



STATE OF NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT OF DAVIDSON COUNTY PARTNERSHIP FOR CHILDREN

LEXINGTON, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2004

OFFICE OF THE STATE AUDITOR

LESLIE W. MERRITT, JR., CPA, CFP

STATE AUDITOR

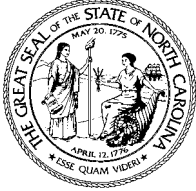
FINANCIAL STATEMENT AUDIT REPORT OF
DAVIDSON COUNTY PARTNERSHIP FOR CHILDREN
LEXINGTON, NORTH CAROLINA
FOR THE YEAR ENDED JUNE 30, 2004

BOARD OF DIRECTORS

WILLIAM R. PLESS, BOARD CHAIRMAN

ADMINISTRATIVE OFFICER

LINDA C. LEONARD, EXECUTIVE DIRECTOR



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

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AUDITOR'S TRANSMITTAL

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

This report presents the results of our financial statement audit of the Davidson County Partnership for Children (Davidson 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 Davidson 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 Davidson 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 Davidson Partnership is one of these local partnerships. As such, the Davidson 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 Davidson 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 - The following condition represents a significant deficiency in internal control or noncompliance with laws, regulations, contracts, or grants.

Finding

Control Environment

This matter is described in the Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters and the Audit Findings and Recommendations section of this report.

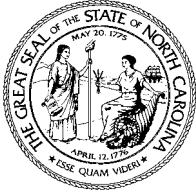
North Carolina General Statutes require the State Auditor to make audit reports available to the public. Copies of audit reports issued by the Office of the State Auditor may be obtained through one of the options listed in the back of this report.

Leslie W. Merritt, Jr.

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

TABLE OF CONTENTS

	PAGE
INDEPENDENT AUDITOR’S REPORT	1
FINANCIAL STATEMENTS	
EXHIBITS	
A Statement of Receipts, Expenditures, and Net Assets – Modified Cash Basis.....	3
B Statement of Functional Expenditures – Modified Cash Basis	4
Notes to the Financial Statements	5
SUPPLEMENTARY SCHEDULES	
1 Schedule of Contract and Grant Expenditures – Modified Cash Basis	12
2 Schedule of State Level Service Provider Contracts	13
3 Schedule of State Awards – Modified Cash Basis	14
4 Schedule of Property and Equipment – Modified Cash Basis	15
5 Schedule of Qualifying Match (Non-GAAP)	16
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 <i>GOVERNMENT AUDITING STANDARDS</i>	17
AUDIT FINDINGS AND RECOMMENDATIONS.....	19
DISTRIBUTION OF AUDIT REPORT	21



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State Auditor

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Davidson County Partnership for Children
Lexington, North Carolina

We have audited the accompanying Statement of Receipts, Expenditures, and Net Assets – Modified Cash Basis of the Davidson County Partnership for Children (Davidson 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 Davidson 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 Davidson County Partnership for Children 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 November 10, 2004 on our consideration of the Davidson 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

INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Davidson County Partnership for Children'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.

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

November 10, 2004

Davidson County Partnership for Children**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 \$61,211)	\$ 2,163,541	\$ 622,882	\$ 0	\$ 2,786,423
Private Contributions		2,937	6,798	9,735
Interest and Investment Earnings		3,972		3,972
Sales Tax Refunds		1,040		1,040
Other Receipts	24			24
Total Receipts	2,163,565	630,831	6,798	2,801,194
Net Assets Released from Restrictions:				
Satisfaction of Program Restrictions		197	(197)	
	2,163,565	631,028	6,601	2,801,194
Expenditures:				
Programs:				
Child Care and Education Quality	1,129,532	2,285		1,131,817
Family Support	600,654	10,221		610,875
Health and Safety	174,970	1,600		176,570
More at Four		583,894		583,894
Support:				
Management and General	218,243	12,176		230,419
Program Coordination	39,903			39,903
Program Evaluation	30,046			30,046
Other:				
Sales Tax Paid		3,858		3,858
Total Expenditures	2,193,348	614,034		2,807,382
Excess of Receipts Over Expenditures	(29,783)	16,994	6,601	(6,188)
Net Assets at Beginning of Year	59,993	36,561	300	96,854
Net Assets at End of Year	\$ 30,210	\$ 53,555	\$ 6,901	\$ 90,666
Net Assets Consisted of:				
Cash and Cash Equivalents	\$ 22,932	\$ 53,555	\$ 6,901	\$ 83,388
Refunds Due From Contractors	7,278			7,278
	\$ 30,210	\$ 53,555	\$ 6,901	\$ 90,666

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

*Davidson County Partnership for Children
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 Quality	\$ 1,129,532	\$ 42,578	\$ 3,500	\$ 5,906	\$ 2,416	\$ 2,499	\$ 12,441	\$ 1,060,192	\$ 0
Family Support	600,654	1,989		1,100	4,949	242	1,434	590,940	
Health and Safety	174,970							174,970	
	<u>1,905,156</u>	<u>44,567</u>	<u>3,500</u>	<u>7,006</u>	<u>7,365</u>	<u>2,741</u>	<u>13,875</u>	<u>1,826,102</u>	
Support:									
Management and General	218,243	125,095	10,851	10,392	36,242	28,428	7,235		
Program Coordination	39,903	34,753		568	1,405	1,296	1,881		
Program Evaluation	30,046		30,000			46			
	<u>288,192</u>	<u>159,848</u>	<u>40,851</u>	<u>10,960</u>	<u>37,647</u>	<u>29,770</u>	<u>9,116</u>		
Total Smart Start Fund Expenditures	\$ 2,193,348	\$ 204,415	\$ 44,351	\$ 17,966	\$ 45,012	\$ 32,511	\$ 22,991	\$ 1,826,102	\$ 0
Other Funds:									
Programs:									
Child Care and Education Quality	\$ 2,285	\$ 0	\$ 0	\$ 0	\$ 410	\$ 0	\$ 700	\$ 1,175	\$ 0
Family Support	10,221			535	662	5,798	400	2,826	
Health and Safety	1,600				100			1,500	
More at Four	583,894	5,196	50		2,403			576,245	
	<u>598,000</u>	<u>5,196</u>	<u>50</u>	<u>535</u>	<u>3,575</u>	<u>5,798</u>	<u>1,100</u>	<u>581,746</u>	
Support:									
Management and General	12,176		6,834	773	976	695	2,898		
Other:									
Sales Tax Paid	3,858			3,858					
Total Other Funds Expenditures	\$ 614,034	\$ 5,196	\$ 6,884	\$ 5,166	\$ 4,551	\$ 6,493	\$ 3,998	\$ 581,746	\$ 0
The accompanying notes to the financial statements are an integral part of this statement.									

DAVIDSON COUNTY PARTNERSHIP FOR CHILDREN
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

- A. Organization and Purpose** - The Davidson County Partnership for Children (Davidson Partnership) is a legally separate nonprofit organization incorporated on February 10, 1994. The Davidson Partnership was established to develop and provide, through public and private means, early childhood education and developmental services for children and families. The Davidson 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 Davidson 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 Davidson 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. Property and Equipment** – Under the modified cash basis of accounting, purchases of property and equipment are reported as expenditures in the year occurred. However, Davidson Partnership is required by contract regulation to track and maintain property and equipment items as presented in Schedule 4 of this report. The Davidson 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.
- G. 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.
- H. Use of Estimates** - The preparation of financial statements in conformity with the other comprehensive basis of accounting used by the Davidson 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 2 - DEPOSITS

All funds of the Davidson 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 Davidson Partnership to a concentration of credit risk. At June 30, 2004, the Davidson Partnership's bank deposits in excess of the FDIC insured limit was \$24,797.

NOTE 3 - FUNDING FROM GRANT AWARDS

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

Associated with these contracts, the Davidson 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 Davidson 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 Davidson Partnership was awarded and has received \$2,222,953 under a current year Smart Start contract with NCPC. The unexpended balance of this contract is subject to reversion to the State. The Davidson Partnership has returned \$24,489 of this contract to the State based on financial status reports submitted to NCPC subsequent to June 30, 2004.

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

More at Four – The Davidson Partnership also received revenue and support from the State of North Carolina for the More at Four Program. The Davidson Partnership was awarded \$616,020 and received \$612,681 under a current year cost-reimbursement contract. The Davidson Partnership expects to receive continued funding through new More at Four contracts with the State.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 4 - RELATED PARTY TRANSACTIONS

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

NOTE 5 - FUNCTIONAL EXPENDITURES

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

A. Program Functions

Child Care and Education Quality - Used to account for service activities including quality enhancement grants for upgrades, quality enhancement grants for maintenance, child care resource and referral, or professional development.

Family Support - Used to account for service activities including ongoing parenting education, general family support, literacy projects, or community outreach information and resources.

Health and Safety - Used to account for service activities including child care health consultants, special needs – early intervention services/special education, or transportation to health.

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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.

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.

C. Allocation of Joint Costs

Expenditures benefiting more than one purpose were allocated as follows:

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

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

NOTE 6 - OPERATING LEASE OBLIGATIONS

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

<u>Fiscal Year</u>	<u>Operating Leases</u>
2005	\$ 4,258
2006	<u>2,136</u>
Total Minimum Lease Payments	<u>\$ 6,394</u>

Rental expense for all operating leases during the year was \$25,986.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 7 - PENSION PLAN

Retirement Plans - For the period July 1, 2003 through December 31, 2003, the Davidson Partnership had a Simplified Employee Pension plan (Plan) covering all employees who have been employed for one year. As of January 1, 2004, the plan requirements were changed to cover all permanent employees who are regularly working at least 20 hours per week and who have been employed for six months. Each qualifying employee of the Davidson Partnership, as a condition of employment, was provided an Individual Retirement Account through an outside insurance company. An exception to the Plan qualifications was made for the Executive Director per the terms of her employment agreement that stated an Individual Retirement Account would be provided the month in which she was hired.

The Davidson Partnership contributed 6% of gross wages for the year ended June 30, 2004. The Davidson Partnership does not own the accounts nor is liable for any other cost other than the required contribution. The Davidson Partnership contributed \$6,169 for pension benefits during the year.

NOTE 8 - RISK MANAGEMENT

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

NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

NOTE 9 - COMMITMENTS AND CONTINGENCIES

Compensated Absences – As a result of the Davidson 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 \$5,195. No funds or reservation of net assets has been made for this commitment.

NOTE 10 - RESTRICTIONS ON NET ASSETS

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

Purpose	Amount
Grandparent’s Day	\$ 1,103
Parent Break	5,798
	<u>\$ 6,901</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
Grandparent’s Day	\$ <u>197</u>

Davidson County Partnership for Children
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
Barber's Childcare Home	\$ 14,238	\$ 0	\$ 0	\$ 0
Boys & Girls LTD	15,351			
Child Care Connection	* 159,508	(5,719)		
Coggins Memorial Baptist Church	49,680			
Cotton Grove Road Head Start	* 7,356			
Davidson County Community College Child Development Center	* 128,769		76,500	
Davidson County Health Department	* 110,534	(318)		
Davidson County Public Library	* 127,187			
Davidson County Schools	* 463,874	(121)	186,900	
Davidson County Transportation	* 11,500		1,500	
Family Services of Davidson County, Inc.	53,254			
First Reformed UCC Child Development Center	26,019			
First United Methodist Church			2,826	
Fleshman Pratt Education Center	* 47,535			
Lexington City Schools	*		59,965	
Northwest Child Development Council, Inc.			67,125	
Robert Idol Child Development Center	* 65,715			
The Learning Place at Thomasville Medical Center	* 87,969		67,500	
Thomasville City Schools	*		118,255	
Thomasville Head Start	* 33,092			
Tiny Tots Day Care, Inc. of Davidson County	34,053			
Tyro Learning Center	59,664			
Various Child Care Centers	119,058	(1,120)	175	
Von's Kids, Inc.	97,053			
Wesleyan Child Development Center	30,771			
	1,742,180	(7,278)	580,746	
Individuals:				
Various Individuals - Education for the Stars	91,200		1,000	
	\$ 1,833,380	\$ (7,278)	\$ 581,746	\$ 0

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

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

Schedule 2

Organization Name	DHHS Contracts
Child Care Services Association - WAGE\$ Program	\$ 140,628
Davidson County Department of Social Services	* 1,354,970
	<u>\$ 1,495,598</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.	

Davidson County Partnership for Children
Schedule of State Awards - Modified Cash Basis
For the Year Ended June 30, 2004

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 Years)	Various	\$ (59,412)	\$ (5,234)
Early Childhood Initiatives Program (Current Year)	*	2,222,953	2,198,582
Multi-County Accounting and Contracting Grant (Prior Year)		(1,799)	
Multi-County Accounting and Contracting Grant (Current Year)		12,000	10,505
North Carolina Department of Health and Human Services			
More at Four Pre-Kindergarten Program	* 2090003677	612,681	583,894
Total State Awards		\$ 2,786,423	\$ 2,787,747

* 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.

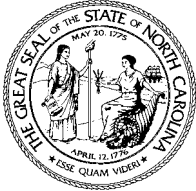
<i>Davidson County Partnership for Children</i>			
<i>Schedule of Property and Equipment - Modified Cash Basis</i>			
<i>For the Year Ended June 30, 2004</i>			<i>Schedule 4</i>
	Furniture and Noncomputer Equipment	\$	23,085
	Computer Equipment/Printers		54,713
	Leasehold Improvements		966
	Total Property and Equipment	\$	78,764
	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.		

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

Schedule 5

Match Provided at the Partnership Level:		
Cash		\$ 3,937
Match Provided at the Contractor Level:		
Cash		\$ 294,182
In-Kind Goods and Services		93,089
		\$ 387,271

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.



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
Davidson County Partnership for Children
Lexington, North Carolina

We have audited the financial statements of the Davidson County Partnership for Children (Davidson Partnership) as of and for the year ended June 30, 2004, and have issued our report thereon dated November 10, 2004. 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 Davidson 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. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. A reportable condition involves a matter coming to our attention relating to a significant deficiency in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Davidson Partnership's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. This reportable condition is reported, with a response, in the Audit Findings and Recommendations section of this report:

Finding

Control Environment

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

**INDEPENDENT AUDITOR'S REPORT
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employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we do not consider the reportable condition described above to be a material weakness. In addition, we noted another matter involving the internal control over financial reporting, which we have reported to the management of the Davidson Partnership in a separate letter dated January 26, 2005.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Davidson 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*. However, we noted a certain immaterial instance of noncompliance, which we have reported to the management of the Davidson Partnership in a separate letter dated January 26, 2005

This report is intended solely for the information and use of the audit committee, management of the Davidson 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., CPA, CFP
State Auditor

November 10, 2004

AUDIT FINDINGS AND RECOMMENDATIONS

Matters Related to Financial Reporting

The following finding and recommendation was identified during the current audit and discusses conditions that represent a significant deficiency in internal control. This finding was also reported in the prior year.

CONTROL ENVIRONMENT

The control environment sets the tone of an organization and involves management's and the board of directors' attitude, awareness, and actions concerning internal control. During the previous year, we identified concerns with the Davidson Partnership's development and implementation of comprehensive policies and procedures to ensure the establishment of proper internal controls.

This finding is partially resolved. The Davidson Partnership was placed in the Performance Improvement Plan (PIP) by The North Carolina Partnership for Children, Inc. during the 2003 fiscal year. A key element of the PIP is the development and implementation of comprehensive policies and procedures to ensure the establishment of proper internal controls. During the 2004 fiscal year, the Davidson Partnership concentrated its policy development efforts on the deficiencies noted in the area of contract management and monitoring. Those efforts resulted in significant improvements in the Partnership's oversight of contract activities. The Davidson Partnership also worked on the development and approval of accounting policies; however, this process had not been completed during the audit year. The Davidson Partnership continues with its development and implementation of procedures to ensure that approved policies are being followed.

The development and implementation of comprehensive policies and procedures provides for the establishment of proper internal controls and direction and accountability for the operations of the Partnership.

Recommendation: We recommend that the Davidson Partnership continue with its efforts in the Performance Improvement Plan by updating established policies to include written procedures supportive of a sound internal control system.

Partnership's Response: In the year ended June 30, 2004, we actively participated in the N.C. Partnership for Children's Performance Improvement Plan and received much needed technical assistance and training. Through the help of their monitoring programs and the advice of their staff we have been able to make resolution of these issues.

Davidson County Partnership for Children Board of Directors and staff also participated in a high level training provided through the Performance Improvement Plan. This training included various topics on Board development, understanding Board roles, and the importance of a strong control environment.

AUDIT FINDINGS AND RECOMMENDATIONS (CONCLUDED)

Davidson County Partnership for Children Board and staff worked diligently in the fiscal year ended June 30, 2004 to revise all accounting and contracting policies to ensure a strengthened control environment. The Board has played a key role in creating and implementing a process of accountability for all activities. The Partnership's intention is to use appropriate practices to secure maximum effectiveness and efficiency in the use of public dollars.

The Partnership has worked diligently since the departure of State audit staff to ensure that stronger procedures have been implemented. The monitoring staff for the N.C. Partnership for Children are currently reviewing these revised procedures to ensure a sound internal control system is in place.

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.

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The Honorable Richard H. Moore	State Treasurer
The Honorable Roy A. Cooper, III	Attorney General
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Mr. Robert L. Powell	State Controller
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Mr. Ashley Thrift	Chairman, Board of Directors
	The North Carolina Partnership for Children, Inc.
	Executive Director
	The North Carolina Partnership for Children, Inc.
Ms. Karen Ponder	

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March 2, 2005

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