

**FINANCIAL STATEMENT AUDIT REPORT OF
IREDELL COUNTY PARTNERSHIP FOR YOUNG
CHILDREN, INC.
STATESVILLE, 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
IREDELL COUNTY PARTNERSHIP FOR YOUNG CHILDREN, INC.
STATESVILLE, NORTH CAROLINA
FOR THE YEAR ENDED JUNE 30, 2001

BOARD OF DIRECTORS

THOMAS L. WILSON, CHAIRMAN

ADMINISTRATIVE OFFICER

VIVIAN P. HAMILTON, EXECUTIVE DIRECTOR



Ralph Campbell, Jr.
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.osa.state.nc.us>

AUDITOR'S TRANSMITTAL

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

This report presents the results of the financial statement audit of the Iredell County Partnership for Young Children, 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 Iredell County Partnership for Young Children, 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 Iredell County Partnership for Young Children, Inc. is one of these local partnerships. As such, the Iredell County Partnership for Young Children, 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 cursive script that reads "Ralph Campbell, Jr.".

Ralph Campbell, Jr.
State Auditor

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Iredell County Partnership for Young Children, Inc.
Statesville, North Carolina

We have audited the accompanying Statement of Receipts, Expenditures, and Net Assets - Regulatory Basis of the Iredell County Partnership for Young Children, Inc. (Iredell County 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 Iredell County 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 Iredell County Partnership for Young Children, 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)

In accordance with *Government Auditing Standards*, we have also issued our report dated May 10, 2002 on our consideration of the Iredell County 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 auditors' 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 Iredell County Partnership for Young Children, 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.

May 10, 2002

Crisp Hughes Evans LLP

Iredell County Partnership for Young Children, Inc.
Statement of Receipts, Expenditures, and Net Assets - Regulatory Basis
For the Year Ended June 30, 2001 ***Exhibit A***

	Unrestricted Funds		Temporarily Restricted Funds	Total Funds
	Smart Start Fund	Other Funds		
Receipts:				
State Awards (less refunds of \$680,167)	\$ 1,856,466	\$ 12,000	\$ -	\$ 1,868,466
Federal Awards	-	36,255	-	36,255
Private Contributions	-	1,704	50,000	51,704
Special Fund Raising Events	-	1,163	-	1,163
Interest and Investment Earnings	-	29,165	-	29,165
Sales Tax Refunds	-	18,023	-	18,023
Other Receipts	-	343	3,983	4,326
Total Receipts	1,856,466	98,653	53,983	2,009,102
Net Assets Released from Restrictions:				
Satisfaction of Program Restrictions	-	2,544	(2,544)	-
Expiration of Time Restrictions	-	23,792	(23,792)	-
	1,856,466	124,989	27,647	2,009,102
Expenditures:				
Programs:				
Child Care and Education Quality	1,150,314	35,552	-	1,185,866
Child Care and Education Accessibility and Availability	83,525	-	-	83,525
Child Care and Education Affordability	162,832	-	-	162,832
Health and Safety	318,602	7,717	-	326,319
Family Support	531,082	6,496	-	537,578
Support:				
Management and General	244,333	27,843	-	272,176
Program Evaluation	32,864	-	-	32,864
Other:				
Sales Tax Paid	-	14,515	-	14,515
Refund of Prior Year Grant	-	23,792	-	23,792
Total Expenditures	2,523,552	115,915	-	2,639,467
Excess of Receipts Over (Under) Expenditures	(667,086)	9,074	27,647	(630,365)
Net Assets at Beginning of Year	682,221	12,039	23,970	718,230
Net Assets at End of Year	\$ 15,135	\$ 21,113	\$ 51,617	\$ 87,865
Net Assets Consisted of:				
Cash on Deposit	\$ 17,622	\$ 21,113	\$ 51,617	\$ 90,352
Refunds Due From Contractors	616	-	-	616
	18,238	21,113	51,617	90,968
Less: Funds Held for Others	(3,103)	-	-	(3,103)
	\$ 15,135	\$ 21,113	\$ 51,617	\$ 87,865

The accompanying notes are an integral part of these statements.

Iredell County Partnership for Young Children, 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
Smart Start Fund:								
Programs:								
Child Care and Education Quality	\$1,150,314	\$ 372,115	\$ 25,580	\$ 31,400	\$ 105,592	\$ 50,036	\$ 40,047	\$ 525,544
Child Care and Education Accessibility and Availability	83,525	62,296	5,935	3,179	4,139	399	5,892	1,685
Child Care and Education Affordability	162,832	37,381	11,008	6,414	6,046	20,018	19,595	62,370
Health and Safety	318,602	21	15,000	-	63	382	-	303,136
Family Support	531,082	303,726	8,667	72,762	39,127	34,381	44,506	27,913
Support:								
Management and General	244,333	128,036	23,143	12,928	32,092	17,804	28,929	1,401
Program Evaluation	32,864	-	32,864	-	-	-	-	-
Total Smart Start Fund Expenditures	\$2,523,552	\$ 903,575	\$ 122,197	\$ 126,683	\$ 187,059	\$ 123,020	\$ 138,969	\$ 922,049
Other Funds:								
Programs:								
Child Care and Education Quality	\$ 35,552	\$ 13,618	\$ 1,800	\$ 6,850	\$ 5,711	\$ 1,784	\$ 4,892	\$ 1,097
Health and Safety	7,717	-	-	-	-	-	-	7,717
Family Support	6,496	-	4,922	89	1,485	-	-	-
Support:								
Management and General	27,843	-	14,061	1,282	850	11,622	28	-
Other:								
Sales Tax Paid	14,515	-	-	14,515	-	-	-	-
Refund of Prior Year Grant	23,792	-	-	-	23,792	-	-	-
Total Other Funds Expenditures	\$ 115,915	\$ 13,618	\$ 20,583	\$ 22,736	\$ 31,838	\$ 13,406	\$ 4,920	\$ 8,814

The accompanying notes are an integral part of these statements.

IREDELL COUNTY PARTNERSHIP FOR YOUNG CHILDREN, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2001

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

A. Organization and Purpose - The Iredell County Partnership for Young Children, Inc. (Iredell County Partnership) is a legally separate nonprofit organization incorporated on May 16, 1996. The Iredell County Partnership was established to develop and provide, through public and private means, early childhood education and developmental services for children and families. The Iredell County 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 Iredell County 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 Iredell County Partnership did not have 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)

However, unexpended advances to contractors that revert back to the State are recognized as a reduction to expenditures and an increase to net assets. In addition, amounts withheld from employee paychecks or other amounts received in an agency capacity are recorded as funds held for others.

- 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. Funds Held For Others** - Funds held for others includes amounts received that are fiduciary in nature in which the Partnership acts in an agency capacity. For the year ended June 30, the Iredell County Partnership was holding amounts withheld from employee paychecks for future distribution to employees in accordance with the Partnership's flexible benefit plan.
- F. 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 Iredell County Partnership are deposited with two commercial banks and insured by the Federal Deposit Insurance Corporation (FDIC) up to \$100,000 (per bank). Deposits over this amount subjects the Iredell County Partnership to a concentration of credit risk. At June 30, 2001, the Iredell County Partnership's bank deposits in excess of the FDIC insured limit was \$238,868.

NOTE 3 - FUNDING FROM GRANT AWARDS

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

Associated with these contracts, the Iredell County 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 Iredell County

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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.

The Iredell County Partnership was awarded and has received \$2,536,633 under current year Smart Start contracts with NCPC. The unexpended balance of these contracts is subject to reversion to the State. The Partnership has returned \$4 of these contracts to the State based on financial status reports submitted to NCPC prior to June 30, 2001 and \$13,038 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 Iredell County Partnership are representative of various organizations that benefit from actions taken by the Board. It is the policy of the Iredell County 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, program upgrade projects, early education enhancement programs, comprehensive child care resource and referral, professional development, child care substitutes, salary supplements, provider training, child care provider support, health and safety training for child care professionals, resources and materials, curriculum

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

enhancement, health and safety intervention in child care, environmental assessment, outreach materials, information and resources, or school readiness programs.

Child Care and Education Accessibility and Availability - Used to account for service activities including inclusion support, increase child care spaces, outreach materials, or information and resources.

Child Care and Education Affordability - Used to account for service activities including kindergarten orientation program, eliminate waiting list, comprehensive child care cost supports, scholarship program, supplement for quality, information and resources, or cooperative play groups.

Health and Safety - Used to account for service activities including immunization support, dental treatment, dental screenings, dental education, speech and hearing screenings, vision screenings, comprehensive screenings, child abuse and neglect intervention, special needs - early intervention services, or school readiness/developmental screenings.

Family Support - Used to account for service activities including family resource center, mobile family resource center, parenting education, teen parent/child program, parenting skills training, ongoing parent education, general family support, family crisis intervention, literacy projects, family literacy, transportation services, or 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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, and communication costs (telephone and printing), were allocated based on estimates of utilization.

NOTE 6 - COMMITMENTS AND CONTINGENCIES

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

<u>Fiscal Year</u>	<u>Operating Leases</u>
2002	\$ 85,720
2003	118,045
2004	130,074
2005	133,015
2006	139,059
2007 and beyond	<u>259,482</u>
Total Minimum Lease Payments	<u>\$ 865,395</u>

Total rental expenditure for all operating leases was \$120,099 for the year ended June 30, 2001.

NOTE 7 - PENSION PLAN

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 this plan are the responsibility of the plan. The Iredell Partnership contributed 6% of gross wages for the year ended June 30, 2001. The Partnership had a total payroll of \$775,661, \$332,533 of which was covered by the Plan. The Partnership contributed \$19,952 for pension benefits during the year. The voluntary contributions by employees amounted to \$19,315 during the year ended June 30, 2001.

NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

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
Families for Kids 2	\$ 50,000
Preventive Dental Services	(2,366)
Program Income	3,983
	<u>3,983</u>
	<u>\$ 51,617</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 or by refund due to expiration of time restrictions as follows:

Purpose	Amount
Diversity Empowerment Model Project	\$ 12,612
Intensive Home Visiting Program	9,385
Family Support Program	1,821
Preventive Dental Services	2,518
	<u>2,518</u>
	<u>\$ 26,336</u>

Iredell County Partnership for Young Children, 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
American Red Cross	\$ 12,725	\$ -	\$ 797	\$ -
Carolina Psych Group	66,206	-	-	-
Comprehensive Benefits-Dental - Various Organizations	97,114	-	-	-
Comprehensive Benefits-Health - Various Organizations	228,137	(520)	-	-
Emergency Child Care - Various Organizations	21,653	-	-	-
Fifth Street Ministries	116,717	-	-	-
I-Care Head Start	* 55,785	-	-	-
Iredell County Health Department	* 112,026	(96)	-	-
Mooreville Graded School District	1,885	-	-	-
Partial Subsidy - Various Organizations	11,796	-	-	-
Quality Improvement Initiative - Various Organizations	111,440	-	-	-
Reaching for the Stars - Various Organizations	45,638	-	-	-
Statesville Christian Academy	3,960	-	-	-
Individuals:				
IPC-Dental Treatment	8,283	-	7,717	-
Ladders to Success	15,950	-	-	-
Monetary Awards for Academic Achievement	4,700	-	-	-
Purchase of Service	1,202	-	-	-
Safety at Home and in Cars	6,247	-	-	-
Stipends and Bonus Awards	1,401	-	300	-
	\$ 922,665	\$ (616)	\$ 8,814	\$ -

* 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.

***Iredell County Partnership for Young Children, Inc.
 Schedule of State Level Service Provider Contracts
 For the Year Ended June 30, 2001***

Schedule 2

Organization Name	DHHS Contracts
Iredell County Department of Social Services	* \$ 1,201,000

* 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 Department of Health and Human Services (DHHS) as described in Note 3 - Funding From Grant Awards.

See Independent Auditors' Report.

Iredell County Partnership for Young Children, 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>
Federal Awards:				
U.S. Department of Health and Human Services Pass-through from the North Carolina Department of Health and Human Services - Division of Child Development Child Care Resource and Referral	93.575	-	\$ 36,255	\$ 30,933
Total Federal Awards			<u>36,255</u>	<u>30,933</u>
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 (Prior Year)	N/A	* 1-90-4-08-001	(680,163)	-
Early Childhood Initiatives Program (Current Year)	N/A	* 1-01-4-08-001	2,501,663	2,488,586
Early Childhood Initiatives Program (Encumbrance)	N/A	* 1-01-4-08-001E	34,970	34,966
Early Childhood Initiatives Program (Encumbrance)	N/A	* 1-01-4-08-001E	(4)	-
Multi-County Accounting and Contracting Grant	N/A	-	<u>12,000</u>	<u>12,000</u>
Total State Awards			<u>1,868,466</u>	<u>2,535,552</u>
Total Federal and State Awards			<u>\$ 1,904,721</u>	<u>\$ 2,566,485</u>

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

See Independent Auditors' Report.

Iredell County Partnership for Young Children, Inc.
Schedule of Property and Equipment
For the Year Ended June 30, 2001

Schedule 4

Furniture and Non-Computer Equipment	\$ 137,196
Computer Equipment/Printers	48,334
Leasehold Improvements	398,719
Motor Vehicles	<u>5,000</u>
Total Property and Equipment	<u>\$ 589,249</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.

Iredell County Partnership for Young Children, Inc.
Schedule of Qualifying Match (Non-GAAP)
For the Year Ended June 30, 2001

Schedule 5

Match Provided at the Partnership Level:

Cash	\$ 52,867
In-Kind Goods and Services	<u>114,063</u>
	<u>\$ 166,930</u>

Match Provided at the Contractor Level:

Cash	\$ 580,240
In-Kind Goods and Services	<u>82,262</u>
	<u>\$ 662,502</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**

Board of Directors
Iredell County Partnership for Young Children, Inc.
Statesville, North Carolina

We have audited the financial statements of the Iredell County Partnership for Young Children, Inc. (Iredell County Partnership) as of and for the year ended June 30, 2001, and have issued our report thereon dated May 10, 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 Iredell County 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 Iredell County 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 might be material weaknesses. A material weakness is a condition in which the design or

**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)**

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 Other Observations 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.

May 10, 2002

Crisp Hughes Evans LLP

OTHER OBSERVATIONS AND RECOMMENDATIONS

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

1. ACCOUNTING RECORDS

Our review of Iredell County 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 information that is processed by a contracted service. Without adequate review of the information, errors can go undetected. This could result in the financial statements being misleading and/or incorrect reports going to taxing authorities.

Recommendation: We recommend that the finance director reconcile the information reported on Forms 941 to the salary expense reported on the trial balance each quarter.

Partnership's Response: The payroll service provider has been reconciling the wage and salary reported on the 941 to the monthly reports. There is no report in writing showing that this has been done; however, we will work with our payroll service provider, who also provides our accounting services, to create a written reconciliation form for future use.

2. CREDIT CARD LIMIT

During our audit, we noticed that the combined limit on the Partnership's credit cards is approximately \$28,000. Although controls over the use of the credit card appear adequate to prevent any abuse of the card, we recommend the Partnership evaluate the use of each credit card individually and consider lowering the credit limit to an amount that will cover the ordinary expenses charged to each card. This will help reduce the Partnership's liability if the cards were ever abused.

Partnership's Response: The Partnership has one bank card, one Walmart card and one Staples card. Very stringent policies are in place to guard against abuses; however, the Partnership has evaluated the use of each credit card and has reduced the Walmart card credit limit to \$2,500, thus reducing it by \$12,500.

3. SUBCONTRACTOR MONITORING

During our audit, we noted that one direct service provider had not submitted the sworn accounting required by G.S. 143.6.1. As a part of the subcontractor monitoring process, the Partnership should obtain financial information to enable it to properly assess contractors' compliance with Smart Start guidelines.

OTHER OBSERVATIONS AND RECOMMENDATIONS (CONCLUDED)

Partnership's Response: In the past, monthly FSR's from the direct service providers have been accepted by the state auditors as sufficient in meeting this requirement. The Partnership will certainly obtain the sworn accounting statement in the future.

DISTRIBUTION OF AUDIT REPORT

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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Mr. Ashley Thrift	Chairman, Board of Directors North Carolina Partnership for Children, Inc.
Ms. Karen Ponder	Executive Director North Carolina Partnership for Children, Inc.

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