

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

TROY, 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
MONTGOMERY COUNTY PARTNERSHIP FOR CHILDREN, INC.

TROY, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2002

BOARD OF DIRECTORS

DOUG BEADLE, CHAIRMAN

ADMINISTRATIVE OFFICER

DEBORAH MUSIKA, EXECUTIVE DIRECTOR



Ralph Campbell, Jr.
State Auditor

STATE OF NORTH CAROLINA
**Office of the State
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AUDITOR'S TRANSMITTAL

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

This report presents the results of the financial statement audit of the Montgomery 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 Montgomery 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 Montgomery County Partnership for Children, Inc. is one of these local partnerships. As such, the Montgomery County Partnership for Children, Inc. is a private nonprofit 501(c)(3) organization and is required by G.S. 143B-168.14 to have an annual financial and compliance audit conducted by the State Auditor. The State Auditor's authority to perform or coordinate all audit functions for state government is set forth in Article 5 of Chapter 147 of the North Carolina General Statutes.

The significant Smart Start expansion authorized in the 1998 fiscal year almost doubled the related audit burden placed on the Office of the State Auditor. Therefore, the General Assembly, in its 1998-99 Expansion Budget, gave recognition to the resources needed to provide the audit oversight required by statute. Those resources incorporated a combination of permanent positions and contract funding to make the Smart Start audit effort self-sustaining.

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

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

Ralph Campbell, Jr.
State Auditor

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Montgomery County Partnership for Children
Troy, North Carolina

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

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

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

INDEPENDENT AUDITORS' REPORT (CONCLUDED)

In accordance with *Government Auditing Standards*, we have also issued our report dated March 27, 2003 on our consideration of the Montgomery 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 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 Montgomery 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, the Governor, and the General Assembly and is not intended to be, and should not be, used by anyone other than these specified parties.

March 27, 2003

Crisp Hughes Evans LLP

MONTGOMERY 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 \$2,591)	\$ 755,245	\$ 12,000	\$ -	\$ 767,245
Private Contributions	-	6,763	2,998	9,761
Special Fund Raising Events	-	1,003	-	1,003
Sales Tax Refunds	-	5,152	-	5,152
Total Receipts	<u>755,245</u>	<u>24,918</u>	<u>2,998</u>	<u>783,161</u>
Expenditures:				
Programs:				
Child Care and Education Quality	194,785	285	-	195,070
Child Care and Education Affordability	238,770	-	-	238,770
Health and Safety	77,000	2,263	-	79,263
Family Support	49,120	2,559	-	51,679
Support:				
Management and General	128,396	12,544	-	140,940
Program Evaluation	27,700	-	-	27,700
Program Coordination	41,876	-	-	41,876
Other:				
Sales Tax Paid	-	2,195	-	2,195
Total Expenditures	<u>757,647</u>	<u>19,846</u>	<u>-</u>	<u>777,493</u>
Excess of Receipts Over (Under)				
Expenditures	(2,402)	5,072	2,998	5,668
Net Assets at Beginning of Year	<u>2,591</u>	<u>806</u>	<u>-</u>	<u>3,397</u>
Net Assets at End of Year	<u>\$ 189</u>	<u>\$ 5,878</u>	<u>\$ 2,998</u>	<u>\$ 9,065</u>
Net Assets Consisted of:				
Cash on Deposit	<u>\$ 189</u>	<u>\$ 5,878</u>	<u>\$ 2,998</u>	<u>\$ 9,065</u>

The accompanying notes are an integral part of these statements.

**MONTGOMERY 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	\$ 194,785	\$ 63,455	\$ 2,006	\$ 16,551	\$ 43,518	\$ 14,591	\$ 2,066	\$ 52,598
Child Care and Education Affordability	238,770	-	-	-	-	-	-	238,770
Health and Safety	77,000	-	-	-	-	-	-	77,000
Family Support	49,120	8,116	1,889	15,862	1,805	2,468	425	18,555
Support:								
Management and General	128,396	80,738	10,801	4,106	13,945	15,691	3,115	-
Program Evaluation	27,700	21,189	194	269	3,032	2,914	102	-
Program Coordination	41,876	28,604	363	3,303	3,673	5,631	102	200
Total Smart Start Fund Expenditures	\$ 757,647	\$ 202,102	\$ 15,253	\$ 40,091	\$ 65,973	\$ 41,295	\$ 5,810	\$ 387,123
Other Funds:								
Programs:								
Child Care and Education Quality	\$ 285	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 285	\$ -
Health and Safety	2,263	-	2,263	-	-	-	-	-
Family Support	2,559	-	-	1,310	1,249	-	-	-
Support:								
Management and General	12,544	-	12,000	-	184	225	135	-
Other:								
Sales Tax Paid	2,195	-	-	2,195	-	-	-	-
Total Other Funds Expenditures	\$ 19,846	\$ -	\$ 14,263	\$ 3,505	\$ 1,433	\$ 225	\$ 420	\$ -

The accompanying notes are an integral part of these statements.

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

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

- A. Organization and Purpose** - The Montgomery County Partnership for Children (Montgomery Partnership) is a legally separate nonprofit organization incorporated on October 4, 1994. The Montgomery Partnership was established to develop and provide, through public and private means, early childhood education and developmental services for children and families. The Montgomery 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 Montgomery 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 Montgomery 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. 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 Montgomery 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 Montgomery Partnership to a concentration of credit risk. At June 30, 2002, the Montgomery Partnership's bank deposits in excess of the FDIC insured limit was \$16,460.

NOTE 3 - FUNDING FROM GRANT AWARDS

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

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

The Montgomery Partnership was awarded and has received \$705,336 under current year Smart Start contracts with NCPC. The unexpended balance of these contracts is subject to reversion to the State. The Partnership has returned \$189 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 4 - RELATED PARTY TRANSACTIONS

Service Provider Contracts with Board Member Organizations - The board members of the Montgomery Partnership are representative of various organizations that benefit from actions taken by the Board. It is the policy of the Montgomery 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 child care resource and referral, professional development, salary supplements, learning materials and teaching aids, or needs and resources assessment-child care.

Child Care and Education Affordability - Used to account for service activities including public pre-K classes or child care cost supports (DCD).

Health and Safety - Used to account for service activities including comprehensive dental treatment, prenatal/newborn services, or special needs-specialized therapy.

Family Support - Used to account for service activities including parent education and skills training, literacy projects, community outreach, or needs and resource assessment.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

B. Support Functions

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

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.

C. Allocation of Joint Costs

Expenditures benefiting more than one purpose were allocated as follows:

Occupancy Cost - Occupancy cost (rent, utilities and maintenance) were allocated based on utilization data.

NOTE 6 - PENSION PLAN

The Montgomery Partnership has a Simplified Employee Pension (SEP) plan covering all full-time employees. Each full-time employee of the Montgomery Partnership, as a condition of employment, is provided an Individual Retirement Account through an outside insurance company. The Montgomery Partnership contributed 12% of gross wages for the year ended June 30, 2002. The Montgomery Partnership does not own the accounts, nor is it liable for any cost other than the required contribution.

For the year ended June 30, 2002, the Montgomery Partnership had a total payroll of \$149,530, \$109,115 of which was covered under the plan. The Partnership contributed \$13,094 for pension benefits during the year.

NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

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
Parent to Parent	\$ 2,987
Safe Kids Montgomery County	<u>11</u>
	<u>\$ 2,998</u>

**MONTGOMERY 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
First Health Dental Care Center	* \$ 4,500	\$ -	\$ -	\$ -
Montgomery Community College	* 18,000	-	-	-
Montgomery County Cooperative Extension	* 17,911	-	-	-
Montgomery County Health Department	* 64,164	-	-	-
Montgomery County Schools	* 238,770	-	-	-
Sandhills Center MH/DD/SAS	* 8,336	-	-	-
Sandhills Regional Library	* 7,500	-	-	-
Individuals:				
Christine Locklear (Choices Stipend)	* 20	-	-	-
Donna Wood (Choices Stipend)	* 20	-	-	-
Doris Isenhour (Salary Supplement)	* 650	-	-	-
Laurie Trexler (Choices Stipend)	* 20	-	-	-
Mary Anne Thompson (Salary Supplement)	* 360	-	-	-
Rita Walter (Choices Stipend)	* 20	-	-	-
Shelby Rush (Choices Stipend)	* 20	-	-	-
Salary Supplements (Various Recipients)	22,038	-	-	-
Bonus and Other Awards	4,794	-	-	-
	\$ 387,123	\$ -	\$ -	\$ -

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

See Independent Auditors' Report.

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

SCHEDULE 2

Organization Name	DHHS Contracts
Montgomery County Department of Social Services	* \$ 70,000

* This organization is represented on the Partnership's Board as described in Note 4 - Service Provider Contracts with Board Member Organizations.

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

See Independent Auditors' Report.

**MONTGOMERY 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)	* 3-01-5-20-001	\$ (2,591)	\$ -
Early Childhood Initiatives Program (current year)	* 1-12-5-20-001	705,336	705,147
Early Childhood Initiatives Program (capacity building)	* 1-12-5-20-002	52,500	52,500
Multi-County Accounting and Contracting Grant	-	<u>12,000</u>	<u>12,000</u>
Total State Awards		<u>\$ 767,245</u>	<u>\$ 769,647</u>

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

See Independent Auditors' Report.

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

SCHEDULE 4

Furniture and Non-Computer Equipment	\$	29,408
Computer Equipment/Printers		34,589
Leasehold Improvements		<u>780</u>
Total Property and Equipment	\$	<u>64,777</u>

Note: The information on this schedule provides a summary of property and equipment with acquisition or donated cost of \$500 or more that 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.

**MONTGOMERY 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	\$	10,764
In-Kind Goods and Services		<u>35,115</u>
	\$	<u>45,879</u>

Match Provided at the Contractor Level:

Cash	\$	<u>73,931</u>
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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(1). 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
Montgomery County Partnership for Children
Troy, North Carolina

We have audited the financial statements of the Montgomery County Partnership for Children (Montgomery Partnership) as of and for the year ended June 30, 2002, and have issued our report thereon dated March 27, 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 Montgomery 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 Montgomery 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

**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)**

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

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

March 27, 2003

Crisp Hughes Evans LLP

DISTRIBUTION OF AUDIT REPORT

In accordance with General Statutes 147-64.5 and 147-64.6(c)(14), copies of this report have been distributed to the public officials listed below. Additional copies are provided to other legislators, state officials, the press, and the general public upon request.

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The Honorable 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
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North Carolina Partnership for Children, Inc.
Executive Director
North Carolina Partnership for Children, Inc.

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