



STATE OF NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT OF UNION COUNTY PARTNERSHIP FOR CHILDREN

MONROE, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2003

OFFICE OF THE STATE AUDITOR

RALPH CAMPBELL, JR.

STATE AUDITOR

FINANCIAL STATEMENT AUDIT REPORT OF

UNION COUNTY PARTNERSHIP FOR CHILDREN

MONROE, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2003

BOARD OF DIRECTORS

PHIL E. BAZEMORE, CHAIRMAN

ADMINISTRATIVE OFFICER

MARY ANN RASBERRY, 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, Union County Partnership for Children

This report presents the results of our financial statement audit of the Union County Partnership for Children (Union 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 Union 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 Union 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 Union Partnership is one of these local partnerships. As such, the Union 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 Union 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 instances of noncompliance that require disclosure herein under *Government Auditing Standards*. The following condition represents a significant deficiency in internal control.

Finding

Contract Management

This matter is described in the Independent Auditor's Report on Compliance and on Internal Control over Financial Reporting and the Audit Finding and Recommendation 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
Union County Partnership for Children
Monroe, North Carolina

We have audited the accompanying Statement of Receipts, Expenditures, and Net Assets – Modified Cash Basis of the Union County Partnership for Children (Union 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 Union 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 Union 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 June 10, 2004 on our consideration of the Union 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 Union County Partnership for Children taken as a whole. The accompanying supplementary schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. The information in 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

June 10, 2004

Union 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 Restricted Funds	Total Funds
	Smart Start Fund	Other Funds		
Receipts:				
State Awards (less refunds of \$8,052)	\$ 955,981	\$ 199,368	\$ 0	\$ 1,155,349
Local Awards		28,976	6,024	35,000
Private Contributions		64,000	29,970	93,970
Interest and Investment Earnings		2,150		2,150
Sales Tax Refunds		7,554		7,554
Other Receipts		97		97
Total Receipts	955,981	302,145	35,994	1,294,120
Net Assets Released from Restrictions:				
Satisfaction of Program Restrictions		72,684	(72,684)	
	955,981	374,829	(36,690)	1,294,120
Expenditures:				
Programs:				
Child Care and Education Quality	385,067	10,144		395,211
Child Care and Education Affordability	89,085	143,561		232,646
Health and Safety	123,893	6,376		130,269
Family Support	143,453	5,530		148,983
More at Four	8,793	184,809		193,602
Support:				
Management and General	176,884	12,751		189,635
Program Evaluation	6,406			6,406
Program Coordination	7,971			7,971
Other:				
Sales Tax Paid		3,239		3,239
Total Expenditures	941,552	366,410		1,307,962
Excess of Receipts Over Expenditures	14,429	8,419	(36,690)	(13,842)
Net Assets at Beginning of Year	7,851	(3,883)	91,962	95,930
Net Assets at End of Year	\$ 22,280	\$ 4,536	\$ 55,272	\$ 82,088
Net Assets Consisted of:				
Cash and Cash Equivalents	\$ 6,924	\$ 4,536	\$ 55,272	\$ 66,732
Refunds Due From Contractors	15,356			15,356
	\$ 22,280	\$ 4,536	\$ 55,272	\$ 82,088

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

**Union 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	\$ 385,067							385,067	
Child Care and Education Affordability	\$ 89,085							89,085	
Health and Safety	\$ 123,893							123,893	
Family Support	\$ 143,453	39,266		5,719	2,865	4,224		91,379	
More at Four	\$ 8,793							8,793	
	\$ 750,291	\$ 39,266	\$ 0	\$ 5,719	\$ 2,865	\$ 4,224	\$ 0	\$ 698,217	\$ 0
Support:									
Management and General	\$ 176,884	130,072	5,627	2,695	15,966	18,909	3,615		
Program Evaluation	\$ 6,406	3,132	3,274						
Program Coordination	\$ 7,971	7,500		92	204	175			
	\$ 191,261	\$ 140,704	\$ 8,901	\$ 2,787	\$ 16,170	\$ 19,084	\$ 3,615	\$ 0	\$ 0
Total Smart Start Fund Expenditures	\$ 941,552	\$ 179,970	\$ 8,901	\$ 8,506	\$ 19,035	\$ 23,308	\$ 3,615	\$ 698,217	\$ 0
Other Funds:									
Programs:									
Child Care and Education Quality	\$ 10,144							10,144	
Child Care and Education Affordability	\$ 143,561							143,561	
Health and Safety	\$ 6,376							6,376	
Family Support	\$ 5,530	72	5,458						
More at Four	\$ 184,809	5,444	6,400		467			172,498	
	\$ 350,420	\$ 5,516	\$ 11,858	\$ 0	\$ 467	\$ 0	\$ 0	\$ 332,579	\$ 0
Support:									
Management and General	\$ 12,751	\$ 0	\$ 12,000	\$ 233	\$ 55	\$ 463	\$ 0	\$ 0	\$ 0
Other:									
Sales Tax Paid	\$ 3,239	\$ 0	\$ 0	\$ 3,239	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Total Other Funds Expenditures	\$ 366,410	\$ 5,516	\$ 23,858	\$ 3,472	\$ 522	\$ 463	\$ 0	\$ 332,579	\$ 0

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

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

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

- A. Organization and Purpose** - The Union County Partnership for Children (Union Partnership) is a legally separate nonprofit organization incorporated on April 24, 1998. The Union Partnership was established to develop and provide, through public and private means, early childhood education and developmental services for children and families. The Union 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 Union 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 Union 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 cash on deposit with a private bank account and sweep 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 9A.
- G. Use of Estimates** - The preparation of financial statements in conformity with the other comprehensive basis of accounting used by the Union 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 Union 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 Union Partnership to a concentration of credit risk. The Union Partnership has an Automated Investment Plan to invest excess balances over an established target amount. The investment is in the bank's Master Note securities and is not insured by the FDIC. Consequently, the Union Partnership bank deposits in excess of the FDIC insured limit totaled \$47,189 at June 30, 2003.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 3 - FUNDING FROM GRANT AWARDS

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

Associated with these contracts, the Union 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 Union 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 Union Partnership was awarded and has received \$964,033 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 \$22,002 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 Union Partnership also received revenue and support from the State of North Carolina for the More at Four Program. The Union Partnership was awarded \$361,612 and received \$209,112 under a current year cost-reimbursement contract. The unexpended balance of this contract is subject to reversion to the State. The Partnership has returned \$21,744 of this contract to the State based on financial status reports submitted to DHHS prior to June 30, 2003. The administration and funding of this program was transferred to the Union County Public Schools system for the 2005 fiscal year.

NOTE 4 - RELATED PARTY TRANSACTIONS

Service Provider Contracts with Board Member Organizations - The board members of the Union Partnership are representative of various organizations that benefit from actions taken by the Board. It is the policy of the Union Partnership that board members not be involved with decisions

NOTES TO THE FINANCIAL STATEMENTS (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 child care resource and referral, professional development, special needs – support for child care professionals, or learning materials and teaching aids.

Child Care and Education Affordability - Used to account for service activities including pre-K classes, public pre-K classes, or part-day care programs.

Health and Safety - Used to account for service activities including comprehensive screenings, prenatal/newborn services, or child abuse and neglect intervention.

Family Support - Used to account for service activities including family resource centers, family crisis intervention, literacy projects, 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 and utilities) and communication costs (telephone and internet services) were allocated based on utilization data.

<u>Expenditure Category</u>	<u>Amount</u>
Personnel	\$ 41,707
Other Operating Expenses	6,105
Fixed Charges and Other Expenses	19,410
Total Allocated Costs	<u>\$ 67,222</u>

NOTE 6 - OPERATING LEASE OBLIGATIONS

Future minimum lease payments under noncancelable operating leases at June 30, 2003 was \$19,200 for fiscal year 2004. Rental expense for all operating leases during the year was \$19,200.

NOTE 7 - PENSION PLAN

Deferred Compensation and Supplemental Retirement Income Plans - IRC Section 403(b) Plan - All employees can participate in a tax sheltered annuity plan (Plan) created under Internal Revenue Code Section 403(b). The Plan is a defined contribution plan in which each employee of the Union Partnership, as a condition of employment, is provided an individual annuity through an outside insurance company. The Union Partnership contributed 6% of gross wages for the year ended June 30, 2003 for those employees who have

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

been employed over six months and contributed 2% or more of their compensation as an elective deferral. 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 Union Partnership.

For the year ended June 30, 2003, the Union Partnership contributed \$7,336 for retirement benefits during the year.

NOTE 8 - RISK MANAGEMENT

The Union 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 Union 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 Union 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 Union Partnership's use of the modified cash basis of accounting, accrued liabilities related to compensated absences (paid time off leave) and any employer-related costs earned and unpaid, are not reflected in the financial statements. The compensated absences commitment for paid time off leave at June 30, 2003, is \$9,019. No funds or reservation of net assets has been made for this commitment.

NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

- B. Commitments on Contracts** - The Union Partnership had an outstanding commitment of \$25,390 on a professional services contract that had not been paid at June 30, 2003.

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
Family Support	\$ 19,280
Child Care Resource and Referral	2,500
Pre-K Pilot Program	28,233
Folic Acid Program	3,539
Latino/Hispanic Family Resource Center	<u>1,720</u>
	<u>\$ 55,272</u>

- 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
Teacher of the Year Award	\$ 23
Child Care Resource and Referral	2,000
Pre-K Pilot Program	65,000
Folic Acid Program	<u>5,661</u>
	<u>\$ 72,684</u>

***Union 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	Refund	Amount	Refund	
	Advanced	Due	Advanced	Due	
Child Care Network			51,554		
Child Care Resources, Inc. - Union County	*	160,000	9,500		
Elizabeth Learning Center			20,465		
June Bugs Child Development Center			34,565		
Piedmont Behavioral Healthcare	*	52,644			
South Piedmont Community College	*	173,232	(808)	644	
The ARC of Union County, Inc.	*	38,707			
Turning Point of Union County, Inc.		31,822			
Union County Community Action, Inc.	*	47,557			
Union County Health Department	*	83,441	(14,548)	6,376	
Union County Public Schools	*	71,170	165,485		
United Family Services		55,000			
Various Day Care Providers			2,546		
Weekdays Children's Ministries, Central Methodist Church			41,444		
		\$ 713,573	\$ (15,356)	\$ 332,579	\$ 0

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

***Union County Partnership for Children
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	121,526
Union County Department of Social Services	1,279,205
	\$ 1,400,731
<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>	

Union County Partnership for Children**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)	1-12-5-32-001	\$ (8,052)	\$ (479)
Early Childhood Initiatives Program (Current Year)	* N/A	964,033	942,031
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	* 2090003396	187,368	184,809
Total State Awards		\$ 1,155,349	\$ 1,138,361
* 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.			

<i>Union County Partnership for Children</i>			
<i>Schedule of Property and Equipment - Modified Cash Basis</i>			
<i>For the Year Ended June 30, 2003</i>			<i>Schedule 4</i>
Furniture and Non-Computer Equipment		\$	14,950
Computer Equipment/Printers			<u>54,858</u>
Total Property and Equipment		\$	<u>69,808</u>
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.			

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

Schedule 5

<i>Match Provided at the Partnership Level:</i>			
Cash		\$	114,181
In-Kind Goods and Services			55,000
			<hr/>
		\$	169,181
			<hr/>
<i>Match Provided at the Contractor Level:</i>			
Cash		\$	245,612
In-Kind Goods and Services			39,142
			<hr/>
		\$	284,754
			<hr/>
<p>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.</p>			



Ralph Campbell, Jr.
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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
Union County Partnership for Children
Monroe, North Carolina

We have audited the financial statements of the Union County Partnership for Children (Union Partnership) as of and for the year ended June 30, 2003, and have issued our report thereon dated June 10, 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 Union 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 Union 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 Union Partnership's ability to

**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)**

record, process, summarize and report financial data consistent with the assertions of management in the financial statements. This reportable condition noted as a result of our audit is described in the Audit Finding and Recommendation section of this report:

Finding

Contract Management

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 believe the reportable condition described above is not 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

June 10, 2004

AUDIT FINDING AND RECOMMENDATION

Matter Related to Financial Reporting

The following finding and recommendation was identified during the current audit and describe a condition that represents significant deficiency in internal control.

CONTRACT MANAGEMENT

We identified deficiencies in the contract management system of the Union Partnership that included the following:

- There were no formal grant agreements to support disbursements totaling \$29,084 for the Early Childhood Resource and Referral and the Pre-K Pilot Expansion private grant activities.
- The Union Partnership failed to adequately document its contract amendments with local service providers. In accordance with the terms of its contracts, all changes to the original contracts were to be incorporated in written amendments and signed by all parties. Our testwork noted \$232,266 in contract budget amendments that did not have the local service providers' signatures.

Recommendation: We recommend that the Partnership further enhance and consistently implement its contract management policies and procedures. Those procedures should address the establishment of formal contract agreements for all contract and grant disbursements and ensure that amendments are properly executed to support contract changes.

Partnership's Response: The Union County Partnership for Children has and will continue to provide formal contract agreements consistent with Smart Start contracts and include both parties' signatures on all contract amendments.

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

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The Honorable Roy A. Cooper, III	Attorney General
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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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August 4, 2004

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