



STATE OF NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT OF

NEW HANOVER COUNTY PARTNERSHIP FOR CHILDREN

WILMINGTON, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2002

OFFICE OF THE STATE AUDITOR

RALPH CAMPBELL, JR.

STATE AUDITOR

FINANCIAL STATEMENT AUDIT REPORT OF
NEW HANOVER COUNTY PARTNERSHIP FOR CHILDREN
WILMINGTON, NORTH CAROLINA
FOR THE YEAR ENDED JUNE 30, 2002

BOARD OF DIRECTORS

PATRICIA C. CARRIKER, BOARD CHAIR

ADMINISTRATIVE OFFICER

JANET NELSON, EXECUTIVE DIRECTOR



Ralph Campbell, Jr.
State Auditor

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Office of the State Auditor

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AUDITOR'S TRANSMITTAL

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

This report presents the results of our financial statement audit of the New Hanover County Partnership for Children (New Hanover Partnership) for the year ended June 30, 2002. Our audit was made by authority of Article 5A of G.S. §147.

The accounts and operations of the New Hanover 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 New Hanover 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 New Hanover Partnership is one of these local partnerships. As such, the New Hanover 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 - Our tests disclosed no instances of noncompliance that require disclosure herein under *Government Auditing Standards*.

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

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

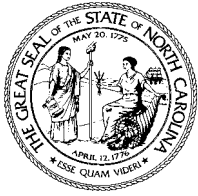
North Carolina General Statutes require the State Auditor to make audit reports available to the public. Copies of audit reports issued by the Office of the State Auditor may be obtained through one of the options listed in the back of this report.



Ralph Campbell, Jr.
State Auditor

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
New Hanover County Partnership for Children
Wilmington, North Carolina

We have audited the accompanying Statement of Receipts, Expenditures, and Net Assets - Regulatory Basis of the New Hanover County Partnership for Children (New Hanover 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 New Hanover Partnership's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets of the New Hanover 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 August 30, 2002 on our consideration of the New Hanover 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 New Hanover 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.

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

Ralph Campbell, Jr.
State Auditor

August 30, 2002

New Hanover County 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 \$29,764)	\$ 1,414,169	\$ 0	\$ 0	\$ 1,414,169
Private Contributions		92,468	129,603	222,071
Special Fund Raising Events		373		373
Interest and Investment Earnings		4,471		4,471
Sales Tax Refunds		4,198		4,198
Other Receipts		3,669		3,669
Total Receipts	1,414,169	105,179	129,603	1,648,951
Net Assets Released from Restrictions:				
Satisfaction of Program Restrictions		73,226	(73,226)	
	1,414,169	178,405	56,377	1,648,951
Expenditures:				
Programs:				
Child Care and Education Quality	680,250	9,020		689,270
Child Care and Education Accessibility and Availability	41,401			41,401
Child Care and Education Affordability		549		549
Health and Safety	123,482	164,188		287,670
Family Support	275,671	2,427		278,098
Support:				
Management and General	210,982	1,492		212,474
Program Evaluation	58,744			58,744
Other:				
Sales Tax Paid		3,961		3,961
Refund of Prior Year Grant		940		940
Total Expenditures	1,390,530	182,577		1,573,107
Excess of Receipts Over Expenditures	23,639	(4,172)	56,377	75,844
Net Assets at Beginning of Year	30,341	20,005	73,226	123,572
Net Assets at End of Year	\$ 53,980	\$ 15,833	\$ 129,603	\$ 199,416
Net Assets Consisted of:				
Cash and Cash Equivalents	\$ 49,276	\$ 15,833	\$ 129,603	\$ 194,712
Refunds Due From Contractors	4,704			4,704
	\$ 53,980	\$ 15,833	\$ 129,603	\$ 199,416

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

***New Hanover County 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	Services/ Contracts/ Grants	Participant Training Expenditures
Smart Start Fund:									
Programs:									
Child Care and Education Quality	\$ 680,250	170,852	2,243	3,817	17,872	33,581		451,885	
Child Care and Education Accessibility and Availability	\$ 41,401							41,401	
Health and Safety	\$ 123,482				(50)			123,532	
Family Support	\$ 275,671	102,658	4,515	10,829	19,059	14,698	649	123,263	
	\$ 1,120,804	\$ 273,510	\$ 6,758	\$ 14,646	\$ 36,881	\$ 48,279	\$ 649	\$ 740,081	\$ 0
Support:									
Management and General	\$ 210,982	149,797	18,581	3,762	12,121	24,423	2,298		
Program Evaluation	\$ 58,744	49,050	487	655	2,577	5,975			
	\$ 269,726	\$ 198,847	\$ 19,068	\$ 4,417	\$ 14,698	\$ 30,398	\$ 2,298	\$ 0	\$ 0
Total Smart Start Fund Expenditures	\$ 1,390,530	\$ 472,357	\$ 25,826	\$ 19,063	\$ 51,579	\$ 78,677	\$ 2,947	\$ 740,081	\$ 0
Other Funds:									
Programs:									
Child Care and Education Quality	\$ 9,020		1,401	405	192	784	1,964	4,274	
Child Care and Education Affordability	\$ 549			103	446				
Health and Safety	\$ 164,188							164,188	
Family Support	\$ 2,427		1,982				445		
	\$ 176,184	\$ 0	\$ 3,383	\$ 508	\$ 638	\$ 784	\$ 2,409	\$ 168,462	\$ 0
Support:									
Management and General	\$ 1,492	\$ 0	\$ 129	\$ 23	\$ 1,220	\$ 120	\$ 0	\$ 0	\$ 0
Other:									
Sales Tax Paid	\$ 3,961			3,961					
Refund of Prior Year Grant	\$ 940					940			
	\$ 4,901	\$ 0	\$ 0	\$ 3,961	\$ 0	\$ 940	\$ 0	\$ 0	\$ 0
Total Other Funds Expenditures	\$ 182,577	\$ 0	\$ 3,512	\$ 4,492	\$ 1,858	\$ 1,844	\$ 2,409	\$ 168,462	\$ 0

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

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

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

- A. Organization and Purpose** - The New Hanover County Partnership for Children (New Hanover Partnership) is a legally separate nonprofit organization incorporated on April 18, 1995. The New Hanover Partnership was established to develop and provide, through public and private means, early childhood education and developmental services for children and families. The New Hanover 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 New Hanover Partnership's Board of Directors is responsible. Pursuant to the provisions of Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-For-Profit Organizations*, the accompanying financial statements present information according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. As permitted by this Statement, temporarily restricted contributions received and expended in the same year are reported as unrestricted receipts rather than as temporarily restricted receipts.

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

The New Hanover 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.

- D. Cash and Cash Equivalents** – This classification appears on the Statement of Receipts, Expenditures, and Net Assets –Regulatory Basis and includes cash on deposit with private bank accounts.
- E. Refunds Due From Contractors** - Refunds due from contractors represent the unexpended amount of advances to contractors at year-end that are to be refunded back to the State. As recoveries are collected, the receivable balance is reduced. Payments to the State for the recovered advances are recorded as a reduction to the state awards balance.
- F. 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 New Hanover Partnership are deposited with a commercial bank and insured by the Federal Deposit Insurance Corporation (FDIC) up to \$100,000. Deposits over this amount subjects the New Hanover Partnership to a concentration of credit risk. At June 30, 2002, the New Hanover Partnership's bank deposits in excess of the FDIC insured limit was \$125,645.

NOTE 3 - FUNDING FROM GRANT AWARDS

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

The New Hanover Partnership was awarded and has received \$1,443,933 under current year Smart Start contracts with NCPC. The unexpended balances of the contracts are subject to reversion to the State. The Partnership has returned \$52,354 of these contracts 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 New Hanover Partnership are representative of various organizations that benefit from actions taken by the Board. It is the policy of the New Hanover 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.

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, salary supplements, health/safety training for child care professionals, behavior intervention, child care data - workforce studies, learning materials and teaching aids, curriculum enhancements, and community planning for school readiness.

Child Care and Education Accessibility and Availability - Used to account for service activities including inclusion support and increasing child care availability.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Child Care and Education Affordability - Used to account for service activities including child care cost supports (DCD) and supplements for quality.

Health and Safety - Used to account for service activities including vision screenings, prenatal/newborn services, child care health consultants/outreach nurses, comprehensive health support, and special needs – specialized therapy.

Family Support - Used to account for service activities including ongoing parenting education, general family support, and community outreach.

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.

C. Allocation of Joint Costs

Expenditures benefiting more than one purpose were allocated as follows:

Salaries and Benefits - Allocated based on employee time reports.

Other Costs - Other costs including occupancy cost (rent, utilities and maintenance), supplies and materials, and communication costs (telephone and printing) were allocated based on estimates of utilization.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 6 - LEASE OBLIGATIONS

- A. 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	\$ 65,526
2004	65,636
2005	67,605
2006	<u>40,118</u>
Total Minimum Lease Payments	\$ <u>238,885</u>

Rental expense for all operating leases during the year was \$71,133.

- B. Capital Lease Obligations** - Capital lease obligations relating to telephone system equipment are recorded at the present value of the minimum lease payments. Future minimum lease payments under capital lease obligations consist of the following at June 30, 2002:

<u>Fiscal Year</u>	<u>Capital Leases</u>
2003	<u>\$ 2,754</u>

NOTE 7 - PENSION PLAN

IRC Section 403(b) Plan - 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 these plans are the responsibility of the Plan participants. The New Hanover Partnership contributes a dollar for dollar match up to 6% of each employee's contribution. For the year ended June 30, 2002, the New Hanover Partnership contributed \$16,159 for pension benefits and the voluntary contributions by employees totaled \$20,734.

NOTES TO THE FINANCIAL STATEMENT (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:

<u>Purpose</u>	<u>Amount</u>
Asthma Management Program	\$ 14,979
Latino (ESL) Program	4,030
Navigator Program	96,059
Share the Care	<u>14,535</u>
	<u>\$ 129,603</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:

<u>Purpose</u>	<u>Amount</u>
Maternity Outreach Worker Program	\$ 23,226
Navigator Program	<u>50,000</u>
	<u>\$ 73,226</u>

***New Hanover 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
AAI Learning Center	*	4,500			
American Red Cross, Cape Fear Chapter		25,440	(1,290)		
Child Care Services Association		4,168			
New Hanover County Community Action, Inc.	*	28,544	(23)		
New Hanover County Health Department	*	196,863		164,188	
New Hanover County Public Library	*	108,056			
Noah's Ark Children Center	*	4,500			
Planned Parenthood of the Capital and Coast, Inc.		119,720	(806)		
Southeastern Center for MH/DD/SA	*	90,413	(2,585)		
Trinity United Methodist Church		12,880			
United Cerebral Palsy Child Development Center	*	81,560		1,108	
Various Daycare Providers		44,791		266	
		\$ 721,435	\$ (4,704)	\$ 165,562	\$ 0
Individuals:					
Latino Support Services		4,350			
Scholarships/ Bonus Awards		19,000		2,900	
		\$ 23,350	\$ 0	\$ 2,900	\$ 0
		\$ 744,785	\$ (4,704)	\$ 168,462	\$ 0
* These organizations are represented on the Partnership's Board as described in Note 4 - Service Provider Contracts with Board Member Organizations.					

***New Hanover County 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			147,680	\$ 147,680
National Society to Prevent Blindness - North Carolina Affiliate		38,550		\$ 38,550
New Hanover County Department of Social Services	*		978,694	\$ 978,694
		\$ 38,550	\$ 1,126,374	\$ 1,164,924
* 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				

<i>New Hanover County Partnership for Children</i>			
<i>Schedule of State Awards - Regulatory Basis</i>			
<i>For the Year Ended June 30, 2002</i>			<i>Schedule 3</i>
State Grantor/Pass-through Grantor/Program	Contract #	Receipts	Expenditures
State Awards:			
North Carolina Department of Health and Human Services			
Division of Child Development			
Pass-through from the North Carolina Partnership for			
Children, Inc.			
Early Childhood Initiatives Program (Prior Year)	1-01-3-03-001	\$ (29,764)	\$ (1,048)
Early Childhood Initiatives Program (Current Year)	1-12-3-03-001 *	1,439,765	1,387,410
Early Childhood Initiatives Program (Encumbrance)	1-01-3-03-001E	4,168	4,168
Total State Awards		\$ 1,414,169	\$ 1,390,530

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

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

Schedule 4

	Furniture and Non-Computer Equipment	\$	31,760	
	Computer Equipment/Printers		42,693	
	Leasehold Improvements		83,590	
	Total Property and Equipment	\$	158,043	
Note: The information on this schedule provides a summary of property and equipment with acquisition or donated cost of \$500 or more which were held by the Partnership at year end. On the regulatory basis of accounting, these items are expensed in the year of purchase.				

***New Hanover 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:

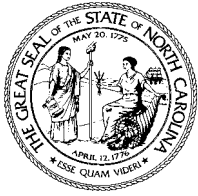
Cash	\$	222,549
In-Kind Goods and Services		36,800
	\$	259,349

Match Provided at the Contractor Level:

Cash	\$	208,363
In-Kind Goods and Services		139,000
	\$	347,363

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.

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Ralph Campbell, Jr.
State Auditor

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

Board of Directors
New Hanover County Partnership for Children
Wilmington, North Carolina

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

Compliance

As part of obtaining reasonable assurance about whether the New Hanover 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 New Hanover Partnership's internal control over financial reporting in order to determine our auditing procedures for the purposes of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material

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

in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

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

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

Ralph Campbell, Jr.
State Auditor

August 30, 2002

DISTRIBUTION OF AUDIT REPORT

In accordance with G.S. § 147-64.5 and G.S. § 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

Ms. Karen Ponder

Governor of North Carolina
Lieutenant Governor of North Carolina
State Treasurer
Attorney General
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October 2, 2002

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