

STATE OF NORTH CAROLINA

ORANGE COUNTY PARTNERSHIP FOR YOUNG CHILDREN

CHAPEL HILL, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2005

OFFICE OF THE STATE AUDITOR

LESLIE W. MERRITT, JR., CPA, CFP

STATE AUDITOR

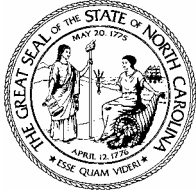
FINANCIAL STATEMENT AUDIT REPORT OF
ORANGE COUNTY PARTNERSHIP FOR YOUNG CHILDREN
CHAPEL HILL, NORTH CAROLINA
FOR THE YEAR ENDED JUNE 30, 2005

BOARD OF DIRECTORS

SHARON RINGWALT, BOARD CHAIR

ADMINISTRATIVE OFFICER

MICHELE RIVEST, EXECUTIVE DIRECTOR



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

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Office of the State Auditor

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AUDITOR'S TRANSMITTAL

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

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

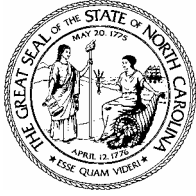
North Carolina General Statutes require the State Auditor to make audit reports available to the public. Copies of audit reports issued by the Office of the State Auditor may be obtained through one of the options listed in the back of this report.

Leslie W. Merritt, Jr.

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

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STATE OF NORTH CAROLINA
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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Orange County Partnership for Young Children
Chapel Hill, North Carolina

We have audited the accompanying Statement of Receipts, Expenditures, and Net Assets – Modified Cash Basis of the Orange County Partnership for Young Children (Orange 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 Orange 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 Orange County Partnership for Young Children 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 June 7, 2006 on our consideration of the Orange 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

INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

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 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 Orange County Partnership for Young Children'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

June 7, 2006

Orange County Partnership for Young Children
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 \$5,824)	\$ 2,788,408	\$ 432,228	\$ 0	\$ 3,220,636
Local Awards		1,000		1,000
Private Contributions		12,015		12,015
Interest and Investment Earnings		721		721
Sales Tax Refunds		2,476		2,476
Other Receipts		28,525		28,525
Total Receipts	2,788,408	476,965		3,265,373
Net Assets Released from Restrictions:				
Satisfaction of Program Restrictions		850	(850)	
	2,788,408	477,815	(850)	3,265,373
Expenditures:				
Programs:				
Child Care and Education Affordability	1,706,404	1,423		1,707,827
Child Care and Education Quality	201,251			201,251
Family Support	338,276	3,250		341,526
Health and Safety	229,321	715		230,036
More at Four		424,508		424,508
Support:				
Management and General	242,784	45,360		288,144
Program Evaluation	76,070			76,070
Other:				
Sales Tax Paid		2,262		2,262
Total Expenditures	2,794,106	477,518		3,271,624
Excess of Receipts Over Expenditures	(5,698)	297	(850)	(6,251)
Net Assets at Beginning of Year	5,698	80,482	850	87,030
Net Assets at End of Year	\$ 0	\$ 80,779	\$ 0	\$ 80,779
Net Assets Consisted of:				
Cash and Cash Equivalents	\$ 0	\$ 80,779	\$ 0	\$ 80,779

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

**Orange County Partnership for Young Children
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	Participant Training Expenditures
Smart Start Fund:									
Programs:									
Child Care and Education Affordability	\$ 1,706,404	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 1,706,404	\$ 0
Child Care and Education Quality	201,251							201,251	
Family Support	338,276	60,046	7,261	1,390	4,855		1,540	263,184	
Health and Safety	229,321							229,321	
	<u>2,475,252</u>	<u>60,046</u>	<u>7,261</u>	<u>1,390</u>	<u>4,855</u>		<u>1,540</u>	<u>2,400,160</u>	
Support:									
Management and General	242,784	148,195	19,916	4,687	19,024	41,536	9,426		
Program Evaluation	76,070	67,621	5,120	294	1,941	80	1,014		
	<u>318,854</u>	<u>215,816</u>	<u>25,036</u>	<u>4,981</u>	<u>20,965</u>	<u>41,616</u>	<u>10,440</u>		
Total Smart Start Fund Expenditures	<u>\$ 2,794,106</u>	<u>\$ 275,862</u>	<u>\$ 32,297</u>	<u>\$ 6,371</u>	<u>\$ 25,820</u>	<u>\$ 41,616</u>	<u>\$ 11,980</u>	<u>\$ 2,400,160</u>	<u>\$ 0</u>
Other Funds:									
Programs:									
Child Care and Education Affordability	\$ 1,423	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 1,423	\$ 0
Family Support	3,250		150	10	3,090				
Health and Safety	715							715	
More at Four	424,508	35,729	303	500	161		1,043	386,772	
	<u>429,896</u>	<u>35,729</u>	<u>453</u>	<u>510</u>	<u>3,251</u>		<u>1,043</u>	<u>388,910</u>	
Support:									
Management and General	45,360	12,638	24,076	2,927	1,815	1,937	1,967		
Other:									
Sales Tax Paid	2,262			2,262					
Total Other Funds Expenditures	<u>\$ 477,518</u>	<u>\$ 48,367</u>	<u>\$ 24,529</u>	<u>\$ 5,699</u>	<u>\$ 5,066</u>	<u>\$ 1,937</u>	<u>\$ 3,010</u>	<u>\$ 388,910</u>	<u>\$ 0</u>

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

ORANGE COUNTY PARTNERSHIP FOR YOUNG CHILDREN
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2005

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

- A. Organization and Purpose** – The Orange County Partnership for Young Children (Orange Partnership) is a legally separate nonprofit organization incorporated on August 24, 1993. The Orange Partnership was established to develop and provide, through public and private means, early childhood education and developmental services for children and families. The Orange 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 Orange 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 Orange Partnership did not have any temporarily or 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. Property and Equipment** – Under the modified cash basis of accounting, purchases of property and equipment are reported as expenditures in the year occurred. However, Orange Partnership is required by contract regulation to track and maintain property and equipment items as presented in Schedule 4 of this report. The Orange 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.
- 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 9.
- G. Use of Estimates** – The preparation of financial statements in conformity with the modified cash basis of accounting used by the Orange 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 Orange 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 Orange Partnership to a concentration

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

of credit risk. At June 30, 2005, the Orange Partnership's bank deposits in excess of the FDIC insured limit was \$113,504.

NOTE 3 - FUNDING FROM GRANT AWARDS

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

Associated with these contracts, the Orange 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 Orange 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 Orange Partnership was awarded and has received \$2,794,106 under a current year Smart Start contract with NCPC. Any unexpended balance of this contract is subject to reversion to the State.

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

More at Four – The Orange Partnership also received revenue and support from the State of North Carolina for the More at Four Program. The Orange Partnership was awarded \$435,600 and received \$420,354 under a current year contract. The Orange 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 Orange Partnership are representative of various organizations that benefit from actions taken by the Board. It is the policy of the Orange Partnership that board members not be involved with decisions regarding organizations they represent. During the year, the Orange Partnership entered into contracts with board member organizations for

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 Orange 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 Affordability – Used to account for service activities associated with child care subsidy programs outside of DCD.

Child Care and Education Quality – Used to account for service activities including quality enhancement grants for upgrades, special needs – support for child care professionals, child care data - workforce studies, and kindergarten orientation/transition.

Family Support – Used to account for service activities including family resource centers, parenting skills training, general family support, family crisis intervention, and community outreach information and resources.

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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.

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 6 - OPERATING LEASE OBLIGATIONS

Future minimum lease payments under noncancelable operating leases consist of the following at June 30, 2005:

<u>Fiscal Year</u>	<u>Amount</u>
2006	\$ 13,812
2007	<u>786</u>
Total Minimum Lease Payments	<u>\$ 14,598</u>

Rental expense for all operating leases during the year was \$36,660.

NOTE 7 - 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 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. No costs were incurred by the Orange Partnership.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 8 - RISK MANAGEMENT

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

NOTE 9 - COMMITMENTS AND CONTINGENCIES

Compensated Absences – As a result of the Orange 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 \$13,299. No funds or reservation of net assets has been made for this commitment.

NOTE 10 - RESTRICTIONS ON NET ASSETS

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:

<u>Purpose</u>	<u>Amount</u>
Child Care Scholarships	\$ 600
Early Intervention – Families in Focus	250
	<u>\$ 850</u>

***Orange County Partnership for Young Children
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
Chapel Hill Carrboro City Schools	* \$ 39,016	\$ 0	\$ 99,532	\$ 0
Chapel Hill Training Outreach	*		221,108	
Child Care Services Association	* 1,884,799		1,423	
Community Schools for People Under Six			45,090	
El Centro Latino	51,385			
Inter Faith Council	79,552			
Orange County Health Department	* 173,539		715	
Orange County Literacy Council	14,905			
Orange County Schools	* 8,000			
Orange-Person-Chatham Mental Health	* 31,622			
Piedmont Health Services	32,915			
Spanish for Fun			21,042	
University of North Carolina at Chapel Hill	* 84,427			
	<u>\$ 2,400,160</u>	<u>\$ 0</u>	<u>\$ 388,910</u>	<u>\$ 0</u>

**Orange County Partnership for Young Children
 Schedule of State Level Service Provider Contracts
 For the Year Ended June 30, 2005**

Schedule 2

Organization Name	DHHS Contracts
Child Care Services Association, Inc. - WAGE\$ Project *	\$ 239,298

* This organization is represented on the Partnership's Board as described in Note 4 - Service Provider Contracts with Board Member Organizations.

The information on this schedule provides a listing of service provider contracts entered into by the North Carolina Department of Health and Human Services (DHHS) as described in Note 3 - Funding from Grant Awards.

**Orange County Partnership for Young Children
Schedule of State Awards - Modified Cash Basis
For the Year Ended June 30, 2005**

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 (Prior Year)	N/A	\$ (5,824)	\$ 0
Early Childhood Initiatives Program (Current Year)	*	2,794,106	2,794,106
Multi-County Accounting and Contracting Grant	N/A	12,000	12,000
North Carolina Department of Health and Human Services			
More at Four Pre-Kindergarten Program	#2090003659		10,931
More at Four Pre-Kindergarten Program	* #2090004344	420,354	413,577
Total State Awards		<u>\$ 3,220,636</u>	<u>\$ 3,230,614</u>

* 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.

***Orange County Partnership for Young Children
Schedule of Property and Equipment - Modified Cash Basis
For the Year Ended June 30, 2005***

Schedule 4

Furniture and Noncomputer Equipment	\$	19,382
Computer Equipment/Printers		<u>47,330</u>
Total Property and Equipment	\$	<u><u>66,712</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.

**Orange County Partnership for Young Children
Schedule of Qualifying Match (Non-GAAP)
For the Year Ended June 30, 2005**

Schedule 5

Match Provided at the Partnership Level:

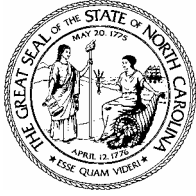
Cash	\$	150
In-Kind Goods and Services		<u>11,850</u>
	\$	<u><u>12,000</u></u>

Match Provided at the Contractor Level:

Cash	\$	177,430
In-Kind Goods and Services		<u>130,429</u>
	\$	<u><u>307,859</u></u>

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

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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
Orange County Partnership for Young Children
Chapel Hill, North Carolina

We have audited the financial statements of the Orange County Partnership for Young Children (Orange Partnership) as of and for the year ended June 30, 2005, and have issued our report thereon dated June 7, 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.

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 Orange 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.

**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)**

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Orange 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*.

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

June 7, 2006

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