

**FINANCIAL STATEMENT AUDIT REPORT OF**  
**CHOWAN/GATES/PERQUIMANS PARTNERSHIP FOR CHILDREN**

**EDENTON, NORTH CAROLINA**

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

**PERFORMED UNDER CONTRACT WITH THE**  
**NORTH CAROLINA OFFICE OF THE STATE AUDITOR**  
**LESLIE W. MERRITT, JR., CPA, CFP**

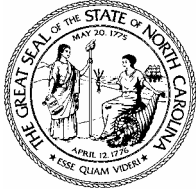
**FINANCIAL STATEMENT AUDIT REPORT OF**  
**CHOWAN/GATES/PERQUIMANS PARTNERSHIP FOR CHILDREN**  
**EDENTON, NORTH CAROLINA**  
**FOR THE YEAR ENDED JUNE 30, 2005**

**BOARD OF DIRECTORS**

**DR. ALLEN SMITH, BOARD CHAIRMAN**

**ADMINISTRATIVE OFFICER**

**HENRY FELTON, EXECUTIVE DIRECTOR**



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, Chowan/Gates/Perquimans Partnership for Children

This report presents the results of our financial statement audit of the Chowan/Gates/Perquimans Partnership for Children for the year ended June 30, 2005. Langdon & Company performed the audit under contract with the Office of the State Auditor, and their report is submitted herewith.

The audit of the Chowan/Gates/Perquimans Partnership for Children was made in conjunction with the Early Childhood Initiatives (Smart Start) program authorized by G.S. 143B-168.10-.16. This statute created The North Carolina Partnership for Children, Inc. and required the implementation of local partnerships. The Chowan/Gates/Perquimans Partnership for Children is one of these local partnerships. As such, the Chowan/Gates/Perquimans Partnership for Children is a private nonprofit 501(c)(3) organization and is required by G.S. 143B-168.14 to have an annual financial and compliance audit conducted by the State Auditor. The State Auditor's authority to perform or coordinate all audit functions for state government is set forth in Article 5 of Chapter 147 of the North Carolina General Statutes.

*North Carolina General Statutes* require the State Auditor to make audit reports available to the public. Copies of all 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**

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Board of Directors  
Chowan/Gates/Perquimans Partnership for Children  
Edenton, North Carolina

We have audited the accompanying Statement of Receipts, Expenditures, and Net Assets – Modified Cash Basis of the Chowan/Gates/Perquimans Partnership for Children (Chowan/Gates/Perquimans 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 Chowan/Gates/Perquimans 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 Chowan/Gates/Perquimans 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 16, 2006 on our consideration of the Chowan/Gates/Perquimans 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

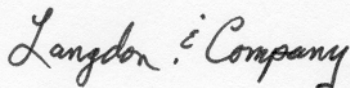


## INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

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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 Chowan/Gates/Perquimans 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.



Garner, North Carolina  
May 16, 2006

***Chowan/Gates/Perquimans 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 \$19,069)	\$ 413,035	\$ 31,183	\$ -	\$ 444,218
Federal Awards (less refunds of \$182)	-	7,073	-	7,073
Private Contributions	-	2,157	799	2,956
Special Events and Fund Raising	-	2,172	-	2,172
Interest and Investment Earnings	-	97	-	97
Sales Tax Refunds	-	2,168	-	2,168
Other Receipts	-	43	-	43
<b>Total Receipts</b>	<b>413,035</b>	<b>44,893</b>	<b>799</b>	<b>458,727</b>
<b>Expenditures:</b>				
Programs:				
Child Care and Education Affordability	30,000	-	-	30,000
Child Care and Education Quality	126,008	7,082	-	133,090
Family Support	88,760	442	-	89,202
Support:				
Management and General	141,694	33,476	-	175,170
Program Evaluation	40,825	-	-	40,825
Other:				
Refund of Prior Year Grant	-	90	-	90
Sales Tax Paid	-	1,939	-	1,939
<b>Total Expenditures</b>	<b>427,287</b>	<b>43,029</b>	<b>-</b>	<b>470,316</b>
<b>Excess of Receipts Over Expenditures</b>	<b>(14,252)</b>	<b>1,864</b>	<b>799</b>	<b>(11,589)</b>
<b>Net Assets at Beginning of Year</b>	<b>14,252</b>	<b>6,464</b>	<b>-</b>	<b>20,716</b>
<b>Net Assets at End of Year</b>	<b>\$ -</b>	<b>\$ 8,328</b>	<b>\$ 799</b>	<b>\$ 9,127</b>
<b>Net Assets Consisted of:</b>				
Cash and Cash Equivalents	\$ 18,936	\$ 8,328	\$ 799	\$ 28,063
Refunds Due From Contractors	89	-	-	89
	19,025	8,328	799	28,152
Less: Due to the State	(19,025)	-	-	(19,025)
	\$ -	\$ 8,328	\$ 799	\$ 9,127

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

***Chowan/Gates/Perquimans Partnership for Children  
Statement of Functional Expenditures - Modified Cash Basis  
For the Year Ended June 30, 2005***

***Exhibit B***

	<u>Total</u>	<u>Personnel</u>	<u>Contracted Services</u>	<u>Supplies and Materials</u>	<u>Other Operating Expenditures</u>	<u>Fixed Charges and Other Expenditures</u>	<u>Property and Equipment Outlay</u>	<u>Services/ Contracts/ Grants</u>
<b>Smart Start Fund:</b>								
<b>Programs:</b>								
Child Care and Education Affordability	\$ 30,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 30,000
Child Care and Education Quality	126,008	92,382	-	6,862	16,884	1,730	1,664	6,486
Family Support	88,760	57,942	-	4,086	11,587	361	180	14,604
	<u>244,768</u>	<u>150,324</u>	<u>-</u>	<u>10,948</u>	<u>28,471</u>	<u>2,091</u>	<u>1,844</u>	<u>51,090</u>
<b>Support:</b>								
Management and General	141,694	108,965	1,680	3,662	9,604	14,198	3,585	-
Program Evaluation	40,825	39,304	-	-	1,209	312	-	-
	<u>182,519</u>	<u>148,269</u>	<u>1,680</u>	<u>3,662</u>	<u>10,813</u>	<u>14,510</u>	<u>3,585</u>	<u>-</u>
<b>Total Smart Start Fund Expenditures</b>	<u>\$ 427,287</u>	<u>\$ 298,593</u>	<u>\$ 1,680</u>	<u>\$ 14,610</u>	<u>\$ 39,284</u>	<u>\$ 16,601</u>	<u>\$ 5,429</u>	<u>\$ 51,090</u>
<b>Other Funds:</b>								
<b>Programs:</b>								
Child Care and Education Quality	\$ 7,082	\$ -	\$ -	\$ 1,684	\$ 3,777	\$ 1,621	\$ -	\$ -
Family Support	442	-	-	84	5	-	-	353
	<u>7,524</u>	<u>-</u>	<u>-</u>	<u>1,768</u>	<u>3,782</u>	<u>1,621</u>	<u>-</u>	<u>353</u>
<b>Support:</b>								
Management and General	33,476	19,427	14,000	49	-	-	-	-
	<u>33,476</u>	<u>19,427</u>	<u>14,000</u>	<u>49</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Other:</b>								
Refund of Prior Year Grant	90	-	-	90	-	-	-	-
Sales Tax Paid	1,939	-	-	1,939	-	-	-	-
	<u>2,029</u>	<u>-</u>	<u>-</u>	<u>2,029</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Total Other Funds Expenditures</b>	<u>\$ 43,029</u>	<u>\$ 19,427</u>	<u>\$ 14,000</u>	<u>\$ 3,846</u>	<u>\$ 3,782</u>	<u>\$ 1,621</u>	<u>\$ -</u>	<u>\$ 353</u>

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



**CHOWAN/GATES/PERQUIMANS 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 Chowan/Gates/Perquimans Partnership for Children (Chowan/Gates/Perquimans Partnership) is a legally separate nonprofit organization incorporated on July 7, 1998. The Chowan/Gates/Perquimans Partnership was established to develop and provide, through public and private means, early childhood education and developmental services for children and families. The Chowan/Gates/Perquimans 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 Chowan/Gates/Perquimans 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 Chowan/Gates/Perquimans 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. Funds Held For Others** – Funds held for others includes amounts received that are fiduciary in nature in which the Chowan/Gates/Perquimans Partnership acts in an agency capacity.
- H. Property and Equipment** – Under the modified cash basis of accounting, purchases of property and equipment are reported as expenditures in the year incurred. However, Chowan/Gates/Perquimans Partnership is required by contract regulation to track and maintain property and equipment items as presented in Schedule 4 of this report. The Chowan/Gates/Perquimans 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.
- I. 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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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compensated absences for accumulated, unpaid leave that would be due to employees upon termination is reported as a commitment in Note 8.

- J. Use of Estimates** – The preparation of financial statements in conformity with the modified cash basis of accounting used by the Chowan/Gates/Perquimans 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 Chowan/Gates/Perquimans 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 Chowan/Gates/Perquimans Partnership and represents a concentration of credit risk as to the generation of revenue.

Associated with these contracts, the Chowan/Gates/Perquimans 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 Chowan/Gates/Perquimans 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 Chowan/Gates/Perquimans Partnership was awarded and has received \$446,312 under a current year Smart Start contract with NCPC. The unexpended balance of this contract is subject to reversion to the State. The Chowan/Gates/Perquimans Partnership has returned \$19,025 of this contract to the State based on financial status reports submitted to NCPC subsequent to June 30, 2005.

The Chowan/Gates/Perquimans Partnership expects to receive continued funding through new Smart Start contracts with the State.

**Child Care Resource & Referral Program** – The Chowan/Gates/Perquimans Partnership's other major source of revenue and support is from the North Carolina Department of Health and Human Services based on a cost-reimbursement pass-through contract with Albemarle Smart Start Partnership, Inc. for the Child Care Resource & Referral (CCR&R) Program.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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The Chowan/Gates/Perquimans Partnership was awarded and has received \$7,255 under a current year CCR&R contract with Albemarle Smart Start Partnership, Inc. The unexpended balance of this contract is subject to reversion to Albemarle Smart Start. The Chowan/Gates/Perquimans Partnership has returned \$1,022 of this contract to the Albemarle Smart Start Partnership, Inc. based on financial status reports submitted to Albemarle Smart Start Partnership, Inc. before and subsequent to June 30, 2005.

The Chowan/Gates/Perquimans Partnership expects to receive continued funding through new CCR&R Program contracts with the State.

### NOTE 3 - RELATED PARTY TRANSACTIONS

**Service Provider Contracts with Board Member Organizations** – The board members of the Chowan/Gates/Perquimans Partnership are representative of various organizations that benefit from actions taken by the Board. It is the policy of the Chowan/Gates/Perquimans Partnership that board members not be involved with decisions regarding organizations they represent. During the year, the Chowan/Gates/Perquimans 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 Chowan/Gates/Perquimans Partnership's Smart Start Allocation.

### 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 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 cost supports (DCD), and child care transportation.

**Child Care and Education Quality** – Used to account for service activities including quality enhancement grants for upgrades, salary supplements, and activities associated with child care resource and referral.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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**Family Support** – Used to account for service activities including ongoing parenting education, literacy projects, and community outreach-information and resources.

### 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 estimated time spent by employees for each function.

**Other Costs** – Other costs including communication costs (telephone and printing) and copier maintenance were allocated based on utilization data.

## NOTE 5 - OPERATING LEASE OBLIGATIONS

**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	\$ 9,561
2007	11,724
2008	7,674
2009	3,624
2010	2,718
Total Minimum Lease Payments	<u>\$ 35,301</u>

Rental expense for all operating leases during the year was \$7,101.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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### NOTE 6 - PENSION PLAN

**Retirement Plan** – The Chowan/Gates/Perquimans Partnership has a SIMPLE - IRA Plan covering all full-time employees. Each full-time employee of the Chowan/Gates/Perquimans Partnership has an option to participate in the Plan. An Individual Retirement Account is provided to the employee through an outside financial institution. The Chowan/Gates/Perquimans Partnership contributed 3% of gross wages for the year ended June 30, 2005; however, there were no employee contributions for the year. The Chowan/Gates/Perquimans Partnership does not own the accounts nor is liable for any other cost other than the required contribution. The Chowan/Gates/Perquimans Partnership contributed \$5,323 for pension benefits during the year.

### NOTE 7 - RISK MANAGEMENT

The Chowan/Gates/Perquimans 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 Chowan/Gates/Perquimans 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 Chowan/Gates/Perquimans Partnership. Settled claims have not exceeded this insurance coverage in any of the past three fiscal years.

### NOTE 8 - COMMITMENTS AND CONTINGENCIES

**Compensated Absences** – As a result of the Chowan/Gates/Perquimans 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 \$4,064. No funds or reservation of net assets has been made for this commitment.

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

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**NOTE 9 - RESTRICTIONS ON NET ASSETS**

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

Purpose	Amount
Family Support Initiatives	\$ 45
Parents As Teachers	139
Child Care Related Activities	275
Health Care Support Initiatives	340
	<u>\$ 799</u>

**NOTE 10 - SUBSEQUENT EVENT**

The Gates County Local Board notified the Partnership in April, 2006 that it will be separating from the Partnership effective July 1, 2006.

***Chowan/Gates/Perquimans 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>
Gates County	\$ 30,000	\$ -	\$ -	\$ -
* Perquimans County Library	3,931	49	-	-
Shepard-Pruden Memorial Library	10,762	40	-	-
Rock A By Baby Child Care	3,295	-	-	-
Valerie's Day Care	3,191	-	-	-
Chowan Hospital	-	-	353	-
	<u>\$ 51,179</u>	<u>\$ 89</u>	<u>\$ 353</u>	<u>\$ -</u>

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



***Chowan/Gates/Perquimans 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	\$ 40,650
* Chowan/Gates/Perquimans Counties Departments of Social Services	<u>132,819</u>
	<u>\$ 173,469</u>

\* These organizations are represented on the Partnership's Board as described in Note 3 - 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 2 - Funding from Grant Awards.

***Chowan/Gates/Perquimans 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>				
Department of Health and Human Services				
Pass-through from the North Carolina Department of Health and Human Services - Division of Child Development and Albemarle Smart Start Partnership, Inc.				
	93.575	#04-CGP	\$ 7,073	\$ 6,232
<b>Total Federal Awards</b>			<u>\$ 7,073</u>	<u>\$ 6,232</u>
<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 (Prior Year)		N/A	(14,252)	-
Early Childhood Initiatives Program (Current Year)	*	N/A	427,287	427,287
Multi-County Accounting and Contracting Grant (Prior Year)		N/A	(4,817)	-
Multi-County Accounting and Contracting Grant (Current Year)		N/A	<u>36,000</u>	<u>33,427</u>
<b>Total State Awards</b>			<u>444,218</u>	<u>460,714</u>
<b>Total Federal and State Awards</b>			<u>\$ 451,291</u>	<u>\$ 466,946</u>

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

***Chowan/Gates/Perquimans 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	\$	19,468
Computer Equipment/Printers		<u>31,161</u>
Total Property and Equipment	\$	<u><u>50,629</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.

***Chowan/Gates/Perquimans 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	\$	2,501
In-Kind Goods and Services		<u>19,184</u>
	\$	<u><u>21,685</u></u>

***Match Provided at the Contractor Level:***

Cash	\$	33,893
In-Kind Goods and Services		<u>21,128</u>
	\$	<u><u>55,021</u></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.

**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  
Chowan/Gates/Perquimans Partnership for Children  
Edenton, North Carolina

We have audited the financial statements of the Chowan/Gates/Perquimans Partnership for Children (Chowan/Gates/Perquimans Partnership) as of and for the year ended June 30, 2005, and have issued our report thereon dated May 16, 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Chowan/Gates/Perquimans 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. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Chowan/Gates/Perquimans Partnership's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable condition is reported, with responses, in the Audit Findings and Recommendations section of this report:

**Finding**

Internal Control

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



**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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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 consider the reportable condition described above to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Chowan/Gates/Perquimans 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*.

We noted certain matters that we reported to management of the Chowan/Gates/Perquimans Partnership in a separate letter dated May 16, 2006.

This report is intended solely for the information and use of the audit committee, management of the Chowan/Gates/Perquimans 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.

Garner, North Carolina  
May 16, 2006

## AUDIT FINDINGS AND RECOMMENDATIONS

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### **Matters Related to Financial Reporting**

The following finding and recommendation was identified during the current audit and describe conditions that represent significant deficiencies in internal control or noncompliance with laws, regulations, contracts, or grants.

#### INTERNAL CONTROL

During our audit, we identified deficiencies in internal control. We noted that the partnership did not abide by its written policies and procedures related to timekeeping, business travel expenses/reimbursement, performance evaluation, and fixed assets.

*Recommendation:* We recommend that the Partnership follow and enforce compliance with its written policies and procedures.

*Partnership Response:* The Partnership Board voted and approved the following procedures to be implemented effective immediately: All employees shall receive and sign for policies associated with travel and timekeeping. It is the policy for staff to complete this procedure upon hire and thereafter annually at the beginning of the fiscal year.

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## ORDERING INFORMATION

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