



STATE OF NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT OF CATAWBA COUNTY PARTNERSHIP FOR CHILDREN

HICKORY, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2004

OFFICE OF THE STATE AUDITOR

RALPH CAMPBELL, JR.

STATE AUDITOR

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

BOARD OF DIRECTORS

MATT RAYMER, BOARD CHAIRMAN

ADMINISTRATIVE OFFICER

KIM LYKE SALYARDS, 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, Catawba County Partnership for Children

This report presents the results of our financial statement audit of the Catawba County Partnership for Children (Catawba 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 Catawba 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 Catawba 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 Catawba Partnership is one of these local partnerships. As such, the Catawba 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 Catawba 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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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Catawba County Partnership for Children
Hickory, North Carolina

We have audited the accompanying Statement of Receipts, Expenditures, and Net Assets – Modified Cash Basis of the Catawba County Partnership for Children (Catawba 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 Catawba 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 Catawba 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 October 8, 2004 on our consideration of the Catawba Partnership's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Catawba 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.



Ralph Campbell, Jr.
State Auditor

October 8, 2004

Catawba 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		Total Funds
	Smart Start Fund	Other Funds	
Receipts:			
State Awards (less refunds of \$5,031)	\$ 1,854,772	\$ 496,988	\$ 2,351,760
Private Contributions		1,543	1,543
Interest and Investment Earnings		368	368
Sales Tax Refunds		1,869	1,869
Other Receipts		2,951	2,951
Total Receipts	1,854,772	503,719	2,358,491
Expenditures:			
Programs:			
Child Care and Education Quality	569,439	5,017	574,456
Family Support	678,629		678,629
Health and Safety	299,568		299,568
More at Four		475,546	475,546
Support:			
Management and General	286,649	13,196	299,845
Program Evaluation	14,925		14,925
Other:			
Sales Tax Paid		2,634	2,634
Total Expenditures	1,849,210	496,393	2,345,603
Excess of Receipts Over Expenditures	5,562	7,326	12,888
Net Assets at Beginning of Year	5,031	23,211	28,242
Net Assets at End of Year	\$ 10,593	\$ 30,537	\$ 41,130
Net Assets Consisted of:			
Cash and Cash Equivalents	\$ 3,887	\$ 30,537	\$ 34,424
Refunds Due From Contractors	6,706		6,706
	\$ 10,593	\$ 30,537	\$ 41,130

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

*Catawba 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	\$ 569,439	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 569,439	\$ 0
Family Support	678,629							678,629	
Health and Safety	299,568							299,568	
	<u>1,547,636</u>							<u>1,547,636</u>	
Support:									
Management and General	286,649	212,122	4,323	6,594	19,279	26,873	17,458		
Program Evaluation	14,925		14,925						
	<u>301,574</u>	<u>212,122</u>	<u>19,248</u>	<u>6,594</u>	<u>19,279</u>	<u>26,873</u>	<u>17,458</u>		
Total Smart Start Fund Expenditures	\$ 1,849,210	\$ 212,122	\$ 19,248	\$ 6,594	\$ 19,279	\$ 26,873	\$ 17,458	\$ 1,547,636	\$ 0
Other Funds:									
Programs:									
Child Care and Education Quality	\$ 5,017	\$ 0	\$ 0	\$ 1,102	\$ 875	\$ 40	\$ 0	\$ 3,000	\$ 0
More at Four	475,546			31	843	1,219	250	473,203	
	<u>480,563</u>			<u>1,133</u>	<u>1,718</u>	<u>1,259</u>	<u>250</u>	<u>476,203</u>	
Support:									
Management and General	13,196		12,000	360	693	48	95		
	<u>13,196</u>		<u>12,000</u>	<u>360</u>	<u>693</u>	<u>48</u>	<u>95</u>		
Other:									
Sales Tax Paid	2,634			2,634					
	<u>2,634</u>			<u>2,634</u>					
Total Other Funds Expenditures	\$ 496,393	\$ 0	\$ 12,000	\$ 4,127	\$ 2,411	\$ 1,307	\$ 345	\$ 476,203	\$ 0

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

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

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

- A. Organization and Purpose** - The Catawba County Partnership for Children (Catawba Partnership) is a legally separate nonprofit organization incorporated on August 23, 1994. The Catawba Partnership was established to develop and provide, through public and private means, early childhood education and developmental services for children and families. The Catawba 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 Catawba 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.

The Catawba Partnership did not have any temporarily or 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.

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

- D. Cash and Cash Equivalents** – This classification appears on the Statement of Receipts, Expenditures, and Net Assets – Modified Cash Basis and includes all demand and savings accounts and certificate of deposits or short-term investments with an original maturity of three months or less.
- E. 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, Catawba Partnership is required by contract regulation to track and maintain property and equipment items as presented in Schedule 4 of this report. The Catawba 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 Catawba 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 Catawba 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 Catawba Partnership to a concentration of credit risk. At June 30, 2004, the Catawba Partnership's bank deposits in excess of the FDIC insured limit was \$197,917.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 3 - FUNDING FROM GRANT AWARDS

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

Associated with these contracts, the Catawba 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 Catawba 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 Catawba Partnership was awarded and has received \$1,859,803 under a current year Smart Start contract with NCPC. The unexpended balance of this contract is subject to reversion to the State. The Catawba Partnership has returned \$10,545 of this contract to the State based on financial status reports submitted to NCPC subsequent to June 30, 2004.

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

More at Four – The Catawba Partnership also received revenue and support from the State of North Carolina for the More at Four Program. The Catawba Partnership was awarded \$498,590 and received 484,988 under a current year contract. The Catawba 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 Catawba Partnership are representative of various organizations that benefit from actions taken by the Board. It is the policy of the Catawba Partnership that board members not be involved with decisions regarding organizations they represent. During the year, the Catawba Partnership entered into contracts with board member organizations for program activities as identified on Schedule 1 accompanying the financial statements. In addition, Schedule 2 identifies contracts entered into by DHHS

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

with board member organizations for activities funded by the Catawba 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, quality enhancement grants for maintenance, child care resource and referral, or curriculum enhancements.

Family Support - Used to account for service activities including ongoing parenting education, general family support, or family crisis intervention.

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

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

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 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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	\$ 54,292
2006	54,448
2007	52,140
2008	52,000
2009	52,000
2010	<u>13,000</u>
Total Minimum Lease Payments	<u>\$ 277,880</u>

Rental expense for all operating leases during the year was \$51,818.

NOTE 7 - PENSION PLAN

Deferred Compensation and Supplemental Retirement Income Plans- IRC Section 403(b) Plan- All permanent employees who are at least half time 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 Catawba Partnership, as a condition of employment, is provided an individual annuity through an outside insurance company. The Catawba Partnership contributed 5% of gross wages for the year ended June 30, 2004. 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 Catawba Partnership contributed \$8,520 for retirement benefits during the year.

NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

NOTE 8 - RISK MANAGEMENT

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

NOTE 9 - COMMITMENTS AND CONTINGENCIES

Compensated Absences – As a result of the Catawba 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 \$11,641. No funds or reservation of net assets has been made for this commitment.

Catawba 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
Catawba Valley Medical Center	* \$ 135,950	\$ 0	\$ 0	\$ 0
Catawba County Public Health Department	* 275,764	(2,902)	750	
Catawba County Schools	* 325,845		92,810	
Catawba County Social Services	* 117,132		13,731	
Catawba Valley Child Care Resource and Referral Service	* 179,100			
Catawba Valley Hispanic Ministry	31,150			
Children's Advocacy Center of Catawba County, Inc.	16,733			
Eskay Child Development, Inc.	*		37,740	
Hickory Public Schools	*		113,560	
Little Folks School			10,200	
Mental Health Services of Catawba County	* 384,200	(3,741)		
Newton-Conover City Schools	*		122,660	
Sipes Orchard Home, Inc.	26,768	(63)	52,040	
Various Organizations	61,700		1,512	
YMCA of Catawba Valley			31,200	
	<u>\$ 1,554,342</u>	<u>\$ (6,706)</u>	<u>\$ 476,203</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.

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

Schedule 2

Organization Name	DHHS Contracts
Catawba County Department of Social Services	* \$ 1,598,863
Child Care Services Association - WAGE\$ Program	177,142
	<u>\$ 1,776,005</u>
<p>* These organizations are represented on the Partnership's Board as described in Note 4 - Service Provider Contracts with Board Member Organizations.</p>	
<p>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.</p>	

Catawba 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 Year)	N/A	\$ (5,031)	\$ (48)
Early Childhood Initiatives Program (Current Year)	*	1,859,803	1,849,258
Multi-County Accounting and Contracting Grant		12,000	12,000
North Carolina Department of Health and Human Services			
More at Four Pre-Kindergarten Program	*	2090003693 484,988	475,546
Total State Awards		\$ 2,351,760	\$ 2,336,756

* 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.

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

Schedule 4

Furniture and Noncomputer Equipment	\$	18,647
Computer Equipment/Printers		15,565
Total Property and Equipment	\$	34,212

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.

**Catawba 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	\$	1,543
In-Kind Goods and Services		1,932
	\$	3,475

Match Provided at the Contractor Level:

Cash	\$	128,814
In-Kind Goods and Services		235,868
	\$	364,682

Note: This schedule is presented in accordance with the program match requirement as provided for by North Carolina Session Law 2003-397, 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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**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
Catawba County Partnership for Children
Hickory, North Carolina

We have audited the financial statements of the Catawba County Partnership for Children (Catawba Partnership) as of and for the year ended June 30, 2004, and have issued our report thereon dated October 8, 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 Catawba 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. However, we noted other matters involving the internal control over financial reporting, which we have reported to management of the Catawba Partnership in a separate letter dated December 2, 2004.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Catawba 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*.

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

October 8, 2004

DISTRIBUTION OF AUDIT REPORT

In accordance with North Carolina 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

The Honorable Michael F. Easley	Governor of North Carolina
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 The North Carolina Partnership for Children, Inc.
	Executive Director The North Carolina Partnership for Children, Inc.
Ms. Karen Ponder	

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Other Legislative Officials

Mr. James D. Johnson	Director, Fiscal Research Division
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December 22, 2004

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