

FINANCIAL STATEMENT AUDIT REPORT OF
CATAWBA COUNTY PARTNERSHIP FOR CHILDREN, INC.
HICKORY, 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
CATAWBA COUNTY PARTNERSHIP FOR CHILDREN
HICKORY, NORTH CAROLINA
FOR THE YEAR ENDED JUNE 30, 2002

BOARD OF DIRECTORS

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ADMINISTRATIVE OFFICER

KIM SALYARDS, EXECUTIVE DIRECTOR



Ralph Campbell, Jr.
State Auditor

STATE OF NORTH CAROLINA
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AUDITOR'S TRANSMITTAL

The Honorable Michael F. Easley, Governor
The General Assembly of North Carolina
Board of Directors, Catawba County Early Childhood Partnership

This report presents the results of the financial statement audit of the Catawba County Early Childhood Partnership 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 Catawba County Early Childhood Partnership was made in conjunction with the Early Childhood Initiatives (Smart Start) program authorized by G.S. 143B-168.10-.16. This statute created the North Carolina Partnership for Children, Inc. and required the implementation of local partnerships. The Catawba County Early Childhood Partnership is one of these local partnerships. As such, the Catawba County Early Childhood Partnership 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

TABLE OF CONTENTS

	PAGE
INDEPENDENT AUDITORS' REPORT	1
FINANCIAL STATEMENTS	
EXHIBITS	
A - Statement of Receipts, Expenditures, and Net Assets--Regulatory Basis	3
B - Statement of Functional Expenditures--Regulatory Basis	4
Notes to the Financial Statements	5
SUPPLEMENTARY SCHEDULES	
1 Schedule of Contract and Grant Expenditures--Regulatory Basis	9
2 Schedule of State Level Service Provider Contracts	10
3 Schedule of State Awards--Regulatory Basis	11
4 Schedule of Property and Equipment	12
5 Schedule of Qualifying Match (Non-GAAP)	13
INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>	14
DISTRIBUTION OF AUDIT REPORT	16

INDEPENDENT AUDITORS' REPORT

Board of Directors
Catawba County Partnership for Children, Inc.
Hickory, North Carolina

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

In accordance with *Government Auditing Standards*, we have also issued our report dated March 7, 2003 on our consideration of the Catawba Partnership's internal control over financial

INDEPENDENT AUDITORS' REPORT (CONCLUDED)

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 Catawba County 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.

March 7, 2003

Crisp Hughes Evans LLP

**CATAWBA COUNTY 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>Total Funds</u>
	<u>Smart Start Fund</u>	<u>Other Funds</u>	
Receipts:			
State Awards (Less Refunds of \$10,084)	\$ 2,055,708	\$ 142,323	\$ 2,198,031
Private Contributions	-	20,826	20,826
Interest and Investment Earnings	-	1,038	1,038
Sales Tax Refunds	-	8,636	8,636
Other Receipts	-	669	669
Total Receipts	<u>2,055,708</u>	<u>173,492</u>	<u>2,229,200</u>
Expenditures:			
Programs:			
Child Care and Education Quality	539,096	6,000	545,096
Child Care and Education Affordability	63,500	-	63,500
Health and Safety	264,974	-	264,974
Family Support	901,827	18,950	920,777
More at Four	-	130,323	130,323
Support:			
Management and General	269,637	16,519	286,156
Program Evaluation	20,000	-	20,000
Other:			
Sales Tax Paid	-	1,739	1,739
Total Expenditures	<u>2,059,034</u>	<u>173,531</u>	<u>2,232,565</u>
Deficiency of Receipts Over Expenditures	(3,326)	(39)	(3,365)
Net Assets at Beginning of Year	<u>10,084</u>	<u>24,535</u>	<u>34,619</u>
Net Assets at End of Year	<u>\$ 6,758</u>	<u>\$ 24,496</u>	<u>\$ 31,254</u>
Net Assets Consisted of:			
Petty Cash	\$ -	\$ 200	\$ 200
Cash on Deposit	150	24,296	24,446
Refunds Due from Contractors	<u>6,608</u>	<u>-</u>	<u>6,608</u>
	<u>\$ 6,758</u>	<u>\$ 24,496</u>	<u>\$ 31,254</u>

The accompanying notes are an integral part of these statements.

**CATAWBA COUNTY 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	\$ 539,096	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 539,096
Child Care and Education Affordability	63,500	-	-	-	-	-	-	63,500
Health and Safety	264,974	-	-	-	-	-	-	264,974
Family Support	901,827	6,003	100	17	805	575	-	894,327
Support:								
Management and General	269,637	194,713	3,545	14,608	25,585	30,176	1,010	-
Program Evaluation	20,000	-	20,000	-	-	-	-	-
Total Smart Start Fund Expenditures	\$ 2,059,034	\$ 200,716	\$ 23,645	\$ 14,625	\$ 26,390	\$ 30,751	\$ 1,010	\$ 1,761,897
Other Funds:								
Programs:								
Child Care and Education Quality	\$ 6,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 6,000
Family Support	18,950	1,950	-	-	-	-	-	17,000
More at Four	130,323	-	-	-	-	-	-	130,323
Support:								
Management and General	16,519	-	12,000	1,119	700	1,550	-	1,150
Other:								
Sales Tax Paid	1,739	-	-	1,739	-	-	-	-
Total Other Funds Expenditures	\$ 173,531	\$ 1,950	\$ 12,000	\$ 2,858	\$ 700	\$ 1,550	\$ -	\$ 154,473

The accompanying notes are an integral part of these statements.

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

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

- A. **Organization and Purpose** - The Catawba County Partnership for Children (Catawba Partnership) is a legally separate nonprofit organization incorporated on August 24, 1994. The Catawba Partnership was established to develop and provide, through public and private means, early childhood education and developmental services for children and families. The Catawba 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 Catawba Partnership's Board of Directors is responsible. In accordance with Statement of Financial Accounting Standards (SFAS) No. 117, "Financial Statements of Not-For-Profit Organizations," the accompanying financial statements present information according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. As permitted by this Statement, temporarily restricted contributions received and expended in the same year are reported as unrestricted receipts rather than as temporarily restricted receipts.
- The Catawba 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 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.
- D. **Refunds Due From Contractors** - Refunds due from contractors represent the unexpended amount of advances to contractors at year end which are to be refunded back to the State. As recoveries are collected, the receivable balance is reduced. Payments to the State for the recovered advances are recorded as a reduction to the state awards balance.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 2 - DEPOSITS

All funds of the Catawba Partnership are deposited with a board designated commercial bank and insured by the Federal Deposit Insurance Corporation (FDIC) up to \$100,000. Deposits over this amount subject the Catawba Partnership to a concentration of credit risk. At June 30, 2002, the Catawba Partnership's bank deposits in excess of the FDIC insured limit was \$87,155.

NOTE 3 - FUNDING FROM GRANT AWARDS

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

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

The Catawba Partnership was awarded and has received \$2,065,792 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 \$6,758 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 4 - RELATED PARTY TRANSACTIONS

Service Provider Contracts with Board Member Organizations - The board members of the Catawba Partnership are representative of various organizations that benefit from actions taken by the Board. It is the policy of the Catawba 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Schedule 1 accompanying the financial statements. In addition, Schedule 2 identifies contracts entered into by DHHS with board member organizations for activities funded by the Partnership's Smart Start Allocation.

NOTE 5 - FUNCTIONAL EXPENDITURES

The costs of providing the various programs and activities have been summarized on a functional basis in the Statement of Receipts, Expenditures, and Net Assets--Regulatory Basis. Also, the Statement of Functional Expenditures--Regulatory Basis provides detail of the functional costs by their natural classification. Following are the services associated with the functional categories presented in the accompanying financial statements:

A. Program Functions

Child Care and Education Quality - Used to account for service activities including: quality enhancement grants, child care resource and referral, professional development, salary supplements, and mentoring programs.

Child Care and Education Affordability - Used to account for service activities associated with public preschool classes, child care subsidy administration, and child care cost supports.

Health and Safety - Used to account for service activities including dental treatment, dental education, comprehensive dental services, outreach nurses, specialized therapy and special needs.

Family Support - Used to account for service activities including family support, ongoing parent education, support services for children and families in crisis, and community outreach.

More at Four - Used to account for development and implementation of More at Four prekindergarten program for at-risk four-year-olds who are at risk of failure in kindergarten. The goal is to provide quality prekindergarten 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,

NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

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.

NOTE 6 - COMMITMENTS AND CONTINGENCIES

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

<u>Fiscal Year</u>	<u>Operating Leases</u>
2003	\$ 53,200
2004	<u>37,771</u>
Total Minimum Lease Payments	\$ <u>90,971</u>

Total rental expenditure for all operating leases was \$24,277 for the year ended June 30, 2002.

NOTE 7 - PENSION PLAN

The Catawba Partnership has a Simplified Employee Pension (SEP) plan covering all full-time employees. Each full-time employee of the Catawba Partnership, as a condition of employment, is provided an Individual Retirement Account through an outside insurance company. The Catawba Partnership contributed 5% of gross wages for the year ended June 30, 2002. The Catawba Partnership does not own the accounts nor is it liable for any cost other than the required contribution.

For the year ended June 30, 2002, the Catawba Partnership had a total payroll of \$158,368, all of which was covered under the plan. The Partnership contributed \$7,918 for pension benefits during the year.

IRC Section 403(b) - All permanent employees who are at least half-time can participate in a tax sheltered annuity plan created under Internal Revenue Code Section 403(b). The employee's eligible contributions, made through salary reduction agreements, are exempt from federal and state income taxes until the annuity is received or the contributions are withdrawn. All costs of administering and funding this plan are the responsibility of the plan. No costs are incurred by the Catawba Partnership. The voluntary contributions by employees amounted to \$7,641 during the year ended June 30, 2002.

**CATAWBA COUNTY 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
Catawba County Department of Social Services	* \$ 261,117	\$ -	\$ -	\$ -
Catawba County Hispanic Ministries	52,500	-	-	-
Catawba County Mental Health	* 445,883	(4,507)	-	-
Catawba County Public Health	* 208,100	(157)	-	-
Catawba County Public Library	* -	-	1,000	-
Catawba County Schools	* 365,400	-	17,000	-
Catawba Science Center	-	-	1,000	-
Catawba Valley Community College	* 15,765	(1,667)	-	-
Catawba Valley Medical Center	108,000	-	500	-
Children's Resource Center	* 135,000	-	50	-
Hickory City Public Schools	* -	-	42,123	-
Hickory Museum of Art	-	-	1,000	-
Hickory Public Library	* -	-	1,000	-
High Hope of Hickory	-	-	500	-
KEY Players	-	-	1,000	-
Lenior-Rhyne College	15,000	-	-	-
March of Dimes	-	-	100	-
Newton-Conover Schools	* 50,500	-	88,200	-
The Riddle Institute	21,000	(43)	-	-
Western Piedmont Symphony	-	-	1,000	-
Individuals:				
Quality Improvement Grants	* 45,240	-	-	-
Sipe's Orchard Home	* 45,000	(234)	-	-
	\$ 1,768,505	\$ (6,608)	\$ 154,473	\$ -

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

See Independent Auditors' Report.

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

SCHEDULE 2

<u>Organization Name</u>	<u>DHHS Contracts</u>
Catawba County Department of Social Services	* \$ 1,697,000
Child Care Services Association WAGES Program	<u>172,000</u>
	<u>\$ 1,869,000</u>

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

The information on this schedule provides a listing of service provider contracts entered into by the Department of Health and Human Services (DHHS) as described in Note 3 - Funding From Grant Awards.

See Independent Auditors' Report.

**CATAWBA COUNTY 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)	*1-01-2-03-001	\$ (10,084)	\$ -
Early Childhood Initiatives Program (current year)	*1-12-2-03-001	2,065,792	2,059,034
Multi-County Accounting and Contracting Grant		12,000	12,000
North Carolina Department of Health and Human Services:			
More at Four Pre-kindergarten Program	2090002849	<u>130,323</u>	<u>130,323</u>
Total State Awards		<u>\$ 2,198,031</u>	<u>\$ 2,201,357</u>

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

Note: The More at Four Prekindergarten 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.

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

SCHEDULE 4

Furniture and Non-Computer Equipment	\$ 16,534
Computer Equipment/Printers	<u>10,512</u>
Total Property and Equipment	<u>\$ 27,046</u>

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

See Independent Auditors' Report.

**CATAWBA COUNTY 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	\$	20,826
In-Kind Goods and Services		<u>1,388</u>
	\$	<u>22,214</u>

Match Provided at the Contractor Level:

Cash	\$	476,521
In-Kind Goods and Services		<u>162,396</u>
	\$	<u>638,917</u>

Note: This schedule is presented in accordance with the program match requirement as provided for by North Carolina Session Law 1999-237, Section 11.48(l). The law allows for volunteer services to be valued for match purposes, a concept that deviates from 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
Catawba County Partnership for Children
Hickory, North Carolina

We have audited the financial statements of the Catawba County Partnership for Children (Catawba Partnership) as of and for the year ended June 30, 2002, and have issued our report thereon dated March 7, 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 Catawba 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 Catawba 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

**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)**

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.

March 7, 2003

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.

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The Honorable Roy A. Cooper, III
Mr. David T. McCoy
Mr. Robert L. Powell
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Mr. Ashley Thrift

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Lieutenant Governor of North Carolina
State Treasurer
Attorney General
State Budget Officer
State Controller
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North Carolina Partnership for Children, Inc.
Executive Director
North Carolina Partnership for Children, Inc.

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