



# **STATE OF NORTH CAROLINA**

## **FINANCIAL STATEMENT AUDIT REPORT OF PARTNERSHIP FOR CHILDREN OF CUMBERLAND COUNTY, INC.**

**FAYETTEVILLE, NORTH CAROLINA**

**FOR THE YEAR ENDED JUNE 30, 2006**

**OFFICE OF THE STATE AUDITOR**

**LESLIE W. MERRITT, JR., CPA, CFP**

**STATE AUDITOR**

**FINANCIAL STATEMENT AUDIT REPORT OF**  
**PARTNERSHIP FOR CHILDREN OF CUMBERLAND COUNTY, INC.**  
**FAYETTEVILLE, NORTH CAROLINA**  
**FOR THE YEAR ENDED JUNE 30, 2006**

**BOARD OF DIRECTORS**

**AMY PERKO, PRESIDENT**

**ADMINISTRATIVE OFFICER**

**EVA L. HANSEN, EXECUTIVE DIRECTOR**



STATE OF NORTH CAROLINA  
**Office of the State Auditor**

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

2 S. Salisbury Street  
20601 Mail Service Center  
Raleigh, NC 27699-0601  
Telephone: (919) 807-7500  
Fax: (919) 807-7647  
Internet  
<http://www.ncauditor.net>

---

**AUDITOR'S TRANSMITTAL**

---

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

We have completed a financial statement and compliance audit of the Partnership for Children of Cumberland County, Inc. (Cumberland Partnership) for the year ended June 30, 2006, and our audit results are included in this report. You will note from the independent auditor's report that we determined that the financial statements are presented fairly in all material aspects.

The audit of the Cumberland 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 Cumberland Partnership is one of these local partnerships. As such, the Cumberland Partnership is a private nonprofit 501(c)(3) organization and is subject to audit and review by the State Auditor under Article 5A of Chapter 147 of the General Statutes and as authorized in General Statute 143B-168.12(a)(7).

Our consideration of internal control over financial reporting and compliance and other matters based on an audit of the financial statements resulted in no audit findings.

*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.

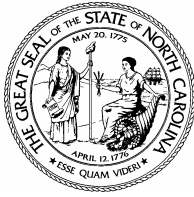
*Leslie W. Merritt, Jr.*

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

## TABLE OF CONTENTS

---

	PAGE
INDEPENDENT AUDITOR’S REPORT .....	1
FINANCIAL STATEMENTS	
EXHIBITS	
A    Statement of Receipts, Expenditures, and Net Assets – Modified Cash Basis.....	3
B    Statement of Functional Expenditures – Modified Cash Basis .....	4
Notes to the Financial Statements .....	5
SUPPLEMENTARY SCHEDULES	
1    Schedule of Contract and Grant Expenditures – Modified Cash Basis .....	14
2    Schedule of State Level Service Provider Contracts.....	15
3    Schedule of Federal and State Awards – Modified Cash Basis.....	16
4    Schedule of Property and Equipment – Modified Cash Basis.....	17
5    Schedule of Qualifying Match (Non-GAAP).....	18
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 <i>GOVERNMENT AUDITING STANDARDS</i> .....	19
ORDERING INFORMATION .....	21



STATE OF NORTH CAROLINA  
**Office of the State Auditor**

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

2 S. Salisbury Street  
20601 Mail Service Center  
Raleigh, NC 27699-0601  
Telephone: (919) 807-7500  
Fax: (919) 807-7647  
Internet  
<http://www.ncauditor.net>

---

**INDEPENDENT AUDITOR'S REPORT**

---

Board of Directors  
Partnership for Children of Cumberland County, Inc.  
Fayetteville, North Carolina

We have audited the accompanying Statement of Receipts, Expenditures, and Net Assets – Modified Cash Basis of the Partnership for Children of Cumberland County, Inc. (Cumberland Partnership) as of June 30, 2006, and the related Statement of Functional Expenditures – Modified Cash Basis for the year then ended. These financial statements are the responsibility of the Cumberland 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 Cumberland County, Inc. as of June 30, 2006, 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 30, 2007, on our consideration of the Cumberland Partnership's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe

## INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

---

the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Partnership for Children of Cumberland 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., CPA, CFP  
State Auditor

April 30, 2007

**Partnership for Children of Cumberland County, Inc.**  
**Statement of Receipts, Expenditures, and Net Assets - Modified Cash Basis**  
**For the Year Ended June 30, 2006**

**Exhibit A**

	Unrestricted Funds		Temporarily Restricted Funds	Total Funds
	Smart Start Fund	Other Funds		
<b>Receipts:</b>				
State Awards (less refunds of \$2,003)	\$ 6,192,957	\$ 2,861,092	\$ 0	\$ 9,054,049
Federal Awards		295,797	101,265	397,062
Private Contributions		54,159	31,127	85,286
Interest Earnings		6,431		6,431
Sales Tax Refunds		34,598		34,598
Other Receipts		299,731		299,731
<b>Total Receipts</b>	<b>6,192,957</b>	<b>3,551,808</b>	<b>132,392</b>	<b>9,877,157</b>
Net Assets Released from Restrictions:				
Satisfaction of Program Restrictions		143,180	(143,180)	
	<b>6,192,957</b>	<b>3,694,988</b>	<b>(10,788)</b>	<b>9,877,157</b>
<b>Expenditures:</b>				
Programs:				
Child Care and Education Affordability	986,876			986,876
Child Care and Education Quality	2,343,179	330,542		2,673,721
Family Support	736,697	386,651		1,123,348
Health and Safety	574,085			574,085
More at Four	378,720	2,734,038		3,112,758
Support:				
Fund Raising		1,300		1,300
Management and General	454,909	72,232		527,141
Program Coordination	60,000	354		60,354
Program Evaluation	390,747	14,556		405,303
System Integration	267,744	48,161		315,905
Other:				
Sales Tax Paid		42,862		42,862
<b>Total Expenditures</b>	<b>6,192,957</b>	<b>3,630,696</b>		<b>9,823,653</b>
<b>Excess of Receipts Over Expenditures</b>		<b>64,292</b>	<b>(10,788)</b>	<b>53,504</b>
<b>Net Assets at Beginning of Year</b>		<b>54,419</b>	<b>140,576</b>	<b>194,995</b>
<b>Restatement (Note 12)</b>		<b>(3,360)</b>	<b>2,604</b>	<b>(756)</b>
<b>Net Assets at End of Year</b>	<b>\$ 0</b>	<b>\$ 115,351</b>	<b>\$ 132,392</b>	<b>\$ 247,743</b>
<b>Net Assets Consisted of:</b>				
Cash and Cash Equivalents	\$ 61,540	\$ 127,648	\$ 132,392	\$ 321,580
Refunds Due from Contractors	24,189			24,189
	<b>85,729</b>	<b>127,648</b>	<b>132,392</b>	<b>345,769</b>
Less: Due to the State	84,967			84,967
Funds Held for Others	762	12,297		13,059
	<b>85,729</b>	<b>12,297</b>		<b>98,026</b>
	<b>\$ 0</b>	<b>\$ 115,351</b>	<b>\$ 132,392</b>	<b>\$ 247,743</b>

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

**Partnership for Children of Cumberland County, Inc.**  
**Statement of Functional Expenditures - Modified Cash Basis**  
**For the Year Ended June 30, 2006**

**Exhibit B**

	Total	Personnel	Contracted Services	Supplies and Materials	Other Operating Expenditures	Fixed Charges and Other Expenditures	Property and Equipment Outlay	Services/Contracts/Grants	Participant Training Expenditures
<b>Smart Start Fund:</b>									
<b>Programs:</b>									
Child Care and Education Affordability	\$ 986,876	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 986,876	\$ 0
Child Care and Education Quality	2,343,179	784,997	67,348	63,508	134,423	28,118	21,128	1,232,221	11,436
Family Support	736,697	32,547	17,550	8,391	39,383	7,134	43,858	587,834	
Health and Safety	574,085							574,085	
More at Four	378,720	92,275	15,371	1,026	14,750	70	0	246,344	8,884
	<u>5,019,557</u>	<u>909,819</u>	<u>100,269</u>	<u>72,925</u>	<u>188,556</u>	<u>35,322</u>	<u>64,986</u>	<u>3,627,360</u>	<u>20,320</u>
<b>Support:</b>									
Management and General	454,909	362,496	18,821	7,035	47,623	13,506	5,428		
Program Coordination	60,000	50,138		1,026	8,836				
Program Evaluation	390,747	218,188	69,981	14,942	63,611	21,377	2,648		
System Integration	267,744	218,566	32226	5,586	9,801	1,227	338		
	<u>1,173,400</u>	<u>849,388</u>	<u>121,028</u>	<u>28,589</u>	<u>129,871</u>	<u>36,110</u>	<u>8,414</u>		
<b>Total Smart Start Fund Expenditures</b>	<u>\$ 6,192,957</u>	<u>\$ 1,759,207</u>	<u>\$ 221,297</u>	<u>\$ 101,514</u>	<u>\$ 318,427</u>	<u>\$ 71,432</u>	<u>\$ 73,400</u>	<u>\$ 3,627,360</u>	<u>\$ 20,320</u>
<b>Other Funds:</b>									
<b>Programs:</b>									
Child Care and Education Quality	\$ 330,542	\$ 228,463	\$ 21,847	\$ 3,681	\$ 27,407	\$ 2,413	\$ 0	\$ 44,715	\$ 2,016
Family Support	386,651	2,123	18,285	16,116	46,139	156,949	146,319		720
More at Four	2,734,038				108			2,733,930	
	<u>3,451,231</u>	<u>230,586</u>	<u>40,132</u>	<u>19,797</u>	<u>73,654</u>	<u>159,362</u>	<u>146,319</u>	<u>2,778,645</u>	<u>2,736</u>
<b>Support:</b>									
Fund Raising	1,300		486	59	8	747			
Management and General	72,232	49,513	8,546	8,198	2,659	2,016	1,300		
Program Coordination	354				354				
Program Evaluation	14,556	17		2,859	3,323	8,357			
System Integration	48,161	30,487	5,185	1,634	10,605	250			
	<u>136,603</u>	<u>80,017</u>	<u>14,217</u>	<u>12,750</u>	<u>16,949</u>	<u>11,370</u>	<u>1,300</u>		
<b>Other:</b>									
Sales Tax Paid	42,862			42,862					
<b>Total Other Funds Expenditures</b>	<u>\$ 3,630,696</u>	<u>\$ 310,603</u>	<u>\$ 54,349</u>	<u>\$ 75,409</u>	<u>\$ 90,603</u>	<u>\$ 170,732</u>	<u>\$ 147,619</u>	<u>\$ 2,778,645</u>	<u>\$ 2,736</u>

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



**PARTNERSHIP FOR CHILDREN OF CUMBERLAND COUNTY, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2006**

---

**NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES**

**A. Organization and Purpose** – The Partnership for Children of Cumberland County, Inc. (Cumberland Partnership) is a legally separate nonprofit organization incorporated on December 3, 1997. The Cumberland Partnership was established to develop and provide, through public and private means, early childhood education and developmental services for children and families. The Cumberland 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 Cumberland 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 Cumberland Partnership did not have any permanently restricted net assets at June 30, 2006.

**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)

---

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 Cumberland Partnership acts in an agency capacity. For the year ended [June 30, 2006](#), the Cumberland Partnership was holding amounts withheld from employee paychecks related to the flexible spending plan to be distributed to the appropriate party.

In addition, the Cumberland Partnership was holding amounts on behalf of the Omni Centre Association. The Cumberland Partnership is the majority owner of the Omni Centre Association (Association) and acts as the administrative agent for the Association. Historically, the Association has collected funds and made payments on behalf of Association members for common costs such as building maintenance and landscaping. At June 30, 2006, the Cumberland Partnership was the sole owner of the Omni Centre and the only funds held on behalf of the Association were funds resulting from litigation that were paid as restitution to Association members by a former contractor that provided services to the Association.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

---

- 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, Cumberland Partnership is required by contract regulation to track and maintain property and equipment items as presented in Schedule 4 of this report. The Cumberland 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, 2006. 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 9.
- J. Use of Estimates** – The preparation of financial statements in conformity with the modified cash basis of accounting used by the Cumberland 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 Cumberland Partnership are deposited with a commercial bank and insured by the Federal Deposit Insurance Corporation (FDIC) up to \$100,000 per bank. Deposits over this amount subject the Cumberland Partnership to a concentration of credit risk. At June 30, 2006, the Cumberland Partnership's bank deposits in excess of the FDIC insured limit was \$177,058.

The Cumberland Partnership has an Automated Investment Plan to invest excess balances over an established target amount. The investment is in the bank's Money Market Reserves securities and is not insured by the FDIC. Consequently, the Cumberland Partnership bank deposits in excess of the FDIC insured limit totaled \$498,314 at June 30, 2006.

### NOTE 3 - FUNDING FROM GRANT AWARDS

**Smart Start Program** – The Cumberland Partnership's major source of revenue and support is from the State of North Carolina based on

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

---

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 Cumberland Partnership and represents a concentration of credit risk as to the generation of revenue.

Associated with these contracts, the Cumberland 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, NCPC and the North Carolina Department of Health and Human Services (DHHS) entered into contracts with and made payments to service providers selected by the Cumberland 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 Cumberland Partnership was awarded and has received \$6,279,927 under a current year Smart Start contract with NCPC. The unexpended balance of this contract is subject to reversion to the State. The Cumberland Partnership has returned \$84,967 of this contract to the State based on financial status reports submitted to NCPC subsequent to June 30, 2006.

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

**More at Four** – The Cumberland Partnership also received revenue and support from the State of North Carolina for the More at Four Program. The Cumberland Partnership was awarded \$2,940,960 and received \$2,849,092 under a current year contract. The Cumberland 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 Cumberland Partnership are representative of various organizations that benefit from actions taken by the Board. It is the policy of the Cumberland Partnership that board members not be involved with decisions regarding organizations they represent. During the year, the Cumberland 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 Cumberland Partnership's Smart Start Allocation.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

---

### 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 including child care subsidy administration (runs through the Division of Child Development (DCD)), public pre-K classes, child care cost supports (runs through DCD), child care subsidy programs (outside of DCD) and Preschool (0-4) classes.

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

**Family Support** – Used to account for service activities including family resource centers, teen parent/child programs, general family support, literacy projects, and transportation services.

**Health and Safety** – Used to account for service activities including comprehensive screenings and special needs – early intervention services/special education.

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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

---

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.

**Program Evaluation** – Expenditures that are incurred to monitor the effectiveness and feasibility of Partnership activities and contract agencies to determine if the short-term and long-term goals are being achieved.

**System Integration** – Expenditures incurred for centralized information management/centralized database that helps identify gaps in services and opportunities for increased collaboration and funding.

### C. Allocation of Joint Costs

Expenditures benefiting more than one purpose were allocated as follows:

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

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

### NOTE 6 - OPERATING LEASE OBLIGATIONS

Future minimum lease payments under noncancelable operating leases consist of the following at June 30, 2006:

<u>Fiscal Year</u>	<u>Operating Leases</u>
2007	\$ 21,292
2008	16,102
2009	<u>5,368</u>
Total Minimum Lease Payments	<u>\$ 42,762</u>

Rental expense for all operating leases during the year was \$31,797.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

---

### NOTE 7 - PENSION PLANS

**IRC Section 403(b) Plan** – All permanent employees who are at least 30 hours per week can participate in a tax sheltered annuity plan (Plan) created under Internal Revenue Code Section 403(b). The Plan is a defined contribution plan in which each employee of the Cumberland Partnership, as a condition of employment, is provided an individual annuity through an outside insurance company. The Cumberland Partnership provides matching of the employee contributions not to exceed 4% of the employee's annual salary. The employee's eligible contributions, made through salary reduction agreements, are exempt from federal and State income taxes until the annuity is received or the contributions are withdrawn. These Plans are exclusively for employees of universities and certain charitable and other nonprofit organizations. All costs of administering and funding these Plans are the responsibility of the Plan participants. The Cumberland Partnership contributed \$18,985 in matching retirement benefits during the period July 1, 2005, through December 31, 2005.

**Deferred Compensation and Supplemental Retirement Income Plans – IRC Section 401(k) Plan** – Effective January 1, 2006, the Cumberland Partnership discontinued its IRC Section 403(b) plan and began an IRC Section 401(k) plan (Plan). All costs of administering the Plan are the responsibility of the Plan participants. The Cumberland Partnership provides matching of the employee contributions not to exceed 4% of the employee's annual salary. Employees may make voluntary contributions to the Plan. For the period January 1, 2006, through June 30, 2006, the Cumberland Partnership contributed \$27,536 in matching retirement benefits.

### NOTE 8 - RISK MANAGEMENT

The Cumberland 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 Cumberland 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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Management believes such coverage is sufficient to preclude any significant losses to the Cumberland Partnership. Settled claims have not exceeded this insurance coverage in any of the past three fiscal years.

### NOTE 9 - COMMITMENTS AND CONTINGENCIES

- A. Compensated Absences** – As a result of the Cumberland 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, 2006, is \$69,413. No funds or reservation of net assets has been made for this commitment.
- B. Loan Commitment** – The Cumberland Partnership has a note with a balance of \$1,686,600 at June 30, 2006, that is secured by a building and payable to Bank of America in monthly installments of \$14,659. This amount includes principal and interest computed at an annual rate of 5.8%.

The future scheduled maturities of long-term debt are as follows:

<u>Fiscal Year</u>	<u>Principal Amount</u>	<u>Interest Amount</u>
2007	\$ 80,187	\$ 95,715
2008	84,964	90,939
2009	90,025	85,878
2010	95,387	80,515
2011	101,069	74,833
2012 - 2016	603,151	276,361
2017 - 2020	631,817	78,398
Total Loan Payments	<u>\$ 1,686,600</u>	<u>\$ 782,639</u>

### NOTE 10 - RESTRICTIONS ON NET ASSETS

- A. Temporarily Restricted Net Assets** – Temporarily restricted net assets at June 30, 2006, are available for the following purposes:

<u>Purpose</u>	<u>Amount</u>
NACCRRA – Air Force Grant	\$ 5,543
NACCRRA – Army Grant	95,723
Capital Campaign	31,126
	<u>\$ 132,392</u>



## NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

---

**B. Net Assets Released From Donor Restrictions** – Net assets were released from donor restrictions during the fiscal year ended June 30, 2006, by incurring expenditures satisfying the restricted purposes as follows:

Purpose	Amount
NACCRRRA – Air Force Grant	\$ 41,802
NACCRRRA – Army Grant	<u>101,378</u>
	<u>\$ 143,180</u>

### NOTE 11 - SUBSEQUENT EVENT

On December 7, 2006, the Cumberland Partnership borrowed \$200,000 using a commercial line of credit from Bank of America to make renovations to a building owned by the Partnership. A payment is automatically drafted from the Partnership's account each month equal to accrued interest. The bank charges the Partnership interest at the variable rate of LIBOR plus 1.75%. No principal payments are required but the Partnership's goal is to pay the \$200,000 principal balance in full by the end of fiscal year 2008.

### NOTE 12 - RESTATEMENT OF NET ASSETS

In reviewing its fund activities, the Cumberland Partnership identified a reclassification error between the Other Funds – Unrestricted and the Temporarily Restricted Funds. A reclassification entry was posted to correct the beginning net assets balance for both funds. In addition, the Cumberland Partnership identified unrecorded expenditures for the Other Funds – Unrestricted that should have been applied to the previous year. A reclassification entry was also posted to correct this issue. As a result, the net assets recorded as of July 1, 2005, are presented as follows:

	Net Assets Previously Reported	Net Effect of Prior Year Reclassification	July 1, 2005 Net Assets Restated
Other Funds - Unrestricted	54,419	(3,360)	51,059
Temporarily Restricted Funds	<u>140,576</u>	<u>2,604</u>	<u>143,180</u>
	<u>\$ 194,995</u>	<u>\$ (756)</u>	<u>\$ 194,239</u>

***Partnership for Children of Cumberland County, Inc.***  
***Schedule of Contract and Grant Expenditures - Modified Cash Basis***  
***For the Year Ended June 30, 2006***

***Schedule 1***

Organization Name	Smart Start Fund		Other Funds
	Amount Advanced	Refund Due	Amount Advanced
<b><i>Paid to Organizations:</i></b>			
ARC of Cumberland County	\$ 74,710	\$ 0	\$ 0
Autism Society of Cumberland County	43,300		
Children's Developmental Services Agency	* 112,049		
Cumberland County Mental Health	* 177,850	(2,215)	
Cumberland County Public Library	* 320,946	(9,148)	
Cumberland County Schools	* 704,715	(12,812)	
Easter Seals UCP	* 143,071		
Family Support Network of Cumberland County	24,677		
Fayetteville Area Youth for Christ	180,510	(14)	
Fayetteville Museum of Art	118,000		
Fayetteville Technical Community College	* 563,163		
Friends of the Park Foundation, Inc.	49,972		
Kerri Hurley - Kindermisk & Music Therapy	47,583		
Various Child Care Providers	276,662		116,164
Various Child Care Providers - Arether's Little M & M Child Care	* 11,004		
	2,848,212	(24,189)	116,164
<b><i>Paid to Individuals:</i></b>			
Child Care Expense Reimbursements	573,463		2,607,848
Child Care Expense Reimbursements - Prager Child Development Center	* 494		
Child Care Expense Reimbursements - Arether's Little M & M Child Care	* 3,605		
Child Care Expense Reimbursements - Wonder Years	* 5,670		26,083
Stipends/Scholarships/Bonus Awards	72,275		28,500
Stipends/Scholarships/Bonus Awards - Wonder Years	* 3,000		
Participant Training	136,507		
Health Screenings	7,832		50
Health Screenings - Wonder Years	* 491		
	803,337		2,662,481
	\$ 3,651,549	\$ (24,189)	\$ 2,778,645

\* 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 Cumberland County, Inc.***  
***Schedule of State Level Service Provider Contracts***  
***For the Year Ended June 30, 2006***

***Schedule 2***

<b>Organization Name</b>	<b>DHHS Contracts</b>
Child Care Services Association - WAGE\$ Program	* \$ 354,898
Cumberland County Department of Social Services	<u>3,166,670</u>
	<u>\$ 3,521,568</u>

\* This organization is 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 Cumberland County, Inc.**  
**Schedule of Federal and State Awards - Modified Cash Basis**  
**For the Year Ended June 30, 2006**

**Schedule 3**

Federal/State Grantor/Pass-through Grantor/Program	Federal CFDA Number	Contract #	Receipts	Expenditures
<b>Federal Awards:</b>				
United States Department of Health and Human Services Pass-through from the North Carolina Department of Health and Human Services - Division of Child Development Pass-through from Child Care Directions, Inc. Child Care Resource and Referral	93.575	#215-205-A	\$ 177,206	\$ 140,763
United States Department of Health and Human Services Pass-through from the North Carolina Department of Health and Human Services - Division of Aging Pass-through from the Mid-Carolina Area Agency on Aging NC Family Caregiver Support Program	93.062	N/A	6,336	3,728
United States Department of Defense - Air Force Pass-through from the National Association of Child Care Resource and Referral	N/A	N/A	56,395	92,654
United States Department of Defense - Army Pass-through from the National Association of Child Care Resource and Referral	N/A	N/A	157,125	61,402
<b>Total Federal Awards</b>			<u>397,062</u>	<u>298,547</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 (Previous Year)		N/A	(22)	(22)
Early Childhood Initiatives Program (Prior Year)		N/A	(1,981)	(1,981)
Early Childhood Initiatives Program (Current Year)	*	N/A	6,194,960	6,194,960
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		0024-06	2,849,092	2,798,662
<b>Total State Awards</b>			<u>9,054,049</u>	<u>9,003,619</u>
<b>Total Federal and State Awards</b>			<u>\$ 9,451,111</u>	<u>\$ 9,302,166</u>

\* Program 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 Cumberland County, Inc.***  
***Schedule of Property and Equipment - Modified Cash Basis***  
***For the Year Ended June 30, 2006***

***Schedule 4***

---

Furniture and Noncomputer Equipment	\$	241,838
Computer Equipment/Printers		353,997
Buildings		4,201,228
Leasehold Improvements		66,317
Motor Vehicles		23,282
		<hr/>
Total Property and Equipment	\$	<u><u>4,886,662</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.

***Partnership for Children of Cumberland County, Inc.***  
***Schedule of Qualifying Match (Non-GAAP)***  
***For the Year Ended June 30, 2006***

***Schedule 5***

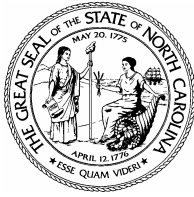
***Match Provided at the Partnership Level:***

Cash	\$	376,511
In-Kind Goods and Services		88,328
		<hr/>
	\$	464,839
		<hr/>

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

Cash	\$	772,760
In-Kind Goods and Services		226,824
		<hr/>
	\$	999,584
		<hr/>

Note: This schedule is presented in accordance with the program match requirement as provided for by North Carolina Session Law 2005-276, Section 10.64(c). The North Carolina Partnership for Children, Inc. and all local partnerships are required to 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**  
State Auditor

2 S. Salisbury Street  
20601 Mail Service Center  
Raleigh, NC 27699-0601  
Telephone: (919) 807-7500  
Fax: (919) 807-7647  
Internet  
<http://www.ncauditor.net>

**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 Cumberland County, Inc.  
Fayetteville, North Carolina

We have audited the financial statements of the Partnership for Children of Cumberland County, Inc. (Cumberland Partnership) as of and for the year ended June 30, 2006, and have issued our report thereon dated April 30, 2007. 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 Cumberland Partnership's internal control over financial reporting in order to determine our auditing procedures for the purposes of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

**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)**

---

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Cumberland 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 additional matters that we reported to management of the Cumberland Partnership in a separate letter dated May 3, 2007.

This report is intended solely for the information and use of the audit committee, management of the Cumberland 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., CPA, CFP  
State Auditor

April 30, 2007



## **ORDERING INFORMATION**

---

Audit reports issued by the Office of the State Auditor can be obtained from the web site at [www.ncauditor.net](http://www.ncauditor.net). Also, parties may register on the web site to receive automatic email notification whenever reports of interest are issued. Otherwise, copies of audit reports may be obtained by contacting the:

Office of the State Auditor  
State of North Carolina  
2 South Salisbury Street  
20601 Mail Service Center  
Raleigh, North Carolina 27699-0601

Telephone: 919/807-7500

Facsimile: 919/807-7647