

**FINANCIAL STATEMENT AUDIT REPORT OF  
ALBEMARLE SMART START PARTNERSHIP, INC.  
ELIZABETH CITY, NORTH CAROLINA  
FOR THE YEAR ENDED JUNE 30, 2001**

**PERFORMED UNDER CONTRACT WITH THE  
NORTH CAROLINA OFFICE OF STATE AUDITOR  
RALPH CAMPBELL, JR.**

**FINANCIAL STATEMENT AUDIT REPORT OF**

**ALBEMARLE SMART START PARTNERSHIP, INC.**

**ELIZABETH CITY, NORTH CAROLINA**

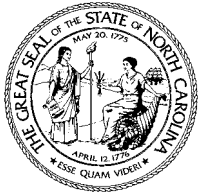
**FOR THE YEAR ENDED JUNE 30, 2001**

**BOARD OF DIRECTORS**

**KATHY FLORA, VICE CHAIRPERSON**

**ADMINISTRATIVE OFFICER**

**JANE MORROW, INTERIM EXECUTIVE DIRECTOR**



**Ralph Campbell, Jr.**  
State Auditor

STATE OF NORTH CAROLINA

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## AUDITOR'S TRANSMITTAL

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The Honorable Michael F. Easley, Governor  
The General Assembly of North Carolina  
Board of Directors, Albemarle Smart Start Partnership, Inc.

This report presents the results of the financial statement audit of the Albemarle Smart Start Partnership, Inc. for the year ended June 30, 2001. Crisp Hughes Evans LLP performed the audit under contract with the Office of the State Auditor, and their report is submitted herewith.

The audit of the Albemarle Smart Start Partnership, 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 Albemarle Smart Start Partnership, Inc. is one of these local partnerships. As such, the Albemarle Smart Start Partnership, Inc. is a private nonprofit 501(c)(3) organization and is required by G.S. 143B-168.14 to have an annual financial and compliance audit conducted by the State Auditor. The State Auditor's authority to perform or coordinate all audit functions for state government is set forth in Article 5 of Chapter 147 of the North Carolina General Statutes.

The significant Smart Start expansion authorized in the 1998 fiscal year almost doubled the related audit burden placed on the Office of the State Auditor. Therefore, the General Assembly, in its 1998-99 Expansion Budget, gave recognition to the resources needed to provide the audit oversight required by statute. Those resources incorporated a combination of permanent positions and contract funding to make the Smart Start audit effort self-sustaining.

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 in the back of this report.

A handwritten signature in black ink that reads "Ralph Campbell, Jr." in a cursive script.

Ralph Campbell, Jr.  
State Auditor

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## INDEPENDENT AUDITORS' REPORT

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Board of Directors  
Albemarle Smart Start Partnership, Inc.  
Elizabeth City, North Carolina

We have audited the accompanying Statement of Receipts, Expenditures, and Net Assets - Regulatory Basis of the Albemarle Smart Start Partnership, Inc. (Albemarle Partnership) as of June 30, 2001, and the related Statement of Functional Expenditures - Regulatory Basis for the year then ended. These financial statements are the responsibility of the Albemarle 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 statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the accompanying financial statements were prepared on the regulatory basis of accounting as prescribed by the North Carolina Partnership for Children, Inc., 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 Albemarle Smart Start Partnership, Inc. as of June 30, 2001, and the results of its operations for the year then ended, on the basis of accounting described in Note 1.

## INDEPENDENT AUDITORS' REPORT (CONCLUDED)

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In accordance with *Government Auditing Standards*, we have also issued our report dated January 31, 2002 on our consideration of the Albemarle Partnership's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with the independent auditor's report in considering the results of our audit.

Our audit was made for the purpose of forming an opinion on the basic financial statements of the Albemarle Smart Start Partnership, Inc. taken as a whole. The accompanying supplementary schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. The information in these schedules has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the management of the 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.

January 31, 2002

*Crisp Hughes Evans LLP*

***Albemarle Smart Start Partnership, Inc.***

***Statement of Receipts, Expenditures, and Net Assets - Regulatory Basis***  
***For the Year Ended June 30, 2001*** ***Exhibit A***

	<b>Unrestricted Funds</b>		<b>Temporarily Restricted Funds</b>	<b>Total Funds</b>
	<b>Smart Start Fund</b>	<b>Other Funds</b>		
<b>Receipts:</b>				
State Awards (less refunds of \$25,013)	\$ 1,324,177	\$ 75,692	\$ 770	\$ 1,400,639
Federal Awards	-	92,468	-	92,468
Private Contributions	-	2,398	2,400	4,798
Interest and Investment Earnings	-	9,964	-	9,964
Sales Tax Refunds	-	11,580	-	11,580
Other Receipts	156	13,894	-	14,050
<b>Total Receipts</b>	<b>1,324,333</b>	<b>205,996</b>	<b>3,170</b>	<b>1,533,499</b>
<b>Net Assets Released from Restrictions:</b>				
Satisfaction of Program Restrictions	-	5,793	(5,793)	-
	<b>1,324,333</b>	<b>211,789</b>	<b>(2,623)</b>	<b>1,533,499</b>
<b>Expenditures:</b>				
Programs:				
Child Care and Education Quality	477,588	80,677	-	558,265
Child Care and Education Affordability	175,511	2,906	-	178,417
Health and Safety	85,132	-	-	85,132
Family Support	307,019	57,393	-	364,412
Support:				
Management and General	227,202	39,054	-	266,256
Program Evaluation	24,599	-	-	24,599
Other:				
Sales Tax Paid	-	7,341	-	7,341
<b>Total Expenditures</b>	<b>1,297,051</b>	<b>187,371</b>	<b>-</b>	<b>1,484,422</b>
<b>Excess of Receipts Over (Under) Expenditures</b>	<b>27,282</b>	<b>24,418</b>	<b>(2,623)</b>	<b>49,077</b>
<b>Net Assets at Beginning of Year</b>	<b>(2,545)</b>	<b>(3,211)</b>	<b>29,480</b>	<b>23,724</b>
<b>Net Assets at End of Year</b>	<b>\$ 24,737</b>	<b>\$ 21,207</b>	<b>\$ 26,857</b>	<b>\$ 72,801</b>
<b>Net Assets Consisted of:</b>				
Petty Cash	\$ -	\$ 240	\$ -	\$ 240
Cash on Deposit	16,816	20,967	26,857	64,640
Refunds Due From Contractors	7,921	-	-	7,921
	<b>\$ 24,737</b>	<b>\$ 21,207</b>	<b>\$ 26,857</b>	<b>\$ 72,801</b>

The accompanying notes are an integral part of these statements.

***Albemarle Smart Start Partnership, Inc.***  
***Statement of Functional Expenditures - Regulatory Basis***  
***For the Year Ended June 30, 2001***

***Exhibit B***

	Total	Personnel	Contracted Services	Supplies and Materials	Other Operating	Fixed Charges and Other	Property and Equipment Outlay	Services/ Contracts/ Grants	Participant Training
<b>Smart Start Fund:</b>									
<b>Programs:</b>									
Child Care and Education Quality	\$ 477,588	\$ 261,654	\$ 5,291	\$ 5,054	\$ 25,712	\$ 28,528	\$ 3,345	\$ 148,004	\$ -
Child Care and Education Affordability	175,511	26,437	-	1,977	746	34	561	145,756	-
Health and Safety	85,132	-	-	-	-	-	-	85,132	-
Family Support	307,019	151,628	3,286	14,387	27,849	7,122	4,963	97,784	-
<b>Support:</b>									
Management and General	227,202	176,036	6,698	3,545	32,476	8,066	381	-	-
Program Evaluation	24,599	23,211	-	117	1,191	80	-	-	-
<b>Total Smart Start Fund Expenditures</b>	<b>\$1,297,051</b>	<b>\$ 638,966</b>	<b>\$ 15,275</b>	<b>\$ 25,080</b>	<b>\$ 87,974</b>	<b>\$ 43,830</b>	<b>\$ 9,250</b>	<b>\$ 476,676</b>	<b>\$ -</b>
<b>Other Funds:</b>									
<b>Programs:</b>									
Child Care and Education Quality	\$ 80,677	\$ 67,771	\$ -	\$ 3,167	\$ 5,977	\$ 2,723	\$ 919	\$ 120	\$ -
Child Care and Education Affordability	2,906	-	-	463	-	352	2,091	-	-
Family Support	57,393	11,732	911	16,805	5,593	2,879	230	11,543	7,700
<b>Support:</b>									
Management and General	39,054	23,589	-	816	11,570	673	2,406	-	-
<b>Other:</b>									
Sales Tax Paid	7,341	-	-	7,341	-	-	-	-	-
<b>Total Other Funds Expenditures</b>	<b>\$ 187,371</b>	<b>\$ 103,092</b>	<b>\$ 911</b>	<b>\$ 28,592</b>	<b>\$ 23,140</b>	<b>\$ 6,627</b>	<b>\$ 5,646</b>	<b>\$ 11,663</b>	<b>\$ 7,700</b>

The accompanying notes are an integral part of these statements.



**ALBEMARLE SMART START PARTNERSHIP, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2001**

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**NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES**

**A. Organization and Purpose** - The Albemarle Smart Start Partnership, Inc. (Albemarle Partnership) is a legally separate nonprofit organization incorporated on July 31, 1998. The Albemarle Partnership was established to develop and provide, through public and private means, early childhood education and developmental services for children and families. The Albemarle 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 Albemarle Partnership's Board of Directors is responsible. In accordance with 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 Albemarle Partnership did not have any permanently restricted net assets at June 30, 2001.

**C. Basis of Accounting** - The accompanying financial statements were prepared on the regulatory basis of accounting as prescribed by the North Carolina Partnership for Children, Inc. 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)

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However, unexpended advances to contractors that revert back to the State are recognized as a reduction to expenditures and an increase to net assets.

- D. Refunds Due From Contractors** - Refunds due from contractors represent the unexpended amount of advances to contractors at year end which 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.
- E. Use of Estimates** - The financial statements include estimates and assumptions made by management for the allocation of joint costs. It is management's belief that these estimates are reasonable and fair.

### NOTE 2 - DEPOSITS

All funds of the Albemarle Partnership are deposited with one commercial bank and insured by the Federal Deposit Insurance Corporation (FDIC) up to \$100,000. Deposits over this amount subjects the Albemarle Partnership to a concentration of credit risk. At June 30, 2001, the Albemarle Partnership's bank deposits in excess of the FDIC insured limit was \$20,684.

### NOTE 3 - FUNDING FROM GRANT AWARDS

**Smart Start Program** - The Albemarle 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 Albemarle Partnership and represents a concentration of credit risk as to the generation of revenue.

Associated with these contracts, the Albemarle 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 Department of Health and Human Services (DHHS) entered into contracts with and made payments to service providers selected by the Albemarle Partnership. These service provider contracts are not reflected on the accompanying financial statement. However, a summary of the service provider contracts entered into by DHHS are presented on Schedule 2 accompanying the financial statements.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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The Albemarle Partnership was awarded \$1,858,287 under current year Smart Start contracts with NCPC and has received \$1,346,645 of this amount. The unexpended balance of these contracts is subject to reversion to the State. The Partnership has returned \$25,013 of these contracts to the State based on financial status reports submitted to NCPC prior to June 30, 2001 and \$24,581 subsequent to June 30, 2001.

The 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 Albemarle Partnership are representative of various organizations that benefit from actions taken by the Board. It is the policy of the Albemarle Partnership that board members not be involved with decisions regarding organizations they represent. During the year, the 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 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 - Regulatory Basis. Also, the Statement of Functional Expenditures - Regulatory Basis provides detail of the functional costs by their natural classification. Following are the services associated with the functional categories presented in the accompanying financial statements and the methods utilized to allocate joint cost:

#### A. Program Functions

**Child Care and Education Quality** - Used to account for service activities including quality enhancement grants, comprehensive child care resource and referral, child care substitutes, salary supplements, health and safety training for child care professionals, and curriculum enhancement.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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**Child Care and Education Affordability** - Used to account for service activities including eliminate waiting list, child care coordinator, public preschool classes, transportation to child care, and cooperative play groups.

**Health and Safety** - Used to account for service activities including prenatal/newborn services, child abuse and neglect intervention, and nutrition programs.

**Family Support** - Used to account for service activities including family resource center, mobile family resource center, parenting education, parenting skills training, general family support, and information and resources.

### **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 performance of service providers as to the delivery of services and adherence to the specific terms and conditions of the contracts.

### **C. Allocation of Joint Costs**

Expenditures benefiting more than one purpose were allocated as follows:

**Salaries and Benefits** - Allocated based on employee time reports.

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

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## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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### NOTE 6 - COMMITMENTS AND CONTINGENCIES

**Leases** - The following is a schedule by years of future minimum rental payments required under leases that have noncancelable lease terms as of June 30, 2001:

<u>Fiscal Year</u>	<u>Operating Leases</u>
2002	\$ 36,686
2003	30,236
2004	10,886
2005	6,189
2006	<u>4,501</u>
<b>Total Minimum Lease Payments</b>	<b><u>\$ 88,498</u></b>

Total rental expenditure for all operating leases was \$25,470 for the year ended June 30, 2001.

### NOTE 7 - PENSION PLAN

The Albemarle Partnership has a Simplified Employee Pension (SEP) plan covering all full-time employees. Each full-time employee of the Albemarle Partnership, as a condition of employment, is provided an Individual Retirement Account through an outside insurance company. The Albemarle Partnership contributed 5% of gross wages for the year ended June 30, 2001. The Albemarle Partnership does not own the accounts nor is liable for any other cost other than the required contribution.

For the year ended June 30, 2001, the Albemarle Partnership had a total payroll of \$590,446, all of which was covered under the plan. The Partnership contributed \$29,522 for pension benefits during the year.

**IRC Section 403(b)** - All permanent employees who are at least half-time can participate in a tax sheltered annuity plan created under Internal Revenue Code Section 403(b). 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. All costs of administering and funding this plan are the responsibility of the plan. No costs are incurred by the Albemarle Partnership. The voluntary contributions by employees amounted to \$11,112 during the year ended June 30, 2001.

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## NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

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### NOTE 8 - RESTRICTIONS ON NET ASSETS

- A. Temporarily Restricted Net Assets** - Temporarily restricted net assets at June 30, 2001 are available for the following purposes:

Purpose	Amount
Buddy Hub	\$ 3,048
Van Maintenance	365
Baby Link	2,762
Duke Energy	17,659
Breast Feeding Program	3,023
	<u>\$ 26,857</u>

- B. Net Assets Released From Donor Restrictions** - Net assets were released from donor restrictions during the fiscal year ended June 30, 2001, by incurring expenditures satisfying the restricted purposes as follows:

Purpose	Amount
Emergency Needs	\$ 122
Mobile Unit	3,330
Duke Energy	2,341
	<u>\$ 5,793</u>

***Albemarle Smart Start Partnership, Inc.***

***Schedule of Contract and Grant Expenditures - Regulatory Basis***

***For the Year Ended June 30, 2001***

***Schedule 1***

Organization Name	Smart Start Fund		Other Funds	
	Amount Advanced	Refund Due	Amount Advanced	Refund Due
Albemarle Regional Health Services	* \$ 83,841	\$ (296)	\$ 1,183	\$ -
Community Development Grants	38,245	-	-	-
Currituck County 4-H Foundation	-	-	2,357	-
Currituck County Cooperative Extension	4,837	-	-	-
Currituck County Public Library	* 27,066	-	-	-
Currituck County Public Schools	* 39,000	(958)	-	-
Currituck Head Start	* 144	-	-	-
EIC, Inc.	* 80	-	-	-
Elizabeth City-Pasquotank County Board of Ed.	* 35,145	-	-	-
Faithway Apostolic Church	* 3,825	-	-	-
Farmer in the Dell Preschool	* 3,811	-	-	-
Girls Inc. of the Albemarle	* -	-	4,168	-
Grace & Truth Community Church	* 1,567	-	-	-
Inter County Public Transit Authority	* 76,500	(5,889)	-	-
Kids First, Inc.	* 21,000	-	-	-
Mount Zion COGIC	-	-	1,645	-
Pasquotank County	* 40,000	-	-	-
Pasquotank County Cooperative Extension	* 70,732	(778)	1,190	-
<b>Individuals:</b>				
Professional Development	2,400	-	-	-
Quality Enhancement	16,927	-	1,000	-
Registration Assistance	382	-	-	-
Salary Supplements	19,295	-	-	-
Substitute	-	-	120	-
	<b>\$ 484,597</b>	<b>\$ (7,921)</b>	<b>\$ 11,663</b>	<b>\$ -</b>

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

See Independent Auditors' Report.

***Albemarle Smart Start Partnership, Inc.***  
***Schedule of State Level Service Provider Contracts***  
***For the Year Ended June 30, 2001***

***Schedule 2***

<b>Organization Name</b>	<b>DHHS Contracts</b>
Pasquotank/Camden/Currituck Counties Department of Social Services	<b>\$ 496,310</b>

- \* This organization is represented on the Partnership's Board as described in Note 4 - Service Provider Contracts with Board Member Organizations.

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

See Independent Auditors' Report.



***Albemarle Smart Start Partnership, Inc.******Schedule of Federal and State Awards - Regulatory Basis******For the Year Ended June 30, 2001******Schedule 3***

<u>Federal/State Grantor/Pass-through Grantor/Program</u>	<u>Federal CFDA Number</u>	<u>Contract #</u>	<u>Receipts</u>	<u>Expenditures</u>
<b>Federal Awards:</b>				
U.S. Department of Health and Human Services Pass-through from the North Carolina Department of Health and Human Services - Division of Public Health Adolescent Pregnancy Prevention Program	93.558	WHB 1-5158-002	\$ 33,653	\$ 28,348
Pass-through from the North Carolina Department of Health and Human Services - Division of Child Development Child Care Resource and Referral	93.575	5840	48,815	46,725
Pass-through from the North Carolina Department of Health and Human Services - Division of Social Services Fatherhood Summit	93.597	00444-01	10,000	10,000
<b>Total Federal Awards</b>			<u>92,468</u>	<u>85,073</u>
<b>State Awards:</b>				
North Carolina Department of Health and Human Services Division of Child Development Pass-through from the Office of Minority Health Baby LINK Program	N/A	CBO-18	7,500	7,500
Pass-through from the North Carolina Partnership for Children, Inc. Early Childhood Initiatives Program (Prior Year)	N/A	* 1-90-5-02-001	2,545	-
Early Childhood Initiatives Program (Current Year)	N/A	* 1-01-5-02-001	1,333,857	1,287,125
Early Childhood Initiatives Program (Current Year)	N/A	* 1-01-5-02-001	(22,150)	-
Early Childhood Initiatives Program (Encumbrance)	N/A	* 1-01-5-02-001E	12,788	9,926
Early Childhood Initiatives Program (Encumbrance)	N/A	* 1-01-5-02-001E	(2,863)	-
Multi-County Accounting and Contracting Grant	N/A	-	36,000	36,000
Buddy Hub	N/A	-	770	-
Pass-through from the Chowan/Gates/Perquimans Partnership for Children, Inc. Child Care Quality Improvement Activity	N/A	3-01-204-3104	32,192	28,558
<b>Total State Awards</b>			<u>1,400,639</u>	<u>1,369,109</u>
<b>Total Federal and State Awards</b>			<u>\$ 1,493,107</u>	<u>\$ 1,454,182</u>

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

See Independent Auditors' Report.

***Albemarle Smart Start Partnership, Inc.***

***Schedule of Property and Equipment***

***For the Year Ended June 30, 2001***

***Schedule 4***

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Furniture and Non-Computer Equipment	\$ 45,859
Computer Equipment/Printers	74,420
Leasehold Improvements	112,401
Motor Vehicles	<u>47,558</u>
Total Property and Equipment	<u>\$ 280,238</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. On the regulatory basis of accounting, these items are expensed in the year purchased.

See Independent Auditors' Report.

***Albemarle Smart Start Partnership, Inc.***  
***Schedule of Qualifying Match (Non-GAAP)***  
***For the Year Ended June 30, 2001***

***Schedule 5***

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

Cash	\$ 4,798
In-Kind Goods and Services	<u>58,137</u>
	<u>\$ 62,935</u>

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

Cash	\$ 116,782
In-Kind Goods and Services	<u>22,395</u>
	<u>\$ 139,177</u>

Note: This schedule is presented in accordance with the program match requirement as provided for by North Carolina Session Law 1999-237, Section 11.48(l). The law allows for volunteer services to be valued for match purposes, a concept that deviates from accounting principles generally accepted in the United States of America.

See Independent Auditors' Report.

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

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Board of Directors  
Albemarle Smart Start Partnership, Inc.  
Elizabeth City, North Carolina

We have audited the financial statements of the Albemarle Smart Start Partnership, Inc. (Albemarle Partnership) as of and for the year ended June 30, 2001, and have issued our report thereon dated January 31, 2002. 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.

Compliance

As part of obtaining reasonable assurance about whether the Albemarle Partnership's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Albemarle 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 assurance 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

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

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might be material weaknesses. A material weakness is a 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 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.

We noted other matters involving issues of a management control nature that are described in the Audit Findings and Recommendations section of this report.

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

January 31, 2002

*Crisp Hughes Evans LLP*

## AUDIT FINDINGS AND RECOMMENDATIONS

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**Material Findings and Recommendations from Prior Audits** - The following presents the status of findings and recommendations presented in the prior year audit report that affected the current year audit objectives.

### 1. CONTRACT MANAGEMENT AND MONITORING

The auditor reported in the prior year that the problems with the Partnership's contract management and monitoring system had not been fully resolved. Issues noted included payments to contractors prior to having an authorized contract, financial status reports (FSRs) not filed on a timely basis, and the lack of established procedures for contract management/monitoring.

*This finding has been resolved.* The partnership has approved contracting policies and procedures for direct service provider contracts.

### 2. FINANCIAL PRESENTATION

The auditor reported in the prior year that the problems with the financial presentations of the Albemarle Smart Start Partnership being materially misstated had not been fully resolved. Problems were noted with the Partnership's beginning balances, recording of audit adjustments in the accounting records, and the classification of fund activity.

*This finding has been resolved.*

**Other Observations and Recommendations from the Current Audit** - The following presents management control issues related to the efficiency and effectiveness of operations.

### 3. CREDIT CARD LIMIT

During our audit, we noticed that the limit on the Partnership's credit card is \$10,000. Although controls over the use of the credit card appear adequate to prevent any abuse of the card, we recommend that the Partnership lower the limit to a reasonable amount to reduce the Partnership's liability if the card were ever abused.

*Partnership's Response:* It is the opinion of the Albemarle Partnership that our credit limit is necessary. With 19 employees constantly traveling, we feel that reducing the limit could present timing issues when payment has been made but not yet credited and the credit card is needed to make a reservation. We feel that we have sufficient internal controls to prevent any misuse or fraud. There are only three issued cards — one to the Executive Director who has a limit of \$1,500, one to the Program Director who has a limit of \$1,500 and one to the Chief Financial Officer who has access to the entire credit limit. No credit card purchases can be made without prior approval on a Credit Card Purchase Request form.

## AUDIT FINDINGS AND RECOMMENDATIONS (CONCLUDED)

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### 4. ACCOUNTING RECORDS

Our review of the Albemarle Partnership's internal control over financial reporting identified a weakness related to reconciling salary expense reported on the trial balance to salaries reported on forms 941. Management is not reconciling the information that is processed by a contracted service. Without adequate review of the information, errors can go undetected. This could result in misleading financial statements and/or incorrect reports to taxing authorities.

*Recommendation:* We recommend that the Executive Director or MAC Site Coordinator reconcile the information reported on forms 941 to the salary expense reported on the trial balance at least quarterly.

*Partnership's Response:* The reports from the accounting contractor are analyzed each payroll by the Chief Financial Officer (CEO) to verify that what is reported is true and accurate. It is also standard operating procedure for the CEO to verify the 941 deposits each pay period. There is a spreadsheet maintained that summarizes each pay period and is totaled each quarter to verify the 941 quarterly report. Although there is no signed documentation that this procedure is performed, it is done. The practice of reconciling the 941 quarterly reports to the general ledger accounts will be implemented immediately.

## **DISTRIBUTION OF AUDIT REPORT**

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In accordance with G.S. §147-64.5 and G.S. §147-64.6(c)(14), copies of this report have been distributed to the public officials listed below. Additional copies are provided to other legislators, state officials, the press, and the general public upon request.

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North Carolina Partnership for Children, Inc.

Ms. Karen Ponder

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