



STATE OF NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

LEE COUNTY PARTNERSHIP FOR CHILDREN

SANFORD, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2007

OFFICE OF THE STATE AUDITOR

LESLIE W. MERRITT, JR., CPA, CFP

STATE AUDITOR

FINANCIAL STATEMENT AUDIT REPORT

LEE COUNTY PARTNERSHIP FOR CHILDREN

SANFORD, NORTH CAROLINA

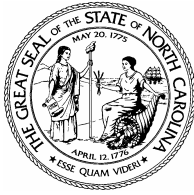
FOR THE YEAR ENDED JUNE 30, 2007

BOARD OF DIRECTORS

KENT HAYWOOD, BOARD CHAIRMAN

ADMINISTRATIVE OFFICER

LYN HANKINS, EXECUTIVE DIRECTOR



STATE OF NORTH CAROLINA
Office of the State Auditor

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

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

We have completed a financial statement and compliance audit of the Lee County Partnership for Children (Lee Partnership) for the year ended June 30, 2007, 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 Lee 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 Lee Partnership is one of these local partnerships. As such, the Lee Partnership is a private nonprofit 501(c)(3) organization and is subject to audit and review by the State Auditor under Article 5A of Chapter 147 of the General Statutes and as authorized in General Statute 143B-168.12(a)(7).

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

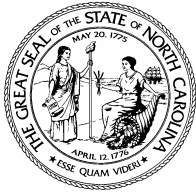
North Carolina General Statutes require the State Auditor to make audit reports available to the public. Copies of audit reports issued by the Office of the State Auditor may be obtained through one of the options listed in the back of this report.

Leslie W. Merritt, Jr.

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

TABLE OF CONTENTS

	PAGE
INDEPENDENT AUDITOR’S REPORT	1
FINANCIAL STATEMENTS	
EXHIBITS	
A Statement of Receipts, Expenditures, and Net Assets – Modified Cash Basis	3
B Statement of Functional Expenditures – Modified Cash Basis.....	4
Notes to the Financial Statements.....	5
SUPPLEMENTARY SCHEDULES	
1 Schedule of Contract and Grant Expenditures – Modified Cash Basis	11
2 Schedule of State Level Service Provider Contracts.....	12
3 Schedule of State Awards – Modified Cash Basis	13
4 Schedule of Property and Equipment – Modified Cash Basis	14
5 Schedule of Qualifying Match (Non-GAAP).....	15
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 <i>GOVERNMENT AUDITING STANDARDS</i>	17
ORDERING INFORMATION	19



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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Lee County Partnership for Children
Sanford, North Carolina

We have audited the accompanying Statement of Receipts, Expenditures, and Net Assets - Modified Cash Basis of the Lee County Partnership for Children (Lee 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 Lee 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 Lee Partnership 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 April 4, 2008, on our consideration of the Lee 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 Lee Partnership's 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., CPA, CFP
State Auditor

April 4, 2008

Lee County Partnership for 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	\$ 905,641	\$ 703,742	\$ 0	\$ 1,609,383
Private Contributions		4,138		4,138
Sales Tax Refunds		5,072		5,072
Other Receipts		97		97
Total Receipts	905,641	713,049	0	1,618,690
Net Assets Released from Restrictions:				
Satisfaction of Program Restrictions		4,499	(4,499)	
	905,641	717,548	(4,499)	1,618,690
Expenditures:				
Programs:				
Child Care and Education Affordability	\$ 55,438	\$ 0	\$ 0	\$ 55,438
Child Care and Education Quality	376,344	4,724		381,068
Family Support	167,017	7,184		174,201
Health and Safety	12,645			12,645
More at Four	101,275	646,360		747,635
Support:				
Management and General	127,850	31,472		159,322
Program Coordination	46,674	1,598		48,272
Program Evaluation	18,398			18,398
Other:				
Sales Tax Paid		8,460		8,460
Total Expenditures	905,641	699,798		1,605,439
Excess of Receipts Over Expenditures		17,750	(4,499)	13,251
Net Assets at Beginning of Year		29,302	4,499	33,801
Net Assets at End of Year	\$ 0	\$ 47,052	\$ 0	\$ 47,052
Net Assets Consisted of:				
Cash and Cash Equivalents	\$ 11,483	\$ 47,052	\$ 0	\$ 58,535
Refunds Due From Contractors	3,857			3,857
	15,340	47,052		62,392
Less: Due to the State	15,340			15,340
	\$ 0	\$ 47,052	\$ 0	\$ 47,052

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

Lee County Partnership for 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	Participant Training Expenditures
Smart Start Fund:									
Programs:									
Child Care and Education Affordability	\$ 55,438	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 55,438	\$ 0
Child Care and Education Quality	376,344	126,781	2,328	8,065	14,817	12,726	4,126	197,629	9,872
Family Support	167,017	12,502	640	1,687	3,370	897	2,789	145,132	
Health and Safety	12,645							12,645	
More at Four	101,275	13,782	2,000	5,655	3,036	1,033	1,769	74,000	
	<u>712,719</u>	<u>153,065</u>	<u>4,968</u>	<u>15,407</u>	<u>21,223</u>	<u>14,656</u>	<u>8,684</u>	<u>484,844</u>	<u>9,872</u>
Support:									
Management and General	127,850	87,141	9,920	2,772	14,535	12,054	1,428		
Program Coordination	46,674	28,024	5,613	1,025	5,884	5,475	653		
Program Evaluation	18,398							18,398	
	<u>192,922</u>	<u>115,165</u>	<u>15,533</u>	<u>3,797</u>	<u>20,419</u>	<u>17,529</u>	<u>2,081</u>	<u>18,398</u>	<u>0</u>
Total Smart Start Fund Expenditures	<u>\$ 905,641</u>	<u>\$ 268,230</u>	<u>\$ 20,501</u>	<u>\$ 19,204</u>	<u>\$ 41,642</u>	<u>\$ 32,185</u>	<u>\$ 10,765</u>	<u>\$ 503,242</u>	<u>\$ 9,872</u>
Other Funds:									
Programs:									
Child Care and Education Quality	\$ 4,724	\$ 2,630	\$ 427	\$ 248	\$ 1,233	\$ 40	\$ 146	\$ 0	\$ 0
Family Support	7,184	56	860	7	1,762			4,499	
More at Four	646,360	6,982	34	225	401			638,718	
	<u>658,268</u>	<u>9,668</u>	<u>1,321</u>	<u>480</u>	<u>3,396</u>	<u>40</u>	<u>146</u>	<u>643,217</u>	
Support:									
Management and General	31,472	13,188	15,443	219	2,379	49	194		
Program Coordination	1,598		615	32	867		84		
	<u>33,070</u>	<u>13,188</u>	<u>16,058</u>	<u>251</u>	<u>3,246</u>	<u>49</u>	<u>278</u>		
Other:									
Sales Tax Paid	8,460			8,460					
Total Other Funds Expenditures	<u>\$ 699,798</u>	<u>\$ 22,856</u>	<u>\$ 17,379</u>	<u>\$ 9,191</u>	<u>\$ 6,642</u>	<u>\$ 89</u>	<u>\$ 424</u>	<u>\$ 643,217</u>	<u>\$ 0</u>

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

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

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

- A. Organization and Purpose** - The Lee County Partnership for Children (Lee Partnership) is a legally separate nonprofit organization incorporated on May 7, 1996. The Lee Partnership was established to develop and provide, through public and private means, early childhood education and developmental services for children and families. The Lee 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 Lee 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 Lee Partnership did not have any temporarily or 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 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Basis and includes all demand and savings accounts and certificate of deposits or short-term investments with an original maturity of three months or less.

- E. Refunds Due From Contractors** - Refunds due from contractors represent the unexpended amount of advances to contractors at year-end that are to be refunded back to the State. As recoveries are collected, the receivable balance is reduced. Payments to the State for the recovered advances are recorded as a reduction to the State awards balance.
- F. Due to the State** - The funding provided by the State of North Carolina for the Smart Start program is funded on a cost reimbursement basis. The money is earned to the extent of allowable costs incurred. Any unexpended funds as of June 30 are required to be reverted to The North Carolina Partnership for Children, Inc. to be returned to the State of North Carolina.
- G. Property and Equipment** - Under the modified cash basis of accounting, purchases of property and equipment are reported as expenditures in the year purchased. However, Lee Partnership is required by contract regulation to track and maintain property and equipment items as presented in Schedule 4 of this report. The Lee 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.
- H. Compensated Absences** - As a result of the use of the modified cash basis of accounting, liabilities related to accrued compensated absences are not recorded in the financial statements. Expenditures related to compensated absences are recorded when paid. The amount of accrued compensated absences for accumulated, unpaid leave that would be due to employees upon termination is reported as a commitment in Note 9.
- I. Use of Estimates** - The preparation of financial statements in conformity with the modified cash basis of accounting used by the Lee 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 Lee 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 Lee Partnership to a concentration of credit risk.

NOTE 3 - FUNDING FROM GRANT AWARDS

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

Associated with these contracts, the Lee 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 Lee 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 Lee Partnership was awarded and has received \$920,981 under a current year Smart Start contract with NCPC. The unexpended balance of this contract is subject to reversion to the State. The Lee Partnership has returned \$15,340 of this contract to the State based on financial status reports submitted to NCPC to June 30, 2007.

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

More at Four - The Lee Partnership also received revenue and support from the State of North Carolina for the More at Four Program. The Lee Partnership was awarded \$701,080 and received \$691,742 under a current year contract. The Lee Partnership expects to receive continued funding through new More at Four contracts with the State.

NOTE 4 - RELATED PARTY TRANSACTIONS

Service Provider Contracts with Board Member Organizations - The board members of the Lee Partnership are representative of various organizations that

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

benefit from actions taken by the Board. It is the policy of the Lee Partnership that board members not be involved with decisions regarding organizations they represent. During the year, the Lee 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 Lee 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 associated with pre-K/Preschool classes or child care subsidy programs outside of the Division of Child Development.

Child Care and Education Quality - Used to account for service activities associated with quality enhancement grants for upgrades, quality enhancement grants for maintenance, child care resource and referral, or professional development.

Family Support - Used to account for service activities associated with parenting education or general family support.

Health and Safety - Used to account for service activities associated with health services and support.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

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

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

C. Allocation of Joint Costs

Expenditures benefiting more than one purpose were allocated as follows:

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

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

NOTE 6 - OPERATING LEASE OBLIGATIONS

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	\$ 3,851
2009	3,851
2010	1,548
2011	585
Total Minimum Lease Payments	<u>\$ 9,835</u>

Rental expense for all operating leases during the year was \$ 27,056.

NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

NOTE 7 - RISK MANAGEMENT

The Lee 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 Lee 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 Lee 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 Lee 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 \$9,826. No funds or reservation of net assets has been made for this commitment.

NOTE 10 - RESTRICTIONS ON NET ASSETS

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>
Parents as Teachers – County of Lee	<u>\$ 4,499</u>

Lee County Partnership for 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
Paid to Organizations:				
Central Carolina Community College	* \$ 31,503	\$ (2,065)	\$ 0	\$ 0
Childcare Network	*		200,446	
Coalition to Improve the Quality of Life in Lee County			4,499	
Evaluation Resources, LLC	18,398			
Easter Seals UCP Stepping Stones Learning Center	*		22,440	
Get Smart			132,770	
Lee County School System	* 97,389		264,044	
Lee County Health Department	* 14,437	(1,792)		
	<u>432,596</u>	<u>(3,857)</u>	<u>624,199</u>	
Paid to Individuals:				
Various Day Care Providers	74,503		19,018	
	<u>74,503</u>		<u>19,018</u>	
	<u>\$ 507,099</u>	<u>\$ (3,857)</u>	<u>\$ 643,217</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.

***Lee County Partnership for Children
 Schedule of State Level Service Provider Contracts
 For the Year Ended June 30, 2007***

Schedule 2

Organization Name	DHHS Contracts
Child Care Services Associaton -- WAGE\$	\$ 63,893
Lee County Department of Social Services	* 315,788
	<u>\$ 379,681</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.

**Lee County Partnership for 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	*	\$ 905,641	\$ 905,641
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	*	691,742	672,426
Total State Awards		\$ 1,609,383	\$ 1,590,067

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

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

Schedule 4

Furniture and Noncomputer Equipment	\$ 5,992
Computer Equipment/Printers	<u>28,079</u>
Total Property and Equipment	<u><u>\$ 34,071</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.

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

Schedule 5

Match Provided at the Partnership Level:

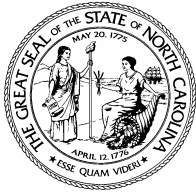
Cash	\$	18,042
In-Kind Goods and Services		<u>20,627</u>
	\$	<u><u>38,669</u></u>

Match Provided at the Contractor Level:

Cash	\$	104,665
In-Kind Goods and Services		<u>8,970</u>
	\$	<u><u>113,635</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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Office of the State Auditor

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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
Lee County Partnership for Children
Sanford, North Carolina

We have audited the financial statements of the Lee County Partnership for Children (Lee Partnership) as of and for the year ended June 30, 2007, and have issued our report thereon dated April 4, 2008. 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 Lee 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 Lee Partnership's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Lee 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 Lee 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 Lee Partnership's financial statements that is more than inconsequential will not be prevented or detected by the entity'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 Lee Partnership's internal control.

Our consideration of the 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 the 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 Lee 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 management of the Lee Partnership, the Lee Partnership's Board of Directors, The North Carolina Partnership for Children, Inc., the Governor, and the General Assembly and is not intended to be and should not be used by anyone other than these specified parties.

Leslie W. Merritt, Jr.

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

April 4, 2008

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