



STATE OF NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT OF PAMLICO PARTNERSHIP FOR CHILDREN, INC.

BAYBORO, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2005

OFFICE OF THE STATE AUDITOR

LESLIE W. MERRITT, JR., CPA, CFP

STATE AUDITOR

FINANCIAL STATEMENT AUDIT REPORT OF

PAMLICO PARTNERSHIP FOR CHILDREN, INC.

BAYBORO, NORTH CAROLINA

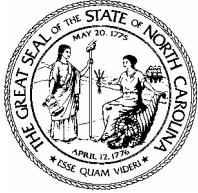
FOR THE YEAR ENDED JUNE 30, 2005

BOARD OF DIRECTORS

HAZEL ALCOCK, BOARD CHAIR

ADMINISTRATIVE OFFICER

SHELIA ORTH, EXECUTIVE DIRECTOR



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

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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 our financial statement audit of the Pamlico Partnership for Children, Inc. (Pamlico Partnership), for the year ended June 30, 2005. Our audit was made by authority of Article 5A of Chapter 147 of the *North Carolina General Statutes*.

The accounts and operations of the Pamlico 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 Pamlico 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 Pamlico Partnership is one of these local partnerships. As such, the Pamlico 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 Pamlico 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 – Our tests disclosed no significant deficiencies in the internal control over financial reporting and no instances of noncompliance or other matters that require disclosure herein under *Government Auditing Standards*.

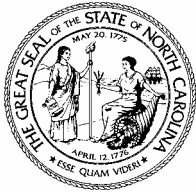
North Carolina General Statutes require the State Auditor to make audit reports available to the public. Copies of audit reports issued by the Office of the State Auditor may be obtained through one of the options listed in the back of this report.



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

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STATE OF NORTH CAROLINA
Office of the State Auditor

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying Statement of Receipts, Expenditures, and Net Assets – Modified Cash Basis of the Pamlico Partnership for Children, Inc. (Pamlico Partnership), as of June 30, 2005, and the related Statement of Functional Expenditures – Modified Cash 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 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 Pamlico Partnership for Children, Inc. as of June 30, 2005, 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 8, 2006, 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 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 results

INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

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 Pamlico Partnership for Children, Inc.'s basic financial statements. The information in Schedules 1 through 5 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Schedules 1, 3, 4 and 5 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.



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

March 8, 2006

Pamlico Partnership for Children, Inc.
Statement of Receipts, Expenditures, and Net Assets - Modified Cash Basis
For the Year Ended June 30, 2005

Exhibit A

	Unrestricted Funds		Temporarily Restricted Funds	Total Funds
	Smart Start Fund	Other Funds		
Receipts:				
State Awards (less refunds of \$1,181)	\$ 206,239	\$ 11,989	\$ 0	\$ 218,228
Private Contributions		31,799	3,129	34,928
Sales Tax Refunds		1,797		1,797
Other Receipts		77		77
Total Receipts	<u>206,239</u>	<u>45,662</u>	<u>3,129</u>	<u>255,030</u>
Net Assets Released from Restrictions:				
Satisfaction of Program Restrictions		20,563	(20,563)	
	<u>206,239</u>	<u>66,225</u>	<u>(17,434)</u>	<u>255,030</u>
Expenditures:				
Programs:				
Child Care and Education Affordability	17,038	1,200		18,238
Child Care and Education Quality	69,741	122		69,863
Family Support	19,688	41,791		61,479
Health and Safety	20,223			20,223
Support:				
Management and General	76,869	16,527		93,396
Program Evaluation	3,850			3,850
Other:				
Sales Tax Paid		1,231		1,231
Total Expenditures	<u>207,409</u>	<u>60,871</u>		<u>268,280</u>
Excess of Receipts Over Expenditures	<u>(1,170)</u>	<u>5,354</u>	<u>(17,434)</u>	<u>(13,250)</u>
Net Assets at Beginning of Year	<u>1,170</u>	<u>11,515</u>	<u>20,563</u>	<u>33,248</u>
Net Assets at End of Year	<u>\$ 0</u>	<u>\$ 16,869</u>	<u>\$ 3,129</u>	<u>\$ 19,998</u>
Net Assets Consisted of:				
Cash and Cash Equivalents	\$ 1,626	\$ 16,869	\$ 3,129	\$ 21,624
Less: Due to the State	1,626			1,626
	<u>\$ 0</u>	<u>\$ 16,869</u>	<u>\$ 3,129</u>	<u>\$ 19,998</u>

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

Pamlico Partnership for Children, Inc.
Statement of Functional Expenditures - Modified Cash Basis
For the Year Ended June 30, 2005

Exhibit B

	Total	Personnel	Contracted Services	Supplies and Materials	Other Operating Expenditures	Fixed Charges and Other Expenditures	Property and Equipment Outlay	Services/ Contracts/ Grants
Smart Start Fund:								
Programs:								
Child Care and Education Affordability	\$ 17,038	\$ 12,719	\$ 0	\$ 2,236	\$ 972	\$ 772	\$ 339	\$ 0
Child Care and Education Quality	69,741	37,023	1,045	2,347	6,301	4,822	274	17,929
Family Support	19,688	4,677	270	3,619		111		11,011
Health and Safety	20,223	225		200	470	745	274	18,309
	<u>126,690</u>	<u>54,644</u>	<u>1,315</u>	<u>8,402</u>	<u>7,743</u>	<u>6,450</u>	<u>887</u>	<u>47,249</u>
Support:								
Management and General	76,869	58,587	140	1,255	8,712	7,462	713	
Program Evaluation	3,850	1,778	2,000		72			
	<u>80,719</u>	<u>60,365</u>	<u>2,140</u>	<u>1,255</u>	<u>8,784</u>	<u>7,462</u>	<u>713</u>	<u>0</u>
Total Smart Start Fund Expenditures	\$ 207,409	\$ 115,009	\$ 3,455	\$ 9,657	\$ 16,527	\$ 13,912	\$ 1,600	\$ 47,249
Other Funds:								
Programs:								
Child Care and Education Affordability	\$ 1,200	\$ 0	\$ 0	\$ 0	\$ 0	\$ 1,200	\$ 0	\$ 0
Child Care and Education Quality	122	256						(134)
Family Support	41,791	2,163	260	1,353	7,704	13		30,298
	<u>43,113</u>	<u>2,419</u>	<u>260</u>	<u>1,353</u>	<u>7,704</u>	<u>1,213</u>		<u>30,164</u>
Support:								
Management and General	16,527	7,110	6,708	337	1,699	573		100
Other:								
Sales Tax Paid	1,231			1,231				
Total Other Funds Expenditures	\$ 60,871	\$ 9,529	\$ 6,968	\$ 2,921	\$ 9,403	\$ 1,786	\$ 0	\$ 30,264

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

PAMLICO PARTNERSHIP FOR CHILDREN, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2005

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. Pursuant to the provisions of Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-For-Profit Organizations*, the accompanying financial statements present information according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. As permitted by this Statement, temporarily restricted contributions received and expended in the same year are reported as unrestricted receipts rather than as temporarily restricted receipts.

Contributions that are temporarily restricted and not expended within the year received are reported as an increase in temporarily restricted net assets. When the restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Receipts, Expenditures, and Net Assets as net assets released from restrictions.

The Pamlico Partnership did not have any permanently restricted net assets at June 30, 2005.

C. Basis of Accounting – The accompanying financial statements were prepared on the modified cash basis of accounting. This basis differs from accounting principles generally accepted in the United States of America primarily because it recognizes long lived assets and other costs which benefit more than one period as expended in the year purchased; it recognizes revenue when received rather than when earned; and it recognizes expenditures when paid rather than when incurred.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

However, unexpended advances to contractors that revert back to the State of North Carolina are recognized as a reduction to expenditures and an increase to net assets. Amounts withheld from employee paychecks or other amounts received in an agency capacity are recorded as funds held for others. In addition, Smart Start funds advanced to the local Partnership that are unexpended and unearned at year-end are recorded as a Due to the State.

- 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. Due to the State** – The funding provided by the State of North Carolina for the Smart Start program is funded on a cost reimbursement basis. The money is earned to the extent of allowable costs incurred. Any unexpended funds as of June 30 are required to be reverted to The North Carolina Partnership for Children, Inc. to be returned to the State of North Carolina.
- F. Property and Equipment** – Under the modified cash basis of accounting, purchases of property and equipment are reported as expenditures in the year occurred. However, Pamlico Partnership is required by contract regulation to track and maintain property and equipment items as presented in Schedule 4 of this report. The Pamlico 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, 2005. Donated items are recorded at estimated fair market value at the date of donation.
- G. Compensated Absences** – As a result of the use of the modified cash basis of accounting, liabilities related to accrued compensated absences are not recorded in the financial statements. Expenditures related to compensated absences are recorded when paid. The amount of accrued compensated absences for accumulated, unpaid leave that would be due to employees upon termination is reported as a commitment in Note 8.
- H. Use of Estimates** – The preparation of financial statements in conformity with the modified cash basis of accounting used by the Pamlico 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 2 - 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 North Carolina 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 \$209,035 under a current year Smart Start contract with NCPC. The unexpended balance of this contract is subject to reversion to the State. The Pamlico Partnership has returned \$1,626 of this contract to the State based on financial status reports submitted to NCPC subsequent to June 30, 2005.

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

NOTE 3 - RELATED PARTY TRANSACTIONS

A. 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 Pamlico 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 Pamlico Partnership’s Smart Start Allocation.

B. Other Related Parties – The Pamlico Partnership entered into transactions for office space with a private business associated with a board member. The amount paid was \$9,600.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 4 - 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 Affordability – Used to account for service activities associated with part-day care programs.

Child Care and Education Quality – Used to account for service activities including quality enhancement grants for upgrades, professional development, and learning materials and teaching aids.

Family Support – Used to account for service activities including ongoing parenting education and community outreach information and resources.

Health and Safety – Used to account for service activities associated with child care health consultants.

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 – Direct allocation based on employee time reports.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 5 - OPERATING LEASE

Rental expense for all operating leases during the year was \$9,600.

NOTE 6 - PENSION PLAN

IRC Section 403(b) Plan– All permanent employees who are at least half time can participate in a tax sheltered annuity plan (Plan) created under Internal Revenue Code Section 403(b). The Plan is a defined contribution plan in which each employee of the Pamlico Partnership, as a condition of employment, is provided an individual annuity through an outside insurance company. The Pamlico Partnership contributed 6% of gross wages for the year ended June 30, 2005. 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. These Plans are exclusively for employees of universities and certain charitable and other nonprofit organizations. All costs of administering and funding these Plans are the responsibility of the Plan participants. The Pamlico Partnership contributed \$2,796 for retirement benefits during the year.

NOTE 7 - RISK MANAGEMENT

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

NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

NOTE 8 - COMMITMENTS AND CONTINGENCIES

Compensated Absences – As a result of the Pamlico 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, 2005, is \$5,607. No funds or reservation of net assets has been made for this commitment.

NOTE 9 - RESTRICTIONS ON NET ASSETS

A. Temporarily Restricted Net Assets – Temporarily restricted net assets at June 30, 2005, are available for the following purposes:

Purpose	Amount
Community Outreach Program	\$ 3,129

B. Net Assets Released From Donor Restrictions – Net assets were released from donor restrictions during the fiscal year ended June 30, 2005, by incurring expenditures satisfying the restricted purposes as follows:

Purpose	Amount
Bates Foundation	\$ 2,500
Child and Family Outreach	18,063
	<u>\$ 20,563</u>

Pamlico Partnership for Children, Inc.
Schedule of Contract and Grant Expenditures - Modified Cash Basis
For the Year Ended June 30, 2005

Schedule 1

Organization Name	Smart Start Fund		Other Funds	
	Amount Advanced	Refund Due	Amount Advanced	Refund Due
Mary Boudreault	\$ 18,309	\$ 0	\$ 0	\$ 0
Neuse Center			1,179	
Pamlico Community College	*		(134)	
Pat Goldstein	11,011		29,119	
Various Organizations	429		100	
	<u>29,749</u>		<u>30,264</u>	
Individuals:				
Course Reimbursements	529			
Educational Achievement Awards	16,971			
	<u>17,500</u>			
	<u>\$ 47,249</u>	<u>\$ 0</u>	<u>\$ 30,264</u>	<u>\$ 0</u>

* These organizations are represented on the Partnership's Board as described in Note 3A - Service Provider Contracts with Board Member Organizations.

***Pamlico Partnership for Children, Inc.
 Schedule of State Level Service Provider Contracts
 For the Year Ended June 30, 2005***

Schedule 2

Organization Name	DHHS Contracts
Pamlico County Department of Social Services	* \$ <u>62,750</u>

* These organizations are represented on the Partnership's Board as described in Note 3A - 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 2 - Funding from Grant Awards.

Pamlico Partnership for Children, Inc.
Schedule of State Awards - Modified Cash Basis
For the Year Ended June 30, 2005

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)	N/A	\$ (1,170)	\$ 0
Early Childhood Initiatives Program (Current Year)	*	207,409	207,409
Multi-County Accounting and Contracting Grant (Prior Year)	N/A	(11)	(11)
Multi-County Accounting and Contracting Grant (Current Year)	N/A	12,000	11,987
Total State Awards		<u>\$ 218,228</u>	<u>\$ 219,385</u>

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

Pamlico Partnership for Children, Inc.
Schedule of Property and Equipment - Modified Cash Basis
For the Year Ended June 30, 2005

Schedule 4

Furniture and Noncomputer Equipment	\$ 24,819
Computer Equipment/Printers	<u>17,868</u>
Total Property and Equipment	<u><u>\$ 42,687</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.

***Pamlico Partnership for Children, Inc.
Schedule of Qualifying Match (Non-GAAP)
For the Year Ended June 30, 2005***

Schedule 5

Match Provided at the Partnership Level:

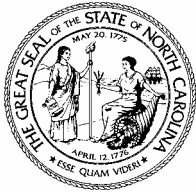
Cash	\$	34,927
In-Kind Goods and Services		<u>4,550</u>
	\$	<u><u>39,477</u></u>

Match Provided at the Contractor Level:

Cash	\$	<u><u>6,114</u></u>
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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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**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
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, 2005, and have issued our report thereon dated March 8, 2006. 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 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 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.

Compliance and Other Matters

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 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

**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)**

tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the Pamlico Partnership in a separate letter dated March 13, 2006.

This report is intended solely for the information and use of the audit committee, management of the Pamlico 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 8, 2006

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