

FINANCIAL STATEMENT AUDIT REPORT OF
ORANGE COUNTY PARTNERSHIP FOR YOUNG CHILDREN
CHAPEL HILL, 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

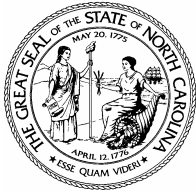
FINANCIAL STATEMENT AUDIT REPORT OF
ORANGE COUNTY PARTNERSHIP FOR YOUNG CHILDREN
CHAPEL HILL, NORTH CAROLINA
FOR THE YEAR ENDED JUNE 30, 2007

BOARD OF DIRECTORS

SHARON RINGWALT, BOARD CHAIR

ADMINISTRATIVE OFFICER

MICHELE RIVEST, 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, Orange County Partnership for Young Children

This report presents the results of the financial statement audit of Orange County Partnership for Young Children for the year ended June 30, 2007. Foster & Dorr PC performed the audit under contract with the Office of the State Auditor, and their report is submitted herewith.

The audit of the Orange County Partnership for Young Children 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 Orange County Partnership for Young Children is one of these local partnerships. As such, the Orange County Partnership for Young Children is a private nonprofit 501(c)(3) organization and is required by G.S. 143B-168.14(b) to have a financial and compliance audit conducted by the State Auditor. The State Auditor's authority to perform or coordinate all audit functions for state government is set forth in Article 5 of Chapter 147 of the *North Carolina General Statutes*.

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

Leslie W. Merritt, Jr.

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

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Orange County Partnership for Young Children
Chapel Hill, North Carolina

We have audited the accompanying Statement of Receipts, Expenditures, and Net Assets – Modified Cash Basis of the Orange County Partnership for Young Children (Orange County 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 Orange County 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 Orange County Partnership for Young Children as of June 30, 2007, and its receipts and expenditures for the year then ended, on the basis of accounting described in Note 1.

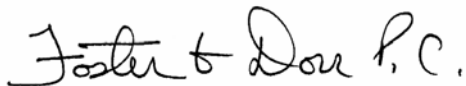
In accordance with *Government Auditing Standards*, we have also issued our report dated November 28, 2007, on our consideration of the Orange County Partnership's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant 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

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CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

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 Orange County Partnership for Young 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.



Certified Public Accountants

November 28, 2007

Orange County Partnership for Young Children
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	\$ 2,968,800	\$ 584,144	\$ 0	\$ 3,552,944
Local Awards		2,500		2,500
Private Contributions		14,665	32,152	46,817
Interest and Investment Earnings		8,241		8,241
Sales Tax Refunds		3,199		3,199
Other Receipts		20,706		20,706
Total Receipts	2,968,800	633,455	32,152	3,634,407
Net Assets Released from Restrictions:				
Satisfaction of Program Restrictions		15,000	(15,000)	
	2,968,800	648,455	17,152	3,634,407
Expenditures:				
Programs:				
Child Care and Education Accessibility and Availability	1,838,268			1,838,268
Child Care and Education Quality	172,094			172,094
Family Support	346,362	6,092		352,454
Health and Safety	271,211			271,211
More at Four		557,372		557,372
Support:				
Management and General	223,110	34,381		257,491
Fund Raising	24,266	49,535		73,801
Program Evaluation	93,489	4,768		98,257
Other:				
Sales Tax Paid		1,716		1,716
Total Expenditures	2,968,800	653,864		3,622,664
Excess of Receipts Over Expenditures		(5,409)	17,152	11,743
Net Assets at Beginning of Year		88,911	17,076	105,987
Net Assets at End of Year	\$ 0	\$ 83,502	\$ 34,228	\$ 117,730
Net Assets Consisted of:				
Cash and Cash Equivalents	\$ 1,594	\$ 83,502	\$ 34,228	\$ 119,324
Refunds Due From Contractors	1,307			1,307
	2,901	83,502	34,228	120,631
Less: Due to the State	3,197			3,197
Funds Held for Others	(296)			(296)
	\$ 0	\$ 83,502	\$ 34,228	\$ 117,730

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

Orange County Partnership for Young Children
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 Accessibility and Availability	\$ 1,838,268	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 1,838,268
Child Care and Education Quality	172,094							172,094
Family Support	346,362	70,231	10,704	1,748	8,851	520	979	253,329
Health and Safety	271,211							271,211
	<u>2,627,935</u>	<u>70,231</u>	<u>10,704</u>	<u>1,748</u>	<u>8,851</u>	<u>520</u>	<u>979</u>	<u>2,534,902</u>
Support:								
Management and General	223,110	92,576	55,223	8,479	20,789	44,599	1,444	
Fund Raising	24,266	8,548	15,276		392	50		
Program Evaluation	93,489	71,985	16,285	557	4,366	296		
	<u>340,865</u>	<u>173,109</u>	<u>86,784</u>	<u>9,036</u>	<u>25,547</u>	<u>44,945</u>	<u>1,444</u>	
Total Smart Start Fund Expenditures	<u>\$ 2,968,800</u>	<u>\$ 243,340</u>	<u>\$ 97,488</u>	<u>\$ 10,784</u>	<u>\$ 34,398</u>	<u>\$ 45,465</u>	<u>\$ 2,423</u>	<u>\$ 2,534,902</u>
Other Funds:								
Programs:								
Family Support	\$ 6,092	\$ 0	\$ 1,596	\$ 2,257	\$ 1,253	\$ 986	\$ 0	\$ 0
More at Four	557,372	41,394	3,456		673		863	510,986
	<u>563,464</u>	<u>41,394</u>	<u>5,052</u>	<u>2,257</u>	<u>1,926</u>	<u>986</u>	<u>863</u>	<u>510,986</u>
Support:								
Management and General	34,381	10,529	20,674	57	1,864	1,257		
Fund Raising	49,535	6,610	36,474	2,780	3,671			
Program Evaluation	4,768		4,768					
	<u>88,684</u>	<u>17,139</u>	<u>61,916</u>	<u>2,837</u>	<u>5,535</u>	<u>1,257</u>		
Other:								
Sales Tax Paid	1,716			1,716				
	<u>1,716</u>			<u>1,716</u>				
Total Other Funds Expenditures	<u>\$ 653,864</u>	<u>\$ 58,533</u>	<u>\$ 66,968</u>	<u>\$ 6,810</u>	<u>\$ 7,461</u>	<u>\$ 2,243</u>	<u>\$ 863</u>	<u>\$ 510,986</u>

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

ORANGE COUNTY PARTNERSHIP FOR YOUNG CHILDREN
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2007

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

A. Organization and Purpose – The Orange County Partnership for Young Children (Orange County Partnership) is a legally separate nonprofit organization incorporated on August 24, 1993. The Orange County Partnership was established to develop and provide, through public and private means, early childhood education and developmental services for children and families. The Orange County 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 Orange County 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 Orange County 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

- D. Cash and Cash Equivalents** – This classification appears on the Statement of Receipts, Expenditures, and Net Assets – Modified Cash Basis and includes all demand and savings accounts and certificate of deposits or short-term investments with an original maturity of three months or less.
- E. Refunds Due from Contractors** – Refunds due from contractors represent the unexpended amount of advances to contractors at year end that are to be refunded back to the State. As recoveries are collected, the receivable balance is reduced. Payments to the State for the recovered advances are recorded as a reduction to the State awards balance.
- F. Due to the State** – The funding provided by the State of North Carolina for the Smart Start program is funded on a cost reimbursement basis. The money is earned to the extent of allowable costs incurred. Any unexpended funds as of June 30 are required to be reverted to The North Carolina Partnership for Children, Inc. to be returned to the State of North Carolina.
- G. Funds Held for Others** – Funds held for others includes amounts received that are fiduciary in nature in which the Orange County Partnership acts in an agency capacity. At June 30 the Orange County Partnership had withheld employee health insurance for July in the amount of \$296 for premiums due to be paid in July.
- H. Property and Equipment** – Under the modified cash basis of accounting, purchases of property and equipment are reported as expenditures in the year occurred. However, Orange County Partnership is required by contract regulation to track and maintain property and equipment items as presented in Schedule 4 of this report. The Orange County 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.
- I. Compensated Absences** – As a result of the use of the modified cash basis of accounting, liabilities related to accrued compensated absences

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

are not recorded in the financial statements. Expenditures related to compensated absences are recorded when paid. The amount of accrued compensated absences for accumulated, unpaid leave that would be due to employees upon termination is reported as a commitment in Note 9.

- J. Use of Estimates** – The preparation of financial statements in conformity with the modified cash basis of accounting used by the Orange County 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 Orange County Partnership are deposited with commercial banks and insured by the Federal Deposit Insurance Corporation (FDIC) up to \$100,000 (per bank). Deposits over this amount subjects the Orange County Partnership to a concentration of credit risk. The Orange County Partnership has an Automated Investment Plan to invest excess balances over an established target amount. The investment is in the bank's mutual fund securities and is not insured by the FDIC. Consequently, the Orange County Partnership bank deposits in excess of the FDIC insured limit totaled \$741,143 at June 30, 2007.

NOTE 3 - FUNDING FROM GRANT AWARDS

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

Associated with these contracts, the Orange County 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 Orange County 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

The Orange County Partnership was awarded and received \$2,972,049 under a current year Smart Start contract with NCPC. The unexpended balance of this contract is subject to reversion to the State. The Orange County Partnership has returned \$2,956 to the State based on financial status reports submitted to NCPC subsequent to June 30, 2007.

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

More at Four – The Orange County Partnership also received revenue and support from the State of North Carolina for the More at Four Program. The Orange County Partnership was awarded \$585,362 and received \$572,144 under a current year contract. The Orange County Partnership expects to receive continued funding through new More at Four contracts with the State.

NOTE 4 - RELATED PARTY TRANSACTIONS

Service Provider Contract with Board Member Organization – The board members of the Orange County Partnership are representative of various organizations that benefit from actions taken by the Board. It is the policy of the Orange County Partnership that board members not be involved with decisions regarding organizations they represent. During the year, the Orange County Partnership entered into a contract with a board member organization for program activities as identified on Schedule 1 accompanying the financial statements. In addition, Schedule 2 identifies a contract entered into by DHHS with a board member organization for activities funded by the Orange County 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 child care subsidy administrations, child care subsidy programs outside of DCD.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Child Care and Education Quality – Used to account for service activities including quality enhancement grants for upgrades, salary supplements, special needs – support for child care professionals.

Family Support – Used to account for service activities including family literacy programs, parenting education, family crisis intervention, community outreach information and resources.

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

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

Fund Raising – Expenditures that are incurred in inducing others to contribute money, securities, time, materials, or facilities for which the contributor will receive no direct economic benefit.

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

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

C. Allocation of Joint Costs

Expenditures benefiting more than one purpose were allocated as follows:

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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	\$ 11,030
2009	1,347
2010	<u>469</u>
Total Minimum Lease Payments	<u>\$ 12,846</u>

Rental expense for all operating leases during the year was \$38,352.

NOTE 7 - PENSION PLAN

- A. Retirement Plan** – All permanent employees who are at least half time participate in a tax sheltered annuity plan (Plan) created under Internal Revenue Code Section 403(b). The Plan is a defined contribution plan in which each employee of the Orange County Partnership, as a condition of employment, is provided an individual annuity through an outside insurance company. The Orange County Partnership contributed a fixed amount per month for all eligible employees for the year ended June 30, 2007. These Plans are exclusively for employees of universities and certain charitable and other nonprofit organizations. The Orange County Partnership contributed \$700 for plan administration fees and \$3,400 for retirement 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 Orange County Partnership.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 8 - RISK MANAGEMENT

The Orange County 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 Orange County 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 Orange County 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 Orange County 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 \$8,361. No funds or reservation of net assets has been made for this commitment.

NOTE 10 - RESTRICTIONS ON NET ASSETS

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

<u>Purpose</u>	<u>Amount</u>
Smart Start Family Fest	\$ 2,151
Healthy Kids Campaign	32,077
	<u>\$ 34,228</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:

<u>Purpose</u>	<u>Amount</u>
Healthy Kids Campaign	<u>\$ 15,000</u>

***Orange County Partnership for Young Children
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
Alphabet Soup, Inc.	\$ 0	\$ 0	\$ 60,161	\$ 0
* Chapel Hill Carrboro City Schools	42,234		119,198	
* Chapel Hill Training Outreach	19,352	1,307	236,615	
* Child Care Services Association	2,010,362			
Community Schools for People Under Six			45,120	
El Centro Latino	32,021			
Inter Faith Council	79,764			
* Orange County Health Department	210,932			
Orange County Literacy Council	13,646			
Piedmont Health Services	35,034			
Spanish for Fun			49,892	
* University of North Carolina at Chapel Hill	92,864			
	<u>\$ 2,536,209</u>	<u>\$ 1,307</u>	<u>\$ 510,986</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.

***Orange County Partnership for Young Children
Schedule of State Level Service Provider Contract
For the Year Ended June 30, 2007***

Schedule 2

Organization Name	DHHS Contracts
* Child Care Services Association, Inc. - WAGE\$ Project	<u>\$ 250,523</u>

* Organization represented on the Partnership's Board as described in Note 4 - Service Provider Contract with Board Member Organization.

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.

**Orange County Partnership for Young Children
Schedule of State Awards - Modified Cash Basis
For the Year Ended June 30, 2007**

Schedule 3

State Grantor/Pass-through Grantor/Program	Contract #	Receipts	Expenditures
State Awards:			
North Carolina Department of Health and Human Services			
Division of Child Development			
Pass-through from the North Carolina Partnership for Children, Inc.			
Early Childhood Initiatives Program	* N/A	\$ 2,968,800	\$ 2,968,800
Multi-County Accounting and Contracting Grant	N/A	12,000	12,000
North Carolina Department of Public Instruction,			
Office of School Readiness			
More at Four Pre-Kindergarten Program 2006	#0060-06		14,874
More at Four Pre-Kindergarten Program 2007	* #0060-07	<u>572,144</u>	<u>547,971</u>
Total State Awards		<u>\$ 3,552,944</u>	<u>\$ 3,543,645</u>

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

***Orange County Partnership for Young Children
Schedule of Property and Equipment - Modified Cash Basis
For the Year Ended June 30, 2007***

Schedule 4

Furniture and Noncomputer Equipment	\$	19,382
Computer Equipment/Printers		<u>56,041</u>
Total Property and Equipment	\$	<u><u>75,423</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.

**Orange County Partnership for Young Children
Schedule of Qualifying Match (Non-GAAP)
For the Year Ended June 30, 2007**

Schedule 5

Match Provided at the Partnership Level:

Cash	\$	49,241
In-Kind Goods and Services		21,153
		<hr/>
	\$	70,394
		<hr/> <hr/>

Match Provided at the Contractor Level:

Cash	\$	230,760
In-Kind Goods and Services		256,609
		<hr/>
	\$	487,369
		<hr/> <hr/>

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
Orange County Partnership for Young Children
Chapel Hill, North Carolina

We have audited the financial statements of the Orange County Partnership for Young Children (Orange County Partnership) as of and for the year ended June 30, 2007, and have issued our report thereon dated November 28, 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 Orange County 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 Orange County Partnership's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Orange County 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 Orange County 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 Orange County Partnership's financial statements that is more than inconsequential will not be prevented or detected by the Orange County Partnership's internal control.

Foster & Dorr P.C.
CERTIFIED PUBLIC ACCOUNTANTS

**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)**

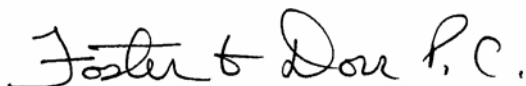
A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Orange County Partnership's internal control.

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 Orange County 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 Orange County Partnership's Board of Directors, management of the Orange County 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.



Certified Public Accountants

November 28, 2007

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