



STATE OF NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT OF

DURHAM'S PARTNERSHIP FOR CHILDREN

DURHAM, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2005

OFFICE OF THE STATE AUDITOR

LESLIE W. MERRITT, JR., CPA, CFP

STATE AUDITOR

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DURHAM'S PARTNERSHIP FOR CHILDREN

DURHAM, NORTH CAROLINA

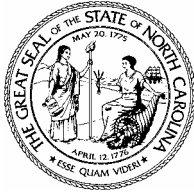
FOR THE YEAR ENDED JUNE 30, 2005

BOARD OF DIRECTORS

SUE McLAURIN, BOARD CHAIRPERSON

ADMINISTRATIVE OFFICER

MARSHA R. BASLOE, 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, Durham's Partnership for Children

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

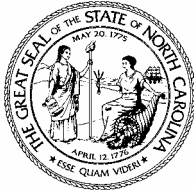
North Carolina General Statutes require the State Auditor to make audit reports available to the public. Copies of audit reports issued by the Office of the State Auditor may be obtained through one of the options listed in the back of this report.



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

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Durham's Partnership for Children
Durham, North Carolina

We have audited the accompanying Statement of Receipts, Expenditures, and Net Assets – Modified Cash Basis of the Durham's Partnership for Children (Durham 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 Durham 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 Durham's 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 19, 2006, on our consideration of the Durham 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

INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

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 Durham's Partnership for Children's basic financial statements. The information in Schedules 1 through 5 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Schedules 1, 3, 4 and 5 have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The information in Schedule 2 has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on Schedule 2.



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

April 19, 2006

Durham's Partnership for Children
Statement of Receipts, Expenditures, and Net Assets - Modified Cash Basis
For the Year Ended June 30, 2005

Exhibit A

	Unrestricted Funds		Temporarily Restricted Funds	Total Funds
	Smart Start Fund	Other Funds		
Receipts:				
State Awards (less refunds of \$43,961)	\$ 3,902,205	\$ 901,868	\$ 0	\$ 4,804,073
Private Contributions		25,191	28,222	53,413
Interest and Investment Earnings		2,722		2,722
Sales Tax Refunds		4,300		4,300
Total Receipts	3,902,205	934,081	28,222	4,864,508
Expenditures:				
Programs:				
Child Care and Education Affordability	12,967			12,967
Child Care and Education Quality	1,101,502	403		1,101,905
Family Support	412,250	3,762		416,012
Health and Safety	855,255			855,255
More at Four	989,480	925,433		1,914,913
Support:				
Management and General	446,139	16,703		462,842
Program Evaluation	128,573	153		128,726
Other:				
Sales Tax Paid		4,884		4,884
Total Expenditures	3,946,166	951,338		4,897,504
Excess of Receipts Over Expenditures	(43,961)	(17,257)	28,222	(32,996)
Net Assets at Beginning of Year	43,961	72,027		115,988
Net Assets at End of Year	\$ 0	\$ 54,770	\$ 28,222	\$ 82,992
Net Assets Consisted of:				
Cash and Cash Equivalents	\$ 37,180	\$ 54,770	\$ 28,222	\$ 120,172
Refunds Due From Contractors	8,410			8,410
	45,590	54,770	28,222	128,582
Less: Due to the State	45,590			45,590
	\$ 0	\$ 54,770	\$ 28,222	\$ 82,992

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

Durham's 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	Participant Training Expenditures
Smart Start Fund:									
Programs:									
Child Care and Education Affordability	\$ 12,967	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 12,967	\$ 0
Child Care and Education Quality	1,101,502							1,101,502	
Family Support	412,250	38,858	5,656	972	16,398	2,962	134	347,270	
Health and Safety	855,255							855,255	
More at Four	989,480	62,516	17,002	4,271	6,943	7,295	70	891,383	
	<u>3,371,454</u>	<u>101,374</u>	<u>22,658</u>	<u>5,243</u>	<u>23,341</u>	<u>10,257</u>	<u>204</u>	<u>3,208,377</u>	
Support:									
Management and General	446,139	226,814	104,234	11,866	54,953	36,805	11,467		
Program Evaluation	128,573	104,701	12,813	1,527	2,970	6,294	268		
	<u>574,712</u>	<u>331,515</u>	<u>117,047</u>	<u>13,393</u>	<u>57,923</u>	<u>43,099</u>	<u>11,735</u>		
Total Smart Start Fund Expenditures	<u>\$ 3,946,166</u>	<u>\$ 432,889</u>	<u>\$ 139,705</u>	<u>\$ 18,636</u>	<u>\$ 81,264</u>	<u>\$ 53,356</u>	<u>\$ 11,939</u>	<u>\$ 3,208,377</u>	<u>\$ 0</u>
Other Funds:									
Programs:									
Child Care and Education Quality	\$ 403	\$ 0	\$ 314	\$ 0	\$ 89	\$ 0	\$ 0	\$ 0	\$ 0
Family Support	3,762	130			3,632				
More at Four	925,433	7,351	50,062	890	2,968	2,400	14,128	847,634	
	<u>929,598</u>	<u>7,481</u>	<u>50,376</u>	<u>890</u>	<u>6,689</u>	<u>2,400</u>	<u>14,128</u>	<u>847,634</u>	
Support:									
Management and General	16,703	3,074	6,675	1,777	4,627	550			
Program Evaluation	153	153							
	<u>16,856</u>	<u>3,227</u>	<u>6,675</u>	<u>1,777</u>	<u>4,627</u>	<u>550</u>			
Other:									
Sales Tax Paid	4,884			4,884					
Total Other Funds Expenditures	<u>\$ 951,338</u>	<u>\$ 10,708</u>	<u>\$ 57,051</u>	<u>\$ 7,551</u>	<u>\$ 11,316</u>	<u>\$ 2,950</u>	<u>\$ 14,128</u>	<u>\$ 847,634</u>	<u>\$ 0</u>

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

DURHAM'S PARTNERSHIP FOR CHILDREN
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2005

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

- A. Organization and Purpose** - The Durham's Partnership for Children (Durham Partnership) is a legally separate nonprofit organization incorporated on October 31, 1994. The Durham Partnership was established to develop and provide, through public and private means, early childhood education and developmental services for children and families. The Durham 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 Durham 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 Durham Partnership did not have any 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 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. 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.
- 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, Durham Partnership is required by contract regulation to track and maintain property and equipment items as presented in Schedule 4 of this report. The Durham 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 9.
- I. Use of Estimates** - The preparation of financial statements in conformity with the modified cash basis of accounting used by the Durham 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 Durham Partnership are deposited with commercial banks and insured by the Federal Deposit Insurance Corporation (FDIC) up to \$100,000 per bank. Deposits over this amount subjects the Durham Partnership to a concentration of credit risk. At June 30, 2005, the Durham Partnership's bank deposits in excess of the FDIC insured limit was \$121,777.

NOTE 3 - FUNDING FROM GRANT AWARDS

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

Associated with these contracts, the Durham 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 Durham 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 Durham Partnership was awarded and has received \$3,991,757 under a current year Smart Start contract with NCPC. The unexpended balance of this contract is subject to reversion to the State. The Durham Partnership has returned \$45,590 of this contract to the State based on financial status reports submitted to NCPC subsequent to June 30, 2005.

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

More at Four – The Durham Partnership also received revenue and support from the State of North Carolina for the More at Four Program. The Durham Partnership was awarded \$964,206 and received \$889,868 under a current year

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

contract. The Durham 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 Durham Partnership are representative of various organizations that benefit from actions taken by the Board. It is the policy of the Durham Partnership that board members not be involved with decisions regarding organizations they represent. During the year, the Durham 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 Durham 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 Affordability - Used to account for service activities associated with child care transportation.

Child Care and Education Quality - Used to account for service activities including quality enhancement grants for upgrades, child care resource and referral, professional development, or special needs – support for child care professionals.

Family Support - Used to account for service activities including family resource centers, family crisis intervention, or community outreach information and resources.

Health and Safety - Used to account for service activities including prenatal/newborn services, child care health consultants, special needs – early intervention services/special education, or home visiting.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

B. Support Functions

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

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

C. Allocation of Joint Costs

Expenditures benefiting more than one purpose were allocated as follows:

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

Other Costs - Other costs including occupancy cost (rent, utilities and maintenance), supplies and materials, and communication costs (telephone and printing) were 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, 2005:

<u>Fiscal Year</u>	<u>Operating Leases</u>
2006	\$ 50,760
2007	<u>52,283</u>
Total Minimum Lease Payments	<u>\$ 103,043</u>

Rental expense for all operating leases during the year was \$49,284.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 7 - PENSION PLAN

- A. Retirement Plans** - The Durham Partnership has a Simplified Employee Pension plan (SEP Plan) covering all full-time employees. Each full-time employee of the Durham Partnership, as a condition of employment, is provided an Individual Retirement Account through an outside insurance company. The Durham Partnership contributed 8% of gross wages for the year ended June 30, 2005. The Durham Partnership does not own the accounts nor is liable for any other cost other than the required contribution. The Durham Partnership contributed \$27,010 for pension benefits during the year.
- 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 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. No costs were incurred by the Durham Partnership.

NOTE 8 - RISK MANAGEMENT

The Durham 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 Durham 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 Durham Partnership. Settled claims have not exceeded this insurance coverage in any of the past three fiscal years.

NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

NOTE 9 - COMMITMENTS AND CONTINGENCIES

Compensated Absences – As a result of the Durham 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 \$9,433. No funds or reservation of net assets has been made for this commitment.

NOTE 10 - RESTRICTIONS ON NET ASSETS

Temporarily Restricted Net Assets - Temporarily restricted net assets at June 30, 2005, are available for the following purposes:

Purpose	Amount
Needs Assessment	\$ 11,000
Learner Link	17,222
	<u>\$ 28,222</u>

NOTE 11 - SUBSEQUENT EVENTS

On March 12, 2004, the Durham Partnership entered into a lease agreement with Child Care Services Association for a building which will be known as the Child Care Resource Center. The expected date of occupancy of the building is January 2007. The lease agreement is for a term of ten years commencing on the date that possession of the premises is delivered to the Partnership. Annual rent will be \$10 per usable square foot for approximately 3,200 square feet and will increase 3% every year for the duration of the agreement.

***Durham's 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		Other Funds	
	Amount Advanced	Refund Due	Amount Advanced	Refund Due
Bright Horizons	\$ 82,500	\$ 0	\$ 66,100	\$ 0
Brown's Day Care Center	41,084		30,080	
Bryson Christian Montessori School, Inc.	129,994		75,840	
Child and Parent Support Services	366,146			
Child Care Services Association	* 973,790			
Childcare Network #57	133,120		152,624	
Christian Prep Academy	119,941		79,680	
Durham County Department of Social Services	* 12,966			
Durham Council for Infants & Children with Special Needs	* 105,000			
Durham County Health Department	* 50,186			
Durham Public Schools			51,200	
El Centro Hispano, Inc.	245,728			
Exchange Clubs Child Abuse Prevention Center	127,712			
First Presbyterian Day School	46,670		28,480	
Kiddie Kollege	42,565		40,180	
Little People 2 Day Care	1,920		14,520	
Little River Community Complex, Inc.	84,537			
Operation Breakthrough, Inc.	* 28,800			
Primary Colors Day Care	60,448		67,190	
Scarborough Nursery School	98,350		71,040	
The ARC of Durham County	64,194			
Triangle Day Care Center	* 54,777		48,640	
Tutor Time Child Care	75,215		56,960	
Volunteer Families for Children of NC	17,005			
Welcome Baby	278,139	(8,410)		
White Rock Child Development Center	4,800		36,300	
	<u>\$ 3,216,787</u>	<u>\$ (8,410)</u>	<u>\$ 847,634</u>	<u>\$ 0</u>

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

***Durham's Partnership for Children
Schedule of State Level Service Provider Contracts
For the Year Ended June 30, 2005***

Schedule 2

Organization Name	DHHS Contracts
Child Care Services Association - WAGE\$ Program	* \$ 713,775
Durham County Department of Social Services - Subsidized Care Program	* 3,401,783
	<u>\$ 4,115,558</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.

Durham's Partnership for Children
Schedule of State Awards - Modified Cash Basis
For the Year Ended June 30, 2005

Schedule 3

State Grantor/Pass-through Grantor/Program	Contract #	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 (Previous Years)	N/A	\$ (43,961)	\$ 0
Early Childhood Initiatives Program (Current Year)	* N/A	3,946,166	3,946,166
Multi-County Accounting and Contracting Grant	N/A	12,000	12,000
North Carolina Department of Health and Human Services			
More at Four Pre-Kindergarten Program (Previous Years)	Various		36,406
More at Four Pre-Kindergarten Program (Current Year)	* #2090004458	889,868	889,027
Total State Awards		\$ 4,804,073	\$ 4,883,599

* 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.

Durham's Partnership for Children
Schedule of Property and Equipment - Modified Cash Basis
For the Year Ended June 30, 2005

Schedule 4

Furniture and Noncomputer Equipment	\$ 48,171
Computer Equipment/Printers	41,390
Leasehold Improvements	<u>3,859</u>
Total Property and Equipment	<u><u>\$ 93,420</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.

***Durham's Partnership for Children
Schedule of Qualifying Match (Non-GAAP)
For the Year Ended June 30, 2005***

Schedule 5

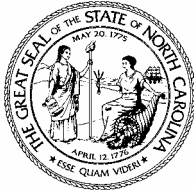
Match Provided at the Partnership Level:

Cash	\$ 53,413
In-Kind Goods and Services	<u>23,694</u>
	<u>\$ 77,107</u>

Match Provided at the Contractor Level:

Cash	\$ 693,861
In-Kind Goods and Services	<u>342,486</u>
	<u>\$ 1,036,347</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
Durham's Partnership for Children
Durham, North Carolina

We have audited the financial statements of the Durham's Partnership for Children (Durham Partnership) as of and for the year ended June 30, 2005, and have issued our report thereon dated April 19, 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Durham 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 Durham 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

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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 Durham 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 "Leslie W. Merritt, Jr." in a cursive script.

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

April 19, 2006

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