

STATE OF NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT OF DOWN EAST PARTNERSHIP FOR CHILDREN

ROCKY MOUNT, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2001

OFFICE OF THE STATE AUDITOR

RALPH CAMPBELL, JR.

STATE AUDITOR

FINANCIAL STATEMENT AUDIT REPORT OF

DOWN EAST PARTNERSHIP FOR CHILDREN

ROCKY MOUNT, NORTH CAROLINA

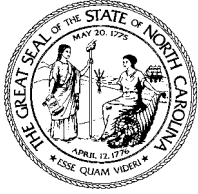
FOR THE YEAR ENDED JUNE 30, 2001

BOARD OF DIRECTORS

MARIE INSCORE, BOARD CHAIR

ADMINISTRATIVE OFFICER

HENRIETTA ZALKIND, 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, Down East Partnership for Children

This report presents the results of our financial statement audit of the Down East Partnership for Children (Down East 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 Down East 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 Down East 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 Down East Partnership is one of these local partnerships. As such, the Down East 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 Down East 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*.

However, we noted a matter involving an issue of a management control nature that is described in the Schedule of Findings and Questioned Costs section of this report.

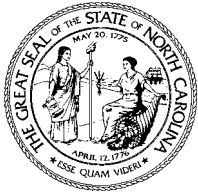
North Carolina General Statutes require the State Auditor to make audit reports available to the public. Copies of audit reports issued by the Office of the State Auditor may be obtained through one of the options listed in the back of this report.



Ralph Campbell, Jr.
State Auditor

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Down East Partnership for Children
Rocky Mount, North Carolina

We have audited the accompanying Statement of Receipts, Expenditures, and Net Assets - Regulatory Basis of the Down East Partnership for Children (Down East 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 Down East 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 and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the accompanying financial statements were prepared on the 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 Down East Partnership for 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 July 16, 2002 on our consideration of the Down East 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 Down East Partnership for 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.



Ralph Campbell, Jr.
State Auditor

July 16, 2002

Down East Partnership for 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 \$109,063)	\$ 5,437,381	\$ 24,000	\$ 0	\$ 5,461,381
Federal Awards		260,414		260,414
Local Awards		20,000		20,000
Private Contributions		319,566	129,294	448,860
Interest and Investment Earnings		34,771		34,771
Sales Tax Refunds		14,683		14,683
Other Receipts	333	25,654		25,987
Total Receipts	5,437,714	699,088	129,294	6,266,096
Expenditures:				
Programs:				
Child Care and Education Quality	895,372	239,198		1,134,570
Child Care and Education Affordability	1,935,293			1,935,293
Health and Safety	239,921			239,921
Family Support	1,919,170	186,151		2,105,321
Flood Relief	119,730	180,073		299,803
Support:				
Management and General	409,973			409,973
Fund Raising		29,656		29,656
Special Fund Raising Events		87,487		87,487
Other:				
Sales Tax Paid		24,756		24,756
Refund of Prior Year Grant		26,081		26,081
Total Expenditures	5,519,459	773,402		6,292,861
Excess of Receipts Over Expenditures	(81,745)	(74,314)	129,294	(26,765)
Net Assets at Beginning of Year	286,726	232,871		519,597
Restatement (Note 9)		(23,091)	23,091	
Net Assets at Beginning of Year After Restatement	286,726	209,780	23,091	519,597
Net Assets at End of Year	\$ 204,981	\$ 135,466	\$ 152,385	\$ 492,832
Net Assets Consisted of:				
Petty Cash	\$ 0	\$ 100	\$ 0	\$ 100
Cash on Deposit	55,448	130,352	152,385	338,185
Refunds Due From Contractors	149,726	3,253		152,979
	205,174	133,705	152,385	491,264
Less: Funds Held for Others	193	(1,761)		(1,568)
	\$ 204,981	\$ 135,466	\$ 152,385	\$ 492,832

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

**Down East Partnership for Children
Statement of Functional Expenditures - Regulatory Basis
For the Year Ended June 30, 2001**

Exhibit B

	Total	Personnel	Contracted Services	Supplies and Materials	Other Operating Expenses	Fixed Charges and Other Expenses	Property and Equipment Outlay	Indirect Costs	Services/ Contracts/ Grants	Participant Training Expense
Smart Start Fund:										
Programs:										
Child Care and Education Quality	895,372	166,318	14,795	21,246	38,884	6,718	12,654	67,998	565,239	1,520
Child Care and Education Affordability	1,935,293	50,284	5,726	763	4,577	852		188,592	1,684,499	
Health and Safety	239,921								239,921	
Family Support	1,919,170	360,955	51,636	23,593	74,330	4,922	8,608	59,992	1,329,989	5,145
Flood Relief	119,730	25,074	316	3,186	2,508	6	2,347	3,594	82,683	16
	5,109,486	602,631	72,473	48,788	120,299	12,498	23,609	320,176	3,902,331	6,681
Support:										
Management and General	409,973	249,689	39,130	13,410	60,983	7,210	39,551	0	0	0
Total Smart Start Fund Expenditures	5,519,459	852,320	111,603	62,198	181,282	19,708	63,160	320,176	3,902,331	6,681
Other Funds:										
Programs:										
Child Care and Education Quality	239,198	77,957	5,772	17,878	13,409	247	3,373	24,397	89,724	6,441
Family Support	186,151	32,951	17,219	4,007	8,450	709		15,230	106,725	860
Flood Relief	180,073	75,223	16,763	9,539	8,151	19	7,040	12,676	50,613	49
	605,422	186,131	39,754	31,424	30,010	975	10,413	52,303	247,062	7,350
Support:										
Management and General	0	236,559	15,438	14,065	34,292	3,866	68,003	(372,479)	256	
Fund Raising	29,656		999	2,058	24,908	1,691				
Special Fund Raising Events	87,487	59,745	24,762				2,980			
	117,143	296,304	41,199	16,123	59,200	5,557	70,983	(372,479)	256	0
Other:										
Sales Tax Paid	24,756			24,756						
Refund of Prior Year Grant	26,081					26,081				
	50,837	0	0	24,756	0	26,081	0	0	0	0
Total Other Funds Expenditures	773,402	482,435	80,953	72,303	89,210	32,613	81,396	(320,176)	247,318	7,350

DOWN EAST PARTNERSHIP FOR CHILDREN
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2001

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

- A. Organization and Purpose** - The Down East Partnership for Children (Down East Partnership) is a legally separate nonprofit organization incorporated on December 7, 1993. The Down East Partnership was established to develop and provide, through public and private means, early childhood education and developmental services for children and families. The Down East 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 Down East 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 Down East 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. In addition, amounts withheld from employee paychecks or other amounts received in an agency capacity are recorded as funds held for others.

- 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.
- E. Funds Held For Others** – Funds held for others include amounts received that are fiduciary in nature in which the Down East Partnership acts in an agency capacity. The Down East Partnership offers its employees the opportunity to participate in a Flexible Spending Plan (Plan) which is a cafeteria plan as defined by Section 125 of the Internal Revenue Code. A cafeteria plan allows employees to pay for certain employee benefits with pre-tax deductions. For the period ended June 30, 2001, the Down East Partnership has made payments in excess of the amounts withheld from employees' paychecks for the Plan resulting in a deficit balance in the funds held for others account. The Down East Partnership will collect the amounts advanced from the Plan from employees in the future per the Plan's guidelines.
- F. Use of Estimates** - The financial statements include estimates and assumptions made by management for the allocation of joint costs. It is management's belief that these estimates are reasonable and fair.

NOTE 2 - DEPOSITS

All funds of the Down East Partnership are deposited with one commercial bank and insured by the Federal Deposit Insurance Corporation (FDIC) up to \$100,000. Deposits over this amount subjects the Down East Partnership to a concentration of credit risk. At June 30, 2001, the Down East Partnership's bank deposits in excess of the FDIC insured limit was \$655,224.

NOTE 3 - FUNDING FROM GRANT AWARDS

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Associated with these contracts, the Down East 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 Down East Partnership. These service provider contracts are not reflected on the accompanying financial statement. However, a summary of the service provider contracts entered into by NCPC and DHHS are presented on Schedule 2 accompanying the financial statements.

The Down East Partnership was awarded and has received \$5,546,444 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 \$16,630 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.

Family Support/Resource Center Program - The Down East Partnership received additional support from the State of North Carolina based on a cost-reimbursement contract with DHHS for the Family Support/Resource Center (FSRC) Program.

The Down East Partnership was awarded \$150,000 under a current year FSRC contract with DHHS and has received \$110,687 of this amount. The unexpended balance of this contract is subject to reversion to the State.

The Partnership expects to receive continued funding through new FSRC Program contracts with the State.

Project Recovery - The Down East Partnership received additional support from the State of North Carolina based on a cost-reimbursement contract with North Carolina Department of Crime Control and Public Safety – Division of Governor’s Crime Commission (Commission) for the post Hurricane Floyd support services in Nash and Edgecombe County.

The Down East Partnership was awarded \$218,282 under a current year Project Recovery contract with the Commission and has received \$84,981 of this amount. The contract has been extended past the fiscal year end of June 30, 2001.

The Partnership expects to receive continued funding through new Project Recovery contracts with the State.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 4 - RELATED PARTY TRANSACTIONS

Service Provider Contracts with Board Member Organizations - The board members of the Down East Partnership are representative of various organizations that benefit from actions taken by the Board. It is the policy of the Down East 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 NCPC and 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, early education enhancement programs, child care resource and referral, or professional development.

Child Care and Education Affordability - Used to account for service activities including public preschool classes or a scholarship program.

Health and Safety - Used to account for service activities associated with comprehensive health support activities.

Family Support - Used to account for service activities including family resource centers, parenting skills training, general family support, community leadership, support services for children in crisis, special needs – family support, information and resources, or school readiness programs.

Flood Relief – Used to account for service activities associated with providing a network of counseling and support services for children, adults, and service providers dealing with post-hurricane Floyd trauma in Nash and Edgecombe County.

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.

Development Office - Expenditures that are incurred to develop new sources of funding including public and private support.

C. Allocation of Joint Costs

The Down East Partnership uses an indirect cost pool to collect administration expenses that are not directly attributable to the various programs the Partnership operates. Types of costs included in the pool were salaries, contracted services, supplies and materials, other operating expenses, fixed charges and other expenses and property and equipment.

Indirect costs are allocated using a percentage of program expenses. The indirect cost rate used for the 2001 fiscal year was 11.54% except for the Family Preservation grant, which had a maximum allowable indirect cost percentage of 10% and the Smart Start administrative contract, which had a maximum allowable amount of \$409,973.

Management and overhead costs totaling \$782,452 were distributed across program activities, including \$409,973 specifically allocated to the Smart Start administrative contract. These costs were initially recorded in the indirect cost pool and then allocated on a monthly basis to the affected programs. An Indirect Cost column has been added to the Statement of Functional Expenditures – Regulatory Basis to indicate how these costs were distributed across programs and to eliminate the charges recorded for distributing the costs. This column allows for a more accurate presentation of costs by program and functional category.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 6 - COMMITMENTS AND CONTINGENCIES

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	\$ 8,665
2003	4,548
2004	4,548
2005	4,548
Total Minimum Lease Payments	\$ <u>22,309</u>

Total rental expenditure for all operating leases was \$11,768 for the year ended June 30, 2001.

NOTE 7 - PENSION PLAN

IRC Section 403(b) - All permanent employees who are at least half-time 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. All costs of administering and funding this plan are the responsibility of the plan. No costs are incurred by the Down East Partnership. The voluntary contributions by employees amounted to \$90,184 during the year ended June 30, 2001.

NOTE 8 - RESTRICTIONS ON NET ASSETS

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

<u>Purpose</u>	<u>Amount</u>
JP Morgan – Community Fellows	\$ 16,445
Babcock Foundation – Community Fellows	16,342
Project Recover	5,250
Flood Relief	14,348
Child Care Resource and Referral	100,000
	<u>\$ 152,385</u>

NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

NOTE 9 - PRIOR PERIOD RESTATEMENT

During the prior year, the Down East Partnership recorded \$23,091 of cash receipts to unrestricted funds in error. As a result, the net assets in the accompanying financial statements have been restated to correct this misclassification as follows:

	Net Assets Previously Reported	Net Effect of Prior Year Misclassification	July 1, 2000 Net Assets Restated
Unrestricted Other:			
Cash on Deposit	\$ 231,791	\$ (23,091)	\$ 208,700
Refunds Due From Contractors	2,435		2,435
Less Funds Held for Others	1,355		1,355
Total Unrestricted Other Net Assets	\$ 232,871	\$ (23,091)	\$ 209,780
Temporary Restricted:			
Cash on Deposit	\$ 0	\$ 23,091	\$ 23,091

***Down East Partnership for Children
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
Communities In Schools of the Rocky Mount Region, Inc.	166,733		66,715	
Community Enrichment Organization	26,560		52,300	
Edgecombe Community College	35,231			
Edgecombe County Department of Social Services			16,745	
Edgecombe County Health Department	241,245	(1,324)		
Edgecombe County Schools	922,548		11,597	
Edgecombe-Nash Mental Health Services	147,564	(2,529)		
Nash Community College	56,687	(381)	5,968	
Nash County Department of Social Services	7,876		9,980	
Nash-Rocky Mount Schools	255,404	(19)		
Thomas Hackney Braswell Memorial Library	159,283	(5)		
Various Day Care Providers	330,446	(16,022)	84,013	
Prior Fiscal Years Refunds Due From Contractors	129,446	(129,446)	3,253	(3,253)
	2,479,023	(149,726)	250,571	(3,253)
Individuals:				
Scholarships/Bonus Awards	1,573,034	0	0	0
	4,052,057	(149,726)	250,571	(3,253)

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

***Down East Partnership for Children
Schedule of State Level Service Provider Contracts
For the Year Ended June 30, 2001***

Schedule 2

Organization Name	DHHS Contracts	NCPC Contracts	Totals
Child Care Services Association - WAGES Program	216,062		216,062
Nash/Edgecombe Counties Departments of Social Services *	247,802		247,802
National Society to Prevent Blindness - North Carolina Affiliate		55,614	55,614
	463,864	55,614	519,478

*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) and North Carolina Partnership for Children (NCPC) as described in Note 3 - Funding From Grant Awards.

Down East Partnership for Children
Schedule of Federal and State Awards - Regulatory Basis
For the Year Ended June 30, 2001

Schedule 3

Federal/State Grantor/Pass-through Grantor/Program	Federal CFDA Number		Contract #	Receipts	Expenditures
Federal Awards:					
Department of Justice					
Pass-through from the North Carolina Department of Crime Control and Public Safety - Division of Governor's Crime Commission					
Passed-through the City of Rocky Mount					
Byrne Formula Grant Program (Project Recovery)	16.579	**	033-1-00-013-D-362	\$ 84,980	\$ 137,835
Department of Health and Human Services					
Pass-through from the North Carolina Department of Health and Human Services - Division of Social Services					
Promoting Safe and Stable Families (Family Preservation)	93.556	**	01120-01	110,687	147,107
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 Block Grant (Prior Year)	93.575		5739	6,487	
Child Care Development Block Grant (Current Year)	93.575		5859	58,260	63,835
Total Federal Awards				260,414	348,777
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)			1-89-2-05-001		(21,386)
Early Childhood Initiatives Program (Prior Year)			1-90-2-05-001	(109,063)	11,986
Early Childhood Initiatives Program (Current Year)		*	1-01-2-05-001	5,546,444	5,528,859
Multi-County Accounting and Contract Grant (Current Year)			N/A	24,000	24,000
Total State Awards				5,461,381	5,543,459
Total Federal and State Awards				\$ 5,721,795	\$ 5,892,236
*Programs with compliance requirements that have a direct and material effect on the financial statement.					
** Major Programs per OMB Circular A-133					

<i>Down East Partnership for 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	\$	74,970
	Computer Equipment/Printers		112,900
	Buildings		564,130
	Leasehold Improvements		192,888
	Total Property and Equipment	\$	944,888
	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.		

***Down East Partnership for Children
Schedule of Qualifying Match (Non-GAAP)
For the Year Ended June 30, 2001***

Schedule 5

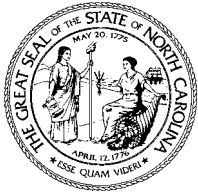
Match Provided at the Partnership Level:

Cash	\$ 448,860
In-Kind Goods and Services	22,653
	<u>\$ 471,513</u>

Match Provided at the Contractor Level:

Cash	\$ 438,986
In-Kind Goods and Services	84,937
	<u>\$ 523,923</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 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
Down East Partnership for Children
Rocky Mount, North Carolina

We have audited the financial statements of the Down East Partnership for Children (Down East Partnership) as of and for the year ended June 30, 2001, and have issued our report thereon dated July 16, 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 Down East 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 Down East 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 timely period by employees in the normal course of performing their assigned functions. We

**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)**

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

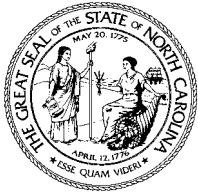
However, we noted a matter involving an issue of a management control nature that is described in the Schedule of Findings and Questioned Costs section of this report.

This report is intended solely for the information and use of the management of the partnership, the North Carolina Partnership for Children, 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.



Ralph Campbell, Jr.
State Auditor

July 16, 2002



Ralph Campbell, Jr.
State Auditor

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Office of the State Auditor

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**INDEPENDENT AUDITOR'S REPORT
ON COMPLIANCE WITH REQUIREMENTS APPLICABLE
TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Board of Directors
Down East Partnership for Children
Rocky Mount, North Carolina

Compliance

We have audited the compliance of the Down East Partnership for Children (Down East Partnership) with the types of compliance requirements described in the "U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement" that are applicable to each of its major federal programs for the year ended June 30, 2001. Down East Partnership's major federal programs are identified in the summary of auditors' results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Down East Partnership's management. Our responsibility is to express an opinion on Down East Partnership's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and *OMB Circular A-133*, "Audits of States, Local Governments, and Non-Profit Organizations." Those standards and *OMB Circular A-133* require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Down East Partnership's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Down East Partnership's compliance with those requirements.

In our opinion, Down East Partnership complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2001.

**INDEPENDENT AUDITOR'S REPORT
ON COMPLIANCE WITH REQUIREMENTS APPLICABLE
TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133 (CONCLUDED)**

Internal Control Over Compliance

The management of Down East Partnership is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Down East Partnership's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with *OMB Circular A-133*.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control 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 noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program 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 compliance 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, 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.



Ralph Campbell, Jr.
State Auditor

July 16, 2002

**DOWN EAST PARTNERSHIP FOR CHILDREN
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2001**

I. SUMMARY OF AUDITOR'S RESULTS **YES** **NO**

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified
- Reportable condition(s) identified that are not considered to be material weaknesses

Federal Awards

Internal control over major programs:

- Material weakness(es) identified
- Reportable condition(s) identified that are not considered to be material weaknesses

Noncompliance material to federal awards

Type of auditor's report issued on compliance for major federal programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133

Identification of major federal programs:

<u>CFDA Numbers</u>	<u>Name of Federal Programs</u>
16.579	Byrne Formula Grant Program
93.556	Promoting Safe and Stable Families

Dollar threshold used to distinguish between Type A and Type B Programs **\$300,000**

Auditee qualified as low-risk auditee

II. FINDINGS RELATED TO THE AUDIT OF THE FINANCIAL STATEMENTS

None

III. FINDINGS AND QUESTIONED COSTS RELATED TO THE AUDIT OF FEDERAL AWARDS

None

**DOWN EAST PARTNERSHIP FOR CHILDREN
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2001 (CONCLUDED)**

Matters Not Related to Financial Reporting

Management Control Findings and Recommendations - The following finding was identified during the current audit and represents a deficiency in the management control processes for matters not directly related to financial reporting or federal compliance objectives.

PREPAYMENT OF CONSTRUCTION ACTIVITY

The Down East Partnership prepaid \$175,241 to a service provider for the construction of a Family Resource Center. The bidding for this activity did not take place until June 2001 and a contract to construct the facility was not signed until June 29, 2001. The construction activity did not begin until after June 30, 2001 and the project was not completed until April 2002.

The Smart Start Accountability Plan states that the cash basis of accounting must be used and prohibits the prepayment of goods and services at year-end.

Recommendation: We recommend that the Down East Partnership incorporate guidance established by its oversight entity into its operating procedures to ensure that expenditures are incurred and recognized in the proper reporting period.

Partnership's Response: The development of the Family Resource Center in Princeville started months before the end of the fiscal year. Layout and design, program site planning and completion of school facilities requirements were all completed. Unfortunately, the actual construction of the building was delayed while complications caused by flood recovery planning were untangled. Once it was determined that the Family Resource Center would have to be placed on land owned by the Edgecombe County Schools and also occupied by the newly rebuilt elementary school in Princeville, the project moved forward quickly.

Given the high demand for contractors to rebuild Hurricane Floyd destroyed property, it was necessary to place funding in escrow in order to get an executed construction contract. Throughout the development of the Princeville Family Resource Center, Down East Partnership for Children followed the step-by-step instructions of the North Carolina Partnership for Children, including obtaining their consent to have the funds placed into escrow in order to complete the construction during fiscal year 2002.

**DOWN EAST PARTNERSHIP FOR CHILDREN
SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2001**

There were no prior year audit findings for the Down East Partnership for Children.

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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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The Honorable Beverly M. Perdue	Lieutenant Governor of North Carolina
The Honorable Richard H. Moore	State Treasurer
The Honorable Roy A. Cooper, III	Attorney General
Mr. David T. McCoy	State Budget Officer
Mr. Robert L. Powell	State Controller
Ms. Carmen Hooker Odom	Secretary, Department of Health and Human Services
Mr. Ashley 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

September 25, 2002

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