STATE OF NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT OF

JONES COUNTY PARTNERSHIP FOR CHILDREN

TRENTON, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2005

OFFICE OF THE STATE AUDITOR

LESLIE W. MERRITT, JR., CPA, CFP

STATE AUDITOR

FINANCIAL STATEMENT AUDIT REPORT OF

JONES COUNTY PARTNERSHIP FOR CHILDREN

TRENTON, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2005

BOARD OF DIRECTORS

DEWEY STRAYHORN, BOARD CHAIRMAN

ADMINISTRATIVE OFFICER

DR. NORMA H. SERMON-BOYD, EXECUTIVE DIRECTOR

STATE OF NORTH CAROLINA
Office of the State Auditor

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

The Honorable Michael F. Easley, Governor
The General Assembly of North Carolina
Board of Directors, Jones County Partnership for Children

This report presents the results of our financial statement audit of the Jones County Partnership for Children (Jones Partnership) for the year ended June 30, 2005. Our audit was made by authority of Article 5A of Chapter 147 of the *North Carolina General Statutes*.

The accounts and operations of the Jones 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 Jones 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 Jones Partnership is one of these local partnerships. As such, the Jones 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.

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

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

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Jones County Partnership for Children
Trenton, North Carolina

We have audited the accompanying Statement of Receipts, Expenditures, and Net Assets – Modified Cash Basis of the Jones County Partnership for Children (Jones Partnership) as of June 30, 2005, and the related Statement of Functional Expenditures – Modified Cash Basis for the year then ended. These financial statements are the responsibility of the Jones 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 Jones County Partnership for Children as of June 30, 2005, 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 April 5, 2006, on our consideration of the Jones 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 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 Jones County Partnership for Children's basic financial statements. The information in Schedules 1 through 4 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Schedules 1 through 4 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.

Leslie W. Merritt, Jr.

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

April 5, 2006

Jones County Partnership for Children
Statement of Receipts, Expenditures, and Net Assets - Modified Cash Basis
For the Year Ended June 30, 2005 *Exhibit A*

	Unrestricted Funds		
	Smart Start Fund	Other Funds	Total Funds
Receipts:			
State Awards (less refunds of $ 503)	$ 301,834	$ 153,929	$ 455,763
Federal Awards		71,874	71,874
Private Contributions		9,701	9,701
Sales Tax Refunds		1,084	1,084
Total Receipts	301,834	236,588	538,422
Expenditures:			
Programs:			
Child Care and Education Affordability	87,933		87,933
Child Care and Education Quality	74,654	14,615	89,269
Family Support		1,206	1,206
Health and Safety	38,855	69,941	108,796
More at Four		121,179	121,179
Support:			
Management and General	80,885	30,693	111,578
Program Evaluation	20,010		20,010
Other:			
Sales Tax Paid		1,173	1,173
Total Expenditures	302,337	238,807	541,144
Excess of Receipts Over Expenditures	(503)	(2,219)	(2,722)
Net Assets at Beginning of Year	503	26,148	26,651
Net Assets at End of Year	$ 0	$ 23,929	$ 23,929
Net Assets Consisted of:			
Cash and Cash Equivalents	$ 612	$ 23,979	$ 24,591
Less: Due to the State	596		596
Funds Held for Others	16	50	66
	$ 0	$ 23,929	$ 23,929

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

Jones County Partnership For Children
Statement of Functional Expenditures - Modified Cash Basis
For the Year Ended June 30, 2005

Exhibit B

	Total	Personnel	Contracted Services	Supplies and Materials	Other Operating Expenditures	Fixed Charges and Other Expenditures	Property and Equipment Outlay	Services/ Contracts/ Grants
Smart Start Fund:								
Programs:								
Child Care and Education Affordability	$ 87,933	$ 4,320	$ 0	$ 843	$ 345	$ 2,349	$ 0	$ 80,076
Child Care and Education Quality	74,654	26,516		1,730	2,130	3,708	2,885	37,685
Health and Safety	38,855	31,205		2,369	2,286		2,995	
	201,442	62,041		4,942	4,761	6,057	5,880	117,761
Support:								
Management and General	80,885	63,408	558	295	8,890	7,734		
Program Evaluation	20,010	16,899	2,500	129	482			
	100,895	80,307	3,058	424	9,372	7,734		
Total Smart Start Fund Expenditures	$ 302,337	$ 142,348	$ 3,058	$ 5,366	$ 14,133	$ 13,791	$ 5,880	$ 117,761
Other Funds:								
Programs:								
Child Care and Education Quality	$ 14,615	$ 9,069	$ 0	$ 2,581	$ 623	$ 1,833	$ 509	$ 0
Family Support	1,206			200				1,006
Health and Safety	69,941	63,327		415	3,258	2,941		
More at Four	121,179							121,179
	206,941	72,396		3,196	3,881	4,774	509	122,185
Support:								
Management and General	30,693	21,329	566	1,199	7,270	29	300	
Other:								
Sales Tax Paid	1,173			1,173				
Total Other Funds Expenditures	$ 238,807	$ 93,725	$ 566	$ 5,568	$ 11,151	$ 4,803	$ 809	$ 122,185

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

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

A. Organization and Purpose – The Jones County Partnership for Children (Jones Partnership) is a legally separate nonprofit organization incorporated on January 7, 1994. The Jones Partnership was established to develop and provide, through public and private means, early childhood education and developmental services for children and families. The Jones 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 Jones 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.

The Jones Partnership did not have any temporarily or permanently restricted net assets at June 30, 2005.

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.

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. Amounts withheld from employee paychecks or other amounts received in an agency capacity are recorded as funds held for others. In addition, Smart Start funds advanced to the local Partnership that are unexpended and unearned at year end are recorded as a Due to the State.

D. **Cash and Cash Equivalents –** This classification appears on the Statement of Receipts, Expenditures, and Net Assets – Modified Cash Basis and consists of cash on deposit with a private bank account.

E. **Due to the State –** The funding provided by the State of North Carolina for the Smart Start program is funded on a cost reimbursement basis. The money is earned to the extent of allowable costs incurred. Any unexpended funds as of June 30 are required to be reverted to the North Carolina Partnership for Children, Inc. to be returned to the State of North Carolina.

F. **Funds Held For Others –** Funds held for others includes amounts received that are fiduciary in nature in which the Jones Partnership acts in an agency capacity. For the year ended, the Jones Partnership was holding amounts withheld from employee paychecks for insurance payments.

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, Jones Partnership is required by contract regulation to track and maintain property and equipment items as presented in Schedule 3 of this report. The Jones 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, 2005. 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 7.

I. **Use of Estimates –** The preparation of financial statements in conformity with the modified cash basis of accounting used by the Jones 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 - FUNDING FROM GRANT AWARDS

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

Associated with these contracts, the Jones Partnership is responsible for developing a comprehensive, collaborative, long-range plan of services to children and families for the service-delivery area.

The Jones Partnership was awarded and has received $302,933 under a current year Smart Start contract with NCPC**.** The unexpended balance of this contract is subject to reversion to the State. The Jones Partnership has returned $596 of this contract to the State based on financial status reports submitted to NCPC subsequent to June 30, 2005.

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

More at Four – The Jones Partnership also received revenue and support from the State of North Carolina for the More at Four Program. The Jones Partnership was awarded $142,100 and received $141,929 under a current year contract. The Jones Partnership expects to receive continued funding through new More at Four contracts with the State.

NOTE 3 - RELATED PARTY TRANSACTIONS

Service Provider Contracts with Board Member Organizations – The board members of the Jones Partnership are representative of various organizations that benefit from actions taken by the Board. It is the policy of the Jones Partnership that board members not be involved with decisions regarding organizations they represent. During the year, the Jones Partnership entered into contracts with board member organizations for program activities as identified on Schedule 1 accompanying the financial statements.

NOTE 4 - 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:

A. Program Functions

Child Care and Education Affordability – Used to account for service activities including public pre-K classes, More at Four classrooms or part day care programs.

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 or salary supplements.

Family Support – Used to account for service activities including family resource centers, mobile family resource center or general family support.

Health and Safety – Used to account for service activities including child care health consultants, comprehensive health support or home visiting.

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.

NOTE 5 - OPERATING LEASE OBLIGATIONS

Future minimum lease payments under noncancelable operating leases consist of the following at June 30, 2005:

Fiscal Year	Operating Leases
2006	$ 13,470
2007	13,560
2008	13,560
2009	3,390
Total Minimum Lease Payments	$ 43,980

Rental expense for all operating leases during the year was $13,200.

NOTE 6 - RISK MANAGEMENT

The Jones 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 Jones Partnership manages these various risks of loss as follows:

Type of Loss	Method Managed	Risk of Loss Retained
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 Jones Partnership. Settled claims have not exceeded this insurance coverage in any of the past three fiscal years.

NOTE 7 - COMMITMENTS AND CONTINGENCIES

Compensated Absences – As a result of the Jones 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, 2005, is $5,405. No funds or reservation of net assets has been made for this commitment.

Jones County Partnership for Children
Schedule of Contract and Grant Expenditures - Modified Cash Basis
For the Year Ended June 30, 2005

Schedule 1

Organization Name	Smart Start Fund Amount Advanced	Smart Start Fund Refund Due	Other Funds Amount Advanced	Other Funds Refund Due
* Jones County Board of Education (More at Four)	$ 0	$ 0	$ 121,179	$ 0
* Jones County Board of Education (Smart Start)	80,076			
Quality Bonus - CCA Head Start	11,068			
Quality Bonus - Loving Arms	649			
Quality Bonus - Pollocksville Presbyterian Child Care	3,088			
Quality Bonus - Rainbow Child Care	6,950			
Quality Bonus - Shining Light FCCH	950			
Welcome Baby Buckets - Bonus Grant			1,006	
	102,781		122,185	
Individuals:				
Education Incentives	14,980			
	$ 117,761	$ 0	$ 122,185	$ 0

* These organizations are represented on the Partnership's Board as described in Note 3 - Service Provider Contracts with Board Member Organizations.

Jones County Partnership for Children
Schedule of State Awards - Modified Cash Basis
For the Year Ended June 30, 2005 — ***Schedule 2***

		Receipts	Expenditures
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)		$ (503)	$ 0
Early Childhood Initiatives Program (Current Year)	*	302,337	302,337
Multi-County Accounting and Contracting Grant		12,000	12,000
North Carolina Department of Health and Human Services			
More at Four Pre-Kindergarten Program		141,929	121,179
Total State Awards		$ 455,763	$ 435,516

* 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.

Jones County Partnership for Children
Schedule of Property and Equipment - Modified Cash Basis
For the Year Ended June 30, 2005 *Schedule 3*

Furniture and Noncomputer Equipment	$	26,401
Computer Equipment/Printers		32,184
Leasehold Improvements		13,683
Total Property and Equipment	$	72,268

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.

Jones County Partnership for Children
Schedule of Qualifying Match (Non-GAAP)
For the Year Ended June 30, 2005 ***Schedule 4***

Match Provided at the Partnership Level:

Cash	$	9,701
In-Kind Goods and Services		2,271
	$	11,972

Match Provided at the Contractor Level:

In-Kind Goods and Services	$	88,350

Note: This schedule is presented in accordance with the program match requirement as provided for by North Carolina Session Law 2003-284, Section 10.38(c). The North Carolina Partnership for Children, Inc. and all local partnerships are required to match the total amount budgeted for the Smart Start Program in each fiscal year. The match is comprised of both cash and in-kind amounts. Only in-kind contributions that are verifiable, quantifiable, and related to the Smart Start Program can be applied to the in-kind match requirement, including volunteer services. The law allows for volunteer services to be valued for match purposes, a concept that deviates from generally accepted accounting principles. This schedule identifies those amounts allowable for this partnership in meeting the statewide match requirement.

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Board of Directors
Jones County Partnership for Children
Trenton, North Carolina

We have audited the financial statements of the Jones County Partnership for Children (Jones Partnership) as of and for the year ended June 30, 2005, and have issued our report thereon dated April 5, 2006. 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.

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.

<u>Internal Control Over Financial Reporting</u>

In planning and performing our audit, we considered the Jones 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.

<u>Compliance and Other Matters</u>

As part of obtaining reasonable assurance about whether the Jones Partnership's financial statements are free of material misstatement, we performed tests of its compliance with

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)

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*.

We noted certain matters that we reported to management of the Jones Partnership in a separate letter dated May 31, 2006.

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

April 5, 2006

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