



STATE OF NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT OF

ORANGE COUNTY PARTNERSHIP FOR YOUNG CHILDREN

CHAPEL HILL, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2001

OFFICE OF THE STATE AUDITOR

RALPH CAMPBELL, JR.

STATE AUDITOR

FINANCIAL STATEMENT AUDIT REPORT OF
ORANGE COUNTY PARTNERSHIP FOR YOUNG CHILDREN
CHAPEL HILL, NORTH CAROLINA
FOR THE YEAR ENDED JUNE 30, 2001

BOARD OF DIRECTORS

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ADMINISTRATIVE OFFICER

MICHELE RIVEST, EXECUTIVE DIRECTOR



Ralph Campbell, Jr.
State Auditor

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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, Orange County Partnership for Young Children

This report presents the results of our financial statement audit of the Orange County Partnership for Young Children (Orange Partnership) 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 Orange Partnership were subject to audit procedures as we considered necessary for us to report on the accompanying financial statements and supplementary information. The audit procedures were conducted in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards* issued by the Comptroller General of the United States.

The audit of the Orange Partnership 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 demonstration projects (local partnerships). The Orange Partnership is one of these local partnerships. As such, the Orange Partnership is a private nonprofit 501(c)(3) organization and is required by G.S. 143B-168.14(b) to have an annual financial and compliance audit conducted by the State Auditor.

The purpose of this report is to present the results of our audit on the accompanying financial statements. A summary of our reporting objectives and audit results are:

- 1. Objective** - Express an opinion on the accompanying financial statements and supplementary information.

Results – The accompanying financial statements present fairly, in all material respects, the amounts and disclosures made in accordance with the regulatory basis of accounting established by the North Carolina Partnership for Children, Inc. The accompanying supplementary information presents information that is fairly stated in all material respects in relation to the basic financial statements.

AUDITOR'S TRANSMITTAL (CONCLUDED)

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

Results - Our tests disclosed no instances of noncompliance which require disclosure herein under *Government Auditing Standards*.

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

Results - Our tests disclosed no material weaknesses in the internal control over financial reporting which require disclosure herein under *Government Auditing Standards*.

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.

A handwritten signature in black ink, reading "Ralph Campbell, Jr." in a cursive script.

Ralph Campbell, Jr.
State Auditor

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Orange County Partnership for Young Children
Chapel Hill, North Carolina

We have audited the accompanying Statement of Receipts, Expenditures, and Net Assets - Regulatory Basis of the Orange County Partnership for Young Children (Orange 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 Orange 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 generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets of the Orange County Partnership for Young Children 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 11, 2002 on our consideration of the Orange 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 Orange County Partnership for Young Children 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.

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

Ralph Campbell, Jr.
State Auditor

April 11, 2002

Orange County Partnership for Young Children

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 \$41,366)	\$ 3,815,167	\$ 12,000	\$ 0	\$ 3,827,167
Private Contributions		26,112	4,995	31,107
Interest and Investment Earnings		22,464		22,464
Sales Tax Refunds		1,707		1,707
Total Receipts	3,815,167	62,283	4,995	3,882,445
Net Assets Released from Restrictions:				
Satisfaction of Program Restrictions		312	(312)	
	3,815,167	62,595	4,683	3,882,445
Expenditures:				
Programs:				
Child Care and Education Quality	512,795	43,785		556,580
Child Care and Education Accessibility and Availability	12,500			12,500
Child Care and Education Affordability	2,083,050			2,083,050
Health and Safety	204,855	2,207		207,062
Family Support	667,333	11,045		678,378
Support:				
Management and General	286,215	12,381		298,596
Program Evaluation	84,536	2,436		86,972
Other:				
Sales Tax Paid		2,115		2,115
Total Expenditures	3,851,284	73,969		3,925,253
Excess of Receipts Over Expenditures	(36,117)	(11,374)	4,683	(42,808)
Net Assets at Beginning of Year	41,366	58,502	312	100,180
Net Assets at End of Year	\$ 5,249	\$ 47,128	\$ 4,995	\$ 57,372
Net Assets Consisted of:				
Cash and Cash Equivalents	\$ (177,796)	\$ 47,128	\$ 4,995	\$ (125,673)
Investments	177,856			177,856
Refunds Due From Contractors	5,189			5,189
	\$ 5,249	\$ 47,128	\$ 4,995	\$ 57,372

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

Orange County Partnership for Young Children
Schedule of Functional Expenditures - Regulatory Basis
For the Year Ended June 30, 2001

Exhibit

	Total	Personnel	Contracted Services	Supplies and Materials	Other Operating Expenses	Fixed Charges and Other Expenses	Property and Equipment Outlay	Services/ Contracts/ Grants	Participant Training Expense
Smart Start Fund:									
Programs:									
Child Care and Education Quality	512,795	27,193	7,421	3,291	8,297	85		466,508	
Child Care and Education Accessibility and Availability	12,500							12,500	
Child Care and Education Affordability	2,083,050							2,083,050	
Health and Safety	204,855							204,855	
Family Support	667,333	45,114	435	5,560	6,424			609,800	
	3,480,533	72,307	7,856	8,851	14,721	85	0	3,376,713	0
Support:									
Management and General	286,215	172,442	29,121	10,009	23,447	44,946	6,250		
Program Evaluation	84,536	50,550	27,825		6,161				
	370,751	222,992	56,946	10,009	29,608	44,946	6,250	0	0
Total Smart Start Fund Expenditures	3,851,284	295,299	64,802	18,860	44,329	45,031	6,250	3,376,713	0
Other Funds:									
Programs:									
Child Care and Education Quality	43,785	5,862	5,000	695	4,368			27,860	
Health and Safety	2,207						2,207		
Family Support	11,045				245			10,800	
	57,037	5,862	5,000	695	4,613	0	2,207	38,660	0
Support:									
Management and General	12,381	5,028	7,849	28			(877)	353	
Program Evaluation	2,436		2,436						
	14,817	5,028	10,285	28	0	0	(877)	353	0
Other:									
Sales Tax Paid	2,115	0	0	2,115	0	0	0	0	0
Total Other Funds Expenditures	73,969	10,890	15,285	2,838	4,613	0	1,330	39,013	0

ORANGE COUNTY PARTNERSHIP FOR YOUNG CHILDREN
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2001

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

A. Organization and Purpose - The Orange County Partnership for Young Children (Orange Partnership) is a legally separate nonprofit organization incorporated on August 24, 1993. The Orange Partnership was established to develop and provide, through public and private means, early childhood education and developmental services for children and families. The Orange 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 Orange 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 Orange 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 generally accepted accounting principles 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. Cash and Cash Equivalents** – Cash and cash equivalents include cash on deposit with commercial banks and certificates of deposit acquired within 90 days of maturity.
- E. Investments** – This classification includes money market funds reported at cost.
- F. 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** – Cash of The Orange Partnership is deposited with one commercial bank and insured by the Federal Deposit Insurance Corporation (FDIC) up to \$100,000. Deposits are fully insured by the FDIC at year end.
- B. Investments** – The Orange Partnership has an Automated Investment Plan to invest excess cash balances over an established target amount. The investment is in a money market investment fund and is not insured by the FDIC and is not subject to categorization of custodial credit risk.

NOTE 3 - FUNDING FROM GRANT AWARDS

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

provider contracts entered into by NCPC and DHHS are presented on Schedule 2 accompanying the financial statements.

The Orange Partnership was awarded and has received \$3,856,533 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 \$5,189 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 Orange Partnership are representative of various organizations that benefit from actions taken by the Board. It is the policy of the Orange 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 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, program upgrade projects, child care resource and referral, professional development, child care provider support, special needs training for child care professionals, and information and resources.

Child Care and Education Accessibility and Availability - Used to account for service activities associated with an increase in child care spaces.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Child Care and Education Affordability - Used to account for service activities including comprehensive child care cost supports, a scholarship program, or cooperative play groups.

Health and Safety - Used to account for service activities including dental screenings, vision screening, outreach nurses, special needs – early intervention services, or outreach materials.

Family Support - Used to account for service activities including a family resource center, parenting education, parenting skills training, general family support, family crisis intervention, special needs – family support, or 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 7 - PENSION PLAN

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 Orange Partnership. The voluntary contributions by employees amounted to \$14,663 during the year ended June 30, 2001.

NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

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>
Head Start Training Outreach	<u>\$ 4,995</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>
Smart Start Family Fest	<u>\$ 312</u>

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

Schedu

Organization Name		Smart Start Fund		Other Funds	
		Amount Advanced	Refund Due	Amount Advanced	Refund Due
Chapel Hill - Carrboro City Schools	*	48,373			
Chapel Hill Training Outreach Project	*	146,850		17,940	
Child Care Services Association	*	2,400,509		9,920	
El Centro Latino de Orange Co.		61,780	(175)		
Family Support Network		8,870			
Inter-Faith Council		98,162			
Mi Escuelita		12,500			
OPC Mental Health Services	*	72,410			
Orange County Department of Social Services	*	112,198			
Orange County Friends of the Dept. of Social Services				250	
Orange County Health Dept.	*	195,218	(4,668)		
Orange County Library	*	10,226			
Orange County Literacy Council		9,846			
Orange County Schools	*	30,595			
Piedmont Health Services		85,736	(346)	903	
The University of North Carolina at Chapel Hill	*	88,629		10,000	
		3,381,902	(5,189)	39,013	0

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

***Orange County Partnership for Young Children
Schedule of State Level Service Provider Contracts
For the Year Ended June 30, 2001***

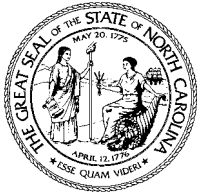
Schedule 2

Organization Name		DHHS	NCPC	Total
		Contracts	Contracts	Contracts
Child Care Services Association - WAGES Program	*	233,246		233,246
National Society to Prevent Blindness - North Carolina Affiliate			23,242	23,242
		233,246	23,242	256,488
*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 either the Department of Health and Human Services (DHHS) or the North Carolina Partnership for Children, Inc. (NCPC) as described in Note 3 - Funding From Grant Awards.				

Orange County Partnership for Young Children					
Schedule of State Awards - Regulatory Basis					
For the Year Ended June 30, 2001					Schedule 3
State Grantor/Pass-through Grantor/Program		Contract #		Receipts	Expenditures
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)		1-90-1-10-001	\$	(41,366)	\$ (60)
Early Childhood Initiatives Program (Current Year)	*	1-01-1-10-001		3,856,533	3,851,344
Accounting and Contracting Services Grant				12,000	12,000
Total State Awards			\$	<u>3,827,167</u>	<u>\$ 3,863,284</u>
*Programs with compliance requirements that have a direct and material effect on the financial statement.					

<i>Orange County Partnership for Young Children</i>			
<i>Schedule of Property and Equipment</i>			
<i>For the Year Ended June 30, 2001</i>			<i>Schedule 4</i>
	Furniture and Non-Computer Equipment	\$	16,968
	Computer Equipment/Printers		54,355
	Leasehold Improvements		550
	Total Property and Equipment	\$	71,873
	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.		

Orange County Partnership for Young Children			
Schedule of Qualifying Match (Non-GAAP)			
For the Year Ended June 30, 2001			Schedule 5
Match Provided at the Partnership Level:			
Cash		\$	2,670
In-Kind Goods and Services			12,300
		\$	14,970
Match Provided at the Contractor Level:			
Cash		\$	403,451
In-Kind Goods and Services			264,297
		\$	667,748
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 generally accepted accounting principles.			



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 STATEMENT PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Board of Directors
Orange County Partnership for Young Children
Chapel Hill, North Carolina

We have audited the financial statements of the Orange County Partnership for Young Children (Orange Partnership) as of and for the year ended June 30, 2001, and have issued our report thereon dated April 11, 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 Orange 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 Orange 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 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

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

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.

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.

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

Ralph Campbell, Jr.
State Auditor

April 11, 2002

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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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Mr. Ashley Thrift	Chairman, Board of Directors
	North Carolina Partnership for Children, Inc.
	Executive Director
	North Carolina Partnership for Children, Inc.
Ms. Karen Ponder	

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DISTRIBUTION OF AUDIT REPORT (CONCLUDED)

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Representative Joe Hackney
Mr. James D. Johnson

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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

June 19, 2002

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