

**FINANCIAL STATEMENT AUDIT REPORT OF
REGION A PARTNERSHIP FOR CHILDREN
SYLVA, NORTH CAROLINA
FOR THE YEAR ENDED JUNE 30, 2002**

**PERFORMED UNDER CONTRACT WITH THE
NORTH CAROLINA OFFICE OF STATE AUDITOR
RALPH CAMPBELL, JR.**

FINANCIAL STATEMENT AUDIT REPORT OF

REGION A PARTNERSHIP FOR CHILDREN

SYLVA, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2002

BOARD OF DIRECTORS

GENE PERROTTA, CHAIRMAN

ADMINISTRATIVE OFFICER

JUNE T. SMITH, EXECUTIVE DIRECTOR



Ralph Campbell, Jr.
State Auditor

STATE OF NORTH CAROLINA
**Office of the State
Auditor**

2 S. Salisbury Street
20601 Mail Service Center
Raleigh, NC 27699-0601
Telephone: (919) 807-7500
Fax: (919) 807-7647
Internet <http://www.osa.state.nc.us>

AUDITOR'S TRANSMITTAL

The Honorable Michael F. Easley, Governor
The General Assembly of North Carolina
Board of Directors, Region A Partnership for Children

This report presents the results of the financial statement audit of the Region A Partnership for Children for the year ended June 30, 2002. Crisp Hughes Evans LLP performed the audit under contract with the Office of the State Auditor, and their report is submitted herewith.

The audit of the Region A Partnership for Children was made in conjunction with the Early Childhood Initiatives (Smart Start) program authorized by G.S. 143B-168.10-16. This statute created the North Carolina Partnership for Children, Inc. and required the implementation of local partnerships. The Region A Partnership for Children is one of these local partnerships. As such, the Region A Partnership for Children is a private nonprofit 501(c)(3) organization and is required by G.S. 143B-168.14 to have an annual financial and compliance audit conducted by the State Auditor. The State Auditor's authority to perform or coordinate all audit functions for state government is set forth in Article 5 of Chapter 147 of the North Carolina General Statutes.

The significant Smart Start expansion authorized in the 1998 fiscal year almost doubled the related audit burden placed on the Office of the State Auditor. Therefore, the General Assembly, in its 1998-99 Expansion Budget, gave recognition to the resources needed to provide the audit oversight required by statute. Those resources incorporated a combination of permanent positions and contract funding to make the Smart Start audit effort self-sustaining.

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

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

Ralph Campbell, Jr.
State Auditor

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Region A Partnership for Children
Sylva, North Carolina

We have audited the accompanying Statement of Receipts, Expenditures, and Net Assets--Regulatory Basis of the Region A Partnership for Children (Region A 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 Region A 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.

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 accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets of the Region A Partnership for 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.

INDEPENDENT AUDITORS' REPORT (CONCLUDED)

In accordance with *Government Auditing Standards*, we have also issued our report dated December 10, 2002 on our consideration of the Region A 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 auditors' 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 Region A Partnership for Children taken as a whole. The accompanying supplementary schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. The information in these schedules has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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

December 10, 2002

Crisp Hughes Evans LLP

REGION A PARTNERSHIP FOR CHILDREN**STATEMENT OF RECEIPTS, EXPENDITURES, AND NET ASSETS--REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2002****EXHIBIT A**

	<u>Unrestricted Funds</u>		<u>Temporarily Restricted Funds</u>	<u>Total Funds</u>
	<u>Smart Start Fund</u>	<u>Other Funds</u>		
Receipts:				
State Awards (Less Refunds of \$8,770)	\$ 2,242,719	\$ 302,024	\$ -	\$ 2,544,743
Private Contributions	-	82,321	358,587	440,908
Interest and Investment Earnings	-	9,098	5,834	14,932
Sales Tax Refunds	-	6,941	-	6,941
Total Receipts	<u>2,242,719</u>	<u>400,384</u>	<u>364,421</u>	<u>3,007,524</u>
Net Assets Released from Restrictions:				
Satisfaction of Program Restrictions	-	15,130	(15,130)	-
	<u>2,242,719</u>	<u>415,514</u>	<u>349,291</u>	<u>3,007,524</u>
Expenditures:				
Programs:				
Child Care and Education Quality	245,310	42,256	-	287,566
Child Care and Education Accessibility and Availability	100,000	-	-	100,000
Child Care and Education Affordability	376,919	5,696	-	382,615
Health and Safety	502,675	50,640	-	553,315
Family Support	563,141	29,856	-	592,997
More at Four	-	161,933	-	161,933
Support:				
Management and General	305,224	87,611	-	392,835
Program Evaluation	64,602	9,753	-	74,355
Program Coordination	57,151	-	-	57,151
Other:				
Sales Tax Paid	-	3,136	-	3,136
Total Expenditures	<u>2,215,022</u>	<u>390,881</u>	<u>-</u>	<u>2,605,903</u>
Excess of Receipts Over Expenditures	27,697	24,633	349,291	401,621
Net Assets at Beginning of Year	<u>8,770</u>	<u>21,583</u>	<u>16,940</u>	<u>47,293</u>
Net Assets at End of Year	<u>\$ 36,467</u>	<u>\$ 46,216</u>	<u>\$ 366,231</u>	<u>\$ 448,914</u>
Net Assets Consisted of:				
Cash on Deposit	\$ 10,824	\$ 45,880	\$ 366,231	\$ 422,935
Investments	-	1,324	-	1,324
Refunds Due from Contractors	25,643	-	-	25,643
	36,467	47,204	366,231	449,902
Less: Funds Held for Others	-	(988)	-	(988)
	<u>\$ 36,467</u>	<u>\$ 46,216</u>	<u>\$ 366,231</u>	<u>\$ 448,914</u>

The accompanying notes are an integral part of these statements.

**REGION A PARTNERSHIP FOR CHILDREN
STATEMENT OF FUNCTIONAL EXPENDITURES--REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2002**

EXHIBIT B

	Total	Personnel	Contracted Services	Supplies and Materials	Other Operating	Fixed Charges and Other	Property and Equipment Outlay	Services/Contracts/Grants
Smart Start Fund:								
Programs:								
Child Care and Education Quality	\$ 245,310	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 245,310
Child Care and Education Accessibility and Availability	100,000	-	-	-	-	-	-	100,000
Child Care and Education Affordability	376,919	85,221	480	4,582	9,678	40	-	276,918
Health and Safety	502,675	-	-	-	-	-	-	502,675
Family Support	563,141	-	-	-	-	-	-	563,141
Support:								
Management and General	305,224	177,894	17,131	30,902	46,651	19,636	13,010	-
Program Evaluation	64,602	28,815	35,787	-	-	-	-	-
Program Coordination	57,151	57,151	-	-	-	-	-	-
Total Smart Start Fund Expenditures	\$2,215,022	\$ 349,081	\$ 53,398	\$ 35,484	\$ 56,329	\$ 19,676	\$ 13,010	\$1,688,044
Other Funds:								
Programs:								
Child Care and Education Quality	\$ 42,256	\$ 334	\$ -	\$ 18,023	\$ 2,138	\$ 738	\$ -	\$ 21,023
Child Care and Education Affordability	5,696	-	5,000	696	-	-	-	-
Health and Safety	50,640	44,737	1,472	-	4,431	-	-	-
Family Support	29,856	-	21,764	1,828	2,044	-	4,220	-
More at Four	161,933	-	-	-	-	-	-	161,933
Support:								
Management and General	87,611	59,235	-	63	2,406	25,907	-	-
Program Evaluation	9,753	9,753	-	-	-	-	-	-
Other:								
Sales Tax Paid	3,136	-	-	3,136	-	-	-	-
Total Other Funds Expenditures	\$ 390,881	\$ 114,059	\$ 28,236	\$ 23,746	\$ 11,019	\$ 26,645	\$ 4,220	\$ 182,956

The accompanying notes are an integral part of these statements.

REGION A PARTNERSHIP FOR CHILDREN
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2002

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

A. Organization and Purpose - The Region A Partnership for Children (Region A Partnership) is a legally separate nonprofit organization incorporated on April 15, 1994. The Region A Partnership was established to develop and provide, through public and private means, early childhood education and developmental services for children and families. The Region A 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 Region A Partnership's Board of Directors is responsible. In accordance with Statement of Financial Accounting Standards (SFAS) No. 117, "Financial Statements of Not-For-Profit Organizations," the accompanying financial statements present information according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. As permitted by this Statement, temporarily restricted contributions received and expended in the same year are reported as unrestricted receipts rather than as temporarily restricted receipts.

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

The Region A Partnership did not have any 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 accounting principles generally accepted in the United States of America primarily because it recognizes long lived assets and other costs which benefit more than one period as expended in the year purchased; it recognizes revenue when received rather than when earned; and it recognizes expenditures when paid rather than when incurred.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

However, unexpended advances to contractors that revert back to the State are recognized as a reduction to expenditures and an increase to net assets. In addition, amounts withheld from employee paychecks or other amounts received in an agency capacity are recorded as funds held for others.

D. Refunds Due From Contractors - Refunds due from contractors represent the unexpended amount of advances to contractors at year-end 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.

E. Funds Held for Others - Funds held for others includes amounts received that are fiduciary in nature in which the Partnership acts in an agency capacity.

NOTE 2 - DEPOSITS

All funds of the Region A Partnership are deposited with one commercial bank and insured by the Federal Deposit Insurance Corporation (FDIC) up to \$100,000. Deposits over this amount subject the Region A Partnership to a concentration of credit risk. At June 30, 2002, the Region A Partnership's bank deposits in excess of the FDIC insured limit was \$441,138.

NOTE 3 - INVESTMENTS

Investments are carried at cost or, if donated, at market value at date of donation.

NOTE 4 - FUNDING FROM GRANT AWARDS

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

Associated with these contracts, the Region A 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 Region A Partnership. These service provider contracts are not reflected on the accompanying financial

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

statements. However, a summary of the service provider contracts entered into by DHHS is presented on Schedule 2 accompanying the financial statements.

The Region A Partnership was awarded and has received \$2,251,489 under a current year Smart Start contract with NCPC. The unexpended balance of this contract is subject to reversion to the State. The Partnership has returned \$36,467 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.

NOTE 5 - RELATED PARTY TRANSACTIONS

- A. **Service Provider Contracts with Board Member Organizations** - The board members of the Region A Partnership are representative of various organizations that benefit from actions taken by the Board. It is the policy of the Region A Partnership that board members not be involved with decisions regarding organizations they represent. During the year, the Partnership entered into contracts with board member organizations for program activities as identified on Schedule 1 accompanying the financial statements. In addition, Schedule 2 identifies contracts entered into by DHHS with board member organizations for activities funded by the Partnership's Smart Start Allocation.
- B. **Other Related Parties** - Private contributions include \$2,500 received from 27 of the 40 Board members and \$595 from 8 staff members. In addition, 3 Board members and the remaining staff members contributed monies to the Region A Partnership sponsored endowment, Carolina Mountain Trust, in the name of the Region A Partnership.

NOTE 6 - 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:

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

A. Program Functions

Child Care and Education Quality - Used to account for service activities including child care resource and referral, provider training, and curriculum enhancement.

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

Child Care and Education Affordability - Used to account for service activities associated with Head Start wraparound.

Health and Safety - Used to account for service activities including comprehensive dental services, prenatal/newborn services, child care health consultants/outreach nurses, child abuse and neglect intervention and special needs - specialized therapy.

Family Support - Used to account for service activities including family resource center, ongoing parent education, general family support, and literacy projects.

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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.

NOTE 7 - COMMITMENTS AND CONTINGENCIES

Loan Commitment - The Region A Partnership has a note with a balance of \$53,400 at June 30, 2002 that is secured by a land and building and payable to an individual in monthly installments of \$1,715. This amount includes principal and interest computed at an annual rate of 6.5%.

The future scheduled maturities of long-term debt are as follows:

<u>Fiscal Year</u>	<u>Principal Amount</u>	<u>Interest Amount</u>
2003	\$ 17,925	\$ 2,655
2004	18,827	1,750
2005	<u>16,648</u>	<u>500</u>
Total Loan Payments	\$ <u>53,400</u>	\$ <u>4,905</u>

NOTE 8 - PENSION PLAN

The Region A Partnership has a Simplified Employee Pension (SEP) plan covering all full time employees. Each full-time employee of the Region A Partnership, as a condition of employment, is provided an Individual Retirement Account through an outside insurance company. The Region A Partnership contributed 8.3% of gross wages for the year ended June 30, 2002. The Region A Partnership does not own the accounts nor is it liable for any cost other than the required contribution.

The Region A Partnership contributed \$31,510 for pension benefits during the year.

NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

NOTE 9 - RESTRICTIONS ON NET ASSETS

A. Temporarily Restricted Net Assets - Temporarily restricted net assets at June 30, 2002 are available for the following purposes:

Purpose	Amount
Construction of Child Development Center	\$ 273,096
Family Support Programs	4,108
Cherokee County Playground Project	4,078
Carolina Mountain Trust	375
Quality Enhancement and Expansion Project	480
SPARK	82,947
Mini Grants	1,047
Early Learning Experience	100
	<u>\$ 366,231</u>

B. 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:

Purpose	Amount
Cherokee County Playground Project	\$ 5,350
Parents as Teachers Program	1,080
Activity Kits	7,500
Carolina Mountain Trust	1,200
	<u>\$ 15,130</u>

**REGION A PARTNERSHIP FOR 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
Cherokee Center for Family Services *	\$ 22,606	\$ -	\$ -	\$ -
Cherokee County Health Department	45,770	-	-	-
Cherokee County Family Resource Center	63,267	-	-	-
Cherokee County Schools *	100,000	-	-	-
Clay County Health Department	29,160	(2,711)	-	-
Clay County Schools *	27,500	-	-	-
Eastern Band of the Cherokee Indians *	26,420	-	-	-
Fontana Regional Library	56,000	-	-	-
Four Square Community Action, Inc.	182,500	-	-	-
Graham County Department of Public Health	38,850	-	-	-
Graham County Schools *	23,934	-	-	-
Haywood County Health Department *	83,396	(5,637)	-	-
Haywood County Public Library *	23,788	(3,637)	-	-
Jackson County Health Department *	112,906	(2,800)	-	-
K.A.R.E. - Haywood County *	43,412	-	-	-
Macon County Health Department	65,807	(10,770)	-	-
Macon Program for Progress *	127,970	-	7,500	-
More at Four Pre-Kindergarten Program	-	-	161,933	-
Mountain Projects, Inc. *	94,460	(40)	-	-
Smoky Mountain MH/DD/SAS *	142,669	-	-	-
Southwestern Child Development Commission, Inc. *	189,722	-	-	-
Swain County	15,494	(48)	-	-
Swain County Department of Public Health *	35,659	-	-	-
Swain County Schools	57,010	-	-	-
Western Carolina University *	105,387	-	-	-
Various Church Related Entities	-	-	13,523	-
	\$ 1,713,687	\$ (25,643)	\$ 182,956	\$ -

* These organizations are represented on the Partnership's Board as described in Note 5A - Service Provider Contracts with Board Member Organizations.

See Independent Auditors' Report.

**REGION A PARTNERSHIP FOR CHILDREN
 SCHEDULE OF STATE LEVEL SERVICE PROVIDER CONTRACTS
 FOR THE YEAR ENDED JUNE 30, 2002**

SCHEDULE 2

Organization Name	DHHS Contracts
Southwestern Child Development Commission, Inc. - Service Support	* \$ 67,490
Southwestern Child Development Commission, Inc. - Subsidized Care	* 994,904
Child Care Services Association - WAGES	422,000
	\$ 1,484,394

* This organization is represented on the Partnership's Board as described in Note 5A - 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) as described in Note 4 - Funding From Grant Awards.

See Independent Auditors' Report.

**REGION A PARTNERSHIP FOR CHILDREN
SCHEDULE OF STATE AWARDS--REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2002**

SCHEDULE 3

<u>State Grantor/Pass-through Grantor/Program</u>	<u>Contract #</u>	<u>Receipts</u>	<u>Expenditures</u>
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)	* 1-01-1-11-001	\$ (8,770)	\$ -
Early Childhood Initiatives Program (current year)	* 1-12-1-11-001	2,251,489	2,215,022
Multi-County Accounting and Contracting Grant	-	84,000	84,000
Pass-through from the University of North Carolina at Chapel Hill:			
Quality Enhancement Projects for Infants and Toddlers	6028	56,091	56,091
North Carolina Department of Health and Human Services:			
More at Four Pre-Kindergarten Program	2090002843	<u>161,933</u>	<u>161,933</u>
Total State Awards		<u>\$ 2,544,743</u>	<u>\$ 2,517,046</u>

* 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 State 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.

See Independent Auditors' Report.

**REGION A PARTNERSHIP FOR CHILDREN
SCHEDULE OF PROPERTY AND EQUIPMENT
FOR THE YEAR ENDED JUNE 30, 2002**

SCHEDULE 4

Furniture and Non-Computer Equipment	\$ 26,074
Computer Equipment/Printers	40,357
Land and Buildings	<u>175,064</u>
Total Property and Equipment	<u>\$ 241,495</u>

Note: The information on this schedule provides a summary of property and equipment with acquisition or donated cost of \$500 or more that were held by the Partnership at year-end. On the regulatory basis of accounting, these items are expensed in the year purchased.

See Independent Auditors' Report.

**REGION A PARTNERSHIP FOR CHILDREN
SCHEDULE OF QUALIFYING MATCH (NON-GAAP)
FOR THE YEAR ENDED JUNE 30, 2002**

SCHEDULE 5

Match Provided at the Partnership Level:

Cash	\$ 440,908
In-Kind Goods and Services	<u>33,097</u>
	<u>\$ 474,005</u>

Match Provided at the Contractor Level:

Cash	\$ 610,463
In-Kind Goods and Services	<u>794,866</u>
	<u>\$ 1,405,329</u>

Note: This schedule is presented in accordance with the program match requirement as provided for by North Carolina Session Law 1999-237, Section 11.48(1). The law allows for volunteer services to be valued for match purposes, a concept that deviates from accounting principles generally accepted in the United States of America.

See Independent Auditors' Report.

**INDEPENDENT AUDITORS' 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
Region A Partnership for Children
Sylva, North Carolina

We have audited the financial statements of the Region A Partnership for Children (Region A Partnership) as of and for the year ended June 30, 2002, and have issued our report thereon dated December 10, 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 Region A 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 Region A 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

**INDEPENDENT AUDITORS' 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)**

internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

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

December 10, 2002

Crisp Hughes Evans LLP

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
The Honorable Beverly M. Perdue
The Honorable Richard H. Moore
The Honorable Roy A. Cooper, III
Mr. David T. McCoy
Mr. Robert L. Powell
Ms. Carmen Hooker Odom
Mr. Ashley Thrift

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Lieutenant Governor of North Carolina
State Treasurer
Attorney General
State Budget Officer
State Controller
Secretary, Department of Health and Human Services
Chairman, Board of Directors
North Carolina Partnership for Children, Inc.
Executive Director
North Carolina Partnership for Children, Inc.

Ms. Karen Ponder

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