



STATE OF NORTH CAROLINA

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

LILLINGTON, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2001

OFFICE OF THE STATE AUDITOR

RALPH CAMPBELL, JR.

STATE AUDITOR

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

LILLINGTON, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2001

BOARD OF DIRECTORS

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ADMINISTRATIVE OFFICER

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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, Harnett County Partnership For Children, Inc.

This report presents the results of our financial statement audit of the Harnett County Partnership For Children, Inc. (Harnett 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 Harnett 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 Harnett 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 Harnett Partnership is one of these local partnerships. As such, the Harnett 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 - The following instance of noncompliance was detected:

Finding

Competitive Bidding

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

3. **Objective** - Present significant deficiencies, if any, in internal control over financial reporting which could adversely affect the Harnett 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.



Ralph Campbell, Jr.
State Auditor

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Ralph Campbell, Jr.
State Auditor

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Harnett County Partnership For Children, Inc.
Lillington, North Carolina

We have audited the accompanying Statement of Receipts, Expenditures, and Net Assets - Regulatory Basis of the Harnett County Partnership For Children, Inc. (Harnett 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 Harnett 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 Harnett 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 31, 2002 on our consideration of the Harnett 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 Harnett 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.



Ralph Campbell, Jr.
State Auditor

May 31, 2002

Harnett 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		Total Funds
	Smart Start Fund	Other Funds	
Receipts:			
State Awards (less refunds of \$10,741)	\$ 1,016,602	\$ 11,886	\$ 1,028,488
Private Contributions		502	502
Sales Tax Refunds		1,154	1,154
Total Receipts	1,016,602	13,542	1,030,144
Expenditures:			
Programs:			
Child Care and Education Quality	409,173		409,173
Child Care and Education Affordability	30,254		30,254
Health and Safety	197,482		197,482
Family Support	176,936		176,936
Support:			
Management and General	182,638	12,000	194,638
Program Evaluation	24,175		24,175
Other:			
Sales Tax Paid		1,094	1,094
Total Expenditures	1,020,658	13,094	1,033,752
Excess of Receipts Over Expenditures	(4,056)	448	(3,608)
Net Assets at Beginning of Year	10,627	5,042	15,669
Net Assets at End of Year	\$ 6,571	\$ 5,490	\$ 12,061
Net Assets Consisted of:			
Cash on Deposit	\$ 1,093	\$ 5,490	\$ 6,583
Refunds Due From Contractors	5,478	0	5,478
	\$ 6,571	\$ 5,490	\$ 12,061

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

Harnett County Partnership for Children, Inc.
Schedule 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	Services/ Contracts/ Grants	Participant Training Expense
Smart Start Fund:									
Programs:									
Child Care and Education Quality	409,173	0	0	0	0	0	0	409,173	0
Child Care and Education Affordability	30,254							30,254	
Health and Safety	197,482							197,482	
Family Support	176,936							176,936	
	813,845	0	0	0	0	0	0	813,845	0
Support:									
Management and General	182,638	119,280	16,830	7,189	17,533	12,853	8,953		
Program Evaluation	24,175	15,030		663	2,973	1,546	3,963		
	206,813	134,310	16,830	7,852	20,506	14,399	12,916	0	0
Total Smart Start Fund Expenditures	1,020,658	134,310	16,830	7,852	20,506	14,399	12,916	813,845	0
Other Funds:									
Support:									
Management and General	12,000	0	12,000	0	0	0	0	0	0
Other:									
Sales Tax Paid	1,094	0	0	1,094	0	0	0	0	0
Total Other Funds Expenditures	13,094	0	12,000	1,094	0	0	0	0	0

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

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

A. Organization and Purpose - The Harnett County Partnership for Children, Inc. (Harnett Partnership) is a legally separate nonprofit organization incorporated on October 18, 1994. The Harnett Partnership was established to develop and provide, through public and private means, early childhood education and developmental services for children and families. The Harnett 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 Harnett 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.

The Harnett Partnership did not have any temporarily or 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.

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.

NOTES TO THE FINANCIAL STATEMENT (CONTINUED)

E. 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 Harnett 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 Harnett Partnership to a concentration of credit risk. At June 30, 2001, the Harnett Partnership's bank deposits in excess of the FDIC insured limit was \$59,876.

NOTE 3 - FUNDING FROM GRANT AWARDS

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

Associated with these contracts, the Harnett 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 Harnett 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 are presented on Schedule 2 accompanying the financial statements.

The Harnett Partnership was awarded \$1,028,060 under a current year Smart Start contract with NCPC and has received \$1,027,229 of this amount. The unexpended balance of this contract is subject to reversion to the State. The Partnership has returned \$6,571 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.

NOTES TO THE FINANCIAL STATEMENT (CONTINUED)

NOTE 4 - RELATED PARTY TRANSACTIONS

Service Provider Contracts with Board Member Organizations - The board members of the Harnett Partnership are representative of various organizations that benefit from actions taken by the Board. It is the policy of the Harnett 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 program upgrade projects, health and safety intervention in child care, and environmental assessments.

Child Care and Education Affordability - Used to account for service activities including a child care coordinator and comprehensive child care cost supports.

Health and Safety - Used to account for service activities including vision screenings, special needs – specialized therapy, and outreach materials.

Family Support - Used to account for service activities including parenting skills training, special needs – family support, and an outreach plan to assess services.

NOTES TO THE FINANCIAL STATEMENT (CONTINUED)

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.

C. Allocation of Joint Costs

Expenditures benefiting more than one purpose were allocated as follows:

Salaries and Benefits - Allocated based on employee time reports.

Other Costs - Other costs including occupancy cost (rent, utilities and maintenance), supplies and materials, and communication costs (telephone and printing) were allocated based on utilization data.

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	<u>\$ 9,900</u>

Total rental expenditure for all operating leases was \$11,210 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

NOTES TO THE FINANCIAL STATEMENT (CONCLUDED)

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 Harnett Partnership. The Harnett Partnership contributed 6% of gross wages totaling \$3,569. Additionally, the voluntary contributions by employees amounted to \$3,569 during the year ended June 30, 2001.

Harnett 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
Bordeaux Consulting, Inc.	10,000			
Central Carolina Community College	*	30,500 (246)		
CRF Rehabilitation Association		161,638		
E H Developmental Association	*	35,360 (6)		
North Carolina Cooperative Extension of Harnett County	*	210,331 (2,900)		
S.T. A. R. S. of Harnett County	*	43,644 (5)		
United Cerebral Palsy		327,850 (2,321)		
		819,323	(5,478)	0
				0

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

Harnett 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
Child Care Services Association - WAGES Program	72,589
Harnett County Department of Social Services	1,669,208
	1,741,797
<p>* These organizations are represented on the Partnership's Board as described in Note 4 - Service Provider Contracts with Board Member Organizations.</p>	
<p>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.</p>	

Harnett County Partnership for Children, Inc.
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)	1-90-5-12-001	\$ (10,627)	\$ 0
Early Childhood Initiatives Program (Current Year)	* 1-01-5-12-001	1,027,229	1,020,658
Multi-County Accounting and Contracting Grant (Prior Year)		(114)	
Multi-County Accounting and Contracting Grant (Current Year)		12,000	12,000
Total State Awards		\$ 1,028,488	\$ 1,032,658
* Programs with compliance requirements that have a direct and material effect on the financial statement.			

Harnett County Partnership for Children, Inc.

Schedule of Property and Equipment

For the Year Ended June 30, 2001

Schedule 4

Furniture and Non-Computer Equipment	\$	6,043
Computer Equipment/Printers		14,806
Total Property and Equipment	\$	20,849

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.

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

Schedule 5

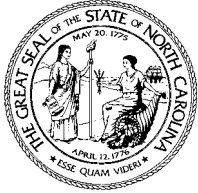
Match Provided at the Partnership Level:

Cash	\$ 502
In-Kind Goods and Services	8,031
	\$ 8,533

Match Provided at the Contractor Level:

Cash	\$ 341,967
In-Kind Goods and Services	43,850
	\$ 385,817

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
Harnett County Partnership For Children, Inc.
Lillington, North Carolina

We have audited the financial statements of the Harnett County Partnership For Children, Inc. (Harnett Partnership) as of and for the year ended June 30, 2001, and have issued our report thereon dated May 31, 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 Harnett Partnership's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests, which are reported in the Audit Findings and Recommendations section of this report, disclosed an instance of noncompliance that is required to be reported under *Government Auditing Standards*.

Finding

Competitive Bidding

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Harnett 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

**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)**

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 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.



Ralph Campbell, Jr.
State Auditor

May 31, 2002

AUDIT FINDING AND RECOMMENDATION

Matters Related to Financial Reporting

Current Year Finding and Recommendation - The following finding and recommendation was identified during the current audit and represents noncompliance with laws, regulations, contracts, or grants.

COMPETITIVE BIDDING

We noted instances where documentation was not available to support compliance with the competitive bidding requirements for the purchase of goods and services.

Recommendation: We recommend that the Harnett Partnership maintain documentation to support compliance with the legislatively mandated requirements.

Partnership's Response: The Harnett County Partnership for Children complied with all laws, regulations, contracts, and grants in effect during the period in question. The Board operated in the best interest of the Partnership and followed written guidance on multi-year competitive bidding, which did not address the documentation the Office of the State Auditor has requested. The Partnership respectfully disagrees with this finding but will follow guidance provided by the Office of the State Auditor for all future competitive bidding.

Auditor's Comment: The Harnett Partnership advertised for bid proposals in October 1999 for activities to begin effective January 1, 2000. The approved activity in question had a proposed budget of \$260,406 with a documented project period of January 1, 2000 through June 30, 2000. The Harnett Partnership continued this activity into the 2001 fiscal year without evidence of rebidding or sole sourcing the activity. Total expenditures for the activity in the current fiscal year were \$194,590.

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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 Richard H. Moore	State Treasurer
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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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July 18, 2002

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