



STATE OF NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT OF IREDELL COUNTY PARTNERSHIP FOR YOUNG CHILDREN, INC.

STATESVILLE, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2002

OFFICE OF THE STATE AUDITOR

RALPH CAMPBELL, JR.

STATE AUDITOR

FINANCIAL STATEMENT AUDIT REPORT OF
IREDELL COUNTY PARTNERSHIP FOR YOUNG CHILDREN, INC.
STATESVILLE, NORTH CAROLINA
FOR THE YEAR ENDED JUNE 30, 2002

BOARD OF DIRECTORS

THOMAS L. WILSON, BOARD CHAIR

ADMINISTRATIVE OFFICER

VIVIAN P. HAMILTON, EXECUTIVE DIRECTOR



Ralph Campbell, Jr.
State Auditor

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Office of the State Auditor

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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 our financial statement audit of the Iredell County Partnership for Young Children, Inc. (Iredell Partnership) for the year ended June 30, 2002. Our audit was made by authority of Article 5A of G.S. §147.

The accounts and operations of the Iredell Partnership were subject to audit procedures as we considered necessary for us to report on the accompanying financial statements and supplementary information. The audit procedures were conducted in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards* issued by the Comptroller General of the United States.

The audit of the Iredell Partnership 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 demonstration projects (local partnerships). The Iredell Partnership is one of these local partnerships. As such, the Iredell Partnership is a private nonprofit 501(c)(3) organization and is required by G.S. 143B-168.14(b) to have an annual financial and compliance audit conducted by the State Auditor.

The purpose of this report is to present the results of our audit on the accompanying financial statements. A summary of our reporting objectives and audit results are:

- 1. Objective** - Express an opinion on the accompanying financial statements and supplementary information.

Results – The accompanying financial statements present fairly, in all material respects, the amounts and disclosures made in accordance with the regulatory basis of accounting established by the North Carolina Partnership for Children, Inc. The accompanying supplementary information presents information that is fairly stated in all material respects in relation to the basic financial statements.

AUDITOR'S TRANSMITTAL (CONCLUDED)

2. **Objective** - Present instances of noncompliance, if any, with laws, regulations, contracts, or grants.

Results - The following instance of noncompliance was detected:

Finding

Competitive Bidding

This matter is described in the Independent Auditor's Report on Compliance and on Internal Control over Financial Reporting and the Audit Findings and Recommendations section of this report.

3. **Objective** - Present significant deficiencies, if any, in internal control over financial reporting which could adversely affect the Iredell Partnership's ability to record, process, summarize, and report financial data in the financial statements.

Results - Our tests disclosed no material weaknesses in the internal control over financial reporting which require disclosure herein under *Government Auditing Standards*.

North Carolina General Statutes require the State Auditor to make audit reports available to the public. Copies of 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.



Ralph Campbell, Jr.
State Auditor

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INDEPENDENT AUDITOR'S 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 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 Iredell Partnership's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the accompanying financial statements were prepared on the regulatory basis of accounting as prescribed by the North Carolina Partnership for Children, Inc., which is a comprehensive basis of accounting other than generally accepted accounting principles.

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, 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 February 12, 2003 on our consideration of the Iredell 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.

INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

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.



Ralph Campbell, Jr.
State Auditor

February 12, 2003

Iredell County Partnership for Young Children, Inc.
Statement of Receipts, Expenditures, and Net Assets - Regulatory Basis
For the Year Ended June 30, 2002

Exhibit A

	Unrestricted Funds		Temporarily Restricted Funds	Total Funds
	Smart Start Fund	Other Funds		
Receipts:				
State Awards (less refunds of \$13,037)	\$ 1,911,972	\$ 12,000	\$ 0	\$ 1,923,972
Federal Awards		25,266		25,266
Private Contributions		55,397		55,397
Special Fund Raising Events		80		80
Interest and Investment Earnings		4,261		4,261
Sales Tax Refunds		12,659		12,659
Other Receipts	9	7,981		7,990
Total Receipts	1,911,981	117,644	0	2,029,625
Net Assets Released from Restrictions:				
Satisfaction of Program Restrictions		28,626	(28,626)	0
	1,911,981	146,270	(28,626)	2,029,625
Expenditures:				
Programs:				
Child Care and Education Quality	945,046	38,507		983,553
Child Care and Education Affordability	92,629	309		92,938
Health and Safety	281,031	61,105		342,136
Family Support	408,292	3,365		411,657
Support:				
Management and General	180,024	26,263		206,287
Other:				
Sales Tax Paid		2,972		2,972
Total Expenditures	1,907,022	132,521	0	2,039,543
Excess of Receipts Over Expenditures	4,959	13,749	(28,626)	(9,918)
Net Assets at Beginning of Year	15,134	21,113	51,617	87,864
Net Assets at End of Year	\$ 20,093	\$ 34,862	\$ 22,991	\$ 77,946
Net Assets Consisted of:				
Cash and Cash Equivalents	\$ 18,664	\$ 38,564	\$ 22,991	\$ 80,219
Refunds Due From Contractors	1,429			1,429
	20,093	38,564	22,991	81,648
Less: Funds Held for Others		3,702		3,702
	\$ 20,093	\$ 34,862	\$ 22,991	\$ 77,946

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

Iredell County Partnership for Young Children, 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 Expenditures	Fixed Charges and Other Expenditures	Property and Equipment Outlay	Services/Contracts/Grants	Participant Training Expenditures
Smart Start Fund:									
Programs:									
Child Care and Education Quality	\$ 945,046	399,780	15,914	12,277	32,595	61,560	24	422,896	
Child Care and Education Affordability	\$ 92,629	65,133	2,267	5,641	5,239	14,333	16		
Health and Safety	\$ 281,031	123,378	1,589	1,833	7,553	7,179	10	139,489	
Family Support	\$ 408,292	297,048	2,437	10,421	15,912	15,232	6	67,236	
	\$ 1,726,998	\$ 885,339	\$ 22,207	\$ 30,172	\$ 61,299	\$ 98,304	\$ 56	\$ 629,621	\$ 0
Support:									
Management and General	\$ 180,024	\$ 109,982	\$ 21,698	\$ 4,642	\$ 23,646	\$ 17,884	\$ 2,172	\$ 0	\$ 0
Total Smart Start Fund Expenditures	\$ 1,907,022	\$ 995,321	\$ 43,905	\$ 34,814	\$ 84,945	\$ 116,188	\$ 2,228	\$ 629,621	\$ 0
Other Funds:									
Programs:									
Child Care and Education Quality	\$ 38,507	15,410	2,155	10,361	6,021	2,013	21	2,526	
Child Care and Education Affordability	\$ 309				227		82		
Health and Safety	\$ 61,105	17,671	3,727	4,319	5,233	2,430	8,448	19,277	
Family Support	\$ 3,365		20	96	3,154		81	14	
	\$ 103,286	\$ 33,081	\$ 5,902	\$ 14,776	\$ 14,635	\$ 4,443	\$ 8,632	\$ 21,817	\$ 0
Support:									
Management and General	\$ 26,263	\$ 10,175	\$ 12,265	\$ 433	\$ 3	\$ 2,885	\$ 502	\$ 0	\$ 0
Other:									
Sales Tax Paid	\$ 2,972	\$ 0	\$ 0	\$ 2,972	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Total Other Funds Expenditures	\$ 132,521	\$ 43,256	\$ 18,167	\$ 18,181	\$ 14,638	\$ 7,328	\$ 9,134	\$ 21,817	\$ 0

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

IREDELL COUNTY PARTNERSHIP FOR YOUNG CHILDREN, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2002

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

- A. Organization and Purpose** - The Iredell County Partnership for Young Children, Inc. (Iredell Partnership) is a legally separate nonprofit organization incorporated on May 16, 1996. The Iredell Partnership was established to develop and provide, through public and private means, early childhood education and developmental services for children and families. The Iredell 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 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 Iredell 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 generally accepted accounting principles 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 STATEMENT (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. Cash and Cash Equivalents** – This classification appears on the Statement of Receipts, Expenditures, and Net Assets –Regulatory Basis and consists of petty cash, cash on deposit with private bank accounts, and money market accounts.
- E. 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.
- F. Funds Held For Others** - Funds held for others include amounts received that are fiduciary in nature in which the Partnership acts in an agency capacity. For the year ended, the Iredell Partnership was holding amounts withheld from employee paychecks for future distribution to employees in accordance with the Partnership’s flexible benefit plan.
- G. 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 Partnership are deposited with commercial banks and insured by the Federal Deposit Insurance Corporation (FDIC) up to \$100,000 (per bank). Deposits over this amount subjects the Iredell Partnership to a concentration of credit risk. At June 30, 2002, the Iredell Partnership’s bank deposits in excess of the FDIC insured limit was \$2,331.

NOTE 3 - FUNDING FROM GRANT AWARDS

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

NOTES TO THE FINANCIAL STATEMENT (CONTINUED)

Associated with these contracts, the Iredell 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 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 Iredell Partnership was awarded and has received \$1,925,009 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 \$17,967 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 Iredell Partnership are representative of various organizations that benefit from actions taken by the Board. It is the policy of the Iredell 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 STATEMENT (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, professional development, salary supplements, provider training, health/safety training for child care professionals, learning materials and teaching aids, community planning for school readiness, and health insurance benefits for child care providers.

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 dental treatment, comprehensive screenings, child abuse and neglect intervention, special needs – early intervention services, and transportation to health services.

Family Support - Used to account for service activities including parenting education and skills training, ongoing parenting education, general family support, and community outreach.

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.

C. Allocation of Joint Costs

Expenditures benefiting more than one purpose were allocated as follows:

Salaries and Benefits - Allocated based on estimated time spent by employees for each function.

NOTES TO THE FINANCIAL STATEMENT (CONTINUED)

Other Costs - Other costs including contracted services, supplies and materials, communication costs (telephone and postage), and occupancy cost (rent, utilities and maintenance) were allocated based on estimates of utilization data.

<u>Expense Category</u>	<u>Amount</u>
Contracted Services	\$ 13,184
Supplies and Materials	6,079
Other Operating Expenses	43,621
Fixed Charges and Other Expenses	<u>114,644</u>
Total Allocated Cost	<u>\$ 177,528</u>

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	\$ 137,252
2004	147,193
2005	147,991
2006	148,765
2007	142,227
2008 and beyond	<u>103,319</u>
Total Minimum Lease Payments	<u>\$ 826,747</u>

Rental expense for all operating leases during the year was \$109,241.

NOTE 7 - PENSION PLAN

IRC Section 403(b) Plan- Each employee of the Iredell Partnership is provided, as part of the benefit package, an additional 6% of his/her salary to be applied to a retirement plan. The partnership has no liability for any other cost than the required percentage. All permanent employees that 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

NOTES TO THE FINANCIAL STATEMENT (CONCLUDED)

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. The Partnership contributed \$35,107 for retirement benefits during the year. The voluntary contributions by employees amounted to \$21,412 during the year ended June 30, 2002.

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
Families for Kids II	\$ 22,227
Early Learning Resource Center (Program Income)	764
	<u>\$ 22,991</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
Families for Kids II	\$ 27,773
Preventive Dental Services	(2,366)
Child Care Resource and Referral (Program Income)	1,142
Early Learning Resource Center (Program Income)	18
Family Resource Center (Program Income)	1,655
Cooperative Playgroup (Program Income)	200
Basic School Aged Care (Program Income)	204
	<u>\$ 28,626</u>

***Iredell County Partnership for Young Children, 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
American Child, Incorporated	19,370			
American Red Cross - Greater Carolinas Chapter - Statesville Office	7,833			
Beulah's Children's Care	18,590			
Carolina Psych Group	68,665	(1,429)		
Central Child Development Center	11,310			
I-Care, Incorporated *	62,855			
Iredell County Health Department *	138,089			
Iredell Developmental Center	24,700			
J-Bear Child Development Center *	52,607			
Triplett United Methodist Church Child Development Center	13,910			
Various Day Care Providers	162,631		929	
Wee Lads and Lassies Child Development Center	16,640			
	\$ 597,200	\$ (1,429)	\$ 929	\$ 0
Individuals:				
Child Care Expense Reimbursements			1,097	
Parents/Child Care Training	1,400		6,762	
Purchase of Medical/Dental Care			12,529	
Scholarships/Bonus Awards	32,450		500	
	\$ 33,850	\$ 0	\$ 20,888	\$ 0
	\$ 631,050	\$ (1,429)	\$ 21,817	\$ 0

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

Iredell County Partnership for Young Children, Inc.
Schedule of State Level Service Provider Contracts
For the Year Ended June 30, 2002

Schedule 2

Organization Name	DHHS Contracts	NCPC Contracts	Total Contracts
Iredell County Department of Social Services	\$ 751,423	\$ 0	\$ 751,423
* 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 either the Department of Health and Human Services (DHHS) or the North Carolina Partnership for Children, Inc. (NCPC) as described in Note 3 - Funding from Grant Awards			

Iredell County Partnership for Young Children, Inc.
Schedule of Federal and State Awards - Regulatory Basis
For the Year Ended June 30, 2002

Schedule 3

Federal/State Grantor/Pass-through Grantor/Program	Federal CFDA Number	Contract #	Receipts	Expenditures
Federal Awards:				
U.S Department of Health and Human Services				
Pass-through from the North Carolina Department of Health and Human Services - Division of Child Development				
Child Care and Development Block	93.575	6000	\$ 25,266	\$ 30,722
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 Years)		Various	(13,037)	(451)
Early Childhood Initiatives Program (Current Year)		* 1-12-4-08-001	1,925,009	1,907,473
Multi-County Accounting and Contracting Grant		None	12,000	12,000
Total State Awards			<u>1,923,972</u>	<u>1,919,022</u>
Total Federal and State Awards			<u>\$ 1,949,238</u>	<u>\$ 1,949,744</u>
* Programs with compliance requirements that have a direct and material effect on the financial statements.				

Iredell County Partnership for Young Children, Inc
Schedule of Property and Equipment
For the Year Ended June 30, 2002

Schedule 4

	Furniture and Non-Computer Equipment	\$	82,452
	Computer Equipment/Printers		46,753
	Leasehold Improvements		396,893
	Motor Vehicles		5,000
	Total Property and Equipment	\$	<u>531,098</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 of purchase.		

***Iredell County Partnership for Young Children, Inc.
Schedule of Qualifying Match (Non-GAAP)
For the Year Ended June 30, 2002***

Schedule 5

Match Provided at the Partnership Level:

Cash	\$ 62,491
In-Kind Goods and Services	80,372
	<u>\$ 142,863</u>

Match Provided at the Contractor Level:

Cash	\$ 449,513
In-Kind Goods and Services	89,367
	<u>\$ 538,880</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 generally accepted accounting principles.

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**INDEPENDENT AUDITOR'S 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 Partnership) as of and for the year ended June 30, 2002, and have issued our report thereon dated February 12, 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 Iredell 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, which are reported in the Audit Findings and Recommendations section of this report, disclosed an instance of noncompliance that is required to be reported under *Government Auditing Standards*.

Finding

Competitive Bidding

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Iredell 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

**INDEPENDENT AUDITOR'S 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)**

financial reporting that 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.

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.



Ralph Campbell, Jr.
State Auditor

February 12, 2003

AUDIT FINDINGS AND RECOMMENDATIONS

Matters Related to Financial Reporting

Current Year Finding and Recommendation - The following finding and recommendation was identified during the current audit and represents noncompliance with laws, regulations, contracts, or grants.

COMPETITIVE BIDDING

We noted instances where documentation was not available to support compliance with the competitive bidding requirements for the purchase of goods and services.

Recommendation: We recommend that the Iredell Partnership maintain documentation to support compliance with the legislatively mandated bid requirements.

Partnership's Response: The Board of Directors and staff of the Iredell County Partnership for Young Children strive to adhere to all rules and regulations in accordance with North Carolina statutes and mandated legislation.

We regret that our documentation failed to support compliance with the competitive bidding requirements for the purchase of goods and services.

Please be assured that an audit in FY 2002-2003 will find all documentation completed. Bids for FY 2003-2004 are currently being requested.

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May 1, 2003

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