

FINANCIAL STATEMENT AUDIT REPORT OF
MADISON COUNTY PARTNERSHIP
FOR CHILDREN AND FAMILIES, INC.
MARSHALL, 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
MADISON COUNTY PARTNERSHIP FOR CHILDREN AND FAMILIES,
INC.

MARSHALL, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2001

BOARD OF DIRECTORS

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Ralph Campbell, Jr.
State Auditor

STATE OF NORTH CAROLINA

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AUDITOR'S TRANSMITTAL

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

This report presents the results of the financial statement audit of the Madison County Partnership for Children and Families, 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 Madison County Partnership for Children and Families, 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 Madison County Partnership for Children and Families, Inc. is one of these local partnerships. As such, the Madison County Partnership for Children and Families, 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

Board of Directors
Madison County Partnership for Children and Families, Inc.
Marshall, North Carolina

We have audited the accompanying Statement of Receipts, Expenditures, and Net Assets - Regulatory Basis of the Madison County Partnership for Children and Families, Inc. ("the Madison 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 Madison 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 Madison County Partnership for Children and Families, 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 January 17, 2002 on our consideration of the Madison 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 Madison County Partnership for Children and Families, 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 17, 2002

Crisp Hughes Evans LLP

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

	Unrestricted Funds		
	Smart Start Fund	Other Funds	Total Funds
Receipts:			
State Awards (less refunds of \$94,205)	\$ 532,747	\$ 12,000	\$ 544,747
Private Contributions	-	271	271
Interest and Investment Earnings	-	3,749	3,749
Sales Tax Refunds	-	344	344
Total Receipts	532,747	16,364	549,111
Expenditures:			
Programs:			
Child Care and Education Quality	219,887	-	219,887
Child Care and Education Affordability	178,936	-	178,936
Health and Safety	30,000	-	30,000
Family Support	43,530	-	43,530
Support:			
Management and General	83,833	12,000	95,833
Program Evaluation	31,496	-	31,496
Other:			
Sales Tax Paid	-	2,141	2,141
Total Expenditures	587,682	14,141	601,823
Excess (Deficiency) of Receipts Over Expenditures	(54,935)	2,223	(52,712)
Net Assets at Beginning of Year	58,796	374	59,170
Net Assets at End of Year	\$ 3,861	\$ 2,597	\$ 6,458
Net Assets Consisted of:			
Cash on Deposit	\$ 3,291	\$ 2,597	\$ 5,888
Refunds Due From Contractors	570	-	570
	\$ 3,861	\$ 2,597	\$ 6,458

The accompanying notes are an integral part of these statements.

Madison County Partnership for Children and Families, 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	\$ 219,887	\$ 17,872	\$ 850	\$ 13,060	\$ 4,337	\$ 6,527	\$ 14,145	\$ 163,096
Child Care and Education Affordability	178,936	-	-	-	-	-	-	178,936
Health and Safety	30,000	-	-	-	-	-	-	30,000
Family Support	43,530	-	-	-	-	-	-	43,530
Support:								
Management and General	83,833	58,604	570	8,111	9,603	5,732	1,213	-
Program Evaluation	31,496	27,822	-	388	1,308	331	1,647	-
Total Smart Start Fund Expenditures	\$ 587,682	\$ 104,298	\$ 1,420	\$ 21,559	\$ 15,248	\$ 12,590	\$ 17,005	\$ 415,562
Other Funds:								
Support:								
Management and General	\$ 12,000	\$ 1,792	\$ 10,208	\$ -	\$ -	\$ -	\$ -	\$ -
Other:								
Sales Tax Paid	2,141	-	-	2,141	-	-	-	-
Total Other Funds Expenditures	\$ 14,141	\$ 1,792	\$ 10,208	\$ 2,141	\$ -	\$ -	\$ -	\$ -

The accompanying notes are integral part of the statements.

MADISON COUNTY PARTNERSHIP FOR CHILDREN AND FAMILIES, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2001

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

A. Organization and Purpose - The Madison County Partnership for Children and Families, Inc. ("the Madison County Partnership") is a legally separate nonprofit organization incorporated on June 20, 1997. The Madison County Partnership was established to develop and provide, through public and private means, early childhood education and developmental services for children and families. The Madison 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 Madison 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.

The Madison County Partnership did not have any temporarily or 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.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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.

NOTE 2 - DEPOSITS

All funds of the Madison County Partnership are deposited with one commercial bank and insured by the Federal Deposit Insurance Corporation (FDIC) up to \$100,000 per bank. Deposits over this amount subjects the Madison County Partnership to a concentration of credit risk.

NOTE 3 - FUNDING FROM GRANT AWARDS

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

Associated with these contracts, the Madison County Partnership is responsible for developing a comprehensive, collaborative, long-range plan of services to children and families for the service-delivery area.

The Madison County Partnership was awarded and has received \$626,952 under a current year Smart Start contract with NCPC. The unexpended balance of this contract is subject to reversion to the State. The Partnership has returned \$34,509 of this contract to the State based on financial status reports submitted to NCPC prior to June 30, 2001 and \$3,861 subsequent to June 30, 2001.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 4 - RELATED PARTY TRANSACTIONS

Service Provider Contracts with Board Member Organizations - The board members of the Madison County Partnership are representative of various organizations that benefit from actions taken by the Board. It is the policy of the Madison 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.

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. The 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 and child care resource and referral.

Child Care and Education Affordability - Used to account for service activities including expanding child care eligibility and supplement for quality.

Health and Safety - Used to account for service activities including comprehensive dental services and comprehensive health support.

Family Support - Used to account for service activities including information and resources, outreach plan to assess services, and community playgrounds.

NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

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) are based on square footage occupied, while supplies and materials and communication costs (postage) are based on direct costs incurred.

NOTE 6 - COMMITMENTS AND CONTINGENCIES

Leases - The Partnership leases office space on a month-to-month basis. Total rental expenditure was \$6,870 for the year ended June 30, 2001.

Madison County Partnership for Children and Families, 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
Buncombe County Child Care	\$ 110,636	\$ -	\$ -	\$ -
Buncombe County Child Care	68,300	-	-	-
Hot Springs Health	* 30,000	-	-	-
Madison County Health Department	* 53,208	(500)	-	-
Madison County Library	* 1,000	-	-	-
Marcomm	20,600	(55)	-	-
Orelena Hawks Puckett Institute	110,388	-	-	-
	394,132	(555)	-	-
Individuals:				
Family Needs Planning	22,000	(15)	-	-
	\$ 416,132	\$ (570)	\$ -	\$ -

- * 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

Madison County Partnership for Children and Families, Inc.
Schedule of State Awards - Regulatory Basis
For the Year Ended June 30, 2001

Schedule 2

<u>State Grantor/Pass-through Grantor/Program</u>	<u>Contract #</u>	<u>Receipts</u>	<u>Expenditures</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)	* 1-90-5-17-001	\$ (58,796)	\$ -
Early Childhood Initiatives Program (Current Year)	* 1-01-5-17-001	626,952	587,682
Early Childhood Initiatives Program (Current Year)	* 1-01-5-17-001	(35,409)	-
Multi-County Accounting and Contracting Grant	-	<u>12,000</u>	<u>12,000</u>
Total State Awards		<u><u>\$ 544,747</u></u>	<u><u>\$ 599,682</u></u>

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

See Independent Auditors' Report.

Madison County Partnership for Children and Families, Inc.

Schedule of Property and Equipment

For the Year Ended June 30, 2001

Schedule 3

Furniture and Non-Computer Equipment	\$	4,608
Computer Equipment/Printers		<u>4,730</u>
Total Property and Equipment	\$	<u>9,338</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.

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

Schedule 4

Match Provided at the Partnership Level:

Cash	\$ 271
In-Kind Goods and Services	<u>8,156</u>
	<u>\$ 8,427</u>

Match Provided at the Contractor Level:

Cash	\$ 25,582
In-Kind Goods and Services	<u>17,382</u>
	<u>\$ 42,964</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
Madison County Partnership for Children and Families, Inc.
Marshall, North Carolina

We have audited the financial statements of the Madison County Partnership for Children and Families, Inc. ("the Madison County Partnership") as of and for the year ended June 30, 2001, and have issued our report thereon dated January 17, 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 Madison 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 Madison 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.

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 17, 2002

Crisp Hughes Evans LLP

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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The Honorable Roy A. Cooper, III
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Mr. Robert L. Powell
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Mr. Ashley Thrift

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North Carolina Partnership for Children, Inc.

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