FINANCIAL STATEMENT AUDIT REPORT OF

PARTNERS FOR CHILDREN AND FAMILIES, INC.

CARTHAGE, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2006

PERFORMED UNDER CONTRACT WITH
THE NORTH CAROLINA OFFICE OF THE STATE AUDITOR

LESLIE W. MERRITT, JR., CPA, CFP

STATE AUDITOR

FINANCIAL STATEMENT AUDIT REPORT OF

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CARTHAGE, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2006

STATE OF NORTH CAROLINA
Office of the State Auditor

Leslie W. Merritt, Jr., CPA, CFP
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AUDITOR'S TRANSMITTAL

The Honorable Michael F. Easley, Governor
The General Assembly of North Carolina
Board of Directors, Partners for Children and Families, Inc.

This report presents the results of our financial statement audit of Partners for Children and Families, Inc., for the year ended June 30, 2006. Langdon & Company performed the audit under contract with the Office of the State Auditor, and their report is submitted herewith.

The audit of Partners for Children and Families, 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. Partners for Children and Families, Inc. is one of these local partnerships. As such, Partners for Children and Families, 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
Partners for Children and Families, Inc.
Carthage, North Carolina

We have audited the accompanying Statement of Receipts, Expenditures, and Net Assets – Modified Cash Basis of Partners for Children and Families, Inc. (Moore Partnership) as of June 30, 2006, and the related Statement of Functional Expenditures – Modified Cash Basis for the year then ended. These financial statements are the responsibility of the Moore 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 Partners for Children and Families, Inc. as of June 30, 2006, 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 September 20, 2006, on our consideration of the Moore 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 Partners for Children and Families, 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.

Langdon & Company

Garner, North Carolina

September 20, 2006

Partners for Children & Families, Inc.
Statement of Receipts, Expenditures, and Net Assets - Modified Cash Basis
For the Year Ended June 30, 2006 ***Exhibit A***

	Unrestricted Funds: Smart Start Fund	Unrestricted Funds: Other Funds	Temporarily Restricted Funds	Total Funds
Receipts:				
State Awards (less refunds of $ 3,046)	$ 1,023,922	12,000	0	$ 1,035,922
Private Contributions	-	1,710	5,926	7,636
Interest and Investment Earnings	-	860	-	860
Sales Tax Refunds	-	407	-	407
Total Receipts	1,023,922	14,977	5,926	1,044,825
Net Assets Released from Restrictions:				
Satisfaction of Program Restrictions	-	2,327	(2,327)	-
	1,023,922	17,304	3,599	1,044,825
Expenditures:				
Programs:				
Child Care and Education Affordability	184,737	-	-	184,737
Child Care and Education Quality	193,550	-	-	193,550
Family Support	64,531	1,051	-	65,582
Health and Safety	316,908	2,327	-	319,235
More at Four	57,700	-	-	57,700
Support:				
Management and General	122,971	12,925	-	135,896
Program Coordination	56,549	-	-	56,549
Program Evaluation	29,022	-	-	29,022
Other:				
Sales Tax Paid	-	1,684		1,684
Total Expenditures	1,025,968	17,987	-	1,043,955
Excess of Receipts Over Expenditures	(2,046)	(683)	3,599	870
Net Assets at Beginning of Year	2,046	(145)	9,898	11,799
Net Assets at End of Year	$ 0	$ (828)	$ 13,497	$ 12,669
Net Assets Consisted of:				
Cash and Cash Equivalents	$ 12,702	$ (828)	$ 13,497	$ 25,371
Refunds Due From Contractors	570	-	-	570
	13,272	(828)	13,497	25,941
Less: Due to the State	12,848	-	-	12,848
Funds Held for Others	424	-	-	424
	$ 0	$ (828)	$ 13,497	$ 12,669

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

Partners for Children & Families, Inc.
Statement of Functional Expenditures - Modified Cash Basis
For the Year Ended June 30, 2006 ***Exhibit B***

	Total	Personnel	Contracted Services	Supplies and Materials	Other Operating Expenditures	Fixed Charges and Other Expenditures	Property and Equipment Outlay	Services/ Contracts/ Grants
Smart Start Funds:								
Programs:								
Child Care and Education Affordability	$ 184,737	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 184,737
Child Care and Education Quality	193,550	-	-	-	-	-	-	193,550
Family Support	64,531	-	-	10	731	1,950	-	61,840
Health and Safety	316,908	72,097	2,362	14,520	7,382	4,360	380	215,807
More at Four	57,700	-	-	-	-	-	-	57,700
	817,426	72,097	2,362	14,530	8,113	6,310	380	713,634
Support:								
Management and General	122,971	94,308	2,340	3,850	12,140	8,326	2,007	-
Program Coordination	56,549	43,155	-	3,116	3,188	3,195	3,895	-
Program Evaluation	29,022	-	-	-	-	-	-	29,022
	208,542	137,463	2,340	6,966	15,328	11,521	5,902	29,022
Total Smart Start Fund Expenditures	$ 1,025,968	$ 209,560	$ 4,702	$ 21,496	$ 23,441	$ 17,831	$ 6,282	$ 742,656
Other Funds:								
Programs:								
Family Support	$ 1,051	$ 0	$ 0	$ 1,051	$ 0	$ 0	$ 0	$ 0
Health and Safety	2,327	-	-	2,327	-	-	-	-
	3,378	-	-	3,378	-	-	-	-
Support:								
Management and General	12,925	-	12,000	-	-	925	-	-
	12,925	-	12,000	-	-	925	-	-
Other:								
Sales Tax Paid	1,684	-	-	1,684	-	-	-	-
	1,684	-	-	1,684	-	-	-	-
Total Other Funds Expenditures	$ 17,987	$ 0	$ 12,000	$ 5,062	$ 0	$ 925	$ 0	$ 0

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

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

A. Organization and Purpose - Partners for Children & Families, Inc. (Moore Partnership) is a legally separate nonprofit organization incorporated on August 8, 1994. The Moore Partnership was established to develop and provide, through public and private means, early childhood education and developmental services for children and families. The Moore 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 Moore 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 Moore Partnership did not have any permanently restricted net assets at June 30, 2006.

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 funds Due to the State.

D. **Cash and Cash Equivalents –** This classification appears on the Statement of Receipts, Expenditures, and Net Assets – Modified Cash Basis and includes all demand and savings accounts and certificate of deposits or short-term investments with an original maturity of three months or less.

E. **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 Moore Partnership acts in an agency capacity. For the year ended June 30, 2006, the Moore Partnership was holding amounts withheld from employee paychecks for distribution to benefit accounts (403b plan and health insurance premiums).

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, the Moore Partnership is required by contract regulation to track and maintain property and equipment items as presented in Schedule 4 of this report. The Moore 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, 2006. 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 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.

J. **Use of Estimates** - The preparation of financial statements in conformity with the modified cash basis of accounting used by the Moore 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 Moore 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 Moore Partnership to a concentration of credit risk. At June 30, 2006, the Moore Partnership's bank deposits were not in excess of the FDIC insured limit.

NOTE 3 - FUNDING FROM GRANT AWARDS

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

Associated with these contracts, the Moore 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, NCPC and the North Carolina Department of Health and Human Services (DHHS) entered into contracts with and made payments to service providers selected by the Moore Partnership. These service provider contracts are not reflected on the accompanying financial statements. However, a summary of the service provider contracts entered into by NCPC and/or DHHS is presented on Schedule 2 accompanying the financial statements.

The Moore Partnership was awarded and has received $1,039,816 under a current year Smart Start contract with NCPC. The unexpended balance of this contract is subject to reversion to the State. The Moore Partnership has returned $12,848 of this contract to the State based on financial status reports submitted to NCPC subsequent to June 30, 2006.

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

Multi-County Accounting and Contracting – The Moore 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 Moore Partnership was awarded and has received $12,000 under a current year contract for the payment of administrative and accounting services. The Moore Partnership expended the entire balance during the current year.

NOTE 4 - RELATED PARTY TRANSACTIONS

Service Provider Contracts with Board Member Organizations - The board members of the Moore Partnership are representative of various organizations that benefit from actions taken by the Board. It is the policy of the Moore Partnership that board members not be involved with decisions regarding organizations they represent. During the year, the Moore 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 NCPC and/or DHHS with board member organizations for activities funded by the Moore 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 including public pre-K classes, child care subsidy programs outside of DCD, and supplements for quality (DCD).

Child Care and Education Quality - Used to account for service activities including quality enhancement grants for upgrades, child care resource and referral, and kindergarten orientation/transition.

Family Support - Used to account for service activities including parenting skills training, family literacy projects and transportation services.

Health and Safety - Used to account for service activities including oral health services, comprehensive screenings, child care health consultation, comprehensive health support, special needs – early intervention services, and developmental screenings.

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 Coordination - Expenditures that are incurred to coordinate the policies, procedures, and daily practices of service delivery. Also, costs associated with monitoring in-house and direct service provider activities.

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

C. Allocation of Joint Costs

Expenditures benefiting more than one purpose were allocated as follows:

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

Other Costs - Other costs including occupancy cost (rent, utilities and maintenance) were indirectly allocated based on utilization data.

NOTE 6 - OPERATING LEASES

Future minimum lease payments under noncancelable operating leases consist of the following at June 30, 2006:

Fiscal Year	Operating Leases
2007	$ 15,000
2008	15,000
Total Minimum Lease Payments	$ 30,000

Rental expense for all operating leases during the year was $15,000.

NOTE 7 - PENSION PLAN

IRC Section 403(b) Plan - Each employee of the Moore Partnership is provided, as part of a benefits package, an additional 15% of his/her salary that may be applied against all benefits including a retirement 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 Moore Partnership.

NOTE 8 - RISK MANAGEMENT

The Moore 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 Moore 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 Moore 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 Moore 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, 2006, is \$2,927. No funds or reservation of net assets has been made for this commitment.

NOTE 10 - RESTRICTIONS ON NET ASSETS

A. Temporarily Restricted Net Assets - Temporarily restricted net assets at June 30, 2006, are available for the following purposes:

Purpose	Amount
Health Fair	$ 13,497

B. Net Assets Released From Donor Restrictions – Net assets were released from donor restrictions during the fiscal year ended June 30, 2006, by incurring expenditures satisfying the restricted purposes as follows:

Purpose	Amount
Health Fair	$ 2,327

Partners for Children & Families, Inc.
Schedule of Contract and Grant Expenditures - Modified Cash Basis
For the Year Ended June 30, 2006 ***Schedule 1***

Organization Name		Smart Start Fund		Other Funds	
		Amount Advanced	**Refund Due**	**Amount Advanced**	**Refund Due**
Child Care Connections, Inc. of Moore County	*	$ 193,550	$ 0	$ 0	$ 0
Cooperative Extension Service	*	14,500	0	0	0
Creative Learning Center of North Carolina, Inc.		19,799	0	0	0
Evaluation Resources		29,200	178	0	0
FirstHealth of the Carolinas		71,575	0	0	0
FirstHealth Dental Care Center		48,629	0	0	0
Moore County Schools	*	169,013	0	0	0
Sandhills Children's Center		46,480	0	0	0
Sandhills Community College	*	139,139	392	0	0
		731,885	570	0	0
Individuals:					
Child Car Seats		11,341			
		$ 743,226	$ 570	$ 0	$ 0

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

Partners for Children & Families, Inc.
Schedule of State Level Service Provider Contracts
For the Year Ended June 30, 2006 ***Schedule 2***

Organization Name		DHHS Contracts
Child Care Services Association (WAGE$)		$ 120,000
Moore County Department of Social Services	*	397,264
		$ 517,264

* These organizations are 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.

Partners for Children & Families, Inc.
Schedule of State Awards - Modified Cash Basis
For the Year Ended June 30, 2006 ***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	$ (3,046)	$ (1,000)
Early Childhood Initiatives Program (Current Year)	*	N/A	1,026,968	1,026,968
Multi-County Accounting and Contracting Grant		N/A	12,000	12,000
Total State Awards			$ 1,035,922	$ 1,037,968

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

Partners for Children & Families, Inc.
Schedule of Property and Equipment - Modified Cash Basis
For the Year Ended June 30, 2006 ***Schedule 4***

Furniture and Noncomputer Equipment	$	24,147
Computer Equipment/Printers		16,272
Motor Vehicles		2,440
Total Property and Equipment	$	42,859

Note: The information on this schedule provides a summary of property and equipment with acquisition or donated cost of $500 or more which were held by the Partnership at year end. The valuations represent historical cost. On the modified cash basis of accounting, these items are expensed in the year of purchase.

Partners for Children & Families, Inc.
Schedule of Qualifying Match (Non-GAAP)
For the Year Ended June 30, 2006 ***Schedule 5***

Match Provided at the Partnership Level:

Cash	$	7,616
In-Kind Goods and Services		32,766
	$	40,382

Match Provided at the Contractor Level:

Cash	$	50,656
In-Kind Goods and Services		81,676
	$	132,332

Note: This schedule is presented in accordance with the program match requirement as provided for by North Carolina Session Law 2005-276, Section 10.64(c). The North Carolina Partnership for Children, Inc. and all local partnerships are required to match the total amount budgeted for the Smart Start Program in each fiscal year. The match is comprised of both cash and in-kind amounts. Only in-kind contributions that are verifiable, quantifiable, and related to the Smart Start Program can be applied to the in-kind match requirement, including volunteer services. The law allows for volunteer services to be valued for match purposes, a concept that deviates from generally accepted accounting principles. This schedule identifies those amounts allowable for this partnership in meeting the statewide match requirement.

Langdon & Company

Certified Public Accountants

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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
Partners for Children and Families, Inc.
Carthage, North Carolina

We have audited the financial statements of the Partners for Children and Families, Inc. (Moore Partnership) as of and for the year ended June 30, 2006, and have issued our report thereon dated September 20, 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 Moore 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 Moore 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

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)**

objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain additional matters that we reported to management of the Moore Partnership in a separate letter dated September 20, 2006.

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

Langdon & Company

Garner, North Carolina

September 20, 2006

ORDERING INFORMATION

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

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