

**FINANCIAL STATEMENT AUDIT REPORT OF
BURKE COUNTY PARTNERSHIP FOR CHILDREN, INC.
MORGANTON, NORTH CAROLINA
FOR THE YEAR ENDED JUNE 30, 2001**

**PERFORMED UNDER CONTRACT WITH THE
NORTH CAROLINA OFFICE OF STATE AUDITOR
RALPH CAMPBELL, JR.**

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

MORGANTON, NORTH CAROLINA

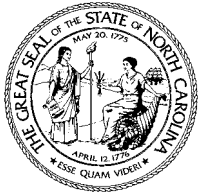
FOR THE YEAR ENDED JUNE 30, 2001

BOARD OF DIRECTORS

KIM McCANN, CHAIRPERSON

ADMINISTRATIVE OFFICER

ANGELA DEAL, EXECUTIVE DIRECTOR



Ralph Campbell, Jr.
State Auditor

STATE OF NORTH CAROLINA

Office of the State Auditor

2 S. Salisbury Street
20601 Mail Service Center
Raleigh, NC 27699-0601
Telephone: (919) 807-7500
Fax: (919) 807-7647
Internet <http://www.osa.state.nc.us>

AUDITOR'S TRANSMITTAL

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

This report presents the results of the financial statement audit of the Burke County Partnership for Children, Inc. for the year ended June 30, 2001. Crisp Hughes Evans LLP performed the audit under contract with the Office of the State Auditor, and their report is submitted herewith.

The audit of the Burke County Partnership for Children, Inc. 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 Burke County Partnership for Children, Inc. is one of these local partnerships. As such, the Burke County Partnership for Children, Inc. 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.

The significant Smart Start expansion authorized in the 1998 fiscal year almost doubled the related audit burden placed on the Office of the State Auditor. Therefore, the General Assembly, in its 1998-99 Expansion Budget, gave recognition to the resources needed to provide the audit oversight required by statute. Those resources incorporated a combination of permanent positions and contract funding to make the Smart Start audit effort self-sustaining.

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 in the back of this report.

A handwritten signature in cursive script that reads "Ralph Campbell, Jr.".

Ralph Campbell, Jr.
State Auditor

TABLE OF CONTENTS

	PAGE
INDEPENDENT AUDITORS' REPORT	1
FINANCIAL STATEMENTS	
EXHIBITS	
A - Statement of Receipts, Expenditures, and Net Assets - Regulatory Basis.....	3
B - Statement of Functional Expenditures - Regulatory Basis.....	4
Notes to the Financial Statements.....	5
SUPPLEMENTARY SCHEDULES	
1 Schedule of Contract and Grant Expenditures - Regulatory Basis	10
2 Schedule of State Level Service Provider Contracts	11
3 Schedule of State Awards - Regulatory Basis	12
4 Schedule of Property and Equipment.....	13
5 Schedule of Qualifying Match (Non-GAAP)	14
INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>	15
AUDIT OBSERVATIONS AND RECOMMENDATIONS	17
DISTRIBUTION OF AUDIT REPORT	18

INDEPENDENT AUDITORS' REPORT

Board of Directors
Burke County Partnership for Children, Inc.
Morganton, North Carolina

We have audited the accompanying Statement of Receipts, Expenditures, and Net Assets - Regulatory Basis of the Burke County Partnership for Children, Inc. (Burke County Partnership) as of June 30, 2001, and the related Statement of Functional Expenditures - Regulatory Basis for the year then ended. These financial statements are the responsibility of the Burke County 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 statement is 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 regulatory basis of accounting as prescribed by the North Carolina Partnership for Children, Inc., which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets of the Burke County Partnership for Children, Inc. as of June 30, 2001, and the results of its operations for the year then ended, on the basis of accounting described in Note 1.

INDEPENDENT AUDITORS' REPORT (CONCLUDED)

In accordance with *Government Auditing Standards*, we have also issued our report dated May 8, 2002 on our consideration of the Burke County 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.

Our audit was made for the purpose of forming an opinion on the basic financial statements of the Burke County Partnership for Children, Inc. taken as a whole. The accompanying supplementary schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. The information in these schedules 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.

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

May 8, 2002

Crisp Hughes Evans LLP

Burke County Partnership for Children, Inc.

Statement of Receipts, Expenditures, and Net Assets - Regulatory Basis
For the Year Ended June 30, 2001

Exhibit A

	Unrestricted Funds		Temporarily Restricted Funds	Total Funds
	Smart Start Fund	Other Funds		
Receipts:				
State Awards (less refunds of \$32,321)	\$ 2,592,818	\$ 6,810	\$ -	\$ 2,599,628
Private Contributions	-	44,292	-	44,292
Interest and Investment Earnings	-	16,232	-	16,232
Sales Tax Refunds	-	921	-	921
Total Receipts	2,592,818	68,255	-	2,661,073
Net Assets Released from Restrictions:				
Satisfaction of Program Restrictions	-	5,400	(5,400)	-
	2,592,818	73,655	(5,400)	2,661,073
Expenditures:				
Programs:				
Child Care and Education Quality	836,160	9,509	-	845,669
Child Care and Education Accessibility and Availability	308,450	-	-	308,450
Child Care and Education Affordability	473,808	8,345	-	482,153
Health and Safety	104,168	-	-	104,168
Family Support	651,757	35,000	-	686,757
Support:				
Management and General	187,579	12,971	-	200,550
Program Evaluation	29,135	-	-	29,135
Other:				
Sales Tax Paid	-	266	-	266
Total Expenditures	2,591,057	66,091	-	2,657,148
Excess of Receipts Over (Under) Expenditures	1,761	7,564	(5,400)	3,925
Net Assets at Beginning of Year	27,131	52,624	5,664	85,419
Net Assets at End of Year	<u>\$ 28,892</u>	<u>\$ 60,188</u>	<u>\$ 264</u>	<u>\$ 89,344</u>
Net Assets Consisted of:				
Cash on Deposit	\$ 2,174	\$ 34,197	\$ 264	\$ 36,635
Investments	-	25,991	-	25,991
Refunds Due From Contractors	26,718	-	-	26,718
	<u>\$ 28,892</u>	<u>\$ 60,188</u>	<u>\$ 264</u>	<u>\$ 89,344</u>

The accompanying notes are an integral part of these statements.

Burke County Partnership for Children, Inc.
Statement of Functional Expenditures - Regulatory Basis
For the Year Ended June 30, 2001

Exhibit B

	Total	Personnel	Contracted Services	Supplies and Materials	Other Operating	Fixed Charges and Other	Property and Equipment Outlay	Services/ Contracts/ Grants
Smart Start Fund:								
Programs:								
Child Care and Education Quality	\$ 836,160	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 836,160
Child Care and Education Accessibility and Availability	308,450	-	-	-	-	-	-	308,450
Child Care and Education Affordability	473,808	-	-	-	-	-	-	473,808
Health and Safety	104,168	-	-	-	-	-	-	104,168
Family Support	651,757	-	-	-	-	-	-	651,757
Support:								
Management and General	187,579	136,402	16,440	3,945	14,919	15,873	-	-
Program Evaluation	29,135	-	-	-	-	-	-	29,135
Total Smart Start Fund Expenditures	\$2,591,057	\$ 136,402	\$ 16,440	\$ 3,945	\$ 14,919	\$ 15,873	\$ -	\$ 2,403,478
Other Funds:								
Programs:								
Child Care and Education Quality	\$ 9,509	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 9,509
Child Care and Education Affordability	8,345	-	-	-	-	-	-	8,345
Family Support	35,000	-	-	-	-	-	-	35,000
Support:								
Management and General	12,971	-	11,835	77	162	22	875	-
Other:								
Sales Tax Paid	266	-	-	266	-	-	-	-
Total Other Funds Expenditures	\$ 66,091	\$ -	\$ 11,835	\$ 343	\$ 162	\$ 22	\$ 875	\$ 52,854

The accompanying notes are an integral part of these statements.

BURKE COUNTY PARTNERSHIP FOR CHILDREN, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2001

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

A. Organization and Purpose - The Burke County Partnership for Children, Inc. (Burke County Partnership) is a legally separate nonprofit organization incorporated on November 17, 1993. The Burke County Partnership was established to develop and provide, through public and private means, early childhood education and developmental services for children and families. The Burke County 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 Burke County Partnership's Board of Directors is responsible. In accordance with Statement of Financial Accounting Standards (SFAS) No. 117, "Financial Statements of Not-For-Profit Organizations," the accompanying financial statements present information according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. As permitted by this Statement, temporarily restricted contributions received and expended in the same year are reported as unrestricted receipts rather than as temporarily restricted receipts.

Contributions that are temporarily restricted and not expended within the year received are reported as an increase in temporarily restricted net assets. When the restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of receipts, expenditures, and net assets as net assets released from restrictions.

The Burke County Partnership did not have any permanently restricted net assets at June 30, 2001.

C. Basis of Accounting - The accompanying financial statements were prepared on the regulatory basis of accounting as prescribed by the North Carolina Partnership for Children, Inc. This basis differs from accounting principles generally accepted in the United States of America primarily because it recognizes long lived assets and other costs which benefit more than one period as expended in the year purchased; it recognizes revenue when received rather than when earned; and it recognizes expenditures when paid rather than when incurred.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

However, unexpended advances to contractors that revert back to the State are recognized as a reduction to expenditures and an increase to net assets.

- D. Refunds Due From Contractors** - Refunds due from contractors represent the unexpended amount of advances to contractors at year end which 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.

NOTE 2 - DEPOSITS AND INVESTMENTS

- A. Deposits** - All funds of the Burke County Partnership are deposited with one commercial bank and insured by the Federal Deposit Insurance Corporation (FDIC) up to \$100,000. Deposits over this amount subject the Burke County Partnership to a concentration of credit risk.
- B. Investments** - The Burke County Partnership held a mutual fund investment of \$25,991 recorded as a cash equivalent. The investment is reported at cost as of June 30, which approximates fair value as of June 30, 2001. This investment is not FDIC insured.

NOTE 3 - FUNDING FROM GRANT AWARDS

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

Associated with these contracts, the Burke County 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 Department of Health and Human Services (DHHS) entered into contracts with and made payments to service providers selected by the Burke County Partnership. These service provider contracts are not reflected on the accompanying financial statement. However, a summary of the service provider contracts entered into by DHHS is presented on Schedule 2 accompanying the financial statements.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

The Burke County Partnership was awarded and has received \$2,619,949 under a current year Smart Start contract with NCPC. The unexpended balance of this contract is subject to reversion to the State. The Partnership has returned \$28,892 of this contract to the State based on financial status reports submitted to NCPC subsequent to June 30, 2001.

The 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 Burke County Partnership are representative of various organizations that benefit from actions taken by the Board. It is the policy of the Burke County Partnership that board members not be involved with decisions regarding organizations they represent. During the year, the Partnership entered into contracts with board member organizations for program activities as identified on Schedule 1 accompanying the financial statements. In addition, Schedule 2 identifies contracts entered into by DHHS with board member organizations for activities funded by the 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 - Regulatory Basis. Also, the Statement of Functional Expenditures - Regulatory 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:

A. Program Functions

Child Care and Education Quality - Used to account for service activities including program upgrade projects, child care resource and referral, salary supplements, provider training, child care provider support, special needs training for child care professionals, and school readiness program.

Child Care and Education Accessibility and Availability - Used to account for service activities including inclusion support and increase child care spaces.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Child Care and Education Affordability - Used to account for service activities including child care coordinator, head start summer program, comprehensive child care cost supports, transportation to child care, and part day child care program.

Health and Safety - Used to account for service activities including prenatal/newborn services, outreach nurses, and nutrition programs.

Family Support - Used to account for service activities including family resource center, home visiting, ongoing parent education, support services for children in crisis, special needs: family support, and literacy projects.

B. Support Functions

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

Program Evaluation - Expenditures that are incurred to monitor the performance of service providers as to the delivery of services and adherence to the specific terms and conditions of the contracts.

NOTE 6 - COMMITMENTS AND CONTINGENCIES

Leases - 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:

<u>Fiscal Year</u>	<u>Operating Leases</u>
2002	\$ 20,614
2003	20,614
2004	18,218
2005	<u>3,000</u>
Total Minimum Lease Payments	<u>\$ 62,446</u>

Total rental expenditure for all operating leases was \$20,614 for the year ended June 30, 2001.

NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

NOTE 7 - PENSION PLAN

The Burke County Partnership has a defined contribution plan covering all employees. Each full-time employee of the Burke County Partnership, as a condition of employment, is provided an individual annuity through an outside insurance company. The Burke County Partnership contributed 6% of gross wages for the year ended June 30, 2001. The Burke County Partnership does not own the annuities nor is liable for any other cost other than the required contribution.

For the year ended June 30, 2001, the Burke County Partnership had a total payroll of \$114,200, \$112,139 of which was covered under the plan. The Partnership contributed \$6,728 for pension benefits during the year.

IRC Sections 403(b) and 403(b)(7) Plans - All permanent employees who are at least half-time can participate in tax sheltered annuity plans created under Internal Revenue Code Sections 403(b) and 403(b)(7). 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. All costs of administering and funding these plans are the responsibility of the plans. No costs are incurred by the Burke County Partnership. The voluntary contributions by employees amounted to \$8,226 during the year ended June 30, 2001.

NOTE 8 - RESTRICTIONS ON NET ASSETS

A. Temporarily Restricted Net Assets - Temporarily restricted net assets at June 30, 2001 are available for the following purposes:

<u>Purpose</u>	<u>Amount</u>
Health and Safety	<u>\$ 264</u>

B. Net Assets Released From Donor Restrictions - Net assets were released from donor restrictions during the fiscal year ended June 30, 2001, by incurring expenditures satisfying the restricted purposes as follows:

<u>Purpose</u>	<u>Amount</u>
Quality Enhancement Grants	<u>\$ 5,400</u>

Burke County Partnership for Children, Inc.
Schedule of Contract and Grant Expenditures - Regulatory Basis
For the Year Ended June 30, 2001

Schedule 1

Organization Name	Smart Start Fund		Other Funds	
	Amount Advanced	Refund Due	Amount Advanced	Refund Due
Bambi Day Care	\$ 8,839	\$ -	\$ -	\$ -
Blue Ridge Community Action	* 44,100	-	-	-
Blue Ridge Community Action, Drexel Preschool	* 17,075	-	-	-
Bringing It All Back Home	25,000	-	-	-
Burke County Health Department	* 48,145	(3,395)	-	-
Burke County Literacy Council	* 76,641	(1,744)	-	-
Burke County Public Library	* 83,690	-	15,000	-
Burke County Public Schools	* 456,497	-	8,345	-
Burke County Transit Administration	210,714	-	-	-
Child Care Connections	* 391,070	(1,205)	-	-
Foothills Area Program	* 46,600	-	-	-
Kiddie Kamp Development and Learning Center	62,788	-	-	-
Kidz Place Child Care Center	28,703	-	-	-
Little Bear Day Care	* 4,479	-	-	-
Morganton Housing Authority	* -	-	20,000	-
NC Cooperative Extension Services	* 62,565	(3,145)	-	-
Orelena Hawks Puckett Institute	* 89,537	(277)	-	-
Pooh's Corner	10,610	-	-	-
Various Day Care Organizations (Reaching for the Stars Grants)	238,758	(15,796)	9,509	-
Volunteer Families for Children	16,500	(113)	-	-
Western Carolina Center	6,256	(41)	-	-
Western Carolina Center Foundation	501,629	(1,002)	-	-
	\$ 2,430,196	\$ (26,718)	\$ 52,854	\$ -

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

See Independent Auditors' Report.

Burke County Partnership for Children, Inc.
Schedule of State Level Service Provider Contracts
For the Year Ended June 30, 2001

Schedule 2

Organization Name	DHHS Contracts
Burke County Department of Social Services	* \$ 1,529,928

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

The information on this schedule provides a listing of service provider contracts entered into by the Department of Health and Human Services (DHHS) as described in Note 3 - Funding From Grant Awards.

See Independent Auditors' Report.

***Burke County Partnership for Children, Inc.
Schedule of State Awards - Regulatory Basis
For the Year Ended June 30, 2001***

Schedule 3

<u>State Grantor/Pass-through Grantor/Program</u>	<u>Contract #</u>	<u>Receipts</u>	<u>Expenditures</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)	* 1-90-1-01-001	\$ (27,131)	\$ -
Early Childhood Initiatives Program (Current Year)	* 1-01-1-01-001	2,619,949	2,591,057
Multi-County Accounting and Contracting Grant (Prior Year)	-	(5,190)	-
Multi-County Accounting and Contracting Grant (Current Year)	-	<u>12,000</u>	<u>11,835</u>
Total State Awards		<u><u>\$ 2,599,628</u></u>	<u><u>\$ 2,602,892</u></u>

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

See Independent Auditors' Report.

Burke County Partnership for Children, Inc.

Schedule of Property and Equipment

For the Year Ended June 30, 2001

Schedule 4

Furniture and Non-Computer Equipment	\$ 15,739
Computer Equipment/Printers	14,190
Leasehold Improvements	<u>25,734</u>
Total Property and Equipment	<u>\$ 55,663</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. On the regulatory basis of accounting, these items are expensed in the year purchased.

See Independent Auditors' Report.

Burke County Partnership for Children, Inc.
Schedule of Qualifying Match (Non-GAAP)
For the Year Ended June 30, 2001

Schedule 5

Match Provided at the Partnership Level:

Cash	\$ 44,292
In-Kind Goods and Services	<u>16,005</u>
	<u>\$ 60,297</u>

Match Provided at the Contractor Level:

Cash	\$ 1,201,972
In-Kind Goods and Services	<u>49,368</u>
	<u>\$ 1,251,340</u>

Note: This schedule is presented in accordance with the program match requirement as provided for by North Carolina Session Law 1999-237, Section 11.48(l). The law allows for volunteer services to be valued for match purposes, a concept that deviates from accounting principles generally accepted in the United States of America.

See Independent Auditors' Report.

**INDEPENDENT AUDITORS' 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
Burke County Partnership for Children, Inc.
Morganton, North Carolina

We have audited the financial statements of the Burke County Partnership for Children, Inc. (Burke County Partnership) as of and for the year ended June 30, 2001, and have issued our report thereon dated May 8, 2002. 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 Burke County Partnership's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Burke County Partnership's internal control over financial reporting in order to determine our auditing procedures for the purposes of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that

**INDEPENDENT AUDITORS' 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 (CONCLUDED)**

might be material weaknesses. 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. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

We noted a matter involving an issue of a management control nature that is described in the Audit Observations and Recommendations section of this report.

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

May 8, 2002

Crisp Hughes Evans LLP

AUDIT OBSERVATIONS AND RECOMMENDATIONS

Other Observations and Recommendations from the Current Audit - The condition and recommendation described below is not considered by us to be a reportable condition but is presented for your consideration to enhance existing control policies and procedures or identify areas to assist management in day to day operations.

1. BANK RECONCILIATIONS

Some of the audit adjustments from fiscal 1999 were not posted to the accounting records. Posting of the entries affected the cash balance by an immaterial amount. This difference should have been noted during the monthly bank reconciliation. We noted that the bank reconciliation is carrying several outstanding cash adjustments made to the accounting records. We recommend all outstanding reconciling items be scrutinized on a monthly basis and cleared as soon as possible.

Management's Response: The outstanding audit adjustments from 1999 were entered into the accounting system by the MAC accountant on February 28, 2002. Any future outstanding items will be noted during each monthly review of the financial statements and cleared as soon as possible.

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.

EXECUTIVE BRANCH

The Honorable Michael F. Easley
The Honorable Beverly M. Perdue
The Honorable Richard H. Moore
The Honorable Roy A. Cooper, III
Mr. David T. McCoy
Mr. Robert L. Powell
Ms. Carmen Hooker Odom
Mr. Ashley Thrift

Governor of North Carolina
Lieutenant Governor of North Carolina
State Treasurer
Attorney General
State Budget Officer
State Controller
Secretary, Department of Health and Human Services
Chairman, Board of Directors
North Carolina Partnership for Children, Inc.
Executive Director
North Carolina Partnership for Children, Inc.

Ms. Karen Ponder

LEGISLATIVE BRANCH

Appointees to the Joint Legislative Commission on Governmental Operations

Senator Marc Basnight, Co-Chairman
Senator Charlie Albertson
Senator Frank W. Ballance, Jr.
Senator Charles Carter
Senator Daniel G. Clodfelter
Senator Walter H. Dalton
Senator James Forrester
Senator Linda Garrou
Senator Wilbur P. Gulley
Senator Kay R. Hagan
Senator David W. Hoyle
Senator Ellie Kinnaird
Senator Howard N. Lee
Senator Jeanne H. Lucas
Senator R. L. Martin
Senator William N. Martin
Senator Stephen M. Metcalf
Senator Fountain Odom

Senator Aaron W. Plyler
Senator Eric M. Reeves
Senator Dan Robinson
Senator Larry Shaw
Senator Robert G. Shaw
Senator R. C. Soles, Jr.
Senator Ed N. Warren
Senator David F. Weinstein
Senator Allen H. Wellons
Representative James B. Black, Co-Chairman
Representative Martha B. Alexander
Representative Flossie Boyd-McIntyre
Representative E. Nelson Cole
Representative James W. Crawford, Jr.
Representative William T. Culpepper, III
Representative W. Pete Cunningham
Representative Beverly M. Earle
Representative Ruth M. Easterling
Representative Stanley H. Fox

Representative R. Phillip Haire
Representative Dewey L. Hill
Representative Mary L. Jarrell
Representative Maggie Jeffus
Representative Larry T. Justus
Representative Edd Nye
Representative Warren C. Oldham
Representative William C. Owens, Jr.
Representative E. David Redwine
Representative R. Eugene Rogers
Representative Drew P. Saunders
Representative Wilma M. Sherrill
Representative Ronald L. Smith
Representative Joe P. Tolson
Representative Gregg Thompson
Representative Russell E. Tucker
Representative Thomas E. Wright
Representative Douglas Y. Yongue

Other Legislative Officials

Representative Philip A. Baddour, Jr.
Senator Anthony E. Rand
Senator Patrick J. Ballantine
Representative N. Leo Daughtry
Representative Joe Hackney
Mr. James D. Johnson

Majority Leader of the N.C. House of Representatives
Majority Leader of the N.C. Senate
Minority Leader of the N.C. Senate
Minority Leader of the N.C. House of Representatives
N. C. House Speaker Pro-Tem
Director, Fiscal Research Division

ORDERING INFORMATION

Copies of this report may be obtained by contacting the:

Office of the State Auditor
State of North Carolina
2 South Salisbury Street
20601 Mail Service Center
Raleigh, North Carolina 27699-0601

Internet: <http://www.ncauditor.net>

Telephone: 919/807-7500

Facsimile: 919/807-7647