



STATE OF NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT OF

STOKES PARTNERSHIP FOR CHILDREN

KING, 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

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KING, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2004

BOARD OF DIRECTORS

PERRY CARROLL, BOARD CHAIRMAN

ADMINISTRATIVE OFFICER

CINDY S. TUTTLE, 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, Stokes Partnership for Children

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

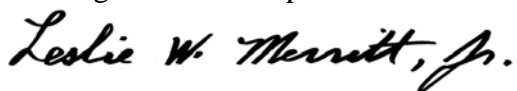
Results - The accompanying financial statements present fairly, in all material respects, the amounts and disclosures made in accordance with the modified cash basis of accounting, a comprehensive basis of accounting other than generally accepted accounting principles.

AUDITOR'S TRANSMITTAL (CONCLUDED)

2. **Objective** - To present significant deficiencies, if any, in internal control over financial reporting which could adversely affect the Stokes 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*.

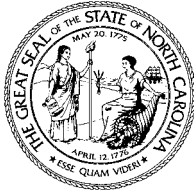
North Carolina General Statutes require the State Auditor to make audit reports available to the public. Copies of audit reports issued by the Office of the State Auditor may be obtained through one of the options listed in the back of this report.



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

TABLE OF CONTENTS

	PAGE
INDEPENDENT AUDITOR’S REPORT	1
FINANCIAL STATEMENTS	
EXHIBITS	
A Statement of Receipts, Expenditures, and Net Assets – Modified Cash Basis.....	3
B Statement of Functional Expenditures – Modified Cash Basis	4
Notes to the Financial Statements	5
SUPPLEMENTARY SCHEDULES	
1 Schedule of Contract and Grant Expenditures – Modified Cash Basis	13
2 Schedule of State Level Service Provider Contracts.....	14
3 Schedule of Federal and State Awards – Modified Cash Basis	15
4 Schedule of Property and Equipment – Modified Cash Basis	16
5 Schedule of Qualifying Match (Non-GAAP).....	17
INDEPENDENT AUDITOR’S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>	18
DISTRIBUTION OF AUDIT REPORT	21



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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Stokes Partnership for Children
King, North Carolina

We have audited the accompanying Statement of Receipts, Expenditures, and Net Assets – Modified Cash Basis of the Stokes Partnership for Children (Stokes 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 Stokes 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 Stokes 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 10, 2005, on our consideration of the Stokes 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

INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

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 Stokes 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

February 10, 2005

Stokes 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 \$14,085)	\$ 666,535	\$ 194,741	\$ 1,242	\$ 862,518
Federal Awards		162,258		162,258
Private Contributions		13,790		13,790
Special Fund Raising Events		80		80
Interest and Investment Earnings		107		107
Sales Tax Refunds		1,066		1,066
Other Receipts		42,050		42,050
Total Receipts	666,535	414,092	1,242	1,081,869
Expenditures:				
Programs:				
AmeriCorps and Children Together	18,266	166,623		184,889
Child Care and Education Affordability	108,251			108,251
Child Care and Education Quality	174,227	4,920		179,147
Family Support	64,450	1,760		66,210
Health and Safety	126,425	8,869		135,294
More at Four		178,780		178,780
Support:				
Fund Raising		370		370
Management and General	117,013	55,740		172,753
Program Evaluation	43,747	15		43,762
Other:				
Sales Tax Paid		2,837		2,837
Total Expenditures	652,379	419,914		1,072,293
Excess of Receipts Over Expenditures	14,156	(5,822)	1,242	9,576
Net Assets at Beginning of Year	14,085	(16,333)	114	(2,134)
Net Assets at End of Year	\$ 28,241	\$ (22,155)	\$ 1,356	\$ 7,442
Net Assets Consisted of:				
Cash and Cash Equivalents	\$ 24,568	\$ (22,449)	\$ 1,356	\$ 3,475
Refunds Due From Contractors	3,985	294		4,279
	28,553	(22,155)	1,356	7,754
Less: Funds Held for Others	312			312
	\$ 28,241	\$ (22,155)	\$ 1,356	\$ 7,442

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

***Stokes 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:									
AmeriCorps and Children Together	\$ 18,266	\$ 12,431	\$ 299	\$ 546	\$ 2,983	\$ 357	\$ 1,650	\$ 0	\$ 0
Child Care and Education Affordability	108,251	255		3	31	6		107,956	
Child Care and Education Quality	174,227	88,848	842	6,667	9,605	10,517	7,002	50,746	
Family Support	64,450							64,450	
Health and Safety	126,425	18,833		841	5,224	1,493	1,476	98,558	
	<u>491,619</u>	<u>120,367</u>	<u>1,141</u>	<u>8,057</u>	<u>17,843</u>	<u>12,373</u>	<u>10,128</u>	<u>321,710</u>	
Support:									
Management and General	117,013	93,408	1,941	2,000	7,408	10,424	1,832		
Program Evaluation	43,747	38,138		526	2,450	1,530	1,103		
	<u>160,760</u>	<u>131,546</u>	<u>1,941</u>	<u>2,526</u>	<u>9,858</u>	<u>11,954</u>	<u>2,935</u>		
Total Smart Start Fund Expenditures	<u>\$ 652,379</u>	<u>\$ 251,913</u>	<u>\$ 3,082</u>	<u>\$ 10,583</u>	<u>\$ 27,701</u>	<u>\$ 24,327</u>	<u>\$ 13,063</u>	<u>\$ 321,710</u>	<u>\$ 0</u>
Other Funds:									
Programs:									
AmeriCorps and Children Together	\$ 166,623	\$ 144,537	\$ 3,124	\$ 1,592	\$ 12,447	\$ 4,797	\$ 126	\$ 0	\$ 0
Child Care and Education Quality	4,920	1,537	800	178	1,128	1,277			
Family Support	1,760		100	973	687				
Health and Safety	8,869	3,598	35	981	2,899	946			410
More at Four	178,780	7,288		19	489	40		170,944	
	<u>360,952</u>	<u>156,960</u>	<u>4,059</u>	<u>3,743</u>	<u>17,650</u>	<u>7,060</u>	<u>126</u>	<u>170,944</u>	<u>410</u>
Support:									
Fund Raising	370			28	291	51			
Management and General	55,740	42,882	50	1,052	7,168	3,773	815		
Program Evaluation	15			4	11				
	<u>56,125</u>	<u>42,882</u>	<u>50</u>	<u>1,084</u>	<u>7,470</u>	<u>3,824</u>	<u>815</u>		
Other:									
Sales Tax Paid	2,837			2,837					
Total Other Funds Expenditures	<u>\$ 419,914</u>	<u>\$ 199,842</u>	<u>\$ 4,109</u>	<u>\$ 7,664</u>	<u>\$ 25,120</u>	<u>\$ 10,884</u>	<u>\$ 941</u>	<u>\$ 170,944</u>	<u>\$ 410</u>

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

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

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

A. Organization and Purpose - The Stokes Partnership for Children (Stokes Partnership) is a legally separate nonprofit organization incorporated on August 25, 1994. The Stokes Partnership was established to develop and provide, through public and private means, early childhood education and developmental services for children and families. The Stokes 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 Stokes 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 Stokes 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 Stokes Partnership acts in an agency capacity. For the year ended, the Stokes 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, Stokes Partnership is required by contract regulation to track and maintain property and equipment items as presented in Schedule 4 of this report. The Stokes 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 Stokes Partnership requires management to make estimates and assumptions that affect

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 Stokes 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 Stokes Partnership to a concentration of credit risk.

NOTE 3 - FUNDING FROM GRANT AWARDS

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

Associated with these contracts, the Stokes 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 Stokes 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 Stokes Partnership was awarded and has received \$680,620 under a current year Smart Start contract with NCPC. The unexpended balance of this contract is subject to reversion to the State. The Stokes Partnership has returned \$26,510 of this contract to the State based on financial status reports submitted to NCPC subsequent to June 30, 2004.

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

More at Four - The Stokes Partnership also received revenue and support from the State of North Carolina for the More at Four Program. The Stokes Partnership was awarded \$193,515 and received 179,177 under a current year

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

cost-reimbursement contract. The Stokes Partnership expects to receive continued funding through new More at Four contracts with the State.

AmeriCorps and Children Together (ACT) - The Stokes Partnership also received a grant from the Corporation for National and Community Service for the AmeriCorps program. The grant award is on a cost-reimbursement basis not to exceed \$140,759. As of June 30, 2004, the Stokes Partnership has received \$98,800. This grant award extended beyond the June 30 fiscal year end date.

NOTE 4 - RELATED PARTY TRANSACTIONS

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

AmeriCorps and Children Together (ACT) - ACT is a multi-county program made possible through a federal grant issued by the North Carolina Commission on Volunteerism and Community Service. This program is a national service program that places community service minded individuals in early childcare settings to provide release for teachers and general education enhancements.

Child Care and Education Affordability - Used to account for service activities including public pre-K classes, Head Start wraparound/extended

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

day, or child care subsidy programs outside of the Division of Child Development.

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, professional development, provider training, or curriculum enhancements.

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

Health and Safety - Used to account for service activities including comprehensive screenings, prenatal/newborn services, 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

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 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.

C. Allocation of Joint Costs

Expenditures benefiting more than one purpose were allocated as follows:

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Other Costs - Other costs including occupancy cost (rent, utilities and maintenance), supplies and materials, communication costs (telephone and printing), and copier charges 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	\$ 30,000
2006	30,600
2007	31,200
2008	4,200
2009	3,150
Total Minimum Lease Payments	<u>\$ 99,150</u>

Rental expense for all operating leases during the year was \$23,483.

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 Stokes Partnership, after the completion of one year of service, is provided an individual annuity through an outside insurance company. The Stokes Partnership contributed 7.5% 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 Stokes Partnership contributed \$15,801 for retirement benefits during the year.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 8 - RISK MANAGEMENT

The Stokes 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 Stokes 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 Stokes 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 Stokes 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 \$8,317. No funds or reservation of net assets has been made for this commitment.

NOTE 10 - RESTRICTIONS ON NET ASSETS

Temporarily restricted net assets at June 30, 2004, are available for the following purposes:

<u>Purpose</u>	<u>Amount</u>
Child Care Resource and Referral	\$ 114
Support for Families with Children with Special Needs	<u>1,242</u>
	<u>\$ 1,356</u>

NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

NOTE 11 - DEFICIT NET ASSETS – UNRESTRICTED OTHER FUNDS

The deficit net assets balance for the Unrestricted Other Funds column is a result of unreimbursed expenditures related to cost reimbursement arrangements such as the AmeriCorps grant and funds due from affiliates within the Multi-County Accounting and Contracting service agreement.

Stokes 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
Exchange Club Child Abuse Prevention of North Carolina	\$ 89,450	\$ (6)	\$ 0	\$ 0
Forsyth Technical Community College	* 37,500			
Northwest Child Development			68,426	(294)
Northwestern Regional Libraries	* 6,400	(1,109)		
Stokes County Schools	* 64,100	(1,732)	75,800	
Stokes Family Health Center	* 73,563			
Various Day Care Providers	12,638			
Yadkin Valley Economic Development District, Inc.	* 42,044	(1,138)	27,012	
	<u>\$ 325,695</u>	<u>\$ (3,985)</u>	<u>\$ 171,238</u>	<u>\$ (294)</u>

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

***Stokes 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\$	\$ 41,766
Stokes County Department of Social Services *	250,486
	<u>\$ 292,252</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.

Stokes 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:				
Administration for Children and Families, Department of Health and Human Services				
Pass-through from the NC Department of Health and Human Services, Division of Child Development				
Pass-through from Work Family Resource Center				
Child Care and Development Block Grant	93.575	#6227-04	\$ 4,077	\$ 4,341
Administration for Children and Families, Department of Health and Human Services				
Pass-through Yadkin Valley Economic Development District, Inc.				
AmeriCorps Partners	N/A	N/A	5,900	5,900
Corporation for National and Community Service				
Pass-through from the North Carolina Commission on Volunteerism and Community Services				
AmeriCorps and Children Together (ACT) (Prior Year)	94.006	00ASFNC0342501	21,031	
AmeriCorps and Children Together (ACT) (Current Year)	94.006 *	00ASFNC0020012	98,800	116,663
US Department of Health and Human Services				
Pass-through United Child Development				
AmeriCorps Partners	N/A	N/A	32,450	32,450
Total Federal Awards			<u>162,258</u>	<u>159,354</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	(14,085)	
Early Childhood Initiatives Program (Current Year)	*	N/A	680,620	652,379
Multi-County Accounting and Contracting Grant		N/A	12,000	12,000
North Carolina Department of Health and Human Services				
More at Four Pre-Kindergarten Program	*	#2090003683	179,177	178,780
University of North Carolina at Chapel Hill				
Community Based Family Support Program		2-42951-SUB-10	2,316	2,316
Parent to Parent Support Program		2-42951-SUB-10		1,168
North Carolina Department of Health and Human Services				
Division of Social Services				
Pass-through the University of North Carolina at Chapel Hill				
DSS: A Program to Serve Foster Families, 2002-2003		5-46215		3,394
North Carolina Department of Health and Human Services,				
Division of Social Services				
Pass-through from the University of North Carolina at Chapel Hill				
Program to Support Families with Children with Special Needs		5-46374	2,490	1,248
Total State Awards			<u>862,518</u>	<u>851,285</u>
Total Federal and State Awards			<u>\$ 1,024,776</u>	<u>\$ 1,010,639</u>

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

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

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

Schedule 4

Furniture and Noncomputer Equipment	\$ 12,445
Computer Equipment/Printers	<u>40,337</u>
Total Property and Equipment	<u><u>\$ 52,782</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.

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

Schedule 5

Match Provided at the Partnership Level:

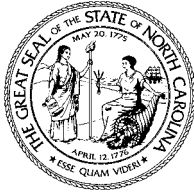
Cash	\$ 13,790
In-Kind Goods and Services	<u>11,644</u>
	<u><u>\$ 25,434</u></u>

Match Provided at the Contractor Level:

Cash	\$ 68,807
In-Kind Goods and Services	<u>30,205</u>
	<u><u>\$ 99,012</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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**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
Stokes Partnership for Children
King, North Carolina

We have audited the financial statements of the Stokes Partnership for Children (Stokes Partnership) as of and for the year ended June 30, 2004, and have issued our report thereon dated February 10, 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 Stokes 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 Stokes Partnership in a separate letter dated June 22, 2005.

**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)**

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Stokes 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 certain immaterial instances of noncompliance, which we have reported to the management of the Stokes Partnership in a separate letter, dated June 22, 2005.

This report is intended solely for the information and use of the audit committee, management of the Stokes 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 10, 2005

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Director, Fiscal Research Division

July 20, 2005

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