

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

JACKSON, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2005

**PERFORMED UNDER CONTRACT WITH THE
NORTH CAROLINA OFFICE OF THE STATE AUDITOR
LESLIE W. MERRITT, JR., CPA, CFP**

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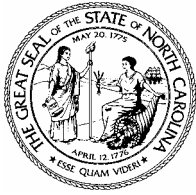
FOR THE YEAR ENDED JUNE 30, 2005

BOARD OF DIRECTORS

BARBARA DAVIS, BOARD CHAIRMAN

ADMINISTRATIVE OFFICER

CYNTHIA BROWN, EXECUTIVE DIRECTOR



STATE OF NORTH CAROLINA
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, Northampton Partnership for Children, Inc.

This report presents the results of the financial statement audit of Northampton Partnership for Children, Inc. for the year ended June 30, 2005. Langdon & Company performed the audit under contract with the Office of the State Auditor, and their report is submitted herewith.

The audit of the Northampton 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 Northampton Partnership for Children, Inc. is one of these local partnerships. As such, the Northampton Partnership for Children, Inc. is a private nonprofit 501(c)(3) organization and is required by G.S. 143B-168.14 to have an annual 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

Board of Directors
Northampton Partnership for Children, Inc.
Jackson, North Carolina

We have audited the accompanying Statement of Receipts, Expenditures, and Net Assets – Modified Cash Basis of the Northampton Partnership for Children, Inc. (Northampton 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 Northampton 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 Northampton Partnership for Children, Inc. as of June 30, 2005, and the results of its operations arising from modified cash basis transactions for the year then ended, on the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 14, 2006, on our consideration of the Northampton 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.



INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Northampton 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

March 14, 2006

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

Exhibit A

	Unrestricted Funds		Temporarily Restricted Funds	Total Funds
	Smart Start Fund	Other Funds		
Receipts:				
State Awards (less refunds of \$5,143)	\$ 237,519	\$ 10,212	\$ -	\$ 247,731
Federal Awards (less refunds of \$110)	-	7,500	-	7,500
Private Contributions	-	290	-	290
Interest and Investment Earnings	-	69	-	69
Sales Tax Refunds	-	1,433	-	1,433
Total Receipts	237,519	19,504	-	257,023
Net Assets Released from Restrictions:				
Satisfaction of Program Restrictions	-	1,118	(1,118)	-
	237,519	20,622	(1,118)	257,023
Expenditures:				
Programs:				
Child Care and Education Quality	100,775	6,771	-	107,546
Family Support	26,226	-	-	26,226
Health and Safety	26,479	1,118	-	27,597
Support:				
Management and General	84,243	11,659	-	95,902
Program Evaluation	4,939	-	-	4,939
Other:				
Sales Tax Paid	-	1,978	-	1,978
Total Expenditures	242,662	21,526	-	264,188
Excess of Receipts Over Expenditures	(5,143)	(904)	(1,118)	(7,165)
Net Assets at Beginning of Year	5,143	2,140	17,960	25,243
Net Assets at End of Year	\$ -	\$ 1,236	\$ 16,842	\$ 18,078
Net Assets Consisted of:				
Cash and Cash Equivalents	\$ 3,537	\$ 1,236	\$ 16,842	\$ 21,615
Refunds Due From Contractors	1,215	-	-	1,215
	4,752	1,236	16,842	22,830
Less: Due to the State	4,752	-	-	4,752
	\$ -	\$ 1,236	\$ 16,842	\$ 18,078

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

Northampton 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	\$ 100,775	\$ 45,037	\$ 2,950	\$ 11,046	\$ 18,659	\$ 9,887	\$ 4,337	\$ 8,859	\$ -
Family Support	26,226	-	-	-	-	-	-	26,226	-
Health and Safety	26,479	-	-	-	-	-	-	26,479	-
	<u>153,480</u>	<u>45,037</u>	<u>2,950</u>	<u>11,046</u>	<u>18,659</u>	<u>9,887</u>	<u>4,337</u>	<u>61,564</u>	<u>-</u>
Support:									
Management and General	84,243	57,871	1,549	1,623	12,173	9,099	1,928	-	-
Program Evaluation	4,939	-	4,900	19	-	-	20	-	-
	<u>89,182</u>	<u>57,871</u>	<u>6,449</u>	<u>1,642</u>	<u>12,173</u>	<u>9,099</u>	<u>1,948</u>	<u>-</u>	<u>-</u>
Total Smart Start Fund Expenditures	\$ 242,662	\$ 102,908	\$ 9,399	\$ 12,688	\$ 30,832	\$ 18,986	\$ 6,285	\$ 61,564	\$ -
Other Funds:									
Programs:									
Child Care and Education Quality	\$ 6,771	\$ -	\$ 1,000	\$ 699	\$ 3,814	\$ 680	\$ 363	\$ -	\$ 215
Health and Safety	1,118	-	-	-	-	-	-	1,118	-
	<u>7,889</u>	<u>-</u>	<u>1,000</u>	<u>699</u>	<u>3,814</u>	<u>680</u>	<u>363</u>	<u>1,118</u>	<u>215</u>
Support:									
Management and General	11,659	3,125	8,069	-	440	25	-	-	-
	<u>11,659</u>	<u>3,125</u>	<u>8,069</u>	<u>-</u>	<u>440</u>	<u>25</u>	<u>-</u>	<u>-</u>	<u>-</u>
Other:									
Sales Tax Paid	1,978	-	-	1,978	-	-	-	-	-
	<u>1,978</u>	<u>-</u>	<u>-</u>	<u>1,978</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Other Funds Expenditures	\$ 21,526	\$ 3,125	\$ 9,069	\$ 2,677	\$ 4,254	\$ 705	\$ 363	\$ 1,118	\$ 215

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

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

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

- A. Organization and Purpose** - The Northampton Partnership for Children, Inc. (Northampton Partnership) is a legally separate nonprofit organization incorporated on May 13, 1994. The Northampton Partnership was established to develop and provide, through public and private means, early childhood education and developmental services for children and families. The Northampton 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 Northampton 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 Northampton Partnership did not have any permanently restricted net assets at June 30, 2005.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

- D. Cash and Cash Equivalents** – This classification appears on the Statement of Receipts, Expenditures, and Net Assets – Modified Cash Basis and includes all demand and savings accounts and certificate of deposits or short-term investments with an original maturity of three months or less.
- E. 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.
- F. 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.
- G. Funds Held For Others** - Funds held for others includes amounts received that are fiduciary in nature in which the Northampton Partnership acts in an agency capacity. The Northampton Partnership did not have any funds held for others at the year's end.
- H. Property and Equipment** – Under the modified cash basis of accounting, purchases of property and equipment are reported as expenditures in the year incurred. However, Northampton Partnership is required by contract regulation to track and maintain property and equipment items as presented in Schedule 4 of this report. The Northampton 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.
- I. 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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.

- J. Use of Estimates** - The preparation of financial statements in conformity with the modified cash basis of accounting used by the Northampton 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 Northampton 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 Northampton Partnership and represents a concentration of credit risk as to the generation of revenue.

Associated with these contracts, the Northampton 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 Northampton 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 Northampton Partnership was awarded and has received \$247,414 under a current year Smart Start contract with NCPC. The unexpended balance of this contract is subject to reversion to the State. The Northampton Partnership has returned \$4,752 of this contract to the State based on financial status reports submitted to NCPC subsequent to June 30, 2005.

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

Regional CCR&R Service Contract - The Northampton Partnership also received federal revenue and support from the Albemarle Smart Start Partnership, Inc. The unexpended balance of this contract is subject to reversion to the Albemarle Smart Start Partnership, Inc. The Northampton

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Partnership was awarded and has received \$7,500 under a current year contract for the payment of Child Care Resource and Referral core services.

Multi-County Accounting and Contracting – The Northampton 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 Northampton Partnership was awarded and has received \$12,000 under a current year contract for the payment of administrative and accounting services. The Northampton Partnership has returned \$506 of this contract to the State subsequent to June 30, 2005.

NOTE 3 - RELATED PARTY TRANSACTIONS

Service Provider Contracts with Board Member Organizations - The board members of the Northampton Partnership are representative of various organizations that benefit from actions taken by the Board. It is the policy of the Northampton Partnership that board members not be involved with decisions regarding organizations they represent. During the year, the Northampton 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 DHHS with board member organizations for activities funded by the Northampton Partnership's Smart Start Allocation.

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 Quality - Used to account for service activities including quality enhancement grants for upgrades, child care resource and referral, and professional development.

Family Support - Used to account for service activities including teen parent/child programs.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Health and Safety - Used to account for service activities including oral health services and child care health consultants.

B. Support Functions

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

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

C. Allocation of Joint Costs

Expenditures benefiting more than one purpose were allocated as follows:

Salaries and Benefits – Direct allocation based on employee time reports.

Other Costs - Other costs including occupancy cost (rent, utilities and maintenance), supplies and materials, and communication costs (telephone and printing) were allocated based on utilization data.

NOTE 5 - OPERATING LEASE OBLIGATIONS

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

<u>Fiscal Year</u>	<u>Operating Leases</u>
2006	\$ 8,884
2007	<u>1,650</u>
Total Minimum Lease Payments	<u><u>\$ 10,534</u></u>

Rental expense for all operating leases during the year was \$8,884.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 6 - RISK MANAGEMENT

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

NOTE 7 - COMMITMENTS AND CONTINGENCIES

- A. Compensated Absences** – As a result of the Northampton 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 \$8,568. No funds or reservation of net assets has been made for this commitment.
- B. Penalties and Interest** - Although the Northampton Partnership is exempt from federal income taxes, the Northampton Partnership is required to file Internal Revenue Service Form 990. The Northampton Partnership filed the required forms for the reporting period ended June 30, 2004, in April 2005. A penalty in the amount of \$1,180 was imposed subsequent to year-end.

NOTE 8 - RESTRICTIONS ON NET ASSETS

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

<u>Purpose</u>	<u>Amount</u>
Dental Program	<u>\$ 16,842</u>

NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

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

<u>Purpose</u>	<u>Amount</u>
Dental Program	<u>\$ 1,118</u>

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

Schedule 1

Organization Name	Smart Start Fund		Other Funds	
	Amount Advanced	Refund Due	Amount Advanced	Refund Due
<i>Paid to Organizations:</i>				
Choanoke Area Development Association	\$ 25,000	\$ -	\$ -	\$ -
Northampton Cooperative Extension Service	* 2,420	1,194	-	-
Northampton County Health Department	* 26,500	21	1,118	-
Various Child Care Provider Facilities	1,279	-	-	-
	<u>55,199</u>	<u>1,215</u>	<u>1,118</u>	<u>-</u>
<i>Paid to Individuals:</i>				
Scholarships/Bonus Awards	3,640	-	-	-
Various Parents (Child Safety Seat Recipients)	3,940	-	-	-
	<u>7,580</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ 62,779</u>	<u>\$ 1,215</u>	<u>\$ 1,118</u>	<u>\$ -</u>

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

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

Schedule 2

Organization Name	DHHS Contracts
Northampton County Department of Social Services	* \$ <u>77,447</u>

* This organization is represented on the Partnership's Board as described in Note 3 - Service Provider Contracts with Board Member Organizations.

The information on this schedule provides a listing of service provider contracts entered into by the North Carolina Department of Health and Human Services (DHHS) as described in Note 2 - Funding from Grant Awards.

Northampton 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:				
Department of Health and Human Services Pass-through from the North Carolina Department of Health and Human Services - Division of Child Development and Albemarle Smart Start Partnership, Inc.	93.575	#04-NH	\$ 7,500	\$ 7,500
Total Federal Awards			<u>7,500</u>	<u>7,500</u>
State Awards:				
North Carolina Department of Health and Human Services Division of Child Development Pass-through from the North Carolina Partnership for Children, Inc.				
Early Childhood Initiatives Program (Various)		Various	(362)	
Early Childhood Initiatives Program (Prior Year)		n/a	(4,781)	
Early Childhood Initiatives Program (Current Year)	*	n/a	242,662	242,662
Multi-County Accounting and Contracting Grant (Prior Year)		n/a	(1,788)	-
Multi-County Accounting and Contracting Grant		n/a	<u>12,000</u>	<u>11,494</u>
Total State Awards			<u>247,731</u>	<u>254,156</u>
Total Federal and State Awards			<u>\$ 255,231</u>	<u>\$ 261,656</u>

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

** Major Programs per OMB Circular A-133

Northampton 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	\$ 14,514
Computer Equipment/Printers	<u>12,305</u>
Total Property and Equipment	<u><u>\$ 26,819</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.

***Northampton 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	\$	732
In-Kind Goods and Services		8,156
		<hr/>
	\$	8,888
		<hr/> <hr/>

Match Provided at the Contractor Level:

Cash	\$	22,012
In-Kind Goods and Services		5,528
		<hr/>
	\$	27,540
		<hr/> <hr/>

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.

**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
Northampton Partnership for Children, Inc.
Jackson, North Carolina

We have audited the financial statements of the Northampton Partnership for Children, Inc. (Northampton Partnership) as of and for the year ended June 30, 2005, and have issued our report thereon dated March 14, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Northampton 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 Northampton 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*.



**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)**

We noted certain matters that we reported to management of the Northampton Partnership in a separate letter dated March 14, 2006.

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

Garner, North Carolina

March 14, 2006

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