



STATE OF NORTH CAROLINA

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

RALEIGH, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2002

OFFICE OF THE STATE AUDITOR

RALPH CAMPBELL, JR.

STATE AUDITOR

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

RALEIGH, NORTH CAROLINA

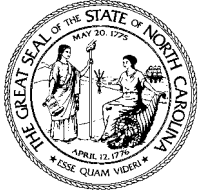
FOR THE YEAR ENDED JUNE 30, 2002

BOARD OF DIRECTORS

ASHLEY THRIFT, CHAIRMAN

ADMINISTRATIVE OFFICER

KAREN PONDER, EXECUTIVE DIRECTOR



Ralph Campbell, Jr.
State Auditor

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AUDITOR'S TRANSMITTAL

The Honorable James B. Hunt, Jr., Governor
The General Assembly of North Carolina
Board of Directors, The North Carolina Partnership for Children, Inc.

This report presents the results of our financial statement audit of The North Carolina Partnership for Children, Inc. (North Carolina Partnership), a component unit of the State of North Carolina, for the year ended June 30, 2002. Our audit was made by authority of Article 5A Chapter 147 of the General Statutes.

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

As part of the audit work necessary for the CAFR and the *Single Audit Report*, the accounts and operations of the North Carolina Partnership were subject to audit procedures as we considered necessary. In addition, we performed auditing procedures that we considered necessary for us to report on the accompanying financial statements that relate solely to the North Carolina Partnership for Children, Inc. The audit procedures were conducted in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards* issued by the Comptroller General of the United States.

The purpose of this report is to present the results of our audit on the accompanying financial statements that relate solely to The North Carolina Partnership for Children, Inc. A summary of our reporting objectives and audit results is:

- 1. Objective** – To express an opinion on the accompanying financial statements that relate solely to the North Carolina Partnership.

Results - The accompanying financial statements present fairly, in all material respects, the amounts and disclosures made in accordance with accounting principles generally accepted in the United States of America. These matters are described in the Independent Auditor's Report on the Financial Statements.

AUDITOR'S TRANSMITTAL (CONCLUDED)

2. **Objective** – To present significant deficiencies, if any, in internal control over financial reporting which could adversely affect the North Carolina Partnership's ability to record, process, summarize, and report financial data in the financial statements and present instances of noncompliance, if any, with laws, regulations, contracts or grants.

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

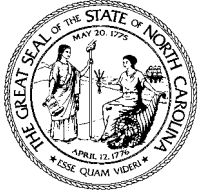
North Carolina General Statutes require the State Auditor to make audit reports available to the public. Copies of audit reports issued by the Office of the State Auditor may be obtained through one of the options listed in the back of this report.



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
The North Carolina Partnership for Children, Inc.
Raleigh, North Carolina

We have audited the accompanying Statement of Net Assets of The North Carolina Partnership for Children, Inc. (North Carolina Partnership), a component unit of the State of North Carolina, as of June 30, 2002, and the related Statement of Revenues, Expenses, and Changes in Net Assets and the Statement of Cash Flows for the year ended June 30, 2002. These financial statements are the responsibility of the North Carolina Partnership's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The North Carolina Partnership for Children, Inc. as of June 30, 2002, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 11 to the financial statements, the North Carolina Partnership implemented Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* and GASB Statement No. 38, *Certain Financial Statement Note Disclosures*, during the year ended June 30, 2002.

INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

In accordance with *Government Auditing Standards*, we have also issued our report dated July 11, 2003 on our consideration of the North Carolina Partnership's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with the independent auditor's report in considering the results of our audit.

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



Ralph Campbell, Jr.
State Auditor

July 11, 2003

MANAGEMENT'S DISCUSSION AND ANALYSIS

Overview of the Basic Financial Statements

Effective July 1, 2001, the North Carolina Partnership implemented new accounting and reporting standards required by the Governmental Accounting Standards Board (GASB), Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments* and Statement No. 38, *Certain Financial Statement Note Disclosures*. Under these new standards, the North Carolina Partnership reports its financial information and uses reporting concepts in a manner similar to that required of a business enterprise.

The new reporting requirements include Management's Discussion and Analysis (MD&A), Statement of Net Assets, Statement of Revenues, Expenses, and Changes in Net Assets, and Statement of Cash Flows.

This part of the financial report, Management's Discussion and Analysis, provides an introduction and overview to assist the reader in interpreting and understanding the basic financial statements. Currently known facts, decisions, or conditions are discussed in management's analysis of financial position and results of operations. While comparative analysis with the prior year financial report is important to understanding the North Carolina Partnership's financial position and results of operations, its use in the year of implementation is not advisable due to the many accounting and reporting changes resulting from the implementation. Such comparative analysis will be presented next year.

The Statement of Net Assets provides information relative to the North Carolina Partnership's assets, liabilities, and net assets as of the last day of the fiscal year. Assets and liabilities on this Statement are categorized as either current or noncurrent. Current assets are those that are available to pay for expenses in the next fiscal year. Current liabilities are those payable in the next fiscal year. Net assets on this Statement are categorized as either invested in capital assets (net of related debt), restricted or unrestricted. Restricted net assets are categorized as either nonexpendable or expendable. Overall, the Statement of Net Assets provides information relative to the financial strength of the North Carolina Partnership and its ability to meet current and long-term obligations.

The Statement of Revenues, Expenses, and Changes in Net Assets provides information relative to the results of the North Carolina Partnership's operations, nonoperating activities, and other activities affecting net assets which occurred during the fiscal year. Nonoperating activities include primarily subsidies from the State in the form of appropriations, noncapital gifts and grants, investment income (net of investment expenses) and loss on disposition of capital assets. Other activities include capital gifts or grants.

Overall the Statement of Revenues, Expenses, and Changes in Net Assets provides information relative to the North Carolina Partnership's management of its operations and its ability to maintain its financial strength.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

The Statement of Cash Flows provides information relative to the North Carolina Partnership's sources and uses of cash funds for operating activities, noncapital financing activities, capital financing activities, and investing activities. This Statement provides a reconciliation of beginning cash balances to ending cash balances and is representative of activity reported on the Statement of Revenues, Expenses, and Changes in Net Assets as adjusted for changes in beginning and ending balances of noncash accounts on the Statement of Net Assets.

The Notes to the Financial Statements provide information relative to the significant accounting principles applied in the financial statements, authority for and associated risk of deposits and investments, detailed information on accounts and pledges receivable, revenues and expenses, required information on pension plans and other post employment benefits, insurance against losses, commitments and contingencies, accounting changes, and if necessary a discussion of adjustments to prior periods and events subsequent to the North Carolina Partnership's financial statement period. Overall, the Notes to the Financial Statements provide information to better understand details, risk, and uncertainty associated with amounts reported in the Financial Statements.

Brief Agency Highlights

The North Carolina Partnership provides statewide oversight of the Smart Start Early Childhood Initiative. The North Carolina Partnership has notably increased its ability to provide effective oversight of, and technical assistance to, the 82 local partnerships that provide the Smart Start services to families and children in their communities.

The North Carolina Partnership has received grants from several private organizations to establish a National Technical Assistance Center to assist communities and states in the development, implementation and integration of comprehensive community-based early childhood initiatives.

Analysis of Financial Position and Results of Operations

The North Carolina Partnership's net assets were \$7.6 million, a decrease of \$2.1 million during the year. The decrease primarily resulted from lower revenues from private contributions due to the economic downturn in recent years.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Condensed Financial Information

The following table summarizes the North Carolina Partnership's assets, liabilities and net assets as of June 30, 2002.

Condensed Statement of Net Assets

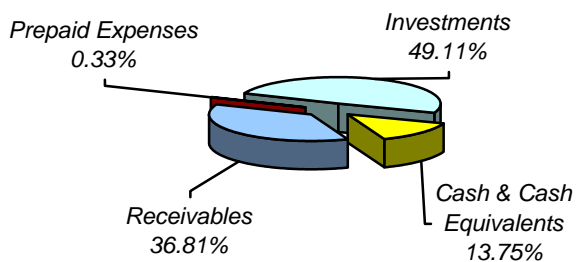
June 30, 2002

(in thousands)

	Amount	Percent
Assets		
Current Assets	\$ 12,505	92.32%
Capital Assets, Net	240	1.77%
Other Noncurrent Assets	800	5.91%
Total Assets	13,545	100.00%
Liabilities		
Current Liabilities	5,714	96.95%
Noncurrent Liabilities	180	3.05%
Total Liabilities	5,894	100.00%
Net Assets		
Invested in Capital Assets, Net of Related Debt	240	3.14%
Restricted:		
Expendable	3,353	43.82%
Unrestricted	4,058	53.04%
Total Net Assets	\$ 7,651	100.00%

The following graphically illustrates the assets, liabilities and net assets of the North Carolina Partnership.

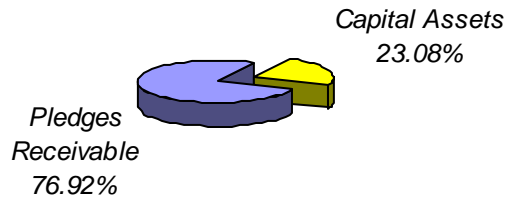
Current Assets



MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

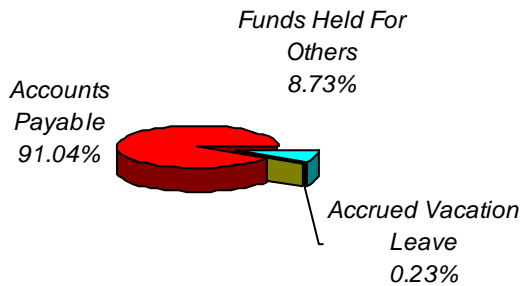
Current assets consist primarily of cash and equivalents, \$1.7 million, investments, \$6.1 million, and accounts receivable, \$3.5 million.

Capital and Other Noncurrent Assets



Noncurrent assets consist of pledges receivable, \$800,000, and capital assets, \$240,000.

Liabilities

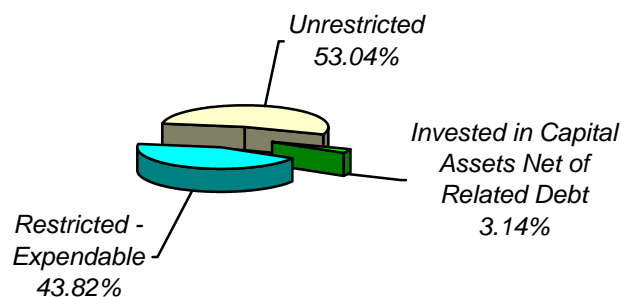


Current liabilities consist primarily of accounts payable, \$5.2 million, and funds held for others, \$499,000.

Noncurrent liabilities consist entirely of accrued vacation leave in the amount of \$180,000.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Net Assets



Net assets invested in capital assets, net of related debt, are \$240,000. Restricted expendable net assets of \$3.4 million represent amounts subject to externally imposed restrictions. Unrestricted net assets of \$4 million represent amounts not subject to externally imposed stipulations but are internally designated for various activities and initiatives.

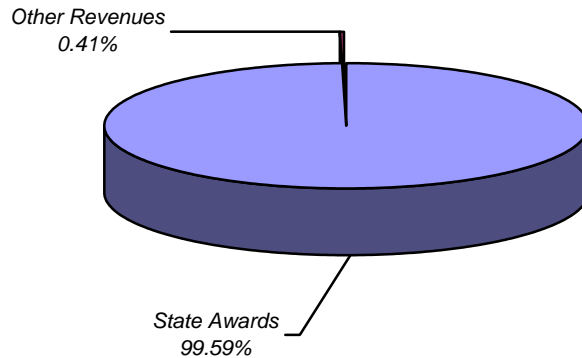
The Statement of Revenues, Expenses, and Changes in Net Assets presents the results of the North Carolina Partnership's operations for the report period. The following table summarizes the North Carolina Partnership's revenues, expenses, and changes in net assets for the year ended June 30, 2002.

**Condensed Statement of Revenues, Expenses, and Changes in Net Assets
For the Fiscal Year Ended June 30, 2002
(in thousands)**

	Amount
Operating Revenues	\$ 0
Operating Expenses	(6,502)
Operating Loss	(6,502)
Nonoperating Revenues	135,675
Nonoperating Expenses	(131,313)
Loss Before Other Revenues and Expenses	(2,140)
Other Revenues	0
Decrease in Net Assets	(2,140)
Net Assets Beginning of Year (restated)	9,791
Net Assets End of Year	\$ 7,651

While the North Carolina Partnership shows an operating loss, this is an expected outcome for a nonprofit entity and the recent downturn in the economy.

Nonoperating Revenues



The North Carolina Partnership has no operating revenues. Nonoperating revenues totaled \$135.7 million, of which State appropriations were \$135.1 million. Due to budget restraints of the State of North Carolina, the North Carolina Partnership suffered State budget cuts of approximately \$500,000.

The following table summarizes the North Carolina Partnership's expenses (operating and nonoperating) for the reporting period.

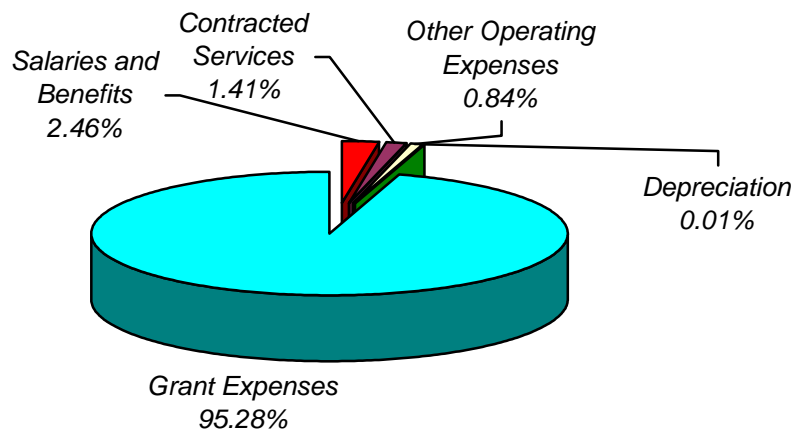
**Operating and Nonoperating Expenses
For the Fiscal Year Ended June 30, 2002
(in thousands)**

	<u>Amount</u>
Operating Expenses:	
Salaries and Benefits	\$ 3,392
Contracted Services	1,950
Other Operating Expenses	1,143
Depreciation	<u>17</u>
 Total Operating Expenses	 \$ <u><u>6,502</u></u>
 Nonoperating Expenses:	
Contract/Grant Expenses	\$ <u><u>131,313</u></u>

Much of the activities of the North Carolina Partnership are identified as nonoperating as the primary source of funding is appropriations from the State of North Carolina. The North Carolina Partnership provides oversight and funding to a network of other Smart Start organizations across the State resulting in significant grant disbursements.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

The following is a graphic illustration of expenses (operating and nonoperating) for the reporting period.



The Statement of Cash Flows provides additional information about the North Carolina Partnership's financial results by reporting the major sources and uses of cash. The following table summarizes the North Carolina Partnership's cash receipts and payments for the year ended June 30, 2002.

Condensed Statement of Cash Flows
For the Fiscal Year Ended June 30, 2002
(in thousands)

	Amount
Cash Provided (Used) by:	
Operating Activities	\$ (2,374)
Noncapital Financing Activities	4,232
Capital and Related Financing Activities	(35)
Investing Activities	(1,558)
Net Increase in Cash	265
Cash - Beginning of the Year	1,454
Cash - End of the Year	\$ 1,719

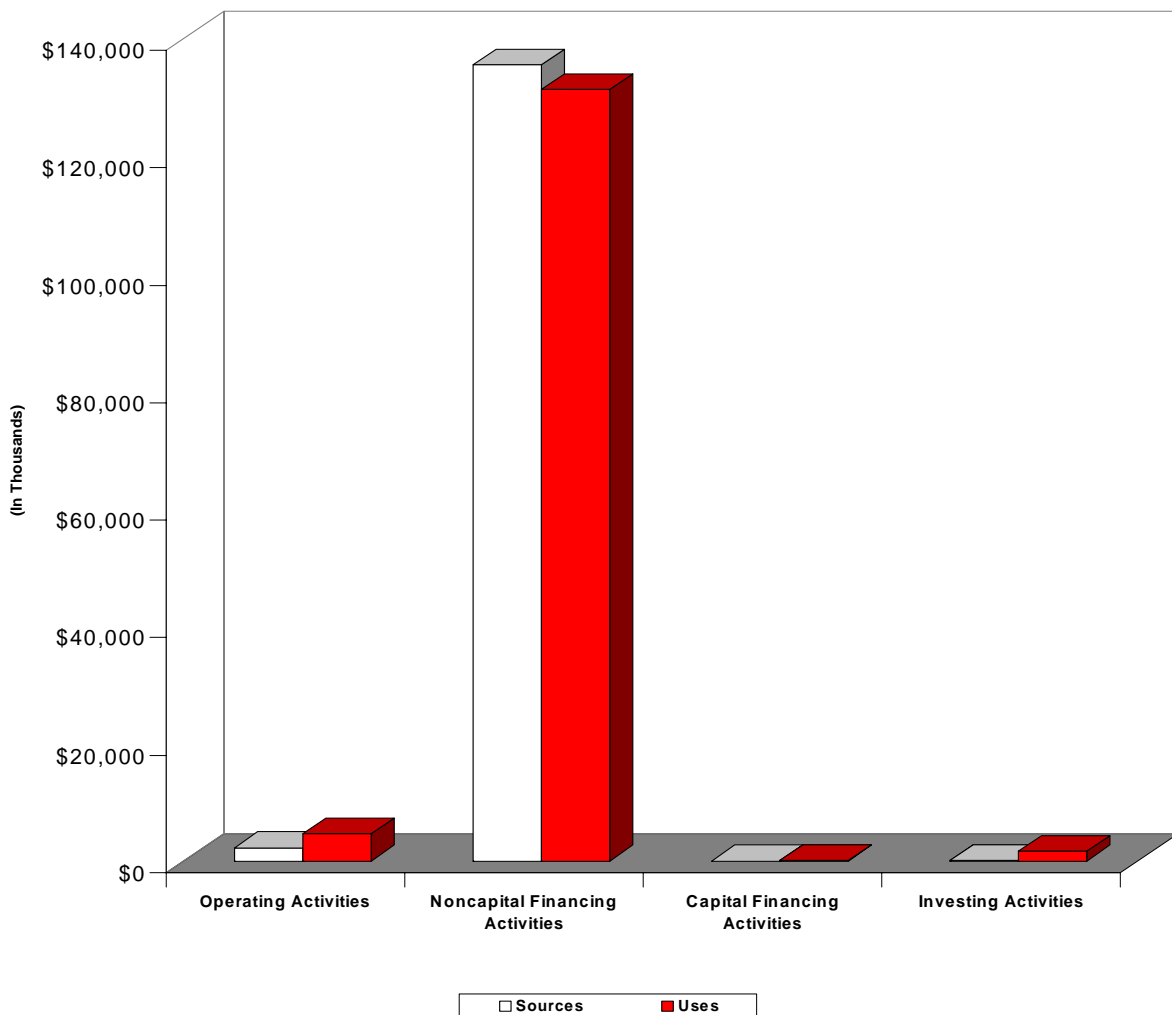
The net cash from operating activities shows a net outflow of funds of \$2.4 million. The major outflows were payments to employees for services and vendors for goods and services.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

The net cash from noncapital financing activities is an inflow of \$4.2 million. As previously referenced, State appropriations, net of grants to local partnerships, account for the bulk of this inflow.

The North Carolina Partnership had a net cash outflow from investing activities of \$1.6 million. This outflow resulted from the net of investment purchases of \$1.7 million and investment income of approximately \$130,000.

The following is a graphic illustration of operating activities, noncapital financing activities, capital financing activities, and investing activities for the reporting period.



Economic Factors That Will Affect the Future

The two main factors that impact the economic outlook for the North Carolina Partnership are private contributions and State funding.

The North Carolina Partnership actively seeks private gifts to support the mission of the Smart Start initiative. Due to the economic downturn, these revenues have decreased. As noted above, the budget restraints for the State of North Carolina has negatively impacted the appropriations provided to the North Carolina Partnership. It is anticipated that the outlook for the North Carolina Partnership will brighten as improvement is noted with the State's economy.

<i>The North Carolina Partnership for Children, Inc.</i>		
<i>Statement of Net Assets</i>		
<i>June 30, 2002</i>		<i>Exhibit A</i>
ASSETS		
Current Assets:		
Cash and Cash Equivalents:		
Petty Cash		\$ 150
Cash on Deposit (Note 2)		1,577,807
Short-Term Certificate of Deposit (Note 2)		141,204
Investment:		
Money Market Fund (Note 2)		6,141,531
Receivables:		
Accounts Receivable (Note 3)		3,549,198
Pledges Receivable (Note 3)		1,050,654
Due from Other Organizations (Note 3)		3,665
Prepaid Expenses		41,194
Total Current Assets		12,505,403
Noncurrent Assets:		
Receivables:		
Pledges Receivable (Note 3)		800,000
Capital Assets, Net of Accumulated Depreciation (Note 4)		239,618
Total Noncurrent Assets		1,039,618
Total Assets		\$ 13,545,021
LIABILITIES		
Current Liabilities:		
Accounts Payable		\$ 21,344
Accrued Payroll		79,252
Due to the State		5,101,482
Funds Held for Others		498,663
Accrued Vacation Leave (Note 5)		13,124
Total Current Liabilities		5,713,865
Noncurrent Liabilities:		
Accrued Vacation Leave (Note 5)		180,165
Total Liabilities		5,894,030
NET ASSETS		
Invested in Capital Assets		239,618
Restricted for:		
Expendable within Grantor Restrictions		3,352,767
Unrestricted		4,058,606
Total Net Assets		7,650,991
Total Liabilities and Fund Equity		\$ 13,545,021
The accompanying notes to the financial statements are an integral part of this statement.		

<i>The North Carolina Partnership for Children, Inc.</i>			
<i>Statement of Revenues, Expenses, and Changes in Net Assets</i>			
<i>For the Year Ended June 30, 2002</i>			<i>Exhibit B</i>
OPERATING REVENUES			\$ 0
EXPENSES			
Operating Expenses:			
Salaries and Benefits			3,392,114
Contracted Services			1,949,666
Supplies and Materials			32,283
Other Operating Expenditures			578,634
Fixed Charges and Other Expenses			531,942
Expendable Equipment/Depreciation			17,010
Total Operating Expenses			6,501,649
Operating Loss			(6,501,649)
NONOPERATING REVENUES (EXPENSES)			
State Awards			135,121,203
Interest Earnings			130,056
Federal Awards			115,123
Private Contributions			146,578
Miscellaneous			162,291
Contract/Grant Expenses			(131,313,212)
Total Nonoperating Revenues			4,362,039
Net Decrease in Net Assets			(2,139,610)
NET ASSETS			
Net Assets, July 1, 2001			9,790,601
Net Assets, June 30, 2002			\$ 7,650,991
The accompanying notes to the financial statements are an integral part of this statement.			

The North Carolina Partnership for Children, Inc.
Statement of Cash Flows
For the Year Ended June 30, 2002

Exhibit C

CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from Customers		\$ 2,251,416
Payments to Employees and Fringe Benefits		(3,337,870)
Payments to Vendors and Suppliers		(1,287,561)
Net Cash Used by Operating Activities		(2,374,015)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State Appropriations		135,121,203
Grants to Local Partnerships		(131,313,212)
Federal Awards		115,123
Private Contributions		146,578
Other Receipts		162,291
Net Cash Provided by Noncapital Financing Activities		4,231,983
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition of Capital Assets		(35,164)
Net Cash Used by Capital and Related Financing Activities		(35,164)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest on Investments		130,056
Purchase of Non-State Treasurer Investments		(1,687,312)
Net Cash Used by Investing Activities		(1,557,256)
Net Increase (Decrease) in Cash and Cash Equivalents		265,548
Cash and Cash Equivalents, July 1, 2001		1,453,613
Cash and Cash Equivalents, June 30, 2002		\$ 1,719,161
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES		
Operating Loss		\$ (6,501,649)
Adjustments to Reconcile Operating Income to Net Cash Flows from Operating Activities:		
Depreciation		79,707
Increase (Decrease) in Assets:		
Accounts Receivable		218,582
Pledges Receivable		2,032,834
Prepaid Expenses		(16,747)
Increase (Decrease) in Liabilities:		
Accounts Payable		(163,601)
Accrued Payroll		4,124
Due to the State		1,978,232
Accrued Vacation Leave		50,120
Funds Held for Others		(55,617)
Total Cash Used for Operations		\$ (2,374,015)

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

THE NORTH CAROLINA PARTNERSHIP FOR CHILDREN, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2002

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

- A. Organization and Purpose** - The North Carolina Partnership for Children, Inc. (North Carolina Partnership) is a legally separate nonprofit organization incorporated on March 31, 1993. The North Carolina Partnership provides technical assistance and training for local Smart Start partnerships (currently 82) in the areas of program development, administration, organizational development, communication, financial management, technology, contracts management, and fundraising. The North Carolina Partnership adheres to a comprehensive accountability plan to ensure programs, services, and funds reach the children and families of North Carolina. The North Carolina Partnership is tax-exempt as an organization described in Section 501(c)(3) of the Internal Revenue Code.
- B. Financial Reporting Entity** – The concept underlying the definition of the financial reporting entity is that elected officials are accountable to their constituents for their actions. As required by accounting principles generally accepted in the United States of America, the financial reporting entity includes both the primary government and all of its component units. An organization other than a primary government serves as a nucleus for a reporting entity when it issues separate financial statements. The North Carolina Partnership for Children, Inc. is a component unit of the primary government of the State of North Carolina and is an integral part of the State’s *Comprehensive Annual Financial Report (CAFR)*.

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

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

- C. Basis of Presentation** - The accompanying financial statements are presented in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB), which consist of GASB statements and interpretations, as well as the American Institute of Certified Public Accountants (AICPA) and Financial Accounting Standards Board (FASB) pronouncements specifically made applicable to State and local government entities by GASB statements and interpretations. In accordance with GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Fund Accounting*, the North Carolina Partnership does not apply FASB pronouncements issued after November 30, 1989 unless the GASB amends its pronouncements to specifically adopt FASB pronouncements issued after that date.
- D. Basis of Accounting** – The accompanying financial statements were prepared using the economic resource measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned and expenses are recorded when an obligation has been incurred.
- E. Cash and Cash Equivalents** – This classification appears on the Statement of Net Assets and the Statement of Cash Flows and consists of petty cash, cash on deposit with private bank accounts, cash on deposit with fiscal agents, short-term certificates of deposit, and short-term investments with the State Treasurer's Cash and Investment Pool (a governmental external investment pool). The pool maintained by the State Treasurer has the general characteristics of a demand deposit account in that participants may deposit and withdraw cash at any time without prior notice or penalty.
- F. Investments** - This classification includes money market funds and long-term certificates of deposit that are reported at cost, if purchased, or at fair market value or appraised value at the date of gift, if donated.
- G. Receivables and Allowance for Doubtful Accounts** – Accounts and notes receivables are shown at book value with no provision for doubtful accounts considered necessary.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

- H. Prepaid Expenses** - The North Carolina Partnership records expenses allocable to future periods as prepaid expenses.
- I. Capital Assets** – Capital assets are stated at cost at date of acquisition or fair market value at date of donation in the case of gifts. The North Carolina Partnership capitalizes assets that have a value or cost in excess of \$5,000 at the date of acquisition and an expected useful life of one or more years. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 20-50 years for buildings, 10-30 years for other structures and improvements, and 3-15 years for equipment.
- J. Restricted Assets** – Restricted assets represent assets whose use is restricted by external parties or by law through constitutional provisions or enabling legislation.
- K. Compensated Absences** - The North Carolina Partnership’s policy is to record the cost of vacation leave when earned. The policy provides for a maximum accumulation of unused vacation leave of 30 days which can be carried forward each January 1st or for which an employee can be paid upon termination of employment.

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

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

- L. Net Assets** – The North Carolina Partnership’s net assets are classified as follows:

Invested in Capital Assets Net of Related Debt – This represents the North Carolina Partnership’s total investment in capital assets, net of outstanding debt obligations related to those capital assets. To the extent

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

debt has been incurred but not yet expended for capital assets, such amounts are not included as a component of Invested in Capital Assets Net of Related Debt.

Restricted Net Assets – Restricted net assets are those in which the North Carolina Partnership is legally or contractually obligated to spend in accordance with restrictions imposed by external parties.

Unrestricted Net Assets – Unrestricted net assets are all those not invested in capital assets or restricted by external parties.

Restricted and unrestricted resources are tracked using a fund accounting system and are spent in accordance with established fund authorities. Fund authorities provide rules for the fund activity and are separately established for restricted and unrestricted activities. When both restricted and unrestricted funds are available for expenditure, the decision for funding is transactional based on management decision.

- M. Revenue and Expense Recognition** – The North Carolina Partnership presents its revenues and expenses as operating or nonoperating based on recognition definitions from GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*. Operating activities are those activities that are necessary and essential to the mission of the North Carolina Partnership. Revenues from nonexchange transactions and State appropriations that represent subsidies or gifts to the North Carolina Partnership, as well as investment income, are considered nonoperating since these are either investing, capital, or noncapital financing activities. Operating expenses are all expense transactions incurred other than those related to investing, capital or noncapital financing activities. Revenues received from capital financing activities, as well as related expenses, are considered neither operating or nonoperating activities and are presented after nonoperating activities on the accompanying Statement of Revenues, Expenses, and Changes in Net Assets.
- N. Public and Private Funding** - The North Carolina Partnership's major sources of funding are from the State of North Carolina based on cost-reimbursement contracts and from private contributions. Advances are received on the cost-reimbursement contracts with the State for anticipated expenses.

Private contributions are recorded when promises (pledges) are made or when support is received from private sources. Private contributions are

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

considered to be available for unrestricted use unless specifically restricted by the donor.

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

NOTE 2 - DEPOSITS AND INVESTMENTS

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

At June 30, 2002, the carrying amounts and bank balances of cash on deposit were:

	Book Balance	Bank Balance
Checking Account	\$ 645,257	\$ 775,252
Cash Account with State Treasurer	932,550	936,224
Short-Term Certificate of Deposit	128,509	128,509
Long-Term Certificate of Deposit	12,695	12,587
Total Deposits	<u>\$ 1,719,011</u>	<u>\$ 1,852,572</u>

The North Carolina Partnership's deposits with each commercial bank are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$100,000. Deposits over this amount subjects the North Carolina Partnership to a concentration of credit risk. The North Carolina Partnership's bank deposits in excess of the FDIC insured limit totaled \$703,761 at June 30, 2002. The North Carolina Partnership's deposits with its brokerage firm are covered by securities protection described in the investment section of this note.

- B. Investments** – There are no legal limitations on the types of investments by the North Carolina Partnership. At June 30, 2002, the North Carolina Partnership held short-term investments of \$6,141,531 in a money market fund that are not subject to categorization of custodial credit risk.

In addition, the North Carolina Partnership held a long-term certificate of deposit in the amount of \$12,695 that is not subject to categorization of custodial credit risk. The long-term certificate of deposit is a component of the deposit totals reported in the deposits section of this note.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 3 - RECEIVABLES

A. Accounts Receivable - The gross accounts receivable at June 30, 2002 were:

Due from Local Partnerships	\$	3,476,446
Sales Tax Receivable		15,627
Other Receivables		60,790
Total Receivables	\$	<u>3,552,863</u>

The North Carolina Partnership expects to collect these receivables.

B. Pledges Receivable - The North Carolina Partnership has pledges receivable in the amount of \$1,850,654 that are collectible over several years. Due to the nature of the donor organizations, the North Carolina Partnership considers these pledges to be collectible. Scheduled receipts under these pledge commitments are as follows:

<u>Fiscal Year</u>	<u>Amount</u>
2003	\$ 1,050,654
2004	600,000
2005	200,000
Total Pledges Receivable Expected	\$ <u>1,850,654</u>

NOTE 4 - CAPITAL ASSETS

A summary of changes in the capital assets is presented as follows:

	Balance July 1, 2001	Additions	Balance June 30, 2002
Capital Assets, Depreciable			
Machinery and Equipment	\$ 373,341	\$ 35,164	\$ 408,505
Other Improvements	36,834		36,834
Total Capital Assets, Depreciable	410,175	35,164	445,339
Less Accumulated Depreciation:			
Machinery and Equipment	110,705	73,136	183,841
Other Improvements	15,310	6,571	21,881
Total Capital Assets, Depreciable, Net	126,015	79,707	205,722
Capital Assets, Net	\$ 284,160	\$ (44,543)	\$ 239,617

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 5 - LONG-TERM LIABILITIES

A summary of changes in long-term liabilities for the year is presented as follows:

	Balance July 1, 2001	Additions	Deletions	Balance June 30, 2002	Current Portion
Accrued Vacation Leave	\$ 133,541	\$ 248,925	\$ 189,177	\$ 193,289	\$ 13,124

NOTE 6 - LEASE OBLIGATIONS - OPERATING

The following is a schedule by years of future minimum rental payments required under leases that have non-cancelable lease terms as of June 30, 2002:

Fiscal Year	Operating Leases
2003	\$ 352,141
2004	359,182
2005	358,949
2006	225,932
Total Minimum Lease Payments	\$ 1,296,204

Total rental expenses for all operating leases were \$293,548 for the fiscal year ended June 30, 2002.

NOTE 7 - RISK MANAGEMENT

The North Carolina Partnership is exposed to various risks of loss related to torts; theft of, damage to, and the destruction of assets; errors and omissions; injuries to employees; and natural disasters. These exposures to loss are managed using a combination of methods, including purchase of commercial insurance and self-retention of certain risks. There have been no significant reductions in insurance coverage from the previous year and settled claims have not exceeded coverage in any of the past three fiscal years.

Fire, coverage for other property losses, and vehicular liability insurance are covered by contracts with private insurance companies.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Employees are provided health care coverage by Blue Cross Blue Shield of North Carolina. The Plan is funded by employer and employee contributions and is administered by a third party contractor.

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

NOTE 8 PENSION AND DEFERRED COMPENSATION PLANS

A. Supplemental Retirement Income Plan – IRC Section 401(k) Plan – Effective January 1, 2002, the North Carolina Partnership adopted a Supplemental Retirement Income Plan, a defined contribution plan, created under Internal Revenue Code Section 401(k). The Plan is open to all employees who have attained the age of 18 and have at least three months service. The North Carolina Partnership makes a safe-harbor contribution to the Plan each year equal to 3% of the participants' compensation and may make additional discretionary employer contributions. Costs of administering the plan are shared by both the North Carolina Partnership and the plan participants. The North Carolina Partnership contributed \$96,909 for the period January 1 through June 30, 2002.

B. Deferred Compensation Plan - IRC Section 403(b) – For the period July 1, 2001 through December 31, 2001, all employees could participate in a tax sheltered annuity plan created under Internal Revenue Code Section 403(b). The employee's eligible contributions, made through salary reduction agreements, are exempt from federal and State income taxes until the annuity is received or the contributions are withdrawn. These plans are exclusively for employees of educational institutions and non-profit organizations. All costs of administering and funding this plan are the responsibility of the plans' participants.

NOTE 9 - COMMITMENTS AND CONTINGENCIES

The North Carolina Partnership has outstanding commitments on cost-reimbursement contracts totaling \$1,122,233 as of June 30, 2002.

NOTE 10 - FUNCTIONAL EXPENSES

The costs of providing the various programs and activities have been presented by their natural classification in the Statement of Revenues, Expenses, and Changes in Net Assets. Also, Schedule 1, accompanying the financial

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

statements, provides a summarization of those expenses by their functional categories. Following are the functional categories and the services associated with those functions:

A. Program Functions

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

Comprehensive Training Events – Expenses that are incurred in the provision of training events that foster an understanding of comprehensive early childhood service delivery and best practices in multiple functional areas. Participants may include State and local partnership board members, staff and committee members, direct service providers, early childhood leaders and professionals, and others involved in the development of various facets of a comprehensive early childhood delivery system.

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

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

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

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

Human Resources – Responsible for the administration of personnel related services and functions, including employee relations, recruiting compensation and benefits, job descriptions, performance management,

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

maintenance of employee records, and compliance with employment regulations.

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

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

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

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

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

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

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

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

B. Support Functions

Administration - Expenses that are not identifiable with a single program or fund-raising activity but are indispensable to the conduct of those activities and to the organization's existence, including expenses for the

NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

overall direction of the organization, its general board activities, business management, general recordkeeping, budgeting, and related purposes.

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

NOTE 11 - ACCOUNTING CHANGES

Effective July 1, 2001, the North Carolina Partnership implemented Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments* and GASB Statement 38, *Certain Financial Statement Disclosures*. The implementation of these new standards impacted the presentation format of the financial statements and added additional disclosures about financial statement amounts.

The North Carolina Partnership for Children, Inc.
Schedule of Functional Expenses
For the Year Ended June 30, 2002

Schedule 1

	Total	Salaries and Benefits	Contracted Services	Supplies and Educational Materials	Travel/ Meeting Expenses	Communication Costs	Office Rent	Other Expenses	Expendable Equipment/ Depreciation	Contract/ Grant Expense
Programs:										
Champions for Children	32,578		32,578							
Comprehensive Training Events	177,890		34,603		133,610	2,872		6,805		
Contracts	270,649	265,476		584	4,211	89		289		
Finance	145,161	143,165	196	192	1,308	90		210		
Financial Services	184,341	163,878		748	12,977			6,738		
Fiscal	136,856	129,533	5,784	249	612	5		673		
Human Resources	100,532	86,122	3,558	941	1,097			8,314	500	
Local Partnership Administration	15,200,499									15,200,499
Local Partnership Services	114,908,994									114,908,994
MAC	1,507,071	215,719	70,793	8,440	8,134	125,591		25,693	8,911	1,043,790
Program and Planning	1,336,761	1,007,213	261,811	1,291	40,568	282		15,456	140	10,000
Public Information	975,232	236,480	706,602	(15,910)	2,371	76		45,613		
Technical Assistance - Other States	707,661	137,272	368,807	(57)	62,481	528		985	145	137,500
Technology Department	350,604	287,970	780	17,495	117	14,594		25,769	3,879	
Training and Collaboration	278,383		278,383							
	136,313,212	2,672,828	1,763,895	13,973	267,486	144,127	0	136,545	13,575	131,300,783
Support:										
Administration	1,123,219	504,182	38,325	17,774	19,055	76,913	293,548	160,203	3,219	10,000
Development	378,430	215,104	147,446	536	3,263	668		8,768	216	2,429
	1,501,649	719,286	185,771	18,310	22,318	77,581	293,548	168,971	3,435	12,429
Total Expenditures	137,814,861	3,392,114	1,949,666	32,283	289,804	221,708	293,548	305,516	17,010	131,313,212

The North Carolina Partnership for Children, Inc.
Schedule of Contract and Grant Expenses
For the Year Ended June 30, 2002

Schedule 2

Organization Name	Amount Expended	Refund Due
Alamance Partnership for Children, Inc.	1,514,449	(33,516)
Albemarle Smart Start Partnership, Inc.	1,040,920	(34,244)
Alexander County Partnership for Children, Inc.	495,259	(71,298)
Alleghany County Partnership for Children, Inc.	289,157	(2,277)
Anson County Partnership for Children, Inc.	841,139	(256)
Ashe County Partnership for Children	653,908	(1,018)
Avery County Partnership for Children, Inc.	350,688	(5)
Beaufort County Partnership for Children	609,097	(5,918)
Bertie County Partnership for Children, Inc.	594,916	(11,189)
Bladen County Partnership for Children, Inc.	472,107	(56,983)
Brunswick County Partnership, Inc	1,186,504	(28,810)
Buncombe County Partnership for Children, Inc.	2,368,163	(72,362)
Burke County Partnership for Children, Inc.	2,364,626	(51,842)
Cabarrus County Partnership for Children	1,403,085	(86,782)
Caldwell County Partnership for Children	2,008,135	(16,733)
Caswell County Partnership for Children	352,870	(32,776)
Catawba County Partnership for Children	2,077,792	(6,758)
Chatham County Partnership for Children	1,163,250	(19,476)
Child Care Services Association	92,124	
Children and Youth Partnership for Dare County, Inc.	408,518	(12,023)
Children's Council of Watauga County, Inc.	395,276	(9,697)
Chowan-Gates-Perquimans Partnership for Children	568,132	(35,501)
Cleveland County Partnership for Children, Inc.	1,910,324	(19,989)
Columbus County Partnership for Children, Inc.	1,355,040	(80,802)
Craven County Partnership for Children	1,098,403	(47,999)
Cumberland County Partnership for Children, Inc.	8,866,697	(250,963)
Davidson County Smart Start, Inc.	2,620,833	(18,966)
Davie County Partnership for Children, Inc.	467,918	(14,466)
Down East Partnership for Children	4,117,022	(55,467)

The North Carolina Partnership for Children, Inc.
Schedule of Contract and Grant Expenses
For the Year Ended June 30, 2002

Schedule 2
Page 2

Organization Name	Amount Expended	Refund Due
Duplin County Partnership for Children	940,107	(19,344)
Durham's Partnership for Children, Inc.	3,771,254	(32,978)
Forsyth Early Childhood Partnership	6,813,590	(238,609)
Franklin-Granville-Vance Partnership for Children, Inc.	1,401,482	(55,485)
Guilford County Partnership for Children, Inc.	5,398,659	(102,680)
Harnett County Partnership for Children, Inc.	967,027	(105,630)
Henderson County Partnership for Children	728,621	(37,526)
Hertford County Partnership for Children, Inc.	703,040	(26,460)
Hoke County Partnership for Children and Families, Inc.	1,226,443	(34,029)
Hyde County Partnership for Children	131,261	(6,940)
Iredell County Partnership for Young Children	1,951,875	(17,967)
Johnston County Partnership for Children, Inc.	1,512,682	(34,411)
Lee County Partnership for Children	873,353	(25,622)
Lenoir/Greene Partnership for Children	1,538,616	(15,059)
Madison County Partnership for Children and Families	582,856	(23,811)
Martin/Pitt Partnership for Children, Inc.	1,691,189	(19,109)
McDowell County Partnership for Children and Families, Inc.	636,917	(3,971)
Mecklenburg Partnership for Children	7,357,541	(113,306)
Montgomery County Partnership for Children, Inc.	774,836	(189)
New Hanover County Partnership for Children	1,508,470	(52,354)
Northampton Partnership for Children, Inc.	299,766	(4,968)
Onslow County Partnership for Children, Inc.	1,906,731	(41,953)
Orange County Partnership for Young Children	3,458,249	(338)
Pamlico County Partnership for Children, Inc.	268,795	(13,448)
Partners for Children and Families, Inc. (Moore County)	1,318,698	(54,843)
Pender County Partnership for Children, Inc.	698,735	(26,609)
Person County Partnership for Children, Inc.	880,568	(23,877)
Polk County Partnership for Children, Inc.	294,040	(6,601)
Randolph County Partnership for Children, Inc.	1,473,545	(75,565)

The North Carolina Partnership for Children, Inc.
Schedule of Contract and Grant Expenses
For the Year Ended June 30, 2002

Schedule 2
Page 3

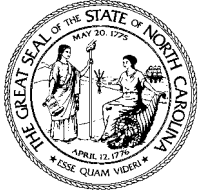
Organization Name	Amount Expended	Refund Due
Region A Partnership for Children	2,349,486	(36,467)
Richmond County Partnership for Children, Inc.	799,902	(25,370)
Robeson County Partnership for Children, Inc.	3,273,069	(122,404)
Rockingham County Partnership for Children, Inc.	841,746	(77,114)
Rowan Partnership for Children, Inc.	1,818,289	(96,648)
Rutherford Partnership for Children, Inc.	1,732,142	(2,624)
Sampson County Partnership for Children	743,130	(26,804)
Scotland County Partnership for Children and Families, Inc.	544,414	(17,733)
Smart Start of Transylvania County, Inc.	266,527	(13,056)
Stanly County Partnership for Children, Inc.	1,696,004	(46,253)
Stokes Partnership for Children	823,993	(36,752)
Surry County Early Childhood Partnership	1,431,260	(31,318)
The Halifax-Warren Smart Start Partnership for Children, Inc.	1,468,818	(10,761)
The Jones-Carteret Partnership for Children	1,119,925	(6,358)
The Mitchell-Yancey Partnership for Children, Inc.	413,684	(6,606)
The Partnership for Lincoln/Gaston Counties, Inc.	2,900,321	(9,973)
Tyrrell County Smart Start, Inc.	178,567	(327)
Union County Partnership for Children, Inc.	1,069,105	(7,851)
Various Other Organizations	28,428	
Wake County SmartStart	13,996,820	(73,125)
Washington County Child Advocacy Council, Inc.	351,879	(13,987)
Wayne County Partnership for Children, Inc.	1,352,030	(61,525)
Wilkes Community Partnership for Children	952,371	
Wilson County Partnership for Children	736,954	(28,941)
Yadkin County Smart Start Partnership, Inc.	726,646	(53,801)
	134,410,808	(3,097,596)

The North Carolina Partnership for Children, Inc.
Schedule of Federal and State Awards
For the Year Ended June 30, 2002

Schedule 3

Federal/State Grantor/Pass-through Grantor/Program	Federal CFDA Number	Contract #	Receipts	Expenditures
Federal Awards:				
Appalachian Regional Commission				
Dental Health Promotion for Preschool Children	23.011	NC - 13186-C2	\$ 79,431	\$ 78,428
Department of Health and Human Services				
Pass-through from the North Carolina Department of Health and Human Services - Division of Child Development				
Outdoor Learning Environments Training and Information Project	93.575	6077	47,500	47,500
Department of Health and Human Services				
Pass-through from the North Carolina Department of Health and Human Services - Division of Child Development				
Pass-through from the North Carolina Child Care Resource and Referral Network				
Child Care and Development Block Grant	93.575 / 93.596	N/A	(11,808)	
Total Federal Awards			115,123	125,928
State Awards:				
North Carolina Department of Health and Human Services				
Division of Child Development				
Early Childhood Initiatives Program (Prior Years)		Various	(5,871)	(90,136)
Early Childhood Initiatives Program (Prior Year)	*	5891	821,142	821,142
Early Childhood Initiatives Program (Current Year)	*	6025	128,575,403	128,617,996
Early Childhood Initiatives Program (Current Year)	*	6026	5,730,529	5,760,679
Total State Awards			135,121,203	135,109,681
Total Federal and State Awards			\$ 135,236,326	\$ 135,235,609
* Programs with compliance requirements that have a direct and material effect on the financial statement.				
Note: The information on this schedule has been prepared using the accrual basis of accounting.				

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Ralph Campbell, Jr.
State Auditor

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

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

We have audited the financial statements of The North Carolina Partnership for Children, Inc., a component unit of the State of North Carolina, as of and for the year ended June 30, 2002, and have issued our report thereon dated July 11, 2003.

As discussed in Note 10 to the financial statements, the North Carolina Partnership implemented Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* and GASB Statement No. 38, *Certain Financial Statement Note Disclosures*, during the year ended June 30, 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 North Carolina Partnership's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests 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 North Carolina Partnership's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the

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

internal control over financial reporting. 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 North Carolina Partnership for Children, Inc., the Governor, the Office of the State Controller, and the General Assembly and is not intended to be, and should not be, used by anyone other than these specified parties.



Ralph Campbell, Jr.
State Auditor

July 11, 2003

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September 15, 2003

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