

# STATE OF NORTH CAROLINA

## FINANCIAL STATEMENT AUDIT REPORT OF HYDE COUNTY PARTNERSHIP FOR CHILDREN

WASHINGTON, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2004

OFFICE OF THE STATE AUDITOR

RALPH CAMPBELL, JR.

STATE AUDITOR

**FINANCIAL STATEMENT AUDIT REPORT OF**

**HYDE COUNTY PARTNERSHIP FOR CHILDREN**

**WASHINGTON, NORTH CAROLINA**

**FOR THE YEAR ENDED JUNE 30, 2004**

**BOARD OF DIRECTORS**

**CLAY CARTER, BOARD CHAIRMAN**

**ADMINISTRATIVE OFFICER**

**LISA WOOLARD, EXECUTIVE DIRECTOR**



Ralph Campbell, Jr.  
State Auditor

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**AUDITOR'S TRANSMITTAL**

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

This report presents the results of our financial statement audit of the Hyde County Partnership for Children (Hyde 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 Hyde 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 Hyde 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 Hyde Partnership is one of these local partnerships. As such, the Hyde 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)

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2. **Objective** – To present significant deficiencies, if any, in internal control over financial reporting which could adversely affect the Hyde Partnership's ability to record, process, summarize, and report financial data in the financial statements and present instances of noncompliance, if any, with laws, regulations, contracts, or grants.

**Results** - Our tests disclosed no material weaknesses in the internal control over financial reporting and no instances of noncompliance that require disclosure herein under *Government Auditing Standards*.

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



Ralph Campbell, Jr.  
State Auditor

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Ralph Campbell, Jr.  
State Auditor

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**INDEPENDENT AUDITOR'S REPORT**

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Board of Directors  
Hyde County Partnership for Children  
Washington, North Carolina

We have audited the accompanying Statement of Receipts, Expenditures, and Net Assets – Modified Cash Basis of the Hyde County Partnership for Children (Hyde 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 Hyde 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 Hyde County 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 October 27, 2004 on our consideration of the Hyde 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)

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results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Hyde County Partnership for Children's basic financial statements. The information in Schedules 1, 3, and 4 is presented 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, are 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.



Ralph Campbell, Jr.  
State Auditor

October 27, 2004

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

	Unrestricted Funds		Total Funds
	Smart Start Fund	Other Funds	
<b>Receipts:</b>			
State Awards (less refunds of \$13,887)	\$ 65,708	\$ 1,000	\$ 66,708
Private Contributions		6,700	6,700
Sales Tax Refunds		1	1
<b>Total Receipts</b>	<b>65,708</b>	<b>7,701</b>	<b>73,409</b>
<b>Expenditures:</b>			
Programs:			
Child Care and Education Affordability	15,856		15,856
Child Care and Education Quality	4,453	6,560	11,013
Family Support	3,756		3,756
Support Our Students		3,270	3,270
Support:			
Management and General	36,580	12,830	49,410
Other:			
Sales Tax Paid		1	1
<b>Total Expenditures</b>	<b>60,645</b>	<b>22,661</b>	<b>83,306</b>
<b>Excess of Receipts Over Expenditures</b>	<b>5,063</b>	<b>(14,960)</b>	<b>(9,897)</b>
<b>Net Assets at Beginning of Year</b>	<b>2,724</b>	<b>14,906</b>	<b>17,630</b>
<b>Net Assets at End of Year</b>	<b>\$ 7,787</b>	<b>\$ (54)</b>	<b>\$ 7,733</b>
<b>Net Assets Consisted of:</b>			
Cash and Cash Equivalents	\$ 766	\$ (54)	\$ 712
Refunds Due From Contractors	7,021		7,021
	<b>\$ 7,787</b>	<b>\$ (54)</b>	<b>\$ 7,733</b>

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



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

**Exhibit B**

	<b>Total</b>	<b>Personnel</b>	<b>Contracted Services</b>	<b>Supplies and Materials</b>	<b>Other Operating Expenditures</b>	<b>Fixed Charges and Other Expenditures</b>	<b>Property and Equipment Outlay</b>	<b>Services/Contracts/Grants</b>	<b>Participant Training Expenditures</b>
<b>Smart Start Fund:</b>									
<b>Programs:</b>									
Child Care and Education Affordability	\$ 15,856	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 15,856	\$ 0
Child Care and Education Quality	4,453		560					3,893	
Family Support	3,756							3,756	
	<u>24,065</u>		<u>560</u>					<u>23,505</u>	
<b>Support:</b>									
Management and General	36,580		34,069		1,778	733			
	<u>36,580</u>		<u>34,069</u>		<u>1,778</u>	<u>733</u>			
<b>Total Smart Start Fund Expenditures</b>	<b>\$ 60,645</b>	<b>\$ 0</b>	<b>\$ 34,629</b>	<b>\$ 0</b>	<b>\$ 1,778</b>	<b>\$ 733</b>	<b>\$ 0</b>	<b>\$ 23,505</b>	<b>\$ 0</b>
<b>Other Funds:</b>									
<b>Programs:</b>									
Child Care and Education Quality	\$ 6,560	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 6,560	\$ 0
Support Our Students	3,270	3,001						269	
	<u>9,830</u>	<u>3,001</u>						<u>6,829</u>	
<b>Support:</b>									
Management and General	12,830	336	12,000	244		250			
<b>Other:</b>									
Sales Tax Paid	1			1					
<b>Total Other Funds Expenditures</b>	<b>\$ 22,661</b>	<b>\$ 3,337</b>	<b>\$ 12,000</b>	<b>\$ 245</b>	<b>\$ 0</b>	<b>\$ 250</b>	<b>\$ 0</b>	<b>\$ 6,829</b>	<b>\$ 0</b>

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

**HYDE COUNTY PARTNERSHIP FOR CHILDREN**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2004**

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**NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES**

**A. Organization and Purpose** - The Hyde County Partnership for Children (Hyde Partnership) is a legally separate nonprofit organization incorporated on April 17, 1998. The Hyde Partnership was established to develop and provide, through public and private means, early childhood education and developmental services for children and families. The Hyde 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 Hyde 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 Hyde Partnership did not have any temporarily or permanently restricted net assets at June 30, 2004.

**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 of North Carolina 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.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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- D. Cash and Cash Equivalents** – This classification appears on the Statement of Receipts, Expenditures, and Net Assets – Modified Cash Basis and includes all demand and savings accounts and certificate of deposits or short-term investments with an original maturity of three months or less.
- 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.

### NOTE 2 - DEPOSITS

All funds of the Hyde Partnership are deposited with a commercial bank and insured by the Federal Deposit Insurance Corporation (FDIC) up to \$100,000. Deposits over this amount subjects the Hyde Partnership to a concentration of credit risk.

### NOTE 3 - FUNDING FROM GRANT AWARDS

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

Associated with these contracts, the Hyde 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 Hyde 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 Hyde Partnership was awarded and has received \$68,595 under a current year Smart Start contract with NCPC. The unexpended balance of this contract is subject to reversion to the State. The Hyde Partnership has returned \$7,786 of this contract to the State based on financial status reports submitted to NCPC subsequent to June 30, 2004.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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**Multi-Accounting and Contracting** – The Hyde Partnership also received revenue and support from the State of North Carolina for their participation in the Multi-Accounting and Contracting Program. The Hyde Partnership was awarded and has received \$12,000 under a current year contract for the payment of accounting services.

### NOTE 4 - RELATED PARTY TRANSACTIONS

**Service Provider Contracts with Board Member Organizations** - The board members of the Hyde Partnership are representative of various organizations that benefit from actions taken by the Board. It is the policy of the Hyde Partnership that board members not be involved with decisions regarding organizations they represent. During the year, the Hyde 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 Hyde 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.

#### A. Program Functions

**Child Care and Education Affordability** - Used to account for service activities associated with Head Start wraparound/extended day.

**Child Care and Education Quality** - Used to account for service activities including quality enhancement grants for upgrades or professional development.

**Family Support** - Used to account for service activities associated with community outreach information and resources.

## NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

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**Support Our Students** – Used to account for service activities including the providing of high quality after-school activities for school-aged children.

### **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.

### **NOTE 6 - MANAGEMENT AND ADMINISTRATIVE SERVICES**

The Beaufort County Partnership for Children provided management and administrative services to the Hyde Partnership for the period starting July 1, 2003 through June 30, 2004. Associated with these services, the following activities were recorded in the accompanying financial statement:

<u>Expenditures</u>	<u>Amount</u>
Management and Evaluation Services	\$ 34,069
Multi-County Accounting and Contracting Grant	12,000
Other Expenses	<u>2,674</u>
 Total Management and Administrative Costs	 <u>\$ 48,743</u>

### **NOTE 7 - DISSOLUTION OF PARTNERSHIP**

The Hyde County Partnership for Children was dissolved effective June 18, 2004. As a result of the dissolution, the assets of the Hyde Partnership were donated to Hyde County Government.

The Hyde Partnership merged with the Beaufort County Partnership for Children effective June 23, 2004 resulting in the creation of one local nonprofit 501(c)(3) organization to oversee the Smart Start funding allocations for Beaufort and Hyde counties. A newly established board of directors controls the local partnership, the Beaufort/Hyde Partnership for Children.

*Hyde County 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	Refund	Amount	Refund
	Advanced	Due	Advanced	Due
Children & Youth Partnership for Dare County, Inc.	\$ 4,449	\$ (556)	\$ 6,829	\$ 0
Economic Improvement Council, Inc.	* 22,321	(6,465)		
Hyde County Health Department	* 3,756			
	<u>\$ 30,526</u>	<u>\$ (7,021)</u>	<u>\$ 6,829</u>	<u>\$ 0</u>

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

**Hyde County 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\$ Program	\$ 10,571
Hyde County Department of Social Services	* 19,569
	<u>\$ 30,140</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.

**Hyde County Partnership for Children**  
**Schedule of State Awards - Modified Cash Basis**  
**For the Year Ended June 30, 2004**

**Schedule 3**

State Grantor/Pass-through Grantor/Program	Contract #	Receipts	Expenditures
<b>State Awards:</b>			
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 Years)	Various	\$ (2,887)	\$ (164)
Early Childhood Initiatives Program (Current Year)	*	68,595	60,809
Multi-County Accounting and Contracting Grant (Prior Years)	-	(2,997)	
Multi-County Accounting and Contracting Grant (Current Year)	*	12,000	12,000
North Carolina Department of Juvenile Justice			
Support Our Students	-	(8,003)	3,270
<b>Total State Awards</b>		<b>\$ 66,708</b>	<b>\$ 75,915</b>

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



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

**Schedule 4**

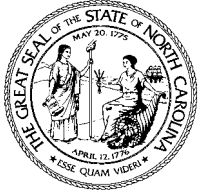
***Match Provided at the Partnership Level:***

Cash	\$ 6,849
In-Kind Goods and Services	5,414
	\$ 12,263

***Match Provided at the Contractor Level:***

Cash	\$ 1,959
In-Kind Goods and Services	0
	\$ 1,959

Note: This schedule is presented in accordance with the program match requirement as provided for by North Carolina Session Law 2003-397, 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.



Ralph Campbell, Jr.  
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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**

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Board of Directors  
Hyde County Partnership for Children  
Washington, North Carolina

We have audited the financial statements of the Hyde County Partnership for Children (Hyde Partnership) as of and for the year ended June 30, 2004, and have issued our report thereon dated October 27, 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Hyde 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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting 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 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. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting, which we have reported to management of the Hyde Partnership in a separate letter dated January 4, 2005.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Hyde Partnership's financial statements are free of material misstatement, we performed tests of its compliance with

**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)**

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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*. However, we noted a certain immaterial instance of noncompliance, which we have reported to the management of the Hyde Partnership in a separate letter dated January 4, 2005.

This report is intended solely for the information and use of the audit committee, management of the Hyde 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

October 27, 2004

## DISTRIBUTION OF AUDIT REPORT

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

### EXECUTIVE BRANCH

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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 Odom	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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Mr. James D. Johnson	Director, Fiscal Research Division
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January 14, 2005

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