

# STATE OF NORTH CAROLINA

## FINANCIAL STATEMENT AUDIT REPORT OF NEW HANOVER COUNTY PARTNERSHIP FOR CHILDREN, INC.

WILMINGTON, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2006

OFFICE OF THE STATE AUDITOR

LESLIE W. MERRITT, JR., CPA, CFP

STATE AUDITOR

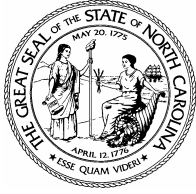
**FINANCIAL STATEMENT AUDIT REPORT OF**  
**NEW HANOVER COUNTY PARTNERSHIP FOR CHILDREN, INC.**  
**WILMINGTON, NORTH CAROLINA**  
**FOR THE YEAR ENDED JUNE 30, 2006**

**BOARD OF DIRECTORS**

**JOANNE FOX, BOARD CHAIRMAN**

**ADMINISTRATIVE OFFICER**

**JANET NELSON, 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, New Hanover County Partnership for Children, Inc.

We have completed a financial statement and compliance audit of the New Hanover County Partnership for Children, Inc. (New Hanover 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 New Hanover 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 New Hanover Partnership is one of these local partnerships. As such, the New Hanover 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 .....	13
2    Schedule of State Level Service Provider Contracts.....	14
3    Schedule of Federal and State Awards – Modified Cash Basis .....	15
4    Schedule of Property and Equipment – Modified Cash Basis .....	16
5    Schedule of Qualifying Match (Non-GAAP).....	17
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  
New Hanover County Partnership for Children, Inc.  
Wilmington, North Carolina

We have audited the accompanying Statement of Receipts, Expenditures, and Net Assets – Modified Cash Basis of the New Hanover County Partnership for Children, Inc. (New Hanover 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 New Hanover 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 New Hanover Partnership for Children, 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 June 18, 2007, on our consideration of the New Hanover 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

## INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

---

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 New Hanover County Partnership'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

June 18, 2007

***New Hanover County Partnership for Children, 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 \$1,108)	\$ 1,504,462	\$ 24,444	\$ 0	\$ 1,528,906
Local Awards		85,001		85,001
Private Contributions		60,581	14,599	75,180
Special Fund Raising Events		25,964		25,964
Interest and Investment Earnings		654		654
Sales Tax Refunds		4,296		4,296
Other Receipts		10,862		10,862
<b>Total Receipts</b>	<b>1,504,462</b>	<b>211,802</b>	<b>14,599</b>	<b>1,730,863</b>
Net Assets Released from Restrictions:				
Satisfaction of Program Restrictions		118,434	(118,434)	
	<b>1,504,462</b>	<b>330,236</b>	<b>(103,835)</b>	<b>1,730,863</b>
<b>Expenditures:</b>				
Programs:				
Child Care and Education Affordability		18,282		18,282
Child Care and Education Quality	586,178	124,348		710,526
Family Support	205,000	20,966		225,966
Health and Safety	443,873	133,952		577,825
Support:				
Management and General	186,990	41,310		228,300
Program Evaluation	82,421			82,421
Other:				
Sales Tax Paid		5,160		5,160
<b>Total Expenditures</b>	<b>1,504,462</b>	<b>344,018</b>		<b>1,848,480</b>
<b>Excess of Receipts Over Expenditures</b>		<b>(13,782)</b>	<b>(103,835)</b>	<b>(117,617)</b>
<b>Net Assets at Beginning of Year</b>		<b>5,804</b>	<b>119,588</b>	<b>125,392</b>
<b>Net Assets at End of Year</b>	<b>\$ 0</b>	<b>\$ (7,978)</b>	<b>\$ 15,753</b>	<b>\$ 7,775</b>
<b>Net Assets Consisted of:</b>				
Cash and Cash Equivalents	\$ 782	\$ (5,464)	\$ 15,753	\$ 11,071
Refunds Due From Contractors	4,383			4,383
	<b>5,165</b>	<b>(5,464)</b>	<b>15,753</b>	<b>15,454</b>
Less: Due to the State	5,165			5,165
Funds Held for Others		2,514		2,514
	<b>\$ 0</b>	<b>\$ (7,978)</b>	<b>\$ 15,753</b>	<b>\$ 7,775</b>

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

***New Hanover County Partnership for Children, 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 Quality	\$ 586,178	\$ 296,916	\$ 16,525	\$ 8,783	\$ 37,500	\$ 59,554	\$ 10,268	\$ 156,632	\$ 0
Family Support	205,000	140,268	467	2,222	11,251	7,173	619	43,000	
Health and Safety	443,873							443,873	
	<u>1,235,051</u>	<u>437,184</u>	<u>16,992</u>	<u>11,005</u>	<u>48,751</u>	<u>66,727</u>	<u>10,887</u>	<u>643,505</u>	
<b>Support:</b>									
Management and General	186,990	157,932	1,482	1,422	9,834	15,471	849		
Program Evaluation	82,421	60,014	5,982	3,225	4,614	6,013	2,573		
	<u>269,411</u>	<u>217,946</u>	<u>7,464</u>	<u>4,647</u>	<u>14,448</u>	<u>21,484</u>	<u>3,422</u>		
<b>Total Smart Start Fund Expenditures</b>	<b>\$ 1,504,462</b>	<b>\$ 655,130</b>	<b>\$ 24,456</b>	<b>\$ 15,652</b>	<b>\$ 63,199</b>	<b>\$ 88,211</b>	<b>\$ 14,309</b>	<b>\$ 643,505</b>	<b>\$ 0</b>
<b>Other Funds:</b>									
<b>Programs:</b>									
Child Care and Education Affordability	\$ 18,282	\$ 0	\$ 0	\$ 0	\$ 0	\$ 1,241	\$ 0	\$ 17,041	\$ 0
Child Care and Education Quality	124,348	82,041	182	17,939	10,784	6,869	5,983	550	
Family Support	20,966	2,972		2,220	488		2,610	12,676	
Health and Safety	133,952	40,251	207	1,602	4,370	3,289	103	84,130	
	<u>297,548</u>	<u>125,264</u>	<u>389</u>	<u>21,761</u>	<u>15,642</u>	<u>11,399</u>	<u>8,696</u>	<u>114,397</u>	
<b>Support:</b>									
Management and General	41,310	7,633	10,878	1,684	5,700	10,516	1,467	3,432	
<b>Other:</b>									
Sales Tax Paid	5,160			5,160					
<b>Total Other Funds Expenditures</b>	<b>\$ 344,018</b>	<b>\$ 132,897</b>	<b>\$ 11,267</b>	<b>\$ 28,605</b>	<b>\$ 21,342</b>	<b>\$ 21,915</b>	<b>\$ 10,163</b>	<b>\$ 117,829</b>	<b>\$ 0</b>

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



**NEW HANOVER COUNTY PARTNERHSIP FOR CHILDREN, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2006**

---

**NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES**

- A. Organization and Purpose** – The New Hanover Partnership for Children, Inc. (New Hanover Partnership) is a legally separate nonprofit organization incorporated on April 18, 1995. The New Hanover Partnership was established to develop and provide, through public and private means, early childhood education and developmental services for children and families. The New Hanover 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 New Hanover 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 New Hanover 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 New Hanover Partnership acts in an agency capacity. For the year ended, the New Hanover Partnership was holding amounts withheld from employee paychecks for distribution to taxing authorities.
- 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, New Hanover Partnership is required by contract regulation to track and maintain property and equipment items as presented in Schedule 4 of this report. The New Hanover 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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

---

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

### NOTE 3 - FUNDING FROM GRANT AWARDS

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

Associated with these contracts, the New Hanover 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 New Hanover 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 New Hanover Partnership was awarded and has received \$1,509,627 under a current year Smart Start contract with NCPC. The unexpended balance of this contract is subject to reversion to the State. The New Hanover Partnership has returned \$5,962 of this contract to the State based on financial status reports submitted to NCPC subsequent to June 30, 2006.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

---

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

### NOTE 4 - RELATED PARTY TRANSACTIONS

**Service Provider Contracts with Board Member Organizations** – The board members of the New Hanover Partnership are representative of various organizations that benefit from actions taken by the Board. It is the policy of the New Hanover Partnership that board members not be involved with decisions regarding organizations they represent. During the year, the New Hanover 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 New Hanover 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 supplements for quality (outside the Division of Child Development).

**Child Care and Education Quality** – Used to account for service activities including quality enhancement grants for upgrades, substitutes, provider training, mentoring programs, health/safety training for child care professionals, special needs-support for child care professionals, learning materials and teaching aids, and curriculum enhancements.

**Family Support** – Used to account for service activities including on going parenting education, general family support, or community outreach information and resources.

**Health and Safety** – Used to account for service activities including child care health consultants, comprehensive health support and special needs – early intervention services/special education.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

---

### B. Support Functions

**Management and General** – Expenditures that are not identifiable with a single program or fund-raising activity but are indispensable to the conduct of those activities and to an organization’s existence, including expenditures for the overall direction of the organization, its general board activities, business management, general recordkeeping, budgeting, and related purposes.

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

### 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 and printing) 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	\$ 97,436
2008	100,359
2009	103,370
2010	<u>106,471</u>
Total Minimum Lease Payments	<u>\$ 407,636</u>

Rental expense for all operating leases during the year was \$83,838.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

---

### NOTE 7 - PENSION PLAN

**Deferred Compensation and Supplemental Retirement Income Plans – 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 Plan is a defined contribution plan in which each employee of the New Hanover Partnership, as a condition of employment, is provided an individual annuity through an outside insurance company. The New Hanover Partnership contributed 6% of gross wages for the year ended June 30, 2006. 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 New Hanover Partnership contributed \$27,867 for retirement benefits during the year.

### NOTE 8 - RISK MANAGEMENT

The New Hanover 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 New Hanover Partnership manages these various risks of loss as follows:

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

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

### NOTE 9 - COMMITMENTS AND CONTINGENCIES

**Compensated Absences** – As a result of the New Hanover 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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

---

June 30, 2006, is \$18,543. No funds or reservation of net assets has been made for this commitment.

### 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:

Purpose	Amount
Share the Care Program	\$ 791
Cover Kids & Families (RWJ)	8,519
Reading is Fundamental	705
US Coast Guard for Children	1,153
Para los Ninos (Wachovia)	4,585
	<u>\$ 15,753</u>

**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
Share the Care Program	\$ 10,413
Cover the Kids & Families (RWJ)	17,336
Navigator Program	73,015
Project Hope – Carousel Center	11,245
Reading is Fundamental	1,071
US Coast Guard for Children	353
Para los Ninos (Wachovia)	5,001
	<u>\$ 118,434</u>

### NOTE 11 - DEFICIT NET ASSETS

At June 30, 2006, the Unrestricted Other Funds column has a deficit net asset balance of \$7,978. The deficit net asset balance occurred because expenditures for grant funds had not been reimbursed by the funding agency at year end. Secondly, an additional deficit occurs due to sales tax reimbursement from the State that was not received until after the fiscal year end. New Hanover Partnership is attempting to identify additional resources to eliminate this deficit balance completely.

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

---

### **NOTE 12 - SUBSEQUENT EVENTS**

The new Hanover Partnership for Children, Inc., changed its name to Smart Start of New Hanover County, Inc., effective October 24, 2006.



***New Hanover County Partnership for Children, 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	Refund Due
<b><i>Paid to Organizations:</i></b>				
Carousel Center	\$ 0	\$ 0	\$ 11,115	\$ 0
Department of Social Services Share the Care	*		17,041	
Easter Seals UCP	190,456			
New Hanover County Health Department	*	(4,383)	73,015	
New Hanover County Public Library	*			
Parents as Teachers	33,000			
Private Donation - Playground			3,432	
SE Alliance Community College			10,942	
Various Daycare Providers	*			
	<u>38,890</u>			
	<u>626,288</u>	<u>(4,383)</u>	<u>115,545</u>	
<b><i>Paid to Individuals:</i></b>				
FCC ESL Support Services	10,000			
FCC ESL Support Program Income			1,584	
Scholarships / Bonus Awards	10,000			
Program Income PPS Scholarship			100	
Various Child Care Centers - Incentive/Individuals	1,600		600	
	<u>21,600</u>		<u>2,284</u>	
	<u>\$ 647,888</u>	<u>\$ (4,383)</u>	<u>\$ 117,829</u>	<u>\$ 0</u>

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

***New Hanover County Partnership for Children, 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	\$ 175,000
New Hanover County Department of Social Services	* 642,170
	<u>\$ 817,170</u>

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

The information on this schedule provides a listing of service provider contracts entered into by the North Carolina Department of Health and Human Services (DHHS) as described in Note 3 - Funding from Grant Awards.

***New Hanover County Partnership for Children, 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>				
US Coast Guard Children Fund	P7257/BE	23-04-2743P7257	\$ 0	\$ 353
<b>State Awards:</b>				
North Carolina Department of Health and Human Services				
Division of Child Development				
Pass-through from the North Carolina Partnership for Children, Inc.				
Early Childhood Initiatives Program (Prior Year)		N/A		797
Early Childhood Initiatives Program (Current Year)	*	N/A	1,504,462	1,503,665
Multi-County Accounting and Contracting Grant			12,000	12,000
Pender County Partnership for Children, Inc (Prior Year)			(1,108)	
Pender County Partnership for Children, Inc. (Current Year)			13,552	13,552
<b>Total State Awards</b>			<u>1,528,906</u>	<u>1,530,014</u>
<b>Total Federal and State Awards</b>			<u>\$ 1,528,906</u>	<u>\$ 1,530,367</u>

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

***New Hanover County Partnership for Children, Inc.  
Schedule of Property and Equipment - Modified Cash Basis  
For the Year Ended June 30, 2006***

***Schedule 4***

---

Furniture and Noncomputer Equipment	\$	36,632
Computer Equipment/Printers		75,366
Leasehold Improvements		<u>85,057</u>
Total Property and Equipment	\$	<u><u>197,055</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.

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

***Schedule 5***

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

Cash	\$	183,995
In-Kind Goods and Services		<u>50,296</u>
	\$	<u><u>234,291</u></u>

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

Cash	\$	166,985
In-Kind Goods and Services		<u>114,516</u>
	\$	<u><u>281,501</u></u>

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 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.

[ This Page Left Blank Intentionally ]



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

STATE OF NORTH CAROLINA  
Office of the 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  
New Hanover County Partnership for Children  
Wilmington, North Carolina

We have audited the financial statements of the New Hanover County Partnership for Children (New Hanover Partnership) as of and for the year ended June 30, 2006, and have issued our report thereon dated June 18, 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 New Hanover 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 New Hanover 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 New Hanover 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

June 18, 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