

STATE OF NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT OF THE NORTH CAROLINA PARTNERSHIP FOR CHILDREN, INC.

RALEIGH, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2003

OFFICE OF THE STATE AUDITOR

RALPH CAMPBELL, JR.

STATE AUDITOR

FINANCIAL STATEMENT AUDIT REPORT OF
THE NORTH CAROLINA PARTNERSHIP FOR CHILDREN, INC.

RALEIGH, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2003

BOARD OF DIRECTORS

ASHLEY THRIFT, CHAIRMAN

ADMINISTRATIVE OFFICER

KAREN PONDER, EXECUTIVE DIRECTOR



Ralph Campbell, Jr.
State Auditor

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AUDITOR'S TRANSMITTAL

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

This report presents the results of our financial statement audit of The North Carolina Partnership for Children, Inc. (North Carolina Partnership), a component unit of the State of North Carolina, for the year ended June 30, 2003. Our audit was made by authority of Article 5A of Chapter 147 of the *North Carolina General Statutes*.

The accounts and operations of the North Carolina Partnership are an integral part of the State's reporting entity represented in the State's *Comprehensive Annual Financial Report* (CAFR) and the State's *Single Audit Report*. In those reports, the State Auditor expresses an opinion on the State's financial statements. In the *Single Audit Report*, the State Auditor also presents the audit results on the State's internal controls and on the State's compliance with laws, regulations, contracts, and grants applicable to the State's financial statements and to its federal financial assistance programs.

As part of the audit work necessary for the CAFR and the *Single Audit Report*, the accounts and operations of the North Carolina Partnership were subjected to audit procedures, as we considered necessary. In addition, we performed auditing procedures that we considered necessary for us to report on the accompanying financial statements that relate solely to The North Carolina Partnership for Children, Inc. 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 purpose of this report is to present the results of our audit on the accompanying financial statements that relate solely to The North Carolina Partnership for Children, Inc. A summary of our reporting objectives and audit results is:

- 1. Objective** – To express an opinion on the accompanying financial statements that relate solely to the North Carolina Partnership.

Results - The accompanying financial statements present fairly, in all material respects, the amounts and disclosures made in accordance with accounting principles generally accepted in the United States of America. These matters are more fully described in the Independent Auditor's Report on the Financial Statements.

AUDITOR'S TRANSMITTAL (CONCLUDED)

2. **Objective** – To present significant deficiencies, if any, in internal control over financial reporting which could adversely affect the North Carolina Partnership's ability to record, process, summarize, and report financial data in the financial statements and present instances of noncompliance, if any, with laws, regulations, contracts or grants.

Results - Our tests disclosed no material weaknesses in internal control over financial reporting and no instances of noncompliance which require disclosure herein under *Government Auditing Standards*. These matters are more fully described in the Independent Auditor's Report on Compliance and Internal Control over Financial Reporting.

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

Board of Directors
The North Carolina Partnership for Children, Inc.
Raleigh, North Carolina

We have audited the accompanying basic financial statements of The North Carolina Partnership for Children, Inc. (North Carolina Partnership), a component unit of the State of North Carolina, as of and for the year ended June 30, 2003, as listed in the table of contents. These financial statements are the responsibility of the North Carolina 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The North Carolina Partnership for Children, Inc. as of June 30, 2003, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 12, 2004 on our consideration of the North Carolina 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)

The Management's Discussion and Analysis (MD&A), as listed in the table of contents, is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was made for the purpose of forming an opinion on the basic financial statements of The North Carolina Partnership for Children, 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.



Ralph Campbell, Jr.
State Auditor

March 12, 2004

MANAGEMENT'S DISCUSSION AND ANALYSIS

Introduction

The following discussion and analysis provides an overview to assist the reader in interpreting and understanding the accompanying basic financial statements. This overview includes comparative financial analysis with discussion of significant changes from the prior year, as well as, a discussion of currently known facts, decisions, and conditions. This information is provided by the North Carolina Partnership's management in conjunction with the issuance of the accompanying financial statements.

Overview of the Basic Financial Statements

The *Statement of Net Assets* provides information relative to the North Carolina Partnership's assets, liabilities, and net assets as of the last day of the fiscal year. Assets and liabilities on this statement are categorized as either current or noncurrent. Current assets are those that are available to pay for expenses in the next fiscal year. Current liabilities are those payable in the next fiscal year. Net assets on this statement are categorized as either invested in capital assets (net of related debt), restricted or unrestricted. Restricted net assets are categorized as either nonexpendable or expendable. Overall, the *Statement of Net Assets* provides information relative to the financial strength of the North Carolina Partnership and its ability to meet current and long-term obligations.

The *Statement of Revenues, Expenses, and Changes in Net Assets* provides information relative to the results of the North Carolina Partnership's operations, nonoperating activities, and other activities affecting net assets that occurred during the fiscal year. Nonoperating activities include primarily subsidies from the State of North Carolina in the form of appropriations, noncapital gifts and grants, and investment income (net of investment expenses). Other activities include capital gifts or grants. Overall the *Statement of Revenues, Expenses, and Changes in Net Assets* provides information relative to the North Carolina Partnership's management of its operations and its ability to maintain its financial strength. The above statements are articulated by agreeing the ending net asset balance reported on both statements.

The *Statement of Cash Flows* provides information relative to the North Carolina Partnership's sources and uses of cash funds for operating activities, noncapital financing activities, capital financing activities, and investing activities. This statements provides a reconciliation of beginning cash balances to ending cash balances and is representative of activity reported on the *Statement of Revenues, Expenses, and Changes in Net Assets* as adjusted for changes in beginning and ending balances of noncash accounts on the *Statement of Net Assets*.

The three statements described above are the basic financial statements required by the Governmental Accounting Standards Board (GASB) accounting principles. In accordance with GASB, the financial statements are presented on the North Carolina Partnership as a whole and use reporting concepts in a manner similar to that required of a business enterprise.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

The financial statement balances reported are presented in a classified format to aid the reader in understanding the nature of the financial statement balance. These new statements were effective beginning with the 2002 fiscal year.

In using the financial statements, the *Notes to the Financial Statements* accompanying the financial statements should be read in conjunction with the financial statements. The *Notes to the Financial Statements* provide information relative to the significant accounting principles applied in the financial statements, authority for and associated risk of deposits and investments, detailed information on accounts and pledges receivable, revenues and expenses, required information on pension plans and other post employment benefits, insurance against losses, commitments and contingencies, accounting changes, and if necessary a discussion of adjustments to prior periods and events subsequent to the North Carolina Partnership's financial statement period. Overall, the *Notes to the Financial Statements* provide information to better understand details, risk, and uncertainty associated with amounts reported in the Financial Statements.

Brief Agency Highlights

The North Carolina Partnership provides statewide oversight of the Smart Start Early Childhood Initiative. The North Carolina Partnership has notably increased its ability to provide effective oversight of, and technical assistance to, the 82 local partnerships that provide the Smart Start services to families and children in their communities.

The North Carolina Partnership has received grants from several private organizations to establish a National Technical Assistance Center to assist communities and states in the development, implementation and integration of comprehensive community-based early childhood initiatives.

Analysis of Financial Position and Results of Operations

The North Carolina Partnership's net assets as of June 30, 2003 were \$6.2 million, a decrease of \$1.4 million during the year. The decrease primarily resulted from lower revenues from private contributions due to the economic downturn in recent years.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Condensed Financial Information

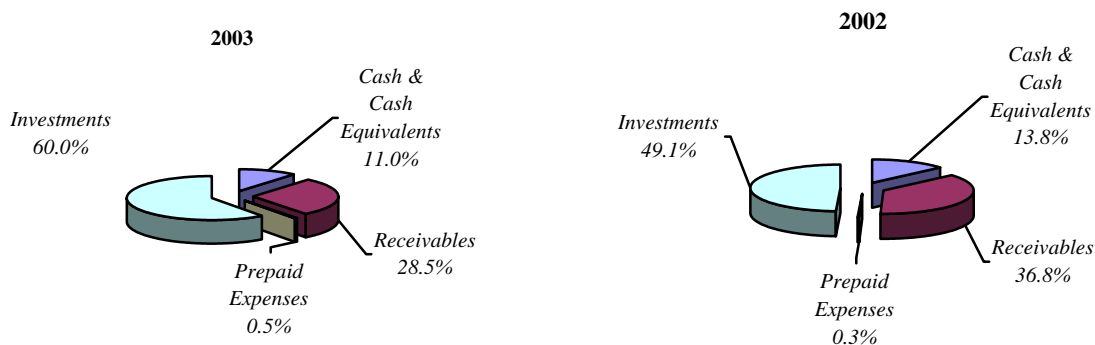
The following table summarizes the North Carolina Partnership's assets, liabilities and net assets as of June 30, 2003 and 2002.

Condensed Statements of Net Assets
June 30, 2003 and 2002
(in thousands)

	2003 Amount	2002 Amount	Percentage Change
Assets			
Current Assets	\$ 10,459	\$ 12,505	(16.4%)
Capital Assets, Net	148	240	(38.3%)
Other Noncurrent Assets	354	800	(55.8%)
Total Assets	10,961	13,545	(19.1%)
Liabilities			
Current Liabilities	4,581	5,714	(19.8%)
Noncurrent Liabilities	178	180	(1.0%)
Total Liabilities	4,759	5,894	(19.3%)
Net Assets			
Invested in Capital Assets, Net of Related Debt	148	240	(38.3%)
Restricted - Expendable	3,145	3,353	(6.2%)
Unrestricted	2,909	4,058	(28.3%)
Total Net Assets	\$ 6,202	7,651	(18.9%)

The following graphically illustrates the assets, liabilities and net assets of the North Carolina Partnership.

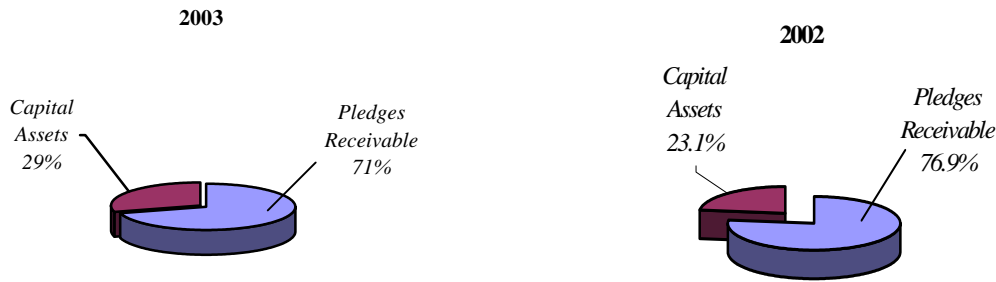
Current Assets



MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

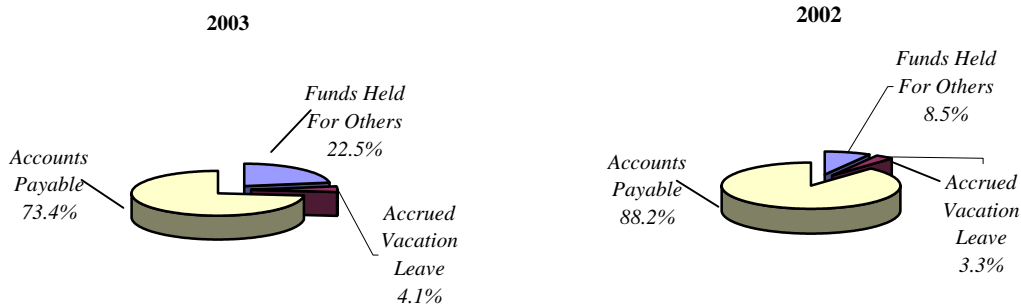
Current assets as of June 30, 2003 consisted primarily of cash and equivalents, \$1.2 million, investments, \$6.3 million, and receivables, \$3.0 million. Current assets as of June 30, 2002 consisted primarily of cash and equivalents, \$1.7 million, investments, \$6.1 million, and receivables, \$4.6 million.

Capital and Other Noncurrent Assets



Noncurrent assets as of June 30, 2003 consisted of pledges receivable, approximately \$354,000, and capital assets, approximately \$148,000. Noncurrent assets as of June 30, 2002 consisted of pledges receivable, \$800,000, and capital assets, approximately \$240,000.

Liabilities



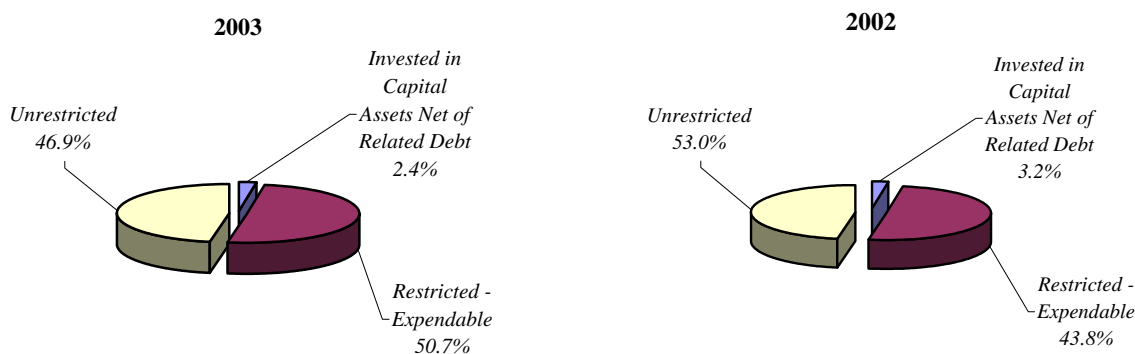
Current liabilities as of June 30, 2003 consisted primarily of accounts payable, \$3.5 million, and funds held for others, \$1.1 million. Current liabilities as of June 30, 2002 consisted primarily of accounts payable, \$5.2 million, and funds held for others, approximately \$499,000.

Noncurrent liabilities consisted entirely of accrued vacation leave in the approximate amounts of \$178,000 and \$180,000 for the fiscal years ended June 30, 2003 and 2002, respectively.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Net assets invested in capital assets, net of related debt, were \$148,000 and \$240,000 as of June 30, 2003 and 2002, respectively. Restricted expendable net assets of \$3.1 million and \$3.4 million as of June 30, 2003 and 2002, respectively, represent amounts subject to externally imposed restrictions. Unrestricted net assets of \$2.9 million and \$4 million as of June 30, 2003 and 2002, respectively, represent amounts not subject to externally imposed stipulations but were internally designated for various activities and initiatives.

Net Assets



The Statements of Revenues, Expenses, and Changes in Net Assets present the results of the North Carolina Partnership's operations for the report period. The following table summarizes the North Carolina Partnership's revenues, expenses, and changes in net assets for the years ended June 30, 2003 and 2002.

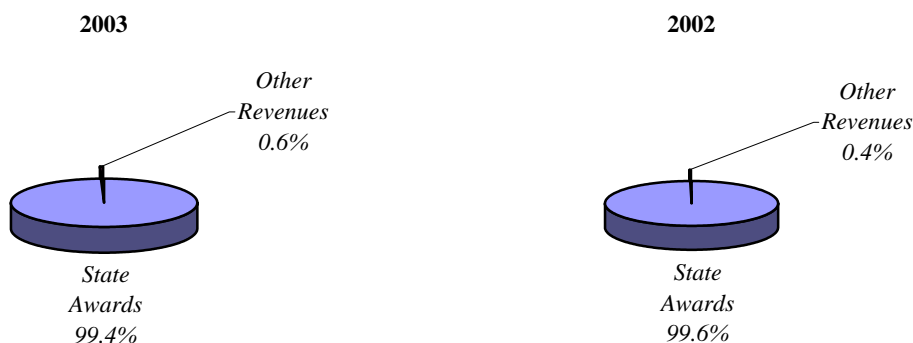
Condensed Statements of Revenues, Expenses, and Changes in Net Assets For the Fiscal Years Ended June 30, 2003 and 2002 (in thousands)

	Amount 2003	Amount 2002	Percentage Change
Operating Revenues	\$ 0	\$ 0	0%
Operating Expenses	<u>(5,987)</u>	<u>(6,502)</u>	(7.9%)
Operating Loss	<u>(5,987)</u>	<u>(6,502)</u>	(7.9%)
Nonoperating Revenues	116,052	135,675	(14.5%)
Nonoperating Expenses	<u>(111,514)</u>	<u>(131,313)</u>	(15.1%)
Decrease in Net Assets	<u>(1,449)</u>	<u>(2,140)</u>	(32.3%)
Net Assets Beginning of Year	<u>7,651</u>	<u>9,791</u>	(21.9%)
Net Assets End of Year	<u><u>6,202</u></u>	<u><u>\$ 7,651</u></u>	<u>(18.9%)</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

While the North Carolina Partnership shows operating losses, this is an expected outcome for a nonprofit entity given the recent downturn in the economy.

Nonoperating Revenues



The North Carolina Partnership has no operating revenues. For the fiscal year ended June 30, 2003, nonoperating revenues totaled \$116 million, of which State appropriations were \$115.4 million. For the fiscal year ended June 30, 2002, nonoperating revenues totaled \$135.7 million, of which State appropriations were \$135.1 million.

The following table summarizes the North Carolina Partnership's expenses (operating and nonoperating) for the reporting periods.

Operating and Nonoperating Expenses For the Fiscal Years Ended June 30, 2003 and 2002 (in thousands)

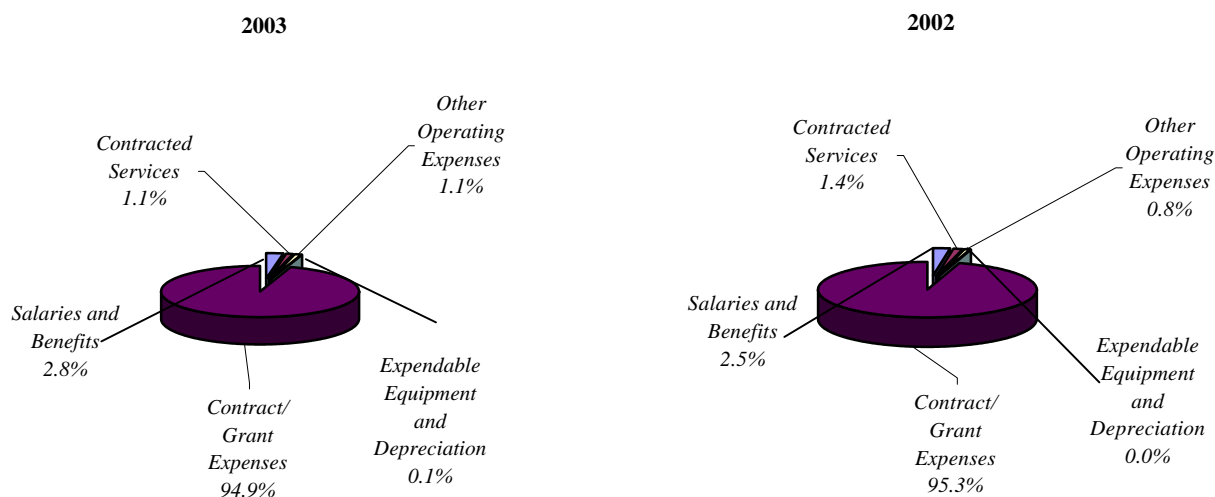
	2003 Amount	2002 Amount	Percentage Change
Operating Expenses:			
Salaries and Benefits	\$ 3,320	\$ 3,392	(2.1%)
Contracted Services	1,242	1,950	(36.3%)
Other Operating Expenses	1,269	1,143	11.0%
Expendable Equipment/Depreciation	<u>156</u>	<u>17</u>	<u>817.6%</u>
Total Operating Expenses	5,987	6,502	(7.9%)
Nonoperating Expenses:			
Contract/Grant Expenses	<u>111,514</u>	<u>\$ 131,313</u>	<u>(15.1%)</u>
Total Expenses	<u>\$ 117,501</u>	<u>\$ 137,815</u>	<u>(14.7%)</u>

Much of the activities of the North Carolina Partnership are identified as nonoperating as the primary source of funding is appropriations from the State of North Carolina. The North

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Carolina Partnership provides oversight and funding to a network of other Smart Start organizations across the State resulting in significant grant disbursements.

The following is a graphic illustration of expenses (operating and nonoperating) for the reporting periods.



The Statements of Cash Flows provide additional information about the North Carolina Partnership's financial results by reporting the major sources and uses of cash. The following table summarizes the North Carolina Partnership's cash receipts and payments for the years ended June 30, 2003 and 2002.

Condensed Statements of Cash Flows For the Fiscal Years Ended June 30, 2003 and 2002 (in thousands)

	Amount 2003	Amount 2002	Percentage Change
Cash Provided (Used) by:			
Operating Activities	\$ (4,967)	\$ (2,374)	109.2%
Noncapital Financing Activities	4,465	4,232	5.5%
Capital and Related Financing Activities		(35)	(100.0%)
Investing Activities	(67)	(1,558)	(95.7%)
Net Increase (Decrease) in Cash	(569)	265	(314.7%)
Cash - Beginning of the Year	1,719	1,454	18.2%
Cash - End of the Year	\$ 1,150	\$ 1,719	(33.1%)

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONCLUDED)

The net cash from operating activities shows net outflows of funds of \$4.9 million and \$2.4 million for the years ended June 30, 2003 and 2002, respectively. The major outflows were payments to employees for services and vendors for goods and services.

The net cash from noncapital financing activities were inflows of \$4.4 million and \$4.2 million for the years ended June 30, 2003 and 2002, respectively. As previously referenced, State appropriations, net of grants to local partnerships, account for the bulk of this inflow.

For the year ending June 30, 2003, the North Carolina Partnership had a net cash outflow of \$67,000 from investing activities. This outflow resulted from the net of investment purchases of approximately \$141,000 and investment income of approximately \$74,000. For the year ended June 30, 2002, the North Carolina Partnership had a net cash outflow from investing activities of \$1.6 million. This outflow resulted from the net of investment purchases of \$1.7 million and investment income of approximately \$130,000.

Economic Factors That Will Affect the Future

The two main factors that impact the economic outlook for the North Carolina Partnership are private contributions and State funding.

The North Carolina Partnership actively seeks private gifts to support the mission of the Smart Start initiative. Due to the economic downturn, these revenues have decreased. In addition, the budget restraints for the State of North Carolina has negatively impacted the appropriations provided to the North Carolina Partnership. It is anticipated that the outlook for the North Carolina Partnership will brighten as improvement is noted with the State's economy.

The North Carolina Partnership for Children, Inc.
Statement of Net Assets
For the Year Ended June 30, 2003

Exhibit A

ASSETS

Current Assets:

Cash and Cash Equivalents:

Petty Cash	\$ 150
Cash on Deposit	1,019,687
Short-Term Certificate of Deposit	130,237

Investment:

Money Market Fund	6,269,114
Long-Term Certificate of Deposit	12,805

Receivables:

Accounts Receivable (Note 3)	2,380,086
Pledges Receivable (Note 3)	600,000

Prepaid Expenses:	46,490
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Total Current Assets	10,458,569
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Noncurrent Assets:

Receivables:

Pledges Receivable (Note 3)	354,220
Capital Assets, net of accumulated depreciation (Note 4)	147,803

Total Noncurrent Assets	502,023
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Total Assets	10,960,592
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LIABILITIES

Current Liabilities:

Accounts Payable	1,337
Accrued Payroll	68,072
Due to the State	3,399,005
Due to Private Organizations	25,800
Funds Held for Others	1,070,087
Accrued Vacation Leave	16,974

Total Current Liabilities	4,581,275
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Noncurrent Liabilities:

Accrued Vacation Leave	177,694
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Total Liabilities	4,758,969
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NET ASSETS

Invested in Capital Assets, net of Related Debt	147,803
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Restricted for:

Expendable within Grantor Restrictions	3,144,691
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Unrestricted	2,909,129
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Total Net Assets	6,201,623
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Total Liabilities and Net Assets	\$ 10,960,592
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The accompanying notes to the financial statements are an integral part of this statement.

<i>The North Carolina Partnership for Children, Inc.</i>			
<i>Statement of Revenues, Expenses, and Changes in Net Assets</i>			
<i>For the Year Ended June 30, 2003</i>			<i>Exhibit B</i>
OPERATING REVENUES		\$	0
Operating Expenses:			
Salaries and Benefits			3,320,023
Contracted Services			1,241,764
Supplies and Materials			104,610
Other Operating Expenditures			694,298
Fixed Charges and Other Expenses			471,233
Expendable Equipment/Depreciation			156,063
Total Operating Expenses			5,987,991
Operating Loss			(5,987,991)
NONOPERATING REVENUES (EXPENSES)			
State Awards			115,367,675
Interest Earnings			73,495
Federal Awards			87,831
Private Contributions			251,844
Miscellaneous			271,622
Contract/Grant Expense			(111,513,844)
Total Nonoperating Revenues			4,538,623
Net Decrease in Net Assets			(1,449,368)
NET ASSETS			
Net Assets - July 1, 2002			7,650,991
Net Assets - June 30, 2003		\$	6,201,623
The accompanying notes to the financial statements are an integral part of this statement.			

The North Carolina Partnership for Children, Inc.
Statement of Cash Flows
For the Year Ended June 30, 2003

Exhibit C

CASH FLOWS FROM OPERATING ACTIVITIES

Receipts from Customers	\$ 2,069,211
Payments to Employees and Fringe Benefits	(3,329,823)
Payments to Vendors and Suppliers	(3,706,710)
	<hr/>
Net Cash Provided (Used) by Operating Activities	(4,967,322)

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

State Appropriations	115,367,675
Grants to Local Partnerships	(111,513,844)
Federal Awards	87,831
Private Contributions	251,844
Other Receipts	271,622
	<hr/>
Net Cash Provided by NonCapital Financing Activities	4,465,128

CASH FLOWS FROM INVESTING ACTIVITIES

Interest on Investments	73,495
Purchase of non-State Treasurer Investments	(140,388)
	<hr/>
Net Cash Used by Investing Activities	(66,893)

Net Decrease in Cash and Cash Equivalents	(569,087)
Cash and Cash Equivalents - July 1	1,719,161
	<hr/>
Cash and Cash Equivalents - June 30	\$ 1,150,074

RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES

Operating Loss	(5,987,991)
Adjustments to Reconcile Operating Income to Net Cash Flows from Operating Activities:	
Depreciation	91,815
Increase (Decrease) in Assets:	
Accounts Receivable	1,172,777
Pledges Receivable	896,434
Prepaid Expenses	(5,296)
Increase (Decrease) in Liabilities:	
Accounts Payable	(20,007)
Accrued Payroll	(11,180)
Due to the State	(1,702,477)
Due to Private Organizations	25,800
Accrued Vacation Leave	1,379
Funds Held for Others	571,424
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Total Cash Provided From (Used for) Operations	\$ (4,967,322)
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The accompanying notes to the financial statements are an integral part of this statement.

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THE NORTH CAROLINA PARTNERSHIP FOR CHILDREN, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

- A. Organization and Purpose** - The North Carolina Partnership for Children, Inc. (North Carolina Partnership) is a legally separate nonprofit organization incorporated on March 31, 1993. The North Carolina Partnership provides technical assistance and training for local Smart Start partnerships (currently 82) in the areas of program development, administration, organizational development, communication, fiscal management, technology, contracts management, and fundraising. The North Carolina Partnership adheres to a comprehensive accountability plan to ensure programs, services, and funds reach the children and families of North Carolina. The North Carolina Partnership is tax-exempt as an organization described in Section 501(c)(3) of the Internal Revenue Code.
- B. Financial Reporting Entity** – The concept underlying the definition of the financial reporting entity is that elected officials are accountable to their constituents for their actions. As required by accounting principles generally accepted in the United States of America, the financial reporting entity includes both the primary government and all of its component units. An organization other than a primary government serves as a nucleus for a reporting entity when it issues separate financial statements. The North Carolina Partnership for Children, Inc. is a component unit of the State of North Carolina and is an integral part of the State's *Comprehensive Annual Financial Report (CAFR)*.

Component units are legally separate entities for which the State is financially accountable. Accountability is defined as the State's substantive appointment of a majority of the component unit's governing board. Furthermore, the State must be able to impose its will upon the component unit or there must be a possibility that the component unit may provide specific benefits to, or impose specific financial burdens on, the State.

As required by General Statute 143B-168.12, certain elected State officials appoint twenty-two of the North Carolina Partnership's board members, while the remaining three board members serve ex officio by virtue of their State positions. The State provides significant operating subsidies to the North Carolina Partnership creating a benefit/burden relationship. Because of the State's appointment of the board and the

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

benefit/burden relationship, the North Carolina Partnership is a component unit of the State of North Carolina and the North Carolina Partnership's financial statements are included in the State's CAFR.

The accompanying financial statements present all funds for which the North Carolina Partnership's Board of Directors is responsible.

- C. Basis of Presentation** - The accompanying financial statements are presented in accordance with accounting principles generally accepted in the United States of America as prescribed by Governmental Accounting Standards Board (GASB).

Pursuant to the provisions of GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, the full scope of the North Carolina Partnership's activities is considered to be a single business-type activity and accordingly, is reported within a single column in the basic financial statements.

In accordance with GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Accounting*, the North Carolina Partnership does not apply Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989, for proprietary activities, unless the GASB amends its pronouncements to specifically adopt FASB pronouncements issued after that date.

- D. Basis of Accounting** – The financial statements of the North Carolina Partnership have been prepared using the economic resource measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned and expenses are recorded when an obligation has been incurred.

Nonexchange transactions, in which the North Carolina Partnership receives (or gives) value without directly giving (or receiving) equal value in exchange includes State appropriations, certain grants, and donations. Revenues are recognized, net of estimated uncollectible amounts, as soon as all eligibility requirements imposed by the provider have been met, if probable of collection.

- E. Cash and Cash Equivalents** – This classification appears on the Statement of Net Assets and the Statement of Cash Flows and consists of petty cash, cash on deposit with private bank accounts, cash on deposit with fiscal agents, short-term certificates of deposit, and short-term investments with the State Treasurer's Cash and Investment Pool (a governmental external investment pool). The short-term investment

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

portfolio maintained by the State Treasurer has the general characteristics of a demand deposit account in that participants may deposit and withdraw cash at any time without prior notice or penalty.

- F. Investments** - This classification includes money market funds and long-term certificates of deposit that are reported at cost, if purchased, or at fair market value or appraised value at the date of gift, if donated.
- G. Receivables and Allowance for Doubtful Accounts** – Accounts and notes receivables are shown at book value with no provision for doubtful accounts considered necessary.
- H. Prepaid Expenses** - The North Carolina Partnership records expenses allocable to future periods as prepaid expenses.
- I. Capital Assets** – Capital assets are stated at cost at date of acquisition or fair market value at date of donation in the case of gifts.

The North Carolina Partnership capitalizes assets that have a value or cost in excess of \$5,000 at the date of acquisition and an expected useful life of one or more years. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 20-50 years for buildings, 10-30 years for other structures and improvements, and 3-15 years for equipment.

- J. Restricted Assets** – Restricted assets represent assets whose use is restricted by external parties or by law through constitutional provisions or enabling legislation.
- K. Noncurrent Long-Term Liabilities** – Noncurrent long-term liabilities consist of compensated absences that will not be paid within the next fiscal year. When classifying compensated absences into current and noncurrent, leave is considered taken using a last-in, first-out method.
- L. Compensated Absences** - The North Carolina Partnership's policy is to record the cost of vacation leave when earned. The policy provides for a maximum accumulation of unused vacation leave of 30 days which can be carried forward each January 1st or for which an employee can be paid upon termination of employment.

The North Carolina Partnership has the policy of recording the cost of sick leave when taken and paid rather than when the leave is earned. The policy provides for unlimited accumulation of sick leave, but the employee cannot be compensated for any unused sick leave upon termination of employment.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

The North Carolina Partnership recognizes four separate employment types, distinguished by the expected duration of employment and the number of hours regularly worked each week. The four categories are: Regular Full-Time, Part-Time with Full Benefits, Part-Time “Time-Limited”, and Part-Time with Partial Benefits. Each employment type provides for different eligibility levels of benefits. These employment types do not alter the employment-at-will doctrine and, therefore, do not guarantee employment for any specified period of time. Benefits are subject to change from time to time, and may be reduced, modified, or terminated at the discretion of the North Carolina Partnership.

- M. Net Assets** – The North Carolina Partnership’s net assets are classified as follows:

Invested in Capital Assets Net of Related Debt – This represents the North Carolina Partnership’s total investment in capital assets, net of outstanding debt obligations related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included as a component of invested in capital assets net of related debt.

Restricted Net Assets – Expendable – Expendable restricted net assets include those resources in which the North Carolina Partnership is legally or contractually obligated to spend the resources in accordance with restrictions imposed by external parties.

Unrestricted Net Assets – Unrestricted net assets are all those not invested in capital assets or restricted by external parties.

Restricted and unrestricted resources are tracked using a fund accounting system and are spent in accordance with established fund authorities. Fund authorities provide rules for the fund activity and are separately established for restricted and unrestricted activities. When both restricted and unrestricted funds are available for expenditure, the decision for funding is transactional based on management decision.

- N. Revenue and Expense Recognition** – The North Carolina Partnership classifies its revenues and expenses as operating or nonoperating in the accompanying Statement of Revenues, Expenses, and Changes in Net Assets. Operating revenues and expenses generally result from providing services that are necessary and essential to the principal ongoing operations of the North Carolina Partnership. Operating revenues include activities that have characteristics of exchange transactions. Operating expenses are all expense transactions incurred other than those related to investing, capital, or noncapital financing activities as defined by GASB

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting.*

Nonoperating revenues include activities that have characteristics of nonexchange transactions. Revenues from nonexchange transactions and State appropriations that represent subsidies or gifts to the North Carolina Partnership, as well as investment income, are considered nonoperating since these are either investing, capital, or noncapital financing activities. Capital contributions are presented separately after nonoperating revenues and expenses.

- O. Public and Private Funding** - The North Carolina Partnership's major sources of funding are from the State of North Carolina based on cost-reimbursement contracts and from private contributions. Advances are received on the cost-reimbursement contracts with the State for anticipated expenses.

Private contributions are recorded when promises (pledges) are made or when support is received from private sources. Private contributions are considered to be available for unrestricted use unless specifically restricted by the donor.

Pledges from private sources are recorded when made and allowances considered for uncollectible amounts. The majority of the pledges receivable recorded are from major banks and corporations in North Carolina and are considered collectible. Pledges designated for the following year's operations are reflected as current pledges receivable while pledges designated for future years are reflected as noncurrent pledges receivable in the accompanying Statement of Net Assets.

NOTE 2 - DEPOSITS AND INVESTMENTS

- A. Deposits** - The North Carolina Partnership's deposits include cash on deposit outside the State Treasurer, deposits held by the State Treasurer, and certificates of deposit. Deposits outside the State Treasurer are held in board-designated banks and a brokerage firm. Policy to limit the amount of credit exposure to any one institution is not in place that potentially subjects the North Carolina Partnership to a concentration of credit risk. The cash on deposit with the State Treasurer is pooled with State agencies and similar institutions in short-term investments with the State Treasurer's Cash and Investment Pool. These moneys are invested in accordance with General Statutes 147-69.1(c) and 147-69.2, and as required by law are "readily convertible into cash." All investments of the fund are held either by the Department of State Treasurer or its agent

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

in the State's name. The fund's uninvested cash is either covered by federal depository insurance or, pursuant to 20 NCAC 7, is collateralized under either the dedicated or pooling method. Under the dedicated method, deposits are individually collateralized. Under the pooling method, each depository establishes an escrow account in the name of the State Treasurer to secure all of its public deposits.

The financial statements and disclosures for the State Treasurer's Cash and Investment Pool are included in the State of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of State Controller's Internet home page <http://www.osc.state.nc.us/> and clicking on "Financial Reports", or by calling the State Controller's Financial Reporting Section at (919) 981-5454.

At June 30, 2003, the carrying amounts and bank balances of cash on deposit were:

	Book Balance	Bank Balance
Checking Account	\$ 173,290	\$ 328,690
Cash Account with State Treasurer	846,397	831,288
Short-Term Certificate of Deposit	130,237	130,238
Long-Term Certificate of Deposit	12,805	12,805
Total Deposits	\$ 1,162,729	\$ 1,303,021

The North Carolina Partnership's deposits with each commercial bank are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$100,000. Deposits over this amount subjects the North Carolina Partnership to a concentration of risk. The North Carolina Partnership's bank deposits in excess of the FDIC insured limit totaled \$258,928 at June 30, 2003. The North Carolina Partnership's deposits with its brokerage firm are covered by securities protection described in the investment section of this note.

- B. Investments** – There are no legal limitations on the types of investments by the North Carolina Partnership. At June 30, 2003, the North Carolina Partnership held short-term investments of \$6,269,114 in a money market fund which are not subject to categorization of custodial credit risk.

In addition, the North Carolina Partnership held a long-term certificate of deposit in the amount of \$12,805 that is not subject to categorization of custodial credit risk. The long-term certificate of deposit is a component of the deposit totals reported in the deposits section of this note.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

The money market fund and related cash account is provided up to \$50 million in securities protection; \$1,000,000 in coverage through the Securities Investor Protection Corporation, and \$49 million through independent third party coverage purchased by the North Carolina Partnership's brokerage firm.

NOTE 3 - RECEIVABLES

A. Accounts Receivable - The gross accounts receivable at June 30, 2003 were:

Due from Local Partnerships	\$ 2,347,212
Sales Tax Receivable	31,652
Other Receivables	<u>1,222</u>
Total Receivables	<u>\$ 2,380,086</u>

The North Carolina Partnership expects to collect these receivables.

B. Pledges Receivable - The North Carolina Partnership has pledges receivable in the amount of \$954,220 that are collectible over several years. Due to the nature of the donor organizations, the North Carolina Partnership considers these pledges to be collectible. Scheduled receipts under these pledge commitments are as follows:

<u>Fiscal Year</u>	<u>Amount</u>
2004	\$ 600,000
2005	219,950
2006	19,950
2007	27,950
2008	<u>86,370</u>
Total Minimum Lease Payments	<u>\$ 954,220</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 4 - CAPITAL ASSETS

A summary of changes in the capital assets is presented as follows:

	Balance July 1, 2002	Additions	Deletions	Balance June 30, 2003
Capital Assets, Depreciable:				
Machinery and Equipment	\$ 408,505	\$ 0	\$ (30,224)	\$ 378,281
Other Improvements	36,834			36,834
Total Capital Assets, Depreciable	<u>445,339</u>		<u>(30,224)</u>	<u>415,115</u>
Less Accumulated Depreciation:				
Machinery and Equipment	183,841	70,238	(14,422)	239,657
Other Improvements	21,881	5,774		27,655
Total Capital Assets, Depreciable, Net	<u>205,722</u>	<u>76,012</u>	<u>(14,422)</u>	<u>267,312</u>
Total Capital Assets, Net	<u>\$ 239,617</u>	<u>\$ (76,012)</u>	<u>\$ (15,802)</u>	<u>\$ 147,803</u>

NOTE 5 - LONG-TERM LIABILITIES

A summary of changes in long-term liabilities for the year is presented as follows:

	Balance July 1, 2002	Additions	Deletions	Balance June 30, 2003	Current Portion
Accrued Vacation Leave	<u>\$ 193,289</u>	<u>\$ 158,468</u>	<u>\$ 157,089</u>	<u>\$ 194,668</u>	<u>\$ 16,974</u>

NOTE 6 - OPERATING LEASE OBLIGATIONS

The following is a schedule by years of future minimum rental payments required under leases that have noncancelable lease terms as of June 30, 2003:

Fiscal Year	Operating Leases
2004	\$ 359,182
2005	358,950
2006	<u>225,932</u>
Total Minimum Lease Payments	<u>\$ 944,064</u>

Total rental expenses for all operating leases were \$323,830 for the fiscal year ended June 30, 2003.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 7 - RISK MANAGEMENT

The North Carolina Partnership is exposed to various risks of loss related to torts; theft of, damage to, and the destruction of assets; errors and omissions; injuries to employees; and natural disasters. These exposures to loss are managed using a combination of methods, including purchase of commercial insurance and self-retention of certain risks. There have been no significant reductions in insurance coverage from the previous year and settled claims have not exceeded coverage in any of the past three fiscal years.

Fire, coverage for other property losses, and vehicular liability insurance are covered by contracts with private insurance companies.

The North Carolina Partnership is protected for losses from employee dishonesty and computer fraud for employees. The blanket honesty bond is with a private insurance company with coverage of \$145,000 per occurrence and a \$1,000 deductible.

Employees are provided health care coverage by Blue Cross Blue Shield of North Carolina. The Plan is funded by employer and employee contributions and is administered by a third party contractor.

The North Carolina Partnership makes the necessary arrangements to carry out the provisions of the Workers' Compensation Act by purchasing workers' compensation insurance for employees through a private insurance company.

NOTE 8 - PENSION PLAN

Supplemental Retirement Income Plan – IRC Section 401(k) Plan – The North Carolina Partnership provides a Supplemental Retirement Income Plan, which is a defined contribution plan, created under Internal Revenue Code Section 401(k). The Plan is open to all employees who have attained the age of 18 and have at least three months service. The North Carolina Partnership makes a safe-harbor contribution to the Plan each year equal to 3% of the participants' compensation and may make additional discretionary employer contributions. All costs of administering the plan are the responsibility of plan participants. The North Carolina Partnership contributed \$180,205 for the period July 1, 2002 through June 30, 2003.

NOTE 9 - COMMITMENTS AND CONTINGENCIES

The North Carolina Partnership has outstanding commitments on cost-reimbursement contracts totaling \$1,505,932 as of June 30, 2003.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 10 - FUNCTIONAL EXPENSES

The costs of providing the various programs and activities have been presented by their natural classification in the Statement of Revenues, Expenses, and Changes in Net Assets. Also, Schedule 1, accompanying the financial statements, provides a summarization of those expenses by their functional categories. Following are the functional categories and the services associated with those functions:

A. Program Functions

Comprehensive Training Events – Expenses that are incurred in the provision of training events that foster an understanding of comprehensive early childhood service delivery and best practices in multiple functional areas. Participants may include State and local partnership board members, staff, and committee members, direct service providers, early childhood leaders and professionals, and others involved in the development of various facets of a comprehensive early childhood delivery system.

Contracts - Responsible for establishing and maintaining funding contracts with the local partnerships for (1) administrative costs; and (2) direct service activities related to services to children and families. Also, to provide technical assistance and training to local partnerships for establishment of contract management and monitoring systems.

Finance – Responsible for the oversight of the accounting, financial reporting, and contracting functions for the local partnerships and the North Carolina Partnership. Also responsible for the provision of technical assistance and training to the local partnerships.

Financial Services – Responsible for performing financial monitoring of, and providing technical assistance and training to, the local partnerships.

Fiscal - Responsible for maintaining the financial records and processing payments for the North Carolina Partnership. Also, responsible for developing and implementing proper accounting policies and procedures.

Human Resources – Responsible for the administration of personnel related services and functions, including employee relations, recruiting compensation and benefits, job descriptions, performance management, maintenance of employee records, and compliance with employment regulations.

Local Partnership Administration – Grants distributed to local partnerships for administering the Smart Start program on the local level.

NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

Local Partnership Services – Grants distributed to local partnerships to perform direct services activities for the Smart Start program on the local level.

MAC – Used to account for costs associated with the implementation and support of the Multi-partnership Accounting and Contracting (MAC) plan. Costs include personnel, telecommunications systems, software, equipment, and supplies related to the support for the MAC sites.

Program and Planning – Responsible for the approval of local partnership strategic plans and activities as well as performing programmatic monitoring of and technical assistance and training to the local partnerships. Also, responsible for building the program capacity of local partnerships and facilitating the development and implementation of coordinated State-level systems of service.

Public Information – Provision of outreach materials and technical assistance to local partnerships in the areas of crisis communication, media relations, desktop publishing, and special event planning.

Technical Assistance – Other States – Privately funded program that assists local communities and other states in the development, implementation, and integration of comprehensive community-based early childhood initiatives that primarily benefit children ages' birth to five.

Technology Department – Provision of technical assistance and training to the North Carolina Partnership and to the local partnership staff. Technical assistance is provided in areas of selecting hardware, software, and acquiring outside consultants for training.

B. Support Functions

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

Development - Expenses that are incurred to induce others to contribute money, securities, time, materials, or facilities for which the contributor will receive no direct economic benefit.

The North Carolina Partnership for Children, Inc.

Schedule of Functional Expenses

For the Year Ended June 30, 2003

Schedule 1

	Total	Salaries and Benefits	Contracted Services	Supplies and Materials	Other Operating Expenses	Fixed Charges and Other Expenses	Expendable Equipment/ Depreciation	Contract/ Grant Expense
Programs:								
Comprehensive Training Events	166,997		60,498	365	106,134			
Contracts	271,495	268,133		557	2,351	454		
Finance	153,582	143,137	4,327	358	1,980	3,780		
Financial Services	309,295	289,938		79	11,060	8,218		
Fiscal	136,607	129,718	4,973	651	1,265			
Human Resources	89,437	75,881	2,693	826	2,756	6,740	541	
Local Partnership Administration	14,121,947							14,121,947
Local Partnership Services	96,326,812							96,326,812
MAC	1,661,094	187,917	67,446	48,584	239,691	41,251	28,620	1,047,585
Program and Planning	1,007,033	850,670	133,345	1,218	15,319	6,481		
Public Information	464,627	310,950	126,795	(5,937)	29,579	3,240		
Technical Assistance - Other States	771,795	162,640	427,237	2,057	179,696	165		
Technology Department	336,320	190,979	43,875	37,670	10,972	18,057	34,767	
	115,817,041	2,609,963	871,189	86,428	600,803	88,386	63,928	111,496,344
Support:								
Administration	1,408,521	510,672	325,157	17,226	85,571	376,760	92,135	1,000
Development	276,273	199,388	45,418	956	7,924	6,087		16,500
	1,684,794	710,060	370,575	18,182	93,495	382,847	92,135	17,500
Total Expenditures	117,501,835	3,320,023	1,241,764	104,610	694,298	471,233	156,063	111,513,844

The North Carolina Partnership for Children, Inc.
Schedule of Contract and Grant Expenses
For the Year Ended June 30, 2003

Schedule 2

Organization Name	Amount Expended	Refund Due
Alamance Partnership for Children, Inc.	1,180,938	(20,643)
Albemarle Smart Start Partnership, Inc.	923,605	(21,178)
Alexander County Partnership for Children, Inc.	432,607	(16,085)
Alleghany County Partnership for Children, Inc.	231,579	(4,057)
Anson County Partnership for Children, Inc.	691,304	
Ashe County Partnership for Children	567,539	(1,193)
Avery County Partnership for Children, Inc.	314,794	(2)
Beaufort County Partnership for Children	514,468	(7,848)
Bertie County Partnership for Children, Inc.	398,009	(559)
Bladen County Partnership for Children, Inc.	407,310	(17,789)
Brunswick County Partnership, Inc	940,763	(73,405)
Buncombe County Partnership for Children, Inc.	2,119,239	(72,703)
Burke County Partnership for Children, Inc.	2,150,753	(61,924)
Cabarrus County Partnership for Children	1,459,961	(21,760)
Caldwell County Partnership for Children	1,757,273	(59,545)
Carteret County Partnership for Children	754,387	(5,223)
Caswell County Partnership for Children	294,592	(16,317)
Catawba County Partnership for Children	1,930,293	(5,031)
Chatham County Partnership for Children	1,013,578	(20,929)
Child Care Services Association	*	130,454
Children and Youth Partnership for Dare County, Inc.	378,042	(6,028)
Children's Council of Watauga County, Inc.	361,712	(8,217)
Chowan-Gates-Perquimans Partnership for Children	401,753	(27,819)
Cleveland County Partnership for Children, Inc.	1,735,965	(30,679)
Columbus County Partnership for Children, Inc.	1,188,846	(31,911)
Craven County Partnership for Children	890,068	(22,748)
Cumberland County Partnership for Children, Inc.	7,467,965	(252,596)
Davidson County Smart Start, Inc.	2,110,686	(17,476)
Davie County Partnership for Children, Inc.	430,991	(10,541)
Down East Partnership for Children	3,593,520	(36,200)
Duplin County Partnership for Children	838,241	(18,245)
Durham's Partnership for Children, Inc.	3,655,429	(8,479)
Forsyth Early Childhood Partnership	6,045,656	(70,192)

The North Carolina Partnership for Children, Inc.
Schedule of Contract and Grant Expenses
For the Year Ended June 30, 2003

Schedule 2

Page 2

Organization Name	Amount Expended	Refund Due
Franklin-Granville-Vance Partnership for Children, Inc.	1,207,222	(33,057)
Guilford County Partnership for Children, Inc.	4,578,801	(26,753)
Harnett County Partnership for Children, Inc.	913,751	(39,288)
Henderson County Partnership for Children	677,465	(26,695)
Hertford County Partnership for Children, Inc.	578,160	(18,671)
Hoke County Partnership for Children and Families, Inc.	1,107,552	(34,720)
Hyde County Partnership for Children	121,523	(2,543)
Iredell County Partnership for Young Children	1,818,728	(16,462)
Johnston County Partnership for Children, Inc.	1,484,907	(27,845)
Jones County Partnership for Children	341,716	(2,165)
Lee County Partnership for Children	861,590	(32,813)
Lenoir/Greene Partnership for Children	1,290,633	(41,606)
Madison County Partnership for Children and Families	560,882	(13,662)
Martin/Pitt Partnership for Children, Inc.	1,401,324	(8,716)
McDowell County Partnership for Children and Families, Inc.	738,914	(319)
Mecklenburg Partnership for Children	7,491,545	(183,688)
Montgomery County Partnership for Children, Inc.	663,726	(2,155)
New Hanover County Partnership for Children	1,374,338	(4,189)
Northampton Partnership for Children, Inc.	323,213	(4,045)
Onslow County Partnership for Children, Inc.	1,849,357	(48,542)
Orange County Partnership for Young Children	3,041,471	(3,259)
Pamlico County Partnership for Children, Inc.	240,414	(2,418)
Partners for Children and Families, Inc. (Moore County)	1,057,800	(56,555)
Pender County Partnership for Children, Inc.	638,026	(35,974)
Person County Partnership for Children, Inc.	776,784	(19,818)
Polk County Partnership for Children, Inc.	294,597	(4,242)
Randolph County Partnership for Children, Inc.	1,526,396	(23,538)
Region A Partnership for Children	2,069,362	(14,214)
Richmond County Partnership for Children, Inc.	823,258	(20,317)
Robeson County Partnership for Children, Inc.	2,718,671	(90,394)
Rockingham County Partnership for Children, Inc.	796,369	(24,094)
Rowan Partnership for Children, Inc.	1,636,978	(27,283)
Rutherford Partnership for Children, Inc.	880,522	(4,232)

The North Carolina Partnership for Children, Inc.

Schedule of Contract and Grant Expenses

For the Year Ended June 30, 2003

Schedule 2

Page 3

Organization Name	Amount Expended	Refund Due
Sampson County Partnership for Children	717,413	(35,564)
Scotland County Partnership for Children and Families, Inc.	555,631	(16,438)
Smart Start of Transylvania County, Inc.	197,752	(2,794)
Stanly County Partnership for Children, Inc.	1,446,510	(12,868)
Stokes Partnership for Children	712,934	(14,085)
Surry County Early Childhood Partnership	1,229,490	(22,053)
The Halifax-Warren Smart Start Partnership for Children, Inc.	1,316,511	(1,191)
The Mitchell-Yancey Partnership for Children, Inc.	382,930	(732)
The Partnership for Lincoln/Gaston Counties, Inc.	2,764,523	(40,946)
Tyrrell County Smart Start, Inc.	145,025	(1,100)
Union County Partnership for Children, Inc.	1,047,827	(22,002)
Various Other Organizations	45,655	
Wake County SmartStart	6,264,731	(64,897)
Washington County Child Advocacy Council, Inc.	283,181	(9,709)
Wayne County Partnership for Children, Inc.	1,306,698	(30,586)
Wilkes Community Partnership for Children	895,668	(33,281)
Wilson County Partnership for Children	597,982	(15,465)
Yadkin County Smart Sstart Partnership, Inc.	608,695	(18,322)
	113,717,471	(2,203,627)

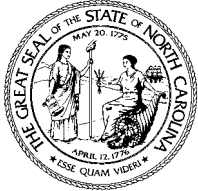
The North Carolina Partnership for Children, Inc.

Schedule of Federal and State Awards

For the Year Ended June 30, 2003

Schedule 3

Federal/State Grantor/Pass-through Grantor/Program	Federal CFDA Number	Contract #	Receipts	Expenditures
Federal Awards:				
Department of Health and Human Services				
Pass-through from the North Carolina Department of Health and Human Services - Division of Child Development				
Outdoor Learning Environments Training and Information Project	93.575	6077	\$ 87,831	\$ 87,831
State Awards:				
North Carolina Department of Health and Human Services				
Division of Child Development				
Early Childhood Initiatives Program (Prior Year)	*	Various	9	9
Early Childhood Initiatives Program (Current Year)	*	6025	109,726,673	109,730,122
Early Childhood Initiatives Program (Current Year)	*	6026	5,619,722	5,707,594
North Carolina Department of Health and Human Services				
More at Four Pre-Kindergarten Program (Current Year)	*	#2090003306	21,271	22,026
Total State Awards			<u>115,367,675</u>	<u>115,459,751</u>
Total Federal and State Awards			<u>\$ 115,455,506</u>	<u>\$ 115,547,582</u>
* Programs with compliance requirements that have a direct and material effect on the financial statement.				



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
The North Carolina Partnership for Children, Inc.
Raleigh, North Carolina

We have audited the financial statements of The North Carolina Partnership for Children, Inc., a component unit of the State of North Carolina, as of and for the year ended June 30, 2003, and have issued our report thereon dated March 12, 2004.

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 North Carolina 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 North Carolina Partnership's internal control over financial reporting in order to determine our auditing procedures for the purpose 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

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

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 North Carolina Partnership for Children, Inc., the Governor, the State Controller, 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 12, 2004

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