

FINANCIAL STATEMENT AUDIT REPORT OF
HERTFORD COUNTY PARTNERSHIP FOR CHILDREN, INC.
MURFREESBORO, NORTH CAROLINA
FOR THE YEAR ENDED JUNE 30, 2007

PERFORMED UNDER CONTRACT WITH THE
OFFICE OF THE STATE AUDITOR

LESLIE W. MERRITT, JR., CPA, CFP
STATE AUDITOR

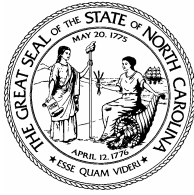
FINANCIAL STATEMENT AUDIT REPORT OF
HERTFORD COUNTY PARTNERSHIP FOR CHILDREN, INC.
MURFREESBORO, NORTH CAROLINA
FOR THE YEAR ENDED JUNE 30, 2007

BOARD OF DIRECTORS

KATHLEEN WRIGHT, BOARD CHAIR

ADMINISTRATIVE OFFICER

ARLENE MOORE, EXECUTIVE DIRECTOR



STATE OF NORTH CAROLINA
Office of the State Auditor

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AUDITOR'S TRANSMITTAL

The Honorable Michael F. Easley, Governor
The General Assembly of North Carolina
Board of Directors, Hertford County Partnership for Children, Inc.

This report presents the results of the financial statement audit of Hertford County Partnership for Children, Inc., for the year ended June 30, 2007. Tichenor & Associates, LLP performed the audit under contract with the Office of the State Auditor, and their report is submitted herewith.

The audit of the Hertford County Partnership for Children, Inc., was made in conjunction with the Early Childhood Initiatives (Smart Start) program authorized by G.S. 143B-168.10-16. This statute created The North Carolina Partnership for Children, Inc., and required the implementation of local partnerships. The Hertford County Partnership for Children, Inc., is one of these local partnerships. As such, the Hertford County Partnership for Children, Inc., is a private nonprofit 501(c)(3) organization and is required by G.S. 143 B-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 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

Hertford County Partnership for Children, Inc.

Murfreesboro, North Carolina

We have audited the accompanying Statement of Receipts, Expenditures, and Net Assets - Modified Cash Basis of the Hertford County Partnership for Children, Inc. (Hertford Partnership) as of June 30, 2007, and the related Statement of Functional Expenditures - Modified Cash Basis for the year then ended. These financial statements are the responsibility of the Hertford 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 Hertford County Partnership for Children, Inc. as of June 30, 2007, 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 November 15, 2007, on our consideration of the Hertford Partnership's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations,

INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

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 Hertford County Partnership for Children's, Inc. 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.

Tichenor & Associates, LLP

Tichenor & Associates, LLP

November 15, 2007

Hertford County Partnership for Children, Inc.
Statement of Receipts, Expenditures, and Net Assets - Modified Cash Basis
For the Year Ended June 30, 2007

Exhibit A

	Unrestricted Funds		Temporarily Restricted Funds	Total Funds
	Smart Start Fund	Other Funds		
Receipts:				
State Awards	\$ 552,642	\$ 12,000	\$ 0	\$ 564,642
Federal Awards		5,000		5,000
Private Contributions		3,569		3,569
Interest Earnings		134		134
Sales Tax Refunds		466		466
Other Receipts		2,184		2,184
Total Receipts	552,642	23,353		575,995
Net Assets Released from Restrictions:				
Satisfaction of Program Restrictions		4,589	(4,589)	
	552,642	27,942	(4,589)	575,995
Expenditures:				
Programs:				
Child Care and Education Affordability	87,811			87,811
Child Care and Education Quality	180,476	5,839		186,315
Family Support	68,400			68,400
Health and Safety	48,650	286		48,936
Support:				
Management and General	122,889	12,800		135,689
Program Evaluation	44,416			44,416
Other:				
Refund of Prior Year Grant		4,272		4,272
Sales Tax Paid		3,292		3,292
Total Expenditures	552,642	26,489		579,131
Excess of Receipts Over Expenditures		1,453	(4,589)	(3,136)
Net Assets at Beginning of Year		256	21,002	21,258
Net Assets at End of Year	\$ 0	\$ 1,709	\$ 16,413	\$ 18,122
Net Assets Consisted of:				
Cash and Cash Equivalents	\$ 2,400	\$ 1,709	\$ 16,413	\$ 20,522
Less: Due to the State	2,400			2,400
	\$ 0	\$ 1,709	\$ 16,413	\$ 18,122

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

Hertford County Partnership for Children, Inc.
Statement of Functional Expenditures - Modified Cash Basis
For the Year Ended June 30, 2007

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 Affordability	\$ 87,811	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 87,811
Child Care and Education Quality	180,476	127,290		5,079	25,225	4,669	2,558	15,655
Family Support	68,400							68,400
Health and Safety	48,650							48,650
	<u>385,337</u>	<u>127,290</u>		<u>5,079</u>	<u>25,225</u>	<u>4,669</u>	<u>2,558</u>	<u>220,516</u>
Support:								
Management and General	122,889	85,291	1,915	7,777	20,260	6,538	1,108	
Program Evaluation	44,416	38,747	0	1,953	3,678	38		
	<u>167,305</u>	<u>124,038</u>	<u>1,915</u>	<u>9,730</u>	<u>23,938</u>	<u>6,576</u>	<u>1,108</u>	
Total Smart Start Fund Expenditures	<u>\$ 552,642</u>	<u>\$ 251,328</u>	<u>\$ 1,915</u>	<u>\$ 14,809</u>	<u>\$ 49,163</u>	<u>\$ 11,245</u>	<u>\$ 3,666</u>	<u>\$ 220,516</u>
Other Funds:								
Programs:								
Child Care and Education Quality	\$ 5,839	\$ 675	\$ 0	\$ 262	\$ 4,902	\$ 0	\$ 0	\$ 0
Health and Safety	286							286
	<u>6,125</u>	<u>675</u>		<u>262</u>	<u>4,902</u>			<u>286</u>
Support:								
Management and General	12,800		12,000	17	140	643		
Other:								
Refund of Prior Year Grant	4,272					4,272		
Sales Tax Paid	3,292			3,292				
	<u>7,564</u>			<u>3,292</u>		<u>4,272</u>		
Total Other Funds Expenditures	<u>\$ 26,489</u>	<u>\$ 675</u>	<u>\$ 12,000</u>	<u>\$ 3,571</u>	<u>\$ 5,042</u>	<u>\$ 4,915</u>	<u>\$ 0</u>	<u>\$ 286</u>

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

HERTFORD COUNTY PARTNERSHIP FOR CHILDREN, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2007

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

A. Organization and Purpose - The Hertford County Partnership for Children, Inc. (Hertford Partnership) is a legally separate nonprofit organization incorporated on March 17, 1994. The Hertford Partnership was established to develop and provide, through public and private means, early childhood education and developmental services for children and families. The Hertford 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 Hertford 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 Hertford partnership did not have any permanently restricted net assets at June 30, 2007.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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. 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, Hertford Partnership is required by contract regulation to track and maintain property and equipment items as presented in Schedule 4 of this report. The Hertford 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, 2007. 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 9.
- H. Use of Estimates** - The preparation of financial statements in conformity with the modified cash basis of accounting used by the Hertford 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 2 - DEPOSITS

All funds of the Hertford 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 Hertford Partnership to a concentration of credit risk.

NOTE 3 - FUNDING FROM GRANT AWARDS

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

Associated with these contracts, the Hertford 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 Hertford 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 Hertford Partnership was awarded and has received \$555,042 under a current year Smart Start contract with NCPC. The unexpended balance of this contract is subject to reversion to the State. The Hertford Partnership has returned \$2,400 of this contract to the State based on financial status reports submitted to NCPC subsequent to June 30, 2007.

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

Child Care Resource and Referral Program - The Hertford Partnership received additional revenue and support from the United States Department of Health and Human Services, which passed through the State of North Carolina based on a cost reimbursement contract with the Division of Child Development (DCD) for the Child Care Resource and Referral Program. The Hertford Partnership was awarded and spent \$5,000 under a current year contract with DCD. The Hertford Partnership expects to receive continued funding through new Child Care Resource and Referral contracts with the State.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 4 - RELATED PARTY TRANSACTIONS

Service Provider Contracts with Board Member Organizations - The board members of the Hertford Partnership are representative of various organizations that benefit from actions taken by the Board. It is the policy of the Hertford Partnership that board members not be involved with decisions regarding organizations they represent. During the year, the Hertford 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 Hertford 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 pre-K/Preschool classes, child care cost supports, child care subsidy administration and child care transportation.

Child Care and Education Quality - Used to account for service activities including quality enhancement upgrades, child care resource and referral and salary supplements.

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

Health and Safety - Used to account for service activities including prenatal/newborn services, child care health consultants and comprehensive health support.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

activities, business management, general recordkeeping, budgeting, and related purposes.

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

C. Allocation of Joint Costs

Expenditures benefiting more than one purpose are allocated as follows:

Salaries and Benefits - Allocated based on employee time reports.

Other Costs - Other costs including occupancy cost (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, 2007:

<u>Fiscal Year</u>	<u>Operating Leases</u>
2008	\$ 2,766
2009	2,766
2010	<u>1,844</u>
Total Minimum Lease Payments	<u>\$ 7,376</u>

Rental expense for all operating leases during the year was \$4,689.

NOTE 7 - PENSION PLAN

Retirement Plans - The Hertford Partnership has a SIMPLE - IRA Plan covering all full time employees. Each full time employee of the Hertford Partnership has an option to participate in the plan. An Individual Retirement Account is provided to the employee through an outside financial institution. The Hertford Partnership does not own the accounts nor is liable for any other cost other than the required contribution. The Hertford Partnership contributed \$3,508 for pension benefits during the year.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 8 - RISK MANAGEMENT

The Hertford 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 Hertford 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 Hertford 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 Hertford 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, 2007, is \$6,781. No funds or reservation of net assets have been made for this commitment.

NOTE 10 - RESTRICTIONS ON NET ASSETS

A. Temporarily Restricted Net Assets - Temporarily restricted net assets at June 30, 2007, are available for the following purposes:

<u>Purpose</u>	<u>Amount</u>
Family Support	<u>\$ 16,413</u>

NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

- B. Net Assets Released From Donor Restrictions** - Net assets were released from donor restrictions during the fiscal year ended June 30, 2007, by incurring expenditures satisfying the restricted purposes as follows:

Purpose	Amount
Identification and Dental Program	\$ 4,559
Family Support	30
	<u>\$ 4,589</u>

Hertford County Partnership for Children, Inc.
Schedule of Contract and Grant Expenditures - Modified Cash Basis
For the Year Ended June 30, 2007

Schedule 1

Organization Name	Smart Start Fund		Other Funds	
	Amount Advanced	Refund Due	Amount Advanced	Refund Due
<i>Paid to Organizations:</i>				
Choanoke Area Development	* \$ 76,900	\$ 0	\$ 0	\$ 0
Hertford County Public Health Authority	* 48,650		286	
Hertford County Public Schools	* 79,311			
Quality Enhancement Participants	13,155			
	218,016		286	
<i>Paid to Individuals:</i>				
Professional Development Supplement	2,500			
	<u>\$ 220,516</u>	<u>\$ 0</u>	<u>\$ 286</u>	<u>\$ 0</u>

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

Hertford County Partnership for Children, Inc.
Schedule of State Level Service Provider Contracts
For the Year Ended June 30, 2007

Schedule 2

Organization Name	DHHS Contracts
Hertford County Department of Social Services	* \$ <u>184,733</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.

Hertford County Partnership for Children, Inc.
Schedule of Federal and State Awards - Modified Cash Basis
For the Year Ended June 30, 2007

Schedule 3

<u>Federal/State Grantor/Pass-through Grantor/Program</u>	<u>Federal CFDA Number</u>	<u>Contract #</u>	<u>Receipts</u>	<u>Expenditures</u>
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 Fund	93.575	07-H	\$ 5,000	\$ 5,000
Total Federal Awards			<u>5,000</u>	<u>5,000</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	*	N/A	552,642	552,642
Multi-County Accounting and Contracting Grant		N/A	<u>12,000</u>	<u>12,000</u>
Total State Awards			<u>564,642</u>	<u>564,642</u>
Total Federal and State Awards			<u>\$ 569,642</u>	<u>\$ 569,642</u>

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

Hertford County Partnership for Children, Inc.
Schedule of Property and Equipment - Modified Cash Basis
For the Year Ended June 30, 2007

Schedule 4

Furniture and Noncomputer Equipment	\$ 26,321
Computer Equipment/Printers	32,754
Buildings	90,966
Land	13,486
Leasehold Improvements	<u>18,969</u>
 Total Property and Equipment	 <u><u>\$ 182,496</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.

Hertford County Partnership for Children, Inc.
Schedule of Qualifying Match (Non-GAAP)
For the Year Ended June 30, 2007

Schedule 5

Match Provided at the Partnership Level:

Cash	\$	11,061
In-Kind Goods and Services		<u>2,759</u>
	\$	<u><u>13,820</u></u>

Match Provided at the Contractor Level:

Cash	\$	16,088
In-Kind Goods and Services		<u>90,110</u>
	\$	<u><u>106,198</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

Hertford County Partnership for Children, Inc.

Murfreesboro, North Carolina

We have audited the financial statements of the Hertford County Partnership for Children, Inc. (Hertford Partnership) as of and for the year ended June 30, 2007, and have issued our report thereon dated November 15, 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 Hertford Partnership's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Hertford Partnership's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Hertford Partnership's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Hertford Partnership's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Hertford Partnership's financial statements that is more than inconsequential will not be prevented or detected by the Hertford Partnership's internal control.

**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)**

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Hertford Partnership's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Hertford 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 Hertford Partnership's Board of Directors, management of the Hertford Partnership, The North Carolina Partnership for Children, Inc., the Governor, and the General Assembly of North Carolina and is not intended to be and should not be used by anyone other than these specified parties.

Tichenor & Associates, LLP

Tichenor & Associates, LLP

November 15, 2007

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