STATE OF NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT OF

LENOIR/GREENE COUNTY PARTNERSHIP FOR CHILDREN, INC.

KINSTON, 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

LENOIR/GREENE COUNTY PARTNERSHIP FOR CHILDREN, INC.

KINSTON, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2005

BOARD OF DIRECTORS

REVEREND BEN SIMS, BOARD CHAIR

ADMINISTRATIVE OFFICER

KEITH SYLVESTER, EXECUTIVE DIRECTOR

STATE OF NORTH CAROLINA
Office of the State Auditor

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, Lenoir/Greene Partnership for Children, Inc.

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

2. **Objective –** To present significant deficiencies, if any, in internal control over financial reporting which could adversely affect the Lenoir/Greene 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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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Lenoir/Greene County Partnership for Children, Inc.
Kinston, North Carolina

We have audited the accompanying Statement of Receipts, Expenditures, and Net Assets – Modified Cash Basis of the Lenoir/Greene County Partnership for Children, Inc. (Lenoir/Greene 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 Lenoir/Greene 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 Lenoir/Greene County 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 April 25, 2006, on our consideration of the Lenoir/Greene 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 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 Lenoir/Greene County 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.

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

April 25, 2006

Lenoir/Greene 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: Smart Start Fund	Unrestricted Funds: Other Funds	Temporarily Restricted Funds	Total Funds
Receipts:				
State Awards (less refunds of $32,508)	$ 1,443,988	$ 741,701	$ 0	$ 2,185,689
Federal Awards		58,660		58,660
Private Contributions		604		604
Special Fund Raising Events		5,032		5,032
Interest and Investment Earnings		211		211
Sales Tax Refunds		4,641		4,641
Other Receipts		6,875		6,875
Total Receipts	1,443,988	817,724		2,261,712
Net Assets Released from Restrictions:				
Expiration of Time Restrictions		2,460	(2,460)	
	1,443,988	820,184	(2,460)	2,261,712
Expenditures:				
Programs:				
Child Care and Education Quality	461,018	50,357		511,375
Family Support	342,276			342,276
More at Four	429,162	696,915		1,126,077
Support:				
Management and General	195,460	36,978		232,438
Program Evaluation	51,479			51,479
Other:				
Refund of Prior Year Grant		2,460		2,460
Sales Tax Paid		5,687		5,687
Total Expenditures	1,479,395	792,397		2,271,792
Excess of Receipts Over Expenditures	(35,407)	27,787	(2,460)	(10,080)
Net Assets at Beginning of Year	35,407	23,815	2,460	61,682
Net Assets at End of Year	$ 0	$ 51,602	$ 0	$ 51,602
Net Assets Consisted of:				
Cash and Cash Equivalents	$ 50,332	$ 39,402	$ 0	$ 89,734
Investments		12,200		12,200
Refunds Due From Contractors	4,607			4,607
	54,939	51,602		106,541
Less: Due to the State	54,532			54,532
Funds Held for Others	407			407
	$ 0	$ 51,602	$ 0	$ 51,602

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

Lenoir/Greene 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	Participant Training Expenditures
Smart Start Fund:									
Programs:									
Child Care and Education Quality	$ 461,018	$ 226,614	$ 0	$ 12,513	$ 50,680	$ 13,568	$ 19,144	$ 138,499	$ 0
Family Support	342,276							342,276	
More at Four	429,162	91,022		2,536	16,883	414	3,743	314,564	
	1,232,456	317,636		15,049	67,563	13,982	22,887	795,339	
Support:									
Management and General	195,460	143,386	10,308	2,814	27,543	6,588	4,821		
Program Evaluation	51,479	43,388		417	5,399	89	2,186		
	246,939	186,774	10,308	3,231	32,942	6,677	7,007		
Total Smart Start Fund Expenditures	$ 1,479,395	$ 504,410	$ 10,308	$ 18,280	$ 100,505	$ 20,659	$ 29,894	$ 795,339	$ 0
Other Funds:									
Programs:									
Child Care and Education Quality	$ 50,357	$ 25,915	$ 0	$ 7,278	$ 8,527	$ 1,500	$ 1,335	$ 3,733	$ 2,069
More at Four	696,915					475		696,440	
	747,272	25,915		7,278	8,527	1,975	1,335	700,173	2,069
Support:									
Management and General	36,978	21,962	7,532	1,263	3,293		2,928		
Other:									
Refund of Prior Year Grant	2,460				2,460				
Sales Tax Paid	5,687			5,687					
	8,147				2,460				
Total Other Funds Expenditures	$ 792,397	$ 47,877	$ 7,532	$ 14,228	$ 14,280	$ 1,975	$ 4,263	$ 700,173	$ 2,069

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

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

A. Organization and Purpose – The Lenoir/Greene County Partnership for Children, Inc. (Lenoir/Greene Partnership) is a legally separate nonprofit organization incorporated on October 24, 1994. The Lenoir/Greene Partnership was established to develop and provide, through public and private means, early childhood education and developmental services for children and families. The Lenoir/Greene 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 Lenoir/Greene Partnership's Board of Directors is responsible. Pursuant to the provisions of Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-For-Profit Organizations*, the accompanying financial statements present information according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. As permitted by this Statement, temporarily restricted contributions received and expended in the same year are reported as unrestricted receipts rather than as temporarily restricted receipts.

The Lenoir/Greene 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

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 a demand account, petty cash, and a certificate of deposit with an original maturity of three months or less.

E. **Investments –** This classification includes a certificate of deposit whose original maturity term exceeds three months. Investments are reported at cost, which approximates fair value.

F. **Refunds Due From Contractors –** Refunds due from contractors represent the unexpended amount of advances to contractors at year-end that are to be refunded back to the State. As recoveries are collected, the receivable balance is reduced. Payments to the State for the recovered advances are recorded as a reduction to the State awards balance.

G. **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.

H. **Funds Held For Others –** Funds held for others includes amounts received that are fiduciary in nature in which the Lenoir/Greene Partnership acts in an agency capacity. For the year ended, the Lenoir/Greene Partnership was holding amounts withheld from employee paychecks for distribution to retirement and insurance authorities.

I. **Property and Equipment –** Under the modified cash basis of accounting, purchases of property and equipment are reported as expenditures in the year occurred. However, Lenoir/Greene Partnership is required by contract regulation to track and maintain property and equipment items as presented in Schedule 4 of this report. The Lenoir/Greene 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.

J. **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.

K. **Use of Estimates –** The preparation of financial statements in conformity with the modified cash basis of accounting used by the Lenoir/Greene 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 Lenoir/Greene Partnership are deposited with a commercial bank and insured by the Federal Deposit Insurance Corporation (FDIC) up to $100,000. Deposits over this amount subject the Lenoir/Greene Partnership to a concentration of credit risk. At June 30, 2005, the Lenoir/Greene Partnership's bank deposits in excess of the FDIC insured limit was $118,703.

NOTE 3 - FUNDING FROM GRANT AWARDS

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

Associated with these contracts, the Lenoir/Greene 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 Lenoir/Greene 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 Lenoir/Greene Partnership was awarded and has received $1,531,028 under a current year Smart Start contract with NCPC. The unexpended balance of this contract is subject to reversion to the State. The Lenoir/Greene Partnership has returned $53,304 of this contract to the State based on financial status reports submitted to NCPC subsequent to June 30, 2005.

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

More at Four – The Lenoir/Greene Partnership also received revenue and support from the State of North Carolina for the More at Four Program. The Lenoir/Greene Partnership was awarded $718,046 and received $717,701 under a current year contract. The Lenoir/Greene 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 Lenoir/Greene Partnership are representative of various organizations that benefit from actions taken by the Board. It is the policy of the Lenoir/Greene Partnership that board members not be involved with decisions regarding organizations they represent. During the year, the Lenoir/Greene 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 Lenoir/Greene Partnership's Smart Start Allocation.

NOTE 5 - FUNCTIONAL EXPENDITURES

The costs of providing the various programs and activities have been summarized on a functional basis in the Statement of Receipts, Expenditures, and Net Assets – Modified Cash Basis. Also, the Statement of Functional Expenditures – Modified Cash Basis provides detail of the functional costs by their natural classification. Following are the services associated with the functional categories presented in the accompanying financial statements and the methods utilized to allocate joint cost:

A. Program Functions

Child Care and Education Quality – Used to account for service activities including quality enhancement grants for upgrades, quality enhancement grants for maintenance, child care resource and referral, professional development, or salary supplements.

Family Support – Used to account for service activities including ongoing parenting education or family literacy projects.

More at Four – Used to account for development and implementation of More at Four prekindergarten program for at-risk four-year-olds who are at risk of failure in kindergarten. The goal is to provide quality prekindergarten services in order to enhance kindergarten readiness.

B. Support Functions

Management and General – Expenditures that are not identifiable with a single program or fund-raising activity but are indispensable to the conduct of those activities and to an organization's existence, including expenditures for the overall direction of the organization, its general board activities, business management, general recordkeeping, budgeting, and related purposes.

Program Evaluation – Expenditures that are incurred to monitor the performance of service providers as to the delivery of services and adherence to the specific terms and conditions of the contracts.

C. Allocation of Joint Costs

Expenditures benefiting more than one purpose were allocated as follows:

Salaries and Benefits – 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:

Fiscal Year	Operating Leases
2006	$ 2,172
2007	1,632
2008	1,632
2009	680
Total Minimum Lease Payments	$ 6,116

Rental expense for all operating leases during the year was $2,412.

NOTE 7 - PENSION PLAN

The Lenoir/Greene Partnership has a Simplified Employee Pension plan (SEP Plan) covering all full-time employees. Each full-time employee of the Lenoir/Greene Partnership, as a condition of employment, is provided an Individual Retirement Account through an outside insurance company. The Lenoir/Greene Partnership contributed 6% of gross wages for the year ended June 30, 2005. The Lenoir/Greene Partnership does not own the accounts nor is liable for any other cost other than the required contribution. The Lenoir/Greene Partnership contributed $25,604 for pension benefits during the year.

NOTE 8 - RISK MANAGEMENT

The Lenoir/Greene 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 Lenoir/Greene Partnership manages these various risks of loss as follows:

Type of Loss	Method Managed	Risk of Loss Retained
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 Lenoir/Greene 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 Lenoir/Greene 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 $18,744. No funds or reservation of net assets has been made for this commitment.

NOTE 10 - 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
Expiration of Time Restriction	$ 2,460

Lenoir/Greene Partnership for Children, Inc.
Schedule of Contract and Grant Expenditures - Modified Cash Basis
For the Year Ended June 30, 2005 ***Schedule 1***

		Smart Start Fund		Other Funds
Organization Name		**Amount Advanced**	**Refund Due**	**Amount Advanced**
Aaron's Playground		$ 64,923	$ 0	$ 102,393
Deep Run Child Care		67,765		97,165
Farmer N Dell Nursery, Inc.	*	82,155		97,165
Greene County Cooperative Extension		65,000	(1,672)	
Greene County Health Department	*	2,000		
Greene County Public Schools	*	118,831		144,926
Greene Lamp, Inc.	*	21,837		47,866
Johnson's Day Care		7,209		1,856
Lenoir Community College		59,660		
Lenoir County Cooperative Extension		107,084	(37)	
Lenoir County Public Schools		145,304		206,925
Play Place		7,063		1,669
Tender Love Childcare, Inc.		500		208
		749,331	(1,709)	700,173
Individuals:				
Child Care Expense Reimbursements		50,515	(2,898)	
Scholarships/Bonus Awards		100		
		50,615	(2,898)	
		$ 799,946	$ (4,607)	$ 700,173

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

Lenoir/Greene Partnership for Children, Inc.
Schedule of State Level Service Provider Contracts
For the Year Ended June 30, 2005 *Schedule 2*

Organization Name		DHHS Contracts
Greene County Department of Social Services	*	$ 144,154
Lenoir County Department of Social Services		506,485
		$ 650,639

* 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.

Lenoir/Greene Partnership for Children, Inc.
Schedule of Federal and State Awards - Modified Cash Basis
For the Year Ended June 30, 2005 — *Schedule 3*

Federal/State Grantor/Pass-through Grantor/Program		Federal CFDA Number	Contract #	Receipts	Expenditures
Federal Awards:					
US Department of Health and Human Services					
Pass-through from the North Carolina Department of Health and Human Services - Division of Child Development					
Regional Division of Child Development Grant					
Child Care Resource and Referral		93.575	#003-06	$ 58,660	$ 39,677
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 Refund)			N/A	(32,508)	
Early Childhood Initiatives Program (Current Year Refund)			N/A	(54,532)	
Early Childhood Initiatives Program (Current Year)	*		N/A	1,531,028	1,479,395
Multi-County Accounting and Contracting Grant			N/A	24,000	24,000
North Carolina Department of Health and Human Services					
More at Four Pre-Kindergarten Program	*		#2090004295	717,701	696,915
Total State Awards				2,185,689	2,200,310
Total Federal and State Awards				$ 2,244,349	$ 2,239,987

* 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.

Lenoir/Greene 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	$	164,836
Computer Equipment/Printers		88,304
Buildings		319,069
Total Property and Equipment	**$**	572,209

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.

Lenoir/Greene 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	$	8,844
In-Kind Goods and Services		9,414
	$	18,258

Match Provided at the Contractor Level:

Cash	$	149,630
In-Kind Goods and Services		78,997
	$	228,627

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.

STATE OF NORTH CAROLINA

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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
Lenoir/Greene County Partnership for Children, Inc.
Kinston, North Carolina

We have audited the financial statements of the Lenoir/Greene County Partnership for Children, Inc. (Lenoir/Greene Partnership) as of and for the year ended June 30, 2005, and have issued our report thereon dated April 25, 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 Lenoir/Greene 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 Lenoir/Greene 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 Lenoir/Greene 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

April 25, 2006

ORDERING INFORMATION

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