



STATE OF NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT OF NORTH CAROLINA PARTNERSHIP FOR CHILDREN, INC.

RALEIGH, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2001

OFFICE OF THE STATE AUDITOR

RALPH CAMPBELL, JR.

STATE AUDITOR

**FINANCIAL STATEMENT AUDIT REPORT OF
NORTH CAROLINA PARTNERSHIP FOR CHILDREN, INC.**

RALEIGH, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2001

BOARD OF DIRECTORS

ASHLEY O. THRIFT, CHAIRMAN

ADMINISTRATIVE OFFICER

KAREN PONDER, EXECUTIVE DIRECTOR



Ralph Campbell, Jr.
State Auditor

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AUDITOR'S TRANSMITTAL

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

This report presents the results of our financial statement audit of the North Carolina Partnership for Children, Inc. (North Carolina Partnership), a component unit of the State of North Carolina, for the year ended June 30, 2001. Our audit was made by authority of Article 5A of G.S. §147.

The accounts and operations of the North Carolina Partnership are an integral part of the State's reporting entity represented in the State's *Comprehensive Annual Financial Report* (CAFR) and the State's *Single Audit Report*. In those reports, the State Auditor expresses an opinion on the State's financial statements. In the *Single Audit Report*, the State Auditor also presents the audit results on the State's internal controls and on the State's compliance with laws, regulations, contracts, and grants applicable to the State's financial statements and to its federal financial assistance programs.

As part of the audit work necessary for the CAFR and the *Single Audit Report*, the accounts and operations of the North Carolina Partnership were subject to audit procedures as we considered necessary. In addition, we performed auditing procedures that we considered necessary for us to report on the accompanying financial statements that relate solely to the North Carolina Partnership for Children, Inc. 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 purpose of this report is to present the results of our audit on the accompanying financial statements that relate solely to the North Carolina Partnership for Children, Inc. A summary of our reporting objectives and audit results are:

- 1. Objective** - Express an opinion on the accompanying financial statements and supplementary information that relate solely to the North Carolina Partnership for Children, Inc.

AUDITOR'S TRANSMITTAL (CONCLUDED)

Results - The accompanying financial statements present fairly, in all material respects, the amounts and disclosures made in accordance with accounting principles generally accepted in the United States of America. The accompanying supplementary information presents information that is fairly stated in all material respects in relation to the basic financial statements.

2. **Objective** - Present instances of noncompliance, if any, with laws, regulations, contracts, or grants.

Results - The following instance of noncompliance was detected:

Finding

2. Use of State Funds

This matter is described in the Independent Auditor's Report on Compliance and on Internal Control over Financial Reporting and the Audit Findings and Recommendations section of this report.

3. **Objective** - Present significant deficiencies, if any, in internal control over financial reporting which could adversely affect the North Carolina Partnership's ability to record, process, summarize, and report financial data in the financial statements.

Results - The following significant deficiency was detected in internal control over financial reporting:

Finding

1. Accounting System

This matter is described in the Independent Auditor's Report on Compliance and on Internal Control over Financial Reporting and the Audit Findings and Recommendations section of this report.

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



Ralph Campbell, Jr.
State Auditor

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Ralph Campbell, Jr.
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INDEPENDENT AUDITOR'S REPORT

Board of Directors
North Carolina Partnership for Children, Inc.
Raleigh, North Carolina

We have audited the accompanying Balance Sheet of the North Carolina Partnership for Children, Inc. (North Carolina Partnership), a component unit of the State of North Carolina, as of June 30, 2001, and the related Statement of Revenue and Support, Expenses, and Changes in Fund Equity and Statement of Cash Flows for the year then ended. These financial statements are the responsibility of the North Carolina 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the North Carolina Partnership for Children, Inc. as of June 30, 2001, and the changes in fund equity and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1C to the financial statements, the North Carolina Partnership implemented Governmental Accounting Standards Board, Statement No. 33, *Accounting and Reporting for Nonexchange Transactions*, during the year ended June 30, 2001.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 25, 2002 on our consideration of the North Carolina Partnership's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with the independent auditor's report in considering the results of our audit.

INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

Our audit was made for the purpose of forming an opinion on the basic financial statements of the North Carolina Partnership for Children, Inc. taken as a whole. The accompanying supplementary schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Ralph Campbell, Jr.
State Auditor

January 25, 2002

North Carolina Partnership for Children, Inc.**Balance Sheet****For the Year Ended June 30, 2001****Exhibit A**

	Total
Assets:	
Cash and Cash Equivalents:	
Petty Cash	\$ 150
Cash on Deposit	1,315,721
Short-Term Certificate of Deposit	125,682
Investments:	
Money Market Fund	4,454,219
Long-Term Certificate of Deposit	12,060
Current Receivables:	
Accounts Receivable (Note 3)	3,704,467
Pledges Receivable (Note 3)	2,248,988
Due from Federal Organizations	66,978
Prepaid Expenses	24,447
Non-current Receivable:	
Pledges Receivable (Note 3)	1,634,500
Property and Equipment (Note 4)	284,160
Total Assets	\$ 13,871,372
Liabilities:	
Accounts Payable	\$ 184,944
Accrued Payroll	75,128
Due to the Primary Government	3,123,250
Accrued Vacation Leave	143,169
Funds Held for Others	554,280
Total Liabilities	4,080,771
Fund Equity:	
Retained Earnings	9,790,601
Total Liabilities and Fund Equity	\$ 13,871,372
The accompanying notes to the financial statements are an integral part of this statement.	

North Carolina Partnership for Children, Inc.			
Statement of Revenue and Support, Expenses, and Changes in Fund Equity			
For the Year Ended June 30, 2001			Exhibit B
Operating Revenues		\$	0
Operating Expenses:			
Salaries and Benefits			3,270,173
Contracted Services			2,883,958
Supplies and Educational Materials			69,019
Computer Supplies and Software			31,615
Travel/Meeting Expenses			432,840
Communication Costs			257,294
Printing and Binding			195,964
Advertising and Promotions			18,486
Board Member Expense			8,528
Office Rent			259,147
Other Expenses			166,060
Expendable Equipment/Depreciation			186,584
Contract/Grant Expense			176,302,186
Total Operating Expenses			184,081,854
Operating Income (Loss)			(184,081,854)
Non-Operating Revenues (Expenses):			
Interest Earnings			251,912
Federal Awards			385,298
Private Contributions			4,505,243
Special Events			100,525
Other Income			797,434
Total Non-Operating Revenues (Expenses)			6,040,412
Income (Loss) Before Operating Transfers			(178,041,442)
Operating Transfers:			
Transfer from Primary Government			179,281,403
Net Income			1,239,961
Fund Equity - July 1			2,256,257
Restatements (Note 9)			6,294,383
Fund Equity - June 30		\$	9,790,601
The accompanying notes to the financial statements are an integral part of this statement.			

North Carolina Partnership for Children, Inc.
Statement of Cash Flows
For the Year Ended June 30, 2001

Exhibit C

Cash Provided From (Used For) Operations:	
Operating Income (Loss)	\$ (184,081,854)
Adjustment to Reconcile Change in Fund Equity to Net Cash	
Provided by Operating Activities:	
Depreciation	69,121
Restatements and Adjustments to Reconcile to Cash	(390,367)
Nonoperating Miscellaneous Income (Expense)	897,959
Decrease in Accounts Receivable	14,465,867
Decrease in Pledges Receivable	834,346
Increase in Due From Other Organizations	(11,197)
Increase in Prepaid Expenses	(15,195)
Increase in Accounts Payable	180,308
Increase in Accrued Payroll	59,276
Decrease in Due to the State	(19,505,731)
Decrease in Due to Private Organizations	(150,000)
Increase in Accrued Vacation Leave	26,810
Increase in Funds Held for Others	402,885
Net Cash Provided From (Used For) Operations	(187,217,772)
Cash Provided From (Used For) Non-Capital Financing Activities:	
Grants	385,298
Operating Transfers from Primary Government	179,281,403
Nonoperating Cash Donations	4,505,243
Net Cash Provided From (Used For) Non-Capital Financing Activities	184,171,944
Cash Used for Capital Financing Activities:	
Acquisition of Property and Equipment	(117,120)
Cash Provided From (Used For) Investing Activities:	
Proceeds From the Sale/Maturity of Non-State Treasurer Investments	6,781,175
Purchase of Non-State Treasurer Investments	(7,414,870)
Interest Earned on Cash and Cash Equivalents	249,635
Net Cash Provided From (Used For) Investing Activities	(384,060)
Net Increase in Cash and Cash Equivalents	(3,547,008)
Cash and Cash Equivalents at Beginning of Year	5,000,621
Cash and Cash Equivalents at End of Year	\$ 1,453,613

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

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NORTH CAROLINA PARTNERSHIP FOR CHILDREN, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2001

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

- A. Organization and Purpose** - The North Carolina Partnership for Children, Inc. (North Carolina Partnership) is a legally separate nonprofit organization incorporated on March 31, 1993 to provide statewide oversight of the Smart Start initiative. The North Carolina Partnership provides technical assistance and training for local Smart Start partnerships (currently 81) in the areas of program development, administration, organizational development, communication, fiscal management, technology, contracts management, and fundraising. The North Carolina Partnership adheres to a comprehensive accountability plan to ensure programs, services, and funds reach the children and families of North Carolina. The North Carolina Partnership is tax-exempt as an organization described in Section 501(c)(3) of the Internal Revenue Code.
- B. Financial Reporting Entity** – The concept underlying the definition of the financial reporting entity is that elected officials are accountable to their constituents for their actions. As required by accounting principles generally accepted in the United States of America, the financial reporting entity includes both the primary government and all of its component units. An organization other than a primary government serves as a nucleus for a reporting entity when it issues separate financial statements. The North Carolina Partnership for Children, Inc. is a component unit of the primary government of the State of North Carolina and is an integral part of the State’s *Comprehensive Annual Financial Report (CAFR)*.

Component units are legally separate entities for which the State is financially accountable. Accountability is defined as the State’s substantive appointment of a majority of the component unit’s governing board. Furthermore, the State must be able to impose its will upon the component unit or there must be a possibility that the component unit may provide specific benefits to, or impose specific financial burdens on, the State.

As required by General Statute 143B-168.12, certain elected State officials appoint twenty-two of the North Carolina Partnership’s board members, while the remaining three board members serve ex officio by virtue of their State positions. The State provides significant operating subsidies to the North Carolina Partnership creating a benefit/burden

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

relationship. Because of the State's appointment of the board and the benefit/burden relationship, the North Carolina Partnership is a component unit of the State of North Carolina and the North Carolina Partnership's financial statements are included in the State's CAFR.

The accompanying financial statements present all funds for which the North Carolina Partnership's Board of Directors is financially accountable.

- C. Basis of Presentation** - The accompanying financial statements of the North Carolina Partnership have been prepared in conformity with accounting principles generally accepted in the United States of America, as prescribed by the Governmental Accounting Standards Board (GASB), which consist of GASB Statements and Interpretations, as well as American Institute of Certified Public Accountants (AICPA) and Financial Accounting Standards Board (FASB) pronouncements specifically made applicable to state and local governmental entities by GASB Statements and Interpretations. In accordance with GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the North Carolina Partnership does not apply FASB pronouncements issued after November 30, 1989 unless the GASB amends its pronouncements to specifically adopt FASB pronouncements issued after that date. Effective July 1, 2000, the North Carolina Partnership implemented the new accounting and reporting standards required in GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*. This new statement provides guidance on the timing of recognition of nonexchange transactions involving financial or capital resources, such as taxes; fines and forfeitures; grants, entitlements, and similar items; and donations. This statement defines "transactions" as external events in which something of value passes between two or more parties. GASB Statement No. 33 also requires governments to recognize capital contributions to proprietary funds and to other governmental entities that use proprietary accounting as revenues in the current year, not contributed capital.
- D. Fund Accounting** - The financial activities of the North Carolina Partnership are organized on a basis of individual funds, each of which is a separate accounting entity segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with specific regulations, restrictions, or limitations. The financial activities of the North Carolina Partnership are reported as proprietary in nature and are similar to those often found in the private sector.
- E. Measurement Focus and Basis of Accounting** - The accounting and financial reporting treatment applied to a fund is determined by its

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

measurement focus. The measurement focus for proprietary activities is on the flow of economic resources. Consequently, the North Carolina Partnership's financial statements have been prepared on the accrual basis of accounting, as revenues are recognized when earned and expenses are recognized when incurred, regardless of when the related cash flows take place.

- F. Cash and Cash Equivalents** - This classification appears on the balance sheet and statement of cash flows. In addition to cash on deposit with private bank accounts and petty cash, this classification includes short-term certificates of deposit and investments with the State Treasurer's Cash and Investment Pool (a governmental external investment pool). The pool maintained by the State Treasurer has the general characteristics of a demand deposit account in that participants may deposit additional cash at any time and also may withdraw cash at any time without prior notice or penalty.
- G. Investments** - This classification includes money market funds and long-term certificates of deposit that are reported at cost, if purchased, or at fair market value or appraised value at date of gift, if donated.
- H. Receivables and Allowance for Doubtful Accounts** – Accounts and notes receivables are shown at book value with no provision for doubtful accounts considered necessary.
- I. Prepaid Expenses** - The North Carolina Partnership records expenses allocable to future periods as prepaid expenses.
- J. Property, Equipment and Depreciation** – Property and equipment are stated at cost at the date of acquisition or fair market value at the date of donation in the case of gifts, net of accumulated depreciation. The North Carolina Partnership capitalizes property and equipment that have a value or cost in excess of \$5,000 at the date of acquisition and an expected useful life of one or more years. Property and equipment items are depreciated on the straight-line basis over their useful lives that range from 3 to 7 years for machinery and equipment.
- K. Lease Obligations** – All leases are accounted for as operating leases and are not recorded on the balance sheet. Operating lease payments are recorded as expenses when incurred. All leases of the North Carolina Partnership contain appropriation clauses indicating that continuation of the lease is subject to continued funding by the North Carolina Legislature. For reporting purposes, leases are fully disclosed since cancellation due to lack of appropriation is deemed unlikely.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

- L. Compensated Absences** - The North Carolina Partnership's policy is to record the cost of vacation leave when earned. The policy provides for a maximum accumulation of unused vacation leave of 240 hours which can be carried forward each January 1st or for which an employee can be paid upon termination of employment.

The North Carolina Partnership has the policy of recording the cost of sick leave when taken and paid rather than when the leave is earned. The policy provides for unlimited accumulation of sick leave, but the employee cannot be compensated for any unused sick leave upon termination of employment.

The North Carolina Partnership recognizes four separate employment types, distinguished by the expected duration of employment and the number of hours regularly worked each week. The four categories are: Regular Full-Time, Part-Time with Full Benefits, Part-Time "Time-Limited", and Part-Time with Partial Benefits. Each employment type provides for different eligibility levels of benefits. These employment types do not alter the employment-at-will doctrine and, therefore, do not guarantee employment for any specified period of time. Benefits are subject to change from time to time, and may be reduced, modified, or terminated at the discretion of the North Carolina Partnership.

- M. Public and Private Support** - The North Carolina Partnership's major sources of funding are from the State of North Carolina based on cost-reimbursement contracts and private contributions. Advances are received on the cost-reimbursement contracts for anticipated expenses.

Private contributions are recorded when promises (pledges) are made or when support is received from private sources. Private contributions are considered to be available for unrestricted use unless specifically restricted by the donor.

Pledges from private sources are recorded when made and allowances considered for uncollectible amounts. The majority of the pledges receivable recorded are from major banks and corporations in North Carolina and are considered collectible. Pledges designated for the following year's operations are reflected as current pledges receivable while pledges designated for future years are reflected as non-current pledges receivable in the accompanying balance sheet.

NOTE 2 - DEPOSITS AND INVESTMENTS

- A. Deposits** - The North Carolina Partnership's deposits include cash on deposit outside the State Treasurer, deposits held by the State Treasurer,

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

and certificates of deposit. Deposits outside the State Treasurer are held in board-designated banks and a brokerage firm. Policy to limit the amount of credit exposure to any one institution is not in place which potentially subjects the North Carolina Partnership to a concentration of credit risk. The cash on deposit with the State Treasurer is pooled with state agencies and similar institutions in short-term investments with the State Treasurer's Cash and Investment Pool. These moneys are invested in accordance with G.S. 147-69.1(c) and 147-69.2, and as required by law are "readily convertible into cash." All investments of the fund are held either by the Department of State Treasurer or its agent in the State's name. The fund's uninvested cash is either covered by federal depository insurance or, pursuant to 20 NCAC 7, is collateralized under either the dedicated or pooling method.

The financial statements and disclosures for the State Treasurer's Cash and Investment Pool are included in the State of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page <http://www.osc.state.nc.us/> and clicking on "Financial Reports", or by calling the State Controller's Financial Reporting Section at (919) 981-5454.

At June 30, 2001, the carrying amounts and bank balances of cash on deposit were:

	Book Balance	Bank/Firm Balance
Checking Accounts	\$ 788,774	\$ 1,297,877
Cash Account with State Treasurer	526,947	430,443
Short-Term Certificate of Deposit	125,682	125,682
Long-Term Certificate of Deposit	12,060	12,060
Total Deposits	\$ 1,453,463	\$ 1,866,062

The North Carolina Partnership's deposits with each commercial bank are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$100,000. Deposits over this amount subjects the Partnership to a concentration of credit risk. The North Carolina Partnership's bank deposits in excess of the FDIC insured limit totaled \$1,223,559 at June 30, 2001. The North Carolina Partnership's deposits with its brokerage house are covered by securities protection described in the investment section of this note.

- B. Investments** – There are no legal limitations on the types of investments by the North Carolina Partnership. At June 30, 2001, the North Carolina

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Partnership held short-term investments of \$4,454,219 in a money market fund which are not subject to categorization of custodial credit risk.

In addition, the North Carolina Partnership held a long-term certificate of deposit in the amount of \$12,060 that is not subject to categorization of custodial credit risk. The long-term certificate of deposit is a component of the deposit totals reported in the deposits section of this note.

The money market fund and related cash account is provided up to \$50 million in securities protection; \$1,000,000 in coverage through the Securities Investor Protection Corporation, and \$49 million through independent third party coverage purchased by the North Carolina Partnership's brokerage firm.

NOTE 3 - RECEIVABLES

- A. Accounts Receivable** - The gross accounts receivable at June 30, 2001 were:

	<u>Amount</u>
Due from Local Partnerships	\$ 3,390,315
Due from Contractors	289,590
Sales Tax Receivable	22,728
Other Receivables	<u>1,834</u>
Total Receivables	<u>\$ 3,704,467</u>

The North Carolina Partnership expects to collect these receivables.

- B. Pledges Receivable** - The North Carolina Partnership has pledges receivable in the amount of \$3,883,488 which are collectible over several years. Due to the nature of the donor organizations, the North Carolina Partnership considers these pledges to be collectible. Scheduled receipts under these pledge commitments are as follows:

<u>Fiscal Year</u>	<u>Amount</u>
2002	\$ 2,248,988
2003	834,500
2004	600,000
2005	<u>200,000</u>
Total Pledges Receivable Expected	<u>\$ 3,883,488</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 4 - PROPERTY AND EQUIPMENT

A summary of changes in property and equipment for the year ended June 30, 2001 is presented below:

	Balance July 1, 2000	Additions	Deletions	Balance June 30, 2001
Furniture and Equipment	\$ 18,880	\$ 11,272	\$ 0	\$ 30,152
Data Processing Equipment	253,074	90,115		343,189
Leasehold Improvements	21,102	15,732		36,834
Total Property and Equipment	293,056	117,119		410,175
Less: Accumulated Depreciation	56,895	69,120		126,015
Property and Equipment	\$ 236,161	\$ 47,999	\$ 0	\$ 284,160

NOTE 5 - LEASE OBLIGATIONS - OPERATING

The following is a schedule by years of future minimum rental payments required under leases that have noncancelable lease terms as of June 30, 2001:

Fiscal Year	Operating Leases
2002	\$ 328,582
2003	341,128
2004	347,741
2005	352,801
2006	225,932
Total Minimum Lease Payments	\$ 1,596,184

Total rental expenses for all operating leases were \$281,389 for the fiscal year ended June 30, 2001.

NOTE 6 - EMPLOYEE BENEFITS

IRC Section 403(b) Plan - All employees can participate in a tax sheltered annuity 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 educational institutions and non-profit organizations. All costs of administering and funding this plan are the responsibility of the plans'

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

participants. The voluntary contributions by employees amounted to \$137,225 during the year ended June 30, 2001.

NOTE 7 - RISK MANAGEMENT

The North Carolina Partnership is exposed to various risks of loss related to torts; theft of, damage to, and the destruction of assets; errors and omissions; injuries to employees; and natural disasters. These exposures to loss are handled via a combination of methods, including purchase of commercial insurance and self-retention of certain risks.

Fire and other property losses are covered by contracts with private insurance companies. There have been no significant reductions in insurance coverage from the previous year and settled claims have not exceeded coverage in any of the past three fiscal years.

Liability insurance for vehicles is covered by contracts with private insurance companies.

The North Carolina Partnership is protected for losses from employee dishonesty and computer fraud for employees. The blanket honesty bond is with a private insurance company with coverage of \$145,000 per occurrence and a \$250 deductible.

Employees were provided health care coverage by MAMSI Life and Health Insurance Company for the period July 1, 2000 until December 31, 2000 and Blue Cross Blue Shield of North Carolina for the period January 1, 2001 through June 30, 2001. Both plans were funded by employer and employee contributions and were administered by a third party contractor.

The North Carolina Partnership makes the necessary arrangements to carry out the provisions of the Workers' Compensation Act by purchasing workers' compensation insurance for employees through a private insurance company.

NOTE 8 - FUNCTIONAL EXPENSES

The costs of providing the various programs and activities have been presented by their natural classification in the statement of revenue and support, expenses and changes in fund equity. Also, Schedule 1, accompanying the financial statements, provides a summarization of those expenses by their functional categories. Following are the functional categories and the services associated with those functions:

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

A. Program Functions

Accounting - Provision of technical assistance and training to local partnerships in the establishment of accounting systems and the development of proper accounting policies and procedures.

Champions for Children - The Champions for Children effort provides technical support for local partnerships in outreach and education activities. Resources and training are provided to help build local partnership capacity in order to increase participation in Smart Start. The effort helps to identify specific activities and strategies that will lay the foundation to educate and engage key audiences of the Smart Start community.

Communications - Provision of outreach materials and technical assistance to local partnerships in the areas of crisis communication, media relations, desktop publishing, and special event planning.

Contracts - Responsible for establishing and maintaining funding contracts with the local partnerships for (1) administrative costs; and (2) direct service activities related to services to children and families. Also, to provide technical assistance and training to local partnerships for establishment of contract management and monitoring systems.

Finance – Responsible for the oversight of the accounting, financial reporting, and contracting functions for the local partnerships and the North Carolina Partnership. Also responsible for the provision of technical assistance and training to the local partnerships.

Financial Services – Responsible for performing financial monitoring of and technical assistance and training to the local partnerships.

Fiscal - Responsible for maintaining the financial records and processing payments for the North Carolina Partnership. Also, responsible for developing and implementing proper accounting policies and procedures.

Human Resources – Responsible for the administration of personnel related services and functions, including employee relations, recruiting compensation and benefits, job descriptions, performance management, maintenance of employee records, and compliance with employment regulations.

Local Partnership Administration – Grants distributed to local partnerships for administering the Smart Start program on the local level.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Local Partnership Services – Grants distributed to local partnerships to perform direct services activities for the Smart Start program on the local level.

MAC – Used to account for costs associated with the implementation and support of the Multi-partnership Accounting and Contracting (MAC) plan. Costs include personnel, telecommunications systems, software, equipment, and supplies related to the support for the MAC sites.

Program and Planning – Responsible for the approval of local partnership strategic plans and activities as well as performing programmatic monitoring of and technical assistance and training to the local partnerships. Also, responsible for building the program capacity of local partnerships and facilitating the development and implementation of coordinated state-level systems of service.

Technical Assistance – Other States – Privately funded program that assists local communities and other states in the development, implementation, and integration of comprehensive community-based early childhood initiatives that primarily benefit children ages birth to five.

Technology Department – Provision of technical assistance and training to the North Carolina Partnership and to the local partnership staff. Technical assistance is provided in areas of selecting hardware, software, and acquiring outside consultants for training.

Training and Collaboration – Provision of technical assistance and training to the local partnerships and assistance with the development of a performance-based incentive system for the local partnerships.

Training/Planning Services - Provision of technical assistance and training to the North Carolina Partnership and to the local partnership staff. Coordinates the North Carolina Partnership agency-wide local partnership training services.

B. Support Functions

Administration - Expenses that are not identifiable with a single program or fund-raising activity but are indispensable to the conduct of those activities and to the organization's existence, including expenses for the overall direction of the organization, its general board activities, business management, general recordkeeping, budgeting, and related purposes.

NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

Development - Expenses that are incurred to induce others to contribute money, securities, time, materials, or facilities for which the contributor will receive no direct economic benefit.

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.

NOTE 9 - RESTATEMENT OF FUND EQUITY

The adoption of GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, resulted in a change in the recognition of pledged receivables to the North Carolina Partnership. Amounts that had been previously reported as deferred support have now been accounted for as revenues at the time of the pledge and are presented as a restatement of fund equity. Additional adjustments were made to reclassify prior year fund activities to agency funds. The net restatement amount was \$6,294,383.

North Carolina Partnership for Children, Inc.
Schedule of Functional Expenses
For the Year Ended June 30, 2001

Schedule 1

	Total	Salaries and Benefits	Contracted Services	Supplies and Educational Materials	Computer Supplies and Software	Travel/ Meeting Expenses	Communication Costs	Printing and Binding	Advertising and Promotions	Board Member Expense	Office Rent	Other Expenses	Expendable Equipment/ Depreciation	Contract/ Grant Expense
Programs:														
Accounting	106,626	61,640	38,917	4		614	5,388					63		
Champions for Children	37,105		36,291			520	294							
Communications	1,176,227	214,667	809,704	3,426		8,532	595	134,629				2,687	1,987	
Contracts	424,732	381,456	16,344	1,611		20,602	2,086					2,633		
Finance	212,148	183,365	20,511	921	800	3,514	170	2,246				621		
Financial Services	130,450	88,009	24,401	1,286		12,666	1,139	116	125			1,843	865	
Fiscal	131,692	119,935	3,956	2,671		2,003	164	939				1,592	432	
Human Resources	184,623	123,941	37,756	462	6	1,256	228	286	17,391			3,297		
Local Partnership Administration	16,354,049			33										16,354,016
Local Partnership Services	158,830,898		40,000	1										158,790,897
MAC	1,760,382	217,896	308,843	48	3,149	12,250	127,716					17,278	36,398	1,036,804
Program and Planning	556,784	380,265	117,271	3,403		27,793						4,879	2,173	21,000
Technical Assistance - Other States	56,110	39,549	14,885			288			73				1,315	
Technology Department	370,977	175,661	80,926	540	27,660	1,142	11,200					34,862	38,986	
Training and Collaboration	808,124		564,145	3,043		216,510	1,369	5,804	824			1,069		15,360
Training/Planning Services	1,009,427	656,282	279,814	11,754		45,293	463	6,649	73	53		2,883	6,163	
	182,150,354	2,642,666	2,393,764	29,203	31,615	352,983	150,812	150,669	18,486	53	0	73,707	88,319	176,218,077
Support:														
Administration	1,147,729	416,730	62,626	33,332		26,193	102,317	31,745		8,423	259,147	89,915	96,301	21,000
Development	751,648	227,220	427,568	6,484		18,206	3,264	2,324				1,929	1,964	62,689
Program Evaluation	32,123	(16,443)				35,458	901	11,226		52		509		420
	1,931,500	627,507	490,194	39,816	0	79,857	106,482	45,295	0	8,475	259,147	92,353	98,265	84,109
Total Expenditures	184,081,854	3,270,173	2,883,958	69,019	31,615	432,840	257,294	195,964	18,486	8,528	259,147	166,060	186,584	176,302,186

North Carolina Partnership for Children, Inc.
Schedule of Contract and Grant Expenses
For the Year Ended June 30, 2001

Schedule 2
Page 1 of 2

Organization Name	Amount Expended	Refund Due
Alamance Partnership for Children, Inc.	1,994,642	(95,494)
Albemarle Smart Start Partnership, Inc.	1,353,687	(24,581)
Alexander County Smart Start Partnership, Inc.	520,927	(13,633)
Alleghany County Partnership for Children, Inc.	443,129	(6,988)
Anson County Partnership for Children, Inc.	1,156,675	(1,588)
Ashe County Partnership for Children	1,101,728	(776)
Avery County Partnership for Children, Inc.	419,293	(58)
Beaufort County Partnership for Children	827,120	(8,710)
Bertie County Partnership for Children, Inc.	813,284	(40,480)
Bladen County Partnership for Children, Inc.	789,759	(8,516)
Brunswick County Partnership for Children, Inc.	1,538,962	(33,625)
Buncombe County Partnership for Children, Inc.	3,569,280	(40,157)
Burke County Partnership for Children, Inc.	2,667,681	(28,892)
Cabarrus County Partnership for Children	1,340,129	(77,524)
Caswell County Partnership for Children	401,929	(6,353)
Catawba County Partnership for Children	3,195,098	(10,085)
Chatham County Partnership for Children	1,317,500	(5,765)
Child Care Services Association, Inc.	* 133,089	
Children and Youth Partnership for Dare County, Inc.	515,671	(5,969)
Children's Council of Watauga County, Inc.	433,230	(3,874)
Chowan-Gates-Perquimans Partnership for Children	845,655	(20,235)
Cleveland County Partnership for Children, Inc.	2,567,700	(128,218)
Columbus County Partnership for Children, Incorporated	1,589,216	(47,276)
Communities in Schools of Caldwell County	2,337,075	(42,911)
Craven County Partnership for Children	1,300,378	(33,422)
Cumberland County Partnership for Children, Inc.	13,003,072	(83,688)
Davidson County Smart Start, Inc.	3,724,146	(55,890)
Davie County Partnership for Children, Inc.	439,430	(13,850)
Down East Partnership for Children	5,662,784	(16,630)
Duplin County Partnership for Children	1,456,977	(12,415)
Durham's Partnership for Children	5,559,688	(8,816)
Forsyth Early Childhood Partnership	8,414,645	(183,805)
Franklin-Granville-Vance Partnership for Children, Inc.	1,601,139	(97,456)
Guilford County Partnership for Children, Inc.	7,653,641	(18,841)
Harnett County Partnership for Children, Inc.	1,086,367	(8,651)
Henderson County Partnership for Children.	676,035	(13,128)
Hertford County Partnership for Children, Inc.	842,745	(656)
Hoke County Partnership for Children & Families, Inc.	1,567,636	(48,709)
Hyde County Partnership for Children	121,698	(22,174)
Iredell County Partnership for Young Children	2,512,072	(13,038)
Johnston County Partnership for Children, Inc.	1,890,688	(17,955)
Lee County Partnership for Children	1,139,084	(83,907)

North Carolina Partnership for Children, Inc.
Schedule of Contract and Grant Expenses
For the Year Ended June 30, 2001

Schedule 2
Page 2 of 2

Organization Name	Amount Expended	Refund Due
Lenoir/Greene Partnership for Children	2,485,615	(10,408)
Madison County Partnership for Children and Families	603,523	(3,861)
Martin/Pitt Partnership for Children, Inc.	2,266,095	(44,965)
McDowell County Partnership for Children and Families, Inc.	686,227	(1,130)
Mecklenburg Partnership for Children	11,467,318	(157,146)
Montgomery County Partnership for Children, Inc.	906,045	(2,418)
New Hanover County Partnership for Children	1,915,501	(29,763)
Northampton Partnership for Children, Inc.	257,714	(1,439)
Onslow County Partnership for Children, Inc.	3,250,731	(145,675)
Orange County Partnership for Young Children	3,922,260	(5,189)
Pamlico County Partnership for Children, Inc.	331,055	(7,088)
Partners for Children and Families, Inc. (Moore County)	1,556,246	(20,549)
Pender County Partnership for Children, Inc.	840,163	(21,267)
Person County Partnership for Children, Inc.	1,088,460	(8,923)
Polk County Partnership for Children, Inc.	308,870	(714)
Randolph County Partnership for Children, Inc.	1,386,687	(19,429)
Region A Partnership for Children	2,534,304	(8,770)
Richmond County Partnership for Children, Inc.	755,133	(37,622)
Robeson County Partnership for Children, Inc.	4,471,738	(558,694)
Rockingham County Partnership for Children, Inc.	1,421,285	(39,711)
Rowan Partnership for Children, Inc.	1,901,173	(31,320)
Rutherford Partnership for Children, Inc.	2,414,621	(82,055)
Sampson County Partnership for Children	965,364	(1,602)
Scotland County Partnership for Children and Families, Inc.	893,034	(23,119)
Smart Start of Transylvania County, Inc.	407,613	(10,899)
Stanly County Partnership for Children, Inc.	1,689,692	(17,926)
Stokes Partnership for Children	1,180,327	(43,140)
Surry County Early Childhood Partnership	2,093,397	(11,703)
The Halifax-Warren Smart Start Partnership for Children, Inc.	2,120,426	(53,011)
The Jones-Carteret Partnership for Children	1,340,748	(11,541)
The Mitchell-Yancey Partnership for Children, Inc.	641,706	(1,144)
The Partnership for Lincoln/Gaston Counties, Inc.	4,481,980	(98,279)
Tyrrell County Smart Start, Inc.	133,427	(8,133)
Union County Partnership for Children, Inc.	1,289,194	(5,029)
Various Other Organizations	1,710,693	
Wake County SmartStart	16,779,511	(352,886)
Washington County Child Advocacy Council, Inc.	382,182	(13,661)
Wayne County Partnership for Children, Inc.	2,508,345	(13,517)
Wilkes County Partnership for Children, Inc.	1,621,550	(19,715)
Wilson County Partnership for Children	1,400,597	(62,960)
Yadkin County Smart Start Partnership, Inc.	757,267	(19,175)
	179,692,501	(3,390,315)
*Organization representative serves on the North Carolina Partnership Board.		

North Carolina Partnership for Children, Inc.
Schedule of Federal and State Awards
For the Year Ended June 30, 2001

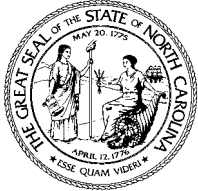
Schedule 3

Federal/State Grantor/Pass-through Grantor/Program	Federal CFDA Number	Contract #	Receipts	Expenditures
Federal Awards:				
Appalachian Regional Commission	23.011	NC - 13186-99	\$ 96,937	\$ 56,552
Appalachian Regional Commission	23.011	NC - 13186-C2	207,367	208,370
Department of Health and Human Services Pass-through from the North Carolina Department of Health and Human Services - Division of Child Development Child Care Development Fund - Discretionary and Child Care Development Block Grant	93.575	5786	11,377	14,147
Department of Health and Human Services Pass-through from the North Carolina Department of Health and Human Services - Division of Child Development Child Care Development Fund - Discretionary and Child Care Development Block Grant	93.575	5919	27,417	27,417
Department of Health and Human Services Pass-through from the North Carolina Department of Health and Human Services - Division of Child Development Outdoor Learning Environments	93.575	5922	40,000	40,000
National Endowment of the Arts Pass-through from the North Carolina Arts Council Outdoor Training Program	45.025	1140	2,200	2,200
Total Federal Awards			385,298	348,686
State Awards:				
North Carolina Department of Health and Human Services Division of Child Development Early Childhood Initiatives Program (Prior Years)		Various	(1,422,622)	(259,604)
Early Childhood Initiatives Program (Current Year)	*	5891	172,911,094	172,820,249
Early Childhood Initiatives Program (Current Year)	*	5892	7,792,931	7,675,811
Total State Awards			179,281,403	180,236,456
Total Federal and State Awards			\$ 179,666,701	\$ 180,585,142

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

Note: The information on this schedule is presented on the accrual basis of accounting. Therefore, the information included in the schedule may not fully agree with other federal and state reports the North Carolina Partnership for Children, Inc. submits directly to the granting agencies because, among other reasons, the award reports (a) may be prepared for a different fiscal period and (b) may include cumulative (from prior years) data rather than data from the current year only.

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Ralph Campbell, Jr.
State Auditor

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**INDEPENDENT AUDITOR'S REPORT
ON COMPLIANCE AND ON INTERNAL CONTROL
OVER FINANCIAL REPORTING BASED ON AN AUDIT OF
THE FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Board of Directors
North Carolina Partnership for Children, Inc.
Raleigh, North Carolina

We have audited the financial statements of North Carolina Partnership for Children, Inc., a component unit of the State of North Carolina, as of and for the year ended June 30, 2001, and have issued our report thereon dated January 25, 2002.

As discussed in Note 1C to the financial statements, the North Carolina Partnership implemented Governmental Accounting Standards Board, Statement No. 33, *Accounting and Reporting for NonExchange Transactions*, during the year ended June 30, 2001.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the North Carolina Partnership's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests, which are reported in the Audit Findings and Recommendations section of this report, disclosed an instance of noncompliance that is required to be reported under *Government Auditing Standards*.

Finding

2. Use of State Funds

**INDEPENDENT AUDITOR'S REPORT
ON COMPLIANCE AND ON INTERNAL CONTROL
OVER FINANCIAL REPORTING BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS (CONCLUDED)**

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the North Carolina 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 assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. A reportable condition involves a matter coming to our attention relating to a significant deficiency in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the North Carolina Partnership's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. This reportable condition noted as a result of our audit is described in the Audit Findings and Recommendations section of this report:

Finding

1. Accounting System

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider the reportable condition(s) described above to be a material weakness.

This report is intended solely for the information and use of the Board of Directors, management and staff of the North Carolina Partnership, the Governor, the State Controller, and the General Assembly and is not intended to be, and should not be, used by anyone other than these specified parties.



Ralph Campbell, Jr.
State Auditor

January 25, 2002

AUDIT FINDINGS AND RECOMMENDATIONS

Findings and Recommendations from Prior Audits - The following presents the status of findings and recommendations presented in prior year audit reports that affected the current audit of the financial statements.

1. ACCOUNTING SYSTEM

In the prior audit, we identified weaknesses with the North Carolina Partnership's Micro Information Products (MIP) accounting system involving the system documentation for written internal control procedures, system security, and the integrity of data output. This finding was originally reported for the year ended June 30, 1998.

This finding is resolved. The Information System (IS) section of the Office of State Auditor performed a follow-up review of the MIP system. The North Carolina Partnership's staff worked with the IS auditors to address the above weaknesses. A separate report dated May 2002 was issued which speaks to the above issues as well as the North Carolina Partnership's need to develop and implement a disaster recovery plan for its computer operations and MIP system.

2. USE OF STATE FUNDS

During the previous audit, we reported that the North Carolina Partnership should improve its monitoring of the disbursement of State funds to ensure compliance with legislative requirements. Issues were noted with the mandated subsidy expenditures at the local partnerships as well as the capital expense limitation.

This finding is partially resolved. Legislation which required that not less than 30% of each local partnership's direct services allocation shall be used to expand child care subsidies was changed for the 2001 fiscal year. The compliance requirement was shifted from the local partnership's total allocation for direct service dollars to the actual amount of funds spent from that service dollar allocation. As a result, it appears that significant improvement was noted with local partnership's compliance with the 30% child care subsidies requirement.

We continued to note exceptions with the capital expense limitation. The requirement is that funds approved for capital projects cannot exceed 10% of the total funds for direct services allocated to a local partnership in two consecutive years. We noted four partnerships within our test items that had capital projects approved by the North Carolina Partnership that were in excess of the 10% limitation.

Recommendation: We recommend that the North Carolina Partnership continue to improve the monitoring of the disbursement of State funds to ensure compliance with the legislative requirements.

AUDIT FINDINGS AND RECOMMENDATIONS (CONCLUDED)

Partnership's Response: Capital expenditures were prohibited by legislation for the fiscal year 2001-2002. The North Carolina Partnership has monitored local partnership compliance with this prohibition and will continue to monitor compliance with the legislation in effect for capital expenditures in the future.

DISTRIBUTION OF AUDIT REPORT

In accordance with G.S. § 147-64.5 and G.S. § 147-64.6(c)(14), copies of this report have been distributed to the public officials listed below. Additional copies are provided to other legislators, state officials, the press, and the general public upon request.

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

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N. C. House Speaker Pro-Tem
Director, Fiscal Research Division

July 22, 2002

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