

STATE OF NORTH CAROLINA

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

SELMA, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2003

OFFICE OF THE STATE AUDITOR

RALPH CAMPBELL, JR.

STATE AUDITOR

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

SELMA, NORTH CAROLINA

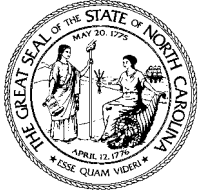
FOR THE YEAR ENDED JUNE 30, 2003

BOARD OF DIRECTORS

DR. JAMES F. CAUSBY, BOARD CHAIR

ADMINISTRATIVE OFFICER

NANCY THOMAS, EXECUTIVE DIRECTOR



Ralph Campbell, Jr.
State Auditor

STATE OF NORTH CAROLINA
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AUDITOR'S TRANSMITTAL

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

This report presents the results of our financial statement audit of the Partnership for Children of Johnston County, Inc. (Johnston Partnership) for the year ended June 30, 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 Johnston Partnership were subject to audit procedures, as we considered necessary for us to report on the accompanying financial statements and supplementary information. The audit procedures were conducted in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards* issued by the Comptroller General of the United States.

The audit of the Johnston Partnership was made in conjunction with the Early Childhood Initiatives (Smart Start) program authorized by General Statutes 143B-168.10-.16. These statutes created the North Carolina Partnership for Children, Inc. and required the implementation of local demonstration projects (local partnerships). The Johnston Partnership is one of these local partnerships. As such, the Johnston Partnership is a private nonprofit 501(c)(3) organization and is required by General Statute 143B-168.14(b) to have a financial and compliance audit conducted by the State Auditor.

The purpose of this report is to present the results of our audit on the accompanying financial statements. A summary of our reporting objectives and audit results are:

- 1. Objective** – 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 Johnston 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*.

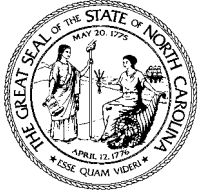
North Carolina General Statutes require the State Auditor to make audit reports available to the public. Copies of audit reports issued by the Office of the State Auditor may be obtained through one of the options listed in the back of this report.



Ralph Campbell, Jr.
State Auditor

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Ralph Campbell, Jr.
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INDEPENDENT AUDITOR'S REPORT

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

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

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

As described in Note 1, the accompanying financial statements were prepared on the 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 Partnership for Children of Johnston County, 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 October 17, 2003 on our consideration of the Johnston Partnership's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with the independent auditor's report in considering the results of our audit.

INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

Our audit was made for the purpose of forming an opinion on the basic financial statements of the Partnership for Children of Johnston County, Inc. taken as a whole. The accompanying supplementary schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. The information in 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

October 17, 2003

Partnership for Children of Johnston County, 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 \$35,935)	\$ 1,433,876	\$ 377,442	\$ 0	\$ 1,811,318
Federal Awards		6,383	976	7,359
Private Contributions		10,058	250	10,308
Special Fund Raising Events		454		454
Sales Tax Refunds		9,613		9,613
Other Receipts		61,983		61,983
Total Receipts	1,433,876	465,933	1,226	1,901,035
Expenditures:				
Programs:				
Child Care and Education Quality	701,233	8,612		709,845
Child Care and Education Affordability	254,330	359,156		613,486
Health and Safety	58,399			58,399
Family Support	207,730	13,845		221,575
Support:				
Management and General	165,247	68,305		233,552
Program Coordination	52,394			52,394
Other:				
Sales Tax Paid		5,744		5,744
Refund of Prior Year Grant		1,470		1,470
Total Expenditures	1,439,333	457,132		1,896,465
Excess of Receipts Over Expenditures	(5,457)	8,801	1,226	4,570
Net Assets at Beginning of Year	35,500	8,971	14	44,485
Net Assets at End of Year	\$ 30,043	\$ 17,772	\$ 1,240	\$ 49,055
Net Assets Consisted of:				
Cash and Cash Equivalents	\$ 23,104	\$ 19,751	\$ 1,240	\$ 44,095
Refunds Due from Contractors	6,939			6,939
	30,043	19,751	1,240	51,034
Less: Funds Held for Others		1,979		1,979
	\$ 30,043	\$ 17,772	\$ 1,240	\$ 49,055

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

Partnership for Children of Johnston County, 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	\$ 701,233	192,307	8,346	28,465	34,652	3,526	1,437	432,500	
Child Care and Education Affordability	\$ 254,330							254,330	
Health and Safety	\$ 58,399							58,399	
Family Support	\$ 207,730	95,475	8,339	1,096	4,690	977	309	96,844	
	\$ 1,221,692	\$ 287,782	\$ 16,685	\$ 29,561	\$ 39,342	\$ 4,503	\$ 1,746	\$ 842,073	\$ 0
Support:									
Management and General	\$ 165,247	118,790	13,938	3,712	16,602	4,674	7,531		
Program Coordination	\$ 52,394	48,767	314	345	2,699	269			
	\$ 217,641	\$ 167,557	\$ 14,252	\$ 4,057	\$ 19,301	\$ 4,943	\$ 7,531	\$ 0	\$ 0
Total Smart Start Fund Expenditures	\$ 1,439,333	\$ 455,339	\$ 30,937	\$ 33,618	\$ 58,643	\$ 9,446	\$ 9,277	\$ 842,073	\$ 0
Other Funds:									
Programs:									
Child Care and Education Quality	\$ 8,612			2,546	2,575		1,874	1,617	
Child Care and Education Affordability	\$ 359,156		4,219	4,287	1,592	246	45	348,767	
Family Support	\$ 13,845			693	3,135	538		9,479	
	\$ 381,613	\$ 0	\$ 4,219	\$ 7,526	\$ 7,302	\$ 784	\$ 1,919	\$ 359,863	\$ 0
Support:									
Management and General	\$ 68,305	\$ 40,655	\$ 16,152	\$ 1,192	\$ 9,923	\$ 383	\$ 0	\$ 0	\$ 0
Other:									
Sales Tax Paid	\$ 5,744			5,744					
Refund of Prior Year Grant	\$ 1,470					1,470			
	\$ 7,214	\$ 0	\$ 0	\$ 5,744	\$ 0	\$ 1,470	\$ 0	\$ 0	\$ 0
Total Other Funds Expenditures	\$ 457,132	\$ 40,655	\$ 20,371	\$ 14,462	\$ 17,225	\$ 2,637	\$ 1,919	\$ 359,863	\$ 0

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

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

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

- A. Organization and Purpose** - The Partnership for Children of Johnston County, Inc. (Johnston Partnership) is a legally separate nonprofit organization incorporated on June 19, 1997. The Johnston Partnership was established to develop and provide, through public and private means, early childhood education and developmental services for children and families. The Johnston Partnership is tax-exempt as an organization described in Section 501(c)(3) of the Internal Revenue Code.
- B. Basis of Presentation** – The accompanying financial statements present all funds for which the Johnston Partnership’s Board of Directors is responsible. Pursuant to the provisions of Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-For-Profit Organizations*, the accompanying financial statements present information according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. As permitted by this Statement, temporarily restricted contributions received and expended in the same year are reported as unrestricted receipts rather than as temporarily restricted receipts.

Contributions that are temporarily restricted and not expended within the year received are reported as an increase in temporarily restricted net assets. When the restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Receipts, Expenditures, and Net Assets as net assets released from restrictions.

The Johnston Partnership did not have any permanently restricted net assets at June 30, 2003.

- C. Basis of Accounting** - The accompanying financial statements were prepared on the modified cash basis of accounting. This basis differs from generally accepted accounting principles primarily because it recognizes long lived assets and other costs which benefit more than one period as expended in the year purchased; it recognizes revenue when received rather than when earned; and it recognizes expenditures when paid rather than when incurred.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 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 or cash on deposit with private bank accounts.
- E. Refunds Due From Contractors** - Refunds due from contractors represent the unexpended amount of advances to contractors at year-end that are to be refunded back to the State. As recoveries are collected, the receivable balance is reduced. Payments to the State for the recovered advances are recorded as a reduction to the State awards balance.
- F. Funds Held For Others** - Funds held for others includes amounts received that are fiduciary in nature in which the Partnership acts in an agency capacity. The Johnston Partnership acts as a fiscal agent for the North Carolina Safe Kids Coalition.
- 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 Johnston Partnership are deposited with a commercial bank and insured by the Federal Deposit Insurance Corporation (FDIC) up to \$100,000. Deposits over this amount subjects the Johnston Partnership to a concentration of credit risk.

The Johnston Partnership has an Automated Investment Plan to invest excess balances over an established target amount. The investment is in the bank's government securities and is not insured by the FDIC. Consequently, the Johnston Partnership bank deposits in excess of the FDIC insured limit totaled \$113,000 at June 30, 2003.

NOTE 3 - FUNDING FROM GRANT AWARDS

Smart Start Program - The Johnston Partnership's major source of revenue and support is from the State of North Carolina based on cost-reimbursement contracts with the North Carolina Partnership for Children, Inc. (NCPC) for the Smart Start Program. A significant reduction in the level of funding from

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

the State could have an adverse effect on the operations of the Johnston Partnership and represents a concentration of credit risk as to the generation of revenue.

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

The Johnston Partnership was awarded and has received \$1,469,811 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 \$27,845 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 Johnston Partnership also received revenue and support from the State of North Carolina for the More at Four Program. The Johnston Partnership was awarded \$450,620 and received \$365,442 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 Johnston Partnership are representative of various organizations that benefit from actions taken by the Board. It is the policy of the Johnston Partnership that board members not be involved with decisions regarding organizations they represent. During the year, the Partnership entered into contracts with board member organizations for program activities as identified on Schedule 1 accompanying the financial statements. In addition, Schedule 2 identifies contracts entered into by DHHS with board member organizations for activities funded by the Partnership's Smart Start Allocation.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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, provider training, curriculum enhancements, or health insurance benefits for child care providers.

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

Health and Safety - Used to account for service activities associated with child care health consultants/outreach nurses.

Family Support - Used to account for service activities including mobile family resource center, ongoing parenting education, transportation services, or community outreach, information and resources.

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.

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.

C. Allocation of Joint Costs

Expenditures benefiting more than one purpose were allocated as follows:

NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

Salaries and Benefits - Allocated based on employee time reports.

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

NOTE 6 - PENSION PLAN

A. Retirement Plans - The Johnston Partnership has a Simplified Employee Pension (SEP) plan covering all full-time employees. Each full-time employee of the Johnston Partnership, as a condition of employment, is provided an Individual Retirement Account through an outside insurance company. The Johnston Partnership contributed 7% of gross wages for the year ended June 30, 2003. The Johnston Partnership does not own the accounts nor is liable for any other cost other than the required contribution.

For the year ended June 30, 2003, the Johnston Partnership contributed \$27,142 for pension benefits during the year.

B. IRC Section 403(b) Plan - All permanent employees who are at least half time can participate in a tax sheltered annuity plan (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 nonprofit organizations. All costs of administering and funding these plans are the responsibility of the Plan participants. No costs are incurred by the Johnston Partnership.

NOTE 7 - RESTRICTIONS ON NET ASSETS

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

Purpose	Amount
Parenting Classes	\$ 14
North Carolina Safe Kids Buckle Up Program	976
Bridges Program	250
	<u>\$ 1,240</u>

Partnership for Children of Johnston County, 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 Advanced	Refund Due	Amount Advanced	Refund Due
Building Blocks Child Care and Development Center	*	180,040		165,625	
Carolina Child Development Center		14,600		32,375	
Heart and Home Day Care	*	1,406			
Imagination Station Science Museum		23,875			
Johnston Community College	*	91,664	(336)	10,250	
Johnston County Public Health Department	*	155,805	(563)		
Johnston County Schools	*	6,200		11,142	
Johnston-Lee-Harnett Community Action	*	110,735	(6,040)		
Kiddie Kollege of Knowledge, Inc.	*	14,976			
Little Wonders Learning Center		32,109		39,375	
Pam's Pencil Pals Preschool, Inc.	*	6,909			
Princeton Daycare		41,480		72,000	
Public Library of Johnston County and Smithfield	*	20,187			
The Growing Child		8,000		18,000	
Toddler's Inn		20,206		1,617	
Various Daycares		37,579			
		\$ 765,771	\$ (6,939)	\$ 350,384	\$ 0
Individuals:					
Salary Supplements		83,241			
Car Seat Recipients				9,479	
		\$ 83,241	\$ 0	\$ 9,479	\$ 0
		\$ 849,012	\$ (6,939)	\$ 359,863	\$ 0
* These organizations are represented on the Partnership's Board as described in Note 4 - Service Provider Contracts with Board Member Organizations.					

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

Schedule 2

Organization Name	DHHS Contracts
Child Care Services Association - Wages Program	186,736
Johnston County Department of Social Services	737,387
	\$ 924,123
<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>	

Partnership for Children of Johnston County, Inc.
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:				
U.S. Department of Transportation				
National Highway Traffic Safety Administration				
Pass-through from the Governor's Highway Safety Program				
Pass-through from the North Carolina Department of Insurance				
North Carolina Safe Kids Buckle Up Program	20.602	N/A	\$ 7,359	\$ 6,383
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 Years)		Various	(35,935)	(435)
Early Childhood Initiatives Program (Current Year)	*	N/A	1,469,811	1,439,768
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	*	2090003350	365,442	359,156
Total State Awards			1,811,318	1,810,489
Total Federal and State Awards			\$ 1,818,677	\$ 1,816,872
* 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.				

Partnership for Children of Johnston County, Inc.
Schedule of Property and Equipment - Modified Cash Basis
For the Year Ended June 30, 2003 **Schedule 4**

	Furniture and Noncomputer Equipment	\$	30,217
	Computer Equipment/Printers		44,517
	Leasehold Improvements		1,040
	Total Property and Equipment	\$	75,774

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.

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

Schedule 5

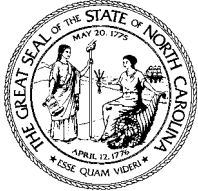
Match Provided at the Partnership Level:

Cash	\$ 19,986
In-Kind Goods and Services	80,861
	<u>\$ 100,847</u>

Match Provided at the Contractor Level:

Cash	\$ 135,733
In-Kind Goods and Services	223,438
	<u>\$ 359,171</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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**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
Partnership for Children of Johnston County, Inc.
Selma, North Carolina

We have audited the financial statements of the Partnership for Children of Johnston County, Inc. (Johnston Partnership) as of and for the year ended June 30, 2003, and have issued our report thereon dated October 17, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Johnston Partnership's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests 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 Johnston Partnership's internal control over financial reporting in order to determine our auditing procedures for the purposes of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over 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

October 17, 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.
Ms. Karen Ponder	Executive Director
	The North Carolina Partnership for Children, Inc.

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Other Legislative Officials

Mr. James D. Johnson	Director, Fiscal Research Division
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January 8, 2004

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