

# **STATE OF NORTH CAROLINA**

## **FINANCIAL STATEMENT AUDIT REPORT OF SURRY COUNTY EARLY CHILDHOOD PARTNERSHIP**

**MOUNT AIRY, NORTH CAROLINA**

**FOR THE YEAR ENDED JUNE 30, 2004**

**OFFICE OF THE STATE AUDITOR**

**LESLIE W. MERRITT, JR., CPA, CFP**

**STATE AUDITOR**

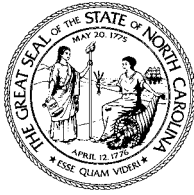
**FINANCIAL STATEMENT AUDIT REPORT OF**  
**SURRY COUNTY EARLY CHILDHOOD PARTNERSHIP**  
**MOUNT AIRY, NORTH CAROLINA**  
**FOR THE YEAR ENDED JUNE 30, 2004**

**BOARD OF DIRECTORS**

**DR. SWANSON RICHARDS, BOARD CHAIRMAN**

**ADMINISTRATIVE OFFICER**

**MARTY WESTMORELAND, EXECUTIVE DIRECTOR**



STATE OF NORTH CAROLINA  
**Office of the State Auditor**

**Leslie W. Merritt, Jr., CPA, CFP**  
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**AUDITOR'S TRANSMITTAL**

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The Honorable Michael F. Easley, Governor  
The General Assembly of North Carolina  
Board of Directors, Surry County Early Childhood Partnership

This report presents the results of our financial statement audit of the Surry County Early Childhood Partnership (Surry 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 Surry 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 Surry 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 Surry Partnership is one of these local partnerships. As such, the Surry 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)

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

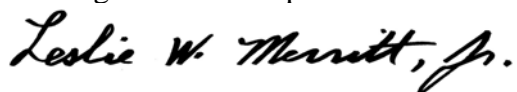
**Results** – The following condition represents a significant deficiency in internal control or noncompliance or other matters with laws, regulations, contracts, or grant agreements.

### **Finding**

#### Contract Management and Monitoring Weaknesses

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

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

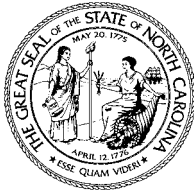


Leslie W. Merritt, Jr., CPA, CFP  
State Auditor

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STATE OF NORTH CAROLINA  
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**INDEPENDENT AUDITOR'S REPORT**

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Board of Directors  
Surry County Early Childhood Partnership  
Mount Airy, North Carolina

We have audited the accompanying Statement of Receipts, Expenditures, and Net Assets – Modified Cash Basis of the Surry County Early Childhood Partnership (Surry 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 Surry 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 Surry County Early Childhood Partnership 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 9, 2005, on our consideration of the Surry Partnership's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results

## INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

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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 Surry County Early Childhood Partnership'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 9, 2005

***Surry County Early Childhood Partnership  
Statement of Receipts, Expenditures, and Net Assets - Modified Cash Basis  
For the Year Ended June 30, 2004***

***Exhibit A***

	<b>Unrestricted Funds</b>		<b>Temporarily Restricted Funds</b>	<b>Total Funds</b>
	<b>Smart Start Fund</b>	<b>Other Funds</b>		
<b>Receipts:</b>				
State Awards (less refunds of \$28,266)	\$ 1,158,927	\$ 365,491	\$ 0	\$ 1,524,418
Private Contributions		1		1
Interest and Investment Earnings		203		203
Sales Tax Refunds		1,150		1,150
<b>Total Receipts</b>	<b>1,158,927</b>	<b>366,845</b>		<b>1,525,772</b>
Net Assets Released from Restrictions:				
Satisfaction of Program Restrictions		517	(517)	
	<b>1,158,927</b>	<b>367,362</b>	<b>(517)</b>	<b>1,525,772</b>
<b>Expenditures:</b>				
Programs:				
Child Care and Education Accessibility and Availability	3,000			3,000
Child Care and Education Affordability	398,305			398,305
Child Care and Education Quality	257,369	938		258,307
Family Support	177,610	456		178,066
Health and Safety	182,501			182,501
More at Four		357,249		357,249
Support:				
Management and General	111,236	5,435		116,671
Program Evaluation	17,172			17,172
Other:				
Refund of Prior Year Grant		370		370
Sales Tax Paid		941		941
<b>Total Expenditures</b>	<b>1,147,193</b>	<b>365,389</b>		<b>1,512,582</b>
<b>Excess of Receipts Over Expenditures</b>	<b>11,734</b>	<b>1,973</b>	<b>(517)</b>	<b>13,190</b>
<b>Net Assets at Beginning of Year</b>	<b>22,053</b>	<b>20,366</b>	<b>7,129</b>	<b>49,548</b>
<b>Net Assets at End of Year</b>	<b>\$ 33,787</b>	<b>\$ 22,339</b>	<b>\$ 6,612</b>	<b>\$ 62,738</b>
<b>Net Assets Consisted of:</b>				
Cash and Cash Equivalents	\$ 17,325	\$ 22,339	\$ 6,612	\$ 46,276
Refunds Due From Contractors	16,462			16,462
	<b>\$ 33,787</b>	<b>\$ 22,339</b>	<b>\$ 6,612</b>	<b>\$ 62,738</b>

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



**Surry County Early Childhood Partnership**  
**Statement of Functional Expenditures - Modified Cash Basis**  
**For the Year Ended June 30, 2004**

**Exhibit B**

	Total	Personnel	Contracted Services	Supplies and Materials	Other Operating Expenditures	Fixed Charges and Other Expenditures	Property and Equipment Outlay	Services/ Contracts/ Grants	Participant Training Expenditures
<b>Smart Start Fund:</b>									
<b>Programs:</b>									
Child Care and Education Accessibility and Availability	\$ 3,000	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 3,000	\$ 0
Child Care and Education Affordability	398,305							398,305	
Child Care and Education Quality	257,369	40,517		3,040	9,070	2,767	241	201,734	
Family Support	177,610							177,610	
Health and Safety	182,501	33,152		1,835	5,208	1,261		141,045	
	<u>1,018,785</u>	<u>73,669</u>		<u>4,875</u>	<u>14,278</u>	<u>4,028</u>	<u>241</u>	<u>921,694</u>	
<b>Support:</b>									
Management and General	111,236	83,823	3,491	1,763	9,179	11,538	1,442		
Program Evaluation	17,172	14,113		431	1,072	1,315	241		
	<u>128,408</u>	<u>97,936</u>	<u>3,491</u>	<u>2,194</u>	<u>10,251</u>	<u>12,853</u>	<u>1,683</u>		
<b>Total Smart Start Fund Expenditures</b>	<u>\$ 1,147,193</u>	<u>\$ 171,605</u>	<u>\$ 3,491</u>	<u>\$ 7,069</u>	<u>\$ 24,529</u>	<u>\$ 16,881</u>	<u>\$ 1,924</u>	<u>\$ 921,694</u>	<u>\$ 0</u>
<b>Other Funds:</b>									
<b>Programs:</b>									
Child Care and Education Quality	\$ 938	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 938	\$ 0
Family Support	456							456	
More at Four	357,249	23,821		42	1,369	391		331,626	
	<u>358,643</u>	<u>23,821</u>		<u>42</u>	<u>1,369</u>	<u>391</u>		<u>333,020</u>	
<b>Support:</b>									
Management and General	5,435		5,133		302				
<b>Other:</b>									
Refund of Prior Year Grant	370					370			
Sales Tax Paid	941			941					
	<u>1,311</u>			<u>941</u>		<u>370</u>			
<b>Total Other Funds Expenditures</b>	<u>\$ 365,389</u>	<u>\$ 23,821</u>	<u>\$ 5,133</u>	<u>\$ 983</u>	<u>\$ 1,671</u>	<u>\$ 761</u>	<u>\$ 0</u>	<u>\$ 333,020</u>	<u>\$ 0</u>

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

**SURRY COUNTY EARLY CHILDHOOD PARTNERSHIP  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2004**

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**NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES**

**A. Organization and Purpose** – The Surry County Early Childhood Partnership (Surry Partnership) is a legally separate nonprofit organization incorporated on August 24, 1994. The Surry Partnership was established to develop and provide, through public and private means, early childhood education and developmental services for children and families. The Surry 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 Surry 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 Surry 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)

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

- D. Cash and Cash Equivalents** – This classification appears on the Statement of Receipts, Expenditures, and Net Assets – Modified Cash Basis and includes all demand and savings accounts and certificate of deposits or short-term investments with an original maturity of three months or less.
- E. Refunds Due From Contractors** – Refunds due from contractors represent the unexpended amount of advances to contractors at year-end that are to be refunded back to the State. As recoveries are collected, the receivable balance is reduced. Payments to the State for the recovered advances are recorded as a reduction to the State awards balance.
- F. Property and Equipment** – Under the modified cash basis of accounting, purchases of property and equipment are reported as expenditures in the year occurred. However, Surry Partnership is required by contract regulation to track and maintain property and equipment items as presented in Schedule 4 of this report. The Surry 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 modified cash basis of accounting used by the Surry 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)

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### NOTE 2 - DEPOSITS

All funds of the Surry 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 Surry Partnership to a concentration of credit risk.

### NOTE 3 - FUNDING FROM GRANT AWARDS

**Smart Start Program** – The Surry 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 Surry Partnership and represents a concentration of credit risk as to the generation of revenue.

Associated with these contracts, the Surry 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 Surry 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 Surry Partnership was awarded and has received \$1,180,980 under a current year Smart Start contract with NCPC. The unexpended balance of this contract is subject to reversion to the State. The Surry Partnership has returned \$33,787 of this contract to the State based on financial status reports submitted to NCPC subsequent to June 30, 2004.

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

**More at Four** – The Surry Partnership also received revenue and support from the State of North Carolina for the More at Four Program. The Surry Partnership was awarded \$378,290 and received \$359,704 under a current year cost-reimbursement contract. The Surry Partnership expects to receive continued funding through new More at Four contracts with the State.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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### NOTE 4 - RELATED PARTY TRANSACTIONS

**Service Provider Contracts with Board Member Organizations** – The board members of the Surry Partnership are representative of various organizations that benefit from actions taken by the Board. It is the policy of the Surry Partnership that board members not be involved with decisions regarding organizations they represent. During the year, the Surry 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 Surry 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 Accessibility and Availability** – Used to account for service activities associated with increasing child care availability.

**Child Care and Education Affordability** – Used to account for service activities associated with public pre-K classes.

**Child Care and Education Quality** – Used to account for service activities including quality enhancement grants for upgrades, child care resource and referral, professional development, child care substitutes, salary supplements, or provider training.

**Family Support** – Used to account for service activities including teen parent/child programs, ongoing parenting education, general family support, family crisis intervention, or literacy projects.

**Health and Safety** – Used to account for service activities including comprehensive health services, prenatal/newborn services, special needs – early intervention services/special education, or nutrition programs.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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**More at Four** – Used to account for development and implementation of More at Four prekindergarten program for at-risk four-year-olds who are at risk of failure in kindergarten. The goal is to provide quality prekindergarten services in order to enhance kindergarten readiness.

### B. Support Functions

**Management and General** – Expenditures that are not identifiable with a single program or fund-raising activity but are indispensable to the conduct of those activities and to an organization's existence, including expenditures for the overall direction of the organization, its general board activities, business management, general recordkeeping, budgeting, and related purposes.

**Program Evaluation** – Expenditures that are incurred to monitor the performance of service providers as to the delivery of services and adherence to the specific terms and conditions of the contracts.

### C. Allocation of Joint Costs

Expenditures benefiting more than one purpose were allocated as follows:

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

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

## NOTE 6 - OPERATING LEASE OBLIGATIONS

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

<u>Fiscal Year</u>	<u>Operating Leases</u>
2005	\$ 7,632
2006	1,188
2007	1,188
2008	1,188
2009	1,188
<b>Total Minimum Lease Payments</b>	<b>\$ 12,384</b>

Rental expense for all operating leases during the year was \$9,922.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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### NOTE 7 - PENSION PLAN

IRC Section 403(b) Plan – All permanent employees who are full 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 Surry Partnership, as a condition of employment, is provided an individual annuity through an outside insurance company. The Surry 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 Surry Partnership contributed \$7,925 for retirement benefits during the year.

### NOTE 8 - RISK MANAGEMENT

The Surry 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 Surry 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 Surry 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 Surry Partnership's use of the modified cash basis of accounting, accrued liabilities related to compensated absences (vacation and sick leave; sick leave paid out at one half the employee's hourly rate) and any employer-related costs earned and unpaid, are not reflected in the financial statements. The compensated absences

## NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

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commitment for vacation leave at June 30, 2004, is \$12,721. The compensated absences commitment for sick leave at June 30, 2004, is \$3,081. No funds or reservation of net assets has been made for this commitment.

### NOTE 10 - RESTRICTIONS ON NET ASSETS

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

<u>Purpose</u>	<u>Amount</u>
Family Support – Duke Energy Grant	<u>\$ 6,612</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:

<u>Purpose</u>	<u>Amount</u>
Family Support – Duke Energy Grant	\$ 456
Scholarship Program – Reynolds Grant	<u>61</u>
	<u>\$ 517</u>



***Surry County Early Childhood Partnership  
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
Bright Beginnings	* \$ 0	\$ 0	\$ 34,108	\$ 0
Elkin City Schools	* 22,950			
Lifespan Incorporated	* 31,674		40,276	
Mount Airy City Schools	* 73,942		54,857	
North Carolina Cooperative Extension Service	* 12,905			
Northwestern Regional Library	* 41,000			
Surry Community College	* 7,750	(900)	938	
Surry County Health and Nutrition Center	* 86,279	(8,638)		
Surry County Schools	* 335,072	(3,031)	154,942	
Surry SCAN	* 128,700	(3,893)		
Various Childcare Centers/Homes	5,100			
Yadkin Valley Economic Development	*		47,443	
	<u>745,372</u>	<u>(16,462)</u>	<u>332,564</u>	
<b>Individuals:</b>				
Crisis Assistance			456	
Enhancements	9,155			
Salary Supplements	183,629			
	<u>192,784</u>		<u>456</u>	
	<u>\$ 938,156</u>	<u>\$ (16,462)</u>	<u>\$ 333,020</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.

***Surry County Early Childhood Partnership  
Schedule of State Level Service Provider Contracts  
For the Year Ended June 30, 2004***

***Schedule 2***

<b>Organization Name</b>	<b>DHHS Contracts</b>
Surry County Department of Social Services	* \$ 539,501

\* This organization is 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.

***Surry County Early Childhood Partnership  
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>
<b>State Awards:</b>			
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)	Various	\$ (22,053)	\$ 0
Early Childhood Initiatives Program (Current Year)	* N/A	1,180,980	1,147,193
Multi-County Accounting and Contracting Grant (Prior Year)	N/A	(6,213)	
Multi-County Accounting and Contracting Grant (Current)	N/A	12,000	5,133
North Carolina Department of Health and Human Services			
More at Four Pre-Kindergarten Program	* #2090003694	359,704	357,249
<b>Total State Awards</b>		<u>\$ 1,524,418</u>	<u>\$ 1,509,575</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.

***Surry County Early Childhood Partnership  
Schedule of Property and Equipment - Modified Cash Basis  
For the Year Ended June 30, 2004***

***Schedule 4***

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Furniture and Noncomputer Equipment	\$ 12,326
Computer Equipment/Printers	49,777
Leasehold Improvements	<u>2,030</u>
Total Property and Equipment	<u><u>\$ 64,133</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.

***Surry County Early Childhood Partnership  
Schedule of Qualifying Match (Non-GAAP)  
For the Year Ended June 30, 2004***

***Schedule 5***

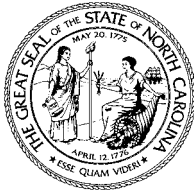
***Match Provided at the Partnership Level:***

Cash	\$	1
In-Kind Goods and Services		<u>1,338</u>
	\$	<u><u>1,339</u></u>

***Match Provided at the Contractor Level:***

Cash	\$	148,879
In-Kind Goods and Services		<u>131,566</u>
	\$	<u><u>280,445</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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**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**

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Board of Directors  
Surry County Early Childhood Partnership  
Mount Airy, North Carolina

We have audited the financial statements of the Surry County Early Childhood Partnership (Surry Partnership) as of and for the year ended June 30, 2004, and have issued our report thereon dated February 9, 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 Surry 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 Surry 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 Audit Findings and Recommendations section of this report:

**Contract Management and Monitoring 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

**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)**

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employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we do not believe the reportable condition described above to be a material weakness. We also noted other matters involving the internal control over financial reporting, which we have reported to management of the Surry Partnership in a separate letter dated April 19, 2005.

Compliance and Other Matters

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

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

February 9, 2005

## AUDIT FINDINGS AND RECOMMENDATIONS

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### **Matters Related to Financial Reporting**

The following findings and recommendations were identified during the current audit and discuss conditions that represent significant deficiencies in internal control and/or noncompliance with laws, regulations, contracts, or grant agreements.

#### CONTRACT MANAGEMENT AND MONITORING WEAKNESSES

Our testwork identified weaknesses with the Surry Partnership's contract management and monitoring systems including the lack of written contracting policies and procedures and limited documentation to substantiate the Partnership's programmatic monitoring of its direct service providers.

The achievement of the Partnership's goals and objectives is dependent on the effectiveness of its contract management system and its monitoring of contractor performance. An adequate contract management system includes written contracting policies and procedures that provide guidance and direction for the performance and documentation of monitoring activities.

*Recommendation:* We recommend that the Surry Partnership develop and implement contract management policies and procedures patterned after guidelines established by The North Carolina Partnership for Children, Inc. Documentation of monitoring activities should be enhanced to support direct service providers' compliance with projected outcomes or outputs.

*Partnership's Response:* The Surry County Early Childhood Partnership is currently developing new contracting policies and procedures patterned after guidelines established by The North Carolina Partnership for Children, Inc. While programmatic visits were performed during the year, the Surry County Early Childhood Partnership will address adequately documenting the verification of Direct Service Providers' compliance with projected outcomes/outputs.



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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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Ms. Karen Ponder

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State Treasurer  
Attorney General  
State Budget Officer  
State Controller  
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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

May 9, 2005

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