

STATE OF NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT OF DOWN EAST PARTNERSHIP FOR CHILDREN

ROCKY MOUNT, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2002

OFFICE OF THE STATE AUDITOR

RALPH CAMPBELL, JR.

STATE AUDITOR

FINANCIAL STATEMENT AUDIT REPORT OF

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ROCKY MOUNT, NORTH CAROLINA

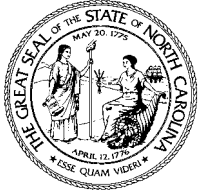
FOR THE YEAR ENDED JUNE 30, 2002

BOARD OF DIRECTORS

MARIE INSCORE, CHAIRMAN

ADMINISTRATIVE OFFICER

HENRIETTA ZALKIND, EXECUTIVE DIRECTOR



Ralph Campbell, Jr.
State Auditor

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AUDITOR'S TRANSMITTAL

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

This report presents the results of our financial statement audit of the Down East Partnership for Children (Down East 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 Down East 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 Down East Partnership was made in conjunction with the Early Childhood Initiatives (Smart Start) program authorized by G.S. 143B-168.10-.16. This statute created the North Carolina Partnership for Children, Inc. and required the implementation of local demonstration projects (local partnerships). The Down East Partnership is one of these local partnerships. As such, the Down East Partnership is a private nonprofit 501(c)(3) organization and is required by G.S. 143B-168.14(b) to have an annual financial and compliance audit conducted by the State Auditor.

The purpose of this report is to present the results of our audit on the accompanying financial statements. A summary of our reporting objectives and audit results are:

1. **Objective** - Express an opinion on the accompanying financial statements and supplementary information.

Results – The accompanying financial statements present fairly, in all material respects, the amounts and disclosures made in accordance with the regulatory basis of accounting established by the North Carolina Partnership for Children, Inc. The accompanying supplementary information presents information that is fairly stated in all material respects in relation to the basic financial statements.

AUDITOR'S TRANSMITTAL (CONCLUDED)

2. **Objective** - Present instances of noncompliance, if any, with laws, regulations, contracts, or grants.

Results - The following instance of noncompliance was detected:

Finding

02-01 Compliance With Grant Special Conditions

This matter is described in the Schedule of Findings and Questioned Costs section of this report.

3. **Objective** - Present significant deficiencies, if any, in internal control over financial reporting which could adversely affect the Down East Partnership's ability to record, process, summarize, and report financial data in the financial statement.

Results - The following significant deficiency was detected in internal control over financial reporting:

Finding

02-02 Contract Management and Monitoring

This matter is described in the Schedule of Findings and Questioned Costs section of this report.

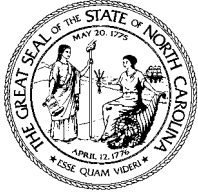
North Carolina General Statutes require the State Auditor to make audit reports available to the public. Copies of audit reports issued by the Office of the State Auditor may be obtained through one of the options listed in the back of this report.



Ralph Campbell, Jr.
State Auditor

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Down East Partnership for Children
Rocky Mount, North Carolina

We have audited the accompanying Statement of Receipts, Expenditures, and Net Assets - Regulatory Basis of the Down East Partnership for Children (Down East 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 Down East 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 generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets of the Down East 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 February 13, 2003 on our consideration of the Down East 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 Down East Partnership for Children taken as a whole. The accompanying schedule of expenditures of federal awards is presented for the purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations." This schedule, and the additional 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

February 13, 2003

Down East Partnership for 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 \$69,218)	\$ 3,938,838	\$ 24,000	\$ 0	\$ 3,962,838
Federal Awards		600,087		600,087
Local Awards		20,000		20,000
Private Contributions		169,619	151,883	321,502
Interest and Investment Earnings		10,896		10,896
Sales Tax Refunds		19,697		19,697
Other Receipts		23,357		23,357
Total Receipts	3,938,838	867,656	151,883	4,958,377
Net Assets Released from Restrictions:				
Satisfaction of Program Restrictions		132,787	(132,787)	0
	3,938,838	1,000,443	19,096	4,958,377
Expenditures:				
Programs:				
Child Care and Education Quality	1,242,584	185,994		1,428,578
Child Care and Education Affordability	1,476,086			1,476,086
Health and Safety	214,365	10,914		225,279
Family Support	762,133	615,062		1,377,195
Support:				
Management and General	363,642			363,642
Development Office		106,530		106,530
Other:				
Sales Tax Paid		12,636		12,636
Total Expenditures	4,058,810	931,136	0	4,989,946
Excess of Receipts Over Expenditures	(119,972)	69,307	19,096	(31,569)
Net Assets at Beginning of Year	204,981	135,466	152,385	492,832
Net Assets at End of Year	\$ 85,009	\$ 204,773	\$ 171,481	\$ 461,263
Net Assets Consisted of:				
Cash and Cash Equivalents	\$ 66,643	\$ 203,421	\$ 171,481	\$ 441,545
Refunds Due From Contractors	18,797			18,797
	85,440	203,421	171,481	460,342
Less: Funds Held for Others	431	(1,352)		(921)
	\$ 85,009	\$ 204,773	\$ 171,481	\$ 461,263

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

*Down East Partnership for 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	Indirect Costs	Services/ Contracts/ Grants	Participant Training Expenditures
Smart Start Fund:										
Programs:										
Child Care and Education Quality	\$ 1,242,584	171,774	8,225	57,178	36,120	9,111	1,925	49,685	903,669	4,897
Child Care and Education Affordability	\$ 1,476,086	80,075	7,531	2,255	5,793	1,321		133,910	1,245,201	
Health and Safety	\$ 214,365	34,173	618	642	3,830	122		4,813	169,443	724
Family Support	\$ 762,133	399,072	23,614	34,580	53,152	6,295	6,402	64,324	173,342	1,352
	\$ 3,695,168	\$ 685,094	\$ 39,988	\$ 94,655	\$ 98,895	\$ 16,849	\$ 8,327	\$ 252,732	\$ 2,491,655	\$ 6,973
Support:										
Management and General	\$ 363,642	\$ 274,288	\$ 17,166	\$ 10,515	\$ 50,974	\$ 7,095	\$ 3,061	\$ 0	\$ 0	\$ 543
Total Smart Start Fund Expenditures	\$ 4,058,810	\$ 959,382	\$ 57,154	\$ 105,170	\$ 149,869	\$ 23,944	\$ 11,388	\$ 252,732	\$ 2,491,655	\$ 7,516
Other Funds:										
Programs:										
Child Care and Education Quality	\$ 185,994	82,430	11,644	45,495	16,675	1,130		19,940		8,680
Health and Safety	\$ 10,914	8,543	155	160	866	30		979		181
Family Support	\$ 615,062	110,020	64,163	4,691	14,388	822	22,354	33,259	364,997	368
	\$ 811,970	\$ 200,993	\$ 75,962	\$ 50,346	\$ 31,929	\$ 1,982	\$ 22,354	\$ 54,178	\$ 364,997	\$ 9,229
Support:										
Management and General	\$ 0	222,227	9,307	24,251	37,717	4,758	8,593	(306,910)		57
Development Office	\$ 106,530	71,449	17,409	1,108	13,470	1,281	1,380			433
	\$ 106,530	\$ 293,676	\$ 26,716	\$ 25,359	\$ 51,187	\$ 6,039	\$ 9,973	#####	\$ 0	\$ 490
Other:										
Sales Tax Paid	\$ 12,636	\$ 0	\$ 0	\$ 12,636	\$ 0	\$ 0	\$ 0		\$ 0	\$ 0
Total Other Funds Expenditures	\$ 931,136	\$ 494,669	\$ 102,678	\$ 88,341	\$ 83,116	\$ 8,021	\$ 32,327	#####	\$ 364,997	\$ 9,719

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

DOWN EAST PARTNERSHIP FOR CHILDREN
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2002

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

- A. Organization and Purpose** - The Down East Partnership for Children (Down East Partnership) is a legally separate nonprofit organization incorporated on December 7, 1993. The Down East Partnership was established to develop and provide, through public and private means, early childhood education and developmental services for children and families. The Down East 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 Down East 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 Down East 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 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. In addition, amounts withheld from employee paychecks or other amounts received in an agency capacity are recorded as funds held for others.

- D. Cash and Cash Equivalents** – This classification appears on the Statement of Receipts, Expenditures, and Net Assets – Regulatory Basis and consists of petty cash, cash on deposit with private bank accounts, money market 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, 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.
- F. 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. The Down East Partnership offers its employees the opportunity to participate in a Flexible Spending Plan (Plan), which is a cafeteria plan as defined by Section 125 of the Internal Revenue Code. A cafeteria plan allows employees to pay for certain employee benefits with pre-tax deductions. For the period ended June 30, 2002, the Down East Partnership has made payments in excess of the amounts withheld from employees' paychecks for the Plan resulting in a deficit balance in the funds held for others account. The Down East Partnership will collect the amounts advanced from the Plan from employees in the future per the Plan's guidelines.
- G. Use of Estimates** - The financial statements include estimates and assumptions made by management for the allocation of joint costs. It is management's belief that these estimates are reasonable and fair.

NOTE 2 - DEPOSITS

All funds of the Down East Partnership are deposited with commercial banks and insured by the Federal Deposit Insurance Corporation (FDIC) up to \$100,000 per bank. Deposits over this amount subjects the Down East Partnership to a concentration of credit risk. At June 30, 2002, the Down East Partnership's bank deposits in excess of the FDIC insured limit was \$596,826.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 3 - FUNDING FROM GRANT AWARDS

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

Associated with these contracts, the Down East 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 Down East Partnership. These service provider contracts are not reflected on the accompanying financial statement. However, a summary of the service provider contracts entered into by NCPC and DHHS are presented on Schedule 2 accompanying the financial statements.

The Down East Partnership was awarded and has received \$4,008,056 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 \$55,467 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.

Family Resource Network - The Down East Partnership received additional support from the State of North Carolina based on a cost-reimbursement contract with the North Carolina Department of Crime Control and Public Safety – Division of Governor's Crime Commission (Commission) for an initiative to strengthen the capacity to provide support services to children and families through a network of Family Resource Centers in Nash and Edgecombe counties.

The Down East Partnership was awarded \$339,368 under a current year Family Resource Network contract with the Commission and has received \$220,822 of this amount. The unexpended balance of this contract is subject to reversion to the State.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 4 - RELATED PARTY TRANSACTIONS

Service Provider Contracts with Board Member Organizations - The board members of the Down East Partnership are representative of various organizations that benefit from actions taken by the Board. It is the policy of the Down East 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 and the methods utilized to allocate joint cost:

A. Program Functions

Child Care and Education Quality - Used to account for service activities including quality enhancement grants for upgrades, care resource and referral, curriculum enhancements, community planning for school readiness, or health insurance benefits for child care providers.

Child Care and Education Affordability - Used to account for service activities including public pre-K classes or child care subsidies.

Health and Safety - Used to account for service activities including comprehensive health support or special needs – early intervention services.

Family Support - Used to account for service activities including family resource centers, ongoing parenting education, general family support, community leadership, support services for children and families in crisis, community outreach, or school readiness programs.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

B. Support Functions

Management and General - Expenditures that are not identifiable with a single program or fund-raising activity but are indispensable to the conduct of those activities and to an organization's existence, including expenditures for the overall direction of the organization, its general board activities, business management, general recordkeeping, budgeting, and related purposes.

Development Office - Expenditures that are incurred to develop new sources of funding including public and private support.

C. Allocation of Joint Costs

The Down East Partnership uses an indirect cost pool to collect administrative expenses that are not directly attributable to the various programs the Partnership operates. Types of costs included in the pool were salaries, contracted services, supplies and materials, other operating expenses, fixed charges and other expenses, property and equipment, and participant training.

Indirect costs are allocated using a percentage of program expenses. The indirect cost rate used for the 2002 fiscal year was 12% except for the Family Preservation grant, which had a maximum allowable indirect cost percentage of 10% and the Smart Start administrative contract, which had a maximum allowable amount of \$364,791.

Management and overhead costs totaling \$687,630 were distributed across program activities, including \$364,791 specifically allocated to the Smart Start administrative contract. These costs were initially recorded in the indirect cost pool and then allocated on a monthly basis to the affected programs. An Indirect Cost column has been added to the Statement of Functional Expenditures – Regulatory Basis to indicate how these costs were distributed across programs and to eliminate the charges recorded for distributing the costs. This column allows for a more accurate presentation of costs by program and functional category.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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	\$ 9,216
2004	9,216
2005	9,216
2006	<u>389</u>
Total Minimum Lease Payments	<u>\$ 28,037</u>

Rental expense for all operating leases during the year was \$11,083.

NOTE 7 - PENSION PLAN

IRC Section 403(b) - All permanent employees who are at least half-time can participate in a tax sheltered annuity plan created under Internal Revenue Code Section 403(b). The employee's eligible contributions, made through salary 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 non-profit organizations. All costs of administering and funding this plan are the responsibility of the Plan participants. No costs were incurred by the Down East Partnership. The voluntary contributions by employees amounted to \$96,751 during the year ended June 30, 2002.

NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

NOTE 8 - 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
Project Recovery	\$ 5,250
Latino Outreach	1,000
Flood Relief	14,348
Child Care Resource and Referral	100,000
Surdna – Organizational Capacity Grant	5,918
Kellogg Foundation	41,295
Babcock Foundation – Community Fellows	3,670
	<u>\$ 171,481</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
JP Morgan – Community Fellows	\$ 16,445
Babcock Foundation – Community Fellows	16,342
Child Care Resource and Referral	100,000
	<u>\$ 132,787</u>

*Down East 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
Communities In Schools of The Rocky Mount Region	65,000		125,503	
Community Enrichment Organization	22,904		40,000	
Edgecombe County Department of Social Services			7,500	
Edgecombe County Health Department	169,443			
Edgecombe County Schools	617,449		96,787	
Nash County Department of Social Services			6,954	
Nash-Rocky Mount Schools	213,997			
Thomas Hackney Braswell Memorial Library	129,694			
United Community Ministries			88,153	
Various Day Care Providers	134,846			
Prior Fiscal Years Various Day Care Providers	108,715	(12,340)		
	\$ 1,462,048	\$ (12,340)	\$ 364,897	\$ 0
Individuals:				
Insurance Stipends	9,449			
Scholarships/ Bonus Awards	1,038,955	(6,457)	100	
	\$ 1,048,404	\$ (6,457)	\$ 100	\$ 0
	\$ 2,510,452	\$ (18,797)	\$ 364,997	\$ 0

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

***Down East Partnership for 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 - WAGES Program	206,444		\$ 206,444
Nash/Edgecombe Counties Departments of Social Services *	157,237		\$ 157,237
National Society to Prevent Blindness - North Carolina Affiliate		50,094	\$ 50,094
	\$ 363,681	\$ 50,094	\$ 413,775

* 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

***Down East Partnership for Children
Schedule of Federal and State Awards - Regulatory Basis
For the Year Ended June 30, 2002***

Schedule 3

Federal/State Grantor/Pass-through Grantor/Program	Federal CFDA Number	Contract #	Receipts	Expenditures
Federal Awards:				
Department of Justice				
Pass-through from the North Carolina Department of Crime Control and Public Safety - Division of Governor's Crime Commission				
Passed-through the City of Rocky Mount				
Byrne Formula Grant Program (Project Recovery)	16.579	033-1-00-013-D-362	\$ 131,185	\$ 76,043
Byrne Formula Grant Program (Family Resource Network)	16.579	** 033-1-01-013-D-666	220,822	336,116
Department of Health and Human Services				
Pass-through from the North Carolina Department of Health and Human Services - Division of Social Services				
Promoting Safe and Stable Families (Family Preservation - Prior Year)	93.556	01120-01	36,488	
Promoting Safe and Stable Families (Family Preservation - Current Year)	93.556	01120-02	143,038	146,464
Department of Health and Human Services				
Pass-through from the North Carolina Department of Health and Human Services - Division of Child Development				
Child Care Development Block Grant (Prior Year)	93.575	5859	5,575	(53)
Child Care Development Block Grant (Current Year)	93.575	5994	62,979	64,749
Total Federal Awards			600,087	623,319
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 Years)		Various	(69,218)	113,171
Early Childhood Initiatives Program (Current Year)		* 1-12-2-05-001	4,008,056	3,945,639
Multi-County Accounting and Contracting Grant		N/A	24,000	24,000
Total State Awards			3,962,838	4,082,810
Total Federal and State Awards			\$ 4,562,925	\$ 4,706,129
* Programs with compliance requirements that have a direct and material effect on the financial statements.				
** Major Programs per OMB Circular A-133				

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

Schedule 5

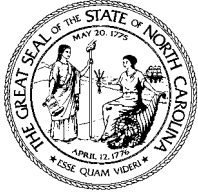
Match Provided at the Partnership Level:

Cash	\$ 356,927
In-Kind Goods and Services	12,546
	<u>\$ 369,473</u>

Match Provided at the Contractor Level:

Cash	\$ 268,132
In-Kind Goods and Services	113,277
	<u>\$ 381,409</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 generally accepted accounting principles.



Ralph Campbell, Jr.
State Auditor

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

Board of Directors
Down East Partnership for Children
Rocky Mount, North Carolina

We have audited the financial statements of the Down East Partnership for Children (Down East Partnership) as of and for the year ended June 30, 2002, and have issued our report thereon dated February 13, 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 Down East 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 Down East 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. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. A reportable condition involves a matter coming to our attention relating to a significant deficiency in the design or operation of the internal control over financial

**INDEPENDENT AUDITOR'S REPORT
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reporting that, in our judgment, could adversely affect the Down East Partnership's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. This reportable condition noted as a result of the audit is described in the Schedule of Findings and Questioned Costs section of this report:

Finding

02-02 - Contract Management and Monitoring

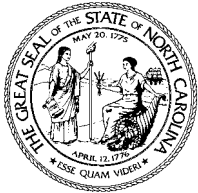
A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we do not believe that the reportable condition described above is a material weakness.

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



Ralph Campbell, Jr.
State Auditor

February 13, 2003



Ralph Campbell, Jr.
State Auditor

STATE OF NORTH CAROLINA
Office of the State Auditor

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**INDEPENDENT AUDITOR'S REPORT
ON COMPLIANCE WITH REQUIREMENTS APPLICABLE
TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Board of Directors
Down East Partnership for Children
Rocky Mount, North Carolina

Compliance

We have audited the compliance of the Down East Partnership for Children (Down East Partnership) with the types of compliance requirements described in the "U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement" that are applicable to each of its major federal programs for the year ended June 30, 2002. Down East Partnership's major federal programs are identified in the summary of auditors' results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Down East Partnership's management. Our responsibility is to express an opinion on Down East Partnership's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations." Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Down East Partnership's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Down East Partnership's compliance with those requirements.

As described in item 02-01 – Compliance With Grant Special Conditions in the accompanying Schedule of Findings and Questioned Costs, the Down East Partnership did not comply with requirements regarding Special Conditions that are applicable to its Byrne

**INDEPENDENT AUDITOR'S REPORT
ON COMPLIANCE WITH REQUIREMENTS APPLICABLE
TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133 (CONCLUDED)**

Formula Grant program. Compliance with such requirements is necessary, in our opinion, for the Down East Partnership to comply with requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, the Down East Partnership complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2002.

Internal Control Over Compliance

The management of Down East Partnership is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Down East Partnership's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control 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 noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program 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 compliance and its operation that we consider to be material weaknesses.

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



Ralph Campbell, Jr.
State Auditor

February 13, 2003

**DOWN EAST PARTNERSHIP FOR CHILDREN
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2002**

I. SUMMARY OF AUDITOR'S RESULTS		<u>YES</u>	<u>NO</u>				
	<u>Financial Statements</u>						
	Type of auditor's report issued: Unqualified						
	Internal control over financial reporting:						
	<ul style="list-style-type: none"> • Material weaknesses identified • Reportable conditions identified that are not considered to be material weaknesses 	<input type="checkbox"/> <input type="checkbox"/>	<input checked="" type="checkbox"/> <input checked="" type="checkbox"/>				
	Noncompliance material to financial statements noted?	<input type="checkbox"/>	<input checked="" type="checkbox"/>				
	<u>Federal Awards</u>						
	Internal control over major programs:						
	<ul style="list-style-type: none"> • Material weaknesses identified • Reportable conditions identified that are not considered to be material weaknesses 	<input type="checkbox"/> <input type="checkbox"/>	<input checked="" type="checkbox"/> <input checked="" type="checkbox"/>				
	Type of auditor's report issued on compliance for major federal programs: Qualified						
	Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133	<input checked="" type="checkbox"/>	<input type="checkbox"/>				
	Identification of major federal programs:						
	<table border="0" style="margin-left: auto; margin-right: auto;"> <tr> <td style="text-align: center;"><u>CFDA Numbers</u></td> <td style="text-align: center;"><u>Name of Federal Programs</u></td> </tr> <tr> <td style="text-align: center;">16.579</td> <td style="text-align: center;">Byrne Formula Grant</td> </tr> </table>	<u>CFDA Numbers</u>	<u>Name of Federal Programs</u>	16.579	Byrne Formula Grant		
<u>CFDA Numbers</u>	<u>Name of Federal Programs</u>						
16.579	Byrne Formula Grant						
	Dollar threshold used to distinguish between Type A and Type B Programs		\$300,000				
	Auditee qualified as low-risk auditee	<input type="checkbox"/>	<input checked="" type="checkbox"/>				

**DOWN EAST PARTNERSHIP FOR CHILDREN
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2002 (CONTINUED)**

II. FINDINGS RELATED TO THE AUDIT OF THE FINANCIAL STATEMENTS

02-02 - CONTRACT MANAGEMENT AND MONITORING

Our testwork identified weaknesses in the Down East Partnership's contract management and monitoring activities that resulted in questioned costs.

- Session Law 2001-424 Section 21.75(f) requires that funding not be provided to child care facilities that had previously received quality improvement grants and had failed to increase licensure. Additional guidance provided by the funding agency, the North Carolina Partnership for Children, Inc., stated that if a provider/facility had received a quality improvement grant in the prior fiscal year, the current star licensure must reflect an increase from the licensure rating at the time of the prior period application. The Down East Partnership granted \$58,503 to 8 facilities in the 2002 fiscal year that were also funded in the previous year. There was no evidence presented that the 8 facilities had increased their licensure from the prior year as required by the quality improvement grant guidelines. As such, these costs are considered to be questioned costs.
- The Down East Partnership provided quality improvement grants in fiscal years 1999 and 2000 for various reasons including wage sustainability, playground safety, and disaster recovery. Grant recipients were required to provide evidence to support the disbursement of funds in accordance with established guidelines. The Partnership's monitoring efforts determined that recipients failed to provide adequate documentation to support the disbursements. This resulted in the Partnership requesting repayment of these funds from numerous facilities and reclassifying the expenditures as Refunds Due from Contractors. After several years of collection efforts, the Down East Partnership now wishes to remove these costs from its records. As such, these disbursements must now be recorded as grant expenditures. However, the question of adequate documentation for these disbursements has not been addressed. Therefore, expenditures totaling \$96,375 are considered to be questioned costs.

Recommendation: We recommend that the Down East Partnership contracting activities comply with applicable legislation and statewide requirements. The Partnership should work with its funding agency, the North Carolina Partnership for Children, Inc., to resolve the questioned costs related to the eligibility concerns with the quality improvement disbursements.

Partnership's Response: It has always been the policy of the Down East Partnership for Children to comply fully with applicable legislation and statewide requirements. It is our full intention to continue this practice. These quality improvement grants in question were part of an intensive technical assistance activity called Shoot For The Stars. This project began in FY01 and was designed as one integrated activity that crossed into FY02

**DOWN EAST PARTNERSHIP FOR CHILDREN
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2002 (CONTINUED)**

because of the extensive time needed to complete the project. The new quality improvement restrictions became effective July 1, 2001. Because these were not new grants to new providers, but the continuation of an on-going project, we did not believe that the new restrictions would apply. Also, there was not enough time for these child care providers to achieve an increase in their Star rating before July 1, 2001. However, upon completion of the project most of the child care programs involved did make the required improvements in their star rated licenses, ultimately benefiting more than three hundred children.

The quality improvements grants made by the Partnership have dramatically increased the quality of care available to young children in Nash and Edgecombe counties. At present, 50.6% of the children in Edgecombe County are in child care rated 4 or 5 star and 48% of the children in Nash County in 4 or 5 star care. This is in contrast to only 6% (Edgecombe) and 7% (Nash) of children were in the highest quality care when the Partnership began in 1993.

Our diligent monitoring of these quality improvement grants revealed that although the environments of the children had vastly improved, the financial and documentation skills of some of the child care providers was unfortunately lacking. We have no question that the funding was spent on needed improvements, but felt that adequate documentation was not provided. We have since implemented business skills training for providers and no longer make direct cash grants for quality improvement. We will work with the North Carolina Partnership for Children for an appropriate resolution to the costs in question.

**III. FINDINGS AND QUESTIONED COSTS RELATED TO THE AUDIT OF
FEDERAL AWARDS**

02-01 - COMPLIANCE WITH GRANT SPECIAL CONDITIONS

The Down East Partnership contracted for services in the amount of \$28,423 that were paid from the Family Resource Center grant. None of the above contracted service activities received prior approval from the North Carolina Department of Crime Control and Public Safety - Governor's Crime Commission (Crime Commission) grants management director. Per the special conditions identified in the Crime Commission grant award, contracts must be approved by the Crime Commission's grants management director prior to execution. Any funds incurred will be in violation of the contract if they are incurred prior to approval.

Recommendation: We recommend that the Down East Partnership implement appropriate procedures to ensure adherence to the special conditions identified within contract documents. The Partnership should consult with the Crime Commission to determine what corrective action should be taken to address the above issue of noncompliance.

**DOWN EAST PARTNERSHIP FOR CHILDREN
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2002 (CONCLUDED)**

Partnership's Response: The contracts for professional service in question were listed in the original grant application and forwarded to the Crime Commission prior to our receiving reimbursement for these expenses. Thus, we assumed that these professional service contracts had been approved, but unfortunately did not receive any specific written documentation of this approval. We will work with the Governor's Crime Commission to clarify the approval of the contracts in question and resolve any issues of questioned costs.

**DOWN EAST PARTNERSHIP FOR CHILDREN
SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2002**

There were no prior year audit findings.

**DOWN EAST PARTNERSHIP FOR CHILDREN
CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED JUNE 30, 2002**

Finding Number	Contact Person Phone Number	Corrective Action Planned
02-01	Henrietta Zalkind (252) 985-4300	Compliance With Grant Special Conditions
		The Down East Partnership will provide documentation related to the contracts totaling \$28,423 in question to the Governor's Crime Commission and seek retroactive approval.
02-02	Henrietta Zalkind (252) 985-4300	Contract Management and Monitoring
		The Down East Partnership will provide documentation for the Shoot for the Stars activity to the North Carolina Partnership for Children, Inc. (NCPC) for review and a determination related to the questioned costs totaling \$58,503. In addition, collection efforts will continue for the prior years quality improvement grants. We will consult with NCPC for appropriate resolution to the \$96,375 in questioned costs.

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 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.

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N. C. House Speaker Pro-Tem
Director, Fiscal Research Division

March 31, 2003

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