



STATE OF NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT OF CHATHAM COUNTY PARTNERSHIP FOR CHILDREN

PITTSBORO, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2003

OFFICE OF THE STATE AUDITOR

RALPH CAMPBELL, JR.

STATE AUDITOR

**FINANCIAL STATEMENT AUDIT REPORT OF
CHATHAM COUNTY PARTNERSHIP FOR CHILDREN**

PITTSBORO, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2003

BOARD OF DIRECTORS

DAVID ATKINSON, CHAIRMAN

ADMINISTRATIVE OFFICER

GENEVIEVE MEGGINSON, 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, Chatham County Partnership for Children

This report presents the results of our financial statement audit of the Chatham County Partnership for Children (Chatham 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 Chatham 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 Chatham 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 Chatham Partnership is one of these local partnerships. As such, the Chatham 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 and supplementary information.

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 Chatham 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 - The following condition represents a significant deficiency in internal control:

Finding

03-01 Contract Fiscal Monitoring

This matter is described in the Schedule of Findings and Questioned Costs section of this report.

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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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Chatham County Partnership for Children
Pittsboro, North Carolina

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

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

As described in Note 1, the accompanying financial statements were prepared on the modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets of the Chatham County Partnership for Children 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 January 30, 2004 on our consideration of the Chatham 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 Chatham County Partnership for Children taken as a whole. The accompanying schedule of expenditures of federal awards is presented for the purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations." This schedule, and the additional 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

January 30, 2004

Chatham County Partnership for Children

Statement of Receipts, Expenditures, and Net Assets - Modified Cash Basis

For the Year Ended June 30, 2003

Exhibit A

	Unrestricted Funds		Temporarily	Total
	Smart Start Fund	Other Funds	Restricted Funds	
Receipts:				
State Awards (less refunds of \$19,476)	\$ 982,102	\$ 71,343	\$ 0	\$ 1,053,445
Federal Awards		639,530	35,470	675,000
Local Awards		9,500	1,000	10,500
Private Contributions		42,248	1,647	43,895
Interest and Investment Earnings		2,538		2,538
Sales Tax Refunds		5,274		5,274
Other Receipts		23,096	13	23,109
Total Receipts	982,102	793,529	38,130	1,813,761
Net Assets Released from Restrictions:				
Satisfaction of Program Restrictions		72,065	(72,065)	
	982,102	865,594	(33,935)	1,813,761
Expenditures:				
Programs:				
Child Care and Education Quality	244,637	19,462		264,099
Child Care and Education Accessibility and Availability		16,723		16,723
Child Care and Education Affordability	156,241	13		156,254
Health and Safety	123,727			123,727
Family Support	232,707	52,250		284,957
More at Four	16,409	59,343		75,752
Safe Start		666,354		666,354
Support:				
Management and General	116,619	37,502		154,121
Program Evaluation	45,583	1,553		47,136
Program Coordination	52,037	3,140		55,177
Special Fund Raising Events		80		80
Other:				
Sales Tax Paid		8,395		8,395
Total Expenditures	987,960	864,815		1,852,775
Excess of Receipts Over Expenditures	(5,858)	779	(33,935)	(39,014)
Net Assets at Beginning of Year	22,957	42,386	73,477	138,820
Restatement (Note 11)		1,107	(1,107)	
Net Assets at Beginning of Year after Restatement	22,957	43,493	72,370	138,820
Net Assets at End of Year	\$ 17,099	\$ 44,272	\$ 38,435	\$ 99,806
Net Assets Consisted of:				
Cash and Cash Equivalents	\$ 10,545	\$ 44,272	\$ 38,435	\$ 93,252
Refunds Due From Contractors	6,554			6,554
	\$ 17,099	\$ 44,272	\$ 38,435	\$ 99,806

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

Chatham County Partnership for Children
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	\$ 244,637							244,637	
Child Care and Education Affordability	\$ 156,241							156,241	
Health and Safety	\$ 123,727							123,727	
Family Support	\$ 232,707							232,707	
More at Four	\$ 16,409	7,589	332	653	2,156	1,462		4,217	
	\$ 773,721	\$ 7,589	\$ 332	\$ 653	\$ 2,156	\$ 1,462	\$ 0	\$ 761,529	\$ 0
Support:									
Management and General	\$ 116,619	92,902	2,386	1,108	11,639	8,503	81		
Program Evaluation	\$ 45,583	38,203	314	474	4,013	2,566	13		
Program Coordination	\$ 52,037	31,697	1,017	430	16,685	2,191	17		
	\$ 214,239	\$ 162,802	\$ 3,717	\$ 2,012	\$ 32,337	\$ 13,260	\$ 111	\$ 0	\$ 0
Total Smart Start Fund Expenditures	\$ 987,960	\$ 170,391	\$ 4,049	\$ 2,665	\$ 34,493	\$ 14,722	\$ 111	\$ 761,529	\$ 0
Other Funds:									
Programs:									
Child Care and Education Quality	\$ 19,462			1,000	216	746		17,500	
Child Care and Education Accessibility and Availability	\$ 16,723	2,286	70	2,635	105		11,627		
Child Care and Education Affordability	\$ 13				13				
Family Support	\$ 52,250		4,760	1,519	473	1,271	44,227		
More at Four	\$ 59,343			122				59,221	
Safe Start	\$ 666,354	257,467	124,304	6,193	51,774	21,260	2,464	198,800	4,092
	\$ 814,145	\$ 259,753	\$ 129,134	\$ 11,469	\$ 52,581	\$ 23,277	\$ 58,318	\$ 275,521	\$ 4,092
Support:									
Management and General	\$ 37,502	23,470	4,992	739	6,234	1,838	229		
Program Evaluation	\$ 1,553	1,514			39				
Program Coordination	\$ 3,140		835	814	1,025	466			
Special Fund Raising Events	\$ 80				30	50			
	\$ 42,275	\$ 24,984	\$ 5,827	\$ 1,553	\$ 7,328	\$ 2,354	\$ 229	\$ 0	\$ 0
Other:									
Sales Tax Paid	\$ 8,395	\$ 0	\$ 0	\$ 8,395	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Total Other Funds Expenditures	\$ 864,815	\$ 284,737	\$ 134,961	\$ 21,417	\$ 59,909	\$ 25,631	\$ 58,547	\$ 275,521	\$ 4,092

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

CHATHAM COUNTY PARTNERSHIP FOR CHILDREN
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

A. Organization and Purpose - The Chatham County Partnership for Children (Chatham Partnership) is a legally separate nonprofit organization incorporated on June 30, 1994. The Chatham Partnership was established to develop and provide, through public and private means, early childhood education and developmental services for children and families. The Chatham 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 Chatham 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 Chatham 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 STATEMENT (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 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 which are to be refunded back to the State. As recoveries are collected, the receivable balance is reduced. Payments to the State for the recovered advances are recorded as a reduction to the State awards balance.
- 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 financial statements include estimates and assumptions made by management for the allocation of joint costs. It is management's belief that these estimates are reasonable and fair.

NOTE 2 - DEPOSITS

All funds of the Chatham Partnership are deposited with commercial banks and insured by the Federal Deposit Insurance Corporation (FDIC) up to \$100,000 per bank. Deposits over this amount subjects the Chatham Partnership to a concentration of credit risk.

NOTE 3 - FUNDING FROM GRANT AWARDS

Smart Start Program - The Chatham 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 Chatham

NOTES TO THE FINANCIAL STATEMENT (CONTINUED)

Partnership and represents a concentration of credit risk as to the generation of revenue.

Associated with these contracts, the Chatham 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 Chatham 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 Chatham Partnership was awarded and has received \$1,001,578 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 \$21,910 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.

Safe Start Program – The Chatham Partnership’s additional major source of revenue and support was from the U.S. Department of Justice for the federally funded Safe Start Initiative. The Chatham Partnership is one of nine program sites selected for the 5 1/2 year demonstration projects. Funding is based on completion of specified phases of the project. In the current year, the Chatham Partnership received \$675,000. The Partnership expects to receive continued funding through the Safe Start Program contracts with the Department of Justice.

More at Four – The Chatham Partnership also received revenue and support from the State of North Carolina for the More at Four Program. The Chatham Partnership was awarded \$106,293 and has received \$59,343 of this amount under a current year cost-reimbursement contract. The unexpended balance of this contract is subject to reversion to the State. The Chatham 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 Chatham Partnership are representative of various organizations that benefit from actions taken by the Board. It is the policy of the Chatham Partnership that board members not be involved with decisions

NOTES TO THE FINANCIAL STATEMENT (CONTINUED)

regarding organizations they represent. During the year, the Partnership entered into contracts with board member organizations for program activities as identified on Schedule 1 accompanying the financial statements. In addition, Schedule 2 identifies contracts entered into by DHHS with board member organizations for activities funded by the Partnership's Smart Start Allocation.

NOTE 5 - FUNCTIONAL EXPENDITURES

The costs of providing the various programs and activities have been summarized on a functional basis in the Statement of Receipts, Expenditures, and Net Assets – 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, health/safety training for child care professionals, and kindergarten orientation/transition.

Child Care and Education Accessibility and Availability - Used to account for service activities associated with increasing child care availability.

Child Care and Education Affordability - Used to account for service activities associated with child care cost supports (Division of Child Development).

Health and Safety - Used to account for service activities including comprehensive health services and special needs – early intervention services/special education programs.

Family Support - Used to account for service activities including family resource centers, parenting skills training, general family support, family crisis intervention, literacy projects, and family literacy projects.

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

NOTES TO THE FINANCIAL STATEMENT (CONTINUED)

Safe Start – Used to develop a demonstration initiative to prevent and reduce the impact of family and community violence on young children (primarily from birth to six years of age) by helping communities to expand existing partnerships between service providers (such as law enforcement, mental health, health, early childhood education and others) to create a comprehensive service delivery system.

B. Support Functions

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

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

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

C. Allocation of Joint Costs

Expenditures benefiting more than one purpose were allocated as follows:

Salaries and Benefits - Allocated based on employee time reports.

Other Costs - Other costs including occupancy cost (rent, utilities and maintenance), supplies and materials, and communication costs (telephone and printing) were allocated based on utilization data.

<u>Expenditure Category</u>	<u>Amount</u>
Personnel	\$ 454,847
Contracted Services	9,666
Supplies and Materials	7,715
Other Operating Expenses	37,970
Fixed Charges and Other Expenses	44,800
Property and Equipment	<u>5,629</u>
Total Allocated Costs	<u>\$ 560,627</u>

NOTES TO THE FINANCIAL STATEMENT (CONTINUED)

NOTE 6 - LEASE OBLIGATIONS

- A. Operating Lease Obligations** - Future minimum lease payments under noncancelable operating leases consist of the following at June 30, 2003:

<u>Fiscal Year</u>	<u>Operating Leases</u>
2004	\$ 42,512
2005	36,480
2006	15,027
2007	<u>4,595</u>
Total Minimum Lease Payments	<u>\$ 98,614</u>

Rental expense for all operating leases during the year was \$30,021.

- B. Capital Lease Obligations** - Capital lease obligations relating to copier equipment are recorded at the present value of the minimum lease payments. Future minimum lease payments under capital lease obligations consist of the following at June 30, 2003:

<u>Fiscal Year</u>	<u>Capital Leases</u>
2004	\$ 1,647
2005	<u>1,509</u>
Total Minimum Lease Payments	<u>\$ 3,156</u>

NOTE 7 - PENSION PLAN

- A. Retirement Plans** - The Chatham Partnership has a Simplified Employee Pension (SEP) plan covering all full-time employees. Each full-time employee of the Chatham Partnership, as a condition of employment, is provided an Individual Retirement Account through an outside insurance company. The Chatham Partnership contributed 3% of gross wages for the year ended June 30, 2003. The Chatham Partnership does not own the accounts nor is liable for any other cost other than the required contribution. The Chatham Partnership contributed \$10,840 for pension benefits during the year.

NOTES TO THE FINANCIAL STATEMENT (CONTINUED)

- B. IRC Section 403(b) Plan** - All permanent employees who are at least half time can participate in a tax sheltered annuity plan created under Internal Revenue Code Section 403(b). The employee's eligible contributions, made through salary reduction agreements, are exempt from federal and State income taxes until the annuity is received or the contributions are withdrawn. These plans are exclusively for employees of universities and certain charitable and other non-profit organizations. All costs of administering and funding these plans are the responsibility of the Plan participants. No costs were incurred by the Chatham Partnership.

NOTE 8 - RISK MANAGEMENT

The Chatham 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 Chatham 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 Chatham Partnership. Settled claims have not exceeded this insurance coverage in any of the past three fiscal years.

NOTE 9 - COMMITMENTS AND CONTINGENCIES

- A. Compensated Absences** – As a result of the Chatham 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 \$9,072. No funds or reservation of net assets has been made for this commitment.
- B. Commitments on Contracts** - The Chatham Partnership had outstanding commitments of \$85,098 on cost-reimbursement contracts that had not been paid at June 30, 2003.

NOTES TO THE FINANCIAL STATEMENT (CONTINUED)

NOTE 10 - RESTRICTIONS ON NET ASSETS

- A. Temporarily Restricted Net Assets** - Temporarily restricted net assets at June 30, 2003 are available for the following purposes:

Purpose	Amount
Apprendiendo	\$ 85
Kids Outdoors – Pilot/Model Outdoor Learning Environment	1,895
Lady Bug Subscriptions	105
Liberty Chapel	200
Meetings – Safe Start	31
Safe Start	35,470
Week of the Young Child	177
Success By Six	92
Program Income – Safe Start	380
	\$ 38,435

- B. Net Assets Released From Donor Restrictions** - Net assets were released from donor restrictions during the fiscal year ended June 30, 2003, by incurring expenditures satisfying the restricted purposes as follows:

Purpose	Amount
Bennett School Pre-K	\$ 16,259
Family Resource Center - Goldkist	375
Kids Outdoors – Pilot/Model Outdoor Learning Environment	28,090
Lady Bug Subscriptions	351
Safe Start	26,804
Week of the Young Child	186
	\$ 72,065

NOTES TO THE FINANCIAL STATEMENT (CONCLUDED)

NOTE 11 - RESTATEMENT OF NET ASSETS

The net assets in the accompanying financial statement have been restated to correct the misclassification of fund activities that were previously reported as temporarily restricted as follows:

	Net Assets Previously Reported	Net Effect of Prior Year Misclassification	July 1, 2002 Net Assets Restated
Unrestricted Funds – Other Funds	\$ 42,386	\$ (1,107)	\$ 43,493
Temporarily Restricted Funds	73,477	1,107	72,370
	<u>\$ 125,863</u>	<u>\$ 0</u>	<u>\$ 125,863</u>

*Chatham County Partnership for Children
 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 Advanced	Refund Due	Amount Advanced	Refund Due
Center for Child and Family Health			21,511	
Central Carolina Community College *	786		2,299	
Chatham County Health Department *	164,634	(4,600)	55,383	
Chatham County Schools *	36,787			
Chatham County Sherriff's Department *			31,017	
Chatham Family Resource Center	54,744	(1,271)		
Child Care Networks, Inc. *	379,943	(683)		
Early Intervention and Family Services *			17,500	
Family Violence and Rape Crisis	63,888		55,542	
Heads Up! Therapeutic Riding Service, Inc.	23,628			
North Chatham Elementary School *	5,481		14,890	
Orange/Person/Chatham Community Mental Health *	40,242		20,362	
Perry Harrison Elementary School *	1,781		4,840	
Siler City Elementary School *	(3,831)		37,070	
Silk Hope School *			122	
	\$ 768,083	\$ (6,554)	\$ 260,536	\$ 0
<i>Individuals:</i>				
In-Home Therapeutic Services	\$ 0	\$ 0	\$ 14,985	\$ 0
	\$ 768,083	\$ (6,554)	\$ 275,521	\$ 0
* These organizations are represented on the Partnership's Board as described in Note 4 - Service Provider Contracts with Board Member Organizations.				

***Chatham County Partnership for Children
Schedule of State Level Service Provider Contracts
For the Year Ended June 30, 2003***

Schedule 2

Organization Name		DHHS Contracts
Chatham County Department of Social Services	*	383,771
Child Care Services Association - WAGES Program		48,480
		\$ 432,251
<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>		

Chatham County Partnership for Children
Schedule of Federal and State Awards - Modified Cash Basis
For the Year Ended June 30, 2003

Schedule 3

Federal/State Grantor/Pass-through Grantor/Program	Federal CFDA Number		Contract #	Receipts	Expenditures
Federal Awards:					
US Department of Justice					
Pass-through from Chatham County					
Reduction and Prevention of Children's Exposure to Violence (Safe Start)	16.730	**	#2000-JW-VX-K002	\$ 675,000	\$ 666,354
State Awards:					
North Carolina Department of Health and Human Services					
Division of Child Development					
Pass-through from the North Carolina Partnership for Children, Inc.					
Early Childhood Initiatives Program (Prior Year)			#1-12-1-04-001	(19,476)	2,000
Early Childhood Initiatives Program (Current Year)		*	N/A	1,001,578	985,960
Multi-County Accounting and Contracting Grant			N/A	12,000	12,000
North Carolina Department of Health and Human Services					
More at Four Pre-Kindergarten Program			#17107200M4	59,343	59,343
Total State Awards				<u>1,053,445</u>	<u>1,059,303</u>
Total Federal and State Awards				<u>\$ 1,728,445</u>	<u>\$ 1,725,657</u>

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

** Major Programs per OMB Circular A-133

Chatham County Partnership for Children
Schedule of Property and Equipment - Modified Cash Basis
For the Year Ended June 30, 2003

Schedule 4

Furniture and Noncomputer Equipment		\$	26,668
Computer Equipment/Printers			47,603
Motor Vehicles			2,754
			<hr/>
Total Property and Equipment		\$	77,025
			<hr/>
<p>Note: The information on this schedule provides a summary of property and equipment with acquisition or donated cost of \$500 or more which were held by the Partnership at year end. The valuations represent historical cost. On the modified basis of accounting, these items are expensed in the year of purchase.</p>			

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

Schedule 5

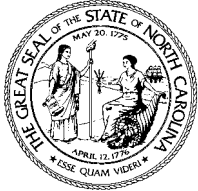
Match Provided at the Partnership Level:

Cash	\$ 729,395
In-Kind Goods and Services	34,276
	<u>\$ 763,671</u>

Match Provided at the Contractor Level:

Cash	\$ 105,938
In-Kind Goods and Services	194,421
	<u>\$ 300,359</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.



Ralph Campbell, Jr.
State Auditor

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Office of the 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 STATEMENT PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Board of Directors
Chatham County Partnership for Children
Pittsboro, North Carolina

We have audited the financial statements of the Chatham County Partnership for Children (Chatham Partnership) as of and for the year ended June 30, 2003, and have issued our report thereon dated January 30, 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 Chatham 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 Chatham 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. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. A reportable condition involves a matter coming to our attention relating to a significant deficiency in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Chatham Partnership's ability to record, process, summarize and report financial data consistent with the assertions of

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

management in the financial statements. This reportable condition noted as a result of our audit is described in the Schedule of Findings and Questioned Costs section of this report:

Finding

03-01 Contract Fiscal Monitoring

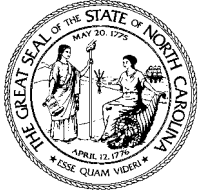
A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider the reportable condition described above to be a material weakness.

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



Ralph Campbell, Jr.
State Auditor

January 30, 2004



Ralph Campbell, Jr.
State Auditor

STATE OF NORTH CAROLINA
Office of the State Auditor

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Raleigh, NC 27699-0601
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**INDEPENDENT AUDITOR'S REPORT
ON COMPLIANCE WITH REQUIREMENTS APPLICABLE
TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Board of Directors
Chatham County Partnership for Children
Pittsboro, North Carolina

Compliance

We have audited the compliance of the Chatham County Partnership for Children (Chatham Partnership) with the types of compliance requirements described in the "U. S. Office of Management and Budget (*OMB*) *Circular A-133* Compliance Supplement" that are applicable to each of its major federal programs for the year ended June 30, 2003. Chatham Partnership's major federal programs are identified in the summary of auditors' results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Chatham Partnership's management. Our responsibility is to express an opinion on Chatham Partnership's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and *OMB Circular A-133*, "Audits of States, Local Governments, and Non-Profit Organizations." Those standards and *OMB Circular A-133* require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Chatham Partnership's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Chatham Partnership's compliance with those requirements.

In our opinion, the Chatham Partnership complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2003.

**INDEPENDENT AUDITOR'S REPORT
ON COMPLIANCE WITH REQUIREMENTS APPLICABLE
TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133 (CONCLUDED)**

Internal Control Over Compliance

The management of Chatham Partnership is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Chatham Partnership's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with *OMB Circular A-133*.

We noted a certain matter involving the internal control over compliance and its operation that we consider to be a reportable condition. A reportable condition involves matters coming to our attention relating to a significant deficiency in the design or operation of the internal control over compliance that, in our judgment could adversely affect the Chatham Partnership's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts and grants. The reportable condition is described in the Schedule of Findings and Questioned Costs as item 03-01 – Contract Fiscal Monitoring.

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 noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider the reportable condition described above to be a material weakness.

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

January 30, 2004

**CHATHAM COUNTY PARTNERSHIP FOR CHILDREN
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2003**

I.	SUMMARY OF AUDITOR'S RESULTS	<u>YES</u>	<u>NO</u>				
	<u>Financial Statements</u>						
	Type of auditor's report issued: Unqualified						
	Internal control over financial reporting:						
	• Material weaknesses identified	<input checked="" type="checkbox"/>	<input type="checkbox"/>				
	• Reportable conditions identified that are not considered to be material weaknesses	<input type="checkbox"/>	<input checked="" type="checkbox"/>				
	Noncompliance material to financial statements noted?	<input type="checkbox"/>	<input checked="" type="checkbox"/>				
	<u>Federal Awards</u>						
	Internal control over major programs:						
	• Material weaknesses identified	<input checked="" type="checkbox"/>	<input type="checkbox"/>				
	• Reportable conditions identified that are not considered to be material weaknesses	<input type="checkbox"/>	<input checked="" type="checkbox"/>				
	Type of auditor's report issued on compliance for major federal programs: Unqualified						
	Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133	<input type="checkbox"/>	<input checked="" type="checkbox"/>				
	Identification of major federal programs:						
	<table border="0" style="width: 100%;"> <tr> <td style="text-align: center;"><u>CFDA Numbers</u></td> <td style="text-align: center;"><u>Name of Federal Programs</u></td> </tr> <tr> <td style="text-align: center;">16.730</td> <td style="text-align: center;">Safe Start Initiative</td> </tr> </table>	<u>CFDA Numbers</u>	<u>Name of Federal Programs</u>	16.730	Safe Start Initiative		
<u>CFDA Numbers</u>	<u>Name of Federal Programs</u>						
16.730	Safe Start Initiative						
	Dollar threshold used to distinguish between Type A and Type B Programs		\$300,000				
	Auditee qualified as low-risk auditee	<input type="checkbox"/>	<input checked="" type="checkbox"/>				

**CHATHAM COUNTY PARTNERSHIP FOR CHILDREN
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2003 (CONTINUED)**

II. FINDINGS RELATED TO THE AUDIT OF THE FINANCIAL STATEMENTS

03-01 - CONTRACT FISCAL MONITORING

Our review of the Chatham Partnership's monitoring of service provider contracts noted that fiscal monitoring activities were inadequate or not performed. On-site fiscal monitoring is a requirement of the Partnership's financial policies and procedures as well as of The North Carolina Partnership for Children, Inc.'s Fiscal Accountability Plan.

The achievement of the Partnership's goals is dependent on the effectiveness of its contract management system and its monitoring of subcontractor performance. The purpose of the Fiscal Accountability Plan is to ensure the fiscal integrity and accountability of State funds.

Recommendation: We recommend that the Chatham Partnership adhere to its financial policies and procedures and document its fiscal monitoring activities in accordance with established policies.

Partnership's Response: Partnership Management recognizes it's responsibility for as well as the importance of on-site fiscal monitoring of service provider contracts. Staffing deficiencies resulting from turnover and budget cutbacks limited our ability to complete on-site fiscal monitoring. Key staff positions have now been filled and remaining positions have been reconfigured to accommodate cutbacks. New staff are receiving training in contracts monitoring. Additionally, Board volunteers have agreed to assist with this important process. The Partnership will ensure that all on-site fiscal monitoring is completed thoroughly from now on.

III. FINDINGS AND QUESTIONED COSTS RELATED TO THE AUDIT OF FEDERAL AWARDS

03-01 - CONTRACT FISCAL MONITORING

Our review of the Chatham Partnership's monitoring of service provider contracts noted that fiscal monitoring activities were inadequate or not performed. On-site fiscal monitoring is a requirement of the Partnership's financial policies and procedures as well as of The North Carolina Partnership for Children, Inc.'s Fiscal Accountability Plan.

The achievement of the Partnership's goals is dependent on the effectiveness of its contract management system and its monitoring of subcontractor performance. The purpose of the Fiscal Accountability Plan is to ensure the fiscal integrity and accountability of State funds.

**CHATHAM COUNTY PARTNERSHIP FOR CHILDREN
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2003 (CONCLUDED)**

Recommendation: We recommend that the Chatham Partnership adhere to its financial policies and procedures and document its fiscal monitoring activities in accordance with established policies.

Partnership's Response: Partnership Management recognizes it's responsibility for as well as the importance of on-site fiscal monitoring of service provider contracts. Staffing deficiencies resulting from turnover and budget cutbacks limited our ability to complete on-site fiscal monitoring. Key staff positions have now been filled and remaining positions have been reconfigured to accommodate cutbacks. New staff are receiving training in contracts monitoring. Additionally, Board volunteers have agreed to assist with this important process. The Partnership will ensure that all on-site fiscal monitoring is completed thoroughly from now on.

**CHATHAM COUNTY PARTNERSHIP FOR CHILDREN
SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2003**

02-01 - INTERNAL CONTROL

Our review of the Chatham Partnership's internal control system identified weaknesses in the authorizing and processing of transactions. This included improper segregation of duties within the receipting functions.

This finding has been resolved. The Chatham Partnership made appropriate changes to its authorizing and processing procedures to address the weaknesses identified and to ensure compliance with its financial policies and procedures.

02-02 - CONTRACTING ACTIVITIES – SAFE START

Our review of the Partnership's Safe Start contracting activities noted deficiencies with the execution of contracts/amendments and the processing of payments in accordance with the terms of those contracts.

This finding has been resolved. The Partnership addressed many of the weaknesses identified during the prior audit related to contract documentation.

02-03 - ALLOWABILITY OF COSTS – SAFE START

Our review of the Partnership's Safe Start disbursements resulted in the questioning of costs as to allowability under the applicable federal guidelines. Costs totaling \$4,733 were questioned or deemed unallowable related to foreign travel (prior approval not obtained from federal awarding agency). In addition, salary charges to the program were based on budgeted projections rather than actual costs as required by *OMB Circular A-122*, "Cost Principles for Non-Profit Organizations." Total question costs were \$7,614.

This finding has been resolved. The Chatham Partnership has worked with its federal oversight agency to address the questioned costs noted in the prior audit. The Partnership made adjustments during the current year to correct budgeted allocations to actual.

02-04 - COMPLIANCE WITH PROCUREMENT GUIDELINES – SAFE START

The Partnership sole-sourced a contract in excess of \$100,000 without obtaining prior written approval from its federal awarding agency.

This finding has been resolved. We did not note any instances during the current year where the Partnership failed to adhere to this federal procurement guideline.

**CHATHAM COUNTY PARTNERSHIP FOR CHILDREN
CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED JUNE 30, 2003**

Finding Number	Contact Person Phone Number	Corrective Action Planned
03-01	Genevieve Megginson (919) 542-7449	<p data-bbox="673 470 1453 520">Contract Fiscal Monitoring</p> <p data-bbox="673 520 1453 676">The Chatham County Partnership for Children will take appropriate steps to ensure that fiscal monitoring occurs for all its contracts in compliance with its contracting and monitoring policies and procedures.</p>

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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.
Ms. Karen Ponder	Executive Director
	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
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Senator James Forrester	Representative Debbie A. Clary
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Senator Robert A. Rucho	Representative William C. Owens, Jr.
Senator R. C. Soles, Jr.	Representative Wilma M. Sherrill
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Mr. James D. Johnson	Director, Fiscal Research Division
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April 2, 2004

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