



STATE OF NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT OF SCOTLAND COUNTY PARTNERSHIP FOR CHILDREN AND FAMILIES, INC.

LAURINBURG, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2004

OFFICE OF THE STATE AUDITOR

RALPH CAMPBELL, JR.

STATE AUDITOR

FINANCIAL STATEMENT AUDIT REPORT OF
SCOTLAND COUNTY PARTNERSHIP FOR CHILDREN
AND FAMILIES, INC.

LAURINBURG, NORTH CAROLINA

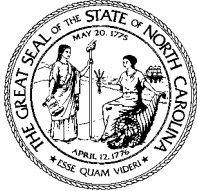
FOR THE YEAR ENDED JUNE 30, 2004

BOARD OF DIRECTORS

LYDIAN ALTMAN-SAUER, BOARD CHAIR

ADMINISTRATIVE OFFICER

ANITA RIOJAS-MAYERS, EXECUTIVE DIRECTOR



Ralph Campbell, Jr.
State Auditor

STATE OF NORTH CAROLINA
Office of the State Auditor

2 S. Salisbury Street
20601 Mail Service Center
Raleigh, NC 27699-0601
Telephone: (919) 807-7500
Fax: (919) 807-7647
Internet <http://www.ncauditor.net>

AUDITOR'S TRANSMITTAL

The Honorable Michael F. Easley, Governor
The General Assembly of North Carolina
Board of Directors, Scotland County Partnership for Children and Families, Inc.

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

Results - Our tests disclosed no material weaknesses in the internal control over financial reporting and no instances of noncompliance 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.

A handwritten signature in black ink that reads "Ralph Campbell, Jr." in a cursive script.

Ralph Campbell, Jr.
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	11
2 Schedule of State Level Service Provider Contracts.....	12
3 Schedule of State Awards – Modified Cash Basis	13
4 Schedule of Property and Equipment – Modified Cash Basis.....	14
5 Schedule of Qualifying Match (Non-GAAP).....	15
INDEPENDENT AUDITOR’S REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING</i> <i>STANDARDS</i>	17
DISTRIBUTION OF AUDIT REPORT	19



Ralph Campbell, Jr.
State Auditor

STATE OF NORTH CAROLINA
Office of the State Auditor

2 S. Salisbury Street
20601 Mail Service Center
Raleigh, NC 27699-0601
Telephone: (919) 807-7500
Fax: (919) 807-7647
Internet <http://www.ncauditor.net>

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Scotland County Partnership for Children and Families, Inc.
Laurinburg, North Carolina

We have audited the accompanying Statement of Receipts, Expenditures, and Net Assets – Modified Cash Basis of the Scotland County Partnership for Children and Families, Inc. (Scotland 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 Scotland 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 Scotland County Partnership for Children and Families, 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 September 28, 2004 on our consideration of the Scotland 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 Scotland County Partnership for Children and Families, 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.

A handwritten signature in black ink that reads "Ralph Campbell, Jr." in a cursive script.

Ralph Campbell, Jr.
State Auditor

September 28, 2004

Scotland County Partnership for Children and Families, 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 \$16,438)	\$ 545,118	\$ 57,685	\$ 0	\$ 602,803
Private Contributions		4,589	11,773	16,362
Interest and Investment Earnings		149		149
Sales Tax Refunds		4,827		4,827
Total Receipts	545,118	67,250	11,773	624,141
Expenditures:				
Programs:				
Child Care and Education Quality	259,916	4,801		264,717
Family Support	30,599	62,990		93,589
Support:				
Management and General	119,195	18,393		137,588
Program Coordination	70,256	731		70,987
Program Evaluation	61,414	83		61,497
Other:				
Sales Tax Paid		3,555		3,555
Total Expenditures	541,380	90,553		631,933
Excess of Receipts Over Expenditures	3,738	(23,303)	11,773	(7,792)
Net Assets at Beginning of Year	16,418	45,262	26	61,706
Net Assets at End of Year	\$ 20,156	\$ 21,959	\$ 11,799	\$ 53,914
Net Assets Consisted of:				
Cash and Cash Equivalents	\$ 20,156	\$ 21,959	\$ 11,799	\$ 53,914
The accompanying notes to the financial statements are an integral part of this statement.				

Scotland County Partnership for Children and Families, Inc.
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
Smart Start Fund:									
Programs:									
Child Care and Education Quality	\$ 259,916	\$ 143,716	\$ 800	\$ 8,549	\$ 15,351	\$ 4,495	\$ 2,702	\$ 84,303	\$ 0
Family Support	30,599	18,778	347	1,861	7,261	1,593	584		175
	<u>290,515</u>	<u>162,494</u>	<u>1,147</u>	<u>10,410</u>	<u>22,612</u>	<u>6,088</u>	<u>3,286</u>	<u>84,303</u>	<u>175</u>
Support:									
Management and General	119,195	87,454	5,192	2,049	9,863	12,027	2,610		
Program Coordination	70,256	47,451	1,141	3,413	7,147	8,556	2,548		
Program Evaluation	61,414	56,819	161	999	2,199	836			400
	<u>250,865</u>	<u>191,724</u>	<u>6,494</u>	<u>6,461</u>	<u>19,209</u>	<u>21,419</u>	<u>5,158</u>		<u>400</u>
Total Smart Start Fund Expenditures	<u>\$ 541,380</u>	<u>\$ 354,218</u>	<u>\$ 7,641</u>	<u>\$ 16,871</u>	<u>\$ 41,821</u>	<u>\$ 27,507</u>	<u>\$ 8,444</u>	<u>\$ 84,303</u>	<u>\$ 575</u>
Other Funds:									
Programs:									
Child Care and Education Quality	\$ 4,801	\$ 1,232	\$ 0	\$ 370	\$ 0	\$ 0	\$ 275	\$ 2,924	\$ 0
Family Support	62,990	52,199	3,542	2,761	1,187		687	938	1,676
	<u>67,791</u>	<u>53,431</u>	<u>3,542</u>	<u>3,131</u>	<u>1,187</u>		<u>962</u>	<u>3,862</u>	<u>1,676</u>
Support:									
Management and General	18,393	2,422	13,921	931	873	171	75		
Program Coordination	731			696	35				
Program Evaluation	83			76	7				
	<u>19,207</u>	<u>2,422</u>	<u>13,921</u>	<u>1,703</u>	<u>915</u>	<u>171</u>	<u>75</u>		
Other:									
Sales Tax Paid	3,555			3,555					
	<u>3,555</u>			<u>3,555</u>					
Total Other Funds Expenditures	<u>\$ 90,553</u>	<u>\$ 55,853</u>	<u>\$ 17,463</u>	<u>\$ 8,389</u>	<u>\$ 2,102</u>	<u>\$ 171</u>	<u>\$ 1,037</u>	<u>\$ 3,862</u>	<u>\$ 1,676</u>

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

SCOTLAND COUNTY PARTNERSHIP FOR CHILDREN AND FAMILIES, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

A. Organization and Purpose - The Scotland County Partnership for Children and Families, Inc. (Scotland Partnership) is a legally separate nonprofit organization incorporated on September 14, 1998. The Scotland Partnership was established to develop and provide, through public and private means, early childhood education and developmental services for children and families. The Scotland 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 Scotland 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 Scotland 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. Property and Equipment** – Under the modified cash basis of accounting, purchases of property and equipment are reported as expenditures in the year occurred. However, Scotland Partnership is required by contract regulation to track and maintain property and equipment items as presented in Schedule 4 of this report. The Scotland 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.
- F. Use of Estimates** - The preparation of financial statements in conformity with the other comprehensive basis of accounting used by the Scotland 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.

NOTE 2 - DEPOSITS

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

NOTE 3 - FUNDING FROM GRANT AWARDS

Smart Start Program - The Scotland 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 Scotland

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Partnership and represents a concentration of credit risk as to the generation of revenue.

Associated with these contracts, the Scotland 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 Scotland 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 Scotland Partnership was awarded and has received \$561,556 under a current year Smart Start contract with NCPC. The unexpended balance of this contract is subject to reversion to the State. The Scotland Partnership has returned \$20,158 of this contract to the State based on financial status reports submitted to NCPC subsequent to June 30, 2004.

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

NOTE 4 - RELATED PARTY TRANSACTIONS

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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, professional development, or learning materials and teaching aids.

Family Support - Used to account for service activities associated with teen parent/child programs.

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

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

C. Allocation of Joint Costs

Expenditures benefiting more than one purpose were allocated as follows:

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

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

NOTE 6 - OPERATING LEASE OBLIGATIONS

Rental expense for all operating leases during the year was \$17,600.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 7 - PENSION PLAN

- A. Retirement Plans** - The Scotland Partnership has a Simplified Employee Pension plan (SEP Plan) covering all full-time employees. Each full-time employee of the Scotland Partnership, as a condition of employment, is provided an Individual Retirement Account through an outside insurance company. The Scotland Partnership contributed 6% of gross wages for the period January 1 through June 30, 2004. The Scotland Partnership does not own the accounts nor is liable for any other cost other than the required contribution. The Scotland Partnership contributed \$8,316 for pension benefits during the identified period.
- B. Deferred Compensation and Supplemental Retirement Income Plans- IRC Section 403(b) Plan**- All permanent employees who are at least half time can participate in a tax sheltered annuity plan (Plan) created under Internal Revenue Code Section 403(b). The Plan is a defined contribution plan in which each employee of the Scotland Partnership, as a condition of employment, is provided an annuity through an outside insurance company. The Scotland Partnership contributed 6% of gross wages for the period July 1 to December 31, 2003. 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 Scotland Partnership contributed \$9,701 for retirement benefits during the identified period.

NOTE 8 - RISK MANAGEMENT

The Scotland 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 Scotland 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 disaster	Purchased commercial insurance	None

NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

Management believes such coverage is sufficient to preclude any significant losses to the Scotland Partnership. Settled claims have not exceeded this insurance coverage in any of the past three fiscal years.

NOTE 9 - RESTRICTIONS ON NET ASSETS

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

<u>Purpose</u>	<u>Amount</u>
Community Resource Development Project	\$ 26
Leadership and Education for Adolescent Parents	<u>11,773</u>
	<u>\$ 11,799</u>

Scotland County Partnership for Children and Families, 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	Refund Due
Child Care Directions, Inc.	* \$ 14,818	\$ 0	\$ 0	\$ 0
Terrific Kids Child Care Center - Laurinburg	5,995			
Terrific Kids Child Care Center - Wagram	5,910			
Various Day Care Providers			3,862	
	26,723		3,862	
Individuals:				
Child Care Wage Education Incentives	53,955			
Provider Training Incentives	1,900			
Sick Leave Bonuses	1,725			
	57,580			
	\$ 84,303	\$ 0	\$ 3,862	\$ 0
* These organizations are represented on the Partnership's Board as described in Note 4 - Service Provider Contracts with Board Member Organizations.				

Scotland County Partnership for Children and Families, Inc.**Schedule of State Level Service Provider Contracts****For the Year Ended June 30, 2004****Schedule 2**

Organization Name		DHHS Contracts	
Scotland County Department of Social Services		*	\$ 254,143
* 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.			

Scotland County Partnership for Children and Families, Inc.**Schedule of State Awards - Modified Cash Basis****For the Year Ended June 30, 2004****Schedule 3**

State Grantor/Pass-through Grantor/Program	Contract #	Receipts	Expenditures
State Awards:			
North Carolina Department of Health and Human Service			
Division of Public Health			
Adolescent Pregnancy Prevention (Prior Year)	01093-03	\$ 6,299	\$ 0
Adolescent Pregnancy Prevention (Current Year)	01093-04	36,376	38,503
North Carolina Department of Public Instruction			
Children's Trust Fund (Prior Year)	EP4012656	1,337	
Children's Trust Fund (Current Year)	EP4088368	1,673	3,351
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	(16,438)	(18)
Early Childhood Initiatives Program (Current Year)	*	561,556	541,398
Multi-County Accounting and Contracting Grant	N/A	12,000	12,000
Total State Awards		\$ 602,803	\$ 595,234
* Programs with compliance requirements that have a direct and material effect on the financial statements.			

<i>Scotland County Partnership for Children and Families, Inc.</i>			
<i>Schedule of Property and Equipment - Modified Cash Basis</i>			
<i>For the Year Ended June 30, 2004</i>			<i>Schedule 4</i>
	Furniture and Noncomputer Equipment	\$	22,609
	Computer Equipment/Printers		29,366
	Total Property and Equipment	\$	51,975
	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.		

Scotland County Partnership for Children and Families, Inc.		
Schedule of Qualifying Match (Non-GAAP)		
For the Year Ended June 30, 2004		Schedule 5
Match Provided at the Partnership Level:		
Cash	\$	18,312
In-Kind Goods and Services		36,566
	\$	54,878
Match Provided at the Contractor Level:		
Cash	\$	24,272
In-Kind Goods and Services		6,083
	\$	30,355
<p>Note: This schedule is presented in accordance with the program match requirement as provided for by North Carolina Session Law 2003-397, 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.</p>		

[This Page Left Blank Intentionally]



Ralph Campbell, Jr.
State Auditor

STATE OF NORTH CAROLINA
Office of the State Auditor

2 S. Salisbury Street
20601 Mail Service Center
Raleigh, NC 27699-0601
Telephone: (919) 807-7500
Fax: (919) 807-7647
Internet <http://www.ncauditor.net>

**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
Scotland County Partnership for Children and Families, Inc.
Laurinburg, North Carolina

We have audited the financial statements of the Scotland County Partnership for Children and Families, Inc. (Scotland Partnership) as of and for the year ended June 30, 2004, and have issued our report thereon dated September 28, 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 Scotland Partnership's internal control over financial reporting in order to determine our auditing procedures for the purposes of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Scotland 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

**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)**

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 Scotland Partnership in a separate letter dated November 29, 2004.

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

A handwritten signature in black ink that reads "Ralph Campbell, Jr." in a cursive script.

Ralph Campbell, Jr.
State Auditor

September 28, 2004

DISTRIBUTION OF AUDIT REPORT

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.

EXECUTIVE BRANCH

The Honorable Michael F. Easley	Governor of North Carolina
The Honorable Beverly M. Perdue	Lieutenant Governor of North Carolina
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 Odom	Secretary, Department of Health and Human Services
Mr. Ashley Thrift	Chairman, Board of Directors
	The North Carolina Partnership for Children, Inc.
	Executive Director
	The North Carolina Partnership for Children, Inc.
Ms. Karen Ponder	

LEGISLATIVE BRANCH

Appointees to the Joint Legislative Commission on Governmental Operations

President Pro Tempore	Speaker of the House
Senator Marc Basnight, Co-Chair	Representative James B. Black, Co-Chair
Senator Charles W. Albertson	Representative Richard T. Morgan, Co-Chair
Senator Daniel G. Clodfelter	Representative Martha B. Alexander
Senator Walter H. Dalton	Representative Rex L. Baker
Senator Charlie S. Dannelly	Representative Bobby H. Barbee, Sr.
Senator James Forrester	Representative Harold J. Brubaker
Senator Linda Garrou	Representative Debbie A. Clary
Senator Fletcher L. Hartsell, Jr.	Representative E. Nelson Cole
Senator David W. Hoyle	Representative James W. Crawford, Jr.
Senator Ellie Kinnaird	Representative William T. Culpepper, III
Senator Jeanne H. Lucas	Representative W. Pete Cunningham
Senator Anthony E. Rand	Representative W. Robert Grady
Senator Eric M. Reeves	Representative Joe Hackney
Senator Robert A. Rucho	Representative Julia C. Howard
Senator R. C. Soles, Jr.	Representative Joe L. Kiser
Senator Scott Thomas	Representative Edd Nye
	Representative William C. Owens, Jr.
	Representative Wilma M. Sherrill
	Representative Thomas E. Wright

Other Legislative Officials

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

December 28, 2004

ORDERING INFORMATION

Copies of this report may be obtained by contacting the:

Office of the State Auditor
State of North Carolina
2 South Salisbury Street
20601 Mail Service Center
Raleigh, North Carolina 27699-0601

Internet: <http://www.ncauditor.net>

Telephone: 919/807-7500

Facsimile: 919/807-7647