

STATE OF NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT OF CHATHAM COUNTY PARTNERSHIP FOR CHILDREN

PITTSBORO, 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
CHATHAM COUNTY PARTNERSHIP FOR CHILDREN
PITTSBORO, NORTH CAROLINA
FOR THE YEAR ENDED JUNE 30, 2004

BOARD OF DIRECTORS

DAVID ATKINSON, CHAIRMAN

ADMINISTRATIVE OFFICER

GENEVIEVE MEGGINSON, 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, Chatham County Partnership for Children

This report presents the results of our financial statement audit of the Chatham County Partnership for Children (Chatham 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 Chatham 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 Chatham 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 Chatham Partnership is one of these local partnerships. As such, the Chatham 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 Chatham 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.

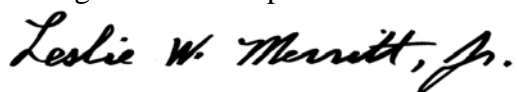
Results - The following condition represents a significant deficiency in internal control or noncompliance or other matters with laws, regulations, contracts, or grant agreements:

Finding

04-01 Inadequate Contract Fiscal Monitoring

This matter is described in the Schedule of Findings and Questioned Costs section of this report.

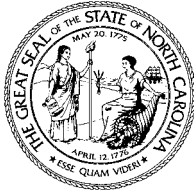
North Carolina General Statutes require the State Auditor to make audit reports available to the public. Copies of audit reports issued by the Office of the State Auditor may be obtained through one of the options listed in the back of this report.



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

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Chatham County Partnership for Children
Pittsboro, North Carolina

We have audited the accompanying Statement of Receipts, Expenditures, and Net Assets – Modified Cash Basis of the Chatham County Partnership for Children (Chatham 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 Chatham 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 misstatement. 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 Chatham 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 February 4, 2005, on our consideration of the Chatham 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

INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

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. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with the independent auditor's report in considering the results of our audit.

Our audit was made for the purpose of forming an opinion on the basic financial statements that collectively comprise the Chatham County Partnership for Children's basic financial statements. The information in Schedules 1, 3, 4, and 5 is present 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, is 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

February 4, 2005

Chatham 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	
	Smart Start	Other	Restricted	Total
	Fund	Funds	Funds	Funds
Receipts:				
State Awards (less refunds of \$21,910)	\$ 909,628	\$ 167,172	\$ 0	\$ 1,076,800
Federal Awards		648,170	26,830	675,000
Local Awards			1,000	1,000
Private Contributions		6,886	810	7,696
Interest and Investment Earnings		937	204	1,141
Sales Tax Refunds		5,478		5,478
Other Receipts		4,140		4,140
Total Receipts	909,628	832,783	28,844	1,771,255
Net Assets Released from Restrictions:				
Satisfaction of Program Restrictions		37,269	(37,269)	
	909,628	870,052	(8,425)	1,771,255
Expenditures:				
Programs:				
Child Care and Education Affordability	152,422			152,422
Child Care and Education Quality	205,158	3,587		208,745
Family Support	201,811	1,313		203,124
Health and Safety	117,642			117,642
More at Four	32,589	153,506		186,095
Support:				
Fund Raising		50		50
Management and General	115,205	21,592		136,797
Program Coordination	38,422	8,603		47,025
Program Evaluation	42,838			42,838
Safe Start		683,640		683,640
Other:				
Sales Tax Paid		2,733		2,733
Total Expenditures	906,087	875,024		1,781,111
Excess of Receipts Over Expenditures	3,541	(4,972)	(8,425)	(9,856)
Net Assets at Beginning of Year	17,099	44,272	38,435	99,806
Net Assets at End of Year	\$ 20,640	\$ 39,300	\$ 30,010	\$ 89,950
Net Assets Consisted of:				
Cash and Cash Equivalents	\$ 20,540	\$ 39,300	\$ 30,010	\$ 89,850
Refunds Due From Contractors	100			100
	\$ 20,640	\$ 39,300	\$ 30,010	\$ 89,950

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

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

Exhibit B

	<u>Total</u>	<u>Personnel</u>	<u>Contracted Services</u>	<u>Supplies and Materials</u>	<u>Other Operating Expenditures</u>	<u>Fixed Charges and Other Expenditures</u>	<u>Property and Equipment Outlay</u>	<u>Services/ Contracts/ Grants</u>	<u>Participant Training Expenditures</u>
Smart Start Fund:									
Programs:									
Child Care and Education Affordability	\$ 152,422	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 152,422	\$ 0
Child Care and Education Quality	205,158							205,158	
Family Support	201,811							201,811	
Health and Safety	117,642							117,642	
More at Four	32,589							32,589	
	<u>709,622</u>							<u>709,622</u>	
Support:									
Management and General	115,205	78,196	14,007	1,698	12,119	9,017	168		
Program Coordination	38,422	23,806	2,887	844	9,890	995			
Program Evaluation	42,838	36,188	1,990	481	2,659	1,520			
	<u>196,465</u>	<u>138,190</u>	<u>18,884</u>	<u>3,023</u>	<u>24,668</u>	<u>11,532</u>	<u>168</u>		
Total Smart Start Fund Expenditures	<u>\$ 906,087</u>	<u>\$ 138,190</u>	<u>\$ 18,884</u>	<u>\$ 3,023</u>	<u>\$ 24,668</u>	<u>\$ 11,532</u>	<u>\$ 168</u>	<u>\$ 709,622</u>	<u>\$ 0</u>
Other Funds:									
Programs:									
Child Care and Education Quality	\$ 3,587	\$ 0	\$ 3,185	\$ 389	\$ 13	\$ 0	\$ 0	\$ 0	\$ 0
Family Support	1,313					163	1,150		
More at Four	153,506				217	4		153,285	
	<u>158,406</u>		<u>3,185</u>	<u>389</u>	<u>230</u>	<u>167</u>	<u>1,150</u>	<u>153,285</u>	
Support:									
Fund Raising	50					50			
Management and General	21,592		16,601	633	1,963	404		1,991	
Program Coordination	8,603			1,506	6,565	332		200	
Safe Start	683,640	240,622	115,671	7,951	55,176	21,709	2,635	239,876	
	<u>713,885</u>	<u>240,622</u>	<u>132,272</u>	<u>10,090</u>	<u>63,704</u>	<u>22,495</u>	<u>2,635</u>	<u>242,067</u>	
Other:									
Sales Tax Paid	2,733			2,733					
Total Other Funds Expenditures	<u>\$ 875,024</u>	<u>\$ 240,622</u>	<u>\$ 135,457</u>	<u>\$ 13,212</u>	<u>\$ 63,934</u>	<u>\$ 22,662</u>	<u>\$ 3,785</u>	<u>\$ 395,352</u>	<u>\$ 0</u>

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

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

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

A. Organization and Purpose - The Chatham County Partnership for Children (Chatham Partnership) is a legally separate nonprofit organization incorporated on June 30, 1994. The Chatham Partnership was established to develop and provide, through public and private means, early childhood education and developmental services for children and families. The Chatham 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 Chatham 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 Chatham 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 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, Chatham Partnership is required by contract regulation to track and maintain property and equipment items as presented in Schedule 4 of this report. The Chatham 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 Chatham 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 Chatham 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 Chatham Partnership to a concentration of credit risk.

NOTE 3 - FUNDING FROM GRANT AWARDS

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

Associated with these contracts, the Chatham 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 Chatham 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 Chatham Partnership was awarded and has received \$931,538 under a current year Smart Start contract with NCPC. The unexpended balance of this contract is subject to reversion to the State. The Chatham Partnership has returned \$25,443 of this contract to the State based on financial status reports submitted to NCPC subsequent to June 30, 2004.

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

Safe Start Program - The Chatham Partnership's additional major source of revenue and support was from the U.S. Department of Justice for the federally funded Safe Start Initiative. The Chatham Partnership is one of nine program sites selected for the 5-½ year demonstration project. Funding is based on the completion of specified phases of the project. In the current year, the Chatham Partnership received \$675,000. The Partnership expects to receive continued funding through the Safe Start Program contract with the U. S. Department of Justice.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

More at Four – The Chatham Partnership also received revenue and support from the State of North Carolina for the More at Four Program. The Chatham Partnership was awarded \$168,000 and spent \$153,506 under a current year cost-reimbursement contract. The Chatham 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 Chatham Partnership are representative of various organizations that benefit from actions taken by the Board. It is the policy of the Chatham Partnership that board members not be involved with decisions regarding organizations they represent. During the year, the Chatham 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 Chatham 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 associated with child care cost supports (Division of Child Development).

Child Care and Education Quality - Used to account for service activities including quality enhancement grants for upgrades, childcare resource and referral, professional development and kindergarten orientation/transition.

Family Support - Used to account for service activities including family resource centers, parenting skills training, general family support and family crisis intervention.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

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.

Safe Start – Used to develop a demonstration initiative to prevent and reduce the impact of family and community violence on young children (primarily from birth to six years of age) by helping communities to expand existing partnerships between service providers (such as law enforcement, mental health, early childhood education and others) to create a comprehensive service delivery system.

B. Support Functions

Fund Raising - Expenditures that are incurred in inducing others to contribute money, securities, time, materials, or facilities for which the contributor will receive no direct economic benefit.

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 record keeping, 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(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	\$ 36,503
2006	15,179
2007	10,800
2008	10,800
2009	<u>9,000</u>
Total Minimum Lease Payments	<u>\$ 82,282</u>

Rental expense for all operating leases during the year was \$27,633.

NOTE 7 - PENSION PLAN

- A. Retirement Plans** - The Chatham Partnership has a Simplified Employee Pension plan (SEP Plan) covering all full-time employees. Each full-time employee of the Chatham Partnership, as a condition of employment, is provided an Individual Retirement Account through an outside insurance company. The Chatham Partnership contributed 3% of gross wages for the year ended June 30, 2004. The Chatham Partnership does not own the accounts nor is liable for any other cost other than the required contribution. The Chatham Partnership contributed \$9,187 for pension benefits during the year.
- B. 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 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. No costs were incurred by the Chatham Partnership.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 8 - RISK MANAGEMENT

The Chatham 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 Chatham 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 Chatham 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 Chatham 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 \$12,386. No funds or reservation of net assets has been made for this commitment.
- B. Commitments on Contracts** - The Chatham Partnership had outstanding commitments of \$436,364 on cost-reimbursement contracts that had not been paid at June 30, 2004.

NOTES TO THE FINANCIAL STATEMENT (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
Safe Start	\$ 27,034
Lady Bug Subscriptions	230
Liberty Chapel	200
Apprendiendo	85
Success By Six	255
Kids Outdoors – Pilot/Model Outdoor Learning Center	2,175
Meetings – Safe Start	31
	<u>\$ 30,010</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
Safe Start	\$ 35,470
Week of the Young Child	177
Success By Six	92
Kids Outdoors – Pilot/Model Outdoor Learning Center	1,150
Program Income – Safe Start	380
	<u>\$ 37,269</u>

***Chatham 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
Carolina Outreach	\$ 0	\$ 0	\$ 12,706	\$ 0
Center for Child and Family Health			24,250	
Central Carolina Community College	* 1,290		7,508	
Chatham County Finance Office	*		51,781	
Chatham County Health Department	* 122,708		26,359	
Chatham County Schools system and Local Units	* 31,873		147,967	
Chatham Family Resource Center	76,011			
Child Care Networks	* 363,630	(100)		
Family Violence and Rape Crisis Services of Chatham County	54,615		63,824	
Heads Up!	24,859			
Orange Person Chatham Community Mental Health	* 34,736			
	<u>709,722</u>	<u>(100)</u>	<u>334,395</u>	
Individuals:				
In-Home Therapeutic Services			56,894	
Psychological Evaluation			4,063	
			<u>60,957</u>	
	<u>\$ 709,722</u>	<u>\$ (100)</u>	<u>\$ 395,352</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.

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

Schedule 2

Organization Name	DHHS Contracts
Chatham County Department of Social Services	* \$ 319,841
Child Care Services Association - WAGE\$ Program	<u>57,142</u>
	<u>\$ 376,983</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.

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

Schedule 3

<u>Federal/State Grantor/Pass-through Grantor/Program</u>	<u>Federal CFDA Number</u>	<u>Contract #</u>	<u>Receipts</u>	<u>Expenditures</u>
Federal Awards:				
US Department of Justice				
Pass-through from Chatham County				
Reduction and Prevention of Children's Exposure to Violence (Safe Start)	16.730	** 2000-JW-VX-K002	\$ 675,000	\$ 683,640
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)		N/A	(21,910)	(8)
Early Childhood Initiatives Program (Current Year)	*	N/A	931,538	906,095
Multi-County Accounting and Contracting Grant		N/A	12,000	12,150
North Carolina Department of Health and Human Services				
More at Four Pre-Kindergarten Program	*	20290003763	155,172	153,506
Total State Awards			<u>1,076,800</u>	<u>1,071,743</u>
Total Federal and State Awards			<u>\$ 1,751,800</u>	<u>\$ 1,755,383</u>

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

** Major Programs per OMB Circular A-133

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.

***Chatham 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	\$ 26,667
Computer Equipment/Printers	49,505
Motor Vehicles	<u>2,754</u>
Total Property and Equipment	<u><u>\$ 78,926</u></u>

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

***Chatham 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:

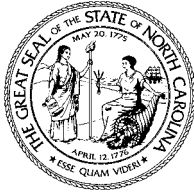
Cash	\$ 690,405
In-Kind Goods and Services	<u>22,746</u>
	<u><u>\$ 713,151</u></u>

Match Provided at the Contractor Level:

Cash	\$ 97,647
In-Kind Goods and Services	<u>105,567</u>
	<u><u>\$ 203,214</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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STATE OF NORTH CAROLINA
Office of the 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
Chatham County Partnership for Children
Pittsboro, North Carolina

We have audited the financial statements of the Chatham County Partnership for Children (Chatham Partnership) as of and for the year ended June 30, 2004, and have issued our report thereon dated February 4, 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 Chatham 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 Chatham 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 response, in the Schedule of Findings and Question Costs section of this report:

Finding

04-01 Inadequate Contract Fiscal Monitoring

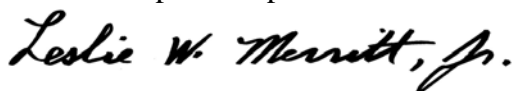
**INDEPENDENT AUDITOR'S REPORT
ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
THE FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS (CONCLUDED)**

A material weakness is a 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. 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.

Compliance and Other Matters

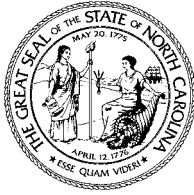
As part of obtaining reasonable assurance about whether the Chatham Partnership's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and 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 Chatham Partnership in a separate letter, dated March 7, 2005.

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

February 4, 2005



STATE OF NORTH CAROLINA
Office of the State Auditor

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**INDEPENDENT AUDITOR'S REPORT
ON COMPLIANCE WITH REQUIREMENTS APPLICABLE
TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Board of Directors
Chatham County Partnership for Children
Pittsboro, North Carolina

Compliance

We have audited the compliance of the Chatham County Partnership for Children (Chatham Partnership) with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2004. Chatham Partnership's major federal programs are identified in the summary of auditors' results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Chatham Partnership's management. Our responsibility is to express an opinion on Chatham Partnership's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Chatham Partnership's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Chatham Partnership's compliance with those requirements.

In our opinion, Chatham Partnership complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2004.

**INDEPENDENT AUDITOR'S REPORT
ON COMPLIANCE WITH REQUIREMENTS APPLICABLE
TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133 (CONCLUDED)**

Internal Control Over Compliance

The management of Chatham Partnership is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Chatham Partnership's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We noted a certain matter involving the internal control over compliance and its operation that we consider to be a reportable condition. A reportable condition involves matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the Chatham Partnership's ability to administer a major federal program in accordance with the applicable laws, regulations, contracts, and grants. The reportable condition is described in the accompanying Schedule of Findings and Questioned Costs as item 04-01, Inadequate Contract Fiscal Monitoring.

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 noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance 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 noted above to be a material weakness.

This report is intended solely for the information and use of the management of the Chatham Partnership, The North Carolina Partnership for Children, the Governor, the General Assembly, and federal Awarding agencies 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

February 4, 2005

**CHATHAM COUNTY PARTNERSHIP FOR CHILDREN
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2004**

I. SUMMARY OF AUDITOR'S RESULTS

YES NO

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

- | | | |
|--|-------------------------------------|-------------------------------------|
| • Material weakness identified | <input type="checkbox"/> | <input checked="" type="checkbox"/> |
| • Reportable conditions identified that are not considered to be material weaknesses | <input checked="" type="checkbox"/> | <input type="checkbox"/> |

Noncompliance material to financial statements noted?	<input type="checkbox"/>	<input checked="" type="checkbox"/>
---	--------------------------	-------------------------------------

Federal Awards

Internal control over major programs:

- | | | |
|--|-------------------------------------|-------------------------------------|
| • Material weakness identified | <input type="checkbox"/> | <input checked="" type="checkbox"/> |
| • Reportable conditions identified that are not considered to be material weaknesses | <input checked="" type="checkbox"/> | <input type="checkbox"/> |

Type of auditor's report issued on compliance for major federal programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133	<input type="checkbox"/>	<input checked="" type="checkbox"/>
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Identification of major federal programs:

<u>CFDA Numbers</u>	<u>Name of Federal Programs</u>
16.730	Safe Start Initiative

Dollar threshold used to distinguish between Type A and Type B Programs	\$500,000
---	------------------

Auditee qualified as low-risk auditee	<input type="checkbox"/>	<input checked="" type="checkbox"/>
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**CHATHAM COUNTY PARTNERSHIP FOR CHILDREN
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2004 (CONTINUED)**

II. FINANCIAL STATEMENT FINDINGS

04-01 - INADEQUATE CONTRACT FISCAL MONITORING

We reported in the prior audit that the Chatham Partnership's fiscal monitoring activities of service provider contracts were inadequate or not performed.

This finding is unresolved. We continued to note deficiencies with the Partnership's fiscal monitoring activities. Those monitoring activities were performed in the current year for the prior fiscal year. We also continued to identify instances where no on-site fiscal monitoring procedures were performed. On-site fiscal monitoring is a requirement of the Partnership's financial policies and procedures as well as of The North Carolina Partnership for Children, Inc.'s Fiscal Accountability Plan.

The effectiveness of the Partnership's contract management system is measured through the documented monitoring of its subcontractor performance. The Fiscal Accountability Plan speaks to the fiscal integrity and accountability of funds maintained by the Partnership.

Recommendation: We recommend that the Chatham Partnership adhere to its financial policies and procedures and document its fiscal monitoring activities in accordance with established policies.

Partnership's Response: The Partnership will improve strategies to ensure fiscal monitoring activities are completed in accordance with established policies.

**CHATHAM COUNTY PARTNERSHIP FOR CHILDREN
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2004 (CONCLUDED)**

III. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

04-01 - INADEQUATE CONTRACT FISCAL MONITORING

We reported in the prior audit that the Chatham Partnership's fiscal monitoring activities of service provider contracts were inadequate or not performed.

This finding is unresolved. We continued to note deficiencies with the Partnership's fiscal monitoring activities. Those monitoring activities were performed in the current year for the prior fiscal year. We also continued to identify instances where no on-site fiscal monitoring procedures were performed. On-site fiscal monitoring is a requirement of the Partnership's financial policies and procedures as well as of The North Carolina Partnership for Children, Inc.'s Fiscal Accountability Plan.

The effectiveness of the Partnership's contract management system is measured through the documented monitoring of its subcontractor performance. The Fiscal Accountability Plan speaks to the fiscal integrity and accountability of funds maintained by the Partnership.

Recommendation: We recommend that the Chatham Partnership adhere to its financial policies and procedures and document its fiscal monitoring activities in accordance with established policies.

Partnership's Response: The Partnership will improve strategies to ensure fiscal monitoring activities are completed in accordance with established policies.

**CHATHAM COUNTY PARTNERSHIP FOR CHILDREN
SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2004**

03-01 - CONTRACT FISCAL MONITORING

Our review of the Chatham Partnership's monitoring of service provider contracts noted that fiscal monitoring activities were inadequate or not performed in accordance to both the Partnership's financial policies and its oversight agencies' guidelines.

This finding is unresolved and reported in the current year audit report.

**CHATHAM COUNTY PARTNERSHIP FOR CHILDREN
CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED JUNE 30, 2004**

Finding Number	Contact Person Phone Number	Corrective Action Planned
04-01	Genevieve Megginson (919) 542-7449	Contract Fiscal Monitoring
		The Chatham County Partnership for Children has taken appropriate steps to ensure that fiscal monitoring occurs for all its contracts in compliance with its contracting and monitoring policies and procedures.

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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.

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The Honorable Richard H. Moore
The Honorable Roy A. Cooper, III
Mr. David T. McCoy
Mr. Robert L. Powell
Ms. Carmen Hooker Odom
Mr. Ashley Thrift

Ms. Karen Ponder

Governor of North Carolina
Lieutenant Governor of North Carolina
State Treasurer
Attorney General
State Budget Officer
State Controller
Secretary, Department of Health and Human Services
Chairman, Board of Directors
North Carolina Partnership for Children, Inc.
Executive Director
North Carolina Partnership for Children, Inc.

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Director, Fiscal Research Division

March 29, 2005

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