

STATE OF NORTH CAROLINA

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

NEWLAND, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2004

OFFICE OF THE STATE AUDITOR

LESLIE W. MERRITT, JR., CPA, CFP

STATE AUDITOR

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

NEWLAND, NORTH CAROLINA

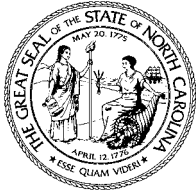
FOR THE YEAR ENDED JUNE 30, 2004

BOARD OF DIRECTORS

TOM BLEDSOE, BOARD CHAIRMAN

ADMINISTRATIVE OFFICER

KATE GAVENUS, EXECUTIVE DIRECTOR



STATE OF NORTH CAROLINA
Office of the State Auditor

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AUDITOR'S TRANSMITTAL

The Honorable Michael F. Easley, Governor
The General Assembly of North Carolina
Board of Directors, 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, 2004. 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. Inadequate Documentation of Competitive Bidding
2. Misappropriation of Assets

These matters are described in the Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters and the Audit Findings and Recommendations section of this report.

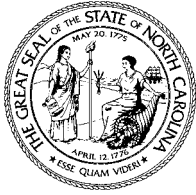
North Carolina General Statutes require the State Auditor to make audit reports available to the public. Copies of audit reports issued by the Office of the State Auditor may be obtained through one of the options listed in the back of this report.



Leslie W. Merritt, Jr., CPA, CFP
State Auditor

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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, 2004, 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, 2004, 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 5, 2004 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 grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results

INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Avery County Partnership for Children, Inc.'s basic financial statements. The information in Schedules 1, 3, 4, and 5 is presented for purposes of additional analysis and is not a required part of the basic financial statements. These Schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are 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.

Leslie W. Merritt, Jr.

Leslie W. Merritt, Jr., CPA, CFP
State Auditor

November 5, 2004

Avery County Partnership for Children, Inc.

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

For the Year Ended June 30, 2004

Exhibit A

	Unrestricted Funds		Temporarily Restricted Funds	Total Funds
	Smart Start Fund	Other Funds		
Receipts:				
State Awards (less refunds of \$1,053)	\$ 239,857	\$ 14,977	\$ 0	\$ 254,834
Federal Awards (less refunds of \$2,445)		44,903		44,903
Private Contributions		26,948	726	27,674
Interest and Investment Earnings		365		365
Sales Tax Refunds		1,435		1,435
Total Receipts	239,857	88,628	726	329,211
Net Assets Released from Restrictions:				
Satisfaction of Program Restrictions		360	(360)	
	239,857	88,988	366	329,211
Expenditures:				
Programs:				
Child Care and Education Affordability	21,247	1,040		22,287
Child Care and Education Quality	68,979	31,391		100,370
Family Support	40,040	8,148		48,188
Health and Safety	14,329	56,875		71,204
Support:				
Management and General	83,879	13,742		97,621
Program Evaluation	11,240	125		11,365
Other:				
Refund of Prior Year Grant		1,393		1,393
Sales Tax Paid		845		845
Total Expenditures	239,714	113,559		353,273
Excess of Receipts Over Expenditures	143	(24,571)	366	(24,062)
Net Assets at Beginning of Year	263	23,996	360	24,619
Net Assets at End of Year	\$ 406	\$ (575)	\$ 726	\$ 557
Net Assets Consisted of:				
Cash and Cash Equivalents	\$ 406	\$ 1,532	\$ 726	\$ 2,664
Less: Funds Held for Others		2,107		2,107
	\$ 406	\$ (575)	\$ 726	\$ 557

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, 2004

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 Affordability	\$ 21,247	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 21,247	\$ 0
Child Care and Education Quality	68,979	14,670	25,550	412	1,760	268		25,944	375
Family Support	40,040	23,441	100	3,297	1,951	1,948	173	9,130	
Health and Safety	14,329							14,329	
	<u>144,595</u>	<u>38,111</u>	<u>25,650</u>	<u>3,709</u>	<u>3,711</u>	<u>2,216</u>	<u>173</u>	<u>70,650</u>	<u>375</u>
Support:									
Management and General	83,879	65,660	2,501	997	7,838	6,823	60		
Program Evaluation	11,240	8,478		261	1,268	1,060	173		
	<u>95,119</u>	<u>74,138</u>	<u>2,501</u>	<u>1,258</u>	<u>9,106</u>	<u>7,883</u>	<u>233</u>		
Total Smart Start Fund Expenditures	\$ 239,714	\$ 112,249	\$ 28,151	\$ 4,967	\$ 12,817	\$ 10,099	\$ 406	\$ 70,650	\$ 375
Other Funds:									
Programs:									
Child Care and Education Affordability	\$ 1,040	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 1,040	\$ 0
Child Care and Education Quality	31,391	19,908	1,552	3,710	3,127	2,551	100		443
Family Support	8,148		1,175	733	288			5,952	
Health and Safety	56,875	13,864		4,756	1,609	333		36,313	
	<u>97,454</u>	<u>33,772</u>	<u>2,727</u>	<u>9,199</u>	<u>5,024</u>	<u>2,884</u>	<u>100</u>	<u>43,305</u>	<u>443</u>
Support:									
Management and General	13,742	4,743	8,488	135	113	263			
Program Evaluation	125	125							
	<u>13,867</u>	<u>4,868</u>	<u>8,488</u>	<u>135</u>	<u>113</u>	<u>263</u>			
Other:									
Refund of Prior Year Grant	1,393					1,393			
Sales Tax Paid	845			845					
	<u>2,238</u>			<u>845</u>		<u>1,393</u>			
Total Other Funds Expenditures	\$ 113,559	\$ 38,640	\$ 11,215	\$ 10,179	\$ 5,137	\$ 4,540	\$ 100	\$ 43,305	\$ 443

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, 2004

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, 2004.

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 of North Carolina 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 includes all demand and savings accounts and certificate of deposits or short-term investments with an original maturity of three months or less.
- 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 \$2,107.
- F. Property and Equipment** - Under the modified cash basis of accounting, purchases of property and equipment are reported as expenditures in the year occurred. However, Avery Partnership is required by contract regulation to track and maintain property and equipment items as presented in Schedule 4 of this report. The Avery Partnership has a policy to track purchases of property and equipment items with an individual cost of \$500 or more and an estimated useful life greater than one year. Such items are valued at their original purchase price, which may be different from their valuation as of June 30, 2004. Donated items are recorded at estimated fair market value at the date of donation.
- 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 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 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 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 \$240,887 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 \$144 of this contract to the State based on financial status reports submitted to NCPC subsequent to June 30, 2004.

The Avery 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 \$28,555 under a current year contract with DHHS and has received \$24,677 of this amount. The Avery Partnership incurred costs up to the amount awarded with the balance of the contract to be

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

received subsequent to year-end. The Avery Partnership expects to receive continued funding through new CCR&R Program 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 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 Avery 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 Affordability - Used to account for service activities associated with supplements for quality outside the Division of Child Development.

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.

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

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.

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 – Direct allocation based on employee time reports.

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

NOTE 6 - OPERATING LEASE OBLIGATIONS

Future minimum lease payments under noncancelable operating leases consist of the following at June 30, 2004:

<u>Fiscal Year</u>	<u>Operating Leases</u>
2005	\$ 3,032
2006	1,632
2007	1,632
2008	1,632
2009	952
Total Minimum Lease Payments	<u>\$ 8,880</u>

Rental expense for all operating leases during the year was \$9,811.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 7 - PENSION PLAN

Deferred Compensation and Supplemental Retirement Income Plans - IRC Section 403(b) Plan - 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, 2004. 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. The Avery Partnership contributed \$3,787 for retirement benefits during the year.

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

A. 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 costs earned and unpaid, are not reflected in the financial

NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

statements. The compensated absences commitment for vacation leave at June 30, 2004, is \$3,342. No funds or reservation of net assets has been made for this commitment.

- B. Commitments on Contracts** - The Avery Partnership had outstanding commitments of \$4,327 on cost-reimbursement contracts that had not been paid at June 30, 2004.

NOTE 10 - RESTRICTIONS ON NET ASSETS

- A. Temporarily Restricted Net Assets** - Temporarily restricted net assets at June 30, 2004 are available for the following purposes:

Purpose	Amount
Music Education Program	\$ <u>726</u>

- B. Net Assets Released From Donor Restrictions** - Net assets were released from donor restrictions during the fiscal year ended June 30, 2004, by incurring expenditures satisfying the restricted purposes as follows:

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

Avery County Partnership for Children, Inc.
Schedule of Contract and Grant Expenditures - Modified Cash Basis
For the Year Ended June 30, 2004

Schedule 1

Organization Name	Smart Start Fund		Other Funds	
	Amount Advanced	Refund Due	Amount Advanced	Refund Due
A Child's Place Preschool	\$ 6,383	\$ 0	\$ 55	\$ 0
Avery County Public School System	* 5,687			
Avery County Transportation	* 2,900		540	
Avery-Mitchell-Yancy Regional Library			5,000	
Banner Elk Child Development Center	950			
Dr. Emma Sloop Fink Child Development Center	10,423			
Intermountain Children's Services	* 4,920			
Little Learner's, Inc.	* 2,025			
Loved Ones Child Care	5,828		285	
Margies Love	* 450			
Mayland Community College			240	
Newland Child Development Center	* 645			
Parent to Parent/Family Support System of the High Country (Appalachian State University)	6,230			
Phillips-Gwaltney Child Development Center	* 16,109		700	
Toe River Health District	* 8,100		36,185	
	70,650		43,005	
Individuals:				
Bonus Awards			300	
	\$ 70,650	\$ 0	\$ 43,305	\$ 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, 2004

Schedule 2

Organization Name		DHHS Contracts
Avery County Department of Social Services	*	\$ 82,800
Child Care Services Association - WAGE\$ Program		28,057
		<u>\$ 110,857</u>
<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, 2004

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 (Prior Year)	93.575	5978	\$ 6,777	\$ 0
Child Care and Development Block Grant (Current Year)	93.575	5978	7,105	7,105
Pass-through from Child Care Connections of Burke County, Inc.				
Child Care and Development Block Grant (Current Year)	93.575	* DCD11-3	17,573	21,450
US Department of Health and Human Services				
Pass-through from the North Carolina Department of Health and Human Services - Division of Medical Assistance				
Pass-through from the New River Behavioural Healthcare				
Pass-through from Parent to Parent (Appalachian State University)				
Family Advocacy Program	93.778	N/A	13,448	15,374
Total Federal Awards			44,903	43,929
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)		N/A	(1,030)	(1,029)
Early Childhood Initiatives Program (Current Year)		* N/A	240,887	240,743
Multi-County Accounting and Contracting Grant		N/A	12,000	12,000
North Carolina Department of Health and Human Services				
Division of Child Development				
More at Four Pre-Kindergarten Program		2090003325	(23)	
North Carolina Department of Insurance				
Safe Kids Program		N/A	3,000	3,000
Total State Awards			254,834	254,714
Total Federal and State Awards			\$ 299,737	\$ 298,643

* 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.

Avery County Partnership for Children, Inc.

Schedule of Property and Equipment - Modified Cash Basis

For the Year Ended June 30, 2004

Schedule 4

Furniture and Noncomputer Equipment	\$	9,094
Computer Equipment/Printers		23,977
Leasehold Improvements		2,500
Motor Vehicles		5,928
Total Property and Equipment	\$	<u>41,499</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, 2004

Schedule 5

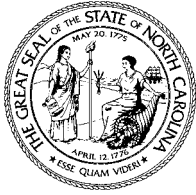
Match Provided at the Partnership Level:

Cash	\$	27,447
In-Kind Goods and Services		15,726
	\$	<u>43,173</u>

Match Provided at the Contractor Level:

Cash	\$	<u>20,414</u>
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Note: This schedule is presented in accordance with the program match requirement as provided for by North Carolina Session Law 2003-284, Section 10.38(c). The North Carolina Partnership for Children, Inc. and all local partnerships are required to match the total amount budgeted for the Smart Start Program in each fiscal year. The match is comprised of both cash and in-kind amounts. Only in-kind contributions that are verifiable, quantifiable, and related to the Smart Start Program can be applied to the in-kind match requirement, including volunteer services. The law allows for volunteer services to be valued for match purposes, a concept that deviates from generally accepted accounting principles. This schedule identifies those amounts allowable for this partnership in meeting the statewide match requirement.



Leslie W. Merritt, Jr., CPA, CFP
State Auditor

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**INDEPENDENT AUDITOR'S REPORT
ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS 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, 2004, and have issued our report thereon dated November 5, 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.

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 an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable 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 caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted a matter involving the internal control over financial reporting, which we have reported to the management of the Avery Partnership in a separate letter dated January 11, 2005.

Compliance and Other Matters

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 grant agreements, noncompliance with

**INDEPENDENT AUDITOR'S REPORT
ON INTERNAL CONTROL OVER FINANCIAL REPORTING
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GOVERNMENT AUDITING STANDARDS (CONCLUDED)**

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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are reported, with responses, in the Audit Findings and Recommendations section of this report.

Finding

1. Inadequate Documentation of Competitive Bidding
2. Misappropriation of Assets

This report is intended solely for the information and use of the audit committee, management of the Avery 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.

Leslie W. Merritt, Jr.

Leslie W. Merritt, Jr., CPA, CFP
State Auditor

November 5, 2004

AUDIT FINDINGS AND RECOMMENDATIONS

Matters Related to Financial Reporting

The following findings and recommendations were identified during the current audit and discuss conditions that represent noncompliance or other matters with laws, regulations, contracts, or grants.

1. INADEQUATE DOCUMENTATION OF COMPETITIVE BIDDING

Adequate documentation was not available to support the Avery Partnership's compliance with legislatively mandated competitive bidding requirements.

Recommendation: We recommend that the Avery Partnership enhance its documentation procedures to support compliance with the competitive bidding guidelines established by The North Carolina Partnership for Children, Inc. and the *North Carolina General Statutes*.

Partnership's Response: We agree to this finding. Although there was no impropriety in the bidding process or conflict of interest in the awarding of bids, the documentation of such was inadequate. The Partnership Administration and Board will be diligent in following established procedures in future bids and contracts to ensure compliance with NCPC and *North Carolina General Statutes*. Fiscal and Administrative staff will be attending NCPC training in the near future on bidding and contracting.

2. MISAPPROPRIATION OF ASSETS

The Avery Partnership's former Finance Director misappropriated funds handled by the Partnership during the period from March to July 2004. A total of \$5,237 was diverted for personal use, of which \$3,289 occurred during our fiscal year. This discrepancy was discovered and documented by the Executive Director on July 28, 2004 and immediately reported to its oversight funding agencies. The Finance Director was terminated and the misappropriation was referred to the proper legal authorities. Restitution of all identified misappropriated funds was received in August 2004.

Recommendation: We recommend that the Avery Partnership continue to monitor and exercise proper oversight for the expenditure of all funds maintained by the Partnership.

Partnership's Response: The ACPFC was "commended" by the Auditor's Exit Interview Team for its handling of the incident. The incident was created by an employee circumventing all procedures and controls in place to divert Partnership funds for their own use. Through controls the incident was discovered, documented and reported. All funds have been remunerated and appropriate legal actions taken. On January 3, 2005, the Partnership put additional controls in place to further guard against future occurrences.

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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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State Treasurer
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The North Carolina Partnership for Children, Inc.
Executive Director
The North Carolina Partnership for Children, Inc.

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Director, Fiscal Research Division

February 16, 2005

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