

# STATE OF NORTH CAROLINA

## FINANCIAL STATEMENT AUDIT REPORT OF WILSON COUNTY PARTNERSHIP FOR CHILDREN

WILSON, 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**

**WILSON COUNTY PARTNERSHIP FOR CHILDREN**

**WILSON, NORTH CAROLINA**

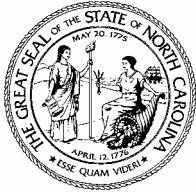
**FOR THE YEAR ENDED JUNE 30, 2005**

**BOARD OF DIRECTORS**

**HEIDI POPE, BOARD CHAIR**

**ADMINISTRATIVE OFFICER**

**JESSE J. HAWLEY, EXECUTIVE DIRECTOR**



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

STATE OF NORTH CAROLINA  
Office of the State Auditor

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**AUDITOR'S TRANSMITTAL**

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

This report presents the results of our financial statement audit of the Wilson County Partnership for Children (Wilson 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 Wilson 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 Wilson 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 Wilson Partnership is one of these local partnerships. As such, the Wilson Partnership is a private nonprofit 501(c)(3) organization and is required by General Statute 143B-168.14(b) to have a financial and compliance audit conducted by the Office of the State Auditor.

The purpose of this report is to present the results of our audit on the accompanying financial statements. A summary of our reporting objectives and audit results are:

**1. Objective** – To express an opinion on the accompanying financial statements.

**Results** – The accompanying financial statements present fairly, in all material respects, the amounts and disclosures made in accordance with the modified cash basis of accounting, a comprehensive basis of accounting other than generally accepted accounting principles.

## AUDITOR'S TRANSMITTAL (CONCLUDED)

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2. **Objective** – To present significant deficiencies, if any, in internal control over financial reporting which could adversely affect the Wilson Partnership's ability to record, process, summarize, and report financial data in the financial statements and present instances of noncompliance or other matters, if any, with laws, regulations, contracts, or grant agreements.

**Results** – The following condition represents a significant deficiency in internal control.

### **Finding**

Weaknesses in Contract Management

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

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

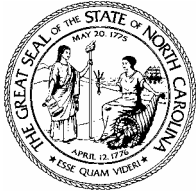


Leslie W. Merritt, Jr., CPA, CFP  
State Auditor

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**INDEPENDENT AUDITOR'S REPORT**

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Board of Directors  
Wilson County Partnership for Children  
Wilson, North Carolina

We have audited the accompanying Statement of Receipts, Expenditures, and Net Assets – Modified Cash Basis of the Wilson County Partnership for Children (Wilson 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 Wilson 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 Wilson 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 May 26, 2005, on our consideration of the Wilson Partnership's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts

## INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

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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 Wilson County 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.*

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

May 26, 2005

**Wilson 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		Temporarily Restricted Funds	Total Funds
	Smart Start Fund	Other Funds		
<b>Receipts:</b>				
State Awards (less refunds of \$42,211)	\$ 489,687	\$ 345,900	\$ 0	\$ 835,587
Federal Awards		1,073		1,073
Private Contributions		3,471		3,471
Interest and Investment Earnings		226		226
Sales Tax Refunds		6,351		6,351
Other Receipts		768		768
<b>Total Receipts</b>	<b>489,687</b>	<b>357,789</b>		<b>847,476</b>
<b>Expenditures:</b>				
Programs:				
Child Care and Education Quality	151,171	304		151,475
Family Support	96,259			96,259
More at Four	90,058	333,900		423,958
Support:				
Management and General	121,205	14,705		135,910
Program Coordination	55,351			55,351
Other:				
Refund of Prior Year Grant		36		36
Sales Tax Paid		2,343		2,343
<b>Total Expenditures</b>	<b>514,044</b>	<b>351,288</b>		<b>865,332</b>
<b>Excess of Receipts Over Expenditures</b>	<b>(24,357)</b>	<b>6,501</b>		<b>(17,856)</b>
<b>Net Assets at Beginning of Year</b>	<b>24,357</b>	<b>(9,037)</b>	<b>156</b>	<b>15,476</b>
<b>Net Assets at End of Year</b>	<b>\$ 0</b>	<b>\$ (2,536)</b>	<b>\$ 156</b>	<b>\$ (2,380)</b>
<b>Net Assets Consisted of:</b>				
Cash and Cash Equivalents	\$ 14,351	\$ (2,536)	\$ 156	\$ 11,971
Refunds Due From Contractors	876			876
	15,227	(2,536)	156	12,847
Less: Due to the State	15,227			15,227
	\$ 0	\$ (2,536)	\$ 156	\$ (2,380)

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



***Wilson 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	Participant Training Expenditures
<b>Smart Start Fund:</b>									
<b>Programs:</b>									
Child Care and Education Quality	\$ 151,171	\$ 40,925	\$ 1,224	\$ 11,600	\$ 24,691	\$ 6,373	\$ 2,799	\$ 63,559	\$ 0
Family Support	96,259							96,259	
More at Four	90,058	27,664	7,457	2,364	5,650	1,346	577	45,000	
	<u>337,488</u>	<u>68,589</u>	<u>8,681</u>	<u>13,964</u>	<u>30,341</u>	<u>7,719</u>	<u>3,376</u>	<u>204,818</u>	
<b>Support:</b>									
Management and General	121,205	81,857	10,745	3,800	17,117	5,819	1,867		
Program Coordination	55,351	45,774	975	748	5,800	1,453	601		
	<u>176,556</u>	<u>127,631</u>	<u>11,720</u>	<u>4,548</u>	<u>22,917</u>	<u>7,272</u>	<u>2,468</u>		
<b>Total Smart Start Fund Expenditures</b>	<u>\$ 514,044</u>	<u>\$ 196,220</u>	<u>\$ 20,401</u>	<u>\$ 18,512</u>	<u>\$ 53,258</u>	<u>\$ 14,991</u>	<u>\$ 5,844</u>	<u>\$ 204,818</u>	<u>\$ 0</u>
<b>Other Funds:</b>									
<b>Programs:</b>									
Child Care and Education Quality	\$ 304	\$ 0	\$ 0	\$ 304	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
More at Four	333,900							333,900	
	<u>334,204</u>			<u>304</u>				<u>333,900</u>	
<b>Support:</b>									
Management and General	14,705		6,260	3,541	1,501	1,745	1,658		
<b>Other:</b>									
Refund of Prior Year Grant	36					36			
Sales Tax Paid	2,343			2,343					
	<u>2,379</u>			<u>2,343</u>		<u>36</u>			
<b>Total Other Funds Expenditures</b>	<u>\$ 351,288</u>	<u>\$ 0</u>	<u>\$ 6,260</u>	<u>\$ 6,188</u>	<u>\$ 1,501</u>	<u>\$ 1,781</u>	<u>\$ 1,658</u>	<u>\$ 333,900</u>	<u>\$ 0</u>

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

**WILSON COUNTY PARTNERSHIP FOR CHILDREN**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2005**

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**NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES**

**A. Organization and Purpose** – The Wilson County Partnership for Children (Wilson Partnership) is a legally separate nonprofit organization incorporated on October 11, 1994. The Wilson Partnership was established to develop and provide, through public and private means, early childhood education and developmental services for children and families. The Wilson 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 Wilson 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 Wilson 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.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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However, unexpended advances to contractors that revert back to the State of North Carolina are recognized as a reduction to expenditures and an increase to net assets. 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 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, Wilson Partnership is required by contract regulation to track and maintain property and equipment items as presented in Schedule 4 of this report. The Wilson 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.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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- I. Use of Estimates** – The preparation of financial statements in conformity with the modified cash basis of accounting used by the Wilson 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 - DEFICIT NET ASSETS – UNRESTRICTED OTHER FUNDS**

At June 30, 2005, the Unrestricted Other Funds column has a deficit net asset balance of \$2,536, compared to a deficit balance of \$9,037 the previous year. The Wilson Partnership is attempting to identify additional resources to eliminate this deficit balance completely. However, the deficit net assets within the Unrestricted Other Funds also affect the overall net asset presentation for the Wilson Partnership. The Wilson Partnership has a deficit total net asset balance of \$2,380.

### **NOTE 3 - FUNDING FROM GRANT AWARDS**

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

Associated with these contracts, the Wilson 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 Wilson 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 Wilson Partnership was awarded and has received \$531,898 under a current year Smart Start contract with NCPC. The unexpended balance of this contract is subject to reversion to the State. The Wilson Partnership has returned \$15,217 of this contract to the State based on financial status reports submitted to NCPC subsequent to June 30, 2005.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

**More at Four** – The Wilson Partnership also received revenue and support from the State of North Carolina for the More at Four Program. The Wilson Partnership was awarded and received \$333,900 under a current year contract. The Wilson 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 Wilson Partnership are representative of various organizations that benefit from actions taken by the Board. It is the policy of the Wilson Partnership that board members not be involved with decisions regarding organizations they represent. During the year, the Wilson 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 Wilson Partnership's Smart Start Allocation.

### NOTE 5 - FUNCTIONAL EXPENDITURES

The costs of providing the various programs and activities have been summarized on a functional basis in the Statement of Receipts, Expenditures, and Net Assets – Modified Cash Basis. Also, the Statement of Functional Expenditures – Modified Cash Basis, provides detail of the functional costs by their natural classification. Following are the services associated with the functional categories presented in the accompanying financial statements and the methods utilized to allocate joint cost:

#### A. Program Functions

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

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

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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

### C. Allocation of Joint Costs

Expenditures benefiting more than one purpose were allocated as follows:

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

**Other Costs** – Other costs including occupancy cost (utilities, repairs, and maintenance), supplies and materials, equipment, insurance, and communication costs (telephone and network/internet services) 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	\$ 4,071
2007	<u>2,139</u>
Total Minimum Lease Payments	<u>\$ 6,210</u>

Rental expense for all operating leases during the year was \$4,573.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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### NOTE 7 - PENSION PLAN

**Deferred Compensation and Supplemental Retirement Income Plans – IRC Section 403(b) Plan** – All employees 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 Wilson Partnership, as a condition of employment, is provided an individual annuity through an outside insurance company. The Wilson Partnership contributed 6.81% of gross wages for the year ended June 30, 2005. 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 Wilson Partnership contributed \$8,898 for retirement benefits during the year.

### NOTE 8 - RISK MANAGEMENT

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

### NOTE 9 - COMMITMENTS AND CONTINGENCIES

**Compensated Absences** – As a result of the Wilson 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

**NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)**

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costs earned and unpaid, are not reflected in the financial statements. The compensated absences commitment for vacation leave at June 30, 2005, is \$4,293. 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:

<u>Purpose</u>	<u>Amount</u>
Project First Book	<u>\$ 156</u>



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

***Schedule 1***

<b>Organization Name</b>	<b>Smart Start Fund</b>		<b>Other Funds</b>	
	<b>Amount Advanced</b>	<b>Refund Due</b>	<b>Amount Advanced</b>	<b>Refund Due</b>
Fairplay / JSL Development Center	* \$ 9,000	\$ 0	\$ 66,780	\$ 0
Kidsworld Learning Center	27,000		200,340	
Science Museums of Wilson	60,612			
Wee School Child Development Center	* 9,000		66,780	
Wesley Shelter, Inc.	97,135	(876)		
	<u>202,747</u>	<u>(876)</u>	<u>333,900</u>	
<b>Individuals:</b>				
Quality Enhancement Grants	297			
T.E.A.C.H. Scholarships	2,650			
	<u>2,947</u>			
	<u>\$ 205,694</u>	<u>\$ (876)</u>	<u>\$ 333,900</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.

***Wilson County Partnership for Children  
Schedule of State Level Service Provider Contracts  
For the Year Ended June 30, 2005***

***Schedule 2***

<b>Organization Name</b>	<b>DHHS Contracts</b>
Child Care Services Association - WAGE\$ Program	\$ 204,630
Wilson County Department of Social Services	* 1,075,298
	<u>\$ 1,279,928</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.

***Wilson County Partnership for Children  
Schedule of Federal and State Awards - Modified Cash Basis  
For the Year Ended June 30, 2005***

***Schedule 3***

Federal/State Grantor/Pass-through Grantor/Program	Federal CFDA Number	Contract #	Receipts	Expenditures
<b>Federal Awards:</b>				
U.S. Department of Labor Employment and Training Administration				
Pass-through from the North Carolina Department of Health and Human Services - Division of Aging and Adult Services				
Pass-through from the Upper Coastal Plain Council of Governments				
Senior Community Service Employment Program	17.235	N/A	\$ 1,073	\$ 0
<b>State Awards:</b>				
North Carolina Department of Health and Human Services Division of Child Development				
Pass-through from the North Carolina Partnership for Children, Inc.				
Early Childhood Initiatives Program (Previous Years)		N/A	(26,994)	(2,637)
Early Childhood Initiatives Program (Current Year)	*	N/A	516,681	516,681
Multi-County Accounting and Contracting Grant		N/A	12,000	11,342
North Carolina Department of Health and Human Services More at Four Pre-Kindergarten Program	*	2090004353	333,900	333,900
<b>Total State Awards</b>			<u>835,587</u>	<u>859,286</u>
<b>Total Federal and State Awards</b>			<u>\$ 836,660</u>	<u>\$ 859,286</u>

\* Programs with compliance requirements that have a direct and material effect on the financial statements.

Note: The More at Four Pre-Kindergarten Program is contracted jointly by the North Carolina Department of Health and Human Services and the Office of the Governor. The allocations for the More at Four program are included in the budget for the North Carolina Department of Health and Human Services; therefore, the above schedule identifies that agency as the State Grantor. The Office of the Governor is responsible for oversight of the More at Four Program.

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

***Schedule 4***

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Furniture and Noncomputer Equipment	\$	34,878
Computer Equipment/Printers		32,617
Buildings		133,995
Leasehold Improvements		41,991
		<hr/>
Total Property and Equipment	\$	243,481
		<hr/> <hr/>

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.

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

***Schedule 5***

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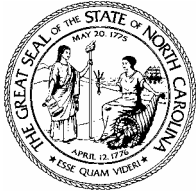
***Match Provided at the Partnership Level:***

Cash	\$ 8,672
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***Match Provided at the Contractor Level:***

Cash	\$ 197,381
In-Kind Goods and Services	26,941
	<hr/>
	\$ 224,322

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



STATE OF NORTH CAROLINA  
Office of the State Auditor

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

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Board of Directors  
Wilson County Partnership for Children  
Wilson, North Carolina

We have audited the financial statements of the Wilson County Partnership for Children (Wilson Partnership) as of and for the year ended June 30, 2005, and have issued our report thereon dated May 26, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Wilson Partnership's internal control over financial reporting in order to determine our auditing procedures for the purposes of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. A reportable condition involves a matter coming to our attention relating to a significant deficiency in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Wilson Partnership's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. This reportable condition is reported, with responses, in the Audit Finding and Recommendation section of this report:

**Finding**

Weaknesses in Contract Management

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

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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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we do not consider the reportable condition described above to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Wilson Partnership's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

May 26, 2005

## AUDIT FINDING AND RECOMMENDATION

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### **Matter Related to Financial Reporting**

The following finding and recommendation was identified during the current audit and discusses a condition that represents a deficiency in internal. This finding was also reported in previous years.

#### WEAKNESSES IN CONTRACT MANAGEMENT

Previous audits have identified deficiencies in the Wilson Partnership's contract management system including failure to execute proper contract agreements, the disbursement of funds prior to the execution of contract agreements, and the failure to include all funding sources as part of the contract agreement.

*This finding is partially resolved.* We noted significant improvements in the overall contract management procedures of the Wilson Partnership. Contract agreements were executed and were inclusive of all funding sources. Also, our tests did not identify any instances where payments occurred prior to the execution of contract agreements. However, we did note two instances where the Wilson Partnership failed to execute formal contract amendments as required by the original Smart Start service provider contacts.

The contract specifies that all changes to the contract must be made upon mutual consent of all parties. In addition, all changes to the original contract were to be incorporated in written amendments and signed by all parties.

*Recommendation:* We recommend that the Wilson Partnership comply with the provisions of its contracts and properly document all amendments to its contracts.

*Partnership's Response:* We appreciate the in-depth work and professionalism of the audit team during their visit, and their acknowledgement that the Wilson Partnership has made significant improvements in our overall contract management procedures.

The Wilson County Partnership for Children is committed to full compliance with all provisions of our contracts, including properly executed amendments, in the future. Those amendments are in place for the current fiscal year.



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