



# STATE OF NORTH CAROLINA

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

YADKINVILLE, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2003

OFFICE OF THE STATE AUDITOR

RALPH CAMPBELL, JR.

STATE AUDITOR

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

**YADKINVILLE, NORTH CAROLINA**

**FOR THE YEAR ENDED JUNE 30, 2003**

**BOARD OF DIRECTORS**

**TIM HARRISON, CHAIRMAN**

**ADMINISTRATIVE OFFICER**

**DR. DWIGHT MORRIS, EXECUTIVE DIRECTOR**



Ralph Campbell, Jr.  
State Auditor

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**AUDITOR'S TRANSMITTAL**

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

This report presents the results of our financial statement audit of the Yadkin County Partnership For Children, Inc. (Yadkin 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 Yadkin 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 Yadkin 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 Yadkin Partnership is one of these local partnerships. As such, the Yadkin 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)

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2. **Objective** – To present significant deficiencies, if any, in internal control over financial reporting which could adversely affect the Yadkin 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**

Internal Control Processes

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

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	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 STANDARDS</i> .....	17
AUDIT FINDINGS AND RECOMMENDATIONS.....	19
DISTRIBUTION OF AUDIT REPORT .....	21



Ralph Campbell, Jr.  
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**INDEPENDENT AUDITOR'S REPORT**

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Board of Directors  
Yadkin County Partnership For Children, Inc.  
Yadkinville, North Carolina

We have audited the accompanying Statement of Receipts, Expenditures, and Net Assets – Modified Cash Basis of the Yadkin County Partnership For Children, Inc. (Yadkin 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 Yadkin 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 Yadkin 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 January 9, 2004 on our consideration of the Yadkin 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)

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Our audit was made for the purpose of forming an opinion on the basic financial statements of the Yadkin 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

January 9, 2004

**Yadkin 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		
<b>Receipts:</b>				
State Awards (less refunds of \$75,409)	\$ 503,192	\$ 63,015	\$ 0	\$ 566,207
Private Contributions		23,465	6,610	30,075
Interest and Investment Earnings		180		180
Sales Tax Refunds		3,612		3,612
Other Receipts		56,078		56,078
<b>Total Receipts</b>	<b>503,192</b>	<b>146,350</b>	<b>6,610</b>	<b>656,152</b>
Net Assets Released from Restrictions:				
Satisfaction of Program Restrictions		650	(650)	
	<b>503,192</b>	<b>147,000</b>	<b>5,960</b>	<b>656,152</b>
<b>Expenditures:</b>				
Programs:				
Child Care and Education Quality	209,112			209,112
Child Care and Education Affordability	30,637			30,637
Health and Safety	87,720			87,720
Family Support	79,184	30,234		109,418
More at Four	14,490	54,960		69,450
Support:				
Management and General	115,212	59,286		174,498
Program Coordination	18,293			18,293
Other:				
Sales Tax Paid		2,321		2,321
Refund of Prior Year Grant		622		622
<b>Total Expenditures</b>	<b>554,648</b>	<b>147,423</b>		<b>702,071</b>
<b>Excess of Receipts Over Expenditures</b>	<b>(51,456)</b>	<b>(423)</b>	<b>5,960</b>	<b>(45,919)</b>
<b>Net Assets at Beginning of Year</b>	<b>85,920</b>	<b>23,775</b>	<b>650</b>	<b>110,345</b>
<b>Net Assets at End of Year</b>	<b>\$ 34,464</b>	<b>\$ 23,352</b>	<b>\$ 6,610</b>	<b>\$ 64,426</b>
<b>Net Assets Consisted of:</b>				
Cash and Cash Equivalents	\$ 33,558	\$ 23,352	\$ 6,610	\$ 63,520
Refunds Due From Contractors	1,769			1,769
	35,327	23,352	6,610	65,289
Less: Funds Held for Others	863			863
	<b>\$ 34,464</b>	<b>\$ 23,352</b>	<b>\$ 6,610</b>	<b>\$ 64,426</b>

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



*Yadkin 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
<b>Smart Start Fund:</b>									
<b>Programs:</b>									
Child Care and Education Quality	\$ 209,112	81,544	5,464	8,674	7,143	15,271	2,065	88,951	
Child Care and Education Affordability	\$ 30,637							30,637	
Health and Safety	\$ 87,720							87,720	
Family Support	\$ 79,184	37,570	650	1,325	2,627	1,080		35,932	
More at Four	\$ 14,490							14,490	
	\$ 421,143	\$ 119,114	\$ 6,114	\$ 9,999	\$ 9,770	\$ 16,351	\$ 2,065	\$ 257,730	\$ 0
<b>Support:</b>									
Management and General	\$ 115,212	93,819	2,489	1,354	7,975	9,575			
Program Coordination	\$ 18,293	17,773		255	223	42			
	\$ 133,505	\$ 111,592	\$ 2,489	\$ 1,609	\$ 8,198	\$ 9,617	\$ 0	\$ 0	\$ 0
<b>Total Smart Start Fund Expenditures</b>	<b>\$ 554,648</b>	<b>\$ 230,706</b>	<b>\$ 8,603</b>	<b>\$ 11,608</b>	<b>\$ 17,968</b>	<b>\$ 25,968</b>	<b>\$ 2,065</b>	<b>\$ 257,730</b>	<b>\$ 0</b>
<b>Other Funds:</b>									
<b>Programs:</b>									
Family Support	\$ 30,234		850	1,584	6,926			20,874	
More at Four	\$ 54,960							54,960	
	\$ 85,194	\$ 0	\$ 850	\$ 1,584	\$ 6,926	\$ 0	\$ 0	\$ 75,834	\$ 0
<b>Support:</b>									
Management and General	\$ 59,286	\$ 17,715	\$ 11,538	\$ 958	\$ 6,658	\$ 21,513	\$ 904	\$ 0	\$ 0
<b>Other:</b>									
Sales Tax Paid	\$ 2,321			2,321					
Refund of Prior Year Grant	\$ 622					622			
	\$ 2,943	\$ 0	\$ 0	\$ 2,321	\$ 0	\$ 622	\$ 0	\$ 0	\$ 0
<b>Total Other Funds Expenditures</b>	<b>\$ 147,423</b>	<b>\$ 17,715</b>	<b>\$ 12,388</b>	<b>\$ 4,863</b>	<b>\$ 13,584</b>	<b>\$ 22,135</b>	<b>\$ 904</b>	<b>\$ 75,834</b>	<b>\$ 0</b>

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

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

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**NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES**

**A. Organization and Purpose** - The Yadkin County Partnership for Children, Inc. (Yadkin Partnership) is a legally separate nonprofit organization incorporated on February 16, 1994. The Yadkin Partnership was established to develop and provide, through public and private means, early childhood education and developmental services for children and families. The Yadkin 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 Yadkin 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 Yadkin 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)

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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 petty cash and 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. For the year ended, the Yadkin Partnership was holding amounts withheld from employee paychecks for distribution.
- 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 Yadkin 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 Yadkin 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 Yadkin Partnership to a concentration of credit risk. At June 30, 2003, the Yadkin Partnership's bank deposits in excess of the FDIC insured limit was \$17,633.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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### NOTE 3 - FUNDING FROM GRANT AWARDS

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

Associated with these contracts, the Yadkin 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 Yadkin 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 Yadkin Partnership was awarded and has received \$574,656 under current year Smart Start contracts with NCPC. The unexpended balance of these contracts was subject to reversion to the State. The Partnership has returned \$20,968 of these contracts 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 Yadkin Partnership also received revenue and support from the State of North Carolina for the More at Four Program. The Yadkin Partnership was awarded \$93,750 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 Yadkin Partnership are representative of various organizations that benefit from actions taken by the Board. It is the policy of the Yadkin 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)

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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 upgrades, child care resource and referral, salary supplements, or curriculum enhancements.

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

**Health and Safety** - Used to account for service activities including prenatal/newborn services or child care health consultants.

**Family Support** - Used to account for service activities including ongoing parenting education, general family support, literacy projects, or family support needs and resources assessments.

**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.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

**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 employee time reports.

**Other Costs** - Other costs including occupancy cost (rent, utilities and maintenance), supplies and materials, and communication costs (telephone) were allocated based on estimates of utilization. The Yadkin Partnership allocated a total of \$59,388 in other costs.

Summarized below are the cost allocated by expenditure classification:

<u>Other Cost Category</u>	<u>Amount</u>
Contracted Services	\$ 5,399
Supplies and Materials	965
Other Operating Expenses	10,262
Fixed Charges and Other Expenses	<u>42,762</u>
Total Allocated Costs	<u>\$ 59,388</u>

### 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	\$ 32,400
2005	32,400
2006	32,400
2007	<u>32,400</u>
Total Minimum Lease Payments	<u>\$ 129,600</u>

Rental expense for all operating leases during the year was \$43,674.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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### NOTE 7 - PENSION PLAN

**IRC Section 403(b) Plan** - All permanent employees who are full-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 Yadkin Partnership, as a condition of employment, is provided an individual annuity through an outside insurance company. The Yadkin Partnership contributed 10% 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. These Plans are 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 and not the Yadkin Partnership.

For the year ended June 30, 2003, the Yadkin Partnership contributed \$18,096 for retirement benefits during the year.

### NOTE 8 - RISK MANAGEMENT

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

## NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

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### NOTE 9 - COMMITMENTS AND CONTINGENCIES

**Compensated Absences** – As a result of the Yadkin 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 \$12,160. 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
Family Support	\$ 1,295
Interpretation Services/Materials for Hispanic Mothers in Child Birthing/Parenting	4,900
Parents as Teachers	415
	<u>\$ 6,610</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
Parents as Teachers	<u>\$ 650</u>



*Yadkin 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
Exchange Club Center for the Prevention of Child Abuse of North Carolina, Inc.	49,408			
Northwest Child Development Council, Inc. Boonville Children's Center	14,490		51,400	
Northwestern Regional Library *	35,425			
Yadkin County Health Department *	42,589	(1,664)		
Yadkin County Schools *	48,636	(105)	20,874	
Yadkin Valley Economic Development District, Inc.			3,560	
	<b>\$ 190,548</b>	<b>\$ (1,769)</b>	<b>\$ 75,834</b>	<b>\$ 0</b>
<i>Individuals:</i>				
Quality Enhancement Grants	1,926			
Salary Supplements	67,025			
	<b>\$ 68,951</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 0</b>
	<b>\$ 259,499</b>	<b>\$ (1,769)</b>	<b>\$ 75,834</b>	<b>\$ 0</b>
* These organizations are represented on the Partnership's Board as described in Note 4 - Service Provider Contracts with Board Member Organizations.				

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

***Schedule 2***

<b>Organization Name</b>	<b>DHHS Contracts</b>
Yadkin County Department of Social Services	* \$ 218,884
* 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 the North Carolina Department of Health and Human Services (DHHS) as described in Note 3 - Funding from Grant Awards.	

**Yadkin County Partnership for Children, Inc.**  
**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
<b>State Awards:</b>			
North Carolina Department of Health and Human Services			
Division of Child Development			
Pass-through from the North Carolina Partnership for Children, Inc.			
Early Childhood Initiatives Program (Prior Years)	* Various	\$ (53,801)	\$ 1
Early Childhood Initiatives Program (Current Year)	* N/A	530,854	511,395
Multi-County Accounting and Contracting Grant (Prior Year)	N/A	(3,945)	
Multi-County Accounting and Contracting Grant (Current Year)	N/A	12,000	11,539
Capacity Building Grant (Prior Year)	1-12-5-35-002	(17,663)	
Capacity Building Grant (Current Year)	* N/A	43,802	43,252
North Carolina Department of Health and Human Services			
More at Four Pre-Kindergarten Program	* 2090003348	54,960	54,960
<b>Total State Awards</b>		<b>\$ 566,207</b>	<b>\$ 621,147</b>
* 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.			



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

**Schedule 5**

<b>Match Provided at the Partnership Level:</b>			
Cash		\$	30,075
In-Kind Goods and Services			8,024
		\$	<u>38,099</u>
<b>Match Provided at the Contractor Level:</b>			
Cash		\$	57,554
In-Kind Goods and Services			34,693
		\$	<u>92,247</u>
<p>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.</p>			



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**

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Board of Directors  
Yadkin County Partnership For Children, Inc.  
Yadkinville, North Carolina

We have audited the financial statements of the Yadkin County Partnership For Children, Inc. (Yadkin Partnership) as of and for the year ended June 30, 2003, and have issued our report thereon dated January 9, 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 Yadkin 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 Yadkin 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.

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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 Yadkin Partnership's ability to 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**

Internal Control Processes

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

January 9, 2004

## **AUDIT FINDINGS AND RECOMMENDATIONS**

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### **Matters Related to Financial Reporting**

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

#### INTERNAL CONTROL PROCESSES

Our review of the Yadkin Partnership's system of internal control identified weaknesses in authorizing and processing of transactions. We also noted inaccuracies with the financial presentations of the Partnership that required adjustment through the audit process. Examples of errors noted included the following:

- Deficiencies were noted in the approval processes for payroll, journal entries, and bank reconciliations.
- Improper segregation of duties was identified for the receipting functions.
- Adjustments in excess of \$100,000 were necessary to present proper functional classifications and to correct misclassifications between unrestricted and temporarily restricted activities.

Weaknesses in the internal control system affect the Partnership's ability to achieve its goals and objectives and be accountable for its activities. Internal controls are the structure, policies, and procedures put in place to promote operational efficiency and effectiveness, protect Partnership staff, and to ensure adherence to prescribed managerial policies and compliance with applicable regulations.

*Recommendation:* We recommend that the Yadkin Partnership enhance its policies and procedures for the authorizing and processing of transactions, particularly for the areas identified above. Steps should be taken to properly segregate the receipting process. In addition, we recommend that the Partnership implement proper procedures for the classification and review of transactions to ensure that grant activities, as well as other revenue and expense transactions, are recorded correctly in the general ledger.

*Partnership's Response:* The Yadkin Partnership has implemented several processes in response to the recommendations made by the Office of the State Auditor. We have reviewed and made appropriate enhancements to our policies and procedures for the authorizing of transactions. The Executive Director now reviews and approves all journal entries, payroll reports, and bank reconciliations prior to final processing. We have reviewed the receipting functions and made adjustments to the processes to ensure that adequate segregation of duties now exists. In addition, we are currently developing and implementing procedures to ensure that all transactions, particularly grant activities, are reviewed and classified correctly for financial reporting purposes.



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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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The Honorable Beverly M. Perdue	Lieutenant Governor of North Carolina
The Honorable Richard H. Moore	State Treasurer
The Honorable Roy A. Cooper, III	Attorney General
Mr. David T. McCoy	State Budget Officer
Mr. Robert L. Powell	State Controller
Ms. Carmen Hooker Odom	Secretary, Department of Health and Human Services
Mr. Ashley Thrift	Chairman, Board of Directors
	The North Carolina Partnership for Children, Inc.
	Executive Director
	The North Carolina Partnership for Children, Inc.
Ms. Karen Ponder	

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### Other Legislative Officials

Mr. James D. Johnson	Director, Fiscal Research Division
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May 11, 2004

## ORDERING INFORMATION

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Copies of this report may be obtained by contacting the:

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