

**DOWN EAST PARTNERSHIP FOR CHILDREN
Rocky Mount, North Carolina**

**FINANCIAL STATEMENTS
June 30, 2008**

**PERFORMED UNDER CONTRACT WITH THE
OFFICE OF THE STATE AUDITOR**

**BETH A. WOOD, CPA
STATE AUDITOR**

FINANCIAL STATEMENT AUDIT REPORT OF

DOWN EAST PARTNERSHIP FOR CHILDREN

ROCKY MOUNT, NORTH CAROLINA

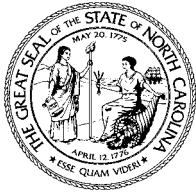
FOR THE YEAR ENDED JUNE 30, 2008

BOARD OF DIRECTORS

DR. HAYWOOD PARKER, BOARD CHAIR

ADMINISTRATIVE OFFICER

HENRIETTA ZALKIND, EXECUTIVE DIRECTOR



Beth A. Wood, CPA
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>

AUDITOR'S TRANSMITTAL

The Honorable Beverly E. Perdue, Governor
The General Assembly of North Carolina
Board of Directors, Down East Partnership for Children

This report presents the results of the financial statement audit of Down East Partnership for Children for the year ended June 30, 2008. Clifton Gunderson LLP performed the audit under contract with the Office of the State Auditor, and their report is submitted herewith.

You will note from the independent auditor's report that the auditor determined that the financial statements are presented fairly in all material respects. The results of their tests disclosed no deficiencies in internal control over financial reporting that were considered to be material weaknesses in relation to their audit scope or any instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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.

A handwritten signature in cursive script that reads "Beth A. Wood".

Beth A. Wood, CPA
State Auditor

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Down East Partnership for Children
Rocky Mount, North Carolina

We have audited the accompanying Statement of Receipts, Expenditures, and Net Assets – Modified Cash Basis of the Down East Partnership for Children (Down East Partnership) as of and for the year ended June 30, 2008, and the related Statement of Functional Expenditures – Modified Cash Basis for the year then ended. These financial statements are the responsibility of the Down East 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 Down East Partnership as of June 30, 2008, and its receipts and expenditures 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 January 31, 2009 on our consideration of the Down East Partnership's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Down East 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.

Clifton Gunderson LLP

Raleigh, North Carolina
January 31, 2009

***Down East Partnership for Children
Statement of Receipts, Expenditures, and Net Assets - Modified Cash Basis
For the Year Ended June 30, 2008***

Exhibit A

	Unrestricted Funds		Temporarily	Total
	Smart Start	Other	Restricted	
	Fund	Funds	Funds	Funds
Receipts:				
State Awards	\$ 3,256,436	\$ 2,264,586	-	\$ 5,521,022
Federal Awards	-	520,197	-	520,197
Local Awards	-	12,112	-	12,112
Private Contributions	-	120,697	285,331	406,028
Special Fund Raising Events	-	909	-	909
Interest and Investment Earnings	-	26,124	-	26,124
Sales Tax Refunds	-	15,020	-	15,020
Other Receipts	-	4,019	47	4,066
Total Receipts	3,256,436	2,963,664	285,378	6,505,478
Net Assets Released from Restrictions:				
Satisfaction of Program Restrictions	-	243,644	(243,644)	-
	3,256,436	3,207,308	41,734	6,505,478
Expenditures:				
Programs:				
Child Care and Education Affordability	1,155,050	-	-	1,155,050
Child Care and Education Quality	836,936	484,325	-	1,321,261
Family Support	708,207	199,407	-	907,614
Health and Safety	68,054	-	-	68,054
More at Four	-	2,258,088	-	2,258,088
Support:				
Fund Raising	-	33,000	-	33,000
Management and General	305,515	250,551	-	556,066
Program Coordination and Evaluation	182,674	-	-	182,674
Other:				
Sales Tax Paid	-	14,500	-	14,500
Total Expenditures	3,256,436	3,239,871	-	6,496,307
Excess (Deficit) of Receipts Over Expenditures	-	(32,563)	41,734	9,171
Net Assets at Beginning of Year	-	237,633	251,464	489,097
Net Assets at End of Year	\$ -	\$ 205,070	\$ 293,198	\$ 498,268
Net Assets Consisted of:				
Cash and Cash Equivalents	\$ 30,693	\$ (32,951)	\$ 293,198	\$ 290,940
Investments	-	242,900	-	242,900
Refunds Due From Contractors	14	-	-	14
	30,707	209,949	293,198	533,854
Less: Due to the State	30,707	-	-	30,707
Funds Held for Others	-	4,879	-	4,879
	30,707	4,879	-	35,586
TOTAL NET ASSETS	\$ -	\$ 205,070	\$ 293,198	\$ 498,268

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

***Down East Partnership for Children
Statement of Functional Expenditures - Modified Cash Basis
For the Year Ended June 30, 2008***

Exhibit B

	<u>Total</u>	<u>Personnel</u>	<u>Contracted Services</u>	<u>Supplies and Materials</u>	<u>Other Operating Expenditures</u>	<u>Fixed Charges and Other Expenditures</u>	<u>Property and Equipment Outlay</u>	<u>Services/ Contracts/ Grants</u>
Smart Start Fund:								
Programs:								
Child Care and Education Affordability	\$ 1,155,050	\$ 197,767	\$ 11,449	\$ 8,301	\$ 25,931	\$ 821	\$ 1,374	\$ 909,407
Child Care and Education Quality	836,936	210,628	13,510	31,145	54,465	2,564	3,969	520,655
Family Support	708,207	307,141	22,474	19,940	53,181	1,838	5,220	298,413
Health and Safety	68,054	-	-	-	-	-	-	68,054
	<u>2,768,247</u>	<u>715,536</u>	<u>47,433</u>	<u>59,386</u>	<u>133,577</u>	<u>5,223</u>	<u>10,563</u>	<u>1,796,529</u>
Support:								
Management and General	305,515	240,742	24,366	3,214	24,300	12,039	854	-
Program Coordination and Evaluation	182,674	151,805	8,344	4,717	12,915	559	4,334	-
	<u>488,189</u>	<u>392,547</u>	<u>32,710</u>	<u>7,931</u>	<u>37,215</u>	<u>12,598</u>	<u>5,188</u>	<u>-</u>
Total Smart Start Fund Expenditures	<u>\$ 3,256,436</u>	<u>\$ 1,108,083</u>	<u>\$ 80,143</u>	<u>\$ 67,317</u>	<u>\$ 170,792</u>	<u>\$ 17,821</u>	<u>\$ 15,751</u>	<u>\$ 1,796,529</u>
Other Funds:								
Programs:								
Child Care and Education Quality	\$ 484,325	\$ 289,202	\$ 18,765	\$ 16,846	\$ 53,255	\$ 967	\$ 729	\$ 104,561
Family Support	199,407	100,465	740	3,528	7,643	36	-	86,995
More at Four	2,258,088	-	-	-	-	-	-	2,258,088
	<u>2,941,820</u>	<u>389,667</u>	<u>19,505</u>	<u>20,374</u>	<u>60,898</u>	<u>1,003</u>	<u>729</u>	<u>2,449,644</u>
Support:								
Fund Raising	33,000	20,867	6,241	411	4,651	830	-	-
Management and General	250,551	213,416	9,733	3,049	12,642	5,114	2,520	4,077
	<u>283,551</u>	<u>234,283</u>	<u>15,974</u>	<u>3,460</u>	<u>17,293</u>	<u>5,944</u>	<u>2,520</u>	<u>4,077</u>
Other:								
Sales Tax Paid	14,500	-	-	14,500	-	-	-	-
Total Other Funds Expenditures	<u>\$ 3,239,871</u>	<u>\$ 623,950</u>	<u>\$ 35,479</u>	<u>\$ 38,334</u>	<u>\$ 78,191</u>	<u>\$ 6,947</u>	<u>\$ 3,249</u>	<u>\$ 2,453,721</u>

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

Down East Partnership for Children
Notes to Financial Statements
June 30, 2008

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

- A. Organization and Purpose** – The Down East Partnership for Children (Down East Partnership) is a legally separate nonprofit organization incorporated on December 7, 1993. The Down East Partnership was established to develop and provide, through public and private means, early childhood education and developmental services for children and families. The Down East 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 Down East 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 Down East Partnership did not have any permanently restricted net assets at June 30, 2008.

- 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 does not recognize the value of in-kind goods and services received; it recognizes revenue when received rather than when earned; and it recognizes expenditures when paid rather than when incurred.

However, unexpended advances to contractors that revert back to the State of North Carolina are recognized as a reduction to expenditures and an increase to net assets. Amounts withheld from employee paychecks or other amounts received in an agency capacity are recorded as funds held for others. In addition, Smart Start funds advanced to the local Partnership that are unexpended and unearned at year-end are recorded as a Due to the State.

Down East Partnership for Children
Notes to Financial Statements
June 30, 2008

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- 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, money market mutual funds and certificates of deposit or short-term investments with an original maturity of three months or less.
- E. Investments** – This classification includes mutual funds and shares of publically traded stock. Under the modified cash basis of accounting, investments are reported at cost which may vary significantly from the fair market value of the underlying investments.
- 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. (NCPC) 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 Down East Partnership for Children acts in an agency capacity. The Down East Partnership offers its employees the opportunity to participate in a Flexible Spending Plan, which is a cafeteria plan as defined by Section 125 of the Internal Revenue Code. The cafeteria plan allows employees to pay for certain employee benefits with pre-tax deductions.
- I. Property and Equipment** – Under the modified cash basis of accounting, purchases of property and equipment are reported as expenditures in the year purchased. However, the Down East Partnership is required by contract regulation to track and maintain property and equipment items as presented in Schedule 4 of this report. The Down East 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, 2008. 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.

Down East Partnership for Children
Notes to Financial Statements
June 30, 2008

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

K. Use of Estimates – The preparation of financial statements in conformity with the modified cash basis of accounting used by the Down East 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 - CASH AND INVESTMENTS

A. CASH

All funds of the Down East 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 subject the Down East Partnership to a concentration of credit risk.

The Down East Partnership has an Automated Investment Plan to invest excess balances over an established target amount. The investment is in the bank’s repurchase agreements and is not insured by the FDIC. Consequently, the Down East Partnership bank deposits in excess of the FDIC insured limit totaled \$157,512 at June 30, 2008.

B. INVESTMENTS

Investments at June 30, 2008 are summarized as follows:

	<u>Cost</u>	<u>Fair Value</u>
Equity based mutual funds	<u>\$ 242,900</u>	<u>\$ 247,248</u>

The Down East Partnership records interest and dividend earnings and realized gain and losses in the Statement of Receipts, Expenditures, and Net Assets – Modified Cash Basis under the heading interest and investment earnings. Investment fees are recorded in the bank charges expense account.

Interest and investment earnings for the year ending June 30, 2008 are as follows:

Interest and dividends	\$ 30,839
Rental income	10,602
Realized losses, net of gains	(13,467)
Investment fees	<u>(1,850)</u>
Total	<u>\$ 26,124</u>

Down East Partnership for Children
Notes to Financial Statements
June 30, 2008

NOTE 2 - CASH AND INVESTMENTS (CONTINUED)

B. INVESTMENTS (continued)

The Board regularly reviews its investments to determine whether a decline in the fair value, below the carrying value, that is other-than-temporary has occurred. In determining whether an other-than-temporary decline has occurred, management considers a number of factors that would be indicative of a decline that was other than temporary including (i) a prolonged decrease in the fair value below the carrying value, (ii) severe or continued losses in the investment and (iii) various other factors such as liquidity, which may be indicative of a decline in value of the investment. The consideration of these factors requires management to make assumptions and estimates about future financial results of the investment. These assumptions and estimates are updated by management on a regular basis.

Subsequent to June 30, 2008, the Down East Partnership sold a significant amount of the publically traded mutual funds it held at June 30, 2008. The Down East Partnership realized approximately \$58,000 in losses as a result of these sales.

As of December 31, 2008 the remaining investment portfolio of equity based mutual funds had a cost basis of \$189,678 and a fair value of \$181,438, representing an unrealized loss of \$8,240. Management believes that this represents a temporary impairment and that the original cost value of these investments will be realized.

NOTE 3 - FUNDING FROM GRANT AWARDS

Smart Start Program – The Down East Partnership’s major source of revenue and support is from the State of North Carolina based on cost-reimbursement contracts with the 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 Down East Partnership and represents a concentration of credit risk as to the generation of revenue.

Associated with these contracts, the Down East 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 Down East 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.

Down East Partnership for Children
Notes to Financial Statements
June 30, 2008

NOTE 3 - FUNDING FROM GRANT AWARDS (CONTINUED)

Smart Start Program (continued)

The Down East Partnership was awarded and has received \$3,287,143 under a current year Smart Start contract with NCPC. The unexpended balance of this contract is subject to reversion to the State. The Down East Partnership has returned \$30,707 of this contract to the State based on financial status reports submitted to NCPC subsequent to June 30, 2008.

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

More at Four – The Down East Partnership also received revenue and support from the State of North Carolina for the More at Four Program. The Down East Partnership was awarded and received \$2,240,921 under a current year cost reimbursement contract. The unexpended balance of this contract is subject to reversion to the State. The Down East Partnership expects to receive continued funding through new More at Four contracts with the State.

NOTE 4 - RELATED PARTY TRANSACTIONS

A. Service Provider Contracts with Board Member Organizations – The board members of the Down East Partnership are representative of various organizations that benefit from actions taken by the Board. It is the policy of the Down East Partnership that board members not be involved with decisions regarding organizations they represent. During the year, the Down East 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 Down East Partnership's Smart Start Allocation.

B. Other Related Parties – The Down East Partnership entered into transactions for contracted services with a private business associated with a member of the Board of Directors. The amounts paid included:

Express Personnel Services	<u>\$8,417</u>
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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:

Down East Partnership for Children
Notes to Financial Statements
June 30, 2008

NOTE 5 - FUNCTIONAL EXPENDITURES (CONTINUED)

A. Program Functions

Child Care and Education Affordability – Used to account for service activities including Pre-K and Preschool classes and Head Start expansion.

Child Care and Education Quality – Used to account for service activities including or associated with quality enhancement grants for upgrades, child care resource and referral, professional development, child care substitutes and salary supplements.

Family Support – Used to account for service activities including or associated with ongoing parenting education, general family support, and family crisis intervention.

Health and Safety – Used to account for service activities including or associated oral health services, child care health consultants, and special needs early intervention services and 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 board activities, business management, general recordkeeping, budgeting, and related purposes.

Program Coordination and Evaluation – Expenditures that are incurred to coordinate the policies, procedures, and daily practices of service delivery. Also, costs associated with monitoring the performance of in-house and direct service providers as to the delivery of services and adherence to the specific terms and conditions of the contracts.

C. Allocation of Joint Costs

The Down East Partnership uses an indirect cost pool to collect administrative expenses that are not directly attributable to the various programs the Down East Partnership operates. Types of costs included in the pool were salaries, contracted services, supplies and materials, other operating expenses, fixed charges and other expenses, and property and equipment.

Down East Partnership for Children
Notes to Financial Statements
June 30, 2008

NOTE 5 - FUNCTIONAL EXPENDITURES (CONTINUED)

C. Allocation of Joint Costs (continued)

Indirect costs are allocated using a basis of allocation that most accurately reflects the usage of funds. Facility repairs and maintenance, utilities, and janitorial supplies were allocated based on pro rata square footage of the building utilized. Telephone, centralized office supplies, and server costs were allocated based on the number of employees. Equipment rental, copier supplies and copier usage were allocated based on meter readings from the copy machine.

NOTE 6 - OPERATING LEASE OBLIGATIONS

Operating Lease Obligations – Future minimum lease payments under noncancelable operating leases consist of the following at June 30, 2008:

<u>Fiscal Years</u>	<u>Operating Leases</u>
2009	\$ <u>1,144</u>

Rental expense for all operating leases during the year was \$3,451.

NOTE 7 - PENSION PLAN

IRC Section 403(b) Plan – All permanent employees who are at least half-time may participate in a tax sheltered annuity plan (the Plan) created under Internal Revenue Code Section 403(b). The Plan is a defined contribution plan in which each employee of the Down East Partnership, as a condition of employment, is provided an individual annuity through an outside insurance company. The Down East Partnership does not contribute to the Plan. The employee's eligible contributions, made through salary reduction agreements, are exempt from the 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 the Plan are the responsibility of the Plan participants.

NOTE 8 - RISK MANAGEMENT

The Down East 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 Down East 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

Down East Partnership for Children
Notes to Financial Statements
June 30, 2008

NOTE 8 - RISK MANAGEMENT (CONTINUED)

Management believes such coverage is sufficient to preclude any significant losses to the Down East 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 Down East 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, 2008, is \$73,444. 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, 2008 are available for the following purposes:

Ready Schools Campaign	\$ 5,797
Family and Community Support	3,070
Kellogg Foundation Grant	275,604
Kate B. Reynolds	<u>8,727</u>
Total	<u>\$ 293,198</u>

B. Net Assets Released from Donor Restrictions – Net assets were released from donor restrictions during the fiscal year ended June 30, 2008 by incurring expenditures satisfying the restricted purposes as follows:

Flood Relief Fund	\$ 1,111
Kellogg Foundation Grant	236,783
Ready Schools Campaign	<u>5,750</u>
Total	<u>\$ 243,644</u>

NOTE 11 - NET CASH POSITION

At June 30, 2008, the Down East Partnership’s net cash position was as follows:

Unrestricted – Smart Start Fund	\$ 30,693
Unrestricted – Other Funds	<u>(32,951)</u>
Net	<u>\$ (2,258)</u>

The negative net cash position resulted from the late arrival of certain reimbursements. On July 1, 2008, the Down East Partnership received \$235,179 for its June More at Four reimbursement and \$30,806 for Smart Start funding.

This information is an integral part of the financial statements.

***Down East Partnership for Children
Schedule of Contract and Grant Expenditures - Modified Cash Basis
For the Year Ended June 30, 2008***

Schedule 1

Organization Name	Smart Start Fund		Other Funds	
	Amount Advanced	Refund Due	Amount Advanced	Refund Due
<i>Paid to Organizations:</i>				
A New Day Child Care	\$ 10,746	\$ -	\$ -	\$ -
All Smiles	534	-	-	-
Annes Day Care	335	-	-	-
Braswell Memorial Public Library*	75,741	-	-	-
Communities in Schools of Rocky Mount Region*	78,006	-	40,000	-
Community Enrichment Organizations	-	-	41,110	-
Edgecombe County Department of Social Services*	-	-	2,999	-
Edgecombe County Health Department*	87,557	-	-	-
Edgecombe County Public Schools*	351,379	14	32,009	-
First Baptist Day Care Center	3,688	-	430	-
Governor's Crime Commission	-	-	(2,288)	-
The Halifax-Warren Smart Start Partnership for Children, Inc.	-	-	20,000	-
Kid's Place #1	335	-	-	-
Mother's Care and Infant Center #1	335	-	-	-
Naeem's Academy	669	-	-	-
Nash County Department of Social Services*	-	-	2,571	-
Nash - Rocky Mount Public Schools*	193,541	-	45,247	-
Playschool Mount Preparatory School	1,005	-	-	-
Rocky Mount Preparatory School	-	-	749	-
St. Stephens	334	-	-	-
Think & Grow*	1,337	-	-	-
Various Providers	987,418	-	2,257,808	-
Wilson County Partnership for Children	-	-	10,000	-
	<u>1,792,960</u>	<u>14</u>	<u>2,450,635</u>	<u>-</u>
<i>Paid to Individuals:</i>				
Stipends and Scholarships	3,583	-	2,524	-
Cash and Grant Awards	-	-	562	-
	<u>3,583</u>	<u>-</u>	<u>3,086</u>	<u>-</u>
	<u>\$ 1,796,543</u>	<u>\$ 14</u>	<u>\$ 2,453,721</u>	<u>\$ -</u>

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

***Down East Partnership for Children
Schedule of State Level Service Provider Contracts
For the Year Ended June 30, 2008***

Schedule 2

Organization Name	DHHS Contracts
Child Care Services Association - WAGE\$ Program	\$ 354,119
Nash/Edgecombe County Departments of Social Services*	<u>175,924</u>
	<u><u>\$ 530,043</u></u>

* This organization is represented on the Partnership's Board as described in Note 4A - 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.

***Down East Partnership for Children
Schedule of Federal and State Awards - Modified Cash Basis
For the Year Ended June 30, 2008***

Schedule 3

Federal/State Grantor/Pass-through Grantor/Program	Federal CFDA Number	Contract #	Receipts	Expenditures
Federal Awards:				
U.S. Department of Health and Human Services				
North Carolina Department of Health and Human Services				
Division of Child Development				
Pass-through from Child Care Services Association				
Child Care Development Block Grant (Prior Year)	93.575	315	\$ 72,243	\$ 150
Child Care Development Block Grant	93.575	318	258,510	229,132
Promoting Safe and Stable Families (Prior Year)	93.566	01120-07	27,769	-
Promoting Safe and Stable Families	93.566	01120-08	64,823	97,503
Promoting Safe and Stable Families (Prior Year)	93.566	00717-07	25,346	(2)
Promoting Safe and Stable Families	93.566	00717-08	71,506	97,448
Total Federal Awards			520,197	424,231
State Awards:				
North Carolina Department of Health and Human Services				
Division of Child Development				
Pass-through from The North Carolina Partnership for Children, Inc.				
Early Childhood Initiatives Program *		N/A	3,256,436	3,256,436
Multi-County Accounting and Contracting Grant		N/A	23,665	23,665
North Carolina Department of Public Instruction, Office of School Readiness.				
More ar Four Pre-Kindergarten Program*		20900004409	2,240,921	2,420,574
Total State Awards			5,521,022	5,700,675
Total Federal and State Awards			\$ 6,041,219	\$ 6,124,906

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

***Down East Partnership for Children
Schedule of Property and Equipment - Modified Cash Basis
For the Year Ended June 30, 2008***

Schedule 4

Furniture and Noncomputer Equipment	\$ 182,143
Computer Equipment/Printers	162,459
Buildings	795,171
Leasehold Improvements	<u>205,844</u>
Total Property and Equipment	<u><u>\$1,345,617</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.

***Down East Partnership for Children
Schedule of Qualifying Match (Non-GAAP)
For the Year Ended June 30, 2008***

Schedule 5

Match Provided at the Partnership Level:

Cash	\$ 618,413
In-Kind Goods and Services	<u>15,926</u>
	<u>\$ 634,339</u>

Match Provided at the Contractor Level:

In-Kind Goods and Services	<u>\$ 173,324</u>
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Note: This schedule is presented in accordance with the program match requirement as provided for by North Carolina Session Law 2007-323, Section 10.19(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.

**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
Down East Partnership for Children
Rocky Mount, North Carolina

We have audited the financial statements of the Down East Partnership for Children (Down East Partnership) as of and for the year ended June 30, 2008, and have issued our report thereon dated January 31, 2009. 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 Down East Partnership's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Down East Partnership's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Down East Partnership's internal control over financial reporting.

A control deficiency exists when the design or 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 Down East Partnership's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Down East Partnership's financial statements that is more than inconsequential will not be prevented or detected by the Down East Partnership's internal control.

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

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Down East Partnership'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 Down East 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 Down East Partnership's Board of Directors, management of the Down East Partnership, others within the Partnership, The North Carolina Partnership for Children, Inc., the Governor, and the General Assembly of North Carolina and is not intended to be and should not be used by anyone other than these specified parties.

Clifton Henderson LLP

Raleigh, North Carolina
January 31, 2009

ORDERING INFORMATION

Audit reports issued by the Office of the State Auditor can be obtained from the website at www.ncauditor.net. Also, parties may register on the website 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