STATE OF NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT OF

PARTNERSHIP FOR CHILDREN OF JOHNSTON COUNTY, INC.

SELMA, 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

PARTNERSHIP FOR CHILDREN OF JOHNSTON COUNTY, INC.

SELMA, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2005

BOARD OF DIRECTORS

ALLEN WELLONS, BOARD CHAIRMAN

ADMINISTRATIVE OFFICER

NANCY H. THOMAS, 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, Partnership for Children of Johnston County, Inc.

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

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

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

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

2. **Objective –** To present significant deficiencies, if any, in internal control over financial reporting which could adversely affect the Johnston 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 or noncompliance or other matters with laws, regulations, contracts, or grant agreements.

   Finding

   Contract Monitoring Deficiency

   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 Findings and Recommendations 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.

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

TABLE OF CONTENTS

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Partnership for Children of Johnston County, Inc.
Selma, North Carolina

We have audited the accompanying Statement of Receipts, Expenditures, and Net Assets – Modified Cash Basis of the Partnership for Children of Johnston County, Inc. (Johnston 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 Johnston 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 Partnership for Children of Johnston County, Inc. 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 18, 2006, on our consideration of the Johnston Partnership's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Partnership for Children of Johnston County, Inc.'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

April 18, 2006

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

	Unrestricted Funds		Temporarily	
	Smart Start Fund	**Other Funds**	**Restricted Funds**	**Total Funds**
Receipts:				
State Awards (less refunds of $21,784)	$ 1,665,742	$ 785,839	$ 0	$ 2,451,581
Federal Awards		18,329		18,329
Private Contributions		24,276	16,597	40,873
Special Fund Raising Events		1,067		1,067
Interest and Investment Earnings		1,821		1,821
Sales Tax Refunds		4,418		4,418
Other Receipts		93,715		93,715
Total Receipts	1,665,742	929,465	16,597	2,611,804
Net Assets Released from Restrictions:				
Satisfaction of Program Restrictions		26,409	(26,409)	
	1,665,742	955,874	(9,812)	2,611,804
Expenditures:				
Programs:				
Child Care and Education Affordability	81,109			81,109
Child Care and Education Quality	670,865	58,642		729,507
Family Support	251,817	9,343		261,160
Health and Safety	40,364			40,364
More at Four	421,200	802,781		1,223,981
Support:				
Fund Raising		13,058		13,058
Management and General	169,173	91,542		260,715
Program Coordination	49,040	557		49,597
Other:				
Sales Tax Paid		5,323		5,323
Total Expenditures	1,683,568	981,246		2,664,814
Excess of Receipts Over Expenditures	(17,826)	(25,372)	(9,812)	(53,010)
Net Assets at Beginning of Year	17,826	41,234	36,553	95,613
Net Assets at End of Year	$ 0	$ 15,862	$ 26,741	$ 42,603
Net Assets Consisted of:				
Cash and Cash Equivalents	$ 1,594	$ 17,884	$ 26,741	$ 46,219
Refunds Due From Contractors	1,650			1,650
	3,244	17,884	26,741	47,869
Less: Due to the State	3,207			3,207
Funds Held for Others	37	2,022		2,059
	$ 0	$ 15,862	$ 26,741	$ 42,603

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

Partnership for Children of Johnston County, Inc.
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	$ 81,109	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 81,109	$ 0
Child Care and Education Quality	670,865	209,247	4,242	34,806	38,397	3,300	13,906	366,967	
Family Support	251,817	115,277	1,654	14,542	8,921	1,113	2,288	108,022	
Health and Safety	40,364							40,364	
More at Four	421,200							421,200	
	1,465,355	324,524	5,896	49,348	47,318	4,413	16,194	1,017,662	
Support:									
Management and General	169,173	135,393	2,693	3,328	18,342	7,011	2,406		
Program Coordination	49,040	42,691	3,651	436	2,067	98	97		
	218,213	178,084	6,344	3,764	20,409	7,109	2,503		
Total Smart Start Fund Expenditures	$ 1,683,568	$ 502,608	$ 12,240	$ 53,112	$ 67,727	$ 11,522	$ 18,697	$ 1,017,662	$
Other Funds:									
Programs:									
Child Care and Education Quality	$ 58,642	$ 23,261	$ 0	$ 6,289	$ 9,084	$ 225	$ 0	$ 19,783	$ 0
Family Support	9,343			7,436	154			1,753	
More at Four	802,781	48,685	381	3,962	3,257	53	50	746,393	
	870,766	71,946	381	17,687	12,495	278	50	767,929	
Support:									
Fund Raising	13,058		13,021		37				
Management and General	91,542	64,976	11,660	3,720	10,966	55	165		
Program Coordination	557		557						
	105,157	64,976	25,238	3,720	11,003	55	165		
Other:									
Sales Tax Paid	5,323			5,323					
Total Other Funds Expenditures	$ 981,246	$ 136,922	$ 25,619	$ 26,730	$ 23,498	$ 333	$ 215	$ 767,929	$ 0

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

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

A. Organization and Purpose – The Partnership for Children of Johnston County, Inc. (Johnston Partnership) is a legally separate nonprofit organization incorporated on June 19, 1997. The Johnston Partnership was established to develop and provide, through public and private means, early childhood education and developmental services for children and families. The Johnston 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 Johnston 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 Johnston 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 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 Johnston Partnership acts in an agency capacity. For the year ended, the Johnston Partnership was holding amounts withheld from employee paychecks for distribution to insurance agencies. The Johnston Partnership acts as the fiscal agent for the North Carolina Safe Kids Coalition and the Johnston County Local Interagency Coordinating Council.

H. **Property and Equipment –** Under the modified cash basis of accounting, purchases of property and equipment are reported as expenditures in the year occurred. However, Johnston Partnership is required by contract regulation to track and maintain property and equipment items as presented in Schedule 4 of this report. The Johnston 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 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 Johnston Partnership requires management to make estimates and assumptions that affect certain reported amounts and disclosures (such as allocation of joint costs); accordingly, actual results could differ from those estimates. It is management's belief that these estimates are reasonable and fair.

NOTE 2 - DEPOSITS

All funds of the Johnston Partnership are deposited with a commercial bank and insured by the Federal Deposit Insurance Corporation (FDIC) up to $100,000. Deposits over this amount subjects the Johnston Partnership to a concentration of credit risk.

The Johnston Partnership has an Automated Investment Plan to invest excess balances over an established target amount. The investment is in the bank's government securities and is not insured by the FDIC. Consequently, the Johnston Partnership bank deposits in excess of the FDIC insured limit totaled $149,000 at June 30, 2005.

NOTE 3 - FUNDING FROM GRANT AWARDS

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

Associated with these contracts, the Johnston 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 Johnston 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 Johnston Partnership was awarded and has received $1,687,526 under a current year Smart Start contract with NCPC. The unexpended balance of this contract is subject to reversion to the State. The Johnston Partnership has returned $4,496 of this contract to the State based on financial status reports submitted to NCPC subsequent to June 30, 2005.

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

More at Four – The Johnston Partnership also received revenue and support from the State of North Carolina for the More at Four Program. The Johnston Partnership was awarded $796,099 and received $773,839 under a current year contract. The Johnston 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 Johnston Partnership are representative of various organizations that benefit from actions taken by the Board. It is the policy of the Johnston Partnership that board members not be involved with decisions regarding organizations they represent. During the year, the Johnston 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 Johnston 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 Head Start wraparound/extended day**.**

Child Care and Education Quality – Used to account for service activities including child care resource and referral or professional development.

Family Support – Used to account for service activities including mobile family resource center, ongoing parenting education, transportation services, or community outreach information and resources.

Health and Safety – Used to account for service activities associated with child care health consultants.

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

Fund Raising – Expenditures that are incurred in inducing others to contribute money, securities, time, materials, or facilities for which the contributor will receive no direct economic benefit.

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 and maintenance), technology services, equipment rental, and communication costs (telephone and postage) were allocated based on utilization data.

NOTE 6 - PENSION PLAN

A. Retirement Plans – The Johnston Partnership has a Simplified Employee Pension plan (SEP Plan) covering all full-time employees. Each full-time employee of the Johnston Partnership, as a condition of employment, is provided an Individual Retirement Account through an outside insurance company. The Johnston Partnership contributed 7% of gross wages for the year ended June 30, 2005. The Johnston Partnership does not own the accounts nor is liable for any other cost other than the required contribution. The Johnston Partnership contributed $34,014 for pension benefits during the year.

B. 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 Johnston Partnership.

NOTE 7 - RISK MANAGEMENT

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

Type of Loss	Method Managed	Risk of Loss Retained
Torts, errors and omissions, health and life	Purchased commercial insurance	None
Workers Compensation – Employee injuries	Purchased commercial insurance	None
Physical property loss and natural disasters	Purchased commercial insurance	None

Management believes such coverage is sufficient to preclude any significant losses to the Johnston 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 Johnston 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 $24,114. No funds or reservation of net assets has been made for this commitment.

NOTE 9 - RESTRICTIONS ON NET ASSETS

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

Purpose	Amount
North Carolina Safe Kids Buckle Up Program	$ 2,021
BRIDGES Program	975
Riverwood Scholarship Program	18,174
Hispanic/Latino Child Care Resource and Referral Program	5,571
	$ 26,741

B. Net Assets Released From Donor Restrictions – Net assets were released from donor restrictions during the fiscal year ended June 30, 2005, by incurring expenditures satisfying the restricted purposes as follows:

Purpose	Amount
North Carolina Safe Kids Buckle Up Program	$ 1,728
BRIDGES Program	25
Riverwood Scholarship Program	20,335
Sustainable Development Project	4,321
	$ 26,409

Partnership for Children of Johnston County, Inc.
Schedule of Contract and Grant Expenditures - Modified Cash Basis
For the Year Ended June 30, 2005 ***Schedule 1***

Organization Name		Smart Start Fund Amount Advanced	Smart Start Fund Refund Due	Other Funds Amount Advanced	Other Funds Refund Due
Building Blocks Child Care and Development Center, Incorporated	*	$ 335,256	$ 0	$ 346,735	$ 0
Carolina Child Development Center	*	24,796		35,250	
Johnston Community College	*	59,000	(781)	24,675	
Johnston County Public Health Department	*	149,164	(778)		
Johnston County Public Schools	*	6,320		79,590	
Johnston-Lee-Harnett Community Action, Incorporated	*	120,652	(91)		
Kids Country Day Care, Incorporated		83,773		123,225	
Little Wonders Learning Center, Incorporated		53,390		63,098	
Two By Two Daycare Development Center, Incorporated		31,813		61,951	
Various Daycare Providers		55,860		31,403	
		920,024	(1,650)	765,927	
Individuals:					
Car Seat Safety Program				1,727	
Non-Cash Awards				275	
Teacher Incentives (Health Insurance, Child Care, and Salary Supplements)		99,288			
		99,288		2,002	
		$ 1,019,312	$ (1,650)	$ 767,929	$ 0

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

Partnership for Children of Johnston County, Inc.
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		$ 224,339
Johnston County Department of Social Services	*	693,894
		$ 918,233

* 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.

Partnership for Children of Johnston County, Inc.
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
Federal Awards:					
U.S. Department of Transportation					
National Highway Traffic Safety Administration					
Pass-through from the Governor's Highway Safety Program					
Pass-through from the North Carolina Department of Insurance					
North Carolina Safe Kids Buckle Up Program		20.602	N/A	$ 0	$ 1,159
US Department of Health and Human Services					
Administration for Children and Families					
Pass-through from the North Carolina Department of					
Health and Human Services - Division of Child Development					
Pass-through from Child Care Networks, Inc.					
Child Care and Development Fund		93.575	#6230004	18,329	16,323
Total Federal Awards				18,329	17,482
State Awards:					
North Carolina Department of Health and Human Services					
Division of Child Development					
Pass-through from the North Carolina Partnership for Children, Inc.					
Early Childhood Initiatives Program (Prior Year)			Various	(18,577)	(751)
Early Childhood Initiatives Program (Current Year)	*		N/A	1,684,319	1,684,319
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	*		#2090004338	773,839	802,106
Total State Awards				2,451,581	2,497,674
Total Federal and State Awards				$ 2,469,910	$ 2,515,156

* 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.

Partnership for Children of Johnston County, Inc.
Schedule of Property and Equipment - Modified Cash Basis
For the Year Ended June 30, 2005 ***Schedule 4***

Furniture and Noncomputer Equipment	$	27,922
Computer Equipment/Printers		46,838
Leasehold Improvements		1,040
Total Property and Equipment	$	75,800

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.

Partnership for Children of Johnston County, Inc.
Schedule of Qualifying Match (Non-GAAP)
For the Year Ended June 30, 2005 ***Schedule 5***

Match Provided at the Partnership Level:

Cash	$	41,917
In-Kind Goods and Services		98,104
	$	140,021

Match Provided at the Contractor Level:

Cash	$	45,968
In-Kind Goods and Services		151,334
	$	197,302

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

Leslie W. Merritt, Jr., CPA, CFP
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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
Partnership for Children of Johnston County, Inc.
Selma, North Carolina

We have audited the financial statements of the Partnership for Children of Johnston County, Inc. (Johnston Partnership) as of and for the year ended June 30, 2005, and have issued our report thereon dated April 18, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

As described in Note 1, the accompanying financial statements were prepared on the modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

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

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

Contract Monitoring Deficiency

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)

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 believe the reportable condition described above is not a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Johnston 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 Johnston Partnership, The North Carolina Partnership for Children, Inc., the Governor, and the General Assembly and is not intended to be and should not be used by anyone other than these specified parties.

Leslie W. Merritt, Jr.

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

April 18, 2006

AUDIT FINDING AND RECOMMENDATION

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 control.

CONTRACT MONITORING DEFICIENCY

We noted an instance where the Johnston Partnership reimbursed a day care provider who failed to meet the established eligibility criteria for payment. The Employee Child Care Incentive program provided child care reimbursements to day care providers if their employees either:

- continued their education by at least 9 to 15 credit hours per year;
- had a two year degree in Child Development or Early Childhood Education;
- or had a four year degree in any field.

In our review of the program, we noted that the Johnston Partnership reimbursed a day care provider $9,569 of child care expenses for employees who did not meet the minimum 9 credit hours for the year. The Johnston Partnership did not consistently monitor the eligibility documentation to ensure all participants were eligible prior to disbursing the funds. Therefore, the $9,569 was identified as questioned costs. Subsequent to our audit, the Johnston Partnership has recovered these funds from the day care provider and returned the funds to The North Carolina Partnership for Children, Inc.

Recommendation: We recommend that the Johnston Partnership review the established criteria for the Employee Child Care Incentive program to ensure the intended goals are being met and consistently monitor participants' eligibility prior to disbursing funds.

Partnership's Response: The Johnston Partnership has thoroughly examined its policies and procedures related to the employee child care incentive program and made the following adjustments:

- The number of credit hours that an employee is required to complete in a fiscal year if they do not already have a qualifying degree has been reduced to six, a much more reasonable number for working professionals. That change actually occurred in the current fiscal year, before the 04-05 audit.
- Going forward, employees who qualify based on continuing six hours of credit hours per year must complete and provide documentation of the completed hours no later than the completion of the spring semester that ends in early May, which allows sufficient time before the fiscal year ends to recover funds from the employing child care program if the employee can not provide appropriate documentation.

- Monitoring the employees receiving the benefits based on the condition that they complete six credit hours will occur regularly throughout the year, to make sure that the employees are actually enrolled and working towards the attainment of the six hours by the deadline. This will avoid negative surprises at the end of the spring semester and the subsequent process of recovering funds. The child care programs that are employing the employees receiving the benefit will be reminded regularly of the criteria so that they can also monitor the employee's progress towards attaining the six hours. As the funds are paid to the child care program on behalf of the employee, and therefore would be recovered from the program if the employee fails to complete the six credit hours, the program also has a stake in holding the employee accountable earlier in the fiscal year. The Johnston Partnership recognizes and will make the most of that partnership to ensure accountability and adherence to the program criteria in a timely manner.

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