

**FINANCIAL STATEMENT AUDIT REPORT OF
CHILDREN'S COUNCIL OF WATAUGA COUNTY, INC.
BOONE, 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
CHILDREN'S COUNCIL OF WATAUGA COUNTY, INC.**

BOONE, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2002

BOARD OF DIRECTORS

MARK HURST, CHAIRMAN

ADMINISTRATIVE OFFICER

MARSHALL ASHCRAFT, 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, Children's Council of Watauga County, Inc.

This report presents the results of the financial statement audit of the Children's Council of Watauga County, 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 Children's Council of Watauga County, 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 Children's Council of Watauga County, Inc. is one of these local partnerships. As such, the Children's Council of Watauga County, 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
Children's Council of Watauga County, Inc.
Boone, North Carolina

We have audited the accompanying Statement of Receipts, Expenditures, and Net Assets--Regulatory Basis of the Children's Council of Watauga County, Inc. (Children's Council) 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 Children's Council'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 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 Children's Council of Watauga County, 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.

INDEPENDENT AUDITORS' REPORT (CONCLUDED)

In accordance with *Government Auditing Standards*, we have also issued our report dated January 29, 2003 on our consideration of the Children's Council'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 Children's Council of Watauga County, 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 29, 2003

Crisp Hughes Evans LLP

CHILDREN'S COUNCIL OF WATAUGA COUNTY, INC.
STATEMENT OF RECEIPTS, EXPENDITURES, AND NET ASSETS--REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2002 **EXHIBIT A**

	<u>Unrestricted Funds</u>		<u>Total Funds</u>
	<u>Smart Start Fund</u>	<u>Other Funds</u>	
Receipts:			
State Awards (Less Refunds of \$3,874)	\$ 379,404	\$ 74,383	\$ 453,787
Local Awards	-	2,000	2,000
Private Contributions	-	10,279	10,279
Special Events Fees	-	5,752	5,752
Interest and Investment Earnings	-	1,036	1,036
Sales Tax Refunds	-	2,494	2,494
Other Receipts	-	146	146
Total Receipts	<u>379,404</u>	<u>96,090</u>	<u>475,494</u>
Expenditures:			
Programs:			
Child Care and Education Quality	130,748	63,925	194,673
Child Care and Education Accessibility and Availability	24,238	-	24,238
Child Care and Education Affordability	35,548	-	35,548
Health and Safety	12,900	3,540	16,440
Family Support	82,760	22,347	105,107
Support:			
Management and General	83,485	14,945	98,430
Program Coordination	3,902	-	3,902
Other:			
Sales Tax Paid	-	1,503	1,503
Total Expenditures	<u>373,581</u>	<u>106,260</u>	<u>479,841</u>
Excess of Receipts Over (Under) Expenditures	5,823	(10,170)	(4,347)
Net Assets at Beginning of Year	<u>3,874</u>	<u>52,741</u>	<u>56,615</u>
Net Assets at End of Year	<u>\$ 9,697</u>	<u>\$ 42,571</u>	<u>\$ 52,268</u>
Net Assets Consisted of:			
Cash and Cash Equivalents	\$ 8,536	\$ 42,571	\$ 51,107
Refunds Due from Contractors	<u>1,161</u>	<u>-</u>	<u>1,161</u>
	<u>\$ 9,697</u>	<u>\$ 42,571</u>	<u>\$ 52,268</u>

The accompanying notes are an integral part of these statements.

**CHILDREN'S COUNCIL OF WATAUGA COUNTY, 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
Smart Start Fund:								
Programs:								
Child Care and Education Quality	\$ 130,748	\$ 60,421	\$ -	\$ 2,864	\$ 2,420	\$ 903	\$ 400	\$ 63,740
Child Care and Education Accessibility and Availability	24,238	-	-	-	-	-	-	24,238
Child Care and Education Affordability	35,548	-	-	-	-	-	-	35,548
Health and Safety	12,900	-	-	-	-	-	-	12,900
Family Support	82,760	-	-	-	-	-	-	82,760
Support:								
Management and General	83,485	66,917	900	1,086	5,320	1,520	749	6,993
Program Coordination	3,902	3,719	-	-	183	-	-	-
Total Smart Start Fund Expenditures	\$373,581	\$131,057	\$ 900	\$ 3,950	\$ 7,923	\$ 2,423	\$ 1,149	\$226,179
Other Funds:								
Programs:								
Child Care and Education Quality	\$ 63,925	\$ 38,241	\$ 218	\$ 4,983	\$ 11,109	\$ 7,760	\$ 692	\$ 922
Health and Safety	3,540	1,817	-	173	-	50	-	1,500
Family Support	22,347	3,811	-	1,188	2,102	1,702	-	13,544
Support:								
Management and General	14,945	255	8,811	111	2,934	2,634	-	200
Other:								
Sales Tax Paid	1,503	-	-	1,503	-	-	-	-
Total Other Funds Expenditures	\$106,260	\$ 44,124	\$ 9,029	\$ 7,958	\$ 16,145	\$ 12,146	\$ 692	\$ 16,166

The accompanying notes are an integral part of these statements.

CHILDREN'S COUNCIL OF WATAUGA COUNTY, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2002

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

A. Organization and Purpose - The Children's Council of Watauga County, Inc. (Children's Council) is a legally separate nonprofit organization incorporated on December 9, 1977. The Children's Council was established to develop and provide, through public and private means, early childhood education and developmental services for children and families. The Children's Council 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 Children's Council'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 Children's Council did not have any temporarily or 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.

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

D. 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 certificate of deposits less than 90 days.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

E. 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.

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 Children's Council 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 Children's Council to a concentration of credit risk.

NOTE 3 - FUNDING FROM GRANT AWARDS

Smart Start Program - The Children's Council'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 Children's Council and represents a concentration of credit risk as to the generation of revenue.

Associated with these contracts, the Children's Council is responsible for developing a comprehensive, collaborative, long-range plan of services to children and families for the service-delivery area. During the year, NCPC and the Department of Health and Human Services (DHHS) entered into contracts with and made payments to service providers selected by the Children's Council. These service provider contracts are not reflected on the accompanying financial statements. However, a summary of the service provider contracts entered into by NCPC and/or DHHS is presented on Schedule 2 accompanying the financial statements.

The Children's Council was awarded and has received \$383,278 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 \$9,697 of this contract to the State based on financial status reports submitted to NCPC subsequent to June 30, 2002.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 Children's Council are representative of various organizations that benefit from actions taken by the Board. It is the policy of the Children's Council 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: child care resource and referral, salary supplements, and quality enhancement

Child Care and Education Accessibility and Availability - Used to account for service activities associated with increasing child care spaces.

Child Care and Education Affordability - Used to account for service activities associated with public preschool classes.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Family Support - Used to account for service activities including, parenting education, general family support, support services for children and families in crisis, and transportation services.

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 Coordination - Expenditures that are incurred to coordinate the policies, procedures, and daily practices of service delivery. Also, costs associated with monitoring in-house and direct service provider activities.

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, postage and printing), were allocated based on estimates of utilization.

NOTE 6 - LEASE OBLIGATIONS

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, 2002:

<u>Fiscal Year</u>	<u>Operating Leases</u>	<u>Capital Leases</u>
2003	<u>\$ 10,200</u>	<u>\$ 600</u>

Total rental expenditures for all operating leases was \$7,200 for the year ended June 30, 2002.

NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

NOTE 7 - PENSION PLAN

The Children's Council has a SIMPLE - IRA Plan covering all full-time employees. Each full-time employee of the Children's Council has an option to participate in the plan. An Individual Retirement Account is provided to the employee through an outside financial institution. The Children's Council contributed 3% of gross wages for the year ended June 30, 2002 and employee contributions totaled \$9,142 for the year. The Children's Council 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 Children's Council had a total payroll of \$142,630, all of which was covered under the plan. The Children's Council contributed \$4,279 for pension benefits during the year.

**CHILDREN'S COUNCIL OF WATAUGA COUNTY, 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
Appalachian District Health Department	* \$ 12,900	\$ -	\$ -	\$ -
AppalCART	30,703	(1,161)	12,750	-
Emergency Childcare & Family Support	-	-	754	-
Hardin Park Incentives	* -	-	200	-
Infant/Toddler Incentives	9,868	-	-	-
License Upgrade Bonus (Child Care Organizations)	1,000	-	-	-
Lucy Brock	* 3,600	-	-	-
Merryland Academy I	17,263	-	-	-
Northwest Association for the Education of Young Children	* 300	-	-	-
Provider Grants	-	-	322	-
Watauga County Schools	* 88,766	-	-	-
Watauga County Healthy Carolinians	* -	-	250	-
Watauga Medical Center	* -	-	1,250	-
Individuals:				
Care Giver Awards	500	-	250	-
Emergency Childcare & Family Support	-	-	40	-
License Upgrade Bonus (Child Care Organization Employees)	1,500	-	-	-
Parent Stipends	1,690	-	350	-
Salary Supplements	59,250	-	-	-
	\$ 227,340	\$ (1,161)	\$ 16,166	\$ -

* 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.

**CHILDREN'S COUNCIL OF WATAUGA COUNTY, INC.
SCHEDULE OF STATE LEVEL SERVICE PROVIDER CONTRACTS
FOR THE YEAR ENDED JUNE 30, 2002**

SCHEDULE 2

Organization Name	DHHS Contracts
Watauga County Department of Social Services	* \$ 129,000

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

The information on this schedule provides a listing of service provider contracts entered into by 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.

See Independent Auditors' Report.

**CHILDREN'S COUNCIL OF WATAUGA COUNTY, INC.
 SCHEDULE OF STATE AWARDS--REGULATORY BASIS
 FOR THE YEAR ENDED JUNE 30, 2002**

SCHEDULE 3

<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)	*1-01-5-33-001	\$ (3,874)	\$ -
Early Childhood Initiatives Program (current year)	*1-12-5-33-001	383,278	373,581
Multi-County Accounting and Contract Grant	-	12,000	12,000
North Carolina Department of Health and Human Services			
Division of Child Development			
Child Care Resource and Referral (prior year)	5875	383	-
Child Care Resource and Referral (current year)	6009	<u>62,000</u>	<u>62,000</u>
Total State Awards		<u>\$ 453,787</u>	<u>\$ 447,581</u>

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

See Independent Auditors' Report.

**CHILDREN'S COUNCIL OF WATAUGA COUNTY, INC.
SCHEDULE OF PROPERTY AND EQUIPMENT
FOR THE YEAR ENDED JUNE 30, 2002**

SCHEDULE 4

Furniture and Non-Computer Equipment	\$ 10,410
Computer Equipment/Printers	<u>10,360</u>
Total Property and Equipment	<u>\$ 20,770</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.

**CHILDREN'S COUNCIL OF WATAUGA COUNTY, INC.
SCHEDULE OF QUALIFYING MATCH (NON-GAAP)
FOR THE YEAR ENDED JUNE 30, 2002**

SCHEDULE 5

Match Provided at the Partnership Level:

Cash	\$	10,279
In-Kind Goods and Services		<u>15,499</u>
	\$	<u>25,778</u>

Match Provided at the Contractor Level:

Cash	\$	34,578
In-Kind Goods and Services		<u>15,960</u>
	\$	<u>50,538</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(1). 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
Children's Council of Watauga County, Inc.
Boone, North Carolina

We have audited the financial statements of the Children's Council of Watauga County, Inc. (Children's Council) as of and for the year ended June 30, 2002, and have issued our report thereon dated January 29, 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 Children's Council'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 Children's Council'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

**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)**

internal control over 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, 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 29, 2003

Crisp Hughes Evans LLP

DISTRIBUTION OF AUDIT REPORT

In accordance with General Statutes 147-64.5 and 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.

EXECUTIVE BRANCH

The Honorable Michael F. Easley
The Honorable Beverly M. Perdue
The Honorable Richard H. Moore
The Honorable Roy A. Cooper, III
Mr. David T. McCoy
Mr. Robert L. Powell
Ms. Carmen Hooker Odom
Mr. Ashley Thrift

Ms. Karen Ponder

Governor of North Carolina
Lieutenant Governor of North Carolina
State Treasurer
Attorney General
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State Controller
Secretary, Department of Health and Human Services
Chairman, Board of Directors
North Carolina Partnership for Children, Inc.
Executive Director
North Carolina Partnership for Children, Inc.

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