



STATE OF NORTH CAROLINA

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

BURGAW, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2003

OFFICE OF THE STATE AUDITOR

RALPH CAMPBELL, JR.

STATE AUDITOR

FINANCIAL STATEMENT AUDIT REPORT OF
PENDER COUNTY PARTNERSHIP FOR CHILDREN, INC.
BURGAW, NORTH CAROLINA
FOR THE YEAR ENDED JUNE 30, 2003

BOARD OF DIRECTORS

W. MALCOLN LEA, CHAIRMAN

ADMINISTRATIVE OFFICER

CONNIE CARR-COSTIN, EXECUTIVE DIRECTOR



Ralph Campbell, Jr.
State Auditor

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AUDITOR'S TRANSMITTAL

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

This report presents the results of our financial statement audit of the Pender County Partnership for Children, Inc. (Pender 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 Pender 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 Pender 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 Pender Partnership is one of these local partnerships. As such, the Pender 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 Pender 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 conditions represent significant deficiencies in internal control or noncompliance with laws, regulations, contracts, or grants.

Finding

1. Competitive Bidding
2. Authorizing and Processing Transactions

These matters are 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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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Pender County Partnership for Children, Inc.
Burgaw, North Carolina

We have audited the accompanying Statement of Receipts, Expenditures, and Net Assets – Modified Cash Basis of the Pender County Partnership for Children, Inc. (Pender 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 Pender 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 Pender County Partnership for Children, Inc. as of June 30, 2003, and the results of its operations arising from modified cash basis transactions for the year then ended, on the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 9, 2004 on our consideration of the Pender 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 Pender County 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 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.

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

Ralph Campbell, Jr.
State Auditor

February 9, 2004

Pender County Partnership for Children, Inc.**Statement of Receipts, Expenditures, and Net Assets - Modified Cash Basis****For the Year Ended June 30, 2003****Exhibit A**

	Unrestricted Funds		
	Smart Start Fund	Other Funds	Total Funds
Receipts:			
State Awards (less refunds of \$31,080)	\$ 609,594	\$ 47,300	\$ 656,894
Private Contributions		440	440
Interest and Investment Earnings		224	224
Sales Tax Refunds		2,731	2,731
Other Receipts		117	117
Total Receipts	609,594	50,812	660,406
Expenditures:			
Programs:			
Child Care and Education Quality	174,040		174,040
Child Care and Education Affordability	109,360		109,360
Health and Safety	162,876		162,876
More at Four	11,341	35,300	46,641
Support:			
Management and General	85,629	9,867	95,496
Program Evaluation	37,346		37,346
Other:			
Sales Tax Paid		1,980	1,980
Refund of Prior Year Grant		71	71
Total Expenditures	580,592	47,218	627,810
Excess of Receipts Over Expenditures	29,002	3,594	32,596
Net Assets at Beginning of Year	38,522	(32,497)	6,025
Restatement (Note 9)	(30,742)	30,742	
Net Assets at Beginning of Year after Restatement	7,780	(1,755)	6,025
Net Assets at End of Year	\$ 36,782	\$ 1,839	\$ 38,621
Net Assets Consisted of:			
Cash and Cash Equivalents	\$ 32,947	\$ 1,839	\$ 34,786
Refunds Due From Contractors	3,835		3,835
	\$ 36,782	\$ 1,839	\$ 38,621

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

Pender County Partnership for Children, Inc.
Statement of Functional Expenditures - Modified Cash Basis
For the Year Ended June 30, 2003

Exhibit B

	Total	Personnel	Contracted Services	Supplies and Materials	Other Operating Expenditures	Fixed Charges and Other Expenditures	Property and Equipment Outlay	Services/ Contracts/ Grants	Participant Training Expenditures
Smart Start Fund:									
Programs:									
Child Care and Education Quality	\$ 174,040	75,549	90	5,017	7,856	4,689	448	80,391	
Child Care and Education Affordability	\$ 109,360							109,360	
Health and Safety	\$ 162,876							162,876	
More at Four	\$ 11,341							11,341	
	\$ 457,617	\$ 75,549	\$ 90	\$ 5,017	\$ 7,856	\$ 4,689	\$ 448	\$ 363,968	\$ 0
Support:									
Management and General	\$ 85,629	34,632	15,623	1,501	15,075	9,717	9,081		
Program Evaluation	\$ 37,346	34,287		417	1,921	692	29		
	\$ 122,975	\$ 68,919	\$ 15,623	\$ 1,918	\$ 16,996	\$ 10,409	\$ 9,110	\$ 0	\$ 0
Total Smart Start Fund Expenditures	\$ 580,592	\$ 144,468	\$ 15,713	\$ 6,935	\$ 24,852	\$ 15,098	\$ 9,558	\$ 363,968	\$ 0
Other Funds:									
Programs:									
More at Four	\$ 35,300	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 35,300	\$ 0
Support:									
Management and General	\$ 9,867	\$ 0	\$ 8,995	\$ 0	\$ 872	\$ 0	\$ 0	\$ 0	\$ 0
Other:									
Sales Tax Paid	\$ 1,980			1,980					
Refund of Prior Year Grant	\$ 71					71			
	\$ 2,051	\$ 0	\$ 0	\$ 1,980	\$ 0	\$ 71	\$ 0	\$ 0	\$ 0
Total Other Funds Expenditures	\$ 47,218	\$ 0	\$ 8,995	\$ 1,980	\$ 872	\$ 71	\$ 0	\$ 35,300	\$ 0

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

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

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

A. Organization and Purpose - The Pender County Partnership for Children, Inc. (Pender Partnership) is a legally separate nonprofit organization incorporated on December 17, 1998. The Pender Partnership was established to develop and provide, through public and private means, early childhood education and developmental services for children and families. The Pender 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 Pender 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.

The Pender 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.

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

- E. Refunds Due From Contractors** - Refunds due from contractors represent the unexpended amount of advances to contractors at year-end that are to be refunded back to the State. As recoveries are collected, the receivable balance is reduced. Payments to the State for the recovered advances are recorded as a reduction to the State awards balance.
- F. Compensated Absences** – As a result of the use of the modified cash basis of accounting, liabilities related to accrued compensated absences are not recorded in the financial statements. Expenditures related to compensated absences are recorded when paid. The amount of accrued compensated absences for accumulated, unpaid leave and compensatory time, along with the related employer costs that would be due to employees upon termination is reported as a commitment in Note 8.
- G. Use of Estimates** - The preparation of financial statements in conformity with the other comprehensive basis of accounting used by the Pender 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 Pender Partnership are deposited with a commercial bank and insured by the Federal Deposit Insurance Corporation (FDIC) up to \$100,000. Deposits over this amount subject the Pender Partnership to a concentration of credit risk.

NOTE 3 - FUNDING FROM GRANT AWARDS

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

Associated with these contracts, the Pender 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, NCPC and the Department of Health and Human Services (DHHS) entered into contracts with and made payments to service providers selected by the Pender Partnership. These service provider contracts are not reflected on the accompanying financial statements. However, a summary of the service provider contracts entered into by NCPC and/or DHHS is presented on Schedule 2 accompanying the financial statements.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

The Pender Partnership was awarded and received \$628,199 under a current year Smart Start contract with NCPC. In addition, the Partnership received \$12,475 during the current year that was applicable to the prior year contract. The unexpended balance of these contracts is subject to reversion to the State. The Partnership has returned \$35,987 of these contracts to the State based on financial status reports submitted to NCPC subsequent to June 30, 2003.

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

More at Four – The Pender Partnership also received revenue and support from the State of North Carolina for the More at Four Program. The Pender Partnership was awarded \$35,300 under a current year cost-reimbursement contract. The unexpended balance of this contract is subject to reversion to the State. The Partnership expects to receive continued funding through new More at Four contracts with the State.

NOTE 4 - RELATED PARTY TRANSACTIONS

Service Provider Contracts with Board Member Organizations - The board members of the Pender Partnership are representative of various organizations that benefit from actions taken by the Board. It is the policy of the Pender 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 – Modified Cash Basis. Also, the Statement of Functional Expenditures – Modified Cash Basis, provides detail of the functional costs by their natural classification. Following are the services associated with the functional categories presented in the accompanying financial statements and the methods utilized to allocate joint cost:

A. Program Functions

Child Care and Education Quality - Used to account for service activities including quality enhancement grants for upgrades, child care resource and referral, and curriculum enhancements.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Child Care and Education Affordability - Used to account for service activities associated with public pre-K classes.

Health and Safety - Used to account for service activities including oral health services, child care health consultants, comprehensive health support, and special needs – early intervention services/special 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.

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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	\$ 24,808
2005	24,808
2006	<u>808</u>
Total Minimum Lease Payments	<u>\$ 50,424</u>

Rental expense for all operating leases during the year was \$7,200.

NOTE 7 - RISK MANAGEMENT

The Pender 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 Pender Partnership manages these various risks of loss as follows:

<u>Type of Loss</u>	<u>Method Managed</u>	<u>Risk of Loss Retained</u>
Torts, errors and omissions, health and life	Purchased commercial insurance	None
Workers Compensation – Employee injuries	Purchased commercial insurance	None
Physical property loss and natural disasters	Purchased commercial insurance	None

Management believes such coverage is sufficient to preclude any significant losses to the Pender 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 Pender 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

NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

compensated absences commitment for vacation leave at June 30, 2003, is \$2,299. No funds or reservation of net assets has been made for this commitment.

NOTE 9 - RESTATEMENT OF NET ASSETS

During the prior year, the Pender Partnership incurred expenses for activities that were not a part of its approved strategic plan. As such, adjustments were made to record a payback of Smart Start funds and reflect these activities in the Unrestricted Other funds. The Pender Partnership worked with The North Carolina Partnership for Children, Inc., its oversight agency, to resolve these matters resulting in the retroactive approval of these costs. As a result, a reclassification of the net assets for both the Smart Start and Unrestricted Other funds is presented as follows:

	Net Assets Previously Reported	Net Effect of Prior Year Reclassification	July 1, 2002 Net Assets Restated
Smart Start:			
Cash on Deposit	\$ 38,437	\$ (30,742)	\$ 7,695
Refunds Due From Contractors	<u>85</u>	<u></u>	<u>85</u>
Total Smart Start Net Assets	<u>\$ 38,522</u>	<u>\$ (30,742)</u>	<u>\$ 7,780</u>

	Net Assets Previously Reported	Net Effect of Prior Year Reclassification	July 1, 2002 Net Assets Restated
Unrestricted Other:			
Cash on Deposit	<u>\$ (32,497)</u>	<u>\$ 30,742</u>	<u>\$ (1,755)</u>

Pender County Partnership for Children, Inc.
Schedule of Contract and Grant Expenditures - Modified Cash Basis
For the Year Ended June 30, 2003

Schedule 1

Organization Name	Smart Start Fund		Other Funds	
	Amount Advanced	Refund Due	Amount Advanced	Refund Due
Debbie's Child Care	2,778			
Growing Pains, PA	39,026	(316)		
Kathy James Home Daycare	2,127			
Katrina's Daycare	2,641			
Little Town Learning Center	* 2,683		35,300	
Pender County Health Department	* 84,256	(1,188)		
Pender County Public Library	* 71,040	(1,853)		
Pender County Public Schools	* 109,838	(478)		
Pender Memorial Hospital	28,623			
Tae Tae's Daycare	2,820			
Various Other Organizations	21,971			
	\$ 367,803	\$ (3,835)	\$ 35,300	\$ 0

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

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

Schedule 2

Organization Name		DHHS Contracts
Child Care Services Association - WAGES Program		11,849
Pender County Department of Social Services	*	232,788
		\$ 244,637
<p>* These organizations are represented on the Partnership's Board as described in Note 4 - Service Provider Contracts with Board Member Organizations.</p>		
<p>The information on this schedule provides a listing of service provider contracts entered into by the North Carolina Department of Health and Human Services (DHHS) as described in Note 3 - Funding from Grant Awards.</p>		

Pender County Partnership for Children, Inc.
Schedule of State Awards - Modified Cash Basis
For the Year Ended June 30, 2003

Schedule 3

State Grantor/Pass-through Grantor/Program	Contract #	Receipts	Expenditures
State Awards:			
North Carolina Department of Health and Human Services			
Division of Child Development			
Pass-through from the North Carolina Partnership for Children, Inc.			
Early Childhood Initiatives Program (Various)	Various	\$ (2,501)	\$ (21,239)
Early Childhood Initiatives Program (Prior Year)	#1-12-5-23-001	(16,104)	10,504
Early Childhood Initiatives Program (Current Year)	* N/A	628,199	591,327
Multi-County Accounting and Contracting Grant	N/A	12,000	9,827
North Carolina Department of Health and Human Services			
More at Four Pre-Kindergarten Program	#2090003437	35,300	35,300
Total State Awards		\$ 656,894	\$ 625,719
* Programs with compliance requirements that have a direct and material effect on the financial statements.			
Note: The More at Four Pre-Kindergarten Program is contracted jointly by the North Carolina Department of Health and Human Services and the Office of the Governor. The allocations for the More at Four program are included in the budget for the North Carolina Department of Health and Human Services; therefore, the above schedule identifies that agency as the State Grantor. The Office of the Governor is responsible for oversight of the More at Four Program.			

<i>Pender County Partnership for Children, Inc.</i>				
<i>Schedule of Property and Equipment - Modified Cash Basis</i>				
<i>For the Year Ended June 30, 2003</i>				<i>Schedule 4</i>
	Furniture and Noncomputer Equipment	\$	41,621	
	Computer Equipment/Printers		16,157	
	Motor Vehicles		2,825	
	Total Property and Equipment	\$	60,603	
	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.			

For the Year Ended June 30, 2003

Schedule 5

Cash	\$	440
In-Kind Goods and Services		8,191
	\$	8,631

Cash	\$	55,014
In-Kind Goods and Services		28,520
	\$	83,534

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.

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Ralph Campbell, Jr.
State Auditor

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

Board of Directors
Pender County Partnership for Children, Inc.
Burgaw, North Carolina

We have audited the financial statements of the Pender County Partnership for Children, Inc. (Pender Partnership) as of and for the year ended June 30, 2003, and have issued our report thereon dated February 9, 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 Pender 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, which are reported in the Audit Findings and Recommendations section of this report, disclosed an instance of noncompliance that is required to be reported under *Government Auditing Standards*.

Finding

1. Competitive Bidding

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Pender 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

**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)**

significant deficiency in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Pender Partnership's ability to 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

2. Authorizing and Processing Transactions

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 consider the reportable condition described above to be 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

February 9, 2004

AUDIT FINDINGS AND RECOMMENDATIONS

Matters Related to Financial Reporting

The following findings and recommendations were identified during the current audit and describe conditions that represent significant deficiencies in internal control or noncompliance with laws, regulations, contracts, or grants. Both findings were reported in the prior year.

1. COMPETITIVE BIDDING

We have reported in the three previous years that the Pender Partnership's documentation to support its compliance with the legislatively mandated competitive bidding requirements was inadequate.

This finding is unresolved. We continued to note instances where documentation was deficient or not available to support the competitive bidding requirements.

Recommendation: We recommend that the Pender Partnership place appropriate emphasis on the competitive bidding process and its documentation of compliance with the guidelines established by The North Carolina Partnership for Children, Inc. and the *North Carolina General Statutes*.

Partnership's Response: Pender County Partnership agrees with the recommendation and will place a stronger emphasis on compliance with the competitive bidding process and adherence to the documentation requirements and guidelines established by The North Carolina Partnership for Children, Inc. and the *North Carolina General Statutes*.

2. AUTHORIZING AND PROCESSING TRANSACTIONS

During the previous audit, we identified procedural weaknesses with the Pender Partnership's authorizing and processing of transactions including improper approvals by management, inadequate or missing documentation necessary to support accounting transactions, and cash management issues related to the timely deposit of funds and payment of invoices.

This finding is partially resolved. We noted improvements related to processing of payments, particularly the cancellation and verification of mathematical accuracy processes. In addition, no cash management issues were noted. However, we continued to note instances of improper approvals and inadequate documentation. The Partnership continued to review and revise its operational procedures throughout the year which resulted in inconsistent applications and/or implementation of those policies. Also, further refinement is necessary for the authorizing and processing procedures related to preparation of journal entries and the purchasing functions.

AUDIT FINDINGS AND RECOMMENDATIONS (CONCLUDED)

Written policies and procedures, along with actual operating practices, are key components of an effective internal control system. Policies and procedures promote operational efficiency and effectiveness, protect Partnership staff, ensure adherence to prescribed managerial policies, and ensure compliance with applicable policies and regulations.

Recommendation: We recommend that the Pender Partnership continue to work with The North Carolina Partnership for Children, Inc. in the refinement and implementation of policies and procedures that are supportive of a sound internal control system. The implementation of effective policies and procedures should address the authorization and processing requirements for financial accountability and the proper documentation of those processes.

Partnership's Response: Pender County Partnership strongly agrees with the recommendation and has partially resolved this issue. We have requested and continue to obtain technical assistance from The North Carolina Partnership for Children, Inc. to enhance and revise our written policies and procedures in an effort to further strengthen financial accountability, improve operational management, and to support implementation of a system of sound internal control.

General Response: The Pender County Partnership Board of Directors remains committed to providing quality services to children in a manner that provides for fiscal accountability of State funds. We have made substantial progress since the Special Review audit dated February 4, 2003, which detailed numerous Pender County Partnership operational and managerial deficiencies. Prior to the Special Review audit, Pender County Partnership implemented corrective actions to address deficiencies, strengthen leadership, and enhance managerial oversight; consequently resulting in the implementation of extensive changes that have significantly improved operational management.

Our efforts included obtaining intense direction, guidance and technical assistance from an experienced neighboring smart start partnership, participating in The North Carolina Partnership for Children's Local Performance Improvement Plan, enhancing board operations, emphasizing the Board's oversight responsibilities, contracting for off-site fiscal administrative support, and hiring qualified staff.

The overall management of Pender County Partnership has improved and we have remained committed to our goal of providing quality services to Pender County's children in a fiscally responsible manner. Pender County Partnership continues to make improvements to enhance efficiency and effectiveness, as well as strengthen fiscal management and accountability.

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April 21, 2004

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