



STATE OF NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT OF REGION A PARTNERSHIP FOR CHILDREN

SYLVA, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2004

OFFICE OF THE STATE AUDITOR

LESLIE W. MERRITT, JR., CPA, CFP

STATE AUDITOR

FINANCIAL STATEMENT AUDIT REPORT OF

REGION A PARTNERSHIP FOR CHILDREN

SYLVA, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2004

BOARD OF DIRECTORS

STAN BIENICK, CHAIRMAN

ADMINISTRATIVE OFFICER

JUNE T. SMITH, EXECUTIVE DIRECTOR



STATE OF NORTH CAROLINA
Office of the State Auditor

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AUDITOR'S TRANSMITTAL

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

This report presents the results of our financial statement audit of the Region A Partnership for Children (Region A Partnership) for the year ended June 30, 2004. Our audit was made by authority of Article 5A of Chapter 147 of the *North Carolina General Statutes*.

The accounts and operations of the Region A 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 Region A 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 Region A Partnership is one of these local partnerships. As such, the Region A Partnership is a private nonprofit 501(c)(3) organization and is required by General Statute 143B-168.14(b) to have an annual 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 Region A Partnership's ability to record, process, summarize, and report financial data in the financial statements and present instances of noncompliance or other matters, if any, with laws, regulations, contracts, or grant agreements.

Results - The following conditions represent significant deficiencies in internal control or noncompliance or other matters with laws, regulations, contracts, or grant agreements:

Finding

04-01 Inaccurate Financial Statement Presentations

This matter is described in the Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters and the Audit Findings and in the Schedule of Findings and Questioned Costs section of this report.

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



Leslie W. Merritt, Jr., CPA, CFP
State Auditor

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STATE OF NORTH CAROLINA
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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Region A Partnership for Children
Sylva, North Carolina

We have audited the accompanying Statement of Receipts, Expenditures, and Net Assets – Modified Cash Basis of the Region A Partnership for Children (Region A Partnership) as of June 30, 2004, and the related Statement of Functional Expenditures – Modified Cash Basis for the year then ended. These financial statements are the responsibility of the Region A Partnership's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

As described in Note 1, the accompanying financial statements were prepared on the modified cash basis of accounting, which is a comprehensive basis of accounting other than 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 Region A Partnership for Children as of June 30, 2004, 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 March 18, 2005, on our consideration of the Region A Partnership's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the

INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. 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.

Our audit was made for the purpose of forming an opinion on the basic financial statements that collectively comprise the Region A Partnership for Children's basic financial statements. The information in Schedules 1, 3, 4, and 5 is present for purposes of additional analysis and is not a required part of the basic financial statements. These Schedules have 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.



Leslie W. Merritt, Jr., CPA, CFP
State Auditor

March 18, 2005

Region A Partnership for Children
Statement of Receipts, Expenditures, and Net Assets - Modified Cash Basis
For the Year Ended June 30, 2004

Exhibit A

	Unrestricted Funds		Temporarily Restricted Funds	Permanently Restricted Funds	Total Funds
	Smart Start Fund	Other Funds			
Receipts:					
State Awards (less refunds of \$14,214)	\$ 1,734,601	\$ 824,291	\$ 0	\$ 0	\$ 2,558,892
Federal Awards (less refunds of \$13,068)		451,890	16,353		468,243
Private Contributions		208,895	261,022		469,917
Interest and Investment Earnings		7,538			7,538
Sales Tax Refunds		8,407			8,407
Total Receipts	1,734,601	1,501,021	277,375		3,512,997
Net Assets Released from Restrictions:					
Satisfaction of Program Restrictions		25,073	(25,073)		
	1,734,601	1,526,094	252,302		3,512,997
Expenditures:					
Programs:					
Child Care and Education Affordability	253,503	3,287			256,790
Child Care and Education Quality	340,471	229,415			569,886
Family Support	359,110	23,822			382,932
Health and Safety	430,735	93,635			524,370
Model Child Development Center		11,125			11,125
More at Four		1,036,293			1,036,293
Support:					
Development Office	57,407				57,407
Management and General	241,837	114,401			356,238
Program Coordination		86,237			86,237
Program Evaluation	57,727				57,727
Other:					
Sales Tax Paid		8,033			8,033
Total Expenditures	1,740,790	1,606,248			3,347,038
Excess of Receipts Over Expenditures	(6,189)	(80,154)	252,302		165,959
Net Assets at Beginning of Year	14,214	44,776	227,675		286,665
Restatement (Note 11)				25,628	25,628
Net Assets at End of Year	\$ 8,025	\$ (35,378)	\$ 479,977	\$ 25,628	\$ 478,252
Net Assets Consisted of:					
Cash and Cash Equivalents	\$ 0	\$ (35,224)	\$ 479,977	\$ 0	\$ 444,753
Investments		609			609
Benefit Interest in Community Foundation				25,628	25,628
Refunds Due From Contractors	8,025				8,025
	8,025	(34,615)	479,977	25,628	479,015
Less: Funds Held for Others		763			763
	\$ 8,025	\$ (35,378)	\$ 479,977	\$ 25,628	\$ 478,252

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

***Region A Partnership for Children
Statement of Functional Expenditures - Modified Cash Basis
For the Year Ended June 30, 2004***

Exhibit B

	<u>Total</u>	<u>Personnel</u>	<u>Contracted Services</u>	<u>Supplies and Materials</u>	<u>Other Operating Expenditures</u>	<u>Fixed Charges and Other Expenditures</u>	<u>Property and Equipment Outlay</u>	<u>Services/ Contracts/ Grants</u>	<u>Participant Training Expenditures</u>
Smart Start Fund:									
Programs:									
Child Care and Education Affordability	\$ 253,503	\$ 90,100	\$ 0	\$ 1,384	\$ 8,110	\$ 0	\$ 406	\$ 153,503	\$ 0
Child Care and Education Quality	340,471							340,471	
Family Support	359,110							359,110	
Health and Safety	430,735							430,735	
	<u>1,383,819</u>	<u>90,100</u>		<u>1,384</u>	<u>8,110</u>		<u>406</u>	<u>1,283,819</u>	
Support:									
Development Office	57,407	57,407							
Management and General	241,837	134,581	7,181	11,789	77,768	5,401	5,117		
Program Evaluation	57,727	49,122	7,727	149	729				
	<u>356,971</u>	<u>241,110</u>	<u>14,908</u>	<u>11,938</u>	<u>78,497</u>	<u>5,401</u>	<u>5,117</u>		
Total Smart Start Fund Expenditures	<u>\$ 1,740,790</u>	<u>\$ 331,210</u>	<u>\$ 14,908</u>	<u>\$ 13,322</u>	<u>\$ 86,607</u>	<u>\$ 5,401</u>	<u>\$ 5,523</u>	<u>\$ 1,283,819</u>	<u>\$ 0</u>
Other Funds:									
Programs:									
Child Care and Education Affordability	\$ 3,287	\$ 806	\$ 0	\$ 149	\$ 2,332	\$ 0	\$ 0	\$ 0	\$ 0
Child Care and Education Quality	229,415	74,581	55,116	4,571	25,881	35	1,155	68,076	
Family Support	23,822							23,822	
Health and Safety	93,635	77,888		2,740	9,263	46		3,698	
Model Child Development Center	11,125							11,125	
More at Four	1,036,293	55,273	83,765	24,105	86,167	1,190	719	782,874	2,200
	<u>1,397,577</u>	<u>208,548</u>	<u>138,881</u>	<u>31,565</u>	<u>123,643</u>	<u>1,271</u>	<u>1,874</u>	<u>889,595</u>	<u>2,200</u>
Support:									
Management and General	114,401	82,551		700	10,420	20,430			300
Program Coordination	86,237	48,031						38,206	
	<u>200,638</u>	<u>130,582</u>		<u>700</u>	<u>10,420</u>	<u>20,430</u>		<u>38,206</u>	<u>300</u>
Other:									
Sales Tax Paid	8,033			8,033					
Total Other Funds Expenditures	<u>\$ 1,598,215</u>	<u>\$ 339,130</u>	<u>\$ 138,881</u>	<u>\$ 32,265</u>	<u>\$ 134,063</u>	<u>\$ 21,701</u>	<u>\$ 1,874</u>	<u>\$ 927,801</u>	<u>\$ 2,500</u>

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

REGION A PARTNERSHIP FOR CHILDREN
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

- A. Organization and Purpose** - The Region A Partnership for Children (Region A Partnership) is a legally separate nonprofit organization incorporated on April 15, 1994. The Region A Partnership was established to develop and provide, through public and private means, early childhood education and developmental services for children and families. The Region A 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 Region A 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.

Permanently restricted net assets include gifts and contributions that are limited by donor-imposed stipulations that neither expire with the passage of time nor can be fulfilled or otherwise removed by the actions of the Region A Partnership. The net assets are invested in perpetuity with only the income from such investments available for program operations.

- 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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.

However, unexpended advances to contractors that revert back to the State are recognized as a reduction to expenditures and an increase to net assets. In addition, amounts withheld from employee paychecks or other amounts received in an agency capacity are recorded as funds held for others.

- D. Cash and Cash Equivalents** - This classification appears on the Statement of Receipts, Expenditures, and Net Assets – Modified Cash Basis and consists of petty cash, cash on deposit with private bank accounts, savings accounts, and money market accounts.
- E. Investments** - This classification consists of stock owned and funds invested in an endowment fund with the North Carolina Community Foundation, Inc. as reported in Note 10.
- F. 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.
- G. Funds Held For Others** - Funds held for others includes amounts received that are fiduciary in nature in which the Region A Partnership acts in an agency capacity.
- H. Property and Equipment** - Under the modified cash basis of accounting, purchases of property and equipment are reported as expenditures in the year occurred. However, Region A Partnership is required by contract regulation to track and maintain property and equipment items as presented in Schedule 4 of this report. The Region A Partnership has a policy to track purchases of property and equipment items with an individual cost of \$500 or more and an estimated useful life greater than one year. Such items are valued at their original purchase price, which may be different from their valuation as of June 30, 2004. Donated items are recorded at estimated fair market value at the date of donation.
- I. 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

compensated absences for accumulated, unpaid leave that would be due to employees upon termination is reported as a commitment in Note 8.

- J. Use of Estimates** - The preparation of financial statements in conformity with the other comprehensive basis of accounting used by the Region A 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 AND INVESTMENTS

- A. Deposits** - All funds of the Region A Partnership are deposited with commercial banks and insured by the Federal Deposit Insurance Corporation (FDIC) up to \$100,000 per bank. Deposits over this amount subjects the Region A Partnership to a concentration of credit risk. At June 30, 2004, the Region A Partnership's bank deposits in excess of the FDIC insured limit was \$390,029.
- B. Investments** - Investments consists of donated stock held by the Region A Partnership and a beneficial interest in the Carolina Mountain Trust for Children and Youth Endowment. The investments are reported at fair value as of June 30, 2004.

NOTE 3 - FUNDING FROM GRANT AWARDS

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

Associated with these contracts, the Region A 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 Region A 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

The Region A Partnership was awarded and has received \$1,748,815 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 \$8,025 of this contract to the State based on financial status reports submitted to NCPC subsequent to June 30, 2004.

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

Appalachian Regional Commission - The Region A Partnership received additional revenue and support from the Appalachian Regional Commission (ARC). The Region A Partnership was awarded multiple grants totaling \$800,000 to provide support for the Region A More at Four Pre-Kindergarten program. The Region A Partnership received \$393,891 and expended \$450,770 from these grants during the 2004 fiscal year.

More at Four - The Region A Partnership also received revenue and support from the State of North Carolina for the More at Four Program. The Region A Partnership was awarded \$789,604 and received \$740,291 under a current year cost-reimbursement contract. The Region A 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 Region A Partnership are representative of various organizations that benefit from actions taken by the Board. It is the policy of the Region A 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 Region A 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

functional categories presented in the accompanying financial statements and the methods utilized to allocate joint cost:

A. Program Functions

Child Care and Education Affordability - Used to account for service activities including Head Start wraparound/extended day or part day care programs.

Child Care and Education Quality - Used to account for service activities including quality enhancement – upgrades, child care resource and referral, salary supplements, the SPARK initiative, provider training, or special needs – support for child care professionals.

Family Support - Used to account for service activities including family resource centers, ongoing parenting education, or literacy projects.

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

Model Child Development Center - Used to account for the establishment of a model childcare center on the campus of Haywood Community College and address three major needs in childcare in western North Carolina – additional high quality slots for childcare that provide extended hours of care, adequate training and technical assistance outreach to church-sponsored, public, and private centers, and enhanced professional development opportunities for the childcare workforce.

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

Development Office - Expenditures that are incurred to develop new sources of funding including public and private support.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

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 - PENSION PLAN

The Region A Partnership provides each employee, as part of the benefit package, an additional 27% of his/her salary to be applied to the purchase of individual benefit choices, including a retirement plan. Costs not expended for benefit purposes are paid out to employees in the last quarter of the fiscal year as additional salary amounts.

Retirement Plans - The Region A Partnership has a Simplified Employee Pension plan (SEP Plan) covering all full-time employees. Each full-time employee of the Region A Partnership, as a condition of employment, is provided an Individual Retirement Account through an outside registered broker. The Region A Partnership contributed 8.3% of gross wages for the year ended June 30, 2004. The Region A Partnership does not own the accounts nor is liable for any other cost other than the required contribution. The Region A Partnership contributed \$45,803 for SEP Plan benefits during the year.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 7 - RISK MANAGEMENT

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

NOTE 8 - COMMITMENTS AND CONTINGENCIES

- A. Compensated Absences** – As a result of the Region A 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, 2004, is \$21,688. No funds or reservation of net assets has been made for this commitment.
- B. Loan Commitment** - The Region A Partnership has a note with a balance of \$16,649 at June 30, 2004, that is secured by the Region A Partnership building. The note is payable to a private party in monthly installments of \$1,715. This amount includes principal and an interest rate of 6.5%. The loan balance of \$17,149, consisting of principal of \$16,649 and interest of \$500, will be paid off during the 2005 fiscal year.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 9 - RESTRICTIONS ON NET ASSETS

A. Temporarily Restricted Net Assets - Temporarily restricted net assets at June 30, 2004, are available for the following purposes:

Purpose	Amount
Early Learning Programs	\$ 690
Model Child Development Center at Haywood Community College	187,202
Hayesville Child Development Center	481
Haywood County Subsidy for Child Care	111
Kellogg SPARK-Supporting Partnerships to Assure Ready Kids	260,932
Medicaid ABCD Assuring Better Child Health and Development Initiative	16,353
Quality Enhancement Project - Webster Child Development Center	9,082
Playground Equipment for Cherokee County	4,079
Public Awareness Campaign for Early Intervention for Children	1,047
	\$ 479,977

B. Net Assets Released From Donor Restrictions - Net assets were released from donor restrictions during the fiscal year ended June 30, 2004, by incurring expenditures satisfying the restricted purposes as follows:

Purpose	Amount
Model Child Development Center at Haywood Community College	\$ 17,694
Kellogg SPARK - Supporting Partnerships to Assure Ready Kids	7,379
	\$ 25,073

NOTE 10 - PERMANENTLY RESTRICTED NET ASSETS

Net assets were permanently restricted for the following purposes at June 30, 2004:

Purpose	Amount
Carolina Mountain Trust for Children and Youth Endowment	\$ 25,628

The Carolina Mountain Trust for Children and Youth Endowment (Endowment) was established through the North Carolina Community Foundation, Inc., (Foundation) on February 17, 1995. The Region A Partnership established the Endowment in conjunction with the Region A Child and Youth Planning Council and its purpose is devoted to support the planning and coordination of services to children, youth and families in southwestern North Carolina, including Haywood, Jackson, Swain, Macon,

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Clay, Cherokee, and Graham Counties and the Eastern Band of Cherokee Indians.

The agreement between the Region A Partnership, the Region A Child and Youth Planning Council, and the Foundation provides that all the contributions to the Endowment are irrevocable. The Endowment, including all investment income, capital gains and subsequent contributions, are the Foundation's property. The Foundation will make annual distributions of the income earned on the Endowment, subject to Foundation's spending policy. The Foundation may distribute all or any part of the Endowment at the Foundation's discretion; however, it is the Foundation's general policy that a substantial part of the Endowment remains as a permanent endowment of the Foundation. The agreement also permits the Community Foundation to substitute another beneficiary in the place of the Region A Partnership if it ceases to exist. Therefore, the Region A Partnership has explicitly granted variance power to the Community Foundation.

The Region A Partnership's endowment position is identified on the Statement of Receipts, Expenditures, and Net Assets – Modified Cash Basis as a Benefit Interest in the Community Foundation.

NOTE 11 - RESTATEMENT OF NET ASSETS

The Region A Partnership established an endowment fund with the North Carolina Community Foundation, Inc., (Foundation) as identified in Note 10 above. The beneficial interest in the endowment was not recorded in the accounting records of the Region A Partnership in accordance with Statement of Financial Accounting Standards No. 136, *Transfers of Assets to a Not-for-Profit Organization or Charitable Trust That Raises or Holds Contributions for Others*. As a result, the net assets were recorded as of July 1, 2003, in the Permanently Restricted fund is presented as follows:

	Net Assets Previously Reported	Net Effect of Prior Year Reclassification	July 1, 2003 Net Assets Restated
	<u> </u>	<u> </u>	<u> </u>
Permanently Restricted Funds	\$ 0	\$ 25,628	\$ 25,628

NOTE 12 - PUBLIC SUPPORT AND FUNDING

The Region A Partnership has received significant funding commitments for future periods through private organizations. A grant commitment totaling \$1,911,050 was received from the W.K. Kellogg Foundation for the purpose of

NOTES TO THE FINANCIAL STATEMENT (CONCLUDED)

improving learning outcomes for children by strengthening partnerships and their efforts to align early learning resources, services, practices, and policies.

The activity has been identified as the Kellogg SPARK (Supporting Partnerships to Assure Ready Kids) Initiative. The project is scheduled through the 2008 fiscal year.

A grant commitment totaling \$846,000 was received from The Duke Endowment to assist in the establishment of a Model Child Care Center on the campus of Haywood Community College. An initial payment of \$282,000 has been received to date with the balance contingent on the successful construction of the center.

In addition, the Region A Partnership also received donations of \$3,250 from its Board members and staff, representing a 100% participation rate for both categories.

NOTE 13 - SUBSEQUENT EVENT

On August 30, 2004, the Region A Partnership entered into a loan commitment in the amount of \$180,000 for the sole purpose of financing the start-up and manufacturing cost for education materials for the Sparkle & Shine Project (kindergarten transition materials). The terms of the loan commitment provide for the payment of interest only during the first 12 months of the loan with principal and interest payments for the remaining nine years. The interest rate is fixed at 5.875%. A Negative Pledge Agreement on the Partnership's office building secures the loan.

**Region A Partnership for Children
Schedule of Contract and Grant Expenditures - Modified Cash Basis
For the Year Ended June 30, 2004**

Schedule 1

Organization Name	Smart Start Fund		Other Funds	
	Amount Advanced	Refund Due	Amount Advanced	Refund Due
Cherokee Boy's Club / Cherokee Center for Family Services	* \$ 3,750	\$ 0	\$ 0	\$ 0
Cherokee County Health Department	35,597			
Cherokee County Schools			173,586	
Clay County Health Department	27,417	(1,203)		
Clay County Schools	* 26,125		79,168	
Family Resources of Cherokee County	* 58,763			
Fontana Regional Library, Inc.	50,350			
Four Square Community Action, Inc.	100,000			
Graham County Board of Education	* 22,737		99,857	
Graham County Health Department	36,623	(5,834)		
Haywood Community College	* 11,125			
Haywood County Consolidated Schools	* 2,719			
Haywood County Health Department	65,462	(959)		
Haywood County Public Library	* 20,804			
Jackson County Health Department	* 76,433		992	
Jackson County Schools			51,084	
Jean's Kid's Palace, Inc.	* 27,249			
K.A.R.E., Inc.	25,783	(13)	23,822	
Little Hands Playskool, Inc.			20,506	
Macon County Public Health Center	81,800			
Macon County Schools			60,517	
Macon Program for Progress, Inc.	* 125,613		39,457	
Mountain Projects, Inc.	* 53,503		1,896	
Smoky Mountain Center for Mental Health, Developmental Disabilities and Substance Abuse Services	* 132,525		45,494	
Swain County	14,719			
Swain County Department of Public Health	* 30,494			
Swain County Schools	54,160	(16)	93,558	
The Southwestern Child Development Commission, Inc.	* 171,542		175,983	
Various Centers & Homes			20,788	
Western Carolina University	* 77,644			
	<u>\$ 1,291,844</u>	<u>\$ (8,025)</u>	<u>\$ 927,801</u>	<u>\$ 0</u>

***Region A Partnership for Children
Schedule of State Level Service Provider Contracts
For the Year Ended June 30, 2004***

Schedule 2

Organization Name	DHHS Contracts
Child Care Services Association - WAGE\$	\$ 450,388
The Southwestern Child Development Commission, Inc.	* 814,840
	<u>\$ 1,265,228</u>

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

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.

**Region A Partnership for Children
Schedule of Federal and State Awards - Modified Cash Basis
For the Year Ended June 30, 2004**

Schedule 3

Federal/State Grantor/Pass-through Grantor/Program	Federal CFDA Number	Contract #	Receipts	Expenditures
Federal Awards:				
Appalachian Regional Commission				
Appalachian State Research, Technical Assistance, and Demonstration Projects	23.011			
More at Four Pre-Kindergarten Enhanced Resources (Current Year)	**	#NC-14298-02	\$ 65,907	\$ 55,675
More at Four Pre-Kindergarten Enhanced Resources (Prior Year)	**	#NC-14298-02	(13,068)	
More at Four Pre-Kindergarten Staff & Educational Materials	**	#NC-14297-02	118,984	105,031
More at Four Pre-Kindergarten Enhanced Resources	**	#NC-14298-C1	102,000	142,761
More at Four Pre-Kindergarten Staff & Educational Materials	**	#NC-14297-C1	107,000	147,303
US Department of Health and Human Services Administration for Children and Families Child Care and Development Fund	93.575			
Pass-through from the North Carolina Department of Health and Human Services, Division of Child Development		#6089		
Pass-through from the University of North Carolina at Chapel Hill Quality Enhancement Project for Infants and Toddlers		#5-46074	7,399	
Pass-through from the North Carolina Department of Health and Human Services, Division of Child Development		#6181		
Pass-through from the University of North Carolina at Chapel Hill Quality Enhancement Project for Infants and Toddlers		#5-46292	60,021	74,559
Center for Medicare and Medicaid Services Medical Assistance Program (Medicaid; Title XIX)	93.778			
Pass-through from the North Carolina Department of Health and Human Services, Division of Medical Assistance				
Pass-through from the North Carolina Department of Health and Human Services, Office of Research, Demonstrations and Rural Health Development		#6360		
Pass-through from the Moses Cone-Wesley Long Community Health Foundation, Inc.				
Pass-through from the Partnership for Health Management, Inc. Medicaid ABCD Child Development Grant				
Assuring Better Child Health & Development Initiative (Prior Year)				11,731
Assuring Better Child Health & Development Initiative (Current Year)		#2090003514	20,000	3,647
Total Federal Awards			<u>468,243</u>	<u>540,707</u>
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)			(14,214)	
Early Childhood Initiatives Program (Current Year)	*		1,748,815	1,740,790
Multi-County Accounting and Contracting Grant			84,000	84,000
North Carolina Department of Health and Human Services More at Four Pre-Kindergarten Program	*	#2090003762	740,291	728,848
Total State Awards			<u>2,558,892</u>	<u>2,553,638</u>
Total Federal and State Awards			<u>\$ 3,027,135</u>	<u>\$ 3,094,345</u>

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

** Major Programs per OMB Circular A-133

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.

***Region A Partnership for Children
Schedule of Property and Equipment - Modified Cash Basis
For the Year Ended June 30, 2004***

Schedule 4

Furniture and Noncomputer Equipment	\$	26,074
Computer Equipment/Printers		76,279
Buildings		<u>175,064</u>
Total Property and Equipment	\$	<u><u>277,417</u></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.

**Region A Partnership for Children
Schedule of Qualifying Match (Non-GAAP)
For the Year Ended June 30, 2004**

Schedule 5

Match Provided at the Partnership Level:

Cash	\$ 841,658
In-Kind Goods and Services	<u>39,267</u>
	<u>\$ 880,925</u>

Match Provided at the Contractor Level:

Cash	\$ 289,728
In-Kind Goods and Services	<u>465,850</u>
	<u>\$ 755,578</u>

Note: This schedule is presented in accordance with the program match requirement as provided for by North Carolina Session Law 2003-284, Section 10.38(c). The North Carolina Partnership for Children, Inc. and all local partnerships are required to match the total amount budgeted for the Smart Start Program in each fiscal year. The match is comprised of both cash and in-kind amounts. Only in-kind contributions that are verifiable, quantifiable, and related to the Smart Start Program can be applied to the in-kind match requirement, including volunteer services. The law allows for volunteer services to be valued for match purposes, a concept that deviates from generally accepted accounting principles. This schedule identifies those amounts allowable for this partnership in meeting the statewide match requirement.

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STATE OF NORTH CAROLINA
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**INDEPENDENT AUDITOR'S REPORT
ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
THE FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Board of Directors
Region A Partnership for Children
Sylva, North Carolina

We have audited the financial statements of the Region A Partnership for Children (Region A Partnership) as of and for the year ended June 30, 2004, and have issued our report thereon dated March 18, 2005. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Region A 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 an opinion 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 Region A Partnership's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable condition is reported, with response, in the Schedule of Findings and Questioned Costs section of this report:

Finding

04-01 Inaccurate Financial Statement Presentations

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

A material weakness is a reportable 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 caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider finding number 04-01, Inaccurate Financial Statement Presentations, to be a material weakness. In addition, we noted other matters involving the internal control over financial reporting, which we have reported to the management of the Region A Partnership in a separate letter, dated April 7, 2005.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Region A Partnership's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, 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 or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the audit committee, management of the Region A 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.

Leslie W. Merritt, Jr.

Leslie W. Merritt, Jr., CPA, CFP
State Auditor

March 18, 2005



STATE OF NORTH CAROLINA
Office of the State Auditor

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

Board of Directors
Region A Partnership for Children
Sylva, North Carolina

Compliance

We have audited the compliance of the Region A Partnership for Children (Region A Partnership) with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2004. Region A Partnership's major federal programs are identified in the summary of auditors' results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Region A Partnership's management. Our responsibility is to express an opinion on Region A Partnership's compliance based on our audit.

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

In our opinion, the Region A Partnership complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2004.

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

Internal Control Over Compliance

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

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance 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 Region A Partnership, The North Carolina Partnership for Children, the Governor, the General Assembly, and federal Awarding agencies and is not intended to be, and should not be, used by anyone other than these specified parties.

Leslie W. Merritt, Jr.

Leslie W. Merritt, Jr., CPA, CFP
State Auditor

March 18, 2005

**REGION A PARTNERSHIP FOR CHILDREN
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2004**

I. SUMMARY OF AUDITOR'S RESULTS **YES** **NO**

Financial Statements

Type of auditor's report issued: **Unqualified**

Internal control over financial reporting:

- Material weakness identified
- Reportable conditions identified that are not considered to be material weaknesses

Noncompliance material to financial statements noted?

Federal Awards

Internal control over major programs:

- Material weakness identified
- Reportable conditions identified that are not considered to be material weaknesses

Type of auditor's report issued on compliance for major federal programs: **Qualified**

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133

Identification of major federal programs:

<u>CFDA Numbers</u>	<u>Name of Federal Programs</u>
23.011	Appalachian State Research, Technical Assistance, and Demonstration Projects

Dollar threshold used to distinguish between Type A and Type B Programs **\$500,000**

Auditee qualified as low-risk auditee

**REGION A PARTNERSHIP FOR CHILDREN
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2004 (CONTINUED)**

II. FINANCIAL STATEMENT FINDINGS

04-01 INACCURATE FINANCIAL STATEMENT PRESENTATIONS

There were material misstatements in the financial information presented for audit by the Region A Partnership. Issues noted included:

- The failure to properly classify the More at Four funds in excess of \$700,000 as State funds.
- Misclassifications that affected the purpose and functional categories for reporting expenditures. The More at Four expenditures were not recorded to the required purpose code. In addition, transactions were recorded as educational materials and supplies that should have been reflected as contracted services.
- The Carolina Mountain Trust for Children and Youth Endowment, a permanently restricted fund maintained by the North Carolina Community Foundation, was not recorded in the accounts of the Partnership.

The financial records of the Partnership should correctly reflect transactions and events on a timely basis including the classification of net assets, revenues, and expenditures.

Recommendation: We recommend that the Region A Partnership implement procedures for the review and classification of transactions to ensure that financial activities are properly recorded in the general ledger. All transactions by the Partnership, including those related to the Carolina Mountain Trust, should be accounted for in the records of the Partnership.

Partnership's Response: We will review and implement procedures for the review and classification of transactions to ensure that financial activities are properly reflected in the general ledger and financial information presented for audit. The new assets of the Carolina Mountain Trust for Children and Youth Endowment have been recorded in the accounts of the Partnership.

**REGION A PARTNERSHIP FOR CHILDREN
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2004 (CONCLUDED)**

III. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

There were no current year audit findings for the Region A Partnership for Children that impacted the federal awards.

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**REGION A PARTNERSHIP FOR CHILDREN
SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2004**

There were no prior year audit findings for the Region A Partnership for Children.

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In accordance with North Carolina 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 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 Odum	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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April 27, 2005

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