



STATE OF NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT OF
ALEXANDER COUNTY PARTNERSHIP FOR CHILDREN
TAYLORSVILLE, NORTH CAROLINA
FOR THE YEAR ENDED JUNE 30, 2003

OFFICE OF THE STATE AUDITOR

RALPH CAMPBELL, JR.

STATE AUDITOR

FINANCIAL STATEMENT AUDIT REPORT OF
ALEXANDER COUNTY PARTNERSHIP FOR CHILDREN
TAYLORSVILLE, NORTH CAROLINA
FOR THE YEAR ENDED JUNE 30, 2003

BOARD OF DIRECTORS

TERRY DAVIS, CHAIRPERSON

ADMINISTRATIVE OFFICER

PAULA BRAWLEY, EXECUTIVE DIRECTOR



Ralph Campbell, Jr.
State Auditor

STATE OF NORTH CAROLINA
Office of the State Auditor

2 S. Salisbury Street
20601 Mail Service Center
Raleigh, NC 27699-0601
Telephone: (919) 807-7500
Fax: (919) 807-7647
Internet <http://www.osa.state.nc.us>

AUDITOR'S TRANSMITTAL

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

This report presents the results of our financial statement audit of the Alexander County Partnership for Children (Alexander 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 Alexander 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 Alexander 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 Alexander Partnership is one of these local partnerships. As such, the Alexander 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 Alexander 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 condition represents a significant deficiency in internal control:

Finding

Financial Statement Presentation

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.

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

TABLE OF CONTENTS

	PAGE
INDEPENDENT AUDITOR’S REPORT	1
FINANCIAL STATEMENTS	
EXHIBITS	
A Statement of Receipts, Expenditures, and Net Assets – Modified Cash Basis.....	3
B Statement of Functional Expenditures – Modified Cash Basis	4
Notes to the Financial Statements	5
SUPPLEMENTARY SCHEDULES	
1 Schedule of Contract and Grant Expenditures – Modified Cash Basis	12
2 Schedule of State Level Service Provider Contracts.....	13
3 Schedule of State Awards – Modified Cash Basis	14
4 Schedule of Property and Equipment – Modified Cash Basis.....	15
5 Schedule of Qualifying Match (Non-GAAP).....	16
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 <i>GOVERNMENT AUDITING</i> <i>STANDARDS</i>	17
AUDIT FINDINGS AND RECOMMENDATIONS.....	19
DISTRIBUTION OF AUDIT REPORT	21



Ralph Campbell, Jr.
State Auditor

STATE OF NORTH CAROLINA
Office of the State Auditor

2 S. Salisbury Street
20601 Mail Service Center
Raleigh, NC 27699-0601
Telephone: (919) 807-7500
Fax: (919) 807-7647
Internet <http://www.osa.state.nc.us>

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Alexander County Partnership for Children
Taylorsville, North Carolina

We have audited the accompanying Statement of Receipts, Expenditures, and Net Assets – Modified Cash Basis of the Alexander County Partnership for Children (Alexander 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 Alexander 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 Alexander County Partnership for Children 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 February 20, 2004 on our consideration of the Alexander 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 Alexander County Partnership for Children 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

February 20, 2004

Alexander County Partnership for Children

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 \$73,798)	\$ 346,809	\$ 96,100	\$ 0	\$ 442,909
Private Contributions		8,281	4,912	13,193
Interest and Investment Earnings		118		118
Sales Tax Refunds		1,453		1,453
Total Receipts	346,809	105,952	4,912	457,673
Expenditures:				
Programs:				
Child Care and Education Quality	206,915	1,818		208,733
Health and Safety	88,982	5,663		94,645
More at Four		84,100		84,100
Support:				
Management and General	108,625	12,445		121,070
Other:				
Sales Tax Paid		1,912		1,912
Total Expenditures	404,522	105,938		510,460
Excess of Receipts Over Expenditures	(57,713)	14	4,912	(52,787)
Net Assets at Beginning of Year Restatement (Note 11)	73,798	23,902	20,000	97,700
Net Assets at Beginning of Year after Restatement	73,798	3,902	20,000	97,700
Net Assets at End of Year	\$ 16,085	\$ 3,916	\$ 24,912	\$ 44,913
Net Assets Consisted of:				
Cash and Cash Equivalents	\$ 15,415	\$ 4,388	\$ 24,912	\$ 44,715
Refunds Due From Contractors	670			670
	16,085	4,388	24,912	45,385
Less: Funds Held for Others		472		472
	\$ 16,085	\$ 3,916	\$ 24,912	\$ 44,913

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

*Alexander County Partnership for Children
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	\$ 206,915	87,259		4,608	15,006	12,053	3,779	84,210	
Health and Safety	\$ 88,982							88,982	
	\$ 295,897	\$ 87,259	\$ 0	\$ 4,608	\$ 15,006	\$ 12,053	\$ 3,779	\$ 173,192	\$ 0
Support:									
Management and General	\$ 108,625	\$ 74,176	\$ 3,881	\$ 2,983	\$ 13,159	\$ 8,238	\$ 6,188	\$ 0	\$ 0
Total Smart Start Fund Expenditures	\$ 404,522	\$ 161,435	\$ 3,881	\$ 7,591	\$ 28,165	\$ 20,291	\$ 9,967	\$ 173,192	\$ 0
Other Funds:									
Programs:									
Child Care and Education Quality	\$ 1,818		566	1,252					
Health and Safety	\$ 5,663			5,663					
More at Four	\$ 84,100							84,100	
	\$ 91,581	\$ 0	\$ 566	\$ 6,915	\$ 0	\$ 0	\$ 0	\$ 84,100	\$ 0
Support:									
Management and General	\$ 12,445	\$ 5,680	\$ 6,320	\$ 213	\$ 232	\$ 0	\$ 0	\$ 0	\$ 0
Other:									
Sales Tax Paid	\$ 1,912	\$ 0	\$ 0	\$ 1,912	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Total Other Funds Expenditures	\$ 105,938	\$ 5,680	\$ 6,886	\$ 9,040	\$ 232	\$ 0	\$ 0	\$ 84,100	\$ 0

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

ALEXANDER COUNTY PARTNERSHIP FOR CHILDREN
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

A. Organization and Purpose - The Alexander County Partnership for Children (Alexander Partnership) is a legally separate nonprofit organization incorporated on July 28, 1994. The Alexander Partnership was established to develop and provide, through public and private means, early childhood education and developmental services for children and families. The Alexander 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 Alexander 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 Alexander 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. 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 includes amounts received that are fiduciary in nature in which the Partnership acts in an agency capacity. The Alexander Partnership acts as a fiscal agent for the Local Interagency Coordinating Council.
- G. 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.
- H. Use of Estimates** - The preparation of financial statements in conformity with the other comprehensive basis of accounting used by the Alexander 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 Alexander 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 Alexander Partnership to a concentration of credit risk.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 3 - FUNDING FROM GRANT AWARDS

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

Associated with these contracts, the Alexander 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 Alexander 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 Alexander Partnership was awarded and has received \$420,607 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 \$16,085 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.

More at Four – The Alexander Partnership also received revenue and support from the State of North Carolina for the More at Four Program. The Alexander Partnership was awarded \$90,000 and received \$84,100 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 Alexander Partnership are representative of various organizations that benefit from actions taken by the Board. It is the policy of the Alexander 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 child care resource and referral, salary supplements, health/safety training for child care professionals, or special needs – support for child care professionals.

Health and Safety - Used to account for service activities including child care health consultants or transportation to health services.

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.

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 employee time reports.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Other Costs - Other costs including occupancy cost (rent, utilities and maintenance), 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	\$ 9,600
2005	<u>3,200</u>
Total Minimum Lease Payments	<u>\$ 12,800</u>

Rental expense for all operating leases during the year was \$14,106.

NOTE 7 - PENSION PLAN

IRC Section 403(b)(7) - All permanent employees who are at least half-time can participate in tax sheltered annuity plan (Plan) created under Internal Revenue Code Section 403(b)(7). The Plan is a defined contribution plan in which each employee of the Alexander Partnership, as a condition of employment, is provided a custodial account with a brokerage firm to be invested in mutual funds. The employee's eligible contributions, made through salary reduction agreements, are exempt from federal and State income taxes until withdrawal at which time they are taxed as ordinary income. The Plan is exclusively for employees of universities and certain charitable and other nonprofit organizations. All costs of administering and funding these Plans are the responsibility of the Plan participants.

The Alexander Partnership contributes 10% of each qualifying employee's salary to the Plan. For the year ended June 30, 2003, the Alexander Partnership contributed \$12,173 for retirement benefits.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 8 - RISK MANAGEMENT

The Alexander 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 Alexander 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 Alexander Partnership. Settled claims have not exceeded this insurance coverage in any of the past three fiscal years.

NOTE 9 - COMMITMENTS AND CONTINGENCIES

A. Compensated Absences – As a result of the Alexander 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 costs earned and unpaid, are not reflected in the financial statements. The compensated absences commitment for vacation leave at June 30, 2003, is \$10,431. No funds or reservation of net assets has been made for this commitment.

B. Commitments on Contracts - The Alexander Partnership had outstanding commitments of \$15,550 on cost-reimbursement contracts that had not been paid at June 30, 2003.

NOTE 10 - RESTRICTIONS ON NET ASSETS

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

<u>Purpose</u>	<u>Amount</u>
Family Support	\$ 20,000
Car Seat Safety, CPR/First Aid, and/or Domestic Violence Shelter	<u>4,912</u>
	<u>\$ 24,912</u>

NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

NOTE 11 - RESTATEMENT OF NET ASSETS

The Alexander Partnership received a \$20,000 grant during the 2000 fiscal year that was restricted for family support activities. The funds, which have not been expended to date, were classified as unrestricted private contributions at the time of receipt. As a result, a reclassification of the net assets for both the Unrestricted Other funds and the Temporarily Restricted funds is presented as follows:

	Net Assets Previously Reported	Net Effect of Prior Year Reclassification	July 1, 2002 Net Assets Restated
Unrestricted Funds – Other Funds	\$ 23,902	\$ (20,000)	\$ 3,902
Temporarily Restricted Funds	0	20,000	20,000
Total Unrestricted Other Net Assets	<u>\$ 23,902</u>	<u>\$ 0</u>	<u>\$ 23,902</u>

*Alexander County Partnership for Children
 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
Alexander County Board of Education *			36,000	
Alexander County Health Department *	89,652	(670)		
First Baptist Child Development Center *	3,440			
Millersville Baptist Child Development Center *	2,960			
The Mitchell Gold Company			48,100	
Various Centers and Homes - Child Care Resource and Referral	13,160			
	\$ 109,212	\$ (670)	\$ 84,100	\$ 0
<i>Individuals:</i>				
Salary Supplements	\$ 64,650	\$ 0	\$ 0	\$ 0
	\$ 173,862	\$ (670)	\$ 84,100	\$ 0
* These organizations are represented on the Partnership's Board as described in Note 4 - Service Provider Contracts with Board Member Organizations.				

***Alexander County Partnership for Children
Schedule of State Level Service Provider Contracts
For the Year Ended June 30, 2003***

Schedule 2

Organization Name		DHHS Contracts
Alexander County Department of Social Services	*	\$ 170,000
<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>		

Alexander County Partnership for Children
Schedule of State Awards - Modified Cash Basis
For the Year Ended June 30, 2003

Schedule 3

State Grantor/Pass-through Grantor/Program	Contract #	Receipts	Expenditures
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)	* Various	\$ (73,798)	\$ 0
Early Childhood Initiatives Program (Current Year)	* N/A	420,607	404,522
Multi-County Accounting and Contracting Grant		12,000	12,000
North Carolina Department of Health and Human Services			
More at Four Pre-Kindergarten Program	* 2090003347	84,100	84,100
Total State Awards		\$ 442,909	\$ 500,622

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

Note: The More at Four Pre-Kindergarten Program is contracted jointly by the North Carolina Department of Health and Human Services and the Office of the Governor. The allocations for the More at Four program are included in the budget for the North Carolina Department of Health and Human Services; therefore, the above schedule identifies that agency as the State Grantor. The Office of the Governor is responsible for oversight of the More at Four Program.

Alexander County Partnership for Children			
Schedule of Qualifying Match (Non-GAAP)			
For the Year Ended June 30, 2003			Schedule 5

Match Provided at the Partnership Level:

Cash	\$	15,166
In-Kind Goods and Services		12,947
	\$	28,113

Match Provided at the Contractor Level:

Cash	\$	44,672
In-Kind Goods and Services		13,713
	\$	58,385

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

STATE OF NORTH CAROLINA
Office of the State Auditor

2 S. Salisbury Street
20601 Mail Service Center
Raleigh, NC 27699-0601
Telephone: (919) 807-7500
Fax: (919) 807-7647
Internet <http://www.osa.state.nc.us>

**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
Alexander County Partnership for Children
Taylorsville, North Carolina

We have audited the financial statements of the Alexander County Partnership for Children (Alexander Partnership) as of and for the year ended June 30, 2003, and have issued our report thereon dated February 20, 2004. 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 Alexander County Partnership's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Alexander Partnership's internal control over financial reporting in order to determine our auditing procedures for the purposes of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. A reportable condition involves a matter coming to our attention relating to a significant deficiency in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Alexander 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. This reportable condition noted as a result of our audit is described in the Audit Findings and Recommendations section of this report:

Finding

Financial Statement Presentation

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 condition described above to be a material weakness.

This report is intended solely for the information and use of the management of the Partnership, The North Carolina Partnership for Children, 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 20, 2004

AUDIT FINDINGS AND RECOMMENDATIONS

Matters Related to Financial Reporting

The following finding and recommendation was identified during the current audit and describes a condition that represents a significant deficiency in internal control.

FINANCIAL STATEMENT PRESENTATION

The financial presentations of the Alexander Partnership were materially misstated. Receipts and expenditures for private funding activities were accounted for in the aggregate rather than by funding source or activity. Adjustments in excess of \$100,000 were necessary to present proper functional classifications and to correct misclassifications between unrestricted and temporarily restricted activities.

The financial records of the Partnership should correctly reflect transactions and events on a timely basis including the classification of net assets, revenues, and expenditures based on the existence or absence of donor-imposed restrictions.

Recommendation: We recommend that the Partnership implement procedures for the classification and review of transactions to ensure that financial activities are properly recorded in the general ledger.

Partnership's Response: The Alexander County Partnership has already taken the steps necessary to separate out the private funds in Fund 501 based on the different donors and possible restrictions. The new funds will be effective starting in the 2003-2004 fiscal year. We appreciate the time that was spent by your office on our audit and the efforts that were made to help us improve our internal controls.

[This Page Left Blank Intentionally]

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
State Budget Officer
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.

LEGISLATIVE BRANCH

Appointees to the Joint Legislative Commission on Governmental Operations

President Pro Tempore
Senator Marc Basnight, Co-Chair
Senator Charles W. Albertson
Senator Patrick J. Ballantine
Senator Daniel G. Clodfelter
Senator Walter H. Dalton
Senator Charlie S. Dannelly
Senator James Forrester
Senator Linda Garrou
Senator Wilbur P. Gulley
Senator Fletcher L. Hartsell, Jr.
Senator David W. Hoyle
Senator Ellie Kinnaird
Senator Jeanne H. Lucas
Senator Stephen M. Metcalf
Senator Anthony E. Rand
Senator Eric M. Reeves
Senator Robert A. Rucho
Senator R. C. Soles, Jr.
Senator Scott Thomas

Speaker of the House
Representative James B. Black, Co-Chair
Representative Richard T. Morgan, Co-Chair
Representative Martha B. Alexander
Representative Rex L. Baker
Representative Bobby H. Barbee, Sr.
Representative Harold J. Brubaker
Representative Debbie A. Clary
Representative E. Nelson Cole
Representative James W. Crawford, Jr.
Representative William T. Culpepper, III
Representative W. Pete Cunningham
Representative W. Robert Grady
Representative Joe Hackney
Representative Julia C. Howard
Representative Joe L. Kiser
Representative Edd Nye
Representative William C. Owens, Jr.
Representative Wilma M. Sherrill
Representative Thomas E. Wright

Other Legislative Officials

Mr. James D. Johnson

Director, Fiscal Research Division

May 26, 2004

ORDERING INFORMATION

Copies of this report may be obtained by contacting the:

Office of the State Auditor
State of North Carolina
2 South Salisbury Street
20601 Mail Service Center
Raleigh, North Carolina 27699-0601

Internet: <http://www.ncauditor.net>

Telephone: 919/807-7500

Facsimile: 919/807-7647