financial statements were prepared on the modified cash basis of accounting. This basis differs from generally accepted accounting principles 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 are recognized as a reduction to expenditures and an increase to net assets.

D. Cash and Cash Equivalents – This classification appears on the Statement of Receipts, Expenditures, and Net Assets – Modified Cash Basis and consists of cash on deposit with private bank accounts.

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.

NOTE 2 - DEPOSITS

All funds of the Davie 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 Davie Partnership to a concentration of credit risk. At June 30, 2003, the Davie Partnership's bank deposits in excess of the FDIC insured limit was \$53,505.

NOTE 3 - FUNDING FROM GRANT AWARDS

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

Associated with these contracts, the Davie 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 Department of Health and Human Services (DHHS) entered into contracts with and made payments to service providers selected by the Davie 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 Davie Partnership was awarded and has received \$420,360 under a current year Smart Start contract with NCPC. The unexpended balance of this

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

contract is subject to reversion to the State. The Partnership has returned \$10,541 of this contract to the State based on financial status reports submitted to NCPC subsequent to June 30, 2003.

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

NOTE 4 - RELATED PARTY TRANSACTIONS

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

A. Program Functions

Child Care and Education Quality - Used to account for service activities including quality enhancement grants for upgrades, professional development, learning materials and teaching aids, and community planning for school readiness.

Health and Safety - Used to account for service activities including child care health consultants/outreach nurses and special needs – early intervention services.

Family Support - Used to account for service activities including general family support and community outreach.

NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

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.

NOTE 6 - PENSION PLAN

The Davie Partnership did not have a pension plan in place for its employees. However, each employee of the Davie Partnership is provided, as part of the benefit package, an additional 5% of his/her salary to be applied to an individual retirement plan. The Partnership has no liability for any other cost other than the required percentage.

NOTE 7 - RESTRICTIONS ON NET ASSETS

Temporarily Restricted Net Assets - Temporarily restricted net assets at June 30, 2003 are available for the following purposes:

Purpose	Amount
Community Awareness	\$ 4,536
Kid Care Community Forum	<u>1,000</u>
	<u>\$ 5,536</u>

Davie County Partnership for Children, Inc.
Schedule of Contract and Grant Expenditures - Modified Cash Basis
For the Year Ended June 30, 2003

Schedule 1

Organization Name	Smart Start Fund		Other Funds	
	Amount Advanced	Refund Due	Amount Advanced	Refund Due
Center Point Human Services	*	5,706		
Davie County Health Department	*	102,625	(1,430)	
Davie County Schools	*	100,740	(1,965)	
Rowan Partnership for Children		94,273	(888)	
		\$ 303,344	\$ (4,283)	\$ 0 \$ 0
<i>Individuals:</i>				
Bonus Awards/Education Training Incentives		\$ 4,800	\$ 0	\$ 300 \$ 0
		\$ 308,144	\$ (4,283)	\$ 300 \$ 0
* These organizations are represented on the Partnership's Board as described in Note 4 - Service Provider Contracts with Board Member Organizations.				

***Davie County Partnership for Children
Schedule of State Level Service Provider Contracts
For the Year Ended June 30, 2003***

Schedule 2

Organization Name		DHHS Contracts
Davie County Department of Social Services	*	\$ 173,182
* 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 Department of Health and Human Services (DHHS) as described in Note 3 - Funding from Grant Awards.		

***Davie County Partnership for Children, Inc.
Schedule of State Awards - Modified Cash Basis
For the Year Ended June 30, 2003***

Schedule 3

State Grantor/Pass-through Grantor/Program	Contract #	Receipts	Expenditures
State Awards:			
North Carolina Department of Health and Human Services			
Division of Child Development			
Pass-through from the North Carolina Partnership for Children, Inc.			
Early Childhood Initiatives Program (Prior Year)	Various	\$ (14,554)	\$ 0
Early Childhood Initiatives Program (Current Year)	*	420,360	409,820
Multi-County Accounting and Contracting Grant	N/A	13,601	10,735
Capacity Building Grant	#1-12-5-10-002	(2,872)	
Total State Awards		\$ 416,535	\$ 420,555
* Programs with compliance requirements that have a direct and material effect on the financial statements.			

Davie County Partnership for Children, Inc.
Schedule of Property and Equipment
For the Year Ended June 30, 2003

Schedule 4

	Furniture and Noncomputer Equipment	\$	17,108
	Computer Equipment/Printers		11,329
	Leasehold Improvements		17,500
	Total Property and Equipment	\$	45,937
	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. On the modified cash basis of accounting, these items are expensed in the year of purchase.		

***Davie County Partnership for Children, Inc.
Schedule of Qualifying Match (Non-GAAP)
For the Year Ended June 30, 2003***

Schedule 5

Match Provided at the Partnership Level:

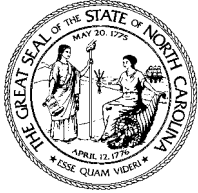
Cash	\$ 16,701
In-Kind Goods and Services	12,143
	<u>\$ 28,844</u>

Match Provided at the Contractor Level:

Cash	\$ 50,980
In-Kind Goods and Services	45,389
	<u>\$ 96,369</u>

Note: This Schedule is presented in accordance with the program match requirement as provided for by North Carolina Session Law 1999-237, Section 11.48(l). The law allows for volunteer services to be valued for match purposes, a concept that deviates from generally accepted accounting principles.

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

Board of Directors
Davie County Partnership for Children, Inc.
Mocksville, North Carolina

We have audited the financial statements of the Davie County Partnership for Children, Inc. (Davie Partnership) as of and for the year ended June 30, 2003, and have issued our report thereon dated September 23, 2003. 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.

Compliance

As part of obtaining reasonable assurance about whether the Davie Partnership's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Davie Partnership's internal control over financial reporting in order to determine our auditing procedures for the purposes of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material

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

in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the management of 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.



Ralph Campbell, Jr.
State Auditor

September 23, 2003

DISTRIBUTION OF AUDIT REPORT

In accordance with General Statutes 147-64.5 and 147-64.6(c)(14), copies of this report have been distributed to the public officials listed below. Additional copies are provided to other legislators, state officials, the press, and the general public upon request.

EXECUTIVE BRANCH

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The Honorable Beverly M. Perdue	Lieutenant Governor of North Carolina
The Honorable Richard H. Moore	State Treasurer
The Honorable Roy A. Cooper, III	Attorney General
Mr. David T. McCoy	State Budget Officer
Mr. Robert L. Powell	State Controller
Ms. Carmen Hooker Odom	Secretary, Department of Health and Human Services
Mr. Ashley Thrift	Chairman, Board of Directors North Carolina Partnership for Children, Inc.
Ms. Karen Ponder	Executive Director North Carolina Partnership for Children, Inc.

LEGISLATIVE BRANCH

Appointees to the Joint Legislative Commission on Governmental Operations

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Representative James B. Black	Speaker of the NC House of Representatives
Representative Richard Morgan	Speaker of the NC House of Representatives
Members of the Local Legislative Delegation	NC House and Senate
Mr. James D. Johnson	Director, Fiscal Research Division

October 31, 2003

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