

STATE OF NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT OF

NEW HANOVER COUNTY PARTNERSHIP FOR CHILDREN

WILMINGTON, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2004

OFFICE OF THE STATE AUDITOR

LESLIE W. MERRITT, JR., CPA, CFP

STATE AUDITOR

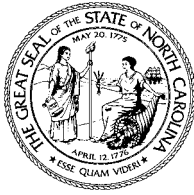
FINANCIAL STATEMENT AUDIT REPORT OF
NEW HANOVER COUNTY PARTNERSHIP FOR CHILDREN
WILMINGTON, NORTH CAROLINA
FOR THE YEAR ENDED JUNE 30, 2004

BOARD OF DIRECTORS

PATRICIA C. CARRIKER, BOARD CHAIRMAN

ADMINISTRATIVE OFFICER

JANET NELSON, 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, New Hanover County Partnership for Children

This report presents the results of our financial statement audit of the New Hanover County Partnership for Children (New Hanover 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 New Hanover 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 New Hanover 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 New Hanover Partnership is one of these local partnerships. As such, the New Hanover 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 New Hanover Partnership's ability to record, process, summarize, and report financial data in the financial statements and present instances of noncompliance or other matters, if any, with laws, regulations, contracts, or grant agreements.

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

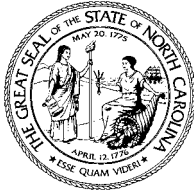
North Carolina General Statutes require the State Auditor to make audit reports available to the public. Copies of audit reports issued by the Office of the State Auditor may be obtained through one of the options listed in the back of this report.



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

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STATE OF NORTH CAROLINA
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INDEPENDENT AUDITOR'S REPORT

Board of Directors
New Hanover County Partnership for Children
Wilmington, North Carolina

We have audited the accompanying Statement of Receipts, Expenditures, and Net Assets – Modified Cash Basis of the New Hanover County Partnership for Children (New Hanover 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 New Hanover 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 New Hanover 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 June 14, 2005, on our consideration of the New Hanover 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

INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the New Hanover 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., CPA, CFP
State Auditor

June 14, 2005

***New Hanover 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 \$4,384)	\$ 1,393,567	\$ 12,000	\$ 0	\$ 1,405,567
Private Contributions		68,083	189,599	257,682
Interest and Investment Earnings		2,456		2,456
Sales Tax Refunds		787		787
Other Receipts		4,000		4,000
Total Receipts	1,393,567	87,326	189,599	1,670,492
Net Assets Released from Restrictions: Satisfaction of Program Restrictions		230,222	(230,222)	
	1,393,567	317,548	(40,623)	1,670,492
Expenditures:				
Programs:				
Child Care and Education Affordability		10,000		10,000
Child Care and Education Quality	630,959	35,565		666,524
Family Support	235,258	4,860		240,118
Health and Safety	247,247	248,353		495,600
Support:				
Management and General	189,192	30,554		219,746
Program Evaluation	71,456			71,456
Special Fund Raising Events		1,644		1,644
Other:				
Sales Tax Paid		4,494		4,494
Total Expenditures	1,374,112	335,470		1,709,582
Excess of Receipts Over Expenditures	19,455	(17,922)	(40,623)	(39,090)
Net Assets at Beginning of Year Restatement (Note 11)	4,189	13,594	231,758	249,541
		1,016	(1,016)	
Net Assets at Beginning of Year after Restatement	4,189	14,610	230,742	249,541
Net Assets at End of Year	\$ 23,644	\$ (3,312)	\$ 190,119	\$ 210,451
Net Assets Consisted of:				
Cash and Cash Equivalents	\$ 23,565	\$ (3,312)	\$ 190,119	\$ 210,372
Refunds Due From Contractors	90			90
	23,655	(3,312)	190,119	210,462
Less: Funds Held for Others	11			11
	\$ 23,644	\$ (3,312)	\$ 190,119	\$ 210,451

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

***New Hanover 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
Smart Start Fund:								
Programs:								
Child Care and Education Quality	\$ 630,959	\$ 196,481	\$ 7,300	\$ 5,948	\$ 20,704	\$ 41,797	\$ 9,334	\$ 349,395
Family Support	235,258	116,792	451	9,369	9,106	8,572	4,246	86,722
Health and Safety	247,247							247,247
	<u>1,113,464</u>	<u>313,273</u>	<u>7,751</u>	<u>15,317</u>	<u>29,810</u>	<u>50,369</u>	<u>13,580</u>	<u>683,364</u>
Support:								
Management and General	189,192	165,394	218	1,245	7,819	11,416	3,100	
Program Evaluation	71,456	61,430	337	743	1,709	5,614	1,623	
	<u>260,648</u>	<u>226,824</u>	<u>555</u>	<u>1,988</u>	<u>9,528</u>	<u>17,030</u>	<u>4,723</u>	
Total Smart Start Fund Expenditures	<u>\$ 1,374,112</u>	<u>\$ 540,097</u>	<u>\$ 8,306</u>	<u>\$ 17,305</u>	<u>\$ 39,338</u>	<u>\$ 67,399</u>	<u>\$ 18,303</u>	<u>\$ 683,364</u>
Other Funds:								
Programs:								
Child Care and Education Affordability	\$ 10,000	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 10,000
Child Care and Education Quality	35,565	22,909	65	6,097	1,043	1,959	3,492	
Family Support	4,860				15	535	3,243	1,067
Health and Safety	248,353	27,556	348	1,325	3,658	4,059	1,126	210,281
	<u>298,778</u>	<u>50,465</u>	<u>413</u>	<u>7,422</u>	<u>4,716</u>	<u>6,553</u>	<u>7,861</u>	<u>221,348</u>
Support:								
Management and General	30,554	2,203	12,755	283	3,540	10,894	879	
Special Fund Raising Events	1,644			35	16	1,593		
	<u>32,198</u>	<u>2,203</u>	<u>12,755</u>	<u>318</u>	<u>3,556</u>	<u>12,487</u>	<u>879</u>	
Other:								
Sales Tax Paid	4,494			4,494				
Total Other Funds Expenditures	<u>\$ 335,470</u>	<u>\$ 52,668</u>	<u>\$ 13,168</u>	<u>\$ 12,234</u>	<u>\$ 8,272</u>	<u>\$ 19,040</u>	<u>\$ 8,740</u>	<u>\$ 221,348</u>

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

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

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

- A. Organization and Purpose** - The New Hanover County Partnership for Children (New Hanover Partnership), is a legally separate nonprofit organization incorporated on April 18, 1995. The New Hanover Partnership was established to develop and provide, through public and private means, early childhood education and developmental services for children and families. The New Hanover 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 New Hanover 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 New Hanover Partnership did not have any permanently restricted net assets at June 30, 2004.

- C. Basis of Accounting** - The accompanying financial statements were prepared on the modified cash basis of accounting. This basis differs from accounting principles generally accepted in the United States of America primarily because it recognizes long lived assets and other costs which benefit more than one period as expended in the year purchased; it recognizes revenue when received rather than when earned; and it recognizes expenditures when paid rather than when incurred.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

However, unexpended advances to contractors that revert back to the State of North Carolina are recognized as a reduction to expenditures and an increase to net assets. In addition, amounts withheld from employee paychecks or other amounts received in an agency capacity are recorded as funds held for others.

- D. Cash and Cash Equivalents** - This classification appears on the Statement of Receipts, Expenditures, and Net Assets – Modified Cash Basis and includes all demand and savings accounts and certificate of deposits or short-term investments with an original maturity of three months or less.
- E. Refunds Due From Contractors** - Refunds due from contractors represent the unexpended amount of advances to contractors at year-end that are to be refunded back to the State. As recoveries are collected, the receivable balance is reduced. Payments to the State for the recovered advances are recorded as a reduction to the State awards balance.
- F. Funds Held For Others** - Funds held for others includes amounts received that are fiduciary in nature in which the New Hanover Partnership acts in an agency capacity. For the year ended, the New Hanover Partnership was holding amounts withheld from employee paychecks for distribution to taxing authorities.
- G. Property and Equipment** - Under the modified cash basis of accounting, purchases of property and equipment are reported as expenditures in the year occurred. However, New Hanover Partnership is required by contract regulation to track and maintain property and equipment items as presented in Schedule 4 of this report. The New Hanover Partnership has a policy to track purchases of property and equipment items with an individual cost of \$500 or more and an estimated useful life greater than one year. Such items are valued at their original purchase price, which may be different from their valuation as of June 30, 2004. Donated items are recorded at estimated fair market value at the date of donation.
- H. Compensated Absences** - As a result of the use of the modified cash basis of accounting, liabilities related to accrued compensated absences are not recorded in the financial statements. Expenditures related to compensated absences are recorded when paid. The amount of accrued compensated absences for accumulated, unpaid leave that would be due to employees upon termination is reported as a commitment in Note 9.
- I. Use of Estimates** - The preparation of financial statements in conformity with the modified cash basis of accounting used by the New Hanover Partnership requires management to make estimates and assumptions that

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 New Hanover 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 New Hanover Partnership to a concentration of credit risk. At June 30, 2004, the New Hanover Partnership's bank deposits in excess of the FDIC insured limit was \$158,359.

NOTE 3 - FUNDING FROM GRANT AWARDS

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

Associated with these contracts, the New Hanover 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 New Hanover 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 New Hanover Partnership was awarded and has received \$1,397,951 under a current year Smart Start contract with NCPC. The unexpended balance of this contract is subject to reversion to the State. The New Hanover Partnership has returned \$23,602 of this contract to the State based on financial status reports submitted to NCPC subsequent to June 30, 2004.

The New Hanover Partnership expects to receive continued funding through new Smart Start 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 New Hanover Partnership are representative of various organizations that benefit from actions taken by the Board. It is the policy of the New Hanover Partnership that board members not be involved with decisions regarding organizations they represent. During the year, the New Hanover 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 New Hanover 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 supplements for quality (outside the Division of Child Development).

Child Care and Education Quality - Used to account for service activities including quality enhancement grants for upgrades, health/safety training for child care professionals, special needs – support for child care professionals, or curriculum enhancements.

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

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

B. Support Functions

Management and General - Expenditures that are not identifiable with a single program or fund-raising activity but are indispensable to the

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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.

Special Fund Raising Events - Expenditures of special fund raising events in which the donor receives a direct benefit.

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 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	\$ 72,542
2006	<u>43,637</u>
Total Minimum Lease Payments	<u>\$ 116,179</u>

Rental expense for all operating leases during the year was \$70,593.

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 New Hanover Partnership, as a condition of employment, is provided an individual annuity through an outside insurance

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

company. The New Hanover Partnership contributed 6% 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 New Hanover Partnership contributed \$21,566 for retirement benefits during the year.

NOTE 8 - RISK MANAGEMENT

The New Hanover 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 New Hanover 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 New Hanover 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 New Hanover 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 \$13,866. No funds or reservation of net assets has been made for this commitment.

NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

NOTE 10 - RESTRICTIONS ON NET ASSETS

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

Purpose	Amount
Navigator Program	\$ 150,000
Share the Care Program	9,726
Cover Kids and Families (RWJ)	19,698
Project Hope – Carousel Center	9,759
Latino Outreach	15
Reading is Fundamental	921
	<u>\$ 190,119</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
Navigator Program	\$ 203,700
Share the Care Program	10,000
Cover Kids and Families (RWJ)	16,522
	<u>\$ 230,222</u>

NOTE 11 - RESTATEMENT OF NET ASSETS

The New Hanover Partnership received donor restricted funds for various activities during past fiscal years. These funds were incorrectly classified as unrestricted private contributions at the time of receipt. As a result, a reclassification of the net assets for both the Unrestricted Other and the Temporarily Restricted Funds is presented as follows:

	Net Assets Previously Reported	Net Effect of Prior Year Reclassification	July 1, 2003 Net Assets Restated
Unrestricted Funds - Smart Start	\$ 4,189	\$ 0	\$ 4,189
Unrestricted Funds - Other	13,594	1,016	14,610
Temporarily Restricted Funds	<u>231,758</u>	<u>(1,016)</u>	<u>230,742</u>
Total Net Assets	<u>\$ 249,541</u>	<u>\$ 0</u>	<u>\$ 249,541</u>

***New Hanover 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
American Red Cross	\$ 2,850	\$ 0	\$ 0	\$ 0
Carousel Center			6,581	
Family Support Network	8,000			
New Hanover County Community Action, Inc.	* 11,816			
New Hanover County Department of Social Services	*		10,000	
New Hanover County Health Department	* 208,247		203,700	
New Hanover County Public Library	* 110,000			
Parents As Teachers	80,000	(90)		
Southeastern Center for MH/DD/SA	* 31,000			
United Cerebral Palsy Child Development Center	* 160,000			
Various Daycare Providers	* 43,516			
	655,429	(90)	220,281	
<i>Paid to Individuals:</i>				
Latino Support Services	6,912		1,067	
Scholarships/ Bonus Awards	21,112			
	28,025		1,067	
	\$ 683,454	\$ (90)	\$ 221,348	\$ 0

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

***New Hanover 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	\$ 172,555
New Hanover County Department of Social Services	* 724,954
	<u>\$ 897,509</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.

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

Schedule 3

<u>State Grantor/Pass-through Grantor/Program</u>	<u>Contract #</u>	<u>Receipts</u>	<u>Expenditures</u>
State Awards:			
North Carolina Department of Health and Human Services			
Division of Child Development			
Pass-through from the North Carolina Partnership for Children, Inc.			
Early Childhood Initiatives Program (Prior Year)	N/A	\$ (4,384)	\$ 0
Early Childhood Initiatives Program (Current Year)	*	1,397,951	1,374,112
Multi-County Accounting and Contracting Grant	N/A	12,000	12,000
Total State Awards		<u>\$ 1,405,567</u>	<u>\$ 1,386,112</u>

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

***New Hanover 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	\$	33,002
Computer Equipment/Printers		46,859
Leasehold Improvements		<u>83,590</u>
Total Property and Equipment	\$	<u><u>163,451</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.

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

Schedule 5

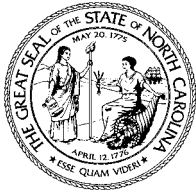
Match Provided at the Partnership Level:

Cash	\$ 272,751
In-Kind Goods and Services	<u>12,601</u>
	<u><u>\$ 285,352</u></u>

Match Provided at the Contractor Level:

Cash	\$ 178,374
In-Kind Goods and Services	<u>137,999</u>
	<u><u>\$ 316,373</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.



STATE OF NORTH CAROLINA
Office of the State Auditor

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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
New Hanover County Partnership for Children
Wilmington, North Carolina

We have audited the financial statements of the New Hanover County Partnership for Children (New Hanover Partnership), as of and for the year ended June 30, 2004, and have issued our report thereon dated June 14, 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 New Hanover Partnership's internal control over financial reporting in order to determine our auditing procedures for the purposes of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the New Hanover 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

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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 New Hanover Partnership, The North Carolina Partnership for Children, Inc., the Governor, and the General Assembly and is not intended to be and should not be used by anyone other than these specified parties.

Leslie W. Merritt, Jr.

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

June 14, 2005

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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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Director, Fiscal Research Division

August 26, 2005

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