

Financial Statement Audit Report of
Alamance County Partnership for Children
Burlington, North Carolina
For the Year Ended June 30, 2005

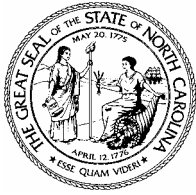
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North Carolina Office of the State Auditor

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

Financial Statement Audit Report of
Alamance County Partnership for Children
Burlington, North Carolina
For the Year Ended June 30, 2005

Board of Directors
Jeffrey Causey, Board Chair

Administrative Officer
Peggy Teague, 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, Alamance County Partnership for Children

This report presents the results of the financial statement audit of Alamance 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 Alamance 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 Alamance County Partnership for Children is one of these local partnerships. As such, the Alamance 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

TABLE OF CONTENTS

	PAGE
INDEPENDENT AUDITOR'S REPORT	1
FINANCIAL STATEMENTS	
EXHIBITS	
A – Statement of Receipts, Expenditures, and Net Assets – Modified Cash	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	11
2 Schedule of State Level Service Provider Contracts	12
3 Schedule of State and Federal Awards – Modified Cash Basis	13
4 Schedule of Property and Equipment – Modified Cash Basis	14
5 Schedule of Qualifying Match (Non-GAAP)	15
Independent Auditor's Report of Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statement Performed in Accordance with <i>Government Auditing Standards</i>	17
Audit Findings and Recommendations	19
Ordering Information	21

Winston, Williams, Creech, Evans & Company, LLP

Certified Public Accountants



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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Alamance County Partnership for Children
Burlington, North Carolina

We have audited the accompanying Statement of Receipts, Expenditures, and Net Assets – Modified Cash Basis of the Alamance County Partnership for Children (Alamance 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 Alamance 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 Alamance 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 June 22, 2006, on our consideration of the Alamance Partnership's internal control over

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INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

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 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 Alamance 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

June 22, 2006

***Alamance 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		Total Funds
	Smart Start Fund	Other Funds	
Receipts:			
State Awards (less refunds of \$103,570)	\$ 1,081,940	\$ 12,000	\$ 1,093,940
Federal Awards	0	23,559	23,559
Private Contributions	0	9,940	9,940
Interest and Investment Earnings	0	1,537	1,537
Sales Tax Refunds	0	11,208	11,208
Other Receipts	0	5,843	5,843
Total Receipts	1,081,940	64,087	1,146,027
Expenditures:			
Programs:			
Child Care and Education Quality	677,035	52,250	729,285
Family Support	55,193	34	55,227
Health and Safety	108,316	0	108,316
More at Four	30,240	0	30,240
Support:			
Management and General	172,270	12,141	184,411
Program Coordination	57,961	0	57,961
Program Evaluation	25,410	1,904	27,314
Other:			
Refund of Prior Year Grant	0	1,130	1,130
Sales Tax Paid	0	7,416	7,416
Total Expenditures	1,126,425	74,875	1,201,300
Excess of Receipts Over Expenditures	(44,485)	(10,788)	(55,273)
Net Assets at Beginning of Year	44,485	17,557	62,042
Net Assets at End of Year	\$ 0	\$ 6,769	\$ 6,769
Net Assets Consisted of:			
Cash and Cash Equivalents	\$ 52,566	\$ 6,769	\$ 59,335
Refunds Due from Contractors	274	0	274
	52,840	6,769	59,609
Less: Due to the Primary Government	(52,840)	0	(52,840)
	\$ 0	\$ 6,769	\$ 6,769

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

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

Exhibit B

	Total	Personnel	Contracted Services	Supplies and Materials	Other Operating Expenditures	Fixed Charges and Other Expenditures	Property and Equipment Outlay	Services/Contracts/Grants	Participant Training Expenditures
Smart Start Fund:									
Programs:									
Child Care and Education Quality	\$ 677,035	\$ 272,154	\$ 42,606	\$ 10,428	\$ 47,005	\$ 5,912	\$ 31,835	\$ 263,335	\$ 3,760
Family Support	55,193	0	0	0	0	0	0	55,193	0
Health and Safety	108,316	15,750	667	2,806	942	261	9,461	78,429	0
More at Four	30,240	0	0	0	0	0	0	30,240	0
	<u>870,784</u>	<u>287,904</u>	<u>43,273</u>	<u>13,234</u>	<u>47,947</u>	<u>6,173</u>	<u>41,296</u>	<u>427,197</u>	<u>3,760</u>
Support:									
Management and General	172,270	127,362	14,655	3,477	15,850	5,126	5,800	0	0
Program Coordination	57,961	46,778	2,890	444	6,247	114	1,488	0	0
Program Evaluation	25,410	0	24,923	54	430	3	0	0	0
	<u>255,641</u>	<u>174,140</u>	<u>42,468</u>	<u>3,975</u>	<u>22,527</u>	<u>5,243</u>	<u>7,288</u>	<u>0</u>	<u>0</u>
Total Smart Start Fund Expenditures	<u>\$ 1,126,425</u>	<u>\$ 462,044</u>	<u>\$ 85,741</u>	<u>\$ 17,209</u>	<u>\$ 70,474</u>	<u>\$ 11,416</u>	<u>\$ 48,584</u>	<u>\$ 427,197</u>	<u>\$ 3,760</u>
Other Funds:									
Programs:									
Child Care and Education Quality	\$ 52,250	\$ 35,443	\$ 330	\$ 1,376	\$ 9,721	\$ 96	\$ 1,863	\$ 1,408	\$ 2,013
Family Support	34	0	0	0	34	0	0	0	0
	<u>52,284</u>	<u>35,443</u>	<u>330</u>	<u>1,376</u>	<u>9,755</u>	<u>96</u>	<u>1,863</u>	<u>1,408</u>	<u>2,013</u>
Support:									
Management and General	12,141	0	12,000	41	43	0	0	57	0
Program Evaluation	1,904	0	1,904	0	0	0	0	0	0
	<u>14,045</u>	<u>0</u>	<u>13,904</u>	<u>41</u>	<u>43</u>	<u>0</u>	<u>0</u>	<u>57</u>	<u>0</u>
Other:									
Refund of Prior Year Grant	1,130	0	0	0	1,130	0	0	0	0
Sales Tax Paid	7,416	0	0	7,416	0	0	0	0	0
	<u>8,546</u>	<u>0</u>	<u>0</u>	<u>7,416</u>	<u>1,130</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total Other Funds Expenditures	<u>\$ 74,875</u>	<u>\$ 35,443</u>	<u>\$ 14,234</u>	<u>\$ 8,833</u>	<u>\$ 10,928</u>	<u>\$ 96</u>	<u>\$ 1,863</u>	<u>\$ 1,465</u>	<u>\$ 2,013</u>

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

ALAMANCE COUNTY PARTNERSHIP FOR CHILDREN
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2005

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

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

The Alamance Partnership did not have any temporarily or 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 an increase to net assets. 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

- 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. Property and Equipment** – Under the modified cash basis of accounting, purchases of property and equipment are reported as expenditures in the year occurred. However, Alamance Partnership is required by contract regulation to track and maintain property and equipment items as presented in Schedule 4 of this report. The Alamance 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.
- H. 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.
- I. Use of Estimates** - The preparation of financial statements in conformity with the modified cash basis of accounting used by the Alamance 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 Alamance Partnership are deposited with a commercial bank and insured by the Federal Deposit Insurance Corporation (FDIC) up to \$100,000 per bank. Deposits over this amount subjects the Alamance Partnership to a concentration of credit risk. At June 30, 2005, the Alamance Partnership's bank deposits in excess of the FDIC insured limit was \$82,235.

NOTE 3 - FUNDING FROM GRANT AWARDS

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

Associated with these contracts, the Alamance 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 Alamance 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 Alamance Partnership was awarded and has received \$1,185,510 under a current year Smart Start contract with NCPC. The unexpended balance of this contract is subject to reversion to the State. The Alamance Partnership has returned \$52,840 of this contract to the State based on financial status reports submitted to NCPC subsequent to June 30, 2005.

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

NOTE 4 - RELATED PARTY TRANSACTIONS

Service Provider Contracts with Board Member Organizations - The board members of the Alamance Partnership are representative of various organizations that benefit from actions taken by the Board. It is the policy of the Alamance Partnership that board members not be involved with decisions regarding organizations they represent. During the year, the Alamance

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 Alamance 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, quality enhancement grants for maintenance, child care resource and referral, professional development, or salary supplements.

Family Support - Used to account for service activities including ongoing parenting education.

Health and Safety – Used to account for service activities including child care health consultants and comprehensive health support.

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.

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 – Communication costs (telephone and printing), copier usage/maintenance and postage meter usage/lease costs were allocated based on utilization data or number of employees. Purchase of major equipment benefiting all employees is allocated based on number of employees.

NOTE 6 - 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	\$ 1,032
2007	<u>516</u>
Total Minimum Lease Payments	<u>\$ 1,548</u>

Rental expense for all operating leases during the year was \$1,104.

NOTE 7 PENSION PLAN

A. Retirement Plan – The Alamance Partnership has a Simplified Employee Pension (SEP) plan (Plan) covering all full-time employees. Each full-time employee of the Alamance Partnership, as a condition of employment, is provided an Individual Retirement Account through an outside insurance company. The Alamance Partnership contributed 10% of gross wages for the year ended June 30, 2005. The Alamance Partnership does not own the accounts nor is liable for any other cost other than the required contribution.

NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

For the year ended June 30, 2005, the Alamance Partnership contributed \$10,651 for pension benefits during the year.

- B. IRC Section 403(b) Plan** – 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 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. No costs are incurred by the Alamance Partnership.

NOTE 8 - RISK MANAGEMENT

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

NOTE 9 - COMMITMENTS AND CONTINGENCIES

Compensated Absences – As a result of the Alamance 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, 2005, is \$5,750 plus applicable payroll taxes. No funds or reservation of net assets has been made for this commitment.

Alamance 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
Alamance Burlington School System	* \$ 30,240	\$ 0	\$ 0	\$ 0
Alamance Health Department	* 21,299			
Catholic Social Ministries	57,200	70		
Exchange/SCAN	55,396	204		
	<u>164,135</u>	<u>274</u>	<u>0</u>	<u>0</u>
<i>Individuals:</i>				
ACC - Supporting the Stars	* 2,500			
Beginning Visions - Professional Development	* 2,600			
Beginning Visions - Provider Benefits	* 15,292			
Beginning Visions - Providers on the Rise	* 200			
Beginning Visions - Supporting the Stars	* 6,000			
First Presbyterian - Professional Development	* 250			
First Presbyterian - Provider Benefits	* 6,469			
Valarie King - Professional Development	* 100			
Rasanda Mitchell (Like My Own) - Professional Development	* 600			
Rasanda Mitchell (Like My Own) - Supporting the Stars	* 500			
Professional Development - Various Daycare Facilities	17,750			
Professional Development - Various Individuals			57	
Provider Benefits - Various Daycare Facilities	147,512			
Providers on the Rise - Various Daycare Facilities	28,496			
Star Assessment Bonus - Various Daycare Facilities	10,442			
Star Assessment Bonus - Various Individuals			1,408	
Supporting the Stars - Various Daycare Facilities	24,625			
	<u>263,336</u>	<u>0</u>	<u>1,465</u>	<u>0</u>
	<u>\$ 427,471</u>	<u>\$ 274</u>	<u>\$ 1,465</u>	<u>\$ 0</u>

* These organizations are represented on the Partnership's Board as described in Note 4 - Service Provider Contracts with Board Member Organizations

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

Schedule 2

Organization Name	DHHS Contracts
Alamance County Department of Social Services	630,000
Child Care Services Association - WAGE\$ Program	<u>312,000</u>
	<u>\$ 942,000</u>

* 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 the 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.

**Alamance 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
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 Passed through the Child Care Services Association Child Care and Development Block Grant (Prior Year)	93.575	6629-A-05	\$ 23,559	\$ 48,998
Total Federal Awards			<u>23,559</u>	<u>48,998</u>
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	(50,730)	(6,245)
Early Childhood Initiatives Program (Current Year)		*	1,132,670	1,132,670
Multi-County Accounting and Contracting Grant		N/A	<u>12,000</u>	<u>12,000</u>
Total State Awards			<u>1,093,940</u>	<u>1,138,425</u>
Total Federal and State Awards			<u>\$ 1,117,499</u>	<u>\$ 1,187,423</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 Alamance 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.

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

Schedule 4

Furniture and Noncomputer Equipment	\$ 36,773
Computer Equipment/Printers	<u>47,756</u>
Total Property and Equipment	<u><u>\$ 84,529</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.

***Alamance 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	\$	23,097
In-Kind Goods and Services		<u>61,250</u>
	\$	<u><u>84,347</u></u>

Match Provided at the Contractor Level:

Cash	\$	127,705
In-Kind Goods and Services		<u>1,152</u>
	\$	<u><u>128,857</u></u>

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**

Board of Directors
Alamance County Partnership for Children
Burlington, North Carolina

We have audited the accompanying financial statements of the Alamance County Partnership for Children (Alamance Partnership) as of and for the year ended June 30, 2005, and have issued our report thereon dated June 22, 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.

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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Alamance Partnership's internal control over financial reporting in order to determine our auditing procedures for the purpose 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 Alamance 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
- 05-2 Grant Eligibility

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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 Alamance 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 Grant Eligibility

We noted certain matters that we reported to management of the Alamance Partnership in a separate letter dated June 22, 2006.

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

June 22, 2006

AUDIT FINDINGS AND RECOMMENDATIONS

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

05-2 INTERNAL CONTROL WEAKNESSES

Our testwork identified several deficiencies in the Alamance 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 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.
- We noted instances in which the invoices were not being stamped "PAID" to prevent duplicate payment.

Recommendation: We recommend that the Alamance 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 Alamance Partnership for Children agrees with this finding and has set in place policies and procedures to provide proper reviews, authorizations and documentation.

05-2 GRANT ELIGIBILITY

Under the Provider Benefit Program the Alamance Partnership provides a free ancillary insurance policy which provides dental, short-term disability and life insurance coverage for directors, family providers and childcare staff who work with preschool children 30 hours or more weekly. During the fiscal year there was not a full-time staff member to manage this program. Alamance Partnership paid for insurance coverage of ineligible participants during the fiscal year. There was no process in place to ensure on an ongoing basis that the participants were employed by a child care center and worked the required number of hours. Our sample disclosed an error rate of 17% of the payments made during the fiscal year were for ineligible participants. The premiums discovered that had been paid for ineligible participants were credited by the insurance company on subsequent bills.

AUDIT FINDINGS AND RECOMMENDATIONS (CONCLUDED)

Recommendation: We recommend that the Alamance Partnership establish a policy to review participants on a monthly basis to ensure they continue to be eligible to participate in the program and maintain documentation of this review process.

Partnership's Response: The Alamance Partnership for Children agrees with this finding and has established a policy for reviewing participant eligibility on a monthly basis and will maintain the necessary documentation.

ORDERING INFORMATION

Audit reports issued by the Office of the State Auditor can be obtained from the web site at www.ncauditor.net. Also, parties may register on the web site to receive automatic email notification whenever reports of interest are issued. Otherwise, copies of this report may be obtained by contacting the:

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