

**FINANCIAL STATEMENT AUDIT REPORT OF
ALBEMARLE SMART START PARTNERSHIP, INC.
ELIZABETH CITY, NORTH CAROLINA
FOR THE YEAR ENDED JUNE 30, 2002**

**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, 2002

BOARD OF DIRECTORS

KATHY ROMM, BOARD CHAIR

ADMINISTRATIVE OFFICER

DR. DENAUVO ROBINSON, EXECUTIVE DIRECTOR



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, 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, 2002. 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 cursive script that reads "Ralph Campbell, Jr.".

Ralph Campbell, Jr.
State Auditor

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INDEPENDENT AUDITORS' REPORT

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, 2002, 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 statements are 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, 2002, and the results of its operations 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 30, 2003 on our consideration of the Albemarle Partnership's internal control over

INDEPENDENT AUDITORS' REPORT (CONCLUDED)

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 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 30, 2003

Crisp Hughes Evans LLP

ALBEMARLE SMART START PARTNERSHIP, INC.
STATEMENT OF RECEIPTS, EXPENDITURES, AND NET ASSETS--REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2002 **EXHIBIT A**

	<u>Unrestricted Funds</u>		<u>Temporarily</u>	<u>Total</u>
	<u>Smart Start</u>	<u>Other</u>	<u>Restricted</u>	<u>Funds</u>
	<u>Fund</u>	<u>Funds</u>	<u>Funds</u>	<u>Funds</u>
Receipts:				
State Awards (Less refunds of \$25,861)	\$ 980,183	\$ 60,255	\$ -	\$ 1,040,438
Federal Awards	-	56,022	-	56,022
Private Contributions	-	6,429	2,425	8,854
Interest and Investment Earnings	-	1,391	-	1,391
Sales Tax Refunds	-	4,532	-	4,532
Other Receipts	-	11,667	-	11,667
Total Receipts	<u>980,183</u>	<u>140,296</u>	<u>2,425</u>	<u>1,122,904</u>
Net Assets Released From Restrictions:				
Satisfaction of Program Restrictions	<u>-</u>	<u>365</u>	<u>(365)</u>	<u>-</u>
	<u>980,183</u>	<u>140,661</u>	<u>2,060</u>	<u>1,122,904</u>
Expenditures:				
Programs:				
Child Care and Education Quality	344,094	51,149	-	395,243
Child Care and Education Affordability	94,686	-	-	94,686
Health and Safety	162,052	1,089	-	163,141
Family Support	144,893	44,732	-	189,625
Support:				
Management and General	199,105	50,627	-	249,732
Program Evaluation	25,708	-	-	25,708
Other:				
Sales Tax Paid	<u>-</u>	<u>5,314</u>	<u>-</u>	<u>5,314</u>
Total Expenditures	<u>970,538</u>	<u>152,911</u>	<u>-</u>	<u>1,123,449</u>
Excess of Receipts Over (Under)				
Expenditures	9,645	(12,250)	2,060	(545)
Net Assets at Beginning of Year	<u>24,737</u>	<u>21,207</u>	<u>26,857</u>	<u>72,801</u>
Net Assets at End of Year	<u>\$ 34,382</u>	<u>\$ 8,957</u>	<u>\$ 28,917</u>	<u>\$ 72,256</u>
Net Assets Consisted of:				
Cash	\$ 24,398	\$ 8,957	\$ 28,917	\$ 62,272
Refunds Due from Contractors	<u>10,061</u>	<u>-</u>	<u>-</u>	<u>10,061</u>
	34,459	8,957	28,917	72,333
Less: Funds Held for Others	<u>(77)</u>	<u>-</u>	<u>-</u>	<u>(77)</u>
	<u>\$ 34,382</u>	<u>\$ 8,957</u>	<u>\$ 28,917</u>	<u>\$ 72,256</u>

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, 2002

EXHIBIT B

	Total	Personnel	Contracted Services	Supplies and Materials	Other Operating	Fixed Charges and Other	Property and Equipment Outlay	Services/Contracts/Grants	Participant Training
Smart Start Fund:									
Programs:									
Child Care and Education Quality	\$ 344,094	\$ 201,900	\$ 4,263	\$ 13,724	\$ 22,829	\$ 33,883	\$ 5,841	\$ 61,654	\$ -
Child Care and Education Affordability	94,686	83,812	-	8,014	2,767	93	-	-	-
Health and Safety	162,052	28,005	-	5,136	3,073	338	-	125,500	-
Family Support	144,893	63,652	3,266	3,711	11,802	4,816	2,031	55,615	-
Support:									
Management and General	199,105	161,710	5,811	2,656	18,607	10,141	180	-	-
Program Evaluation	25,708	21,721	-	30	1,781	145	2,031	-	-
Total Smart Start Fund Expenditures	\$ 970,538	\$ 560,800	\$ 13,340	\$ 33,271	\$ 60,859	\$ 49,416	\$ 10,083	\$ 242,769	\$ -
Other Funds:									
Programs:									
Child Care and Education Quality	\$ 51,149	\$ 44,681	\$ -	\$ 2,845	\$ 1,965	\$ 45	\$ -	\$ 1,613	\$ -
Health and Safety	1,089	-	-	243	-	-	-	846	-
Family Support	44,732	14,707	1,500	2,539	3,821	938	-	14,727	6,500
Support:									
Management and General	50,627	40,148	110	5,440	4,251	678	-	-	-
Other:									
Sales Tax Paid	5,314	-	-	5,314	-	-	-	-	-
Total Other Funds Expenditures	\$ 152,911	\$ 99,536	\$ 1,610	\$ 16,381	\$ 10,037	\$ 1,661	\$ -	\$ 17,186	\$ 6,500

The accompanying notes are an integral part of these statements.

ALBEMARLE SMART START PARTNERSHIP, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2002

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. 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 Albemarle Partnership did not have any permanently restricted net assets at June 30, 2002.

- 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 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.
- 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, the Albemarle Partnership was holding amounts withheld from employee paychecks for distribution to insurance companies.
- 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 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 subject the Albemarle Partnership to a concentration of credit risk. At June 30, 2002, the Albemarle Partnership's bank deposits in excess of the FDIC insured limit was \$9,783.

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 statements. However, a summary of the service provider contracts entered into by DHHS is presented on Schedule 2 accompanying the financial statements.

The Albemarle Partnership was awarded and has received \$1,004,920 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 \$34,244 of this contract to the State based on financial status reports submitted to NCPC subsequent to June 30, 2002.

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:

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

A. Program Functions

Child Care and Education Quality - Used to account for service activities including quality enhancement grants for upgrades, child care resource and referral, salary supplements, or curriculum enhancements.

Child Care and Education Affordability - Used to account for service activities associated with part day care programs.

Health and Safety - Used to account for service activities including prenatal/newborn services, child care health consultants/outreach nurses, child abuse and neglect intervention, or nutrition programs.

Family Support - Used to account for service activities including family resource centers, parenting education and skills training, ongoing parenting education, or community leadership.

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, maintenance, supplies and materials, and communication costs were allocated based on estimates of utilization or utilization data.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 6 - LEASE OBLIGATIONS

Operating Lease Obligations - Future minimum lease payments under non-cancelable operating leases consist of the following at June 30, 2002:

<u>Fiscal Year</u>	<u>Operating Leases</u>
2003	\$ 33,446
2004	14,096
2005	5,084
2006	1,471
Total Minimum Lease Payments	\$ 54,097

Rental payments for all operating leases during the year amounted to \$35,237.

NOTE 7 - PENSION PLAN

A. Retirement Plans - 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, 2002. The Albemarle Partnership does not own the accounts, nor is it liable for any other cost other than the required contribution.

For the year ended June 30, 2002, the Albemarle Partnership had a total payroll of \$536,926, of which \$527,780 was covered under the plan. The Partnership contributed \$26,389 for pension benefits during the year.

B. IRC Section 403(b) Plan - All permanent employees who are at least half-time can participate in a tax sheltered annuity plan 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. These plans are exclusively for employees of universities and certain charitable and other non-profit organizations. All costs of administering and funding these plans are the responsibility of the plan participants. No costs are incurred by the Albemarle Partnership. The voluntary contributions by employees amounted to \$9,352 during the year ended June 30, 2002.

NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

NOTE 8 - RESTRICTIONS ON NET ASSETS

A. Temporarily Restricted Net Assets - Temporarily restricted net assets at June 30, 2002 are available for the following purposes:

Purpose	Amount
Buddy Hub	\$ 3,048
Baby Link	5,187
Duke Energy	17,659
Breast Feeding Program	3,023
	<u>\$ 28,917</u>

B. Net Assets Released From Donor Restrictions - Net assets were released from donor restrictions during the fiscal year ended June 30, 2002, by incurring expenditures satisfying the restricted purposes as follows:

Purpose	Amount
Van Maintenance	<u>\$ 365</u>

**ALBEMARLE SMART START PARTNERSHIP, INC.
SCHEDULE OF CONTRACT AND GRANT EXPENDITURES--REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2002**

SCHEDULE 1

Organization Name	Smart Start Fund		Other Funds	
	Amount Advanced	Refund Due	Amount Advanced	Refund Due
Adolescent Pregnancy Prevention Grants	* \$ -	\$ -	\$ 6,855	\$ -
Albemarle Regional Health Services	55,000	(3,987)	-	-
Community Development Grants	7,723	-	-	-
Currituck County Cooperative Extension	9,270	(68)	3,021	-
Currituck County Public Library	* 5,829	-	-	-
Currituck County Public Schools	* 37,000	(2,468)	-	-
Faithway Apostolic Church	* 921	-	-	-
Girls Inc. of the Albemarle	* -	-	6,264	-
Grace & Truth Community Church	* 1,881	-	-	-
Kids First, Inc.	17,150	-	-	-
Pasquotank County Cooperative Extension	* 62,232	(3,538)	1,046	-
Individuals:				
Ann Daniels	* 500	-	-	-
Incentive bonuses	4,100	-	-	-
Licensing assistance	669	-	-	-
Marlene Newbern	* 400	-	-	-
Nicole Derby	* 400	-	-	-
Professional development	1,925	-	-	-
Quality enhancement	10,830	-	-	-
Salary supplements	37,000	-	-	-
	\$ 252,830	\$ (10,061)	\$ 17,186	\$ -

* 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, 2002**

SCHEDULE 2

Organization Name	DHHS Contracts
Camden/Currituck/Pasquotank Counties Departments of Social Services	* \$ 432,697

* 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.

**ALBEMARLE SMART START PARTNERSHIP, INC.
SCHEDULE OF FEDERAL AND STATE AWARDS--REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2002**

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 N.C. Department of Health and Human Services--Division of Public Health:				
Teen Pregnancy Prevention Program	93.558	00315-02	\$ 9,250	\$ 9,250
Pass-through from the N.C. Department of Health and Human Services--Division of Child Development:				
Child Care Resource and Referral	93.575	5975	<u>46,772</u>	<u>46,772</u>
Total Federal Awards			<u>56,022</u>	<u>56,022</u>
State Awards:				
N.C. Department of Health and Human Services:				
Division of Child Development:				
Pass-through from the Office of Minority Health:				
Hispanic Health Care Out-Reach Program	N/A	00316-02	7,500	7,500
Pass-through from the N.C. Partnership for Children, Inc.:				
Early Childhood Initiatives Program (other prior years)	N/A	-	(155)	272
Early Childhood Initiatives Program (prior year)	N/A	*1-01-5-02-001	(24,582)	(410)
Early Childhood Initiatives Program (current year)	N/A	*1-12-5-02-001	1,004,920	970,676
Multi-County Accounting and Contracting Grant	N/A	-	36,000	36,000
Pass-through from the Chowan/Gates/Perquimans Partnership for Children, Inc.:				
Child Care Quality Improvement Activity (prior year)	N/A	3-01-204-3104	(1,124)	-
Division of Public Health:				
Teen Pregnancy Prevention Program	N/A	00315-02	<u>17,879</u>	<u>23,621</u>
Total State Awards			<u>1,040,438</u>	<u>1,037,659</u>
Total Federal and State Awards			<u>\$ 1,096,460</u>	<u>\$ 1,093,681</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, 2002**

SCHEDULE 4

Furniture and Non-Computer Equipment	\$ 37,735
Computer Equipment/Printers	74,357
Leasehold Improvements	112,401
Motor Vehicles	<u>47,558</u>
Total Property and Equipment	<u>\$ 272,051</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, 2002**

SCHEDULE 5

Match Provided at the Partnership Level:

Cash	\$	8,854
In-Kind Goods and Services		<u>61,378</u>
	\$	<u><u>70,232</u></u>

Match Provided at the Contractor Level:

Cash	\$	90,456
In-Kind Goods and Services		<u>18,774</u>
	\$	<u><u>109,230</u></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
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, 2002, and have issued our report thereon dated January 30, 2003. 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. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies

**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)**

in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Albemarle Partnership's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable condition noted as a result of our audit is described in the Audit Findings and Recommendations section of this report:

Findings

CONTRACT MANAGEMENT AND MONITORING

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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we do not consider the reportable condition described above to be a material weakness.

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 30, 2003

Crisp Hughes Evans LLP

AUDIT FINDINGS AND RECOMMENDATIONS

Matters Not Related to Financial Reporting

Management Control Findings and Recommendations - The following finding and recommendation was identified during the current audit and represents a significant deficiency in the management control processes for matters not directly related to financial reporting or compliance objectives.

CONTRACT MANAGEMENT AND MONITORING

During our review of contracts with service providers, we noted two instances where contracts were not signed before the contractor began receiving payments.

Recommendation: All contracts with service providers should be signed before any payment activity begins. The partnership should develop a policy ensuring verification that a signed contract has been received before payment is authorized.

Management's Response: We concur that contracts were paid prior to signing; however, we would like to note that the contractors in question had begun services to children and their families on good faith prior to the initiation of a contract due to legislative delays. This prevented Management from a more timely initiation of contracts. The contracts in question had been approved by the Board; the contracts had been mailed prior to the issuing of payments; and the discrepancy in dates was less than one week as we worked with people's schedule for signing.

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