



STATE OF NORTH CAROLINA

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

SHELBY, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2003

OFFICE OF THE STATE AUDITOR

RALPH CAMPBELL, JR.

STATE AUDITOR

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

SHELBY, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2003

BOARD OF DIRECTORS

THOMAS S. HASSELL, CHAIRMAN

ADMINISTRATIVE OFFICER

CATHY R. PATTERSON, EXECUTIVE DIRECTOR



Ralph Campbell, Jr.
State Auditor

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Office of the State Auditor

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AUDITOR'S TRANSMITTAL

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

This report presents the results of our financial statement audit of the Cleveland County Partnership for Children, Inc. (Cleveland Partnership) 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 Cleveland 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 Cleveland 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 Cleveland Partnership is one of these local partnerships. As such, the Cleveland Partnership is a private nonprofit 501(c)(3) organization and is required by General Statute 143B-168.14(b) to have a financial and compliance audit conducted by the Office of 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 – To express an opinion on the accompanying financial statements.

Results – The accompanying financial statements present fairly, in all material respects, the amounts and disclosures made in accordance with the modified cash basis of accounting, a comprehensive basis of accounting other than generally accepted accounting principles.

AUDITOR'S TRANSMITTAL (CONCLUDED)

2. **Objective** – To present significant deficiencies, if any, in internal control over financial reporting which could adversely affect the Cleveland 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 the internal control over financial reporting and no instances of noncompliance that 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

Board of Directors
Cleveland County Partnership for Children, Inc.
Shelby, North Carolina

We have audited the accompanying Statement of Receipts, Expenditures, and Net Assets – Modified Cash Basis of the Cleveland County Partnership for Children, Inc. (Cleveland Partnership) as of June 30, 2003, and the related Statement of Functional Expenditures – Modified Cash Basis for the year then ended. These financial statements are the responsibility of the Cleveland 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 modified cash basis of accounting, 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 Cleveland County Partnership for Children, Inc. as of June 30, 2003, and the results of its operations arising from modified cash basis transactions 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 December 12, 2003 on our consideration of the Cleveland Partnership's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with the independent auditor's report in considering the results of our audit.

INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

Our audit was made for the purpose of forming an opinion on the basic financial statements of the Cleveland County 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 Schedules 1, 3, 4, and 5 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. The information in Schedule 2 has not been subjected to the auditing procedures applied in the audit of the basic financial statements and accordingly, we express no opinion on Schedule 2.

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

December 12, 2003

Cleveland County Partnership for Children, Inc.**Statement of Receipts, Expenditures, and Net Assets - Modified Cash Basis****For the Year Ended June 30, 2003****Exhibit A**

	Unrestricted Funds		Temporarily Restricted Funds	Total Funds
	Smart Start Fund	Other Funds		
Receipts:				
State Awards (less refunds of \$20,730)	\$ 1,713,287	\$ 135,995	\$ 0	\$ 1,849,282
Local Awards		2,525		2,525
Private Contributions		3,406	4,597	8,003
Interest and Investment Earnings		962		962
Sales Tax Refunds		2,097		2,097
Other Receipts		8		8
Total Receipts	1,713,287	144,993	4,597	1,862,877
Expenditures:				
Programs:				
Child Care and Education Quality	385,603	3,403		389,006
Child Care and Education Affordability	335,918	1,200		337,118
Health and Safety	159,508			159,508
Family Support	474,113	200		474,313
More at Four	17,999	138,520		156,519
Support:				
Management and General	221,492	453		221,945
Program Coordination	107,964			107,964
Other:				
Sales Tax Paid		2,108		2,108
Refund of Prior Year Grant		205		205
Total Expenditures	1,702,597	146,089		1,848,686
Excess of Receipts Over Expenditures	10,690	(1,096)	4,597	14,191
Net Assets at Beginning of Year	19,989	772		20,761
Net Assets at End of Year	\$ 30,679	\$ (323)	\$ 4,597	\$ 34,953
Net Assets Consisted of:				
Cash and Cash Equivalents	\$ 16,459	\$ (323)	\$ 4,597	\$ 20,733
Refunds Due From Contractors	14,220			14,220
	\$ 30,679	\$ (323)	\$ 4,597	\$ 34,953

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

Cleveland County Partnership for Children, Inc.
Statement of Functional Expenditures - Modified Cash Basis
For the Year Ended June 30, 2003

Exhibit B

	Total	Personnel	Contracted Services	Supplies and Materials	Other Operating Expenditures	Fixed Charges and Other Expenditures	Property and Equipment Outlay	Services/ Contracts/ Grants	Participant Training Expenditures
Smart Start Fund:									
Programs:									
Child Care and Education Quality	\$ 385,603							385,603	
Child Care and Education Affordability	\$ 335,918							335,918	
Health and Safety	\$ 159,508							159,508	
Family Support	\$ 474,113							474,113	
More at Four	\$ 17,999							17,999	
	\$ 1,373,141	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 1,373,141	\$ 0
Support:									
Management and General	\$ 221,492	189,945	5,857	1,986	18,755	4,949			
Program Coordination	\$ 107,964	58,056	31,588	1,301	16,450	569			
	\$ 329,456	\$ 248,001	\$ 37,445	\$ 3,287	\$ 35,205	\$ 5,518	\$ 0	\$ 0	\$ 0
Total Smart Start Fund Expenditures	\$ 1,702,597	\$ 248,001	\$ 37,445	\$ 3,287	\$ 35,205	\$ 5,518	\$ 0	\$ 1,373,141	\$ 0
Other Funds:									
Programs:									
Child Care and Education Quality	\$ 3,403			3,379	24				
Child Care and Education Affordability	\$ 1,200		1,200						
Family Support	\$ 200		200						
More at Four	\$ 138,520		2,525	7,106	2,739			126,150	
	\$ 143,323	\$ 0	\$ 3,925	\$ 10,485	\$ 2,763	\$ 0	\$ 0	\$ 126,150	\$ 0
Support:									
Management and General	\$ 453	\$ 0	\$ 0	\$ 68	\$ 203	\$ 30	\$ 152	\$ 0	\$ 0
Other:									
Sales Tax Paid	\$ 2,108			2,108					
Refund of Prior Year Grant	\$ 205					205			
	\$ 2,313	\$ 0	\$ 0	\$ 2,108	\$ 0	\$ 205	\$ 0	\$ 0	\$ 0
Total Other Funds Expenditures	\$ 146,089	\$ 0	\$ 3,925	\$ 12,661	\$ 2,966	\$ 235	\$ 152	\$ 126,150	\$ 0

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

CLEVELAND COUNTY PARTNERSHIP FOR CHILDREN, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

A. Organization and Purpose - The Cleveland County Partnership for Children, Inc. (Cleveland Partnership) is a legally separate nonprofit organization incorporated on May 20, 1994. The Cleveland Partnership was established to develop and provide, through public and private means, early childhood education and developmental services for children and families. The Cleveland 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 Cleveland 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 Cleveland Partnership did not have any permanently restricted net assets at June 30, 2003.

C. Basis of Accounting - The accompanying financial statements were prepared on the modified cash basis of accounting. 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. 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 – Modified Cash Basis and consists of petty cash, cash on deposit with private bank accounts and money market 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. Compensated Absences** – As a result of the use of the modified cash basis of accounting, liabilities related to accrued compensated absences are not recorded in the financial statements. Expenditures related to compensated absences are recorded when paid. The amount of accrued compensated absences for accumulated, unpaid leave and compensatory time, along with the related employer costs that would be due to employees upon termination is reported as a commitment in Note 9.
- G. Use of Estimates** - The preparation of financial statements in conformity with the other comprehensive basis of accounting used by the Cleveland Partnership requires management to make estimates and assumptions that affect certain reported amounts and disclosures (such as allocation of joint costs); accordingly, actual results could differ from those estimates. It is management's belief that these estimates are reasonable and fair.

NOTE 2 - DEPOSITS

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

The Cleveland Partnership has an Automated Investment Plan to invest excess balances over an established target amount. The investment is in Federal Obligations and is not insured by the FDIC. Consequently, the Cleveland Partnership bank deposits in excess of the FDIC insured limit totaled \$40,583 at June 30, 2003.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 3 - FUNDING FROM GRANT AWARDS

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

Associated with these contracts, the Cleveland 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 North Carolina Department of Health and Human Services (DHHS) entered into contracts with and made payments to service providers selected by the Cleveland 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 Cleveland Partnership was awarded and has received \$1,734,017 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 \$30,679 of this contract to the State based on financial status reports submitted to NCPC subsequent to June 30, 2003.

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

More at Four – The Cleveland Partnership also received revenue and support from the State of North Carolina for the More at Four Program. The Cleveland Partnership was awarded \$296,700 under a current year cost-reimbursement contract. The unexpended balance of this contract is subject to reversion to the State. The Partnership expects to receive continued funding through new More at Four contracts with the State.

NOTE 4 - RELATED PARTY TRANSACTIONS

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 – Modified Cash Basis. Also, the Statement of Functional Expenditures – Modified Cash Basis, provides detail of the functional costs by their natural classification. Following are the services associated with the functional categories presented in the accompanying financial statements and the methods utilized to allocate joint cost:

A. Program Functions

Child Care and Education Quality - Used to account for service activities including quality enhancement grants for upgrades, child care resource and referral, professional development, or learning materials and teaching aids.

Child Care and Education Affordability - Used to account for service activities including public pre-K classes, child care subsidy administration outside of DCD.

Health and Safety - Used to account for service activities including oral health services, comprehensive screenings, child care health consultants, or comprehensive health support.

Family Support - Used to account for service activities including parenting skills training or literacy projects.

More at Four – Used to account for development and implementation of More at Four pre-kindergarten program for at-risk four-year-olds who are at risk of failure in kindergarten. The goal is to provide quality pre-kindergarten services in order to enhance kindergarten readiness.

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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:

Salaries and Benefits - Allocated based on employee time reports.

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

NOTE 6 - PENSION PLAN

The Cleveland Partnership offers its employees a deferred compensation plan created in accordance with the Internal Revenue Code Section 457. The plan permits each participating employee to defer a portion of his or her salary until future years. An employee may participate in the plan after six months of full-time employment; however, an employee must contribute to the plan in order to participate. The Cleveland Partnership matches employee contributions dollar for dollar up to 5% of each employee's gross wages. All costs of administering and funding the plan are the responsibility of the plan participants.

For the year ended June 30, 2003, the Partnership's matching contribution totaled \$8,864.

NOTE 7 - POST EMPLOYMENT HEALTH PLAN

The Cleveland Partnership offers its employees a post employment health plan, which is designed to set aside resources for the payment of qualified medical expenses that employees incur after they leave employment. An employee may participate in the plan after six months of full-time employment. The Cleveland Partnership provides 1% of each participating employee's gross wages to fund a post-employment health plan reimbursement account for unreimbursed qualifying medical care expenses. No reimbursements may be received prior to an employee's separation of service from the Partnership.

NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

NOTE 8 - RISK MANAGEMENT

The Cleveland Partnership is exposed to various risks of loss related to torts, theft of, damage to, or destruction of assets; errors and omissions; injuries to employees; employees' health and life; and natural disasters. The Cleveland Partnership manages these various risks of loss as follows:

<u>Type of Loss</u>	<u>Method Managed</u>	<u>Risk of Loss Retained</u>
Torts, errors and omissions, health and life	Purchased commercial insurance	None
Workers Compensation – Employee injuries	Purchased commercial insurance	None
Physical property loss and natural disasters	Purchased commercial insurance	None

Management believes such coverage is sufficient to preclude any significant losses to the Cleveland Partnership. Settled claims have not exceeded this insurance coverage in any of the past three fiscal years.

NOTE 9 - COMMITMENTS AND CONTINGENCIES

Compensated Absences – As a result of the Cleveland Partnership's use of the modified cash basis of accounting, accrued liabilities related to compensated absences (vacation only; sick leave does not vest) and any employer-related costs earned and unpaid, are not reflected in the financial statements. The compensated absences commitment for vacation leave at June 30, 2003, is \$13,594. No funds or reservation of net assets has been made for this commitment.

NOTE 10 - RESTRICTIONS ON NET ASSETS

Temporarily restricted net assets at June 30, 2003 are available for the following purposes:

Purpose	Amount
Ready Set Grow Program	\$ 597
Scholarship for Special Needs Children	4,000
	\$ 4,597

Cleveland County Partnership for Children, Inc.
Schedule of Contract and Grant Expenditures - Modified Cash Basis
For the Year Ended June 30, 2003

Schedule 1

Organization Name	Smart Start Fund		Other Funds	
	Amount	Refund	Amount	Refund
	Advanced	Due	Advanced	Due
Apples of Gold Preschool	7,476		40,775	
Child Care Connections *	328,100	(4,481)	13,000	
Children's World Day Care	2,848		22,225	
Cleveland Community College	62,396	(412)		
Cleveland County Health Department	160,431	(922)		
Cleveland County Schools	161,515	(633)		
Cleveland Memorial Library	32,598			
Communities in Schools	443,872	(2,357)		
Kings Mountain District Schools	115,528	(3,611)		
Shelby City Schools	72,597	(1,804)	50,150	
	\$ 1,387,361	\$ (14,220)	\$ 126,150	\$ 0

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

Cleveland County Partnership for Children, Inc.
Schedule of State Level Service Provider Contracts
For the Year Ended June 30, 2003

Schedule 2

Organization Name		DHHS Contracts
Child Care Services Association - WAGES Program		84,485
Cleveland County Department of Social Services	*	860,702
		\$ 945,187
<p>* These organizations are represented on the Partnership's Board as described in Note 4 - Service Provider Contracts with Board Member Organizations.</p>		
<p>The information on this schedule provides a listing of service provider contracts entered into by the North Carolina Department of Health and Human Services (DHHS) as described in Note 3 - Funding from Grant Awards.</p>		

Cleveland County Partnership for Children, Inc.
Schedule of State Awards - Modified Cash Basis
For the Year Ended June 30, 2003

Schedule 3

State Grantor/Pass-through Grantor/Program	Contract #	Receipts	Expenditures
State Awards:			
North Carolina Department of Health and Human Services			
Division of Child Development			
Pass-through from the North Carolina Partnership for Children, Inc.			
Early Childhood Initiatives Program (Prior Year)	Various	\$ (20,730)	\$ (740)
Early Childhood Initiatives Program (Current Year)	*	1,734,017	1,703,337
North Carolina Department of Health and Human Services			
More at Four Pre-Kindergarten Program	*	2090003389	135,995
Total State Awards		\$ 1,849,282	\$ 1,838,592

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

Note: The More at Four Pre-Kindergarten Program is contracted jointly by the North Carolina Department of Health and Human Services and the Office of the Governor. The allocations for the More at Four program are included in the budget for the North Carolina Department of Health and Human Services; therefore, the above schedule identifies that agency as the State Grantor. The Office of the Governor is responsible for oversight of the More at Four Program.

Cleveland County Partnership for Children, Inc.
Schedule of Qualifying Match (Non-GAAP)
For the Year Ended June 30, 2003

Schedule 5

Match Provided at the Partnership Level:

Cash	\$ 4,035
In-Kind Goods and Services	56,588
	<u>\$ 60,623</u>

Match Provided at the Contractor Level:

Cash	\$ 197,406
In-Kind Goods and Services	121,053
	<u>\$ 318,459</u>

Note: This schedule is presented in accordance with the program match requirement as provided for by North Carolina Session Law 2001-424, Section 21.72(c). The law allows for volunteer services to be valued for match purposes, a concept that deviates from generally accepted accounting principles.

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**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
Cleveland County Partnership for Children, Inc.
Shelby, North Carolina

We have audited the financial statements of the Cleveland County Partnership for Children, Inc. (Cleveland Partnership) as of and for the year ended June 30, 2003, and have issued our report thereon dated December 12, 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 Cleveland 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 Cleveland Partnership's internal control over financial reporting in order to determine our auditing procedures for the purposes of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material

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

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

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



Ralph Campbell, Jr.
State Auditor

December 12, 2003

DISTRIBUTION OF AUDIT REPORT

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

EXECUTIVE BRANCH

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

LEGISLATIVE BRANCH

Appointees to the Joint Legislative Commission on Governmental Operations

President Pro Tempore	Speaker of the House
Senator Marc Basnight, Co-Chair	Representative James B. Black, Co-Chair
Senator Charles W. Albertson	Representative Richard T. Morgan, Co-Chair
Senator Patrick J. Ballantine	Representative Martha B. Alexander
Senator Daniel G. Clodfelter	Representative Rex L. Baker
Senator Walter H. Dalton	Representative Bobby H. Barbee, Sr.
Senator Charlie S. Dannelly	Representative Harold J. Brubaker
Senator James Forrester	Representative Debbie A. Clary
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Senator Eric M. Reeves	Representative Edd Nye
Senator Robert A. Rucho	Representative William C. Owens, Jr.
Senator R. C. Soles, Jr.	Representative Wilma M. Sherrill
Senator Scott Thomas	Representative Thomas E. Wright

Other Legislative Officials

Mr. James D. Johnson	Director, Fiscal Research Division
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March 30, 2004

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