Financial Statement Audit Report of

Polk County Partnership for Children, Inc.
Mill Spring, 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
State Auditor

Financial Statement Audit Report of

Polk County Partnership for Children, Inc.
Mill Spring, North Carolina

For the Year Ended June 30, 2005

Board of Directors
Carole Bartol, Chair

Administrative Officer
Cathy Brooks, Executive Director

STATE OF NORTH CAROLINA
Office of the State Auditor

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State Auditor

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AUDITOR'S TRANSMITTAL

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

This report presents the results of the financial statement audit of Polk County Partnership for Children, Inc. for the year ended June 30, 2005. Winston, Williams, Creech, Evans and Company, LLP performed the audit under contract with the Office of the State Auditor, and their report is submitted herewith.

The audit of the Polk County Partnership for Children, Inc. 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 Polk County Partnership for Children, Inc. is one of these local partnerships. As such, the Polk County Partnership for Children, Inc. 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 on the back of this report.

Leslie W. Merritt, Jr.

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

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Winston, Williams, Creech,
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Leonard R. Creech, Jr. CPA
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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Polk County Partnership for Children, Inc.
Mill Spring, North Carolina

We have audited the accompanying Statement of Receipts, Expenditures, and Net Assets – Modified Cash Basis of the Polk County Partnership for Children, Inc. (Polk 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 Polk 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 misstatement. 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 Polk County Partnership for Children, 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 a report dated March 28, 2006 on our consideration of the Polk Partnership's internal control over

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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. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with the independent auditor's report in considering the results of our audit.

Our audit was performed for the purpose of forming an opinion on the basic financial statements that collectively comprise the Polk County Partnership for Children, Inc.'s basic financial statements. The information in Schedules 1, 3, 4, and 5 is presented for purposes of additional analysis and is not a required part of the basic financial statements. These Schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is 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 to the audit of the basic financial statements and, accordingly, we express no opinion on Schedule 2.

Winston, Williams, Creech, Evans and Company, LLP

Winston, Williams, Creech, Evans and Company, LLP
Certified Public Accountants

March 28, 2006

Polk County Partnership for Children, 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 $7,362)	$ 191,173	$ 11,963	$ 0	$ 203,136
Private Contributions	0	24,930	0	24,930
Interest and Investment Earnings	0	97	0	97
Sales Tax Refunds	0	420	0	420
Total Receipts	191,173	37,410	0	228,583
Net Assets Released from Restrictions:				
Satisfaction of Program Restrictions	0	4,761	(4,761)	0
	191,173	42,171	(4,761)	228,583
Expenditures:				
Programs:				
Child Care and Education Quality	62,879	0	0	62,879
Family Support	14,631	28,407	0	43,038
Support:				
Management and General	79,299	12,192	0	91,491
Program Coordination	38,460	0	0	38,460
Other:				
Refund of Prior Year Grant	0	747	0	747
Sales Tax Paid	0	361	0	361
Total Expenditures	195,269	41,707	0	236,976
Excess of Receipts Over Expenditures	(4,096)	464	(4,761)	(8,393)
Net Assets at Beginning of Year	4,096	1,937	11,968	18,001
Net Assets at End of Year	$ 0	$ 2,401	$ 7,207	$ 9,608
Net Assets Consisted of:				
Cash and Cash Equivalents	$ 3,060	$ 2,401	$ 7,207	$ 12,668
Refunds Due from Contractors	169	0	0	169
	3,229	2,401	7,207	12,837
Less: Due to the Primary Government	(3,229)	0	0	(3,229)
	$ 0	$ 2,401	$ 7,207	$ 9,608

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

Polk County Partnership for Children, 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
Smart Start Fund:								
Programs:								
Child Care and Education Quality	$ 62,879	$ 35,857	$ 152	$ 2,320	$ 902	$ 481	$ 47	$ 23,120
Family Support	14,631	0	0	0	0	0	0	14,631
	77,510	35,857	152	2,320	902	481	47	37,751
Support:								
Management and General	79,299	64,411	315	1,038	6,235	7,120	180	0
Program Coordination	38,460	35,925	79	740	1,201	515	0	0
	117,759	100,336	394	1,778	7,436	7,635	180	0
Total Smart Start Fund Expenditures	$ 195,269	$ 136,193	$ 546	$ 4,098	$ 8,338	$ 8,116	$ 227	$ 37,751
Other Funds:								
Programs:								
Family Support	$ 28,407	$ 0	$ 4,625	$ 1,601	$ 691	$ 49	$ 0	$ 21,441
Support:								
Management and General	12,192	877	10,676	243	197	60	139	0
Other:								
Refund of Prior Year Grant	747	0	0	0	747	0	0	0
Sales Tax Paid	361	0	0	361	0	0	0	0
	1,108	0	0	361	747	0	0	0
Total Other Funds Expenditures	$ 41,707	$ 877	$ 15,301	$ 2,205	$ 1,635	$ 109	$ 139	$ 21,441

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

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

A. Organization and Purpose - The Polk County Partnership for Children, Inc. (Polk Partnership) is a legally separate nonprofit organization incorporated on April 3, 1996. The Polk Partnership was established to develop and provide, through public and private means, early childhood education and developmental services for children and families. The Polk 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 Polk 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 Polk 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 Primary Government.

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 Primary Government –** 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, Polk Partnership is required by contract regulation to track and maintain property and equipment items as presented in Schedule 4 of this report. The Polk Partnership has a policy to track purchases of property and equipment items with an individual cost of $500 or more and an estimated useful life greater than one year. Such items are valued at their original purchase price, which may be different from their valuation as of June 30, 2005. Donated items are recorded at estimated fair market value at the date of donation.

H. **Compensated Absences –** As a result of the use of the modified cash basis of accounting, liabilities related to accrued compensated absences are not recorded in the financial statements. Expenditures related to compensated absences are recorded when paid. The amount of accrued compensated absences for accumulated, unpaid leave that would be due to employees upon termination is reported as a commitment in Note 7.

I. **Use of Estimates** - The preparation of financial statements in conformity with the other comprehensive basis of accounting used by the Polk 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 Polk 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 Polk Partnership and represents a concentration of credit risk as to the generation of revenue.

Associated with these contracts, the Polk 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 a contract with and made payments to service providers selected by the Polk Partnership. This service provider contract is not reflected on the accompanying financial statements. However, a summary of the service provider contract entered into by DHHS is presented on Schedule 2 accompanying the financial statements.

The Polk Partnership was awarded and has received $198,498 under a current year Smart Start contract with NCPC. The unexpended balance of this contract is subject to reversion to the State. The Polk Partnership has returned $3,229 of this contract to the State based on financial status reports submitted to NCPC subsequent to June 30, 2005.

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

NOTE 3 - RELATED PARTY TRANSACTIONS

Service Provider Contracts with Board Member Organizations - The board members of the Polk Partnership are representative of various organizations that benefit from actions taken by the Board. It is the policy of the Polk Partnership that board members not be involved with decisions regarding organizations they represent. During the year, the Polk Partnership did not enter into contracts with board member organizations for program activities. Schedule 2 identifies contracts entered into by DHHS with board member organizations for activities funded by the Polk 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 Quality – Used to account for service activities associated with quality enhancement grants for upgrades including technical assistance and salary supplements.

Family Support - Used to account for service activities including ongoing parenting education.

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 estimated time spent by employees for each function and then reconciled against actual hours reported on employee time reports.

Other Costs - Other costs including occupancy cost (rent, utilities and maintenance), supplies and materials, and communication costs (telephone and printing) were allocated based on utilization data.

NOTE 5 - PENSION PLAN

IRC Section 403(b)(7) - 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)(7). The Plan is a defined contribution plan in which each employee of the Polk Partnership, as a condition of employment, is provided a custodial account with a brokerage firm to be invested in mutual funds. The employee's eligible contributions, made through salary reduction agreements, are exempt from federal and State income taxes until withdrawal at which time they are taxed as ordinary income. The Plan is 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 Polk Partnership contributed 6% of each qualifying employee's salary to the Plan. For the year ended June 30, 2005, the Polk Partnership contributed $4,312 for retirement benefits during the year.

NOTE 6 - RISK MANAGEMENT

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

NOTE 7 - COMMITMENTS AND CONTINGENCIES

Compensated Absences – As a result of the Polk Partnership's use of the modified cash basis of accounting, accrued liabilities related to compensated absences (vacation and personal leave) 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 $8,635 plus applicable payroll taxes. No funds or reservation of net assets has been made for this commitment.

NOTE 8 - 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
Family Support	$ 7,207

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
Family Support	$ 4,761

NOTE 9 - SUBSEQUENT EVENTS

The Polk Partnership voted on January 25, 2005 to approve a merger with Rutherford County Partnership for Children, effective July 1, 2006. The board also voted on January 25, 2005 to formally dissolve the Polk County Partnership for Children, Inc. effective July 1, 2006.

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

	Smart Start Fund		Other Funds	
Organization Name	**Amount Advanced**	**Refund Due**	**Amount Advanced**	**Refund Due**
Individuals:				
Parents as Teachers	$ 14,800	$ 169	$ 21,141	$ 0
Salary Supplements	23,120		0	
Children's Fair			300	
	$ 37,920	$ 169	$ 21,441	$ 0

Polk County Partnership for Children, Inc.
Schedule of State Level Service Provider Contract
For the Year Ended June 30, 2005 ***Schedule 2***

Organization Name		DHHS Contract
Polk County Department of Social Services	*	$ 91,703

* This organization is represented on the Partnership's Board as described in Note 3 - Service Provider Contracts with Board Member Organizations.

The information on this schedule provides the service provider contract entered into by the North Carolina Department of Health and Human Services (DHHS) as described in Note 2 - Funding from Grant Awards.

Polk County Partnership for Children, Inc.
Schedule of State Awards - Modified Cash Basis
For the Year Ended June 30, 2005 *Schedule 3*

State Grantor/Pass-through Grantor/Program	Contract #		Receipts	Expenditures
State Awards:				
North Carolina Department of Health and Human Services				
Division of Child Development				
Pass-through from the North Carolina Partnership for Children, Inc.				
Early Childhood Initiatives Program (Prior Year)	N/A		(4,096)	0
Early Childhood Initiatives Program (Current Year)	N/A	*	195,269	195,269
Multi-County Accounting and Contracting Grant (Prior Year)	N/A		(37)	0
Multi-County Accounting and Contracting Grant (Current Year)	N/A		12,000	11,963
Total State Awards			$ 203,136	$ 207,232

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

Notes to the Schedule of State Awards - Modified Cash Basis

1. The accompanying schedule of state awards includes the State grant activity of the Polk County Partnership for Children and is presented on the modified cash basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the financial statements.

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

Furniture and Noncomputer Equipment	$	3,295
Computer Equipment/Printers		11,613
Total Property and Equipment	$	14,908

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 cash basis of accounting, these items are expensed in the year of purchase.

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

Match Provided at the Partnership Level:

Cash	$	24,900
In-Kind Goods and Services		6,515
	$	31,415

Match Provided at the Contractor Level:

Cash	$	24,035
In-Kind Goods and Services		5,124
	$	29,159

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

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

Board of Directors
Polk County Partnership for Children, Inc.
Mill Spring, North Carolina

We have audited the accompanying financial statements of the Polk County Partnership for Children, Inc. (Polk Partnership) as of and for the year ended June 30, 2005, and have issued our report thereon dated March 28, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Polk Partnership's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

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

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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 (CONCLUDED)

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 Polk 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.

Winston, Williams, Creech, Evans and Company, LLP

Winston, Williams, Creech, Evans and Company, LLP
Certified Public Accountants

March 28, 2006

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