STATE OF
NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT OF

MARTIN/PITT PARTNERSHIP FOR CHILDREN, INC.

GREENVILLE, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2006

OFFICE OF THE STATE AUDITOR

LESLIE W. MERRITT, JR., CPA, CFP

STATE AUDITOR

FINANCIAL STATEMENT AUDIT REPORT OF

MARTIN/PITT PARTNERSHIP FOR CHILDREN, INC.

GREENVILLE, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2006

BOARD OF DIRECTORS

CYNDRA GASPERINI, BOARD CHAIRMAN

ADMINISTRATIVE OFFICER

SHEILA ORTH, EXECUTIVE DIRECTOR

STATE OF NORTH CAROLINA
Office of the State Auditor

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

2 S. Salisbury Street
20601 Mail Service Center
Raleigh, NC 27699-0601
Telephone: (919) 807-7500
Fax: (919) 807-7647
Internet
http://www.ncauditor.net

AUDITOR'S TRANSMITTAL

The Honorable Michael F. Easley, Governor
The General Assembly of North Carolina
Board of Directors, Martin/Pitt Partnership for Children, Inc.

We have completed a financial statement and compliance audit of the Martin/Pitt Partnership for Children, Inc. (Martin/Pitt Partnership) for the year ended June 30, 2006, and our audit results are included in this report. You will note from the independent auditor's report that we determined that the financial statements are presented fairly in all material aspects.

The audit of the Martin/Pitt 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 Martin/Pitt Partnership is one of these local partnerships. As such, the Martin/Pitt Partnership is a private nonprofit 501(c)(3) organization and is subject to audit and review by the State Auditor under Article 5A of Chapter 147 of the General Statutes and as authorized in General Statute 143B-168.12(a)(7).

Our consideration of internal control over financial reporting and compliance and other matters based on an audit of the financial statements resulted in no audit findings.

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

TABLE OF CONTENTS

STATE OF NORTH CAROLINA
Office of the State Auditor

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

2 S. Salisbury Street
20601 Mail Service Center
Raleigh, NC 27699-0601
Telephone: (919) 807-7500
Fax: (919) 807-7647
Internet
http://www.ncauditor.net

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Martin/Pitt Partnership for Children, Inc.
Greenville, North Carolina

We have audited the accompanying Statement of Receipts, Expenditures, and Net Assets – Modified Cash Basis of the Martin/Pitt Partnership for Children, Inc. (Martin/Pitt 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 Martin/Pitt 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 Martin/Pitt Partnership for Children, 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 April 25, 2007, on our consideration of the Martin/Pitt 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 Martin/Pitt 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, 2007

Martin/Pitt Partnership for Children, Inc.
Statement of Receipts, Expenditures, and Net Assets - Modified Cash Basis
For the Year Ended June 30, 2006 — *Exhibit A*

	Unrestricted Funds		Temporarily	
	Smart Start Fund	**Other Funds**	**Restricted Funds**	**Total Funds**
Receipts:				
State Awards (less refunds of $4,186)	$ 1,346,699	$ 23,777	$ 0	$ 1,370,476
Federal Awards (less refunds of $26,150)		435,787		435,787
Private Contributions		8,016	9,871	17,887
Special Fund Raising Events			3,223	3,223
Interest and Investment Earnings		718		718
Sales Tax Refunds		6,714		6,714
Other Receipts		22,691		22,691
Total Receipts	1,346,699	497,703	13,094	1,857,496
Expenditures:				
Programs:				
Child Care and Education Quality	484,497	457,470		941,967
Family Support	107,962	5,492		113,454
Health and Safety	392,397			392,397
Support:				
Management and General	215,263	26,100		241,363
Program Coordination	100,255			100,255
Program Evaluation	46,325	61		46,386
Other:				
Sales Tax Paid		5,015		5,015
Total Expenditures	1,346,699	494,138		1,840,837
Excess of Receipts Over Expenditures		3,565	13,094	16,659
Net Assets at Beginning of Year		40,396	3,825	44,221
Net Assets at End of Year	$ 0	$ 43,961	$ 16,919	$ 60,880
Net Assets Consisted of:				
Cash and Cash Equivalents	$ 1,820	$ 43,958	$ 16,919	$ 62,697
Refunds Due From Contractors	47	3		50
	1,867	43,961	16,919	62,747
Less: Due to the State	1,867			1,867
	$ 0	$ 43,961	$ 16,919	$ 60,880

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

Martin/Pitt Partnership for Children, 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 Fund:								
Programs:								
Child Care and Education Quality	$ 484,497	$ 368,154	$ 0	$ 9,009	$ 21,534	$ 69,908	$ 8,992	$ 6,900
Family Support	107,962	79,466		2,628	8,812	15,341	1,715	
Health and Safety	392,397							392,397
	984,856	447,620		11,637	30,346	85,249	10,707	399,297
Support:								
Management and General	215,263	192,245		1,601	2,427	17,738	1,252	
Program Coordination	100,255	74,060		16,095	3,600	5,749	751	
Program Evaluation	46,325	40,206		143	1,591	4,111	274	
	361,843	306,511		17,839	7,618	27,598	2,277	
Total Smart Start Fund Expenditures	$ 1,346,699	$ 754,131	$ 0	$ 29,476	$ 37,964	$ 112,847	$ 12,984	$ 399,297
Other Funds:								
Programs:								
Child Care and Education Quality	457,470	169,676		34,058	30,494	20,431	3,866	198,945
Family Support	5,492			325	34			5,133
	462,962	169,676		34,383	30,528	20,431	3,866	204,078
Support:								
Management and General	26,100	399	13,545	185	4,486	5,214	2,271	
Program Evaluation	61	61						
	26,161	460	13,545	185	4,486	5,214	2,271	
Other:								
Sales Tax Paid	5,015			5,015				
Total Other Funds Expenditures	$ 494,138	$ 170,136	$ 13,545	$ 39,583	$ 35,014	$ 25,645	$ 6,137	$ 204,078

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

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

A. Organization and Purpose – The Martin/Pitt Partnership for Children, Inc. (Martin/Pitt Partnership) is a legally separate nonprofit organization incorporated on November 5, 1997. The Martin/Pitt Partnership was established to develop and provide, through public and private means, early childhood education and developmental services for children and families. The Martin/Pitt 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 Martin/Pitt 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 Martin/Pitt 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 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. **Property and Equipment –** Under the modified cash basis of accounting, purchases of property and equipment are reported as expenditures in the year occurred. However, Martin/Pitt Partnership is required by contract regulation to track and maintain property and equipment items as presented in Schedule 4 of this report. The Martin/Pitt 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.

H. **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.

I. **Use of Estimates –** The preparation of financial statements in conformity with the modified cash basis of accounting used by the Martin/Pitt 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 Martin/Pitt Partnership are deposited with a commercial bank and insured by the Federal Deposit Insurance Corporation (FDIC) up to $100,000. Deposits over this amount subjects the Martin/Pitt Partnership to a concentration of credit risk. At June 30, 2006, the Martin/Pitt Partnership's bank deposits in excess of the FDIC insured limit was $94,969.

NOTE 3 - FUNDING FROM GRANT AWARDS

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

Associated with these contracts, the Martin/Pitt 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 Martin/Pitt 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 Martin/Pitt Partnership was awarded and has received $1,352,529 under a current year Smart Start contract with NCPC. The unexpended balance of this contract is subject to reversion to the State. The Martin/Pitt Partnership has returned $1,867 of this contract to the State based on financial status reports submitted to NCPC subsequent to June 30, 2006.

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

Resource and Referral (R&R) Regional Services Initiative – The Martin/Pitt Partnership also received revenue and support from the State of North Carolina based on a cost-reimbursement contract with Child Care Services Association (CCSA) for the R&R Regional Services Initiative.

The Martin/Pitt Partnership was awarded $494,435 and has received $461,937 under a current year contract with CCSA. The unexpended balance of this contract is subject to reversion to the State. The Martin/Pitt Partnership has returned $14,367 of this contract to the State based on financial status reports submitted to CCSA subsequent to June 30, 2006.

NOTE 4 - RELATED PARTY TRANSACTIONS

Service Provider Contracts with Board Member Organizations – The board members of the Martin/Pitt Partnership are representative of various organizations that benefit from actions taken by the Board. It is the policy of the Martin/Pitt Partnership that board members not be involved with decisions regarding organizations they represent. During the year, the Martin/Pitt 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 with board member organizations for activities funded by the Martin/Pitt 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, provider training, health/safety training for child care professionals, learning materials and teaching aids, curriculum enhancements, and child care needs and resources assessments.

Family Support – Used to account for service activities associated with ongoing parenting education.

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

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), and communication costs (telephone and printing) were allocated based on estimates of utilization or utilization data**.**

NOTE 6 - OPERATING LEASE OBLIGATIONS

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

Fiscal Year	Operating Leases
2007	$ 111,675
2008	100,668
2009	92,024
2010	7,393
2011	4,249
Total Minimum Lease Payments	$ 316,009

Rental expense for all operating leases during the year was $116,006.

NOTE 7 - PENSION PLAN

A. Retirement Plans – The Martin/Pitt Partnership has a Simplified Employee Pension plan (SEP Plan) covering all full-time employees. Each full-time employee of the Martin/Pitt Partnership, as a condition of employment, is provided an Individual Retirement Account through an outside insurance company. The Martin/Pitt Partnership contributed 6% of gross wages for the year ended June 30, 2006. The Martin/Pitt Partnership does not own the accounts nor is liable for any other cost other than the required contribution. The Martin/Pitt Partnership contributed $38,267 for pension benefits during the year.

B. IRC Section 403(b) Plan – All permanent employees who are at least half time can participate in a tax sheltered annuity plan (Plan) created under Internal Revenue Code Section 403(b). The employee's eligible contributions, made through salary reduction agreements, are exempt from federal and State income taxes until the annuity is received or the contributions are withdrawn. These Plans are exclusively for employees of universities and certain charitable and other nonprofit organizations. All costs of administering and funding these Plans are the responsibility of the Plan participants. No costs were incurred by the Martin/Pitt Partnership.

NOTE 8 - RISK MANAGEMENT

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

NOTE 9 - COMMITMENTS AND CONTINGENCIES

A. Compensated Absences – As a result of the Martin/Pitt 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 $11,212. No funds or reservation of net assets has been made for this commitment.

B. Commitments on Contracts – The Martin/Pitt Partnership had outstanding commitments of $24,273 on cost-reimbursement contracts that had not been paid at June 30, 2006.

NOTE 10 - RESTRICTIONS ON NET ASSETS

Temporarily restricted net assets at June 30, 2006 are available for the following purposes:

Purpose	Amount
Kids Fest	$ 16,919

Martin/Pitt Partnership for Children, Inc.
Schedule of Contract and Grant Expenditures - Modified Cash Basis
For the Year Ended June 30, 2006 — *Schedule 1*

Organization Name		Smart Start Fund Amount Advanced	Smart Start Fund Refund Due	Other Funds Amount Advanced	Other Funds Refund Due
Paid to Organizations:					
Catholic Charities		$ 0	$ 0	$ 3,622	$ 0
Carteret County				45,292	
Easter Seals/UCP		123,043			
Family Support Network of ENC		64,613	(18)		
Greene County Schools				4,624	
Holy Trinity Catholic Church				1,511	
Jones County Partnership for Children				15,390	(1)
Lenoir County Schools				7,804	
Lenoir/Greene Partnership for Children				42,368	
Martin County Schools				4,862	
Martin /Tyrell/Washington District Health Department	*	85,744			
Onslow County Partnership for Children				30,700	
Pitt County Health Department	*	119,015			
Pitt County Schools	*			38,614	
QUEST Mini Grants		6,900			
Smiling Faces Child Care	*			4,463	
Teachable Moments Child Care				4,829	
Other		29	(29)	2	(2)
		$ 399,344	$ (47)	$ 204,081	$ (3)

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

Martin/Pitt Partnership for Children, 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$		$ 275,000
Martin County Department of Social Services	*	155,009
Pitt County Department of Social Services		704,807
		$ 1,134,816

* 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.

Martin/Pitt Partnership for Children, Inc.
Schedule of Federal and State Awards - Modified Cash Basis
For the Year Ended June 30, 2006

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					
Child Care and Development Block Grant (Prior Year)	93.575		315-303	$ (26,150)	$ 0
Child Care and Development Block Grant (Current Year)	93.575	*	315-303	461,937	447,570
Total Federal Awards				$ 435,787	$ 447,570
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)			NA	(3,963)	(3,963)
Early Childhood Initiatives Program (Current Year)		*	NA	1,350,662	1,350,662
Multi-County Accounting and Contracting Grant (Prior Year)			NA	(223)	(223)
Multi-County Accounting and Contracting Grant			NA	24,000	24,000
Total State Awards				1,370,476	1,370,476
Total Federal and State Awards				$ 1,806,263	$ 1,818,046

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

Martin/Pitt Partnership for Children, Inc.
Schedule of Property and Equipment - Modified Cash Basis
For the Year Ended June 30, 2006 ***Schedule 4***

Furniture and Noncomputer Equipment	$	66,843
Computer Equipment/Printers		76,783
Leasehold Improvements		2,400
Total Property and Equipment	$	146,026

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.

Martin/Pitt Partnership for Children, Inc.
Schedule of Qualifying Match (Non-GAAP)
For the Year Ended June 30, 2006 ***Schedule 5***

Match Provided at the Partnership Level:

Cash	$	45,475
In-Kind Goods and Services		69,074
	$	114,549

Match Provided at the Contractor Level:

Cash	$	145,262
In-Kind Goods and Services		21,459
	$	166,721

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.

STATE OF NORTH CAROLINA
Office of the State Auditor

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

2 S. Salisbury Street
20601 Mail Service Center
Raleigh, NC 27699-0601
Telephone: (919) 807-7500
Fax: (919) 807-7647
Internet
http://www.ncauditor.net

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
Martin/Pitt Partnership for Children, Inc.
Greenville, North Carolina

We have audited the financial statements of the Martin/Pitt Partnership for Children, Inc. (Martin/Pitt Partnership), as of and for the year ended June 30, 2006, and have issued our report thereon dated April 25, 2007. 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.

<u>Internal Control Over Financial Reporting</u>

In planning and performing our audit, we considered the Martin/Pitt Partnership's internal control over financial reporting in order to determine our auditing procedures for the purposes of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS* (CONCLUDED)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Martin/Pitt 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 Martin/Pitt 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, 2007

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 audit reports may be obtained by contacting the:

Office of the State Auditor
State of North Carolina
2 South Salisbury Street
20601 Mail Service Center
Raleigh, North Carolina 27699-0601

Telephone: 919/807-7500

Facsimile: 919/807-7647