

STATE OF NORTH CAROLINA

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

NEWLAND, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2003

OFFICE OF THE STATE AUDITOR

RALPH CAMPBELL, JR.

STATE AUDITOR

**FINANCIAL STATEMENT AUDIT REPORT OF
AVERY COUNTY PARTNERSHIP FOR CHILDREN, INC.**

NEWLAND, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2003

BOARD OF DIRECTORS

TOM BLEDSOE, CHAIRMAN

ADMINISTRATIVE OFFICER

KATE GAVENUS, EXECUTIVE DIRECTOR



Ralph Campbell, Jr.
State Auditor

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AUDITOR'S TRANSMITTAL

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

This report presents the results of our financial statement audit of the Avery County Partnership for Children, Inc. (Avery Partnership) for the year ended June 30, 2003. Our audit was made by authority of Article 5A of Chapter 147 of the *North Carolina General Statutes*.

The accounts and operations of the Avery 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 Avery Partnership was made in conjunction with the Early Childhood Initiatives (Smart Start) program authorized by General Statutes 143B-168.10-.16. These statutes created The North Carolina Partnership for Children, Inc. and required the implementation of local demonstration projects (local partnerships). The Avery Partnership is one of these local partnerships. As such, the Avery Partnership is a private nonprofit 501(c)(3) organization and is required by General Statute 143B-168.14(b) to have a financial and compliance audit conducted by the Office of 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 – To express an opinion on the accompanying financial statements.

Results – The accompanying financial statements present fairly, in all material respects, the amounts and disclosures made in accordance with the modified cash basis of accounting, a comprehensive basis of accounting other than generally accepted accounting principles.

AUDITOR'S TRANSMITTAL (CONCLUDED)

2. **Objective** – To present significant deficiencies, if any, in internal control over financial reporting which could adversely affect the Avery Partnership's ability to record, process, summarize, and report financial data in the financial statements and present instances of noncompliance, if any, with laws, regulations, contracts, or grants.

Results - The following conditions represent significant deficiencies in internal control or noncompliance with laws, regulations, contracts, or grants.

Finding

1. Policies and Procedures
2. Authorizing and Processing Transactions

These matters are 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.

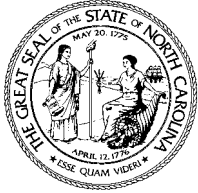
North Carolina General Statutes require the State Auditor to make audit reports available to the public. Copies of audit reports issued by the Office of the State Auditor may be obtained through one of the options listed in the back of this report.



Ralph Campbell, Jr.
State Auditor

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Ralph Campbell, Jr.
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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Avery County Partnership for Children, Inc.
Newland, North Carolina

We have audited the accompanying Statement of Receipts, Expenditures, and Net Assets – Modified Cash Basis of the Avery County Partnership for Children, Inc. (Avery Partnership) as of June 30, 2003, and the related Statement of Functional Expenditures – Modified Cash Basis for the year then ended. These financial statements are the responsibility of the Avery 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 modified cash basis of accounting, 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 Avery County Partnership for Children, Inc. as of June 30, 2003, and the results of its operations arising from modified cash basis transactions 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 November 21, 2003 on our consideration of the Avery 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 Avery County Partnership for 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 Schedules 1, 3, 4, and 5 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. The information in Schedule 2 has not been subjected to the auditing procedures applied in the audit of the basic financial statements and accordingly, we express no opinion on Schedule 2.

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

November 21, 2003

Avery County Partnership for Children, Inc.

Statement of Receipts, Expenditures, and Net Assets - Modified Cash Basis

For the Year Ended June 30, 2003

Exhibit A

	Unrestricted Funds		Temporarily Restricted Funds	Total Funds
	Smart Start Fund	Other Funds		
Receipts:				
State Awards (less refunds of \$10,842)	\$ 270,456	\$ 95,600	\$ 0	\$ 366,056
Federal Awards		23,966		23,966
Private Contributions		34,668	51	34,719
Interest and Investment Earnings		1,035		1,035
Sales Tax Refunds		963		963
Total Receipts	270,456	156,232	51	426,739
Net Assets Released from Restrictions:				
Satisfaction of Program Restrictions		1,224	(1,224)	
	270,456	157,456	(1,173)	426,739
Expenditures:				
Programs:				
Child Care and Education Quality	87,159	36,113		123,272
Child Care and Education Affordability	37,695			37,695
Health and Safety	14,329	5,412		19,741
Family Support	38,130	9,004		47,134
More at Four		79,277		79,277
Support:				
Management and General	88,295	17,511		105,806
Program Evaluation	15,320			15,320
Other:				
Sales Tax Paid		1,485		1,485
Total Expenditures	280,928	148,802		429,730
Excess of Receipts Over Expenditures	(10,472)	8,654	(1,173)	(2,991)
Net Assets at Beginning of Year	10,735	15,342	1,533	27,610
Net Assets at End of Year	\$ 263	\$ 23,996	\$ 360	\$ 24,619
Net Assets Consisted of:				
Cash and Cash Equivalents	\$ 263	\$ 35,373	\$ 360	\$ 35,996
Less: Funds Held for Others		11,377		11,377
	\$ 263	\$ 23,996	\$ 360	\$ 24,619

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

Avery County Partnership for Children, Inc.
Statement of Functional Expenditures - Modified Cash Basis
For the Year Ended June 30, 2003

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	\$ 87,159	15,608	24,268	345	2,181	1,155		43,249	353
Child Care and Education Affordability	\$ 37,695							37,695	
Health and Safety	\$ 14,329							14,329	
Family Support	\$ 38,130	20,387	512	1,731	3,875	2,453	42	9,130	
	\$ 177,313	\$ 35,995	\$ 24,780	\$ 2,076	\$ 6,056	\$ 3,608	\$ 42	\$ 104,403	\$ 353
Support:									
Management and General	\$ 88,295	75,358	1,097	1,108	5,518	5,172	42		
Program Evaluation	\$ 15,320	5,907	4,165	316	2,913	1,977	42		
	\$ 103,615	\$ 81,265	\$ 5,262	\$ 1,424	\$ 8,431	\$ 7,149	\$ 84	\$ 0	\$ 0
Total Smart Start Fund Expenditures	\$ 280,928	\$ 117,260	\$ 30,042	\$ 3,500	\$ 14,487	\$ 10,757	\$ 126	\$ 104,403	\$ 353
Other Funds:									
Programs:									
Child Care and Education Quality	\$ 36,113	20,063	1,981	1,271	3,115	3,968	42	4,663	1,010
Health and Safety	\$ 5,412			3,839		30		1,543	
Family Support	\$ 9,004		650	807	5,156			2,391	
More at Four	\$ 79,277	2,700		119	868			73,995	1,595
	\$ 129,806	\$ 22,763	\$ 2,631	\$ 6,036	\$ 9,139	\$ 3,998	\$ 42	\$ 82,592	\$ 2,605
Support:									
Management and General	\$ 17,511	\$ 6,855	\$ 8,841	\$ 540	\$ 567	\$ 158	\$ 550	\$ 0	\$ 0
Other:									
Sales Tax Paid	\$ 1,485	\$ 0	\$ 0	\$ 1,485	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Total Other Funds Expenditures	\$ 148,802	\$ 29,618	\$ 11,472	\$ 8,061	\$ 9,706	\$ 4,156	\$ 592	\$ 82,592	\$ 2,605

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

AVERY COUNTY PARTNERSHIP FOR CHILDREN, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

A. Organization and Purpose - The Avery County Partnership for Children, Inc. (Avery Partnership) is a legally separate nonprofit organization incorporated on September 20, 1994. The Avery Partnership was established to develop and provide, through public and private means, early childhood education and developmental services for children and families. The Avery 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 Avery 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 Avery Partnership did not have any permanently restricted net assets at June 30, 2003.

C. Basis of Accounting - The accompanying financial statements were prepared on the modified cash basis of accounting. 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. Cash and Cash Equivalents** – This classification appears on the Statement of Receipts, Expenditures, and Net Assets – Modified Cash Basis and consists of cash on deposit with private bank accounts.
- E. Funds Held For Others** - Funds held for others includes amounts received that are fiduciary in nature in which the Avery Partnership acts in an agency capacity. For the year ended, the Avery Partnership was holding amounts for other organizations in the amount of \$11,377.
- F. Compensated Absences** – As a result of the use of the modified cash basis of accounting, liabilities related to accrued compensated absences are not recorded in the financial statements. Expenditures related to compensated absences are recorded when paid. The amount of accrued compensated absences for accumulated, unpaid leave and compensatory time, along with the related employer costs that would be due to employees upon termination is reported as a commitment in Note 9.
- G. Use of Estimates** - The preparation of financial statements in conformity with the other comprehensive basis of accounting used by the Avery Partnership requires management to make estimates and assumptions that affect certain reported amounts and disclosures (such as allocation of joint costs); accordingly, actual results could differ from those estimates. It is management’s belief that these estimates are reasonable and fair.

NOTE 2 - DEPOSITS

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

NOTE 3 - FUNDING FROM GRANT AWARDS

Smart Start Program - The Avery 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 Avery

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Partnership and represents a concentration of credit risk as to the generation of revenue.

Associated with these contracts, the Avery 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 North Carolina Department of Health and Human Services (DHHS) entered into contracts with and made payments to service providers selected by the Avery 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 Avery Partnership was awarded and has received \$281,298 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 \$2 of this contract to the State based on financial status reports submitted to NCPC subsequent to June 30, 2003.

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

Child Care Resource and Referral Program - The Avery Partnership also received revenue and support from the State of North Carolina based on a cost-reimbursement contract with DHHS for the Child Care Resource and Referral (CCR&R) Program.

The Avery Partnership was awarded \$28,421 under a current year CCR&R contract with DHHS and has received \$23,966 of this amount. The Avery Partnership incurred costs up to the amount awarded with the balance of the contract to be received subsequent to year-end. The Partnership expects to receive continued funding through new CCR&R Program contracts with the State.

More at Four – The Avery Partnership also received revenue and support from the State of North Carolina for the More at Four Program. The Avery Partnership was awarded \$102,915 and received \$79,300 under a current year cost-reimbursement contract. The unexpended balance of this contract is subject to reversion to the State. The Partnership expects to receive continued funding through new More at Four contracts with the State.

NOTE 4 - RELATED PARTY TRANSACTIONS

Service Provider Contracts with Board Member Organizations - The board members of the Avery Partnership are representative of various

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

organizations that benefit from actions taken by the Board. It is the policy of the Avery 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 – Modified Cash Basis. Also, the Statement of Functional Expenditures – Modified Cash Basis, provides detail of the functional costs by their natural classification. Following are the services associated with the functional categories presented in the accompanying financial statements and the methods utilized to allocate joint cost:

A. Program Functions

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

Child Care and Education Affordability - Used to account for service activities associated with supplements for quality outside the Division of Child Development Reimbursement System.

Health and Safety - Used to account for service activities including oral health services, prenatal/newborn services, special needs – early intervention services/special education, or health needs and resources assessment.

Family Support - Used to account for service activities including family resource centers, general family support, family crisis intervention, transportation services, or community outreach information and resources.

More at Four – Used to account for development and implementation of More at Four prekindergarten program for at-risk four-year-olds who are at risk of failure in kindergarten. The goal is to provide quality prekindergarten services in order to enhance kindergarten readiness.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 estimated time spent by employees for each function.

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

NOTE 6 - OPERATING LEASE OBLIGATIONS

Future minimum lease payments under noncancelable operating leases consist of the following at June 30, 2003:

<u>Fiscal Year</u>	<u>Operating Leases</u>
2004	\$ 8,350
2005	<u>1,400</u>
Total Minimum Lease Payments	<u>\$ 9,750</u>

Rental expense for all operating leases during the year was \$15,273.

NOTE 7 - PENSION PLAN

IRC Section 403(b) Plan - Each employee of the Avery Partnership is provided, as part of the benefit package, an additional 5% of his/her salary to be applied to a retirement plan. The Partnership has no liability for any

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

other cost other than the required percentage. After one year of employment, all permanent employees who are at least half time can participate in a tax sheltered annuity plan (Plan) created under Internal Revenue Code Section 403(b). The Plan is a defined contribution plan in which each employee of the Avery Partnership, as a condition of employment, is provided an individual annuity through an outside insurance company. The Avery Partnership contributed 5% of gross wages for the year ended June 30, 2003. 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. This Plan is exclusively for employees of universities and certain charitable and other nonprofit organizations. All costs of administering and funding this Plan are the responsibility of the Plan participants. No costs were incurred by the Avery Partnership.

The Avery Partnership contributed \$5,643 for retirement benefits for the year ended June 30, 2003.

NOTE 8 - RISK MANAGEMENT

The Avery Partnership is exposed to various risks of loss related to torts, theft of, damage to, or destruction of assets; errors and omissions; injuries to employees; employees' health and life; and natural disasters. The Avery Partnership manages these various risks of loss as follows:

<u>Type of Loss</u>	<u>Method Managed</u>	<u>Risk of Loss Retained</u>
Torts, errors and omissions, health and life	Purchased commercial insurance	None
Workers Compensation – Employee injuries	Purchased commercial insurance	None
Physical property loss and natural disasters	Purchased commercial insurance	None

Management believes such coverage is sufficient to preclude any significant losses to the Avery Partnership. Settled claims have not exceeded this insurance coverage in any of the past three fiscal years.

NOTE 9 - COMMITMENTS AND CONTINGENCIES

Compensated Absences – As a result of the Avery Partnership's use of the modified cash basis of accounting, accrued liabilities related to compensated absences (vacation only; sick leave does not vest) and any employer-related

NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

costs earned and unpaid, are not reflected in the financial statements. The compensated absences commitment for vacation leave at June 30, 2003, is \$15,209. No funds or reservation of net assets has been made for this commitment.

NOTE 10 - RESTRICTIONS ON NET ASSETS

A. Temporarily Restricted Net Assets - Temporarily restricted net assets at June 30, 2003 are available for the following purposes:

Purpose	Amount
Hispanic Outreach Program	\$ 309
Music Education Program	<u>51</u>
	<u>\$ 360</u>

B. Net Assets Released From Donor Restrictions - Net assets were released from donor restrictions during the fiscal year ended June 30, 2003, by incurring expenditures satisfying the restricted purposes as follows:

Purpose	Amount
Child Safety Program	\$ 657
Music Education Program	<u>567</u>
	<u>\$ 1,224</u>

Avery County Partnership for Children, Inc.
Schedule of Contract and Grant Expenditures - Modified Cash Basis
For the Year Ended June 30, 2003

Schedule 1

Organization Name	Smart Start Fund		Other Funds	
	Amount Advanced	Refund Due	Amount Advanced	Refund Due
A Child's Place Preschool	4,211		12,679	
Avery County Public School System *	40,754		57,249	
Avery County Transportation *	2,900		2,391	
Banner Elk Child Development Center	724			
Dr. Emma Sloop Fink Child Development Center	4,471		699	
Intermountain Children's Services *	4,830			
Little Learner's *	11,435		6,950	
Loved Ones Child Care	5,576		241	
Newland Child Development Center *	585			
Parent to Parent/Family Support System of the High County (Appalachian State University)	6,230			
Phillips-Gwaltney Child Development Center *	13,792		840	
Toe River Health District WIC Program *	8,099		1,543	
	\$ 103,607	\$ 0	\$ 82,592	\$ 0
<i>Individuals:</i>				
Various Individual Floater or Bonus Awards	796			
	\$ 796	\$ 0	\$ 0	\$ 0
	\$ 104,403	\$ 0	\$ 82,592	\$ 0
* These organizations are represented on the Partnership's Board as described in Note 4 - Service Provider Contracts with Board Member Organizations.				

Avery County Partnership for Children, Inc.
Schedule of State Level Service Provider Contracts
For the Year Ended June 30, 2003

Schedule 2

Organization Name	DHHS Contracts
Avery County Department of Social Services	95,015
Child Care Services Association - WAGES Program	25,996
	\$ 121,011
<p>* These organizations are represented on the Partnership's Board as described in Note 4 - Service Provider Contracts with Board Member Organizations.</p>	
<p>The information on this schedule provides a listing of service provider contracts entered into by the North Carolina Department of Health and Human Services (DHHS) as described in Note 3 - Funding from Grant Awards.</p>	

Avery County Partnership for Children, Inc.
Schedule of Federal and State Awards - Modified Cash Basis
For the Year Ended June 30, 2003

Schedule 3

Federal/State Grantor/Pass-through Grantor/Program	Federal CFDA Number	Contract #	Receipts	Expenditures
Federal Awards:				
US 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 Grant	93.575 *	5978	\$ 23,966	\$ 28,421
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)		1-12-2-02-001	(10,842)	(107)
Early Childhood Initiatives Program (Current Year)	*	N/A	281,298	281,035
Multi-County Accounting and Contracting Grant		N/A	12,000	12,000
North Carolina Department of Health and Human Services				
More at Four Pre-Kindergarten Program		2090003325	79,300	79,277
North Carolina Department of Insurance				
Pass-through from the Office of State Fire Marshall				
North Carolina Safe Kids/Safe Communities		N/A	4,300	3,212
Total State Awards			366,056	375,417
Total Federal and State Awards			\$ 390,022	\$ 403,838
* Programs with compliance requirements that have a direct and material effect on the financial statements.				

Avery County Partnership for Children, Inc.

Schedule of Property and Equipment - Modified Cash Basis

For the Year Ended June 30, 2003

Schedule 4

Furniture and Noncomputer Equipment	\$	13,811
Computer Equipment/Printers		23,977
Leasehold Improvements		2,500
Motor Vehicles		5,928
Total Property and Equipment	\$	<u>46,216</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. The valuations represent historical cost. On the modified basis of accounting, these items are expensed in the year of purchase.

***Avery County Partnership for Children, Inc.
Schedule of Qualifying Match (Non-GAAP)
For the Year Ended June 30, 2003***

Schedule 5

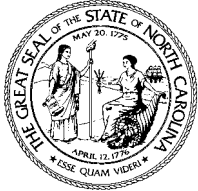
Match Provided at the Partnership Level:

Cash	\$ 32,550
In-Kind Goods and Services	2,192
	<u>\$ 34,742</u>

Match Provided at the Contractor Level:

Cash	\$ 19,251
In-Kind Goods and Services	20,391
	<u>\$ 39,642</u>

Note: This schedule is presented in accordance with the program match requirement as provided for by North Carolina Session Law 2001-424, Section 21.72(c). The law allows for volunteer services to be valued for match purposes, a concept that deviates from generally accepted accounting principles.



Ralph Campbell, Jr.
State Auditor

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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
Avery County Partnership for Children, Inc.
Newland, North Carolina

We have audited the financial statements of the Avery County Partnership for Children, Inc. (Avery Partnership) as of and for the year ended June 30, 2003, and have issued our report thereon dated November 21, 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 Avery 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 Avery 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 certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Avery Partnership's ability to

**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)**

record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable conditions noted as a result of our audit are described in the Audit Findings and Recommendations section of this report:

Finding

1. Policies and Procedures
2. Authorization and Processing Transactions

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 consider the reportable conditions described above 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

November 21, 2003

AUDIT FINDINGS AND RECOMMENDATIONS

Matters Related to Financial Reporting

The following findings and recommendations were identified during the current audit and describe conditions that represent significant deficiencies in internal control. Finding 1 was reported in the prior year.

1. POLICIES AND PROCEDURES

We reported in the prior year that policies and procedures for fiscal accountability did not sufficiently address the organization's needs. In addition, we noted material misstatements that resulted in numerous audit adjustments to the financial presentations.

This finding is partially resolved. The Partnership's financial presentations for the current year were materially correct, as only minimal audit adjustments were necessary. However, no corrective action took place during the fiscal year to address deficiencies noted with the fiscal policies and procedures.

Written policies and procedures, along with actual operating practices, are key components of an effective internal control system. Policies and procedures promote operational efficiency and effectiveness, protect Partnership staff, ensure adherence to prescribed managerial policies, and ensure compliance with applicable policies and regulations.

Recommendation: We recommend that the Avery Partnership place immediate emphasis on the resolution of this matter and seek appropriate guidance from The North Carolina Partnership for Children, Inc. in the establishment of policies and procedures that are supportive of a sound internal control system. The Partnership Board responsibilities include the development, authorization, and proper implementation of these policies and procedures.

Partnership's Response: We agree that the Financial Policies and Procedures should be updated. Staff from The North Carolina Partnership for Children, Inc. is currently assisting in the review of these policies, along with ACPFC staff and a team from the Board. All policies and procedures will be brought into line with current regulations and recommendations from the State Auditor's office. An emphasis is now placed on strengthening internal controls.

AUDIT FINDINGS AND RECOMMENDATIONS (CONCLUDED)

2. AUTHORIZING AND PROCESSING TRANSACTIONS

Our review of the Avery Partnership's internal control system identified procedural weaknesses with the authorizing and processing of transactions as follows:

- Deficiencies were noted in the documentation of the cash receipting processes including the verification of wire transfers, maintenance of cash receipts logs, and the reconciliation of the cash receipts logs to bank statements.
- Documentation to support disbursing processes was either inadequate or missing. No evidence was found to support the review and approval of payroll transactions, journal entries were not located or lacked proper approval, and the cancellation of invoices and the supporting documentation was not consistently performed.
- It appeared that the Partnership was placing unwarranted reliance on procedures performed by the outsourced financial processor. The outsourced financial processor was significantly involved in the payroll and journal entry processes. There was no evidence of the Partnership's review and authorization for those transactions.

Recommendation: We recommend that the Partnership review its current internal control processes and make appropriate changes. As noted above, emphasis should be placed on the implementation of effective policies and procedures to address the authorization and processing requirements for financial accountability and the necessary documentation standards related to those processes. The functions performed by the outsourced financial processor should be limited to those specified in the contract agreement.

Partnership's Response: We agree that there were deficiencies in documentation relating to cash receipts and disbursements. All such deficiencies have been corrected, and procedures have been implemented to ensure proper documentation of cash flow both into and out of the organization's accounts. All journal entries and payroll records are now approved by the Executive Director. The MAC Manager has been advised not to proceed with entries and transactions not previously authorized by the Executive Director.

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.

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

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March 2, 2004

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