



STATE OF NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT OF PENDER COUNTY PARTNERSHIP FOR CHILDREN, INC.

BURGAW, 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
PENDER COUNTY PARTNERSHIP FOR CHILDREN, INC.**

BURGAW, NORTH CAROLINA

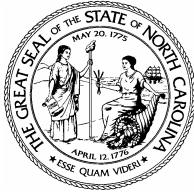
FOR THE YEAR ENDED JUNE 30, 2006

BOARD OF DIRECTORS

TOM BRADSHAW, BOARD CHAIRMAN

ADMINISTRATIVE OFFICER

CONNIE CARR-COSTIN, EXECUTIVE DIRECTOR



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

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, Pender County Partnership for Children, Inc.

We have completed a financial statement and compliance audit of the Pender County Partnership for Children, Inc. (Pender 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 Pender 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 Pender Partnership is one of these local partnerships. As such, the Pender 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.

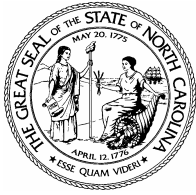
North Carolina General Statutes require the State Auditor to make audit reports available to the public. Copies of audit reports issued by the Office of the State Auditor may be obtained through one of the options listed in the back of this report.

Leslie W. Merritt, Jr.

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

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Pender County Partnership for Children, Inc.
Burgaw, North Carolina

We have audited the accompanying Statement of Receipts, Expenditures, and Net Assets – Modified Cash Basis of the Pender County Partnership for Children, Inc. (Pender 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 Pender 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 Pender County 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 May 24, 2007, on our consideration of the Pender 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

INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

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 Pender County Partnership for Children's basic financial statements. The information in Schedules 1 through 5 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Schedules 1, 3, 4 and 5 have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The information in Schedule 2 has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on Schedule 2.

Leslie W. Merritt, Jr.

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

May 24, 2007

Pender County 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		Total Funds
	Smart Start Fund	Other Funds	
Receipts:			
State Awards (less refunds of \$1,702)	\$ 523,665	\$ 10,668	\$ 534,333
Federal Awards		28,594	28,594
Private Contributions		2,084	2,084
Special Fund Raising Events		48	48
Sales Tax Refunds		6,061	6,061
Other Receipts		1,014	1,014
Total Receipts	523,665	48,469	572,134
Expenditures:			
Programs:			
Child Care and Education Quality	268,225	27,370	295,595
Family Support	5,788		5,788
Health and Safety	58,953		58,953
More at Four	41,950		41,950
Support:			
Management and General	114,842	13,100	127,942
Program Coordination	33,907	735	34,642
Other:			
Sales Tax Paid		3,667	3,667
Total Expenditures	523,665	44,872	568,537
Excess of Receipts Over Expenditures		3,597	3,597
Net Assets at Beginning of Year		(15,065)	(15,065)
Net Assets at End of Year	\$ 0	\$ (11,468)	\$ (11,468)
Net Assets Consisted of:			
Cash and Cash Equivalents	\$ 16,185	\$ (11,468)	\$ 4,717
Less: Due to the State	(16,185)		(16,185)
	\$ 0	\$ (11,468)	\$ (11,468)

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

Pender County 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	\$ 268,225	\$ 160,652	\$ 192	\$ 14,603	\$ 28,461	\$ 22,249	\$ 9,776	\$ 32,292
Family Support	5,788	1,118		864	1,150	1,185	1,471	
Health and Safety	58,953							58,953
More at Four	41,950							41,950
	<u>374,916</u>	<u>161,770</u>	<u>192</u>	<u>15,467</u>	<u>29,611</u>	<u>23,434</u>	<u>11,247</u>	<u>133,195</u>
Support:								
Management and General	114,842	94,593	3,560	2,299	7,194	6,511	685	
Program Coordination	33,907	25,496		1,943	4,129	660	1,679	
	<u>148,749</u>	<u>120,089</u>	<u>3,560</u>	<u>4,242</u>	<u>11,323</u>	<u>7,171</u>	<u>2,364</u>	
Total Smart Start Fund Expenditures	<u>\$ 523,665</u>	<u>\$ 281,859</u>	<u>\$ 3,752</u>	<u>\$ 19,709</u>	<u>\$ 40,934</u>	<u>\$ 30,605</u>	<u>\$ 13,611</u>	<u>\$ 133,195</u>
Other Funds:								
Programs:								
Child Care and Education Quality	\$ 27,370	\$ 11,865	\$ 0	\$ 6,494	\$ 6,793	\$ 670	\$ 1,548	\$ 0
Support:								
Management and General	13,100		5,614	615	3,562	33	3,277	
Program Coordination	735	694			28		13	
	<u>13,835</u>	<u>694</u>	<u>5,614</u>	<u>615</u>	<u>3,590</u>	<u>33</u>	<u>3,290</u>	
Other:								
Sales Tax Paid	3,667			3,667				
Total Other Funds Expenditures	<u>\$ 44,872</u>	<u>\$ 12,559</u>	<u>\$ 5,614</u>	<u>\$ 10,776</u>	<u>\$ 10,383</u>	<u>\$ 703</u>	<u>\$ 4,838</u>	<u>\$ 0</u>

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

PENDER COUNTY PARTNERSHIP FOR CHILDREN, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2006

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

A. Organization and Purpose - The Pender County Partnership for Children, Inc. (Pender Partnership) is a legally separate nonprofit organization incorporated on July 16, 1998. The Pender Partnership was established to develop and provide, through public and private means, early childhood education and developmental services for children and families. The Pender 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 Pender Partnership’s Board of Directors is responsible. Pursuant to the provisions of Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-For-Profit Organizations*, the accompanying financial statements present information according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. As permitted by this Statement, temporarily restricted contributions received and expended in the same year are reported as unrestricted receipts rather than as temporarily restricted receipts.

The Pender Partnership did not have any temporarily or 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

- 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. 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.
- F. Property and Equipment** – Under the modified cash basis of accounting, purchases of property and equipment are reported as expenditures in the year occurred. However, Pender Partnership is required by contract regulation to track and maintain property and equipment items as presented in Schedule 4 of this report. The Pender 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.
- G. 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 8.
- H. Use of Estimates** - The preparation of financial statements in conformity with the modified cash basis of accounting used by the Pender 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 Pender 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 Pender Partnership to a concentration of credit risk.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 3 - FUNDING FROM GRANT AWARDS

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

Associated with these contracts, the Pender 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 Pender 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 Pender Partnership was awarded and has received \$540,138 under a current year Smart Start contract with NCPC. The unexpended balance of this contract is subject to reversion to the State. The Pender Partnership has returned \$16,103 of this contract to the State based on financial status reports submitted to NCPC subsequent to June 30, 2006.

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

NOTE 4 - RELATED PARTY TRANSACTIONS

Service Provider Contracts with Board Member Organizations - The board members of the Pender Partnership are representative of various organizations that benefit from actions taken by the Board. It is the policy of the Pender Partnership that board members not be involved with decisions regarding organizations they represent. During the year, the Pender Partnership entered into contracts with board member organizations for program activities as identified on Schedule 1 accompanying the financial statements. In addition, Schedule 2 identifies contracts entered into by DHHS with board member organizations for activities funded by the Pender Partnership's Smart Start Allocation.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 and professional development

Family Support - Used to account for service activities including ongoing parenting education.

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

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

B. Support Functions

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

Program Evaluation/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.

C. Allocation of Joint Costs

Expenditures benefiting more than one purpose were allocated as follows:

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

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

NOTE 6 - OPERATING LEASE OBLIGATIONS

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

<u>Fiscal Year</u>	<u>Operating Leases</u>
2007	<u>\$ 25,200</u>

Rental expense for all operating leases during the year was \$25,200.

NOTE 7 - RISK MANAGEMENT

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

NOTE 8 - COMMITMENTS AND CONTINGENCIES

Compensated Absences – As a result of the Pender 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

NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

compensated absences commitment for vacation leave at June 30, 2006, is \$7,353. No funds or reservation of net assets has been made for this commitment.

NOTE 9 - DEFICIT NET ASSETS

At June 30, 2006, the Unrestricted Other Funds column has a deficit net asset balance of \$11,468. The deficit net asset balance occurred because the reimbursement schedule of a grantor for a regional project administered by the Partnership does not allow for payment of services until after services are rendered; therefore, some payments are not received until after the fiscal year ends. Secondly, an additional deficit occurs due to sales tax reimbursement from the State that was not received until after the fiscal year end. The Pender Partnership is attempting to identify additional resources to eliminate this deficit balance completely. The deficit net assets balance within the Unrestricted Other Funds also affects the overall net asset presentation for the Pender Partnership, which also was a deficit of \$11,468 at year end.

***Pender County 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	Refund Due
<i>Paid to Organizations:</i>		
Easter Seals - UCP - ECHOES	\$ 16,142	\$ 0
Little Town Learning Center	* 2,000	
New Hanover County Partnership for Children	* 13,552	
Pender County Schools - More at Four	41,950	
Pender County Health Department	42,811	
QE Grants to Various Daycare Providers	5,680	
Various Daycare Providers - Incentive Grants	* 7,000	
	<hr/>	<hr/>
	129,135	
	<hr/>	<hr/>
<i>Paid to Individuals:</i>		
Professional Development Grants	2,850	
QM Grants to Various Daycare Providers	880	
QE Grants to Various Daycare Providers	330	
	<hr/>	<hr/>
	4,060	
	<hr/>	<hr/>
	\$ 133,195	\$ 0
	<hr/>	<hr/>

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

Pender County 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\$ Program	\$ 35,729
Pender County Department of Social Services	* 279,885
	<u>\$ 315,614</u>

* 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.

Pender County 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				
Pass-through from Southeastern Community College				
Child Care Resource and Referral	93.575	107104P	\$ 28,594	\$ 25,593
Total Federal Awards			<u>28,594</u>	<u>25,593</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 (Prior Year)		NA	(370)	(370)
Early Childhood Initiatives Program (Current Year)		NA	524,036	524,036
Multi-County Accounting and Contracting Grant (Prior Year)			(1,332)	
Multi-County Accounting and Contracting Grant (Current Year)			<u>12,000</u>	<u>12,000</u>
Total State Awards			<u>534,333</u>	<u>535,666</u>
Total Federal and State Awards			<u>\$ 562,927</u>	<u>\$ 561,259</u>

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

Pender County 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	\$	45,694
Computer Equipment/Printers		<u>26,407</u>
Total Property and Equipment	\$	<u><u>72,101</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.

***Pender County 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:

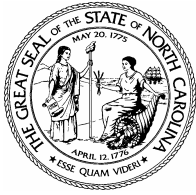
Cash	\$	3,533
In-Kind Goods and Services		<u>22,688</u>
	\$	<u><u>26,221</u></u>

Match Provided at the Contractor Level:

Cash	\$	43,549
In-Kind Goods and Services		<u>20,088</u>
	\$	<u><u>63,637</u></u>

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.

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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
Pender County Partnership for Children, Inc.
Burgaw, North Carolina

We have audited the financial statements of the Pender County Partnership for Children, Inc. (Pender Partnership) as of and for the year ended June 30, 2006, and have issued our report thereon dated May 24, 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Pender 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 Pender 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 Pender 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

May 24, 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:

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