

**FINANCIAL STATEMENT AUDIT REPORT OF
RANDOLPH COUNTY PARTNERSHIP FOR CHILDREN
ASHEBORO, NORTH CAROLINA
FOR THE YEAR ENDED JUNE 30, 2002**

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

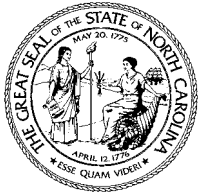
FINANCIAL STATEMENT AUDIT REPORT OF
RANDOLPH COUNTY PARTNERSHIP FOR CHILDREN
ASHEBORO, NORTH CAROLINA
FOR THE YEAR ENDED JUNE 30, 2002

BOARD OF DIRECTORS

REID POLLARD, CHAIRMAN

ADMINISTRATIVE OFFICER

PAULINE A. McKEE, 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, Randolph County Partnership for Children

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

The audit of the Randolph County Partnership for Children was made in conjunction with the Early Childhood Initiatives (Smart Start) program authorized by G.S. 143B-168.10-.16. This statute created the North Carolina Partnership for Children, Inc. and required the implementation of local partnerships. The Randolph County Partnership for Children is one of these local partnerships. As such, the Randolph County Partnership for Children is a private nonprofit 501(c)(3) organization and is required by G.S. 143B-168.14 to have an annual financial and compliance audit conducted by the State Auditor. The State Auditor's authority to perform or co-ordinate 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 cursive script that reads "Ralph Campbell, Jr.".

Ralph Campbell, Jr.
State Auditor

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Randolph County Partnership for Children
Asheboro, North Carolina

We have audited the accompanying Statement of Receipts, Expenditures, and Net Assets--Regulatory Basis of the Randolph County Partnership for Children (Randolph 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 Randolph 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 Randolph 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 February 6, 2003 on our consideration of the Randolph Partnership's internal control over

INDEPENDENT AUDITORS' REPORT (CONCLUDED)

financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with the independent auditors' report in considering the results of our audit.

Our audit was made for the purpose of forming an opinion on the basic financial statements of the Randolph 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.

February 6, 2003

Crisp Hughes Evans LLP

RANDOLPH 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>Temporarily</u>	
	<u>Smart Start</u>	<u>Other</u>	<u>Restricted</u>	<u>Total</u>
	<u>Fund</u>	<u>Funds</u>	<u>Funds</u>	<u>Funds</u>
Receipts:				
State Awards (Less Refunds of \$24,814)	\$ 1,420,177	\$ 6,615	\$ -	\$ 1,426,792
Private Contributions	-	42,076	25,020	67,096
Interest and Investment Earnings	-	568	-	568
Sales Tax Refunds	-	6,263	-	6,263
Other Receipts	876	-	-	876
Total Receipts	<u>1,421,053</u>	<u>55,522</u>	<u>25,020</u>	<u>1,501,595</u>
Net Assets Released From Restrictions:				
Satisfaction of Program Restrictions	-	79,661	(79,661)	-
	<u>1,421,053</u>	<u>135,183</u>	<u>(54,641)</u>	<u>1,501,595</u>
Expenditures:				
Programs:				
Child Care and Education Quality	354,405	1,693	-	356,098
Child Care and Education Affordability	377,338	-	-	377,338
Health and Safety	236,664	-	-	236,664
Family Support	67,055	-	-	67,055
Success by 6	-	56,072	-	56,072
Support:				
Management and General	221,807	12,765	-	234,572
Program Evaluation	51,987	-	-	51,987
Program Coordination	55,972	-	-	55,972
Other:				
Sales tax paid	-	4,984	-	4,984
Total Expenditures	<u>1,365,228</u>	<u>75,514</u>	<u>-</u>	<u>1,440,742</u>
Excess of Receipts Over (Under)				
Expenditures	55,825	59,669	(54,641)	60,853
Net Assets at Beginning of Year	<u>24,622</u>	<u>(48,326)</u>	<u>104,770</u>	<u>81,066</u>
Net Assets at End of Year	<u>\$ 80,447</u>	<u>\$ 11,343</u>	<u>\$ 50,129</u>	<u>\$ 141,919</u>
Net Assets Consisted of:				
Cash on Deposit	\$ 32,591	\$ 11,343	\$ 50,129	\$ 94,063
Refunds Due From Contractors	<u>47,856</u>	<u>-</u>	<u>-</u>	<u>47,856</u>
	<u>\$ 80,447</u>	<u>\$ 11,343</u>	<u>\$ 50,129</u>	<u>\$ 141,919</u>

The accompanying notes are an integral part of these statements.

**RANDOLPH 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	\$ 354,405	\$ 53,849	\$ 14,767	\$ 8,761	\$ 18,847	\$ 14,351	\$ 15,187	\$ 228,643
Child Care and Education Affordability	377,338	-	18,947	2,807	3,973	371	-	351,240
Health and Safety	236,664	-	-	-	-	-	-	236,664
Family Support	67,055	3,992	6,762	637	3,852	415	472	50,925
Support:								
Management and General	221,807	127,901	31,986	7,428	19,123	35,369	-	-
Program Evaluation	51,987	39,157	10,606	173	1,431	381	239	-
Program Coordination	55,972	44,787	8,038	145	2,498	504	-	-
Total Smart Start Fund Expenditures	\$1,365,228	\$ 269,686	\$ 91,106	\$ 19,951	\$ 49,724	\$ 51,391	\$ 15,898	\$ 867,472
Other Funds:								
Programs:								
Child Care and Education Quality	\$ 1,693	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,693
Success by 6	56,072	-	-	-	-	-	-	56,072
Support:								
Management and General	12,765	-	10,420	1,339	978	28	-	-
Other:								
Sales tax paid	4,984	-	-	4,984	-	-	-	-
Total Other Funds Expenditures	\$ 75,514	\$ -	\$ 10,420	\$ 6,323	\$ 978	\$ 28	\$ -	\$ 57,765

The accompanying notes are an integral part of these statements.

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

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

- A. Organization and Purpose** - The Randolph County Partnership for Children (Randolph Partnership) is a legally separate nonprofit organization incorporated on August 27, 1998. The Randolph Partnership was established to develop and provide, through public and private means, early childhood education and developmental services for children and families. The Randolph 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 Randolph 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 Randolph Partnership did not have any permanently restricted net assets at June 30, 2002.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

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.

E. 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 Randolph Partnership are deposited with one commercial bank and insured by the Federal Deposit Insurance Corporation (FDIC) up to \$100,000. Deposits over this amount subject the Randolph Partnership to a concentration of credit risk. At June 30, 2002, the Randolph Partnership's bank deposit in excess of the FDIC insured limit was \$37,729.

NOTE 3 - FUNDING FROM GRANT AWARDS

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

Associated with these contracts, the Randolph 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 Randolph 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/or DHHS is presented on Schedule 2 accompanying the financial statements.

The Randolph Partnership was awarded and has received \$1,439,606 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 \$74,822

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

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

B. Other Related Parties - The Partnership's Chairman of the Board of Directors is the President and CEO of the local bank with which the Partnership maintains its deposits, as well as its mortgage (described in Note 6).

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, child care resource and referral salary supplements, and health insurance benefits for child care providers.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Child Care and Education Affordability - Used to account for service activities including: childcare subsidy administration (DCD), public pre-K classes, and child care supports (DCD).

Health and Safety - Used to account for service activities including: prenatal/newborn services and child care health consultants/outreach nurses.

Family Support - Used to account for service activities including: teen parent/child program and general family support.

Success by 6 - A United Way early childhood initiative that promotes the development of local strategies to assist young children to be ready to succeed by the age of six.

B. Support Functions

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

Program Evaluation - Expenditures that are incurred to monitor the performance of service providers as to the delivery of services and adherence to the specific terms and conditions of the contracts.

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

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 utilization data.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 6 - COMMITMENTS AND CONTINGENCIES

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

<u>Fiscal Year</u>	<u>Operating Leases</u>
2003	\$ 4,468
2004	2,484
2005	<u>1,563</u>
Total Minimum Lease Payments	<u>\$ 8,515</u>

Rental expenditures for all operating leases during the year was \$5,420.

- B. Capital Lease Obligations** - Capital lease obligations relating to computer equipment are recorded on Schedule 4 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	\$ 444
2004	444
2005	444
2006	<u>333</u>
Total Minimum Lease Payments	<u>\$ 1,665</u>

- C. Loan Commitment** - The Randolph Partnership has a note with a balance of \$44,141 at June 30, 2002 that is secured by the Partnership's offices and payable to Randolph Bank and Trust company in quarterly installments of \$1,810. This amount includes principal and interest computed at an annual rate of 5.63%

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

<u>Fiscal Year</u>	<u>Principal Amount</u>	<u>Interest Amount</u>
2003	\$ 4,829	\$ 2,411
2004	5,096	2,143
2005	5,401	1,838
2006	5,716	1,526
2007	6,048	1,190
2008 and beyond	<u>17,051</u>	<u>1,398</u>
Total Minimum Lease Payments	\$ <u>44,141</u>	\$ <u>10,506</u>

NOTE 7 - PENSION PLAN

IRC Section 403(b) - The Randolph Partnership has a defined contribution plan covering all employees. Each full-time employee of the Randolph Partnership, as a condition of employment, is provided an individual annuity through an outside insurance company. The Randolph Partnership contributed 10% of gross wages for the year ended June 30, 2002. The Randolph Partnership does not own the annuities nor is it liable for any other cost other than the required contribution.

For the year ended June 30, 2002, the Randolph Partnership had a total payroll of \$215,368 of which only a portion was covered under the plan. The Partnership contributed \$1,175 for pension benefits during the year. The voluntary contributions by employees amounted to \$1,719 during the year ended June 30, 2002.

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>
Success By Six - United Way	\$ 25,109
Liberty Early Childhood Center	<u>25,020</u>
	<u><u>\$ 50,129</u></u>

NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

- 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>
Success By Six - United Way	<u>\$ 79,661</u>

**RANDOLPH 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
Asheboro City Schools--Early Childhood Development Center	* \$ 150,386	\$ (1,202)	\$ -	\$ -
Child Care Services Association--WAGES	-	-	1,693	-
Hopewell United Methodist Church	19,186	(2,804)	-	-
Randolph Community College	* 185,526	(16,797)	-	-
Randolph Cooperative Extension	* 40,382	(5,840)	-	-
Randolph Health Department	* 245,290	(8,625)	-	-
Randolph County Schools	-	-	56,072	-
Randolph County Schools--Liberty Elementary	131,657	(11,596)	-	-
Randolph County Schools--Randleman Elementary	23,954	(362)	-	-
Randolph County Schools--Southmont Elementary	59,395	(630)	-	-
Various Day Care Organizations	59,552	-	-	-
	\$ 915,328	\$ (47,856)	\$ 57,765	\$ -

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

See Independent Auditors' Report.

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

SCHEDULE 2

Organization Name	DHHS Contracts
Child Care Services Association - WAGE\$ Program	\$ 105,236
Randolph County Department of Social Services	* 748,000
	\$ 853,236

- * These organizations are represented on the Partnership's Board as described in Note 4A - 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.

**RANDOLPH 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)	*1-01-5-25-001	\$ (19,429)	\$ 399
Early Childhood Initiatives Program (Current Year)	*1-12-5-25-001	1,439,606	1,364,829
Multi-County Accounting and Contract Grant (Prior Year)	-	(5,385)	-
Multi-County Accounting and Contract Grant (Current Year)	-	<u>12,000</u>	<u>8,939</u>
Total State Awards		\$ <u>1,426,792</u>	\$ <u>1,374,167</u>

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

See Independent Auditors' Report.

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

SCHEDULE 4

Furniture and Non-Computer Equipment	\$ 9,388
Computer Equipment/Printers	25,725
Buildings	168,177
Leasehold Improvements	<u>8,367</u>
Total Property and Equipment	\$ <u><u>211,657</u></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.

**RANDOLPH 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	\$ 67,096
In-Kind Goods and Services	<u>10,474</u>
	\$ <u><u>77,570</u></u>

Match Provided at the Contractor Level:

Cash	\$ 219,055
In-Kind Goods and Services	<u>138,562</u>
	\$ <u><u>357,617</u></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
Randolph County Partnership for Children
Asheboro, North Carolina

We have audited the financial statements of the Randolph County Partnership for Children (Randolph Partnership) as of and for the year ended June 30, 2002, and have issued our report thereon dated February 6, 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 Randolph 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 Randolph 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.

February 6, 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.

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

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

Ms. Karen Ponder

LEGISLATIVE BRANCH

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Senator Charlie Albertson
Senator Kever M. Clark
Senator Daniel G. Clodfelter
Senator Walter H. Dalton
Senator James Forrester
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Senator Wilbur P. Gulley
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