

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

**BAYBORO, NORTH CAROLINA**

**FOR THE YEAR ENDED JUNE 30, 2007**

**PERFORMED UNDER CONTRACT WITH THE  
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**

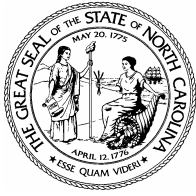
**FOR THE YEAR ENDED JUNE 30, 2007**

**BOARD OF DIRECTORS**

**RICHARD BALDWIN, BOARD CHAIR**

**ADMINISTRATIVE OFFICER**

**BETTY BLYTHE, EXECUTIVE DIRECTOR**



STATE OF NORTH CAROLINA  
Office of the 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, Pamlico Partnership for Children, Inc.

This report presents the results of the financial statement audit of Pamlico Partnership for Children, Inc. for the year ended June 30, 2007. Langdon & Company performed the audit under contract with the Office of the State Auditor, and their report is submitted herewith.

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

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

*Leslie W. Merritt, Jr.*

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

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**INDEPENDENT AUDITOR'S REPORT**

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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 Pamlico Partnership for Children, Inc. (Pamlico Partnership) as of June 30, 2007, and the related Statement of Functional Expenditures – Modified Cash Basis for the year then ended. These financial statements are the responsibility of 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 Pamlico Partnership for Children, Inc. as of June 30, 2007, and its receipts and expenditures 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 20, 2008, on our consideration of 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 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

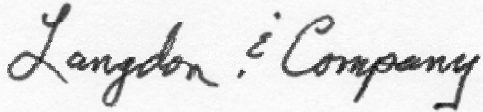


## INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

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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.



Garner, North Carolina  
February 20, 2008

***Pamlico Partnership for Children, Inc.***  
***Statement of Receipts, Expenditures, and Net Assets - Modified Cash Basis***  
***For the Year Ended June 30, 2007***

***Exhibit A***

	Unrestricted Funds		Temporarily Restricted Funds	Total Funds
	Smart Start Fund	Other Funds		
<b>Receipts:</b>				
State Awards (less refunds of \$6	\$ 202,268	\$ 11,994	\$ 0	\$ 214,262
Private Contributions		10,310		10,310
Interest and Investment Earnings		35		35
Sales Tax Refunds		1,301		1,301
<b>Total Receipts</b>	<b>202,268</b>	<b>23,640</b>		<b>225,908</b>
Net Assets Released from Restrictions				
Satisfaction of Program Restrictions		8,001	(8,001)	
	<b>202,268</b>	<b>31,641</b>	<b>(8,001)</b>	<b>225,908</b>
<b>Expenditures:</b>				
Programs:				
Child Care and Education Affordability	15,472			15,472
Child Care and Education Quality	74,127	7,001		81,128
Family Support	16,338			16,338
Health and Safety	24,587			24,587
Support:				
Management and Genera	66,244	19,943		86,187
Program Evaluation	5,500			5,500
Other:				
Sales Tax Paid		2,387		2,387
<b>Total Expenditures</b>	<b>202,268</b>	<b>29,331</b>		<b>231,599</b>
<b>Excess of Expenditures Over Receipts</b>		2,310	(8,001)	(5,691)
<b>Net Assets at Beginning of Year</b>		9,539	8,001	17,540
<b>Net Assets at End of Year</b>	<b>\$ 0</b>	<b>\$ 11,849</b>	<b>\$ 0</b>	<b>\$ 11,849</b>
<b>Net Assets Consisted of</b>				
Cash and Cash Equivalents	\$ 0	\$ 11,849	\$ 0	\$ 11,849

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, 2007***

***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>Smart Start Fund:</b>								
<b>Programs:</b>								
Child Care and Education Affordability	\$ 15,472	\$ 11,513	\$ 238	\$ 1,990	\$ 819	\$ 912	\$ 0	\$ 0
Child Care and Education Quality	74,127	34,524	1,612	6,011	7,882	3,659	2,939	17,500
Family Support	16,338	9,375	79	4,226	547	241		1,870
Health and Safety	24,587	18,601	116	1,820	2,146	613	1,291	
	<u>130,524</u>	<u>74,013</u>	<u>2,045</u>	<u>14,047</u>	<u>11,394</u>	<u>5,425</u>	<u>4,230</u>	<u>19,370</u>
<b>Support:</b>								
Management and General	66,244	30,284	3,882	3,616	13,274	7,802	7,386	
Program Evaluation	5,500	587	4,900		13			
	<u>71,744</u>	<u>30,871</u>	<u>8,782</u>	<u>3,616</u>	<u>13,287</u>	<u>7,802</u>	<u>7,386</u>	
<b>Total Smart Start Fund Expenditures</b>	<u>\$ 202,268</u>	<u>\$ 104,884</u>	<u>\$ 10,827</u>	<u>\$ 17,663</u>	<u>\$ 24,681</u>	<u>\$ 13,227</u>	<u>\$ 11,616</u>	<u>\$ 19,370</u>
<b>Other Funds:</b>								
<b>Programs:</b>								
Child Care and Education Quality	\$ 7,001	\$ 6,140	\$ 24	\$ 218	\$ 509	\$ 110	\$ 0	\$ 0
<b>Support:</b>								
Management and General	19,943	10,326	6,323	717	1,562	665	350	
<b>Other:</b>								
Sales Tax Paid	2,387			2,387				
<b>Total Other Funds Expenditures</b>	<u>\$ 29,331</u>	<u>\$ 16,466</u>	<u>\$ 6,347</u>	<u>\$ 3,322</u>	<u>\$ 2,071</u>	<u>\$ 775</u>	<u>\$ 350</u>	<u>\$ 0</u>

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, 2007**

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**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 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 temporarily or permanently restricted net assets at June 30, 2007.

**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)

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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 funds 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. Property and Equipment** - Under the modified cash basis of accounting, purchases of property and equipment are reported as expenditures in the year incurred. 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, 2007. Donated items are recorded at estimated fair market value at the date of donation.
- 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 that would be due to employees upon termination is reported as a commitment in Note 7.
- G. 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.

### 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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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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 a contract with and made payments to a service provider selected by the Pamlico Partnership. This service provider contract is not reflected on the accompanying financial statements. However, a summary of the service provider contract entered into by DHHS is presented on Schedule 2 accompanying the financial statements.

The Pamlico Partnership was awarded and has received \$202,268 under a current year Smart Start contract with NCPC. The unexpended balance of this contract is subject to reversion to the State. There was no reversion for fiscal year ended June 30, 2007.

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

**Touching the Lives of Children** - The Pamlico Partnership also received revenue and support from NCPC on a pass-through contract from Progress Energy for the Touching the Lives of Children program. The unexpended balance of this contract is subject to reversion to NCPC. The Pamlico Partnership was awarded and has received \$6,000 under a current year contract.

**Multi-County Accounting and Contracting** - The Pamlico Partnership also received revenue and support from the State of North Carolina for their participation in the Multi-County Accounting and Contracting Program. The unexpended balance of this contract is subject to reversion to the State. The Pamlico Partnership was awarded and has received \$12,000 under a current year contract for the payment of administrative and accounting services. The Pamlico Partnership expended the entire balance during the current year.

### 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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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organizations for program activities as identified on Schedule 1 accompanying the financial statements. In addition, Schedule 2 identifies a contract 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.

### 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 child care cost supports (expansion of the North Carolina Division of Child Development (DCD) reimbursement system) and part-day programs.

**Child Care and Education Quality** - Used to account for service activities including quality enhancement grants to improve quality, professional development supplements, and learning materials and teaching aids.

**Family Support** - Used to account for service activities including general family support 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.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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**Program Evaluation** - Expenditures that are incurred to monitor the effectiveness and feasibility of Partnership activities and contract agencies to determine if the short-term and long-term goals are being achieved.

### 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.

**Other Costs** - Other costs including occupancy cost (rent, utilities and maintenance), supplies and materials, worker's compensation insurance, and communication costs (telephone, postage and printing) were allocated based on utilization data.

### NOTE 5 - OPERATING LEASE

Rental expense for the operating lease for the year was \$9,600.

### NOTE 6 - 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. There have been no claims filed in any of the past three fiscal years.

## NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

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### NOTE 7 - COMMITMENTS

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, 2007, is \$1,866. No funds or reservation of net assets has been made for this commitment.

### NOTE 8 - RESTRICTIONS ON NET ASSETS

**Net Assets Released From Donor Restrictions** – Net assets were released from donor restrictions during the fiscal year ended June 30, 2007, by incurring expenditures satisfying the restricted purposes as follows:

Purpose	Amount
Bate Foundation Operational Grant	\$ 7,000
Progress Energy – Touching the Lives of Children	<u>1,001</u>
	<u>\$ 8,001</u>

***Pamlico Partnership for Children, Inc.***  
***Schedule of Contract and Grant Expenditures - Modified Cash Basis***  
***For the Year Ended June 30, 2007***

***Schedule 1***

<b>Organization Name</b>	<b>Smart Start Fund</b>		<b>Other Funds</b>	
	<b>Amount Advanced</b>	<b>Refund Due</b>	<b>Amount Advanced</b>	<b>Refund Due</b>
<b><i>Paid to Organizations:</i></b>				
Heartworks	* \$ 1,870	\$ 0	\$ 0	\$ 0
<b><i>Paid to Individuals:</i></b>				
Educational Achievement Awards	17,500			
	<u>\$ 19,370</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>

\* This organization is 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, 2007***

*Schedule 2*

<b>Organization Name</b>	<b>DHHS Contracts</b>
Pamlico County Human Services Center	* \$ 62,750

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.

\* This organization is 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 Awards - Modified Cash Basis***  
***For the Year Ended June 30, 2007***

***Schedule 3***

<u>State Grantor/Pass-through Grantor/Program</u>	<u>Contract #</u>	<u>Receipts</u>	<u>Expenditures</u>
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	*	\$ 202,268	\$ 202,268
Multi-County Accounting and Contracting Grant - Current Year	*	12,000	12,000
Multi-County Accounting and Contracting Grant - Prior Year	N/A	<u>(6)</u>	<u>          </u>
<b>Total State Awards</b>		<u>\$ 214,262</u>	<u>\$ 214,268</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, 2007***

***Schedule 4***

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Furniture and Noncomputer Equipment	\$	25,346
Computer Equipment/Printers		<u>24,477</u>
Total Property and Equipment	\$	<u><u>49,823</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 cash 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, 2007***

***Schedule 5***

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

Cash	\$	10,240
In-Kind Goods and Services		<u>5,098</u>
	\$	<u><u>15,338</u></u>

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

Cash	\$	<u><u>13,758</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 2005-276, Section 10.64(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**

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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, 2007, and have issued our report thereon dated February 20, 2008. 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.

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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Pamlico Partnership's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Pamlico Partnership's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Pamlico Partnership's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Pamlico Partnership's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Pamlico Partnership's financial statements that is more than inconsequential will not be prevented or detected by the Pamlico Partnership's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Pamlico Partnership's internal control.



**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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Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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 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 February 20, 2008.

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

Garner, North Carolina  
February 20, 2008

## ORDERING INFORMATION

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Audit reports issued by the Office of the State Auditor can be obtained from the web site at [www.ncauditor.net](http://www.ncauditor.net). Also, parties may register on the web site to receive automatic email notification whenever reports of interest are issued. Otherwise, copies of audit reports may be obtained by contacting the:

Office of the State Auditor  
State of North Carolina  
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