

FINANCIAL STATEMENT AUDIT REPORT OF  
PARTNERSHIP FOR CHILDREN OF JOHNSTON COUNTY, INC.  
SMITHFIELD, NORTH CAROLINA  
FOR THE YEAR ENDED JUNE 30, 2007

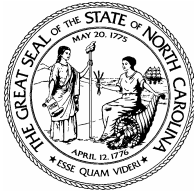
PERFORMED UNDER CONTRACT WITH THE  
NORTH CAROLINA OFFICE OF THE STATE AUDITOR

LESLIE W. MERRITT, JR. CPA, CFP  
STATE AUDITOR

FINANCIAL STATEMENT AUDIT REPORT OF  
PARTNERSHIP FOR CHILDREN OF JOHNSTON COUNTY, INC.  
SMITHFIELD, NORTH CAROLINA  
FOR THE YEAR ENDED JUNE 30, 2007

BOARD OF DIRECTORS  
ALLEN WELLONS, BOARD CHAIRMAN

ADMINISTRATIVE OFFICER  
DWIGHT MORRIS, 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 Johnston County, Inc.

This report presents the results of the financial statement audit of Partnership for Children of Johnston County, Inc. for the year ended June 30, 2007. 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 Partnership for Children of Johnston County, 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 Partnership for Children of Johnston County, Inc. is one of these local partnerships. As such, the Partnership for Children of Johnston County, Inc. is a private nonprofit 501(c)(3) organization and is required by G.S. 143B-168.14(b) to have a 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

## 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 OF INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENT PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>	19
ORDERING INFORMATION	21

# Winston, Williams, Creech, Evans & Company, LLP

Certified Public Accountants



The CPA. Never Underestimate The Value.™

James P. Winston II, CPA  
Gary L. Williams, CPA  
Leonard R. Creech, Jr. CPA  
Carleen P. Evans, CPA

Jennifer T. Reese, CPA

---

## INDEPENDENT AUDITOR'S REPORT

---

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

We have audited the accompanying Statement of Receipts, Expenditures, and Net Assets – Modified Cash Basis of the Partnership for Children of Johnston County, Inc. (Johnston Partnership) as of June 30, 2007, and the related Statement of Functional Expenditures – Modified Cash Basis for the year then ended. These financial statements are the responsibility of the Johnston Partnership's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets of Partnership for Children of Johnston County, Inc. as of June 30, 2007, and its receipts and expenditures for the year ended, on the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued a report dated January 9, 2008, on our consideration of the Johnston Partnership's internal control over

---

102 W. Spring Street P.O. Box 1366 Oxford, NC 27565 (919) 693-5196 fax (919) 693-7614

www.wwcecpa.com



## INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

---

financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Partnership for Children of Johnston County, Inc.'s basic financial statements. The information in Schedules 1 through 5 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Schedules 1, 3, 4 and 5 have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The information in Schedule 2 has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on Schedule 2.

*Winston, Williams, Creech, Evans and Company, LLP*

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

January 9, 2008

**Partnership for Children of Johnston County, Inc.**  
**Statement of Receipts, Expenditures, and Net Assets - Modified Cash Basis**  
**For the Year Ended June 30, 2007**

**Exhibit A**

	Unrestricted Funds		Temporarily Restricted Funds	Total Funds
	Smart Start Fund	Other Funds		
<b>Receipts:</b>				
State Awards	\$ 1,963,624	\$ 1,200,050	\$ 0	\$ 3,163,674
Federal Awards		24,669		24,669
Private Contributions		32,333	562	32,895
Accounting and Contracting Services		86,914		86,914
Special Fund Raising Events		2,724		2,724
Interest and Investment Earnings		11,536		11,536
Sales Tax Refunds		3,286		3,286
Other Receipts		19,674		19,674
<b>Total Receipts</b>	<b>1,963,624</b>	<b>1,381,186</b>	<b>562</b>	<b>3,345,372</b>
Net Assets Released From Restrictions				
Satisfaction of Program Restrictions		2,229	(2,229)	
	<b>1,963,624</b>	<b>1,383,415</b>	<b>(1,667)</b>	<b>3,345,372</b>
<b>Expenditures:</b>				
Programs:				
Child Care Education Affordability	91,454			91,454
Child Care and Education Quality	574,959	35,134		610,093
Family Support	313,801	4,410		318,211
Health and Safety	104,627			104,627
More at Four	563,345	1,181,578		1,744,923
Support:				
Fund Raising	12,532	2,758		15,290
Management and Genera	251,091	94,477		345,568
Program Coordinator	51,815	30		51,845
Other:				
Sales Tax Paic		9,202		9,202
<b>Total Expenditures</b>	<b>1,963,624</b>	<b>1,327,589</b>	<b>0</b>	<b>3,291,213</b>
<b>Excess of Receipts Over Expenditures</b>		<b>55,826</b>	<b>(1,667)</b>	<b>54,159</b>
<b>Net Assets at Beginning of Year</b>		<b>45,268</b>	<b>2,470</b>	<b>47,738</b>
<b>Net Assets at End of Year</b>	<b>\$ 0</b>	<b>\$ 101,094</b>	<b>\$ 803</b>	<b>\$ 101,897</b>
<b>Net Assets Consisted of</b>				
Cash and Cash Equivalents	\$ 21,985	\$ 84,881	\$ 803	\$ 107,669
Investments		15,600		15,600
Refunds Due from Contractor:	620			620
	<b>22,605</b>	<b>100,481</b>	<b>803</b>	<b>123,889</b>
Less: Due to the State	22,605			22,605
Funds Held for Others		(613)		(613)
	<b>\$ 0</b>	<b>\$ 101,094</b>	<b>\$ 803</b>	<b>\$ 101,897</b>

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

**Partnership for Children of Johnston County, Inc.**  
**Statement of Functional Expenditures - Modified Cash Basis**  
**For the Year Ended June 30, 2007**

**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	\$ 91,454	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 91,454	\$ 0
Child Care and Education Quality	574,959	259,538	3,728	31,589	49,588	1,663	13,971	214,882	
Family Support	313,801	121,230	1,049	7,192	12,827	2,492	5,087	163,924	
Health and Safety	104,627							104,627	
More at Four	563,345							563,345	
	<u>1,648,186</u>	<u>380,768</u>	<u>4,777</u>	<u>38,781</u>	<u>62,415</u>	<u>4,155</u>	<u>19,058</u>	<u>1,138,232</u>	
<b>Support:</b>									
Fund Raising	12,532	12,482				50			
Management and General	251,091	156,290	13,231	6,448	27,634	15,588	31,900		
Program Coordination	51,815	40,723	3,614	737	3,487	5	3,249		
	<u>315,438</u>	<u>209,495</u>	<u>16,845</u>	<u>7,185</u>	<u>31,121</u>	<u>15,643</u>	<u>35,149</u>		
<b>Total Smart Start Fund Expenditures</b>	<b>\$ 1,963,624</b>	<b>\$ 590,263</b>	<b>\$ 21,622</b>	<b>\$ 45,966</b>	<b>\$ 93,536</b>	<b>\$ 19,798</b>	<b>\$ 54,207</b>	<b>\$ 1,138,232</b>	<b>\$ 0</b>
<b>Other Funds:</b>									
<b>Programs:</b>									
Child Care and Education Quality	\$ 35,134	\$ 10,792	\$ 55	\$ 11,980	\$ 12,282	\$ 25	\$ 0	\$ 0	\$ 0
Family Support	4,410				1,086			3,324	
More at Four	1,181,578	42,548	295		4,656	45	4,484	1,129,550	
	<u>1,221,122</u>	<u>53,340</u>	<u>350</u>	<u>11,980</u>	<u>18,024</u>	<u>70</u>	<u>4,484</u>	<u>1,132,874</u>	
<b>Support:</b>									
Fund Raising	2,758			113	2,645				
Management and General	94,477	56,729	14,512	960	14,690	6,725	861		
Program Coordination	30				30				
	<u>97,265</u>	<u>56,729</u>	<u>14,512</u>	<u>1,073</u>	<u>17,365</u>	<u>6,725</u>	<u>861</u>		
<b>Other:</b>									
Sales Tax Paid	9,202			9,202					
	<u>9,202</u>			<u>9,202</u>					
<b>Total Other Funds Expenditures</b>	<b>\$ 1,327,589</b>	<b>\$ 110,069</b>	<b>\$ 14,862</b>	<b>\$ 22,255</b>	<b>\$ 35,389</b>	<b>\$ 6,795</b>	<b>\$ 5,345</b>	<b>\$ 1,132,874</b>	<b>\$ 0</b>

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



**PARTNERSHIP FOR CHILDREN OF JOHNSTON COUNTY, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2007**

---

**NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES**

- A. Organization and Purpose** - The Partnership for Children of Johnston County, Inc. (Johnston Partnership) is a legally separate nonprofit organization incorporated on June 19, 1997. The Johnston Partnership was established to develop and provide, through public and private means, early childhood education and developmental services for children and families. The Johnston Partnership is tax-exempt as an organization described in Section 501(c)(3) of the Internal Revenue Code.
- B. Basis of Presentation** - The accompanying financial statements present all funds for which the Johnston Partnership's Board of Directors is responsible. Pursuant to the provisions of Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-For-Profit Organizations*, the accompanying financial statements present information according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. As permitted by this Statement, temporarily restricted contributions received and expended in the same year are reported as unrestricted receipts rather than as temporarily restricted receipts.

Contributions that are temporarily restricted and not expended within the year received are reported as an increase in temporarily restricted net assets. When the restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Receipts, Expenditures, and Net Assets as net assets released from restrictions.

The Johnston Partnership did not have any permanently restricted net assets at June 30, 2007.

- 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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

---

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. Investments** - This classification includes certificates of deposit whose original maturity term exceeds three months. Investments are reported at cost, which approximates fair value.
- F. 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.
- G. 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.
- H. Funds Held For Others** - Funds held for others includes amounts received that are fiduciary in nature in which the Johnston Partnership acts in an agency capacity. For the year ended, the Johnston Partnership was holding amounts withheld from employee paychecks for distribution to insurance agencies. The Johnston Partnership acts as the fiscal agent for the Johnston County Local Interagency Coordinating Council and the Johnston County Directors Association.
- I. Property and Equipment** - Under the modified cash basis of accounting, purchases of property and equipment are reported as expenditures in the year occurred. However, Johnston Partnership is required by contract regulation to track and maintain property and equipment items as presented in Schedule 4 of this report. The Johnston Partnership has a policy to track purchases of property and equipment items with an individual cost of \$500 or more and an estimated useful life greater than one year. Such items are valued at their original purchase price, which

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

---

may be different from their valuation as of June 30, 2007. Donated items are recorded at estimated fair market value at the date of donation.

- J. 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.
- K. Use of Estimates** - The preparation of financial statements in conformity with the other comprehensive basis of accounting used by the Johnston Partnership requires management to make estimates and assumptions that affect certain reported amounts and disclosures (such as allocation of joint costs); accordingly, actual results could differ from those estimates. It is management's belief that these estimates are reasonable and fair.

### NOTE 2 - DEPOSITS AND INVESTMENTS

- A. Deposits** - All funds of the Johnston Partnership are deposited with commercial banks and insured by the Federal Deposit Insurance Corporation (FDIC) up to \$100,000 per bank. Deposits over this amount subjects the Johnston Partnership to a concentration of credit risk. The Johnston Partnership has an Automated Investment Plan to invest excess balances over an established target amount. The investment is in the bank's government securities and is not insured by the FDIC. Consequently, the Johnston Partnership bank deposits in excess of the FDIC insured limit totaled \$319,000 at June 30, 2007.
- B. Investments** - The Johnston Partnership held certificate of deposit with a local bank. The investment, whose original maturity term exceeds three months, is reported at cost which approximates fair value. At June 30, 2007, the investment balance was \$15,600. Certificates of deposit reported as investments are also a component of the insured limit and risk reported in the deposits section of this note.

### NOTE 3 - FUNDING FROM GRANT AWARDS

**Smart Start Program** - The Johnston Partnership's major source of revenue and support is from the State of North Carolina based on cost-reimbursement contracts with The North Carolina Partnership for Children, Inc. (NCPC) for the Smart Start Program. A significant reduction in the level of funding from the State could have an adverse effect on the operations of the Johnston

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

---

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

Associated with these contracts, the Johnston Partnership is responsible for developing a comprehensive, collaborative, long-range plan of services to children and families for the service-delivery area. During the year, the North Carolina Department of Health and Human Services (DHHS) entered into contracts with and made payments to service providers selected by the Johnston Partnership. These service provider contracts are not reflected on the accompanying financial statements. However, a summary of the service provider contracts entered into by DHHS is presented on Schedule 2 accompanying the financial statements.

The Johnston Partnership was awarded and has received \$1,986,273 under a current year Smart Start contract with NCPC. The unexpended balance of this contract is subject to reversion to the State. The Johnston Partnership has returned \$22,649 of this contract to the State based on financial status reports submitted to NCPC subsequent to June 30, 2007.

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

**More at Four** - The Johnston Partnership also received revenue and support from the State of North Carolina for the More at Four Program. The Johnston Partnership was awarded \$1,198,200 and received \$1,188,050 under a current year contract. The Johnston Partnership expects to receive continued funding through new More at Four contracts with the State.

### NOTE 4 - RELATED PARTY TRANSACTIONS

**Service Provider Contracts with Board Member Organizations** - The board members of the Johnston Partnership are representative of various organizations that benefit from actions taken by the Board. It is the policy of the Johnston Partnership that board members not be involved with decisions regarding organizations they represent. During the year, the Johnston Partnership entered into contracts with board member organizations for program activities as identified on Schedule 1 accompanying the financial statements. In addition, Schedule 2 identifies contracts entered into by DHHS with board member organizations for activities funded by the Johnston Partnership's Smart Start Allocation.

## 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 associated with Head Start wrap-around/extended day.

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

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

**Health and Safety** - Used to account for service activities including child care health consultants and special needs – early intervention public awareness and education.

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

#### B. Support Functions

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

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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

---

**Program Coordination** - Expenditures that are incurred to coordinate the policies, procedures, and daily practices of service delivery. Also, costs associated with monitoring in-house and direct service provider activities.

### C. Allocation of Joint Costs

Expenditures benefiting more than one purpose were allocated as follows:

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

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

### NOTE 6 - OPERATING LEASE OBLIGATIONS

**Operating Lease Obligations** - Future minimum lease payments under noncancelable operating leases consist of the following at June 30, 2007:

<u>Fiscal Year</u>	<u>Operating Leases</u>
2008	\$ 16,985
2009	<u>7,539</u>
Total Minimum Lease Payments	<u>\$ 24,524</u>

Rental expense for all operating leases during the year was \$16,985.

### NOTE 7 - PENSION PLAN

**A. Retirement Plans** - The Johnston Partnership has a Simplified Employee Pension plan (SEP Plan) covering all full-time employees. Each full-time employee of the Johnston Partnership, as a condition of employment, is provided an Individual Retirement Account through an outside insurance company. The Johnston Partnership contributed 7% of gross wages for the year ended June 30, 2007. The Johnston Partnership does not own the accounts nor is liable for any other cost other than the required contribution. The Johnston Partnership contributed \$32,525 for pension benefits during the year.

**B. IRC Section 403(b) Plan** - All permanent employees who are at least half time can participate in a tax sheltered annuity plan (Plan) created under Internal Revenue Code Section 403(b). The employee's eligible

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

---

contributions, made through salary reduction agreements, are exempt from federal and State income taxes until the annuity is received or the contributions are withdrawn. These Plans are exclusively for employees of universities and certain charitable and other nonprofit organizations. All costs of administering and funding these Plans are the responsibility of the Plan participants. No costs were incurred by the Johnston Partnership.

### NOTE 8 - RISK MANAGEMENT

The Johnston Partnership is exposed to various risks of loss related to torts, theft of, damage to, or destruction of assets; errors and omissions; injuries to employees; employees' health and life; and natural disasters. The Johnston Partnership manages these various risks of loss as follows:

<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 Johnston 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 Johnston Partnership's use of the modified cash basis of accounting, accrued liabilities related to compensated absences (vacation only; sick leave does not vest) and any employer-related costs earned and unpaid, are not reflected in the financial statements. The compensated absences commitment for vacation leave at June 30, 2007, is \$16,474. No funds or reservation of net assets has been made for this commitment.

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

---

**NOTE 10 - RESTRICTIONS ON NET ASSETS**

**A. Temporarily Restricted Net Assets** - Temporarily restricted net assets at June 30, 2007 are available for the following purposes:

<u>Purpose</u>	<u>Amount</u>
Buckle Up Program	\$ 356
BRIDGES Program	206
Non-English Speaking Referrals	<u>241</u>
	<u>\$ 803</u>

**B. Net Assets Released From Donor Restrictions** - Net assets were released from donor restrictions during the fiscal year ended June 30, 2007, by incurring expenditures satisfying the restricted purposes as follows:

<u>Purpose</u>	<u>Amount</u>
Buckle Up Program	\$ 1,943
BRIDGES Program	<u>286</u>
	<u>\$ 2,229</u>



**Partnership for Children of Johnston County, Inc.**  
**Schedule of Contract and Grant Expenditures - Modified Cash Basis**  
**For the Year Ended June 30, 2007**

*Schedule 1*

Organization Name	Smart Start Fund		Other Funds	
	Amount Advanced	Refund Due	Amount Advanced	Refund Due
<b>Paid to Organizations:</b>				
A Childs Place, Inc	\$ 8,598	\$ 0	\$ 0	\$ 0
Adventures Under the Sun Childcare	46,197		100,746	
Building Blocks Child Care & Development Center, Inc.	* 434,880		622,232	
Carolina Child Development Center	* 25,865		(1,900)	
Family Support Network of Eastern NC, Inc.	9,130			
Growing Together Preschool-JC Area Mental Health	7,080		15,440	
Johnston Community College Preschool	* 15,576		33,968	
Johnston County Public Health Department	* 259,946	(525)		
Johnston County Schools	* 8,800		118,200	
Johnston-Lee-Harnett Community Actions, Inc.	* 133,950	(95)		
Kid's Country Day Care, Inc.	89,374		136,644	
Kiddie Kollege of Berkshire, Inc.	3,300			
Kiddie Kollege of Canterbury, Inc.	4,900			
Little Wonders Learning Ctr, Inc.	48,722		69,480	
Little People's Learning Center	1,962			
Peaches and Cream Child Care Home	200			
Precious Steps, Vanessa Young	995			
Shepherd's Home Day Care	* 1,334			
Small Blessings Daycare	8,074			
Toddlers Inn	5,826			
Two By Two Daycare Development Center, Inc.	24,143		34,740	
	<u>1,138,852</u>	<u>(620)</u>	<u>1,129,550</u>	
<b>Individuals for the purpose of:</b>				
Car Seat Safety Program			3,324	
			<u>3,324</u>	
	<u>\$ 1,138,852</u>	<u>\$ (620)</u>	<u>\$ 1,132,874</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.

**Partnership for Children of Johnston County, Inc.**  
**Schedule of a State Level Service Provider Contracts**  
**For the Year Ended June 30, 2007**

*Schedule 2*

<u>Organization Name</u>	<u>DHHS Contracts</u>
Child Care Services Association - WAGE\$ Program	\$ 380,000
Johnston County Department of Social Services	* 974,376
	<u>\$ 1,354,376</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.

**Partnership for Children of Johnston County, Inc.**  
**Schedule of Federal and State Awards - Modified Cash Basis**  
**For the Year Ended June 30, 2007**

**Schedule 3**

Federal/State Grantor/Pass-through Grantor/Program	Federal CFDA Number	Contract #	Receipts	Expenditures
<b>Federal Awards:</b>				
US Department of Health and Human Services Administration for Children and Families Pass-through from the North Carolina Department of Health and Human Services - Division of Child Development Pass-through from Child Care Networks, Inc. Child Care and Development Fund				
	93.575	#307-16-004	\$ 24,669	\$ 21,809
<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				
		*	1,963,624	1,963,624
Multi-County Accounting and Contracting Grant				
		N/A	12,000	12,000
North Carolina Department of Public Instruction Office of School Readiness More at Four Pre-Kindergarten Program				
		*	1,188,050	1,180,875
<b>Total State Awards</b>			<u>3,163,674</u>	<u>3,156,499</u>
<b>Total Federal and State Awards</b>			<u>\$ 3,188,343</u>	<u>\$ 3,178,308</u>

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

***Partnership for Children of Johnston County, Inc.***  
***Schedule of Property and Equipment - Modified Cash Basis***  
***For the Year Ended June 30, 2007***

***Schedule 4***

---

Furniture and Noncomputer Equipment	\$	44,162
Computer Equipment/Printers		52,539
Leasehold Improvements		<u>1,040</u>
Total Property and Equipment	\$	<u><u>97,741</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 cash basis of accounting, these items are expensed in the year of purchase.

**Partnership for Children of Johnston County, Inc.**  
**Schedule of Qualifying Match (Non-GAAP)**  
**For the Year Ended June 30, 2007**

**Schedule 5**

**Match Provided at the Partnership Level:**

Cash	\$	56,872
In-Kind Goods and Services		<u>276,198</u>
	\$	<u><u>333,070</u></u>

**Match Provided at the Contractor Level:**

Cash	\$	82,401
In-Kind Goods and Services		<u>88,820</u>
	\$	<u><u>171,221</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 ]



---

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

---

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

We have audited the financial statements of the Partnership for Children of Johnston County, Inc. (Johnston Partnership) as of and for the year ended June 30, 2007, and have issued our report thereon dated January 9, 2008. 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 Partnership for Children of Johnston County, Inc.'s internal control over financial reporting as a basis for designing our auditing procedures for the purposes of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Partnership for Children of Johnston County, Inc.'s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Partnership for Children of Johnston County, Inc.'s internal control over financial reporting.

A control deficiency exists when the design or the operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Partnership for Children of Johnston County, Inc.'s ability to initiate, authorize, record, process, or report

**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)**

---

financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Partnership for Children of Johnston County's Inc.'s financial statements that is more than inconsequential will not be prevented or detected by the Partnership for Children of Johnston County's Inc.'s internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statement will not be prevented or detected by the Partnership for Children of Johnston County, Inc.'s internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Partnership for Children of Johnston County, Inc.'s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of Partnership for Children of Johnston County, Inc. in a separate letter dated January 9, 2008.

This report is intended solely for the information and use of the Board of Directors, management of the Johnston Partnership, The North Carolina Partnership for Children, Inc., the Governor, and the General Assembly and is not intended to be and should not be used by anyone other than these specified parties.

*Winston, Williams, Creech, Evans and Company, LLP*

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

January 9, 2008



## 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