



STATE OF NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT OF
ORANGE COUNTY PARTNERSHIP FOR YOUNG CHILDREN
CHAPEL HILL, NORTH CAROLINA
FOR THE YEAR ENDED JUNE 30, 2002

OFFICE OF THE STATE AUDITOR

RALPH CAMPBELL, JR.

STATE AUDITOR

FINANCIAL STATEMENT AUDIT REPORT OF
ORANGE COUNTY PARTNERSHIP FOR YOUNG CHILDREN
CHAPEL HILL, NORTH CAROLINA
FOR THE YEAR ENDED JUNE 30, 2002

BOARD OF DIRECTORS

JAMES T. BRYAN, III, BOARD CHAIR

ADMINISTRATIVE OFFICER

MICHELE RIVEST, EXECUTIVE DIRECTOR



Ralph Campbell, Jr.
State Auditor

STATE OF NORTH CAROLINA
Office of the State Auditor

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AUDITOR'S TRANSMITTAL

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

This report presents the results of our financial statement audit of the Orange County Partnership for Young Children (Orange Partnership) for the year ended June 30, 2002. Our audit was made by authority of Article 5A of Chapter 147 of the General Statutes.

The accounts and operations of the Orange Partnership were subject to audit procedures as we considered necessary for us to report on the accompanying financial statements and supplementary information. The audit procedures were conducted in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards* issued by the Comptroller General of the United States.

The audit of the Orange Partnership was made in conjunction with the Early Childhood Initiatives (Smart Start) program authorized by General Statutes 143B-168.10-.16. These statutes created the North Carolina Partnership for Children, Inc. and required the implementation of local demonstration projects (local partnerships). The Orange Partnership is one of these local partnerships. As such, the Orange Partnership is a private nonprofit 501(c)(3) organization and is required by General Statute 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** – To 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** – To present instances of noncompliance, if any, with laws, regulations, contracts, or grants.

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

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

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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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying Statement of Receipts, Expenditures, and Net Assets - Regulatory Basis of the Orange County Partnership for Young Children (Orange Partnership) as of June 30, 2002, and the related Statement of Functional Expenditures - Regulatory Basis for the year then ended. These financial statements are the responsibility of the Orange Partnership's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

As described in Note 1, the accompanying financial statements were prepared on the regulatory basis of accounting as prescribed by the North Carolina Partnership for Children, Inc., which is a comprehensive basis of accounting other than generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets of the Orange County Partnership for Young Children as of June 30, 2002, and the results of its operations for the year then ended, on the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 25, 2003 on our consideration of the Orange Partnership's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with the independent auditor's report in considering the results of our audit.

INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

Our audit was made for the purpose of forming an opinion on the basic financial statements of the Orange County Partnership for Young Children taken as a whole. The accompanying supplementary schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. The information in these schedules has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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



Ralph Campbell, Jr.
State Auditor

April 25, 2003

Orange County Partnership for Young Children
Statement of Receipts, Expenditures, and Net Assets - Regulatory Basis
For the Year Ended June 30, 2002

Exhibit A

	Unrestricted Funds		Temporarily Restricted Funds	Total Funds
	Smart Start Fund	Other Funds		
Receipts:				
State Awards (less refunds of \$5,189)	\$ 3,375,812	\$ 141,599	\$ 0	\$ 3,517,411
Private Contributions		102,664		102,664
Interest and Investment Earnings		9,287		9,287
Sales Tax Refunds		2,373		2,373
Total Receipts	3,375,812	255,923		3,631,735
Net Assets Released from Restrictions:				
Satisfaction of Program Restrictions		4,995	(4,995)	
	3,375,812	260,918	(4,995)	3,631,735
Expenditures:				
Programs:				
Child Care and Education Quality	366,439	25,636		382,075
Child Care and Education Accessibility and Availability	14,713			14,713
Child Care and Education Affordability	1,881,494	62,634		1,944,128
Health and Safety	139,751			139,751
Family Support	620,124	2,438		622,562
More at Four		123,334		123,334
Support:				
Management and General	263,686	14,293		277,979
Program Evaluation	64,435			64,435
Program Coordination	40,000			40,000
Other:				
Sales Tax Paid		1,253		1,253
Total Expenditures	3,380,642	229,588		3,610,230
Excess of Receipts Over Expenditures	(4,830)	31,330	(4,995)	21,505
Net Assets at Beginning of Year	5,249	47,128	4,995	57,372
Net Assets at End of Year	\$ 419	\$ 78,458	\$ 0	\$ 78,877
Net Assets Consisted of:				
Cash and Cash Equivalents	\$ 91	\$ 72,193	\$ 0	\$ 72,284
Refunds Due From Contractors	328	6,265		6,593
	\$ 419	\$ 78,458	\$ 0	\$ 78,877

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

**Orange County Partnership for Young Children
 Schedule of Functional Expenditures - Regulatory Basis
 For the Year Ended June 30, 2002**

Exhibit B

	Total	Personnel	Contracted Services	Supplies and Materials	Other Operating Expenditures	Fixed Charges and Other Expenditures	Property and Equipment Outlay	Services/Contracts/Grants	Participant Training Expenditures
Smart Start Fund:									
Programs:									
Child Care and Education Quality	\$ 356,439							356,439	
Child Care and Education Accessibility and Availability	\$ 14,713							14,713	
Child Care and Education Affordability	\$ 1,881,494							1,881,494	
Health and Safety	\$ 139,751							139,751	
Family Support	\$ 620,124	85,238	6,565	3,013	7,462	188		517,658	
	\$ 3,012,521	\$ 85,238	\$ 6,565	\$ 3,013	\$ 7,462	\$ 188	\$ 0	\$ 2,910,055	\$ 0
Support:									
Management and General	\$ 263,686	150,059	38,399	5,504	19,672	48,262	1,790		
Program Evaluation	\$ 64,435	52,179	10,316		1,885	55			
Program Coordination	\$ 40,000							40,000	
	\$ 368,121	\$ 202,238	\$ 48,715	\$ 5,504	\$ 21,557	\$ 48,317	\$ 1,790	\$ 40,000	\$ 0
Total Smart Start Fund Expenditures	\$ 3,380,642	\$ 287,476	\$ 55,280	\$ 8,517	\$ 29,019	\$ 48,505	\$ 1,790	\$ 2,950,055	\$ 0
Other Funds:									
Programs:									
Child Care and Education Quality	\$ 25,636							25,636	
Child Care and Education Affordability	\$ 62,634				119			62,515	
Family Support	\$ 2,438		750	940	70	568		110	
More at Four	\$ 123,334							123,334	
	\$ 214,042	\$ 0	\$ 750	\$ 940	\$ 189	\$ 568	\$ 0	\$ 211,595	\$ 0
Support:									
Management and General	\$ 14,293	\$ 7,581	\$ 5,351	\$ 1,361	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Other:									
Sales Tax Paid	\$ 1,253	\$ 0	\$ 0	\$ 1,253	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Total Other Funds Expenditures	\$ 229,588	\$ 7,581	\$ 6,101	\$ 3,554	\$ 189	\$ 568	\$ 0	\$ 211,595	\$ 0

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

ORANGE COUNTY PARTNERSHIP FOR YOUNG CHILDREN
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2002

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

A. Organization and Purpose - The Orange County Partnership for Young Children (Orange Partnership) is a legally separate nonprofit organization incorporated on August 24, 1993. The Orange Partnership was established to develop and provide, through public and private means, early childhood education and developmental services for children and families. The Orange Partnership is tax-exempt as an organization described in Section 501(c)(3) of the Internal Revenue Code.

B. Basis of Presentation – The accompanying financial statements present all funds for which the Orange Partnership’s Board of Directors is responsible. Pursuant to the provisions of Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-For-Profit Organizations*, the accompanying financial statements present information according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. As permitted by this Statement, temporarily restricted contributions received and expended in the same year are reported as unrestricted receipts rather than as temporarily restricted receipts.

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

The Orange Partnership did not have any temporarily or permanently restricted net assets at June 30, 2002.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

D. Cash and Cash Equivalents – This classification appears on the Statement of Receipts, Expenditures, and Net Assets – Regulatory Basis and consists of cash on deposit with private bank accounts, savings accounts, and certificate of deposits less than 90 days.

E. Refunds Due From Contractors - Refunds due from contractors represent the unexpended amount of advances to contractors at year-end that are to be refunded back to the State. As recoveries are collected, the receivable balance is reduced. Payments to the State for the recovered advances are recorded as a reduction to the State awards balance.

NOTE 2 - DEPOSITS

All funds of the Orange Partnership are deposited with a commercial bank and insured by the Federal Deposit Insurance Corporation (FDIC) up to \$100,000. Deposits over this amount subjects the Orange Partnership to a concentration of credit risk. At June 30, 2002, the Orange Partnership's bank deposits in excess of the FDIC insured limit was \$236,726.

NOTE 3 - FUNDING FROM GRANT AWARDS

Smart Start Program - The Orange Partnership's major source of revenue and support is from the State of North Carolina based on cost-reimbursement contracts with the North Carolina Partnership for Children, Inc. (NCPC) for the Smart Start Program. A significant reduction in the level of funding from the State could have an adverse effect on the operations of the Orange Partnership and represents a concentration of credit risk as to the generation of revenue.

Associated with these contracts, the Orange Partnership is responsible for developing a comprehensive, collaborative, long-range plan of services to children and families for the service-delivery area. During the year, NCPC and the Department of Health and Human Services (DHHS) entered into contracts with and made payments to service providers selected by the Orange Partnership. These service provider contracts are not reflected on the accompanying financial statements. However, a summary of the service provider contracts entered into by NCPC and DHHS is presented on Schedule 2 accompanying the financial statements.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

The Orange Partnership was awarded \$3,635,031 under a current year Smart Start contract with NCPC and has received \$3,381,001 of this amount. The unexpended balance of this contract is subject to reversion to the State. The Partnership has returned \$338 of this contract to the State based on financial status reports submitted to NCPC subsequent to June 30, 2002.

The Partnership expects to receive continued funding through new Smart Start contracts with the State.

More At Four – The Orange Partnership also received revenue and support from the State of North Carolina for the More At Four Program. The Orange Partnership was awarded \$131,262 under a current year cost-reimbursement contract. The unexpended balance of this contract is subject to reversion to the State. The Partnership expects to receive continued funding through new More at Four contracts with the State.

NOTE 4 - RELATED PARTY TRANSACTIONS

Service Provider Contracts with Board Member Organizations - The board members of the Orange Partnership are representative of various organizations that benefit from actions taken by the Board. It is the policy of the Orange Partnership that board members not be involved with decisions regarding organizations they represent. During the year, the Partnership entered into contracts with board member organizations for program activities as identified on Schedule 1 accompanying the financial statements. In addition, Schedule 2 identifies contracts entered into by 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:

A. Program Functions

Child Care and Education Quality - Used to account for service activities including quality enhancement grants for upgrades and child care resource and referral.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Child Care and Education Accessibility and Availability - Used to account for service activities associated with inclusion support.

Child Care and Education Affordability - Used to account for service activities including pre-K classes, child care subsidy, or part-day care programs.

Health and Safety - Used to account for service activities including child care health consultants/outreach nurses or special needs – early intervention services.

Family Support - Used to account for service activities including family resource centers, parenting education and skills training, general family support, intensive home visiting, support services for children and families in crisis, literacy projects, family literacy, outreach materials, community outreach, or orientation to kindergarten.

More at Four – Used to account for development and implementation of More at Four pre-kindergarten program for at-risk four-year-olds who are at risk of failure in kindergarten. The goal is to provide quality pre-kindergarten services in order to enhance kindergarten readiness.

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.

Program Coordination - Expenditures that are incurred to coordinate the policies, procedures, and daily practices of service delivery. Also, costs associated with monitoring in-house and direct service provider activities.

NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

NOTE 6 - LEASE OBLIGATIONS

Operating Lease Obligations - Future minimum lease payments under non-cancelable operating leases consist of the following at June 30, 2002:

<u>Fiscal Year</u>	<u>Operating Leases</u>
2003	\$ 4,618
2004	<u>262</u>
Total Minimum Lease Payments	<u>\$ 4,880</u>

Rental expense for all operating leases during the year was \$40,994.

NOTE 7 - PENSION PLAN

Deferred Compensation and Supplemental Retirement Income Plans - IRC Sections 403(b) and 403(b)(7) Plans - All permanent employees who are at least half-time can participate in tax sheltered annuity plans created under Internal Revenue Code Sections 403(b) and 403(b)(7). The employee's eligible contributions, made through salary reduction agreements, are exempt from federal and State income taxes until the annuity is received or the contributions are withdrawn. These plans are exclusively for employees of universities and certain charitable and other nonprofit organizations. All costs of administering and funding these plans are the responsibility of the Plan participants. No costs are incurred by the Orange Partnership. The voluntary contributions by employees amounted to \$24,345 during the year ended June 30, 2002.

NOTE 8 - RESTRICTIONS ON NET ASSETS

Net Assets Released From Donor Restrictions - Net assets were released from donor restrictions during the fiscal year ended June 30, 2002, by incurring expenditures satisfying the restricted purposes as follows:

<u>Purpose</u>	<u>Amount</u>
Head Start Training Outreach	<u>\$ 4,995</u>

*Orange County Partnership for Young Children
Schedule of Contract and Grant Expenditures - Regulatory Basis
For the Year Ended June 30, 2002*

Schedule 1

Organization Name	Smart Start Fund		Other Funds		
	Amount Advanced	Refund Due	Amount Advanced	Refund Due	
Chapel Hill Training Outreach Project, Inc.	*	48,258	25,636		
Chapel Hill Carrboro City Schools	*	38,946	47,883	(1,468)	
Child Care Services Association, Inc.	*	2,207,533	62,514		
Community School for People Under Six, Inc.			16,684		
El Centro Latino, Inc.		57,065			
Interfaith Council for Social Services, Inc.		96,379			
Orange Person Chatham Area Mental Health		110,102			
Orange County Department of Social Services	*	40,000			
Orange County Health Department	*	174,771			
Orange County Literacy Council		7,944			
Orange County Public Library	*	5,103			
Orange County Schools	*	8,000	65,033	(4,797)	
Piedmont Health Services, Inc.		75,607			
The University of North Carolina at Chapel Hill	*	80,675	(328)		
		\$ 2,950,383	\$ (328)	\$ 217,750	\$ (6,265)
<i>Individuals:</i>					
Various			110		
		\$ 0	\$ 0	\$ 110	\$ 0
		\$ 2,950,383	\$ (328)	\$ 217,860	\$ (6,265)

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

***Orange County Partnership for Young Children
Schedule of State Level Service Provider Contracts
For the Year Ended June 30, 2002***

Schedule 2

Organization Name	DHHS Contracts	NCPC Contracts	Total Contracts
Child Care Services Association, Inc. - WAGES Project	236,717		\$ 236,717
Prevent Blindness North Carolina/ National Society to Prevent Blindness		17,313	\$ 17,313
	\$ 236,717	\$ 17,313	\$ 254,030
* These organizations are represented on the Partnership's Board as described in Note 4 - Service Provider Contracts with Board Member Organizations.			
The information on this schedule provides a listing of service provider contracts entered into by either the Department of Health and Human Services (DHHS) or the North Carolina Partnership for Children, Inc. (NCPC) as described in Note 3 - Funding from Grant Awards.			

**Orange County Partnership for Young Children
Schedule of State Awards - Regulatory Basis
For the Year Ended June 30, 2002**

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)	1-01-1-10-001	\$ (5,189)	\$ 0
Early Childhood Initiatives Program (Current Year)	* 1-12-1-10-001	3,381,001	3,380,642
Multi-County Accounting and Contracting Grant	N/A	12,000	12,000
North Carolina Department of Health and Human Services			
More at Four Pre-Kindergarten Program	2090002836	129,599	123,334
Total State Awards		\$ 3,517,411	\$ 3,515,976

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

Note: The More at Four Pre-Kindergarten Program is contracted jointly by the North Carolina Department of Health and Human Services and the Office of the Governor. The allocations for the More at Four program are included in the budget for the North Carolina Department of Health and Human Services; therefore, the above schedule identifies that agency as the State Grantor. The Office of the Governor is responsible for oversight of the More at Four Program.

***Orange County Partnership for Young Children
Schedule of Property and Equipment
For the Year Ended June 30, 2002***

Schedule 4

Furniture and Non-Computer Equipment	\$ 16,388
Computer Equipment/Printers	49,371
Leasehold Improvements	550
Total Property and Equipment	\$ 66,309
<p>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 of purchase.</p>	

**Orange County Partnership for Young Children
 Schedule of Qualifying Match (Non-GAAP)
 For the Year Ended June 30, 2002**

Schedule 5

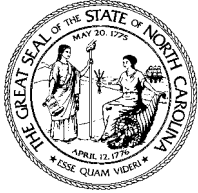
Match Provided at the Partnership Level:

Cash	\$ 97,517
In-Kind Goods and Services	11,642
	\$ 109,159

Match Provided at the Contractor Level:

Cash	\$ 182,231
In-Kind Goods and Services	288,684
	\$ 470,915

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 STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

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

We have audited the financial statements of the Orange County Partnership for Young Children (Orange Partnership) as of and for the year ended June 30, 2002, and have issued our report thereon dated April 25, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Orange Partnership's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Orange Partnership's internal control over financial reporting in order to determine our auditing procedures for the purposes of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material

**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 (CONCLUDED)**

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, 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

April 25, 2003

DISTRIBUTION OF AUDIT REPORT

In accordance with General Statutes 147-64.5 and 147-64.6(c)(14), copies of this report have been distributed to the public officials listed below. Additional copies are provided to other legislators, state officials, the press, and the general public upon request.

EXECUTIVE BRANCH

The Honorable Michael F. Easley	Governor of North Carolina
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.

LEGISLATIVE BRANCH

Appointees to the Joint Legislative Commission on Governmental Operations

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Senator Charlie Albertson	Representative Richard T. Morgan, Co-Chairman
Senator Kever M. Clark	Representative Martha B. Alexander
Senator Daniel G. Clodfelter	Representative E. Nelson Cole
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Senator James Forrester	Representative William T. Culpepper, III
Senator Linda Garrou	Representative W. Pete Cunningham
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Senator Kay R. Hagan	Representative Stanley H. Fox
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Senator William N. Martin	Representative Edd Nye
Senator Stephen M. Metcalf	Representative William C. Owens, Jr.
Senator Eric M. Reeves	Representative Drew P. Saunders
Senator Larry Shaw	Representative Wilma M. Sherrill
Senator R. C. Soles, Jr.	Representative Joe P. Tolson
Senator David F. Weinstein	Representative Thomas E. Wright
	Representative Douglas Y. Yongue

Other Legislative Officials

Senator Anthony E. Rand	Majority Leader of the N. C. Senate
Senator Patrick J. Ballantine	Minority Leader of the N. C. Senate
Representative N. Leo Daughtry	N. C. House of Representatives
Mr. James D. Johnson	Director, Fiscal Research Division

July 29, 2003

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