

**Financial Statement Audit Report of**  
**Avery County Partnership for Children**  
**Newland, North Carolina**  
**For the Year Ended June 30, 2005**

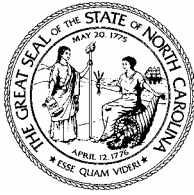
Performed Under Contract With the  
North Carolina Office of the State Auditor

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

**Financial Statement Audit Report of**  
**Avery County Partnership for Children**  
**Newland, North Carolina**  
**For the Year Ended June 30, 2005**

**Board of Directors**  
**Tom Bledsoe, Chair**

**Administrative Officer**  
**Dennis Betz, Executive Director**



STATE OF NORTH CAROLINA  
Office of the State Auditor

Leslie W. Merritt, Jr., CPA, CFP  
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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, Avery County Partnership for Children

This report presents the results of the financial statement audit of Avery County Partnership for Children for the year ended June 30, 2005. Winston, Williams, Creech, Evans and Company, LLP performed the audit under contract with the Office of the State Auditor, and their report is submitted herewith.

The audit of the Avery County Partnership for Children was made in conjunction with the Early Childhood Initiatives (Smart Start) program authorized by G.S. 143B-168.10-16. This statute created the North Carolina Partnership for Children, Inc., and required the implementation of local partnerships. The Avery County Partnership for Children is one of these local partnerships. As such, the Avery County Partnership for Children is a private nonprofit 501(c)(3) organization and is required by G.S. 143B-168.14 to have an annual financial and compliance audit conducted by the State Auditor. The State Auditor's authority to perform or coordinate all audit functions for state government is set forth in Article 5 of Chapter 147 of the *North Carolina General Statutes*.

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

*Leslie W. Merritt, Jr.*

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

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# Winston, Williams, Creech, Evans & Company, LLP

Certified Public Accountants



The CPA. Never Underestimate The Value.™

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## INDEPENDENT AUDITOR'S REPORT

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Board of Directors  
Avery County Partnership for Children  
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 (Avery Partnership) as of June 30, 2005, 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 misstatement. 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 Avery County Partnership for Children as of June 30, 2005, 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.

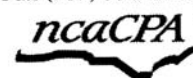
In accordance with *Government Auditing Standards* we have also issued a report dated March 15, 2006, on our consideration of the Avery Partnership's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations,

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## INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

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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 of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. 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.

Our audit was performed for the purpose of forming an opinion on the basic financial statements that collectively comprise the Avery County Partnership for Children'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, 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 to the audit of the basic financial statements and, accordingly, we express no opinion on Schedule 2.

*Winston, Williams, Creech, Evans and Company, LLP*

Winston, Williams, Creech, Evans and Company, LLP  
Certified Public Accountants

March 15, 2006

**Avery County Partnership for Children**  
**Statement of Receipts, Expenditures, and Net Assets - Modified Cash Basis**  
**For the Year Ended June 30, 2005**

**Exhibit A**

	Unrestricted Funds		Temporarily Restricted Funds	Total Funds
	Smart Start Fund	Other Funds		
<b>Receipts:</b>				
State Awards (less refunds of \$4,197)	\$ 251,123	\$ 12,000	\$ 0	\$ 263,123
Federal Awards	0	5,466	0	5,466
Private Contributions	0	12,938	3,363	16,301
Special Fund Raising Events	0	226	0	226
Interest and Investment Earnings	0	5	0	5
Sales Tax Refunds	0	1,041	0	1,041
<b>Total Receipts</b>	<b>251,123</b>	<b>31,676</b>	<b>3,363</b>	<b>286,162</b>
Net Assets Released from Restrictions:				
Satisfaction of Program Restrictions	0	628	(628)	0
	<b>251,123</b>	<b>32,304</b>	<b>2,735</b>	<b>286,162</b>
<b>Expenditures:</b>				
Programs:				
Child Care and Education Affordability	22,500	90	0	22,590
Child Care and Education Quality	74,900	4,798	0	79,698
Family Support	46,223	11,462	0	57,685
Health and Safety	17,812	4,436	0	22,248
Support:				
Management and General	81,704	13,144	0	94,848
Program Evaluation	8,390	0	0	8,390
Other:				
Sales Tax Paid	0	1,379	0	1,379
<b>Total Expenditures</b>	<b>251,529</b>	<b>35,309</b>	<b>0</b>	<b>286,838</b>
<b>Excess of Receipts Over Expenditures</b>	<b>(406)</b>	<b>(3,005)</b>	<b>2,735</b>	<b>(676)</b>
<b>Net Assets at Beginning of Year</b>	<b>406</b>	<b>(575)</b>	<b>726</b>	<b>557</b>
<b>Net Assets at End of Year</b>	<b>\$ 0</b>	<b>\$ (3,580)</b>	<b>\$ 3,461</b>	<b>\$ (119)</b>
<b>Net Assets Consisted of:</b>				
Cash and Cash Equivalents	\$ 3,690	\$ 80,079	\$ 3,461	\$ 87,230
Refunds Due From Contractors	18	0	0	18
	<b>3,708</b>	<b>80,079</b>	<b>3,461</b>	<b>87,248</b>
Less: Due to the Primary Government	(3,708)	0	0	(3,708)
Funds Held for Others	0	(83,659)	0	(83,659)
	<b>\$ 0</b>	<b>\$ (3,580)</b>	<b>\$ 3,461</b>	<b>\$ (119)</b>

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

***Avery County Partnership for Children  
Statement of Functional Expenditures - Modified Cash Basis  
For the Year Ended June 30, 2005***

***Exhibit B***

	<b>Total</b>	<b>Personnel</b>	<b>Contracted Services</b>	<b>Supplies and Materials</b>	<b>Other Operating Expenditures</b>	<b>Fixed Charges and Other Expenditures</b>	<b>Property and Equipment Outlay</b>	<b>Services/Contracts/Grants</b>
<b>Smart Start Fund:</b>								
<b>Programs:</b>								
Child Care and Education Affordability	\$ 22,500	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 22,500
Child Care and Education Quality	74,900	0	23,000	0	0	0	0	51,900
Family Support	46,223	15,316	4,197	5,713	6,406	2,381	741	11,469
Health and Safety	17,812	0	0	0	0	0	0	17,812
	<u>161,435</u>	<u>15,316</u>	<u>27,197</u>	<u>5,713</u>	<u>6,406</u>	<u>2,381</u>	<u>741</u>	<u>103,681</u>
<b>Support:</b>								
Management and General	81,704	58,949	1,219	1,843	9,744	8,222	1,727	0
Program Coordination	8,390	8,286	0	86	18	0	0	0
	<u>90,094</u>	<u>67,235</u>	<u>1,219</u>	<u>1,929</u>	<u>9,762</u>	<u>8,222</u>	<u>1,727</u>	<u>0</u>
<b>Total Smart Start Fund Expenditures</b>	<u>\$ 251,529</u>	<u>\$ 82,551</u>	<u>\$ 28,416</u>	<u>\$ 7,642</u>	<u>\$ 16,168</u>	<u>\$ 10,603</u>	<u>\$ 2,468</u>	<u>\$ 103,681</u>
<b>Other Funds:</b>								
<b>Programs:</b>								
Child Care and Education Affordability	\$ 90	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 90
Child Care and Education Quality	4,798	336	628	1,300	1,146	545	0	843
Family Support	11,462	0	270	32	23	2,637	0	8,500
Health and Safety	4,436	0	0	109	0	127	0	4,200
	<u>20,786</u>	<u>336</u>	<u>898</u>	<u>1,441</u>	<u>1,169</u>	<u>3,309</u>	<u>0</u>	<u>13,633</u>
<b>Support:</b>								
Management and General	13,144	0	8,554	371	343	602	3,274	0
	<u>13,144</u>	<u>0</u>	<u>8,554</u>	<u>371</u>	<u>343</u>	<u>602</u>	<u>3,274</u>	<u>0</u>
<b>Other:</b>								
Sales Tax Paid	1,379	0	0	1,379	0	0	0	0
	<u>1,379</u>	<u>0</u>	<u>0</u>	<u>1,379</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
<b>Total Other Funds Expenditures</b>	<u>\$ 35,309</u>	<u>\$ 336</u>	<u>\$ 9,452</u>	<u>\$ 3,191</u>	<u>\$ 1,512</u>	<u>\$ 3,911</u>	<u>\$ 3,274</u>	<u>\$ 13,633</u>

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, 2005**

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**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, 2005.

**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.

However, unexpended advances to contractors that revert back to the State of North Carolina are recognized as a reduction to expenditures and

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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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. In addition, Smart Start funds advanced to the local Partnership that are unexpended and unearned at year-end are recorded as a Due to the Primary Government.

- 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. 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. Due to the Primary Government** – The funding provided by the State of North Carolina for the Smart Start program is funded on a cost reimbursement basis. The money is earned to the extent of allowable costs incurred. Any unexpended funds as of June 30 are required to be reverted to The North Carolina Partnership for Children, Inc. to be returned to the State of North Carolina.
- G. 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 Volunteer Avery County in the amount of \$83,659.
- H. 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, 2005. Donated items are recorded at estimated fair market value at the date of donation.
- I. 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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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compensated absences for accumulated, unpaid leave that would be due to employees upon termination is reported as a commitment in Note 8.

- J. Use of Estimates** – The preparation of financial statements in conformity with the other comprehensive basis of accounting used by the Avery Partnership requires management to make estimates and assumptions that affect certain reported amounts and disclosures (such as allocation of joint costs); accordingly, actual results could differ from those estimates. It is management's belief that these estimates are reasonable and fair.

### NOTE 2 - 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 \$255,320 under a current year Smart Start contract with NCPC. The unexpended balance of this contract is subject to reversion to the State. The Avery Partnership has returned \$3,708 of this contract to the State based on financial status reports submitted to NCPC subsequent to June 30, 2005.

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

### NOTE 3 - 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 Avery Partnership

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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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 4 - 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 upgrades, maintenance, child care resource and referral, professional development, child care substitutes, salary supplements, provider training, health/safety training for child care professionals, special needs – support for child care professionals, child care data – workforce studies, learning materials and teaching aids, or curriculum enhancements.

**Family Support** – Used to account for service activities including family resource centers, parenting skills training, teen parent/child programs, ongoing parenting education, general family support, literacy projects, family literacy projects, transportation services, or community outreach information and resources.

**Health and Safety** – Used to account for service activities including oral health services, speech and hearing screenings, vision screenings, prenatal/newborn services, comprehensive health support, child abuse and neglect intervention, special needs – early intervention services/special education, transportation to health services, health needs and resources assessment, developmental screenings, nutrition programs, or home visiting.

## 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 estimated time spent by employees for each function.

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

### NOTE 5 - OPERATING LEASE OBLIGATIONS

Future minimum lease payments under noncancelable operating leases consist of the following at June 30, 2005:

<u>Fiscal Year</u>	<u>Operating Leases</u>
2006	\$ 1,632
2007	1,632
2008	1,632
2009	952
Total Minimum Lease Payments	<u>\$ 5,848</u>

Rental expense for all operating leases during the year was \$7,435.

### NOTE 6 - 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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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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, 2005. 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 \$1,816 for retirement benefits during the year.

### NOTE 7 - 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 8 - COMMITMENTS AND CONTINGENCIES

**Commitments on Contracts** – The Avery Partnership had outstanding commitments of \$1,346 on cost-reimbursement contracts that had not been paid at June 30, 2005.

**NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)**

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**NOTE 9 - RESTRICTIONS ON NET ASSETS**

- A. Temporarily Restricted Net Assets** – Temporarily restricted net assets at June 30, 2005 are available for the following purposes:

<u>Purpose</u>	<u>Amount</u>
Hispanic Outreach Books and Materials	\$ 1,863
Music and Children's Education Program	<u>1,598</u>
	<u>\$ 3,461</u>

- B. Net Assets Released From Donor Restrictions** – Net assets were released from donor restrictions during the fiscal year ended June 30, 2005, by incurring expenditures satisfying the restricted purposes as follows:

<u>Purpose</u>	<u>Amount</u>
Music Education Program	<u>\$ 628</u>

***Avery County Partnership for Children  
Schedule of Contract and Grant Expenditures - Modified Cash Basis  
For the Year Ended June 30, 2005***

***Schedule 1***

Organization Name	Smart Start Fund		Other Funds	
	Amount Advanced	Refund Due	Amount Advanced	Refund Due
A Child's Place Preschool	* \$ 3,806	\$ 0	\$ 0	\$ 0
Avery County Even Start	* 1,558			
Avery County Public School System	* 9,515			
Avery County Transportation	* 1,954			
Avery-Mitchell-Yancey Regional Library			5,000	
Banner Elk Child Development Center	1,995			
Child Care Connections of Burke County	28,739	18		
Dr. Emma Sloop Fink Child Development Center	12,239			
Intermountain Children's Services	* 5,055			
Margie's Love	* 495		60	
Munchkin Land Child Development Center	2,505		484	
Newland Child Development Center	210		30	
Parent to Parent/Family Support System of the High Country (ASU)	6,500			
Phillips Gwaltney Child Development Center	* 17,816		359	
Smart Smiles			4,200	
Toe River Health District	* 11,312			
	<u>103,699</u>	<u>18</u>	<u>10,133</u>	<u>0</u>
<b>Individuals:</b>				
Scholarships/Bonus Awards			3,500	
	<u>0</u>	<u>0</u>	<u>3,500</u>	<u>0</u>
	<u>\$ 103,699</u>	<u>\$ 18</u>	<u>\$ 13,633</u>	<u>\$ 0</u>

\* These organizations are represented on the Partnership's Board as described in Note 3 - Service Provider Contracts with Board Member Organizations.



***Avery County Partnership for Children  
Schedule of State Level Service Provider Contracts  
For the Year Ended June 30, 2005***

***Schedule 2***

<b>Organization Name</b>	<b>DHHS Contracts</b>
Avery County Department of Social Service *	\$ 88,305
Child Care Services Association - WAGE\$ Program	32,661
	<u>\$ 120,966</u>

\* This organization is represented on the Partnership's Board as described in Note 3 - 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 2 - Funding from Grant Awards.

**Avery County Partnership for Children**  
**Schedule of Federal and State Awards - Modified Cash Basis**  
**For the Year Ended June 30, 2005**

**Schedule 3**

Federal/State Grantor/Pass-through Grantor/Program	Federal CFDA Number	Contract #	Receipts	Expenditures
<b>Federal Awards:</b>				
US Department of Health and Human Services Pass-through from the North Carolina Department of Health and Human Services - Division of Child Development Pass-through from Child Care Connections of Burke Co., Inc. Child Care and Development Block Grant (Prior Year)	93.575	DCD11-3	\$ 3,877	\$ 0
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 (ASU) Family Advocacy Program	93.778	N/A	<u>1,589</u>	<u>(337)</u>
<b>Total Federal Awards</b>			<u>5,466</u>	<u>(337)</u>
<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 Year)		N/A	(489)	(83)
Early Childhood Initiatives Program (Current Year)	*	N/A	251,612	251,612
Multi-County Accounting and Contracting Grant		N/A	<u>12,000</u>	<u>11,902</u>
<b>Total State Awards</b>			<u>263,123</u>	<u>263,431</u>
<b>Total Federal and State Awards</b>			<u>\$ 268,589</u>	<u>\$ 263,094</u>

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

**Notes to the Schedule of Federal and State Awards - Modified Cash Basis**

1. The accompanying schedule of federal and state awards includes the federal and State grant activity of the Avery County Partnership for Children and is presented on the modified cash basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the financial statements.

***Avery County Partnership for Children  
Schedule of Property and Equipment - Modified Cash Basis  
For the Year Ended June 30, 2005***

***Schedule 4***

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Furniture and Noncomputer Equipment	\$	8,535
Computer Equipment/Printers		24,969
Leasehold Improvements		2,500
Motor Vehicles		<u>5,928</u>
Total Property and Equipment	\$	<u><u>41,932</u></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 cash basis of accounting, these items are expensed in the year of purchase.

***Avery County Partnership for Children  
Schedule of Qualifying Match (Non-GAAP)  
For the Year Ended June 30, 2005***

***Schedule 5***

***Match Provided at the Partnership Level:***

Cash	\$	16,613
In-Kind Goods and Services		<u>20,957</u>
	\$	<u><u>37,570</u></u>

***Match Provided at the Contractor Level:***

Cash	\$	<u><u>17,824</u></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.



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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**

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

We have audited the accompanying financial statements of the Avery County Partnership for Children (Avery Partnership) as of and for the year ended June 30, 2005, and have issued our report thereon dated March 15, 2006. 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. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Avery Partnership's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable conditions are reported, with responses, in the Audit Findings and Recommendations section of this report:

**Finding**

- 05-1 Internal Control Weaknesses
- 05-3 Contract Management and Monitoring Deficiencies

**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 (CONCLUDED)**

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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. 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 believe none of the reportable conditions described above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Avery County 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 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**

- 05-1 Internal Control Weaknesses
- 05-2 Inadequate Documentation of Competitive Bidding
- 05-3 Contract Management and Monitoring Deficiencies

We noted certain matters that we reported to management of the Avery County Partnership in a separate letter dated March 15, 2006.

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.

*Winston, Williams, Creech, Evans and Company, LLP*

Winston, Williams, Creech, Evans and Company, LLP  
Certified Public Accountants

March 15, 2006

## **AUDIT FINDINGS AND RECOMMENDATIONS**

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### **Financial Statement Findings**

The following findings and recommendations were identified during the current audit and describe conditions that represent significant deficiencies in internal control and/or noncompliance with laws, regulations, contracts, or grants. Finding numbers 05-2 and 05-3 were also reported in the prior year.

#### **05-1 INTERNAL CONTROL WEAKNESSES**

Our testwork identified several deficiencies in the Avery Partnership's system of internal control as related to processing of general disbursements. In these cases, transactions were not being processed in accordance with the Partnership's established policies and procedures. The items noted included:

- We noted instances of payments being made from vendor statements rather than actual invoices. We also noted an instance of a credit card being paid from a statement without all of the receipts attached to support the payment.
- We noted instances of Purchase Orders (PO) not being used in accordance with the policy. When a PO is required for a purchase it should be prepared and approved prior to the expense being incurred.
- We noted several instances of disbursements with no documentation of the Executive Director's approval on the actual invoice.
- In all instances sampled we noted the invoices were not being stamped "PAID" to prevent duplicate payment.
- The Partnership's accounts payable policies state that credit limits on revolving credit may not exceed \$1,500. Review of the Partnership's credit limit for its revolving credit disclosed that the credit limit is \$15,000.

*Recommendation:* We recommend that the Avery Partnership review its current operations and make appropriate changes to ensure adherence with its approved policies and procedures. Proper reviews and authorizations should be documented within the Partnership's accounting records.

*Partnership's Response:* The Avery County Partnership for Children (ACPFC) experienced significant changes in staff turnover beginning August 2004 with a new Finance Officer (FO) and in January 2005 with a new Executive Director (ED). New staff members have attended North Carolina Partnership for Children (NCPC) trainings. Even though there were reported paperwork deficiencies we would like to note there was no error noted of overpayment or underpayment of any invoice. The NCPC monitors came for a monitoring visit after year end and current policies and procedures were updated. We have made tremendous progress. New credit limits have been set by the Board, credit limits have been reduced and policy and procedures reflect the change.

## **AUDIT FINDINGS AND RECOMMENDATIONS (CONCLUDED)**

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### 05-2 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:* Fiscal and administrative staff have attended NCPC trainings on bidding and contracting. 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.

### 05-3 CONTRACTS MANAGEMENT AND MONITORING

We identified several deficiencies in our review of Avery County Partnership's contract management and monitoring procedures.

- The contracts for professional services were inadequate and did not clearly state the terms of the contract concerning payment and extent of the contract.
- Our review of the monitoring of the Level Bonus and Floater program noted that documentation was lacking to support the monitoring for specific eligibility requirements.
- Monitoring for the direct service provider was not done until after the year-end.

Effective contracts provide a clear understanding between the Partnership and the contractor and communicate all requirements. Effective contract monitoring provides a reporting of actual performance in relation to expected outcomes and a measurement focus on compliance with program requirements.

*Recommendation:* We recommend that the Avery Partnership establish policies and procedures for its contract management and monitoring activities to ensure that documentation is maintained to support compliance with program eligibility requirements.

*Partnership's Response:* Staff has received training from NCPC in contracting, grants management, and monitoring. Due to staff turnover and inadequate training monitoring was completed late. Policies and procedures have been updated. 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.



## **ORDERING INFORMATION**

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