

**FINANCIAL STATEMENT AUDIT REPORT OF
MADISON COUNTY PARTNERSHIP FOR CHILDREN AND
FAMILIES, INC.**

MARSHALL, 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
MADISON COUNTY PARTNERSHIP FOR CHILDREN AND FAMILIES, INC.
MARSHALL, NORTH CAROLINA
FOR THE YEAR ENDED JUNE 30, 2007

BOARD OF DIRECTORS

STEPHEN LOFTIS, BOARD CHAIR

ADMINISTRATIVE OFFICER

NANCY ALENIER, EXECUTIVE DIRECTOR



STATE OF NORTH CAROLINA
Office of the State Auditor

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

2 S. Salisbury Street
20601 Mail Service Center
Raleigh, NC 27699-0601
Telephone: (919) 807-7500
Fax: (919) 807-7647
Internet
<http://www.ncauditor.net>

AUDITOR'S TRANSMITTAL

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

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

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

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

Leslie W. Merritt, Jr.

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

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 Awards – Modified Cash Basis	12
3 Schedule of Property and Equipment – Modified Cash Basis.....	13
4 Schedule of Qualifying Match (Non GAAP)	14
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>	15
ORDERING INFORMATION	17

Tichenor & Associates, LLP

CERTIFIED PUBLIC ACCOUNTANTS and MANAGEMENT CONSULTANTS

304 MIDDLETOWN PARK PLACE SUITE C
LOUISVILLE, KY 40243

BUSINESS: (502) 245-0775

FAX: (502) 245-0725

E-MAIL: wtichenor@tichenorassociates.com

INDEPENDENT AUDITOR'S REPORT

Board of Directors

Madison County Partnership for Children and Families, Inc.
Marshall, North Carolina

We have audited the accompanying Statement of Receipts, Expenditures, and Net Assets - Modified Cash Basis of the Madison County Partnership for Children and Families, Inc. (Madison 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 Madison 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 Madison County Partnership for Children and Families, Inc. as of June 30, 2007, and the results of its operations arising from modified cash basis transactions for the year then ended, on the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 25, 2007, on our consideration of the Madison 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

INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Madison County Partnership for Children and Families, Inc.'s basic financial statements. The information in Schedules 1 through 4 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Schedules 1, 2, 3, and 4 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.

Tichenor & Associates, LLP

Tichenor & Associates, LLP

October 25, 2007

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

Exhibit A

	Unrestricted Funds		Temporarily Restricted Funds	Total Funds
	Smart Start Fund	Other Funds		
Receipts:				
State Awards	\$ 525,200	\$ 12,000	\$ 0	\$ 537,200
Private Contributions		6,866	5,240	12,106
Interest and Investment Earnings		2,752		2,752
Sales Tax Refunds		997		997
Total Receipts	525,200	22,615	5,240	553,055
Net Assets Released from Restrictions:				
Satisfaction of Program Restrictions		1,929	(1,929)	
	525,200	24,544	3,311	553,055
Expenditures:				
Programs:				
Child Care and Education Affordability	139,850			139,850
Child Care and Education Quality	119,625	3,891		123,516
Family Support	57,137	3,922		61,059
Health and Safety	58,393			58,393
Support:				
Management and General	113,453	12,121		125,574
Program Coordination	36,742			36,742
Other:				
Sales Tax Paid		1,368		1,368
Total Expenditures	525,200	21,302		546,502
Excess of Receipts Over Expenditures		3,242	3,311	6,553
Net Assets at Beginning of Year		4,644	4,000	8,644
Net Assets at End of Year	\$ 0	\$ 7,886	\$ 7,311	\$ 15,197
Net Assets Consisted of:				
Cash and Cash Equivalents	\$ 3,416	\$ 7,886	\$ 7,311	\$ 18,613
Refunds Due From Contractors	4,583			4,583
	7,999	7,886	7,311	23,196
Less: Due to the State	7,999			7,999
	\$ 0	\$ 7,886	\$ 7,311	\$ 15,197

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

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

Exhibit B

	<u>Total</u>	<u>Personnel</u>	<u>Contracted Services</u>	<u>Supplies and Materials</u>	<u>Other Operating Expenditures</u>	<u>Fixed Charges and Other Expenditures</u>	<u>Property and Equipment Outlay</u>	<u>Services/Contracts/Grants</u>	<u>Participant Training Expenditures</u>
Smart Start Fund:									
Programs:									
Child Care and Education Affordability	\$ 139,850	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 139,850	\$ 0
Child Care and Education Quality	119,625	78,611	100	3,249	13,010	11,426	1,358	11,871	
Family Support	57,137							57,137	
Health and Safety	58,393							58,393	
	<u>375,005</u>	<u>78,611</u>	<u>100</u>	<u>3,249</u>	<u>13,010</u>	<u>11,426</u>	<u>1,358</u>	<u>267,251</u>	
Support:									
Management and General	113,453	83,283		1,268	14,435	9,954	4,513		
Program Coordination	36,742	33,636		817	755	1,534			
	<u>150,195</u>	<u>116,919</u>		<u>2,085</u>	<u>15,190</u>	<u>11,488</u>	<u>4,513</u>		
Total Smart Start Fund Expenditures	<u>\$ 525,200</u>	<u>\$ 195,530</u>	<u>\$ 100</u>	<u>\$ 5,334</u>	<u>\$ 28,200</u>	<u>\$ 22,914</u>	<u>\$ 5,871</u>	<u>\$ 267,251</u>	<u>\$ 0</u>
Other Funds:									
Programs:									
Child Care and Education Quality	\$ 3,891	\$ 0	\$ 200	\$ 231	\$ 719	\$ 0	\$ 1,023	\$ 0	\$ 1,718
Family Support	3,922			3,922					
	<u>7,813</u>		<u>200</u>	<u>4,153</u>	<u>719</u>		<u>1,023</u>		<u>1,718</u>
Support:									
Program Coordination	12,121		11,103	62	130	826			
Other:									
Sales Tax Paid	1,368			1,368					
Total Other Funds Expenditures	<u>\$ 21,302</u>	<u>\$ 0</u>	<u>\$ 11,303</u>	<u>\$ 5,583</u>	<u>\$ 849</u>	<u>\$ 826</u>	<u>\$ 1,023</u>	<u>\$ 0</u>	<u>\$ 1,718</u>

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

MADISON COUNTY PARTNERSHIP FOR CHILDREN AND FAMILIES, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2007

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

A. Organization and Purpose - The Madison County Partnership for Children and Families, Inc. (Madison Partnership) is a legally separate nonprofit organization incorporated on June 20, 1997. The Madison Partnership was established to develop and provide, through public and private means, early childhood education and developmental services for children and families. The Madison 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 Madison 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 Madison Partnership did not have any permanently restricted net assets at June 30, 2007.

C. Basis of Accounting - The accompanying financial statements were prepared on the modified cash basis of accounting. This basis differs from accounting principles generally accepted in the United States of America primarily because it recognizes long lived assets and other costs which benefit more than one period as expended in the year purchased; it recognizes revenue when received rather than when earned; and it recognizes expenditures when paid rather than when incurred.

However, unexpended advances to contractors that revert back to the State of North Carolina are recognized as a reduction to expenditures and an increase to net assets. Amounts withheld from employee paychecks or

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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. Property and Equipment** - Under the modified cash basis of accounting, purchases of property and equipment are reported as expenditures in the year occurred. However, Madison Partnership is required by contract regulation to track and maintain property and equipment items as presented in Schedule 4 of this report. The Madison 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 Madison Partnership requires management to make estimates and assumptions that affect certain reported amounts and disclosures (such as allocation of joint

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

costs); accordingly, actual results could differ from those estimates. It is management's belief that these estimates are reasonable and fair.

NOTE 2 - DEPOSITS

The Madison Partnership has an Automated Investment Plan to invest excess balances over an established target amount. The investment is in the bank's government securities and is not insured by the FDIC. Consequently, the Madison Partnership bank deposits in excess of the FDIC insured limit totaled \$22,000 at June 30, 2007.

NOTE 3 - FUNDING FROM GRANT AWARDS

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

Associated with these contracts, the Madison Partnership is responsible for developing a comprehensive, collaborative, long-range plan of services to children and families for the service-delivery area.

The Madison Partnership was awarded and has received \$533,199 under a current year Smart Start contract with NCPC. The unexpended balance of this contract is subject to reversion to the State. The Madison Partnership has returned \$7,999 of this contract to the State based on financial status reports submitted to NCPC subsequent to June 30, 2007.

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

NOTE 4 - RELATED PARTY TRANSACTIONS

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 5 - FUNCTIONAL EXPENDITURES

The costs of providing the various programs and activities have been summarized on a functional basis in the Statement of Receipts, Expenditures, and Net Assets - Modified Cash Basis. Also, the Statement of Functional Expenditures - Modified Cash Basis, provides detail of the functional costs by their natural classification. Following are the services associated with the functional categories presented in the accompanying financial statements and the methods utilized to allocate joint cost:

A. Program Functions

Child Care and Education Affordability - Used to account for service activities including pre-K/Preschool classes and Head Start expansion.

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

Family Support - Used to account for service activities including ongoing parenting education, general family support and family crisis intervention.

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

B. Support Functions

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

Program 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Other Costs - Other costs including occupancy cost (rent, utilities, and maintenance), supplies and materials, and communication costs (telephone and printing) were allocated based on estimates of utilization derived from employee time sheets.

NOTE 6 - OPERATING LEASE OBLIGATIONS

Rental expense for all operating leases during the year was \$18,096.

NOTE 7 - PENSION PLAN

Retirement Plans - The Madison Partnership has a SIMPLE - IRA Plan covering all full-time employees. Each full-time employee of the Madison Partnership has an option to participate in the Plan. An Individual Retirement Account is provided to the employee through an outside financial institution. The Madison Partnership contributed 3% of gross wages for the year ended June 30, 2007; each employee also contributes 3% of his/her gross wages for the year. The Madison Partnership does not own the accounts nor is liable for any other cost other than the required contribution. The Madison Partnership contributed \$4,506 for pension benefits during the year.

NOTE 8 - RISK MANAGEMENT

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

NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

NOTE 9 - COMMITMENTS AND CONTINGENCIES

Compensated Absences - As a result of the Madison 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 \$11,257. No funds or reservation of net assets have been made for this commitment.

NOTE 10 - RESTRICTIONS ON NET ASSETS

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

Purpose	Amount
Literacy	\$ 7,071
ECE Student Fund	240
	<u>\$ 7,311</u>

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

Purpose	Amount
Literacy Programs	\$ 623
Kith and Kin Care	811
Literacy, Family Support	495
	<u>\$ 1,929</u>

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

Schedule 1

Organization Name	Smart Start Fund		Other Funds	
	Amount Advanced	Refund Due	Amount Advanced	Refund Due
<i>Paid to Organizations:</i>				
Buncombe County Child Care Services	\$ 154,993	\$ 3,522	\$ 0	\$ 0
Channels for Child Care Advancement	250			
Madison County Health Department	* 59,127	734		
Puckett Institute Learning Alliance	57,464	327		
	<u>\$ 271,834</u>	<u>\$ 4,583</u>	<u>\$ 0</u>	<u>\$ 0</u>

* This organization is represented on the Partnership's Board as described in Note 4 - Service Provider Contracts with Board Member Organizations.

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

Schedule 2

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	*	\$ 525,200	\$ 525,200
Multi-County Accounting and Contracting Grant	N/A	12,000	12,000
Total State Awards		\$ 537,200	\$ 537,200

* Program with compliance requirements that has a direct and material effect on the financial statements.

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

Schedule 3

Furniture and Noncomputer Equipment	\$ 8,447
Computer Equipment/Printers	<u>6,804</u>
Total Property and Equipment	<u><u>\$ 15,251</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.

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

Schedule 4

Match Provided at the Partnership Level:

Cash	\$	12,106
In-Kind Goods and Services		<u>18,159</u>
	\$	<u><u>30,265</u></u>

Match Provided at the Contractor Level:

Cash	\$	44,827
In-Kind Goods and Services		<u>16,938</u>
	\$	<u><u>61,765</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.

Tichenor & Associates, LLP

CERTIFIED PUBLIC ACCOUNTANTS and MANAGEMENT CONSULTANTS

304 MIDDLETOWN PARK PLACE SUITE C
LOUISVILLE, KY 40243

BUSINESS: (502) 245-0775

FAX: (502) 245-0725

E-MAIL: wtichenor@tichenorassociates.com

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

Madison County Partnership for Children and Families, Inc.
Marshall, North Carolina

We have audited the financial statements of the Madison County Partnership for Children and Families, Inc. (Madison Partnership) as of and for the year ended June 30, 2007, and have issued our report thereon dated October 25, 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 Madison 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 Madison Partnership's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Madison 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 Madison 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 Madison Partnership financial statements that is more than inconsequential will not be prevented or detected by the Madison 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 Madison 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, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Madison Partnership's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the audit committee, management of the Madison Partnership, The North Carolina Partnership for Children, Inc., the Governor, and the General Assembly and is not intended to be and should not be used by anyone other than these specified parties.

Tichenor & Associates, LLP

Tichenor & Associates, LLP

October 25, 2007

ORDERING INFORMATION

Audit reports issued by the Office of the State Auditor can be obtained from the web site at www.ncauditor.net. Also, parties may register on the web site to receive automatic email notification whenever reports of interest are issued. Otherwise, copies of audit reports may be obtained by contacting the:

Office of the State Auditor
State of North Carolina
2 South Salisbury Street
20601 Mail Service Center
Raleigh, North Carolina 27699-0601

Telephone: 919/807-7500

Facsimile: 919/807-7647