



STATE OF NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT OF CARTERET COUNTY PARTNERSHIP FOR CHILDREN

MOREHEAD CITY, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2003

OFFICE OF THE STATE AUDITOR

RALPH CAMPBELL, JR.

STATE AUDITOR

FINANCIAL STATEMENT AUDIT REPORT OF
CARTERET COUNTY PARTNERSHIP FOR CHILDREN
MOREHEAD CITY, NORTH CAROLINA
FOR THE YEAR ENDED JUNE 30, 2003

BOARD OF DIRECTORS

JOANN NEWTON, CHAIRPERSON

ADMINISTRATIVE OFFICER

SHERRY PEEL, EXECUTIVE DIRECTOR



Ralph Campbell, Jr.
State Auditor

STATE OF NORTH CAROLINA
Office of the State Auditor

2 S. Salisbury Street
20601 Mail Service Center
Raleigh, NC 27699-0601
Telephone: (919) 807-7500
Fax: (919) 807-7647
Internet <http://www.ncauditor.net>

AUDITOR'S TRANSMITTAL

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

This report presents the results of our financial statement audit of the Carteret County Partnership for Children (Carteret 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 Carteret 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 Carteret 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 Carteret Partnership is one of these local partnerships. As such, the Carteret 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 Carteret 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 or noncompliance with laws, regulations, contracts, or grants.

Finding

Contract Management and Monitoring

This matter is described in the Independent Auditor's Report on Compliance and on Internal Control over Financial Reporting and the Audit Findings and Recommendations 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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Ralph Campbell, Jr.
State Auditor

STATE OF NORTH CAROLINA
Office of the State Auditor

2 S. Salisbury Street
20601 Mail Service Center
Raleigh, NC 27699-0601
Telephone: (919) 807-7500
Fax: (919) 807-7647
Internet <http://www.osa.state.nc.us>

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Carteret County Partnership for Children
Morehead City, North Carolina

We have audited the accompanying Statement of Receipts, Expenditures, and Net Assets – Modified Cash Basis of the Carteret County Partnership for Children (Carteret 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 Carteret 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 Carteret 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 May 28, 2004 on our consideration of the Carteret 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 Carteret 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

May 28, 2004

Carteret 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	\$ 748,599	\$ 12,000	\$ 0	\$ 760,599
Federal Awards (less refunds of \$1,107)		42,097		42,097
Private Contributions		1,265		1,265
Special Fund Raising Events		2,395		2,395
Interest and Investment Earnings		5		5
Sales Tax Refunds		2,498		2,498
Other Receipts		1,643		1,643
Total Receipts	748,599	61,903		810,502
Net Assets Released from Restrictions:				
Satisfaction of Program Restrictions		798	(798)	
	748,599	62,701	(798)	810,502
Expenditures:				
Programs:				
Child Care and Education Quality	349,308	48,996		398,304
Child Care and Education Accessibility and Availability	28,225			28,225
Child Care and Education Affordability	80,393			80,393
Health and Safety	93,067			93,067
Family Support	2,928			2,928
More at Four	47,394			47,394
Support:				
Management and General	109,027	6,886		115,913
Program Evaluation	31,750			31,750
Other:				
Sales Tax Paid		1,516		1,516
Refund of Prior Year Grant		66		66
Total Expenditures	742,092	57,464		799,556
Excess of Receipts Over Expenditures	6,507	5,237	(798)	10,946
Net Assets at Beginning of Year	(657)	6,420	798	6,561
Net Assets at End of Year	\$ 5,850	\$ 11,657	\$ 0	\$ 17,507
Net Assets Consisted of:				
Cash and Cash Equivalents	\$ 1,555	\$ 11,657	\$ 0	\$ 13,212
Refunds Due From Contractors	4,466			4,466
	6,021	11,657		17,678
Less: Funds Held for Others	171			171
	\$ 5,850	\$ 11,657	\$ 0	\$ 17,507

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

Carteret 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	\$ 349,308	71,576		5,230	7,400	7,691	1,395	256,016	
Child Care and Education Accessibility and Availability	\$ 28,225							28,225	
Child Care and Education Affordability	\$ 80,393	43,545	3,234	5,232	4,720	4,406	19,256		
Health and Safety	\$ 93,067							93,067	
Family Support	\$ 2,928							2,928	
More at Four	\$ 47,394							47,394	
	\$ 601,315	\$ 115,121	\$ 3,234	\$ 10,462	\$ 12,120	\$ 12,097	\$ 20,651	\$ 427,630	\$ 0
Support:									
Management and General	\$ 109,027	78,103	4,422	2,985	10,595	11,164	1,758		
Program Evaluation	\$ 31,750	27,654			1,936	2,160			
	\$ 140,777	\$ 105,757	\$ 4,422	\$ 2,985	\$ 12,531	\$ 13,324	\$ 1,758	\$ 0	\$ 0
Total Smart Start Fund Expenditures	\$ 742,092	\$ 220,878	\$ 7,656	\$ 13,447	\$ 24,651	\$ 25,421	\$ 22,409	\$ 427,630	\$ 0
Other Funds:									
Programs:									
Child Care and Education Quality	\$ 48,996	\$ 36,452	\$ 0	\$ 2,065	\$ 4,922	\$ 3,023	\$ 120	\$ 2,414	\$ 0
Support:									
Management and General	\$ 6,886	\$ 0	\$ 3,782	\$ 0	\$ 1,560	\$ 1,544	\$ 0	\$ 0	\$ 0
Other:									
Sales Tax Paid	\$ 1,516			1,516					
Refund of Prior Year Grant	\$ 66					66			
	\$ 1,582	\$ 0	\$ 0	\$ 1,516	\$ 0	\$ 66	\$ 0	\$ 0	\$ 0
Total Other Funds Expenditures	\$ 57,464	\$ 36,452	\$ 3,782	\$ 3,581	\$ 6,482	\$ 4,633	\$ 120	\$ 2,414	\$ 0

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

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

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

- A. Organization and Purpose** - The Carteret County Partnership for Children (Carteret Partnership) is a legally separate nonprofit organization incorporated on November 20, 2001. The Carteret Partnership was established to develop and provide, through public and private means, early childhood education and developmental services for children and families. The Carteret 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 Carteret 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 Carteret Partnership did not have any temporarily or 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 private bank accounts and money market accounts.
- E. Refunds Due From Contractors** - Refunds due from contractors represent the unexpended amount of advances to contractors at year-end that are to be refunded back to the State. As recoveries are collected, the receivable balance is reduced. Payments to the State for the recovered advances are recorded as a reduction to the State awards balance.
- F. 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. For the year ended, the Carteret Partnership was holding amounts withheld from employee paychecks for insurance benefit payments.
- G. 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 8.
- H. Use of Estimates** - The preparation of financial statements in conformity with the other comprehensive basis of accounting used by the Carteret 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 Carteret 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 Carteret Partnership to a concentration of credit risk.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 3 - FUNDING FROM GRANT AWARDS

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

Associated with these contracts, the Carteret Partnership is responsible for developing a comprehensive, collaborative, long-range plan of services to children and families for the service-delivery area.

The Carteret Partnership was awarded \$769,315 under a current year Smart Start contract with NCPC and has received \$748,599 of this amount. The unexpended balance of this contract is subject to reversion to the State. The Partnership has returned \$5,223 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.

Child Care Resource and Referral Program - The Carteret Partnership received additional revenue and support from the State of North Carolina based on a cost-reimbursement contract with DHHS for the Child Care Resource and Referral (CCR&R) Program.

The Carteret Partnership was awarded \$53,970 under a current year CCR&R contract with DHHS and has received \$43,204 of this amount. The unexpended balance of this contract is subject to reversion to the State. The Partnership has returned \$249 of this contract to the State based on financial status reports submitted to DHHS subsequent to June 30, 2003.

NOTE 4 - RELATED PARTY TRANSACTIONS

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

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 ratio reduction subsidy payments, child care resource and referral, salary supplements, or health insurance benefits for child care providers.

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 part-day care programs.

Health and Safety - Used to account for service activities including prenatal/newborn services, child abuse and neglect intervention, or special needs – early intervention services/special education.

Family Support - Used to account for service activities associated with ongoing parenting education.

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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.

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.

NOTE 6 - 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	\$ 21,024
2005	<u>1,302</u>
Total Minimum Lease Payments	<u><u>\$ 22,326</u></u>

Rental expense for all operating leases during the year was \$21,228.

NOTE 7 - RISK MANAGEMENT

The Carteret 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 Carteret 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

NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

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

NOTE 8 - COMMITMENTS AND CONTINGENCIES

Compensated Absences – As a result of the Carteret 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 \$9,419. No funds or reservation of net assets has been made for this commitment.

NOTE 9 - RESTRICTIONS ON NET ASSETS

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
Mobile Education Center	<u>\$ 798</u>

NOTE 10 - BEGINNING NET ASSETS

The Jones Carteret Partnership for Children was dissolved effective July 1, 2002 resulting in the creation of two separate local nonprofit organizations to oversee the Smart Start funding allocations for Jones and Carteret counties. As a result of the dissolution, the net assets of the former organization were distributed to the Jones County Partnership for Children and the Carteret County Partnership for Children. The distribution was based on activities previously controlled by the local Boards of the two counties. In addition, a settlement occurred between the two newly created Partnerships to satisfy previous joint costs. A schedule is presented below to identify the distribution of net assets that are reported as the beginning net asset balances for the two local partnerships.

	Distribution of Net Assets		
	Unrestricted Smart Start Fund	Unrestricted Other Funds	Temporarily Restricted Funds
The Jones Carteret Partnership for Children	\$ 8,145	\$ 34,740	\$ 9,167
Less: Jones County Partnership for Children	<u>8,802</u>	<u>28,319</u>	<u>8,369</u>
Carteret County Partnership for Children	<u>\$ (657)</u>	<u>\$ 6,421</u>	<u>\$ 798</u>

***Carteret 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
ABC School	21,646			
Carteret County Board of Education *	26,782	(2)		
Carteret County Cooperative Extension Service *	39,742			
Carteret Rape Crisis	6,407			
Colony Child Care *	569			
Little Citizens *	38,275			
My School *	109,705			
Neuse Center for Mental Health *	54,310	(4,464)		
Newport Developmental Center *	28,225			
St. James United Methodist Day Care	11,678			
The Sandbox	24,304			
Various	16,471		2,414	
White Oak Christian	16,457			
	\$ 394,571	\$ (4,466)	\$ 2,414	\$ 0
Individuals:				
Support for Professional Development	\$ 37,525	\$ 0	\$ 0	\$ 0
	\$ 432,096	\$ (4,466)	\$ 2,414	\$ 0

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

Carteret County Partnership for Children

Schedule of Federal and State Awards - Modified Cash Basis

For the Year Ended June 30, 2003

Schedule 2

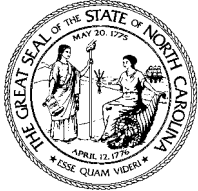
Federal/State Grantor/Pass-through Grantor/Program	Federal CFDA Number	Contract #	Receipts	Expenditures
Federal Awards:				
North Carolina Department of Health and Human Services				
Division of Child Development				
Child Care Resource and Referral (Prior Year)	93.575	6001	\$ (1,107)	\$ 0
Child Care Resource and Referral (Current Year)	93.575	* 6116	43,204	45,683
Total Federal Awards			42,097	45,683
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)		1-12-1-08-001		(657)
Early Childhood Initiatives Program (Current Year)		* N/A	748,599	742,749
Multi-County Accounting and Contracting Grant		N/A	12,000	5,788
Total State Awards			760,599	747,880
Total Federal and State Awards			\$ 802,696	\$ 793,563
* Programs with compliance requirements that have a direct and material effect on the financial statements.				

<i>Carteret 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 3</i>
	Furniture and Noncomputer Equipment	\$	9,518		
	Computer Equipment/Printers		18,279		
	Motor Vehicles		40,348		
	Total Property and Equipment	\$	68,145		
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.					

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

Schedule 4

<i>Match Provided at the Partnership Level:</i>			
Cash		\$	44,711
In-Kind Goods and Services			30,353
		\$	<u>75,064</u>
<i>Match Provided at the Contractor Level:</i>			
Cash		\$	625
In-Kind Goods and Services			50,489
		\$	<u>51,114</u>
<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>			



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State Auditor

STATE OF NORTH CAROLINA
Office of the State Auditor

2 S. Salisbury Street
20601 Mail Service Center
Raleigh, NC 27699-0601
Telephone: (919) 807-7500
Fax: (919) 807-7647
Internet <http://www.osa.state.nc.us>

**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
Carteret County Partnership for Children
Morehead City, North Carolina

We have audited the financial statements of the Carteret County Partnership for Children (Carteret Partnership) as of and for the year ended June 30, 2003, and have issued our report thereon dated May 28, 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 Carteret 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 Carteret 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 Carteret 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 Findings and Recommendations section of this report:

Finding

Contract Management and 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 do not believe that the reportable condition described above is 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

May 28, 2004

AUDIT FINDINGS AND RECOMMENDATIONS

Matters Related to Financial Reporting

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

CONTRACT MANAGEMENT AND MONITORING

Our review of the contract management and monitoring system for the Carteret Partnership identified the need for enhancement of the procedures used for performing fiscal monitoring of Direct Service Providers to include a more detailed review of the expenditures of grant funds. Also, the methodology used by the Partnership to administer payments for the Health Benefits and Ratio Reduction activities was flawed resulting in calculation and processing errors.

Recommendation: We recommend that the Carteret Partnership enhance its fiscal monitoring procedures to ensure payments made to providers are used for their intended purpose. In addition, the Partnership should revise its disbursement procedures for the Health Benefits and Ratio Reduction activities to ensure payments are calculated and processed accurately and within the established program guidelines.

Partnership's Response: Carteret County Partnership for Children has adopted a more enhanced site visit form that addresses fiscal and programmatic monitoring. This form has been used to monitor all Direct Service Providers in the 2003-2004 fiscal year. The disbursement procedures for Health Benefits and Ratio Reduction have been revised and corrections have been made in the 2003-2004 fiscal year.

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July 22, 2004

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