



STATE OF NORTH CAROLINA

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

FAYETTEVILLE, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2004

OFFICE OF THE STATE AUDITOR

LESLIE W. MERRITT, JR., CPA, CFP

STATE AUDITOR

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

FAYETTEVILLE, NORTH CAROLINA

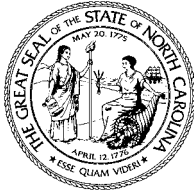
FOR THE YEAR ENDED JUNE 30, 2004

BOARD OF DIRECTORS

DR. WILLIAM T. BROWN, BOARD CHAIRMAN

ADMINISTRATIVE OFFICER

EVA L. HANSEN, EXECUTIVE DIRECTOR



STATE OF NORTH CAROLINA
Office of the State Auditor

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AUDITOR'S TRANSMITTAL

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

This report presents the results of our financial statement audit of the Partnership for Children of Cumberland County, Inc. (Cumberland Partnership), for the year ended June 30, 2004. Our audit was made by authority of Article 5A of Chapter 147 of the *North Carolina General Statutes*.

The accounts and operations of the Cumberland 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 Cumberland 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 Cumberland Partnership is one of these local partnerships. As such, the Cumberland 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 Office of 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.

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.

AUDITOR'S TRANSMITTAL (CONCLUDED)

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

Results - Our tests disclosed no significant deficiencies in the internal control over financial reporting and no instances of noncompliance or other matters that require disclosure herein under *Government Auditing Standards*.

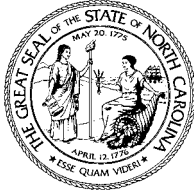
North Carolina General Statutes require the State Auditor to make audit reports available to the public. Copies of audit reports issued by the Office of the State Auditor may be obtained through one of the options listed in the back of this report.

Leslie W. Merritt, Jr.

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

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Partnership for Children of Cumberland County, Inc.
Fayetteville, North Carolina

We have audited the accompanying Statement of Receipts, Expenditures, and Net Assets – Modified Cash Basis of the Partnership for Children of Cumberland County, Inc. (Cumberland Partnership), as of June 30, 2004, and the related Statement of Functional Expenditures – Modified Cash Basis for the year then ended. These financial statements are the responsibility of the Cumberland Partnership's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets of the Partnership for Children of Cumberland County, Inc. as of June 30, 2004, 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 July 22, 2005, on our consideration of the Cumberland 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

INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

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 opinions on the financial statements that collectively comprise the Partnership for Children of Cumberland County, Inc.'s basic financial statements. The information in Schedules 1, 3, 4, and 5 is presented for purposes of additional analysis and is not a required part of the basic financial statements. These Schedules 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.



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

July 22, 2005

Partnership for Children of Cumberland County, Inc.
Statement of Receipts, Expenditures, and Net Assets - Modified Cash Basis
For the Year Ended June 30, 2004

Exhibit A

	Unrestricted Funds		Temporarily Restricted Funds	Total Funds
	Smart Start Fund	Other Funds		
Receipts:				
State Awards (less refunds of \$ 269,491)	\$ 6,219,989	\$ 1,735,454	\$ 0	\$ 7,955,443
Federal Awards		29,069	1,473	30,542
Private Contributions		28,512	654	29,166
Interest and Investment Earnings		2,315		2,315
Sales Tax Refunds		50,748		50,748
Other Receipts		178,149		178,149
Total Receipts	6,219,989	2,024,247	2,127	8,246,363
Net Assets Released from Restrictions:				
Satisfaction of Program Restrictions		15	(15)	
	6,219,989	2,024,262	2,112	8,246,363
Expenditures:				
Programs:				
Child Care and Education Affordability	965,790			965,790
Child Care and Education Quality	2,922,446	80,197		3,002,643
Family Support	782,094	115,297		897,391
Health and Safety	567,441	2,591		570,032
More at Four	318,845	1,661,185		1,980,030
Support:				
Fund Raising	37,263			37,263
Management and General	420,430	77,620		498,050
Program Coordination	21,000	311		21,311
Program Evaluation	343,284	51,415		394,699
System Integration	57,750			57,750
Other:				
Sales Tax Paid	484	41,387		41,871
Total Expenditures	6,436,827	2,030,003		8,466,830
Excess of Receipts Over Expenditures	(216,838)	(5,741)	2,112	(220,467)
Net Assets at Beginning of Year	265,826	65,397	(1,358)	329,865
Net Assets at End of Year	\$ 48,988	\$ 59,656	\$ 754	\$ 109,398
Net Assets Consisted of:				
Cash and Cash Equivalents	\$ 30,104	\$ 70,618	\$ 754	\$ 101,476
Refunds Due From Contractors	20,744			20,744
	50,848	70,618	754	122,220
Less: Funds Held for Others	1,860	10,962		12,822
	\$ 48,988	\$ 59,656	\$ 754	\$ 109,398

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

Partnership for Children of Cumberland County, Inc.
Statement of Functional Expenditures - Modified Cash Basis
For the Year Ended June 30, 2004

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 Affordability	\$ 965,790	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 965,790	\$ 0
Child Care and Education Quality	2,922,446	766,576	58,369	49,252	101,020	25,475	10,289	1,853,052	58,413
Family Support	782,094	166,178	19,456	8,184	16,229	2,600		569,447	
Health and Safety	567,441							567,441	
More at Four	318,845	24,959	4,416	4,026	8,597	475		276,372	
	<u>5,556,616</u>	<u>957,713</u>	<u>82,241</u>	<u>61,462</u>	<u>125,846</u>	<u>28,550</u>	<u>10,289</u>	<u>4,232,102</u>	<u>58,413</u>
Support:									
Fund Raising	37,263		37,263						
Management and General	420,430	331,468	16,858	10,922	40,599	19,733	850		
Program Coordination	21,000	19,734			1,266				
Program Evaluation	343,284	258,446	16,005	13,422	25,497	21,313	8,601		
System Integration	57,750		53,309	4,441					
	<u>879,727</u>	<u>609,648</u>	<u>123,435</u>	<u>28,785</u>	<u>67,362</u>	<u>41,046</u>	<u>9,451</u>		
Other:									
Sales Tax Paid	484			484					
Total Smart Start Fund Expenditures	<u>\$ 6,436,827</u>	<u>\$ 1,567,361</u>	<u>\$ 205,676</u>	<u>\$ 90,731</u>	<u>\$ 193,208</u>	<u>\$ 69,596</u>	<u>\$ 19,740</u>	<u>\$ 4,232,102</u>	<u>\$ 58,413</u>
Other Funds:									
Programs:									
Child Care and Education Quality	80,197	39,410	14,039	14,396	12,119	80			153
Family Support	115,297	28,316	6,428	90	4,426	72,099	3,938		
Health and Safety	2,591							2,591	
More at Four	1,661,185			4,550	1,234			1,655,401	
	<u>1,859,270</u>	<u>67,726</u>	<u>20,467</u>	<u>19,036</u>	<u>17,779</u>	<u>72,179</u>	<u>3,938</u>	<u>1,657,992</u>	<u>153</u>
Support:									
Management and General	77,620	70,257	2,782	40	1,466	875	2,200		
Program Coordination	311				311				
Program Evaluation	51,415	17,283	18,294	3,539	2,884	9,415			
	<u>129,346</u>	<u>87,540</u>	<u>21,076</u>	<u>3,579</u>	<u>4,661</u>	<u>10,290</u>	<u>2,200</u>		
Other:									
Sales Tax Paid	41,387			41,387					
Total Other Funds Expenditures	<u>\$ 2,030,003</u>	<u>\$ 155,266</u>	<u>\$ 41,543</u>	<u>\$ 64,002</u>	<u>\$ 22,440</u>	<u>\$ 82,469</u>	<u>\$ 6,138</u>	<u>\$ 1,657,992</u>	<u>\$ 153</u>

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

PARTNERSHIP FOR CHILDREN OF CUMBERLAND COUNTY, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

A. Organization and Purpose - The Partnership for Children of Cumberland County, Inc. (Cumberland Partnership), is a legally separate nonprofit organization incorporated on December 3, 1997. The Cumberland Partnership was established to develop and provide, through public and private means, early childhood education and developmental services for children and families. The Cumberland 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 Cumberland 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 Cumberland Partnership did not have any permanently restricted net assets at June 30, 2004.

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. In addition, amounts withheld from employee paychecks or other amounts received in an agency capacity are recorded as funds held for others.

- D. Cash and Cash Equivalents** - This classification appears on the Statement of Receipts, Expenditures, and Net Assets – Modified Cash Basis and includes all demand and savings accounts and certificate of deposits or short-term investments with an original maturity of three months or less.
- E. Refunds Due From Contractors** - Refunds due from contractors represent the unexpended amount of advances to contractors at year-end that are to be refunded back to the State. As recoveries are collected, the receivable balance is reduced. Payments to the State for the recovered advances are recorded as a reduction to the State awards balance.
- F. Funds Held For Others** - Funds held for others includes amounts received that are fiduciary in nature in which the Cumberland Partnership acts in an agency capacity. For the year ended, the Cumberland Partnership was holding amounts withheld from employee paychecks for the supplemental insurance and flexible spending plans in which employees participate. In addition, the Cumberland Partnership acts as an administrative agent for the Omni Centre Association.
- 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, Cumberland Partnership is required by contract regulation to track and maintain property and equipment items as presented in Schedule 4 of this report. The Cumberland 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, 2004. Donated items are recorded at estimated fair market value at the date of donation.
- H. Compensated Absences** - As a result of the use of the modified cash basis of accounting, liabilities related to accrued compensated absences are not recorded in the financial statements. Expenditures related to compensated absences are recorded when paid. The amount of accrued compensated absences for accumulated, unpaid leave that would be due to employees upon termination is reported as a commitment in Note 9.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

- I. Use of Estimates** - The preparation of financial statements in conformity with the modified cash basis of accounting used by the Cumberland Partnership requires management to make estimates and assumptions that affect certain reported amounts and disclosures (such as allocation of joint costs); accordingly, actual results could differ from those estimates. It is management's belief that these estimates are reasonable and fair.

NOTE 2 - DEPOSITS

All funds of the Cumberland Partnership are deposited with commercial banks and insured by the Federal Deposit Insurance Corporation (FDIC) up to \$100,000 per bank. Deposits over this amount subjects the Cumberland Partnership to a concentration of credit risk. At June 30, 2004, the Cumberland Partnership's bank deposits in excess of the FDIC insured limit was \$415,216.

NOTE 3 - FUNDING FROM GRANT AWARDS

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

Associated with these contracts, the Cumberland 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 a contract with and made payments to a service providers selected by the Cumberland Partnership. This service provider contract is not reflected on the accompanying financial statements. However, a summary of the service provider contract entered into by DHHS is presented on Schedule 2 accompanying the financial statements.

The Cumberland Partnership was awarded and has received \$6,488,285 under a current year Smart Start contract with NCPC. The unexpended balance of this contract is subject to reversion to the State. The Cumberland Partnership has returned \$46,614 of this contract to the State based on financial status reports submitted to NCPC subsequent to June 30, 2004.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

More at Four - The Cumberland Partnership also received revenue and support from the State of North Carolina for the More at Four Program. The Cumberland Partnership was awarded \$2,176,560 and received \$1,739,893 under a current year cost-reimbursement contract. The Cumberland Partnership expects to receive continued funding through new More at Four contracts with the State.

NOTE 4 - RELATED PARTY TRANSACTIONS

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

NOTE 5 - FUNCTIONAL EXPENDITURES

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

A. Program Functions

Child Care and Education Affordability - Used to account for service activities including public pre-K classes, Head Start wraparound/extended day, child care subsidy programs outside of DCD, and Preschool (0-4) classes.

Child Care and Education Quality - Used to account for service activities including quality enhancement grants for upgrades, child care resource and referral, salary supplements, provider training, special needs – support for child care professionals, learning materials and teaching aids, and curriculum enhancements.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Family Support - Used to account for service activities including family resource centers, teen parent/child programs, literacy projects, family literacy projects, community outreach information and resources, and family support needs and resources assessments.

Health and Safety - Used to account for service activities including comprehensive screenings, special needs – early intervention services/special education, and transportation to health services.

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

B. Support Functions

Fund Raising - Expenditures incurred for a consulting firm to provide planning, feasibility, and campaign management services for the Partnership.

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.

Program Evaluation - Expenditures that are incurred to monitor the performance of service providers as to the delivery of services and adherence to the specific terms and conditions of the contracts.

System Integration - Expenditures incurred for information management across several agencies/organizations bridging numerous service areas.

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

NOTE 6 - OPERATING LEASE OBLIGATIONS

Future minimum lease payments under noncancelable operating leases consist of the following at June 30, 2004:

<u>Fiscal Year</u>	<u>Operating Leases</u>
2005	\$ 9,208
2006	5,820
2007	<u>4,850</u>
Total Minimum Lease Payments	<u>\$ 19,878</u>

Rental expense for all operating leases during the year was \$17,450.

NOTE 7 - PENSION PLAN

IRC Section 403(b) Plan - All permanent employees who are at least 30 hours per week can participate in a tax sheltered annuity plan (Plan) created under Internal Revenue Code Section 403(b). The Plan is a defined contribution plan in which each employee of the Cumberland Partnership, as a condition of employment, is provided an individual annuity through an outside insurance company. The Cumberland Partnership provides matching of employee contributions not to exceed 4% of the employee's annual salary. The employee's eligible contributions, made through salary reduction agreements, are exempt from federal and State income taxes until the annuity is received or the contributions are withdrawn. These Plans are exclusively for employees of universities and certain charitable and other nonprofit organizations. All costs of administering and funding these Plans are the responsibility of the Plan participants. The Cumberland Partnership contributed \$31,873 in matching retirement benefits during the year.

NOTE 8 - RISK MANAGEMENT

The Cumberland Partnership is exposed to various risks of loss related to torts, theft of, damage to, or destruction of assets; errors and omissions; injuries to

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

employees; employees' health and life; and natural disasters. The Cumberland 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 Cumberland Partnership. Settled claims have not exceeded this insurance coverage in any of the past three fiscal years.

NOTE 9 - COMMITMENTS AND CONTINGENCIES

A. Compensated Absences - As a result of the Cumberland 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, 2004, is \$68,295. No funds or reservation of net assets has been made for this commitment.

B. Loan Commitment - The Cumberland Partnership has a note with a balance of \$140,963 at June 30, 2004, that is secured by an office building and payable to Bank of America in monthly installments of \$5,850. This amount includes principal and interest computed at a variable interest rate of 1.5% over the LIBOR fixed rate.

The future scheduled maturities of long-term debt are as follows:

<u>Fiscal Year</u>	<u>Principal Amount</u>	<u>Interest Amount</u>
2005	\$ 68,376	\$ 1,824
2006	<u>72,587</u>	<u>307</u>
Total Loan Payments	<u>\$ 140,963</u>	<u>\$ 2,131</u>

NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

NOTE 10 - RESTRICTIONS ON NET ASSETS

A. Temporarily Restricted Net Assets - Temporarily restricted net assets at June 30, 2004, are available for the following purposes:

Purpose	Amount
Child Care Resource & Referral Regional Delivery	\$ 100
Capital Campaign Fund	<u>654</u>
	<u>\$ 754</u>

B. Net Assets Released From Donor Restrictions - Net assets were released from donor restrictions during the fiscal year ended June 30, 2004, by incurring expenditures satisfying the restricted purposes as follows:

Purpose	Amount
Quality Care for School Age Children	<u>\$ 15</u>

NOTE 11 - RESTRICTIONS ON NET ASSETS

The Cumberland County Partnership for Children, Inc. amended its Articles of Incorporation on July 28, 2004, to formally change its name to the Partnership for Children of Cumberland County, Inc. This amendment was adopted on June 30, 2004. Accordingly, this name change was implemented for presentation purposes for this audit.

Partnership for Children of Cumberland County, Inc.
Schedule of Contract and Grant Expenditures - Modified Cash Basis
For the Year Ended June 30, 2004

Schedule 1

Organization Name	Smart Start Fund		Other Funds	
	Amount Advanced	Refund Due	Amount Advanced	Refund Due
ARC of Cumberland County	\$ 76,407	\$ 0	\$ 0	\$ 0
Autism Society of Cumberland County	35,086			
Children's Development Services Agency	* 200,999	(200)		
Cumberland Community Action Program, Inc.	* 122,187	(44)		
Cumberland County Mental Health	* 297,198	(8,606)		
Cumberland County Public Library	* 341,881	(2,223)		
Cumberland County Schools	* 636,193	(5,091)	422,911	
Family Support Network - Families First	* 21,717			
Fayetteville Area Youth for Christ	180,504			
Fayetteville Museum of Art	117,801			
Fayetteville State University	120,154		81,548	
Fayetteville Technical Community College	* 1,150,399	(4,580)	29,591	
Friends of the Parks Foundation, Inc.	47,578			
Head Start			483,245	
Quality Improvement Grants	310,950			
Various Other Organizations	523,907		640,697	
	<u>4,182,961</u>	<u>(20,744)</u>	<u>1,657,992</u>	
Paid to Individuals:				
Health Screenings	16,512			
Scholarships/Stipends/ Participant Bonus Awards	53,373			
	<u>69,885</u>			
	<u>\$ 4,252,846</u>	<u>\$ (20,744)</u>	<u>\$ 1,657,992</u>	<u>\$ 0</u>

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

***Partnership for Children of Cumberland County, Inc.
 Schedule of State Level Service Provider Contracts
 For the Year Ended June 30, 2004***

Schedule 2

Organization Name	DHHS Contracts
Cumberland County Department of Social Services	* \$ <u>3,137,780</u>

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

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

Partnership for Children of Cumberland County, Inc.
Schedule of Federal and State Awards - Modified Cash Basis
For the Year Ended June 30, 2004

Schedule 3

Federal/State Grantor/Pass-through Grantor/Program	Federal CFDA Number	Contract #	Receipts	Expenditures
Federal Awards:				
United States 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 Child Care Directions, Inc. Child Care Resource and Referral	93.575	#6240-A	\$ 25,889	\$ 25,789
United States Department of Health and Human Services Pass-through from the North Carolina Department of Health and Human Services - Division of Child Development Child Care and Development Block Grant	93.575	6014		15
United States Department of Health and Human Services Pass-through from the North Carolina Department of Health and Human Services - Division of Aging Pass-through from the Mid-Carolina Area Agency on Aging NC Family Caregiver Support Program	93.052	N/A	4,653	5,884
Total Federal Awards			<u>30,542</u>	<u>31,688</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 (Previous Years)		1-12-1-04-001	(14,199)	(969)
Early Childhood Initiatives Program (Prior Year)		N/A	(254,097)	(1,502)
Early Childhood Initiatives Program (Current Year)	*	N/A	6,488,285	6,439,298
Multi-County Accounting and Contracting Grant (Previous Year)		N/A	(1,195)	
Multi-County Accounting and Contracting Grant (Current Year)		N/A	12,000	11,053
Capacity Building Grant				
North Carolina Department of Health and Human Services More at Four Pre-Kindergarten Program		* #2090003757	1,724,649	1,707,320
Total State Awards			<u>7,955,443</u>	<u>8,155,200</u>
Total Federal and State Awards			<u>\$ 7,985,985</u>	<u>\$ 8,186,888</u>

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

Note: The More at Four Pre-Kindergarten Program is contracted jointly by the North Carolina Department of Health and Human Services and the Office of the Governor. The allocations for the More at Four program are included in the budget for the North Carolina Department of Health and Human Services; therefore, the above schedule identifies that agency as the State Grantor. The Office of the Governor is responsible for oversight of the More at Four Program.

Partnership for Children of Cumberland County, Inc.
Schedule of Property and Equipment - Modified Cash Basis
For the Year Ended June 30, 2004

Schedule 4

Furniture and Noncomputer Equipment	\$	204,142
Computer Equipment/Printers		305,761
Buildings		2,295,534
Leasehold Improvements		66,317
Motor Vehicles		6,250
		<hr/>
Total Property and Equipment	\$	<u>2,878,004</u>

Note: The information on this schedule provides a summary of property and equipment with acquisition or donated cost of \$500 or more which were held by the Partnership at year end. The valuations represent historical cost. On the modified basis of accounting, these items are expensed in the year of purchase.

Partnership for Children of Cumberland County, Inc.
Schedule of Qualifying Match (Non-GAAP)
For the Year Ended June 30, 2004

Schedule 5

Match Provided at the Partnership Level:

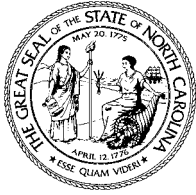
Cash	\$	28,512
In-Kind Goods and Services		<u>105,989</u>
	\$	<u><u>134,501</u></u>

Match Provided at the Contractor Level:

Cash	\$	764,799
In-Kind Goods and Services		<u>352,463</u>
	\$	<u><u>1,117,262</u></u>

Note: This schedule is presented in accordance with the program match requirement as provided for by North Carolina Session Law 2003-284, Section 10.38(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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Leslie W. Merritt, Jr., CPA, CFP
State Auditor

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

Board of Directors
Partnership for Children of Cumberland County, Inc.
Fayetteville, North Carolina

We have audited the financial statements of the Partnership for Children of Cumberland County, Inc. (Cumberland Partnership), as of and for the year ended June 30, 2004, and have issued our report thereon dated July 22, 2005. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Cumberland Partnership's internal control over financial reporting in order to determine our auditing procedures for the purposes of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Cumberland 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

**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)**

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*.

We noted certain matters that we reported to management of the Cumberland Partnership in a separate letter dated August 2, 2005.

This report is intended solely for the information and use of the audit committee, management of the Cumberland 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.

Leslie W. Merritt, Jr.

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

July 22, 2005

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Director, Fiscal Research Division

August 24, 2005

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