



# STATE OF NORTH CAROLINA

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

**OFFICE OF THE STATE AUDITOR**

**RALPH CAMPBELL, JR.**

**STATE AUDITOR**

**FINANCIAL STATEMENT AUDIT REPORT OF  
PARTNERSHIP FOR CHILDREN OF JOHNSTON COUNTY, INC.**

**SELMA, NORTH CAROLINA**

**FOR THE YEAR ENDED JUNE 30, 2002**

**BOARD OF DIRECTORS**

**DR. JAMES CAUSBY, BOARD CHAIR**

**ADMINISTRATIVE OFFICER**

**NANCY THOMAS, EXECUTIVE DIRECTOR**



Ralph Campbell, Jr.  
State Auditor

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Office of the State Auditor

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**AUDITOR'S TRANSMITTAL**

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

This report presents the results of our financial statement audit of the Partnership for Children of Johnston County, Inc. (Johnston 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 Johnston 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 Johnston Partnership was made in conjunction with the Early Childhood Initiatives (Smart Start) program authorized by General Statutes 143B-168.10-.16. These statutes created the North Carolina Partnership for Children, Inc. and required the implementation of local demonstration projects (local partnerships). The Johnston Partnership is one of these local partnerships. As such, the Johnston Partnership is a private nonprofit 501(c)(3) organization and is required by General Statute 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.

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

**Results** - The following instance of noncompliance was detected:

## AUDITOR'S TRANSMITTAL (CONCLUDED)

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### **Finding**

#### Compliance with Contract Provisions

This matter is described in the Independent Auditor's Report on Compliance and on Internal Control over Financial Reporting and the Audit Findings and Recommendations section of this report.

- 3. Objective** - Present significant deficiencies, if any, in internal control over financial reporting which could adversely affect the Johnston 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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Ralph Campbell, Jr.  
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**INDEPENDENT AUDITOR'S REPORT**

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Board of Directors  
Partnership for Children of Johnston County, Inc.  
Selma, North Carolina

We have audited the accompanying Statement of Receipts, Expenditures, and Net Assets - Regulatory Basis of the Partnership for Children of Johnston County, Inc. (Johnston 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 Johnston 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 Partnership for Children of Johnston County, Inc. as of June 30, 2002, and the results of its operations for the year then ended, on the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 21, 2003 on our consideration of the Johnston 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)

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Our audit was made for the purpose of forming an opinion on the basic financial statements of the Partnership for Children of Johnston County, Inc. 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.



Ralph Campbell, Jr.  
State Auditor  
March 21, 2003

**Partnership for Children of Johnston County, Inc.**  
**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		
<b>Receipts:</b>				
State Awards (less refunds of \$20,447)	\$ 1,422,005	\$ 12,000	\$ 0	\$ 1,434,005
Local Awards		1,710	14	1,724
Private Contributions		3,585		3,585
Special Fund Raising Events		408		408
Interest and Investment Earnings		1,381		1,381
Sales Tax Refunds		11,632		11,632
Other Receipts		97,263		97,263
<b>Total Receipts</b>	<b>1,422,005</b>	<b>127,979</b>	<b>14</b>	<b>1,549,998</b>
<b>Expenditures:</b>				
Programs:				
Child Care and Education Quality	838,530	15,425		853,955
Child Care and Education Affordability	71,071			71,071
Health and Safety	30,817	3,225		34,042
Family Support	227,073	3,522		230,595
Support:				
Management and General	170,130	87,816		257,946
Program Evaluation	17,859			17,859
Program Coordination	48,980			48,980
Other:				
Sales Tax Paid		9,916		9,916
<b>Total Expenditures</b>	<b>1,404,460</b>	<b>119,904</b>		<b>1,524,364</b>
<b>Excess of Receipts Over Expenditures</b>	<b>17,545</b>	<b>8,075</b>	<b>14</b>	<b>25,634</b>
<b>Net Assets at Beginning of Year</b>	<b>17,955</b>	<b>896</b>		<b>18,851</b>
<b>Net Assets at End of Year</b>	<b>\$ 35,500</b>	<b>\$ 8,971</b>	<b>\$ 14</b>	<b>\$ 44,485</b>
<b>Net Assets Consisted of:</b>				
Cash and Cash Equivalents	\$ 34,861	\$ 9,427	\$ 14	\$ 44,302
Refunds Due From Contractors	639			639
	35,500	9,427	14	44,941
Less: Funds Held for Others		456		456
	\$ 35,500	\$ 8,971	\$ 14	\$ 44,485

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



**Partnership for Children of Johnston County, Inc.**  
**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
<b>Smart Start Fund:</b>									
<b>Programs:</b>									
Child Care and Education Quality	\$ 838,530	197,229	2,105	19,124	41,966	1,835	34	576,237	
Child Care and Education Affordability	\$ 71,071							71,071	
Health and Safety	\$ 30,817							30,817	
Family Support	\$ 227,073	89,639	866	10,024	11,865	848	22	113,665	144
	\$ 1,167,491	\$ 286,868	\$ 2,971	\$ 29,148	\$ 53,831	\$ 2,683	\$ 56	\$ 791,790	\$ 144
<b>Support:</b>									
Management and General	\$ 170,130	129,791	9,166	4,466	18,782	4,741	3,184		
Program Evaluation	\$ 17,859							17,859	
Program Coordination	\$ 48,980	44,863	223	359	3,385	150			
	\$ 236,969	\$ 174,654	\$ 9,389	\$ 4,825	\$ 22,167	\$ 4,891	\$ 3,184	\$ 17,859	\$ 0
<b>Total Smart Start Fund Expenditures</b>	<b>\$ 1,404,460</b>	<b>\$ 461,522</b>	<b>\$ 12,360</b>	<b>\$ 33,973</b>	<b>\$ 75,998</b>	<b>\$ 7,574</b>	<b>\$ 3,240</b>	<b>\$ 809,649</b>	<b>\$ 144</b>
<b>Other Funds:</b>									
<b>Programs:</b>									
Child Care and Education Quality	\$ 15,425			11,363	1,756	45	2,261		
Health and Safety	\$ 3,225			3,195		30			
Family Support	\$ 3,522			162	2,998	131			231
	\$ 22,172	\$ 0	\$ 0	\$ 14,720	\$ 4,754	\$ 206	\$ 2,261	\$ 0	\$ 231
<b>Support:</b>									
Management and General	\$ 87,816	\$ 64,679	\$ 11,197	\$ 2,962	\$ 8,975	\$ 3	\$ 0	\$ 0	\$ 0
<b>Other:</b>									
Sales Tax Paid	\$ 9,916	\$ 0	\$ 0	\$ 9,916	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
<b>Total Other Funds Expenditures</b>	<b>\$ 119,904</b>	<b>\$ 64,679</b>	<b>\$ 11,197</b>	<b>\$ 27,598</b>	<b>\$ 13,729</b>	<b>\$ 209</b>	<b>\$ 2,261</b>	<b>\$ 0</b>	<b>\$ 231</b>

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

**PARTNERSHIP FOR CHILDREN OF JOHNSTON COUNTY, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2002**

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**NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES**

- A. Organization and Purpose** - The Partnership for Children of Johnston County, Inc. (Johnston Partnership) is a legally separate nonprofit organization incorporated on June 19, 1997. The Johnston Partnership was established to develop and provide, through public and private means, early childhood education and developmental services for children and families. The Johnston 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 Johnston 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 Johnston 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)

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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 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. 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. For the year ended, the Johnston Partnership was holding amounts withheld from employee paychecks for distribution to taxing authorities.

### NOTE 2 - DEPOSITS

All funds of the Johnston 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 Johnston Partnership to a concentration of credit risk.

The Johnston Partnership has an Automated Investment Plan to invest excess balances over an established target amount. The investment is in the bank's government securities and is not insured by the FDIC. Consequently, the Johnston Partnership bank deposits in excess of the FDIC insured limit totaled \$116,000 at June 30, 2002.

### NOTE 3 - FUNDING FROM GRANT AWARDS

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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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Associated with these contracts, the Johnston 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 Johnston 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.

The Johnston Partnership was awarded and has received \$1,442,452 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 \$34,411 of this contract to the State based on financial status reports submitted to NCPC subsequent to June 30, 2002.

The Partnership expects to receive continued funding through new Smart Start contracts with the State.

### NOTE 4 - RELATED PARTY TRANSACTIONS

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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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natural classification. Following are the services associated with the functional categories presented in the accompanying financial statements:

### A. Program Functions

**Child Care and Education Quality** - Used to account for service activities including quality enhancement grants for upgrades, child care resource and referral, professional development, salary supplements, provider training, and curriculum enhancements.

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

**Health and Safety** - Used to account for service activities including dental treatment and child care health consultants/outreach nurses.

**Family Support** - Used to account for service activities including mobile family resource center, parenting education and skills training, ongoing parenting education, 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.

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

## NOTE 6 - PENSION PLAN

A. **Retirement Plans** - The Johnston Partnership has a Simplified Employee Pension (SEP) plan covering all full-time employees. Each full-time employee of the Johnston Partnership, as a condition of employment, is

## NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

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provided an Individual Retirement Account through an outside insurance company. The Johnston Partnership contributed 7% of gross wages for the year ended June 30, 2002. The Johnston Partnership does not own the accounts nor is liable for any other cost other than the required contribution.

For the year ended June 30, 2002, the Johnston Partnership contributed \$29,918 for pension benefits during the year.

- B. 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. No costs are incurred by the Johnston Partnership. The voluntary contributions by employees amounted to \$14,091 during the year ended June 30, 2002.

### NOTE 7 - RESTRICTIONS ON NET ASSETS

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

Purpose	Amount
Parenting Classes	\$ <u>14</u>

*Partnership for Children of Johnston County, Inc.  
 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
Building Blocks Child Care and Development Center *	82,350			
Evaluation Resources	17,859			
Imagination Station	46,884	(632)		
Johnston Community College *	121,224	(1)		
Johnston County Public Health Department *	140,288			
Johnston-Lee-Harnett Community Action *	99,664			
Kiddie Kollege of Knowledge, Inc. *	11,584			
Pam's Pencil Pals Preschool, Inc. *	13,116			
Public Library of Johnston County and Smithfield *	74,249	(6)		
Various Daycares	92,598			
	<b>\$ 699,816</b>	<b>\$ (639)</b>	<b>\$ 0</b>	<b>\$ 0</b>
<i>Individuals:</i>				
Salary Supplements	<b>\$ 110,472</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 0</b>
	<b>\$ 810,288</b>	<b>\$ (639)</b>	<b>\$ 0</b>	<b>\$ 0</b>
* These organizations are represented on the Partnership's Board as described in Note 4 - Service Provider Contracts with Board Member Organizations.				

**Partnership for Children of Johnston County, Inc.**  
**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	167,255		\$ 167,255
Johnston County Department of Social Services *	607,437		\$ 607,437
National Society to Prevent Blindness - NC		55,005	\$ 55,005
	<b>\$ 774,692</b>	<b>\$ 55,005</b>	<b>\$ 829,697</b>
* 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.			



**Partnership for Children of Johnston County, Inc.**  
**Schedule of State Awards - Regulatory Basis**  
**For the Year Ended June 30, 2002**

**Schedule 3**

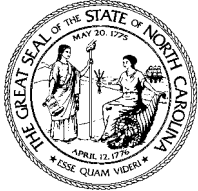
State Grantor/Pass-through Grantor/Program	Contract #	Receipts	Expenditures
<b>State Awards:</b>			
North Carolina Department of Health and Human Services			
Division of Child Development			
Pass-through from the North Carolina Partnership for Children, Inc.			
Early Childhood Initiatives Program (Prior Year)	1-90-5-15-001	\$ (412)	\$ (412)
Early Childhood Initiatives Program (Prior Year)	1-01-5-15-001	(20,035)	(2,434)
Early Childhood Initiatives Program (Current Year)	* 1-12-5-15-001	1,442,452	1,407,306
Multi-County Accounting and Contracting Grant	N/A	12,000	12,000
<b>Total State Awards</b>		<b>\$ 1,434,005</b>	<b>\$ 1,416,460</b>
* Programs with compliance requirements that have a direct and material effect on the financial statements.			

<b><i>Partnership for Children of Johnston County, Inc.</i></b>				
<b><i>Schedule of Property and Equipment</i></b>				
<b><i>For the Year Ended June 30, 2002</i></b>				<b><i>Schedule 4</i></b>
	Furniture and Non-Computer Equipment	\$	32,590	
	Computer Equipment/Printers		41,773	
	Leasehold Improvements		1,040	
	Total Property and Equipment	\$	75,403	
	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.			

**Partnership for Children of Johnston County, Inc.**  
**Schedule of Qualifying Match (Non-GAAP)**  
**For the Year Ended June 30, 2002**

**Schedule 5**

<i>Match Provided at the Partnership Level:</i>			
Cash		\$	3,585
In-Kind Goods and Services			86,749
		\$	<u>90,334</u>
<i>Match Provided at the Contractor Level:</i>			
Cash		\$	58,840
In-Kind Goods and Services			148,567
		\$	<u>207,407</u>
<p>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.</p>			



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**

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Board of Directors  
Partnership for Children of Johnston County, Inc.  
Selma, North Carolina

We have audited the financial statements of the Partnership for Children of Johnston County, Inc. (Johnston Partnership) as of and for the year ended June 30, 2002, and have issued our report thereon dated March 21, 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 Johnston 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, which are reported in the Audit Findings and Recommendations section of this report, disclosed an instance of noncompliance that is required to be reported under *Government Auditing Standards*.

**Finding**

Compliance with Contract Provisions

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Johnston 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

**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)**

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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. 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, 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  
March 21, 2003

## AUDIT FINDINGS AND RECOMMENDATIONS

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### **Matters Related to Financial Reporting**

*Current Year Findings and Recommendations* - The following finding and recommendation was identified during the current audit and represents noncompliance with laws, regulations, contracts, or grants.

#### 1. COMPLIANCE WITH CONTRACT PROVISIONS

The Johnston Partnership failed to adequately document its contract amendments with local service providers. In accordance with the terms of its contracts, all changes to the original contracts were to be incorporated in written amendments and signed by all parties. Our testwork noted that the contracts did not have written amendments to support funding increases or extension of contract periods with the local service providers.

*Recommendation:* We recommend that the Johnston Partnership comply with the provisions of its contracts and properly document all amendments to its contracts.

*Partnership's Response:* This incident occurred during a staffing transition in which contract processing duties were shifted to staff that had not historically dealt with contract processing functions. Proper and sufficient training has subsequently been provided to all staff involved with contract processing duties, and continues on a regular basis as needed. Therefore, the Partnership regrets this isolated incidence, and is confident that it will not occur again. The Johnston Partnership recognizes and accepts the responsibility to closely monitor its contracting functions to ensure appropriate processes are in place.

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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 Michael F. Easley	Governor of North Carolina
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.
	Executive Director North Carolina Partnership for Children, Inc.
Ms. Karen Ponder	

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Representative N. Leo Daughtry	N. C. House of Representatives
Mr. James D. Johnson	Director, Fiscal Research Division

May 2, 2003



## ORDERING INFORMATION

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