

**HARNETT COUNTY PARTNERSHIP
FOR CHILDREN, INC.
Lillington, North Carolina**

**FINANCIAL STATEMENTS
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
HARNETT COUNTY PARTNERSHIP FOR CHILDREN, INC.**

LILLINGTON, NORTH CAROLINA

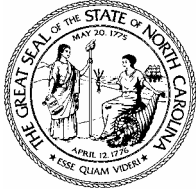
FOR THE YEAR ENDED JUNE 30, 2007

BOARD OF DIRECTORS

CATHERINE O'DELL, BOARD CHAIR

ADMINISTRATIVE OFFICER

ANGELA RIVERA, 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, Harnett County Partnership for Children, Inc.

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

The audit of the Harnett 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 Harnett County Partnership for Children, Inc. is one of these local partnerships. As such, the Harnett County Partnership for Children, Inc. 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
Harnett County Partnership for Children, Inc.
Lillington, North Carolina

We have audited the accompanying Statement of Receipts, Expenditures, and Net Assets – Modified Cash Basis of the Harnett County Partnership for Children, Inc. (Harnett County Partnership) as of and for the year ended 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 Harnett 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 Harnett County Partnership for Children, Inc. 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 15, 2007 on our consideration of the Harnett 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 accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

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

Clifton Henderson LLP

Raleigh, North Carolina
November 15, 2007

Harnett County Partnership for Children, Inc.
Statement of Receipts, Expenditures, and Net Assets - Modified Cash Basis
June 30, 2007

Exhibit A

	Smart Start Fund	Other Funds	Total Funds
Receipts:			
State Awards	\$ 1,422,548	\$ 760,368	\$ 2,182,916
Private Contributions	-	1,027	1,027
Special Fund Raising Events	-	5,185	5,185
Interest and Investment Earnings	-	7,289	7,289
Sales Tax Refunds	-	1,784	1,784
Total Receipts	1,422,548	775,653	2,198,201
Expenditures:			
Programs:			
Child Care and Education Accessibility and Availability	57,058	-	57,058
Child Care and Education Affordability	38,095	-	38,095
Child Care and Education Quality	448,975	-	448,975
Family Support	302,397	4,077	306,474
Health and Safety	97,394	6,675	104,069
More at Four	197,569	766,715	964,284
Support:			
Fund Raising	2,086	-	2,086
Management and General	199,363	15,295	214,658
Program Coordination	79,611	-	79,611
Other:			
Refund of Prior Year Grant	-	184	184
Sales Tax Paid	-	4,096	4,096
Total Expenditures	1,422,548	797,042	2,219,590
Excess of Receipts Over Expenditures	-	(21,389)	(21,389)
Net Assets at Beginning of Year	-	23,737	23,737
Net Assets at End of Year	\$ -	\$ 2,348	\$ 2,348
Net Assets Consisted of:			
Cash and Cash Equivalents	\$ 10,465	\$ 2,348	\$ 12,813
Refunds Due From Contractors	7,880	-	7,880
	18,345	2,348	20,693
Less: Due to the State	18,345	-	18,345
	\$ -	\$ 2,348	\$ 2,348

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

Harnett 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 Accessibility and Availability	\$ 57,058	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 57,058
Child Care and Education Affordability	38,095	-	-	-	-	-	-	38,095
Child Care and Education Quality	448,975	-	-	-	-	-	-	448,975
Family Support	302,397	46,468	33	2,659	9,413	3,514	4,748	235,562
Health and Safety	97,394	-	53,536	-	-	-	-	43,858
More at Four	197,569	53,772	33	3,606	13,974	3,697	5,637	116,850
	<u>1,141,488</u>	<u>100,240</u>	<u>53,602</u>	<u>6,265</u>	<u>23,387</u>	<u>7,211</u>	<u>10,385</u>	<u>940,398</u>
Support:								
Fund Raising	2,086	1,851	-	-	25	210	-	-
Management and General	199,363	134,290	81	5,007	25,032	22,662	12,291	-
Program Coordination	79,611	52,137	33	9,102	14,206	1,817	2,316	-
	<u>281,060</u>	<u>188,278</u>	<u>114</u>	<u>14,109</u>	<u>39,263</u>	<u>24,689</u>	<u>14,607</u>	<u>-</u>
Total Smart Start Fund Expenditures	<u>\$ 1,422,548</u>	<u>\$ 288,518</u>	<u>\$ 53,716</u>	<u>\$ 20,374</u>	<u>\$ 62,650</u>	<u>\$ 31,900</u>	<u>\$ 24,992</u>	<u>\$ 940,398</u>
Other Funds:								
Programs:								
Family Support	\$ 4,077	\$ -	\$ -	\$ 674	\$ 956	\$ -	\$ 2,447	\$ -
Health and Safety	6,675	-	-	-	-	-	-	6,675
More at Four	766,715	2,364	1,617	3,576	44,878	1,000	117	713,163
	<u>777,467</u>	<u>2,364</u>	<u>1,617</u>	<u>4,250</u>	<u>45,834</u>	<u>1,000</u>	<u>2,564</u>	<u>719,838</u>
Support:								
Management and General	15,295	275	9,598	1,636	2,506	13	1,267	-
	<u>15,295</u>	<u>275</u>	<u>9,598</u>	<u>1,636</u>	<u>2,506</u>	<u>13</u>	<u>1,267</u>	<u>-</u>
Other:								
Refund of Prior Year Grant	184	-	-	-	184	-	-	-
Sales Tax Paid	4,096	-	-	4,096	-	-	-	-
	<u>4,280</u>	<u>-</u>	<u>-</u>	<u>4,096</u>	<u>184</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Other Funds Expenditures	<u>\$ 797,042</u>	<u>\$ 2,639</u>	<u>\$ 11,215</u>	<u>\$ 9,982</u>	<u>\$ 48,524</u>	<u>\$ 1,013</u>	<u>\$ 3,831</u>	<u>\$ 719,838</u>

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

Harnett County Partnership for Children, Inc.
Notes to the Financial Statements
June 30, 2007

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

- A. Organization and Purpose** - The Harnett County Partnership for Children, Inc. (Harnett County Partnership) is a legally separate nonprofit organization incorporated on October 18, 1994. The Harnett County Partnership was established to develop and provide, through public and private means, early childhood education and developmental services for children and families. The Harnett 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 Harnett 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.

The Harnett County 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 does not recognize the value of in-kind goods and services provided; 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.

Harnett County Partnership for Children, Inc.
Notes to the Financial Statements
June 30, 2007

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- D. Cash and Cash Equivalents** – This classification appears on the Statement of Receipts, Expenditures, and Net Assets – Modified Cash Basis and includes all demand and savings accounts and certificate of deposits or short-term investments with an original maturity of three months or less.
- E. 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 incurred. However, Harnett County Partnership is required by contract regulation to track and maintain property and equipment items as presented in Schedule 4 of this report. The Harnett 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.
- 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.

NOTE 2 - DEPOSITS

All funds of the Harnett County Partnership are deposited with a commercial bank and insured by the Federal Deposit Insurance Corporation (FDIC) up to \$100,000. Deposits over this amount subject the Harnett County Partnership to a concentration of credit risk.

Harnett County Partnership for Children, Inc.
Notes to the Financial Statements
June 30, 2007

NOTE 2 - DEPOSITS (CONTINUED)

The Harnett County Partnership has an Automated Investment Plan to invest excess balances over an established target amount. The investment is in the bank's market securities and is not insured by the FDIC. Consequently, the Harnett County Partnership bank deposits in excess of the FDIC insured limit totaled \$86,635 at June 30, 2007.

NOTE 3 - FUNDING FROM GRANT AWARDS

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

Associated with these contracts, the Harnett 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 Harnett 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.

The Harnett County Partnership was awarded and has received \$1,442,548 under a current year Smart Start contract with NCPC. The unexpended balance of this contract is subject to reversion to the State. The Harnett County Partnership has returned \$18,345 of this contract to the State based on financial status reports submitted to NCPC subsequent to June 30, 2007.

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

More at Four – The Harnett County Partnership also received revenue and support from the State of North Carolina for the More at Four Program. The Harnett County Partnership was awarded and received \$748,368 under a current year cost-reimbursement contract.

The Harnett Partnership expects to receive continued funding through new More at Four contracts with the State.

Harnett County Partnership for Children, Inc.
Notes to the Financial Statements
June 30, 2007

NOTE 4 - RELATED PARTY TRANSACTIONS

Service Provider Contracts with Board Member Organizations - The board members of the Harnett County Partnership are representative of various organizations that benefit from actions taken by the Board. It is the policy of the Harnett County Partnership that board members not be involved with decisions regarding organizations they represent. During the year, the Harnett County 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 Harnett 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 Accessibility and Availability - Used to account for service activities associated with increasing child care availability of regulated child care.

Child Care and Education Affordability - Used to account for service activities associated with child care subsidy administration (Division of Child Development), and child care subsidy programs outside of DCD.

Child Care and Education Quality - Used to account for service activities associated with quality enhancement grants to improve quality, professional development, and salary supplements.

Family Support - Used to account for service activities associated with ongoing parenting education, and community outreach information and resources.

Health and Safety - Used to account for service activities associated with comprehensive screenings, and child care health consultants.

Harnett County Partnership for Children, Inc.
Notes to the Financial Statements
June 30, 2007

NOTE 5 - FUNCTIONAL EXPENDITURES (CONTINUED)

A. Program Functions (continued)

More at Four – Used to account for development and implementation of More at Four Pre-kindergarten Program for at-risk four-year-olds who are at risk of failure in kindergarten. The goal is to provide quality pre-kindergarten 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 Coordination - Expenditures that are incurred to coordinate the policies, procedures, and daily practices of service delivery. Also, costs associated with monitoring in-house and direct service provider activities.

C. Allocation of Joint Costs

Expenditures benefiting more than one purpose were allocated as follows:

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 - Rental expense for all operating leases during the year was \$21,600.

Harnett County Partnership for Children, Inc.
Notes to the Financial Statements
June 30, 2007

NOTE 6 - OPERATING LEASE OBLIGATIONS (CONTINUED)

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	\$ 35,901
2009	26,551
2010	<u>14,926</u>
Total Minimum Lease Payments	\$ <u>77,378</u>

NOTE 7 - PENSION PLAN

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 Plan is a defined contribution plan in which each employee of the Harnett County Partnership, as a condition of employment, is provided an individual annuity through an outside insurance company. The Harnett County Partnership contributed 6% of gross wages for the year ended June 30, 2007. 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. The Harnett Partnership contributed \$12,005 for retirement benefits during the year.

NOTE 8 - RISK MANAGEMENT

The Harnett 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 Harnett 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 Harnett County Partnership.

Harnett County Partnership for Children, Inc.
Notes to the Financial Statements
June 30, 2007

NOTE 9 - COMMITMENTS AND CONTINGENCIES

Compensated Absences – As a result of the Harnett 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 \$7,783. No funds or reservation of net assets has been made for this commitment.

Harnett 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
Paid to Organizations:				
Adventures Under the Sun	\$ 10,800	\$ -	\$ 60,624	\$ -
Blanding's	5,625	-	31,575	-
Busy Bee	30,000	-	197,870	-
Central Carolina Community College *	84,799	2,705	6,675	-
Dream Big Christian Academy	10,425	-	58,519	-
Easter Seals-UCP *	274,522	324	-	-
EH Development	(141)	-	-	-
Kidd's Place	14,325	-	78,382	-
Kidd's Place Too	1,275	-	13,041	-
Methodist Home for Children	71,686	-	-	-
NC Cooperative Extension *	400,562	4,851	-	-
Solid Foundations *	32,925	-	193,239	-
Spring Hill Child Care	6,525	-	36,627	-
Wee Care	4,950	-	27,786	-
	<u>948,278</u>	<u>7,880</u>	<u>704,338</u>	<u>-</u>
Paid to Individuals:				
More at Four Director/Teacher Stipend Recipients	-	-	15,500	-
	<u>-</u>	<u>-</u>	<u>15,500</u>	<u>-</u>
	<u>\$ 948,278</u>	<u>\$ 7,880</u>	<u>\$ 719,838</u>	<u>\$ -</u>

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

Harnett 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
Harnett County Department of Social Services*	\$ 828,520
Harnett County Department of Social Services*	100,000
	\$ 928,520

*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.

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

Schedule 3

<u>State Grantor/Pass-through Grantor/Program</u>	<u>Contract #</u>	<u>Receipts</u>	<u>Expenditures</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	*	\$ 1,422,548	\$ 1,422,548
Multi-County Accounting and Contracting Grant		12,000	12,000
North Carolina Department of Public Instruction, Office of School Readiness			
More at Four Pre-Kindergarten Program		<u>748,368</u>	<u>766,715</u>
Total State Awards		<u><u>\$ 2,182,916</u></u>	<u><u>\$ 2,201,263</u></u>

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

Harnett 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	\$	14,957
Computer Equipment/Printers		24,695
Leasehold Improvements		<u>2,523</u>
Total Property and Equipment	\$	<u><u>42,175</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.

***Harnett 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	\$	8,881
In-Kind Goods and Services		<u>1,192</u>
	\$	<u><u>10,073</u></u>

Match Provided at the Contractor Level:

Cash	\$	177,899
In-Kind Goods and Services		<u>152,263</u>
	\$	<u><u>330,162</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.

**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
Harnett County Partnership for Children, Inc.
Lillington, North Carolina

We have audited the financial statements of the Harnett County Partnership for Children, Inc. (Harnett County 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 Harnett 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 Harnett County Partnership's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Harnett 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 Harnett 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 Harnett County Partnership's financial statements that is more than inconsequential will not be prevented or detected by the Harnett County 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 Harnett 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 Harnett 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*.

We noted certain matters that we reported to management of the Harnett County Partnership in a separate letter dated November 15, 2007.

This report is intended solely for the information and use of the Harnett County Partnership's Board of Directors, management of the Harnett 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.

Clifton Henderson LLP

Raleigh, North Carolina
November 15, 2007

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