

# STATE OF NORTH CAROLINA

## FINANCIAL STATEMENT AUDIT REPORT OF

### THE HALIFAX-WARREN SMART START PARTNERSHIP FOR CHILDREN, INC.

ROANOKE RAPIDS, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2004

OFFICE OF THE STATE AUDITOR

LESLIE W. MERRITT, JR., CPA, CFP

STATE AUDITOR

**FINANCIAL STATEMENT AUDIT REPORT OF**

**THE HALIFAX-WARREN SMART START  
PARTNERSHIP FOR CHILDREN, INC.**

**ROANOKE RAPIDS, NORTH CAROLINA**

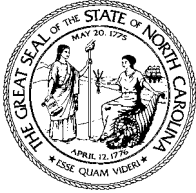
**FOR THE YEAR ENDED JUNE 30, 2004**

**BOARD OF DIRECTORS**

**VIRGINIA ANN ORVEDAHL, BOARD CHAIRMAN**

**ADMINISTRATIVE OFFICER**

**MAGDA BALIGH, EXECUTIVE DIRECTOR**



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

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**AUDITOR'S TRANSMITTAL**

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The Honorable Michael F. Easley, Governor  
The General Assembly of North Carolina  
Board of Directors, The Halifax-Warren Smart Start Partnership for Children, Inc.

This report presents the results of our financial statement audit of The Halifax-Warren Smart Start Partnership for Children, Inc. (Halifax-Warren Partnership), for the year ended June 30, 2004. Our audit was made by authority of Article 5A of Chapter 147 of the *North Carolina General Statutes*.

The accounts and operations of the Halifax-Warren Partnership were subject to audit procedures as we considered necessary for us to report on the accompanying financial statements and supplementary information. The audit procedures were conducted in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards* issued by the Comptroller General of the United States.

The audit of the Halifax-Warren 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 Halifax-Warren Partnership is one of these local partnerships. As such, the Halifax-Warren Partnership is a private nonprofit 501(c)(3) organization and is required by General Statute 143B-168.14(b) to have a financial and compliance audit conducted by the Office of the State Auditor.

The purpose of this report is to present the results of our audit on the accompanying financial statements. A summary of our reporting objectives and audit results are:

**1. Objective** – To express an opinion on the accompanying financial statements.

**Results** – The accompanying financial statements present fairly, in all material respects, the amounts and disclosures made in accordance with the modified cash basis of accounting, a comprehensive basis of accounting other than generally accepted accounting principles.

## AUDITOR'S TRANSMITTAL (CONCLUDED)

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2. **Objective** – To present significant deficiencies, if any, in internal control over financial reporting which could adversely affect the Halifax-Warren Partnership's ability to record, process, summarize, and report financial data in the financial statements and present instances of noncompliance or other matters, if any, with laws, regulations, contracts, or grant agreements.

**Results** - The following conditions represent significant deficiencies in internal control or noncompliance or other matters with laws, regulations, contracts, or grant agreements.

### **Finding**

1. Inadequate Policies and Procedures
2. Contract Monitoring Weaknesses

These matters are described in the Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters and the Audit Findings and Recommendations section of this report.

*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., CPA, CFP  
State Auditor

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## INDEPENDENT AUDITOR'S REPORT

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Board of Directors

The Halifax-Warren Smart Start Partnership for Children, Inc.  
Roanoke Rapids, North Carolina

We have audited the accompanying Statement of Receipts, Expenditures, and Net Assets – Modified Cash Basis of The Halifax-Warren Smart Start Partnership for Children, Inc. (Halifax-Warren Partnership), as of June 30, 2004, and the related Statement of Functional Expenditures – Modified Cash Basis for the year then ended. These financial statements are the responsibility of the Halifax-Warren 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 Halifax-Warren Smart Start Partnership for Children, Inc., as of June 30, 2004, 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 29, 2005 on our consideration of the Halifax-Warren 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)

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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 Halifax-Warren Smart Start Partnership for Children, Inc.'s basic financial statements. The information in Schedules 1, 3, 4, and 5 is presented for purposes of additional analysis and is not a required part of the basic financial statements. These Schedules 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 29, 2005

***The Halifax-Warren Smart Start Partnership for Children, Inc.  
Statement of Receipts, Expenditures, and Net Assets - Modified Cash Basis  
For the Year Ended June 30, 2004***

***Exhibit A***

	Unrestricted Funds		Temporarily Restricted Funds	Total Funds
	Smart Start Fund	Other Funds		
<b>Receipts:</b>				
State Awards (less refunds of \$8,608)	\$ 1,149,269	\$ 592,792	\$ 0	\$ 1,742,061
Federal Awards		97,449		97,449
Private Contributions		5,913	5,000	10,913
Interest and Investment Earnings		9,334		9,334
Sales Tax Refunds		6,646		6,646
Other Receipts		42,735		42,735
<b>Total Receipts</b>	<b>1,149,269</b>	<b>754,869</b>	<b>5,000</b>	<b>1,909,138</b>
<b>Expenditures:</b>				
Programs:				
Child Care and Education Affordability	537,509	8,673		546,182
Child Care and Education Quality	85,078	104,025		189,103
Family Support	198,275			198,275
Health and Safety	106,923			106,923
More at Four		543,047		543,047
Support:				
Management and General	151,805	58,332		210,137
Program Coordination	55,577	1,665		57,242
Other:				
Sales Tax Paid		7,392		7,392
<b>Total Expenditures</b>	<b>1,135,167</b>	<b>723,134</b>		<b>1,858,301</b>
<b>Excess of Receipts Over Expenditures</b>	<b>14,102</b>	<b>31,735</b>	<b>5,000</b>	<b>50,837</b>
<b>Net Assets at Beginning of Year</b>	<b>17,153</b>	<b>1,740</b>		<b>18,893</b>
<b>Net Assets at End of Year</b>	<b>\$ 31,255</b>	<b>\$ 33,475</b>	<b>\$ 5,000</b>	<b>\$ 69,730</b>
<b>Net Assets Consisted of:</b>				
Cash and Cash Equivalents	\$ 29,553	\$ 33,475	\$ 5,000	\$ 68,028
Refunds Due From Contractors	1,702			1,702
	<b>\$ 31,255</b>	<b>\$ 33,475</b>	<b>\$ 5,000</b>	<b>\$ 69,730</b>

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



*The Halifax-Warren Smart Start Partnership for Children, Inc.*  
*Statement of Functional Expenditures - Modified Cash Basis*  
*For the Year Ended June 30, 2004*

*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
<b>Smart Start Fund:</b>									
<b>Programs:</b>									
Child Care and Education Affordability	\$ 537,509	\$ 179,910	\$ 40,903	\$ 8,712	\$ 6,961	\$ 5,608	\$ 30	\$ 295,385	\$ 0
Child Care and Education Quality	85,078	43,662		10,202	23,482	6,943	789		
Family Support	198,275	53,348			1,312	5	335	143,275	
Health and Safety	106,923							106,923	
	<u>927,785</u>	<u>276,920</u>	<u>40,903</u>	<u>18,914</u>	<u>31,755</u>	<u>12,556</u>	<u>1,154</u>	<u>545,583</u>	
<b>Support:</b>									
Management and General	151,805	103,830	8,439	3,586	20,493	10,439	5,018		
Program Coordination	55,577	49,257		1,013	4,506	693	108		
	<u>207,382</u>	<u>153,087</u>	<u>8,439</u>	<u>4,599</u>	<u>24,999</u>	<u>11,132</u>	<u>5,126</u>		
<b>Total Smart Start Fund Expenditures</b>	<u>\$ 1,135,167</u>	<u>\$ 430,007</u>	<u>\$ 49,342</u>	<u>\$ 23,513</u>	<u>\$ 56,754</u>	<u>\$ 23,688</u>	<u>\$ 6,280</u>	<u>\$ 545,583</u>	<u>\$ 0</u>
<b>Other Funds:</b>									
<b>Programs:</b>									
Child Care and Education Affordability	\$ 8,673	\$ 4,967	\$ 2,500	\$ 104	\$ 1,102	\$ 0	\$ 0	\$ 0	\$ 0
Child Care and Education Quality	104,025	44,555	3,399		9,634			46,437	
More at Four	543,047			3,445	12,981			526,529	92
	<u>655,745</u>	<u>49,522</u>	<u>5,899</u>	<u>3,549</u>	<u>23,717</u>			<u>572,966</u>	<u>92</u>
<b>Support:</b>									
Management and General	58,332	42,888		1,264	12,106	834	1,240		
Program Coordination	1,665	1,665							
	<u>59,997</u>	<u>44,553</u>		<u>1,264</u>	<u>12,106</u>	<u>834</u>	<u>1,240</u>		
<b>Other:</b>									
Sales Tax Paid	7,392			7,392					
<b>Total Other Funds Expenditures</b>	<u>\$ 723,134</u>	<u>\$ 94,075</u>	<u>\$ 5,899</u>	<u>\$ 12,205</u>	<u>\$ 35,823</u>	<u>\$ 834</u>	<u>\$ 1,240</u>	<u>\$ 572,966</u>	<u>\$ 92</u>

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

**THE HALIFAX-WARREN SMART START PARTNERSHIP FOR CHILDREN, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2004**

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**NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES**

**A. Organization and Purpose** - The Halifax-Warren Smart Start Partnership for Children, Inc. (Halifax-Warren Partnership), is a legally separate nonprofit organization incorporated on October 10, 1997. The Halifax-Warren Partnership was established to develop and provide, through public and private means, early childhood education and developmental services for children and families. The Halifax-Warren 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 Halifax-Warren 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 Halifax-Warren Partnership did not have any permanently restricted net assets at June 30, 2004.

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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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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. In addition, amounts withheld from employee paychecks or other amounts received in an agency capacity are recorded as funds held for others.

- 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. Property and Equipment** – Under the modified cash basis of accounting, purchases of property and equipment are reported as expenditures in the year occurred. However, Halifax-Warren Partnership is required by contract regulation to track and maintain property and equipment items as presented in Schedule 4 of this report. The Halifax-Warren 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, 2004. Donated items are recorded at estimated fair market value at the date of donation.
- G. Compensated Absences** – As a result of the use of the modified cash basis of accounting, liabilities related to accrued compensated absences are not recorded in the financial statements. Expenditures related to compensated absences are recorded when paid. The amount of accrued compensated absences for accumulated, unpaid leave that would be due to employees upon termination is reported as a commitment in Note 9.
- H. Use of Estimates** - The preparation of financial statements in conformity with the modified cash basis of accounting used by the Halifax-Warren 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)

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### NOTE 2 - DEPOSITS

All funds of the Halifax-Warren 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 Halifax-Warren Partnership to a concentration of credit risk. At June 30, 2004, the Halifax-Warren Partnership's bank deposits in excess of the FDIC insured limit was \$38,330.

### NOTE 3 - FUNDING FROM GRANT AWARDS

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

Associated with these contracts, the Halifax-Warren 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 Halifax-Warren 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 Halifax-Warren Partnership was awarded and has received \$1,157,877 under a current year Smart Start contract with NCPC. The unexpended balance of this contract is subject to reversion to the State. The Halifax-Warren Partnership has returned \$22,403 of this contract to the State based on financial status reports submitted to NCPC subsequent to June 30, 2004.

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

**More at Four** – The Halifax-Warren Partnership also received revenue and support from the State of North Carolina for the More at Four Program. The Halifax-Warren Partnership was awarded \$587,420 and received \$568,792 under a current year cost-reimbursement contract. The Halifax-Warren Partnership expects to receive continued funding through new More at Four contracts with the State.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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### NOTE 4 - RELATED PARTY TRANSACTIONS

**Service Provider Contracts with Board Member Organizations** - The board members of the Halifax-Warren Partnership are representative of various organizations that benefit from actions taken by the Board. It is the policy of the Halifax-Warren Partnership that board members not be involved with decisions regarding organizations they represent. During the year, the Halifax-Warren 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 Halifax-Warren Partnership's Smart Start Allocation.

### NOTE 5 - FUNCTIONAL EXPENDITURES

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

#### A. Program Functions

**Child Care and Education Affordability** - Used to account for service activities including public pre-K classes or Preschool (0-4) classes.

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

**Family Support** - Used to account for service activities including family resource centers, parenting skills training, or ongoing parenting education.

**Health and Safety** - Used to account for service activities including prenatal/newborn services or special needs – early intervention services/special education.

**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.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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### 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.

**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

Future minimum lease payments under noncancelable operating leases consist of the following at June 30, 2004:

<u>Fiscal Year</u>	<u>Operating Leases</u>
2005	\$ 9,006
2006	9,007
2007	7,000
2008	2,404
2009	866
Total Minimum Lease Payments	<u>\$ 28,283</u>

Rental expense for all operating leases during the year was \$10,768.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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### NOTE 7 - PENSION PLAN

**Retirement Plans** - The Halifax-Warren Partnership has a SIMPLE - IRA Plan covering all full-time employees. Each full-time employee of the Halifax-Warren Partnership has an option to participate in the Plan. An Individual Retirement Account is provided to the employee through an outside financial institution. The Halifax-Warren Partnership matched employee contributions dollar for dollar up to 3% of gross wages for the year ended June 30, 2004. The Halifax-Warren Partnership does not own the accounts nor is liable for any other cost other than the required contribution. The Halifax-Warren Partnership contributed \$19,951 for pension benefits during the year.

### NOTE 8 - RISK MANAGEMENT

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

### NOTE 9 - COMMITMENTS AND CONTINGENCIES

**A. Compensated Absences** – As a result of the Halifax-Warren 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, 2004, is \$25551. No funds or reservation of net assets has been made for this commitment.

**B. Commitments on Contracts** - The Halifax-Warren Partnership had outstanding commitments of \$5,730 on cost-reimbursement contracts that had not been paid at June 30, 2004.

## NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

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### NOTE 10 - RESTRICTIONS ON NET ASSETS

**Temporarily Restricted Net Assets** - Temporarily restricted net assets at June 30, 2004, are available for the following purposes:

<u>Purpose</u>	<u>Amount</u>
Laptops for Childcare Teachers	<u>\$ 5,000</u>



***The Halifax-Warren Smart Start Partnership for Children, Inc.  
Schedule of Contract and Grant Expenditures - Modified Cash Basis  
For the Year Ended June 30, 2004***

***Schedule 1***

<b>Organization Name</b>	<b>Smart Start Fund</b>		<b>Other Funds</b>	
	<b>Amount Advanced</b>	<b>Refund Due</b>	<b>Amount Advanced</b>	<b>Refund Due</b>
Down East Partnership for Children	\$ 0	\$ 0	\$ 46,437	\$ 0
Grow N Learn Child Care Center			16,442	
Halifax County Cooperative Extension Service	* 23,485	(575)		
Halifax County Health Department	* 84,590	(577)		
Halifax County Schools	* 202,890	(550)	239,720	
Halifax/Northampton PRIDE	110,770			
Kingdom Kids Child Care Center	*		36,569	
Littletown Child Development Center	*		7,327	
New Beginnings Child Care Center			19,555	
Roanoke Rapids Graded School District	* 26,865		71,811	
Warren County Schools	* 27,375		82,085	
Warren Family Institute	* 32,505			
Weldon City Schools	* 38,805		53,020	
	<u>\$ 547,285</u>	<u>\$ (1,702)</u>	<u>\$ 572,966</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.

***The Halifax-Warren Smart Start Partnership for Children, Inc.  
Schedule of State Level Service Provider Contracts  
For the Year Ended June 30, 2004***

***Schedule 2***

<b>Organization Name</b>	<b>DHHS Contracts</b>
Child Care Services Association - WAGE\$ Program	\$ 67,500
Department of Social Services of Halifax and Warren Counties	* 498,250
	<u>\$ 565,750</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.

***The Halifax-Warren Smart Start Partnership for Children, Inc.  
Schedule of Federal and State Awards - Modified Cash Basis  
For the Year Ended June 30, 2004***

***Schedule 3***

Federal/State Grantor/Pass-through Grantor/Program	Federal CFDA Number	Contract #	Receipts	Expenditures
<b>Federal Awards:</b>				
U. S. Department of Health and Human Services				
Pass-through from the North Carolina Department of Health and Human Services - Division of Child Development				
Childcare Resource and Referral (Prior Year)	93.575		\$ 13,019	\$ 13,019
Childcare Resource and Referral (Current Year)	93.575	6231	84,430	77,973
<b>Total Federal Awards</b>			<u>97,449</u>	<u>90,992</u>
<b>State Awards:</b>				
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 (Prior Year)		Various	(8,608)	(307)
Early Childhood Initiatives Program (Current Year)		*	1,157,877	1,135,474
Multi-County Accounting and Contracting Grant		N/A	24,000	24,000
North Carolina Department of Health and Human Services				
More at Four Pre-Kindergarten Program		2090003999	568,792	543,047
<b>Total State Awards</b>			<u>1,742,061</u>	<u>1,702,214</u>
<b>Total Federal and State Awards</b>			<u>\$ 1,839,510</u>	<u>\$ 1,793,206</u>

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

Note: The More at Four Pre-Kindergarten Program is contracted jointly by the North Carolina Department of Health and Human Services and the Office of the Governor. The allocations for the More at Four program are included in the budget for the North Carolina Department of Health and Human Services; therefore, the above schedule identifies that agency as the State Grantor. The Office of the Governor is responsible for oversight of the More at Four Program.

***The Halifax-Warren Smart Start Partnership for Children, Inc.  
Schedule of Property and Equipment - Modified Cash Basis  
For the Year Ended June 30, 2004***

***Schedule 4***

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Furniture and Noncomputer Equipment	\$	96,345
Computer Equipment/Printers		66,633
Buildings		179,761
Land		32,219
Leasehold Improvements		<u>123,615</u>
Total Property and Equipment	\$	<u><u>498,573</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.

***The Halifax-Warren Smart Start Partnership for Children, Inc.  
Schedule of Qualifying Match (Non-GAAP)  
For the Year Ended June 30, 2004***

***Schedule 5***

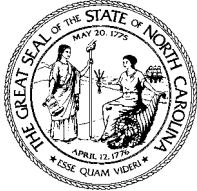
***Match Provided at the Partnership Level:***

Cash	\$ 35,592
In-Kind Goods and Services	<u>226,686</u>
	<u><u>\$ 262,278</u></u>

***Match Provided at the Contractor Level:***

Cash	\$ 115,473
In-Kind Goods and Services	<u>93,417</u>
	<u><u>\$ 208,890</u></u>

Note: This schedule is presented in accordance with the program match requirement as provided for by North Carolina Session Law 2003-284, Section 10.38(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.



Leslie W. Merritt, Jr., CPA, CFP  
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**

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Board of Directors  
The Halifax-Warren Smart Start Partnership for Children, Inc.  
Roanoke Rapids, North Carolina

We have audited the financial statements of The Halifax-Warren Smart Start Partnership for Children, Inc. (Halifax-Warren Partnership), as of and for the year ended June 30, 2004, and have issued our report thereon dated April 29, 2005. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Halifax-Warren Partnership's internal control over financial reporting in order to determine our auditing procedures for the purposes of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Halifax-Warren Partnership's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable conditions are reported, with responses, in the Audit Findings and Recommendations section of this report:

**Finding**

1. Inadequate Policies and Procedures
2. Contract Monitoring Weaknesses

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the

**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)**

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statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe none of the reportable conditions described above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Halifax-Warren 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 Halifax-Warren Partnership in a separate letter dated August 15, 2005.

This report is intended solely for the information and use of the audit committee, management of the Halifax-Warren 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.

*Leslie W. Merritt, Jr.*

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

April 29, 2005

## AUDIT FINDINGS AND RECOMMENDATIONS

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### **Matters Related to Financial Reporting**

The following findings and recommendations were identified during the current audit and discuss conditions that represent significant deficiencies in internal control and/or noncompliance with laws, regulations, contracts, or grant agreements. Both findings were reported in the 2002 fiscal year audit.

#### 1. INADEQUATE POLICIES AND PROCEDURES

Our testwork identified deficiencies in Halifax-Warren Partnership's operational policies and procedures. The cash receipts policy does not address wire transfer transactions. The disbursements policies failed to address proper approval procedures for the processing of payments, including the necessary segregation of the authorizing and processing functions. There were no contract management policies during our audit year. In addition, the accounting policies and procedures need to be updated to reflect the actual operations of the Partnership. The current policies and procedures were identified as being deficient during our 2002 fiscal year audit. The policies are outdated and lack the depth necessary to promote the effective and efficient operations of the Partnership.

An internal control system is supported by a set of written guidelines, policies, and actions that seek to maximize fiscal integrity and minimize the likelihood of the misuse of funds by establishing a clearly defined and implemented set of financial checks and balances with the organization.

*Recommendation:* We recommend that the Halifax-Warren Partnership review its current operations and make the necessary changes to its policies and procedures to address the above issues. Policies and procedures should address all major classes of transactions. The timely review and authorization of transactions should be documented within the Partnership's accounting records. Contract management policies are essential to establishing terms and expectations for grant recipients to ensure that goals and objectives are properly communicated, adequately documented, and measurable by all parties to the contract.

*Partnership's Response:* Halifax-Warren Smart Start Partnership for Children will review our current operations and make the necessary changes to our policies and procedures.

#### 2. CONTRACT MONITORING WEAKNESSES

We identified weaknesses with the Halifax-Warren Partnership's monitoring of service provider activities including the following:

- In our review of Direct Service Provider contracts, we did not find evidence to support that fiscal monitoring activities were performed in accordance with Partnership policy or contract requirements;



## AUDIT FINDINGS AND RECOMMENDATIONS (CONCLUDED)

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- The documentation of programmatic monitoring activities performed should be enhanced. We noted that the monitoring failed to verify relevant criteria established by the Partnership or program guidelines. An example would be the verification of age necessary for eligibility in both the More at Four and Pre-K program activities operated by the Partnership. In addition, program results should be verified against projected outcomes established by the Partnership guidelines.

The achievement of the Partnership's goals and objectives is dependent on the effectiveness of its contract management system and its monitoring of contractor performance.

*Recommendation:* We recommend that the Halifax-Warren Partnership's monitoring procedures be enhanced to document the Partnership's compliance with programmatic requirements and the accomplishment of expected program outcomes.

*Partnership's Response:* Halifax-Warren Smart Start Partnership for Children will review and enhance our documentation of compliance with monitoring requirements.

## DISTRIBUTION OF AUDIT REPORT

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In accordance with General Statutes 147-64.5 and 147-64.6(c)(14), copies of this report have been distributed to the public officials listed below. Additional copies are provided to other legislators, state officials, the press, and the general public upon request.

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State Treasurer  
Attorney General  
State Budget Officer  
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Chairman, Board of Directors  
The North Carolina Partnership for Children, Inc.  
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The North Carolina Partnership for Children, Inc.

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Director, Fiscal Research Division

August 29, 2005

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