

STATE OF NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT OF PARTNERSHIP FOR CHILDREN OF LINCOLN/GASTON COUNTIES, INC.

DALLAS, 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
PARTNERSHIP FOR CHILDREN OF LINCOLN/GASTON
COUNTIES, INC.**

DALLAS, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2004

BOARD OF DIRECTORS

RHONDA SIGMON, BOARD CHAIR

ADMINISTRATIVE OFFICER

SHERRY L. BROWNING, 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, Partnership for Children of Lincoln/Gaston Counties, Inc.

This report presents the results of our financial statement audit of the Partnership for Children of Lincoln/Gaston Counties, Inc. (Lincoln/Gaston 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 Lincoln/Gaston 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 Lincoln/Gaston 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 Lincoln/Gaston Partnership is one of these local partnerships. As such, the Lincoln/Gaston 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 Lincoln/Gaston 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*.

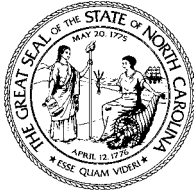
North Carolina General Statutes require the State Auditor to make audit reports available to the public. Copies of audit reports issued by the Office of the State Auditor may be obtained through one of the options listed in the back of this report.



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

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Partnership for Children of Lincoln/Gaston Counties, Inc.
Dallas, North Carolina

We have audited the accompanying Statement of Receipts, Expenditures, and Net Assets – Modified Cash Basis of the Partnership for Children of Lincoln/Gaston Counties, Inc., (Lincoln/Gaston 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 Lincoln/Gaston 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 Partnership for Children of Lincoln/Gaston Counties, Inc., 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 December 9, 2004 on our consideration of the Lincoln/Gaston 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

INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

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 Partnership for Children of Lincoln/Gaston Counties, Inc.'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.

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

December 9, 2004

Partnership for Children of Lincoln/Gaston Counties, Inc.
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 \$47,675) | \$ 2,620,284 | \$ 261,745 | \$ 0 | \$ 2,882,029 |
| Federal Awards (less refunds of \$251) | | 40,322 | | 40,322 |
| Private Contributions | | 3,474 | | 3,474 |
| Interest and Investment Earnings | | 1,349 | | 1,349 |
| Sales Tax Refunds | | 8,132 | | 8,132 |
| Other Receipts | | 255 | | 255 |
| Total Receipts | 2,620,284 | 315,277 | | 2,935,561 |
| Expenditures: | | | | |
| Programs: | | | | |
| Child Care and Education Quality | 1,891,733 | 41,735 | | 1,933,468 |
| Family Support | 179,991 | | | 179,991 |
| Health and Safety | 87,690 | 1,266 | | 88,956 |
| More at Four | 35,736 | 244,583 | | 280,319 |
| Support: | | | | |
| Management and General | 293,383 | 20,360 | | 313,743 |
| Program Coordination | 137,000 | 29 | | 137,029 |
| Other: | | | | |
| Sales Tax Paid | | 6,923 | | 6,923 |
| Total Expenditures | 2,625,533 | 314,896 | | 2,940,429 |
| Excess of Receipts Over Expenditures | (5,249) | 381 | | (4,868) |
| Net Assets at Beginning of Year | 40,896 | 2,366 | 9,963 | 53,225 |
| Net Assets at End of Year | \$ 35,647 | \$ 2,747 | \$ 9,963 | \$ 48,357 |
| Net Assets Consisted of: | | | | |
| Cash and Cash Equivalents | \$ 35,374 | \$ 2,750 | \$ 9,963 | \$ 48,087 |
| Refunds Due From Contractors | 331 | | | 331 |
| | 35,705 | 2,750 | 9,963 | 48,418 |
| Less: Funds Held for Others | 58 | 3 | | 61 |
| | \$ 35,647 | \$ 2,747 | \$ 9,963 | \$ 48,357 |

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

Partnership for Children of Lincoln/Gaston Counties, Inc.
Statement of Functional Expenditures - Modified Cash Basis
For the Year Ended June 30, 2004

Exhibit B

| | <u>Total</u> | <u>Personnel</u> | <u>Contracted Services</u> | <u>Supplies and Materials</u> | <u>Other Operating Expenditures</u> | <u>Fixed Charges and Other Expenditures</u> | <u>Property and Equipment Outlay</u> | <u>Services/Contracts/Grants</u> | <u>Participant Training Expenditures</u> |
|--------------------------------------------|---------------------|-------------------|----------------------------|-------------------------------|-------------------------------------|---------------------------------------------|--------------------------------------|----------------------------------|------------------------------------------|
| Smart Start Fund: | | | | | | | | | |
| Programs: | | | | | | | | | |
| Child Care and Education Quality | \$ 1,891,733 | \$ 86,078 | \$ 176,540 | \$ 1,161 | \$ 8,054 | \$ 14,212 | \$ 254 | \$ 1,605,434 | \$ 0 |
| Family Support | 179,991 | | | | | | | 179,991 | |
| Health and Safety | 87,690 | | | | | | | 87,690 | |
| More at Four | 35,736 | | | | | | | 35,736 | |
| | <u>2,195,150</u> | <u>86,078</u> | <u>176,540</u> | <u>1,161</u> | <u>8,054</u> | <u>14,212</u> | <u>254</u> | <u>1,908,851</u> | |
| Support: | | | | | | | | | |
| Management and General | 293,383 | 244,184 | 6,337 | 4,716 | 19,610 | 16,374 | 2,162 | | |
| Program Coordination | 137,000 | 109,487 | 635 | 2,370 | 9,950 | 11,503 | 3,055 | | |
| | <u>430,383</u> | <u>353,671</u> | <u>6,972</u> | <u>7,086</u> | <u>29,560</u> | <u>27,877</u> | <u>5,217</u> | | |
| Total Smart Start Fund Expenditures | <u>\$ 2,625,533</u> | <u>\$ 439,749</u> | <u>\$ 183,512</u> | <u>\$ 8,247</u> | <u>\$ 37,614</u> | <u>\$ 42,089</u> | <u>\$ 5,471</u> | <u>\$ 1,908,851</u> | <u>\$ 0</u> |
| Other Funds: | | | | | | | | | |
| Programs: | | | | | | | | | |
| Child Care and Education Quality | \$ 41,735 | \$ 38,005 | \$ 560 | \$ 328 | \$ 1,578 | \$ 1,264 | \$ 0 | \$ 0 | \$ 0 |
| Health and Safety | 1,266 | | | | | | | 1,266 | |
| More at Four | 244,583 | | | | | | | 244,583 | |
| | <u>287,584</u> | <u>38,005</u> | <u>560</u> | <u>328</u> | <u>1,578</u> | <u>1,264</u> | | <u>245,849</u> | |
| Support: | | | | | | | | | |
| Management and General | 20,360 | | 18,980 | 206 | 999 | 150 | | | 25 |
| Program Coordination | 29 | | | | 29 | | | | |
| | <u>20,389</u> | | <u>18,980</u> | <u>206</u> | <u>1,028</u> | <u>150</u> | | | <u>25</u> |
| Other: | | | | | | | | | |
| Sales Tax Paid | 6,923 | | | 6,923 | | | | | |
| Total Other Funds Expenditures | <u>\$ 314,896</u> | <u>\$ 38,005</u> | <u>\$ 19,540</u> | <u>\$ 7,457</u> | <u>\$ 2,606</u> | <u>\$ 1,414</u> | <u>\$ 0</u> | <u>\$ 245,849</u> | <u>\$ 25</u> |

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

PARTNERSHIP FOR CHILDREN OF LINCOLN/GASTON COUNTIES, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

A. Organization and Purpose - The Partnership for Children of Lincoln/Gaston Counties, Inc., (Lincoln/Gaston Partnership) is a legally separate nonprofit organization incorporated on May 3, 1996. The Lincoln/Gaston Partnership was established to develop and provide, through public and private means, early childhood education and developmental services for children and families. The Lincoln/Gaston 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 Lincoln/Gaston 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 Lincoln/Gaston 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 Lincoln/Gaston Partnership acts in an agency capacity. For the year ended, the Lincoln/Gaston Partnership was holding amounts withheld from employee paychecks for distribution to insurance agents.
- 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, Lincoln/Gaston Partnership is required by contract regulation to track and maintain property and equipment items as presented in Schedule 4 of this report. The Lincoln/Gaston 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 Lincoln/Gaston 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 Lincoln/Gaston 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 Lincoln/Gaston Partnership to a concentration of credit risk. At June 30, 2004, the Lincoln/Gaston Partnership's bank deposits in excess of the FDIC insured limit was \$188,841.

NOTE 3 - FUNDING FROM GRANT AWARDS

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

Associated with these contracts, the Lincoln/Gaston 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 Lincoln/Gaston 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 Lincoln/Gaston Partnership was awarded and has received \$2,661,335 under a current year Smart Start contract with NCPC. The unexpended balance of this contract is subject to reversion to the State. The Lincoln/Gaston Partnership has returned \$35,568 of this contract to the State based on financial status reports submitted to NCPC subsequent to June 30, 2004.

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

More at Four - The Lincoln/Gaston Partnership also received revenue and support from the State of North Carolina for the More at Four Program. The

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Lincoln/Gaston Partnership was awarded \$275,216 and received \$244,369 under a current year cost-reimbursement contract. The Lincoln/Gaston Partnership expects to receive continued funding through new More at Four contracts with the State.

NOTE 4 - RELATED PARTY TRANSACTIONS

Service Provider Contracts with Board Member Organizations - The board members of the Lincoln/Gaston Partnership are representative of various organizations that benefit from actions taken by the Board. It is the policy of the Lincoln/Gaston Partnership that board members not be involved with decisions regarding organizations they represent. During the year, the Lincoln/Gaston 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 Lincoln/Gaston 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 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, salary supplements, provider training, or special needs – support for child care professionals,

Family Support - Used to account for service activities including family resource centers, parenting skills training, or teen parent/child programs.

Health and Safety - Used to account for service activities including oral health services or child care health consultants.

More at Four - Used to account for development and implementation of More at Four prekindergarten program for at-risk four-year-olds who are

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 record keeping, budgeting, and related purposes.

Program Coordination - Expenditures that are incurred to coordinate the policies, procedures, and daily practices of service delivery. Also, costs associated with monitoring in-house and direct service provider activities.

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) 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 | \$ 5,137 |
| 2006 | 5,137 |
| 2007 | 4,372 |
| 2008 | <u>2,402</u> |
| Total Minimum Lease Payments | \$ <u>17,048</u> |

Rental expense for all operating leases during the year was \$37,137.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 7 - PENSION PLAN

Deferred Compensation and Supplemental Retirement Income Plans- IRC Section 401(k) Plan - The Lincoln/Gaston Partnership has an IRC Section 401(k) plan (Plan). All costs of administering the Plan are the responsibility of the Plan participants. Employees may make voluntary contributions to the Plan. The Partnership makes a matching contribution up to 2% of the employees' contribution. In addition, the Lincoln/Gaston Partnership makes an employer base contribution of 4% of eligible employees' gross salary. The employer-based contribution occurs regardless to the amount of elective deferrals made by the employees. For the year ended June 30, 2004, the Lincoln/Gaston Partnership contributed \$20,102.

NOTE 8 - RISK MANAGEMENT

The Lincoln/Gaston 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 Lincoln/Gaston 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 Lincoln/Gaston 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 Lincoln/Gaston 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 \$17,665. 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

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

| Purpose | Amount |
|---------------------------------------------|-----------------|
| Welcome Baby Project | \$ 9,500 |
| Lincoln and Gaston Counties Child Care | 413 |
| Child Care Quality Assessment Pilot Project | 50 |
| | <u>\$ 9,963</u> |

Partnership for Children of Lincoln/Gaston Counties, Inc.
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 |
| A Loving Change | \$ 17,170 | \$ 0 | \$ 0 |
| Bessemer City First Baptist Child Care Center Ministries | 17,071 | | |
| Carolina Kids Club | * 43,196 | | |
| Childcare Network #99 | 53,954 | | |
| Cline Learning Center | 66,662 | | |
| Cline Learning Center of Dallas #1 | 30,684 | | |
| Cline Learning Center of Dallas #2 | 18,351 | | |
| Communities in Schools of Lincoln County | * 38,989 | | |
| Community Empowerment Center | 38,674 | (322) | |
| Country Club Children's Academy | 16,651 | | |
| Developing Together | 113,896 | (9) | |
| Expressions in Learning | 21,053 | | |
| Fantasy World & Day Care #1 | 26,391 | | |
| First Baptist Childcare Ministries | 22,243 | | |
| First Baptist Children's Ministry | 28,064 | | |
| First Baptist Day Care Center | 21,910 | | |
| First Presbyterian Child Development Center of Stanley, Inc. | 26,027 | | |
| First Presbyterian Day School | 33,313 | | |
| Friendship Baptist Church Child Development Center | 30,580 | | |
| Gaston College | * 12,712 | | |
| Gaston College Child Care | 33,256 | | |
| Gaston County Health Department | * 35,677 | | 1,266 |
| Great Beginnings Child Development Center #1 | 19,442 | | |
| Jump Start for Kids, LLC | 46,486 | | |
| Kenlin Academy Preschool | 19,581 | | |
| Kinder Care Learning Center | 40,313 | | |
| Learning Land Children's Center | 17,258 | | |
| Lincoln County Department of Social Services | * 67,538 | | |
| Lincoln County Health Department | * 52,013 | | |
| Lincoln County Schools | * 174,613 | | 174,613 |
| Mini Academy at Denver | 42,770 | | 69,970 |
| Ms. Em's Child Care Center | * 47,088 | | |
| NC Cooperative Extension of Gaston County | * 35,112 | | |
| PJ's Child Care and Learning Center | 16,153 | | |
| The Kidsplace, Inc. | 20,902 | | |
| The Learning Express | 36,681 | | |
| Tiny Tot Child Development Center | 32,188 | | |
| Toddler Tech University | 30,859 | | |
| Various Day Cares-Journey to the Stars | 184,808 | | |
| Various Day Cares-More at Four Services in Gaston County | 3,559 | | |
| Various Day Cares-Quality Enhancement Phase I | 57,844 | | |
| Various Day Cares-Quality Enhancement Phase II | 5,500 | | |
| Wanda's Little Treasures | * 2,767 | | |
| | <u>1,525,386</u> | <u>(331)</u> | <u>245,849</u> |
| Individuals: | | | |
| Various Individuals-IPDP | 87,680 | | |
| Various Individuals-Salary Supplements | 296,116 | | |
| | <u>383,796</u> | | |
| | <u>\$ 1,909,182</u> | <u>\$ (331)</u> | <u>\$ 245,849</u> |

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

Partnership for Children of Lincoln/Gaston Counties, Inc.
Schedule of State Level Service Provider Contracts
For the Year Ended June 30, 2004

Schedule 2

| Organization Name | DHHS Contracts |
|-----------------------------------------------|---------------------------|
| Lincoln/Gaston Departments of Social Services | * \$ <u>1,301,755</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.

Partnership for Children of Lincoln/Gaston Counties, Inc.
Schedule of Federal and State Awards - Modified Cash Basis
For the Year Ended June 30, 2004

Schedule 3

| Federal/State Grantor/Pass-through Grantor/Program | Federal CFDA Number | Contract # | Receipts | Expenditures |
|--------------------------------------------------------------------------------------------------------------|---------------------------|-------------|---------------------|---------------------|
| Federal Awards: | | | | |
| US Department of Health and Human Services | | | | |
| Pass-through from the North Carolina Department of Health and Human Services - Division of Child Development | | | | |
| Child Care and Development Block Grant (Prior Year) | 93.575 | 6119 | \$ (251) | \$ 0 |
| Child Care and Development Block Grant (Current Year) | 93.575 | 6119 | 10,115 | 10,115 |
| Pass-through from the North Carolina Department of Health and Human Services - Division of Child Development | | | | |
| Pass-through from Child Care Connections of Cleveland County, Inc. | | | | |
| Child Care and Development Block Grant | 93.575 | 6223 | 30,458 | 30,805 |
| Total Federal Awards | | | <u>40,322</u> | <u>40,920</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) | | Various | (41,051) | (105) |
| Early Childhood Initiatives Program (Current Year) | * | N/A | 2,661,335 | 2,625,638 |
| Multi-County Accounting and Contracting Grant (Prior Year) | | N/A | (6,624) | |
| Multi-County Accounting and Contracting Grant (Current Year) | | N/A | 24,000 | 20,057 |
| North Carolina Department of Health and Human Services | | | | |
| More at Four Pre-Kindergarten Program | | | | |
| | * | #2090003657 | 244,369 | 244,369 |
| Total State Awards | | | <u>2,882,029</u> | <u>2,889,959</u> |
| Total Federal and State Awards | | | <u>\$ 2,922,351</u> | <u>\$ 2,930,879</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.

Partnership for Children of Lincoln/Gaston Counties, Inc.
Schedule of Property and Equipment - Modified Cash Basis
For the Year Ended June 30, 2004

Schedule 4

| | |
|-------------------------------------|-------------------------|
| Furniture and Noncomputer Equipment | \$ 23,573 |
| Computer Equipment/Printers | <u>31,958</u> |
| Total Property and Equipment | <u><u>\$ 55,531</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.

Partnership for Children of Lincoln/Gaston Counties, Inc.
Schedule of Qualifying Match (Non-GAAP)
For the Year Ended June 30, 2004

Schedule 5

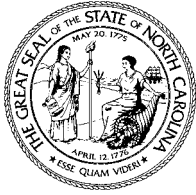
Match Provided at the Partnership Level:

| | |
|----------------------------|------------------|
| In-Kind Goods and Services | \$ <u>23,991</u> |
|----------------------------|------------------|

Match Provided at the Contractor Level:

| | |
|----------------------------|-------------------|
| Cash | \$ 460,116 |
| In-Kind Goods and Services | <u>5,905</u> |
| | <u>\$ 466,021</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
Partnership for Children of Lincoln/Gaston Counties, Inc.
Dallas, North Carolina

We have audited the financial statements of the Partnership for Children of Lincoln/Gaston Counties, Inc., (Lincoln/Gaston Partnership) as of and for the year ended June 30, 2004, and have issued our report thereon dated December 9, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Lincoln/Gaston 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 Lincoln/Gaston Partnership in a separate letter dated May 31, 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 Lincoln/Gaston 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 Lincoln/Gaston 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

December 9, 2004

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In accordance with North Carolina General Statutes 147-64.5 and 147-64.6(c)(14), copies of this report have been distributed to the public officials listed below. Additional copies are provided to other legislators, state officials, the press, and the general public upon request.

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| The Honorable Richard H. Moore | State Treasurer |
| The Honorable Roy A. Cooper, III | Attorney General |
| Mr. David T. McCoy | State Budget Officer |
| Mr. Robert L. Powell | State Controller |
| Ms. Carmen Hooker Odum | Secretary, Department of Health and Human Services |
| Mr. Ashley Thrift | Chairman, Board of Directors The North Carolina Partnership for Children, Inc. |
| Ms. Karen Ponder | Executive Director The North Carolina Partnership for Children, Inc. |

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| Mr. James D. Johnson | Director, Fiscal Research Division |
|----------------------|------------------------------------|

June 30, 2005

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