

**FINANCIAL STATEMENT AUDIT REPORT OF
PAMLICO PARTNERSHIP FOR CHILDREN
BAYBORO, NORTH CAROLINA
FOR THE YEAR ENDED JUNE 30, 2001**

**PERFORMED UNDER CONTRACT WITH THE
NORTH CAROLINA OFFICE OF STATE AUDITOR
RALPH CAMPBELL, JR.**

FINANCIAL STATEMENT AUDIT REPORT OF

PAMLICO PARTNERSHIP FOR CHILDREN, INC.

BAYBORO, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2001

BOARD OF DIRECTORS

ISABELLE RAGSDALE, CHAIRPERSON

ADMINISTRATIVE OFFICER

SHEILA ORTH, EXECUTIVE DIRECTOR



Ralph Campbell, Jr.
State Auditor

STATE OF NORTH CAROLINA

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AUDITOR'S TRANSMITTAL

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

This report presents the results of the financial statement audit of the Pamlico Partnership for Children, Inc. for the year ended June 30, 2001. Crisp Hughes Evans LLP performed the audit under contract with the Office of the State Auditor, and their report is submitted herewith.

The audit of the Pamlico Partnership for Children, Inc. was made in conjunction with the Early Childhood Initiatives (Smart Start) program authorized by G.S. 143B-168.10-16. This statute created the North Carolina Partnership for Children, Inc. and required the implementation of local partnerships. The Pamlico Partnership for Children, Inc. is one of these local partnerships. As such, the Pamlico Partnership for Children, Inc. is a private nonprofit 501(c)(3) organization and is required by G.S. 143B-168.14 to have an annual financial and compliance audit conducted by the State Auditor. The State Auditor's authority to perform or coordinate all audit functions for state government is set forth in Article 5 of Chapter 147 of the North Carolina General Statutes.

The significant Smart Start expansion authorized in the 1998 fiscal year almost doubled the related audit burden placed on the Office of the State Auditor. Therefore, the General Assembly, in its 1998-99 Expansion Budget, gave recognition to the resources needed to provide the audit oversight required by statute. Those resources incorporated a combination of permanent positions and contract funding to make the Smart Start audit effort self-sustaining.

North Carolina General Statutes require the State Auditor to make audit reports available to the public. Copies of all 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.

A handwritten signature in black ink that reads "Ralph Campbell, Jr." in a cursive script.

Ralph Campbell, Jr.
State Auditor

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Pamlico Partnership for Children, Inc.
Bayboro, North Carolina

We have audited the accompanying Statement of Receipts, Expenditures, and Net Assets - Regulatory Basis of the Pamlico Partnership for Children, Inc. (Pamlico Partnership) as of June 30, 2001, and the related Statement of Functional Expenditures - Regulatory Basis for the year then ended. These financial statements are the responsibility of the Pamlico 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 statement is 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 regulatory basis of accounting as prescribed by the North Carolina Partnership for Children, Inc., 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 Pamlico Partnership for Children, Inc. as of June 30, 2001, and the results of its operations for the year then ended, on the basis of accounting described in Note 1.

INDEPENDENT AUDITORS' REPORT (CONCLUDED)

In accordance with *Government Auditing Standards*, we have also issued our report dated February 12, 2002, on our consideration of the Pamlico 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.

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

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.

February 12, 2002

Crisp Hughes Evans LLP

Pamlico Partnership for Children, Inc.

*Statement of Receipts, Expenditures, and Net Assets - Regulatory Basis
For the Year Ended June 30, 2001*

Exhibit A

	Unrestricted Funds		Total Funds
	Smart Start Fund	Other Funds	
Receipts:			
State Awards (less refunds of \$32,481)	\$ 290,133	\$ 12,000	\$ 302,133
Private Contributions	-	8,536	8,536
Interest and Investment Earnings	-	2,607	2,607
Sales Tax Refunds	-	2,024	2,024
Total Receipts	<u>290,133</u>	<u>25,167</u>	<u>315,300</u>
Expenditures:			
Programs:			
Child Care and Education Quality	76,947	186	77,133
Child Care and Education Accessibility and Availability	1,868	-	1,868
Child Care and Education Affordability	13,224	-	13,224
Health and Safety	23,634	-	23,634
Family Support	72,925	-	72,925
Support:			
Management and General	113,641	13,951	127,592
Program Evaluation	1,480	5,400	6,880
Other:			
Sales Tax Paid	-	1,827	1,827
Total Expenditures	<u>303,719</u>	<u>21,364</u>	<u>325,083</u>
Excess of Receipts Over (Under) Expenditures	(13,586)	3,803	(9,783)
Net Assets at Beginning of Year	<u>20,673</u>	<u>9,166</u>	<u>29,839</u>
Net Assets at End of Year	<u>\$ 7,087</u>	<u>\$ 12,969</u>	<u>\$ 20,056</u>
Net Assets Consisted of:			
Cash on Deposit	\$ 5,385	\$ 12,969	\$ 18,354
Refunds Due From Contractors	1,702	-	1,702
	<u>\$ 7,087</u>	<u>\$ 12,969</u>	<u>\$ 20,056</u>

The accompanying notes are integral part of these statements.

Pamlico Partnership for Children, Inc.
Statement of Functional Expenditures - Regulatory Basis
For the Year Ended June 30, 2001

Exhibit B

	Total	Personnel	Contracted Services	Supplies and Materials	Other Operating	Fixed Charges and Other	Property and Equipment Outlay	Services/ Grants	Participant Training
Smart Start Fund:									
Programs:									
Child Care and Education Quality	\$ 76,947	\$ 32,559	\$ 450	\$ 11,368	\$ 8,548	\$ 2,949	\$ 4,129	\$ 16,449	\$ 495
Child Care and Education Accessibility and Availability	1,868	942	46	125	178	572	-	5	-
Child Care and Education Affordability	13,224	10,503	142	547	1,356	572	104	-	-
Health and Safety	23,634	-	-	-	-	-	-	23,634	-
Family Support	72,925	3,607	104	2,806	1,498	862	167	63,881	-
Support:									
Management and General	113,641	78,023	4,183	3,171	16,775	8,027	3,462	-	-
Program Evaluation	1,480	1,473	7	-	-	-	-	-	-
Total Smart Start Fund Expenditures	\$303,719	\$ 127,107	\$ 4,932	\$ 18,017	\$ 28,355	\$ 12,982	\$ 7,862	\$ 103,969	\$ 495
Other Funds:									
Programs:									
Child Care and Education Quality	\$ 186	\$ -	\$ -	\$ 186	\$ -	\$ -	\$ -	\$ -	\$ -
Support:									
Management and General	13,951	553	11,254	726	207	1,211	-	-	-
Program Evaluation	5,400	-	5,400	-	-	-	-	-	-
Other:									
Sales Tax Paid	1,827	-	-	1,827	-	-	-	-	-
Total Other Funds Expenditures	\$ 21,364	\$ 553	\$ 16,654	\$ 2,739	\$ 207	\$ 1,211	\$ -	\$ -	\$ -

The accompanying notes are an integral part of these statements.

PAMLICO PARTNERSHIP FOR CHILDREN, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2001

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

A. Organization and Purpose - The Pamlico Partnership for Children, Inc. (Pamlico Partnership) is a legally separate nonprofit organization incorporated on April 11, 1994. The Pamlico Partnership was established to develop and provide, through public and private means, early childhood education and developmental services for children and families. The Pamlico 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 Pamlico Partnership's Board of Directors is responsible. In accordance with 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.

The Pamlico Partnership did not have any temporarily or permanently restricted net assets at June 30, 2001.

C. Basis of Accounting - The accompanying financial statements were prepared on the regulatory basis of accounting as prescribed by the North Carolina Partnership for Children, Inc. 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.

However, unexpended advances to contractors that revert back to the State are recognized as a reduction to expenditures and an increase to net assets.

D. Refunds Due From Contractors - Refunds due from contractors represent the unexpended amount of advances to contractors at year end which are to be refunded back to the State. As recoveries are collected, the receivable

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

balance is reduced. Payments to the State for the recovered advances are recorded as a reduction to the state awards balance.

E. Use of Estimates - The financial statements include estimates and assumptions made by management for the allocation of joint costs. It is management's belief that these estimates are reasonable and fair.

NOTE 2 - DEPOSITS

All funds of the Pamlico Partnership are deposited with one commercial bank and insured by the Federal Deposit Insurance Corporation (FDIC) up to \$100,000. Deposits over this amount subject the Pamlico Partnership to a concentration of credit risk. The Pamlico Partnership has an Automated Investment Plan to invest excess balances over an established target amount. The investment is in the bank's money market savings account and is insured by the FDIC up to \$100,000.

NOTE 3 - FUNDING FROM GRANT AWARDS

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

Associated with these contracts, the Pamlico 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 Department of Health and Human Services (DHHS) entered into contracts with and made payments to service providers selected by the Pamlico 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 Pamlico Partnership was awarded and has received \$322,614 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 \$11,808 of this contract to the State based on financial status reports submitted to NCPC prior to June 30, 2001 and \$7,087 subsequent to June 30, 2001.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

NOTE 4 - RELATED PARTY TRANSACTIONS

Service Provider Contracts with Board Member Organizations - The board members of the Pamlico Partnership are representative of various organizations that benefit from actions taken by the Board. It is the policy of the Pamlico Partnership that board members not be involved with decisions regarding organizations they represent. During the year, the Partnership entered into contracts with board member organizations for program activities as identified on Schedule 1 accompanying the financial statements. In addition, Schedule 2 identifies contracts entered into by DHHS with board member organizations for activities funded by the Partnership's Smart Start Allocation.

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 - Regulatory Basis. Also, the Statement of Functional Expenditures - Regulatory Basis provides detail of the functional costs by their natural classification. Following are the services associated with the functional categories presented in the accompanying financial statements and the methods utilized to allocate joint cost:

A. Program Functions

Child Care and Education Quality - Used to account for service activities including quality enhancement grants, provider training, child care provider support, and school readiness programs.

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

Child Care and Education Affordability - Used to account for service activities including eliminate waiting list and cooperative play groups.

Health and Safety - Used to account for service activities associated with outreach nurses.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Family Support - Used to account for service activities including ongoing parent education, outreach materials, outreach plan to assess services, and child and family outreach.

B. Support Functions

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

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

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) were allocated based on estimates of utilization, and supplies and materials are based on actual use.

NOTE 6 - COMMITMENTS AND CONTINGENCIES

Leases - The following is a schedule by years of future minimum rental payments required under leases that have noncancelable lease terms as of June 30, 2001:

<u>Fiscal Year</u>	<u>Operating Leases</u>
2002	\$ 9,600
2003	<u>1,600</u>
Total Minimum Lease Payments	\$ <u>11,200</u>

Total rental expenditure for all operating leases was \$8,500 for the year ended June 30, 2001.

NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

NOTE 7 - PENSION PLAN

IRC Sections 403(b) and 403(b)(7) Plans - All permanent employees who are at least half-time can participate in tax sheltered annuity plans created under Internal Revenue Code Sections 403(b) and 403(b)(7). 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. All costs of administering and funding these plans are the responsibility of the plans. No costs are incurred by the Pamlico Partnership. The voluntary contributions by employees amounted to \$2,460 during the year ended June 30, 2001.

Pamlico Partnership for Children, Inc.

Schedule of Contract and Grant Expenditures - Regulatory Basis

For the Year Ended June 30, 2001

Schedule 1

Organization Name	Smart Start Fund		Other Funds	
	Amount Advanced	Refund Due	Amount Advanced	Refund Due
ABC Day Care Home *	\$ 360	\$ -	\$ -	\$ -
Genesis Learning Center	433	-	-	-
Greene's Day Care Home	428	-	-	-
Heaven's Angels	5	-	-	-
Kathy Messina Day Care	256	-	-	-
Little People's Day Care	470	-	-	-
Miller's Day Care Home	438	-	-	-
Miss Jane's Day Care *	166	-	-	-
Neuse Center *	65,368	(1,487)	-	-
Pamlico County Health Dept. *	23,849	(215)	-	-
Peace Preschool *	186	-	-	-
Reelsboro Christian Day Care Center *	1,377	-	-	-
Scott's Day Care Home	335	-	-	-
Individuals:				
Quality Improvement Grant	12,000	-	-	-
	\$ 105,671	\$ (1,702)	\$ -	\$ -

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

See Independent Auditors' Report.

Pamlico Partnership for Children, Inc.
Schedule of State Level Service Provider Contracts
For the Year Ended June 30, 2001

Schedule 2

Organization Name	DHHS Contracts
Pamlico County Department of Social Services	* \$ 96,235

* This organization is 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 Department of Health and Human Services (DHHS) as described in Note 3 - Funding From Grant Awards.

See Independent Auditors' Report.

Pamlico Partnership for Children, Inc.
Schedule of State Awards - Regulatory Basis
For the Year Ended June 30, 2001

Schedule 3

<u>State Grantor/Pass-through Grantor/Program</u>	<u>Contract #</u>	<u>Receipts</u>	<u>Expenditures</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)	1-90-3-04-001	\$ (20,673)	\$ -
Early Childhood Initiatives Program (Current Year) *	1-01-3-04-001	322,614	303,719
Early Childhood Initiatives Program (Current Year) *	1-01-3-04-001	(11,808)	-
Multi-County Accounting and Contracting	-	<u>12,000</u>	<u>11,935</u>
Total State Awards		<u>\$ 302,133</u>	<u>\$ 315,654</u>

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

See Independent Auditors' Report.

Pamlico Partnership for Children, Inc.
Schedule of Property and Equipment
For the Year Ended June 30, 2001

Schedule 4

Furniture and Non-Computer Equipment	\$ 23,767
Computer Equipment/Printers	<u>19,266</u>
Total Property and Equipment	<u>\$ 43,033</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. On the regulatory basis of accounting, these items are expensed in the year purchased.

See Independent Auditors' Report.

Pamlico Partnership for Children, Inc.
Schedule of Qualifying Match (Non-GAAP)
For the Year Ended June 30, 2001

Schedule 5

Match Provided at the Partnership Level:

Cash	\$	8,536
In-Kind Goods and Services		<u>10,045</u>
	\$	<u>18,581</u>

Match Provided at the Contractor Level:

Cash	\$	20,598
In-Kind Goods and Services		<u>19,192</u>
	\$	<u>39,790</u>

Note: This schedule is presented in accordance with the program match requirement as provided for by North Carolina Session Law 1999-237, Section 11.48(l). The law allows for volunteer services to be valued for match purposes, a concept that deviates from accounting principles generally accepted in the United States of America.

See Independent Auditors' Report.



**INDEPENDENT AUDITORS' 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
Pamlico Partnership for Children, Inc.
Bayboro, North Carolina

We have audited the financial statements of the Pamlico Partnership for Children, Inc. (Pamlico Partnership) as of and for the year ended June 30, 2001, and have issued our report thereon dated February 12, 2002. 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 Pamlico 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 Pamlico Partnership's internal control over financial reporting in order to determine our auditing procedures for the purposes of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that

**INDEPENDENT AUDITORS' 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)**

might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

We also noted a matter involving an issue of a management control nature that is described in the Audit Findings and Recommendations section of this report.

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

February 12, 2002

Crisp Hughes Evans LLP

AUDIT FINDINGS AND RECOMMENDATIONS

Other Observations and Recommendations from the Current Audit - The following presents a management control issue related to the efficiency and effectiveness of operations.

ACCOUNTING RECORDS

Our review of the Pamlico Partnership's internal control over financial reporting identified a weakness related to reconciling salary expense reported on the trial balance to salaries reported on Forms 941. Management is not reconciling the information that is processed by a contracted service. Without adequate review of the information, errors can go undetected. This could result in the financial statements being misleading and/or incorrect reports going to taxing authorities.

Recommendation: We recommend that the executive director or MAC site coordinator reconcile the information reported on Forms 941 to the salary expense reported on the trial balance at least quarterly.

Partnership's Response: We have corrected this issue. Our MAC accounting coordinator has already started the 941 reconciliation process and, as a dual control, we will also begin reconciling the 941s to salary expense on a quarterly basis.

DISTRIBUTION OF AUDIT REPORT

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

EXECUTIVE BRANCH

The Honorable Michael F. Easley	Governor of North Carolina
The Honorable Beverly M. Perdue	Lieutenant Governor of North Carolina
The Honorable Richard H. Moore	State Treasurer
The Honorable Roy A. Cooper, III	Attorney General
Mr. David T. McCoy	State Budget Officer
Mr. Robert L. Powell	State Controller
Ms. Carmen Hooker Odom	Secretary, Department of Health and Human Services
Mr. Ashley Thrift	Chairman, Board of Directors North Carolina Partnership for Children, Inc.
Ms. Karen Ponder	Executive Director North Carolina Partnership for Children, Inc.

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Senator Anthony E. Rand	Majority Leader of the N.C. Senate
Senator Patrick J. Ballantine	Minority Leader of the N.C. Senate
Representative N. Leo Daughtry	Minority Leader of the N.C. House of Representatives
Representative Joe Hackney	N. C. House Speaker Pro-Tem
Mr. James D. Johnson	Director, Fiscal Research Division

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