

Financial Statement Audit Report of
Halifax-Warren Smart Start Partnership for Children, Inc.
Roanoke Rapids, North Carolina
For the Year Ended June 30, 2006

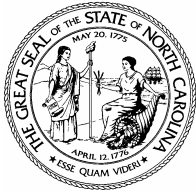
Performed Under Contract With the
North Carolina Office of the State Auditor

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

Financial Statement Audit Report of
Halifax-Warren Smart Start Partnership for Children, Inc.
Roanoke Rapids, North Carolina
For the Year Ended June 30, 2006

Board of Directors
Stan Lewis, Chair

Administrative Officer
Magda Baligh, Executive Director



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

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AUDITOR'S TRANSMITTAL

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

This report presents the results of the financial statement audit of Halifax-Warren Smart Start Partnership for Children, Inc., for the year ended June 30, 2006. Winston, Williams, Creech, Evans and Company, LLP performed the audit under contract with the Office of the State Auditor, and their report is submitted herewith.

The audit of the Halifax-Warren Smart Start 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 Halifax-Warren Smart Start Partnership for Children, Inc., is one of these local partnerships. As such, the Halifax-Warren Smart Start Partnership for Children, Inc. is a private nonprofit 501(c)(3) organization and is required by G.S. 143B-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 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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Winston, Williams, Creech, Evans & Company, LLP

Certified Public Accountants



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INDEPENDENT AUDITOR'S REPORT

Board of Directors
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, 2006, 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.

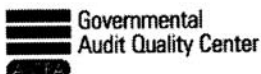
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. 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 Halifax-Warren Smart Start Partnership for Children, Inc., as of June 30, 2006, 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 a report dated December 15, 2006 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,

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INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

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. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with the independent auditor's report in considering the results of our audit.

Our audit was conducted for the purpose of forming opinions on the basic financial statements that collectively comprise the Halifax-Warren Smart Start 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.

Winston, Williams, Creech, Evans and Company, LLP

Winston, Williams, Creech, Evans and Company, LLP
Certified Public Accountants

December 15, 2006

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, 2006

Exhibit A

	Unrestricted Funds		Total Funds
	Smart Start Fund	Other Funds	
Receipts:			
State Awards (less refunds of \$7,956)	\$ 1,150,551	\$ 628,241	\$ 1,778,792
Federal Awards	0	24,959	24,959
Private Contributions	0	3,337	3,337
Special Fund Raising Events	0	691	691
Interest and Investment Earnings	0	103	103
Rental Income	0	8,624	8,624
Accounting Services Reimbursement	0	25,000	25,000
Sales Tax Refunds	0	5,876	5,876
Other Receipts	0	10,641	10,641
Total Receipts	1,150,551	707,472	1,858,023
Expenditures:			
Programs:			
Child Care and Education Affordability	528,856	13,464	542,320
Child Care and Education Quality	136,417	38,234	174,651
Family Support	167,550	0	167,550
Health and Safety	94,000	0	94,000
More at Four	0	593,429	593,429
Support:			
Management and General	161,155	51,285	212,440
Program Coordination	62,573	31	62,604
Other:			
Refund of Prior Year Grant	0	2,089	2,089
Sales Tax Paid	0	3,994	3,994
Total Expenditures	1,150,551	702,526	1,853,077
Excess of Receipts Over Expenditures	0	4,946	4,946
Net Assets at Beginning of Year	0	13,554	13,554
Net Assets at End of Year	\$ 0	\$ 18,500	\$ 18,500
Net Assets Consisted of:			
Cash and Cash Equivalents	\$ 6,880	\$ 18,500	\$ 25,380
Due from Employees	1,076	0	1,076
	7,956	18,500	26,456
Less: Due to the State	(7,956)	0	(7,956)
	\$ 0	\$ 18,500	\$ 18,500

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, 2006

Exhibit B

	Total	Personnel	Contracted Services	Supplies and Materials	Other Operating Expenditures	Fixed Charges and Other Expenditures	Property and Equipment Outlay	Services/Contracts/Grants	Participant Training Expenditures
Smart Start Fund:									
Programs:									
Child Care and Education Affordability	\$ 528,856	\$ 259,630	\$ 32,162	\$ 2,107	\$ 13,619	\$ 5,923	\$ 614	\$ 214,801	\$ 0
Child Care and Education Quality	136,417	73,381	0	17,224	34,663	8,464	2,633	0	52
Family Support	167,550	0	0	0	0	0	0	167,550	0
Health and Safety	94,000	0	0	0	0	0	0	94,000	0
	<u>926,823</u>	<u>333,011</u>	<u>32,162</u>	<u>19,331</u>	<u>48,282</u>	<u>14,387</u>	<u>3,247</u>	<u>476,351</u>	<u>52</u>
Support:									
Management and General	161,155	121,793	2,414	2,909	23,355	10,131	553	0	0
Program Coordination	62,573	55,742	0	1,011	4,891	807	122	0	0
	<u>223,728</u>	<u>177,535</u>	<u>2,414</u>	<u>3,920</u>	<u>28,246</u>	<u>10,938</u>	<u>675</u>	<u>0</u>	<u>0</u>
Total Smart Start Fund Expenditures	\$ 1,150,551	\$ 510,546	\$ 34,576	\$ 23,251	\$ 76,528	\$ 25,325	\$ 3,922	\$ 476,351	\$ 52
Other Funds:									
Programs:									
Child Care and Education Affordability	\$ 13,464	\$ 0	\$ 102	\$ 967	\$ 12,395	\$ 0	\$ 0	\$ 0	\$ 0
Child Care and Education Quality	38,234	25,000	2,785	586	6,871	93	0	0	2,899
More at Four	593,429	0	0	0	1,539	0	0	591,860	30
	<u>645,127</u>	<u>25,000</u>	<u>2,887</u>	<u>1,553</u>	<u>20,805</u>	<u>93</u>	<u>0</u>	<u>591,860</u>	<u>2,929</u>
Support:									
Management and General	51,285	42,446	0	1,176	6,526	1,015	122	0	0
Program Coordination	31	0	0	0	31	0	0	0	0
	<u>51,316</u>	<u>42,446</u>	<u>0</u>	<u>1,176</u>	<u>6,557</u>	<u>1,015</u>	<u>122</u>	<u>0</u>	<u>0</u>
Other:									
Refund of Prior Year Grant	2,089	0	0	0	0	2,089	0	0	0
Sales Tax Paid	3,994	0	0	3,994	0	0	0	0	0
	<u>6,083</u>	<u>0</u>	<u>0</u>	<u>3,994</u>	<u>0</u>	<u>2,089</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total Other Funds Expenditures	\$ 702,526	\$ 67,446	\$ 2,887	\$ 6,723	\$ 27,362	\$ 3,197	\$ 122	\$ 591,860	\$ 2,929

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

HALIFAX-WARREN SMART START PARTNERSHIP FOR CHILDREN, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2006

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 February 25, 1994. 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.

The Halifax-Warren Partnership did not have any temporarily or permanently restricted net assets at June 30, 2006.

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

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

NOTES TO THE FINANCIAL STATEMENTS (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. Due From Employees** – Due from employees represents health insurance premiums paid before year-end which will be withheld from employees' checks in the next fiscal year.
- 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, 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, 2006. 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 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)

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, 2006, the Halifax-Warren Partnership's bank deposits in excess of the FDIC insured limit was \$27,755.

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 \$1,158,507 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 \$7,956 of this contract to the State based on financial status reports submitted to NCPC subsequent to June 30, 2006.

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 \$604,241 under a current year cost-reimbursement contract. The unexpended balance of this contract is subject to reversion to the State. The Halifax-Warren Partnership expects to receive continued funding through new More at Four contracts with the State.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 4 - RELATED PARTY TRANSACTIONS

- A. 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.
- B. Other Related Parties** - The Halifax-Warren Partnership entered into transactions for contracted services with a private business associated with a relative of an employee of the Halifax-Warren Partnership. The amounts paid included:

<u>Expenditures</u>	<u>Amount</u>
A. Williams Transport, LLC	<u>\$ 32,000</u>

NOTE 5 - FUNCTIONAL EXPENDITURES

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

A. Program Functions

Child Care and Education Affordability - Used to account for service activities including child care subsidy administration (Division of Child Development), public pre-K classes, child care cost supports (DCD), supplements for quality (DCD), 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, child care resource and referral, professional development and salary supplements.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

Health and Safety - Used to account for service activities including prenatal/newborn services.

More at Four – Used to account for development and implementation of More at Four prekindergarten programs for at-risk four year-olds who are at risk of failure in kindergarten. The goal is to provide quality prekindergarten services in order to enhance kindergarten readiness.

B. Support Functions

Management and General - Expenditures that are not identifiable with a single program or fund-raising activity but are indispensable to the conduct of those activities and to an organization's existence, including expenditures for the overall direction of the organization, its general board 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 indirectly allocated based on utilization data.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 6 - OPERATING LEASE OBLIGATIONS

Future minimum lease payments under noncancelable operating leases consist of the following at June 30, 2006:

<u>Fiscal Year</u>	<u>Operating Leases</u>
2007	\$ 7,000
2008	2,403
2009	<u>866</u>
Total Minimum Lease Payments	<u><u>\$ 10,269</u></u>

Rental expense for all operating leases during the year was \$10,918.

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, 2006. The Halifax-Warren Partnership does not own the accounts nor is it liable for any other cost other than the required contribution. The Halifax-Warren Partnership employees contributed \$21,757. The Halifax-Warren Partnership contributed \$12,553 for matching benefits during the year.

NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

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

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, 2006, is \$28,695. No funds or reservation of net assets has been made for this commitment.

***The Halifax-Warren Smart Start Partnership for Children, Inc.
Schedule of Contract and Grant Expenditures - Modified Cash Basis
For the Year Ended June 30, 2006***

Schedule 1

Organization Name	Smart Start Fund		Other Funds	
	Amount Advanced	Refund Due	Amount Advanced	Refund Due
<i>Paid to Organizations:</i>				
Grow N Learn Child Care Center	\$ 0	\$ 0	\$ 18,602	\$ 0
Halifax County Health Department	* 94,000	0	0	0
Halifax County Schools	146,536	0	187,562	
Halifax/Northampton PRIDE	126,500	0	0	0
Kingdom Kids Child Care Center	* 0	0	66,584	0
Littletown Child Development Center	* 0	0	39,788	0
New Beginnings Child Care Center	* 0	0	34,379	0
Roanoke Rapids Graded Schools	22,155	0	85,260	0
Warren County Schools	* 25,320	0	88,508	0
The Warren Family Institute	41,050	0	0	0
Weldon City Schools	* 20,790	0	71,177	0
	<u>\$ 476,351</u>	<u>\$ 0</u>	<u>\$ 591,860</u>	<u>\$ 0</u>

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

***The Halifax-Warren Smart Start Partnership for Children, Inc.
 Schedule of a State Level Service Provider Contracts
 For the Year Ended June 30, 2006***

Schedule 2

Organization Name	DHHS Contracts
Child Care Services Association - WAGE\$ Program	\$ 85,780
Department of Social Services of Halifax and Warren Counties *	<u>546,079</u>
	<u>\$ 631,859</u>

* These organizations are represented on the Partnership's Board as described in Note 4A - 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, 2006***

Schedule 3

Federal/State Grantor/Pass-through Grantor/Program	Federal CFDA Number	Contract #	Receipts	Expenditures
Federal Awards:				
US Department of Health and Human Services Pass-through from the North Carolina Department of Health and Human Services - Division of Child Development Pass-through from DownEast Partnership for Children, Inc. Child Care Resource and Referral (Current Year)	93.575	DE06-324	\$ 24,959	\$ 25,000
Total Federal Awards			<u>24,959</u>	<u>25,000</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 (Current Year) Multi-County Accounting and Contracting Grant (Current Year)	*	N/A	1,150,551 24,000	1,150,551 24,000
North Carolina Department of Health and Human Services More at Four Pre-Kindergarten Program	*	N/A	<u>604,241</u>	<u>600,172</u>
Total State Awards			<u>1,778,792</u>	<u>1,774,723</u>
Total Federal and State Awards			<u>\$ 1,803,751</u>	<u>\$ 1,799,723</u>

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

** Major Programs per OMB Circular A-133

Notes to the Schedule of Federal and State Awards - Modified Cash Basis

1. The accompanying schedule of federal and state awards includes the federal and State grant activity of the Halifax-Warren Smart Start Partnership for Children, Inc. and is presented on the modified cash basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the financial statements.

2. 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, 2006***

Schedule 4

Furniture and Noncomputer Equipment	\$	98,091
Computer Equipment/Printers		90,960
Buildings		179,761
Land		32,219
Leasehold Improvements		<u>123,615</u>
Total Property and Equipment	\$	<u><u>524,646</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 cash 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, 2006***

Schedule 5

Match Provided at the Partnership Level:

Cash	\$	26,759
In-Kind Goods and Services		<u>209,872</u>
	\$	<u><u>236,631</u></u>

Match Provided at the Contractor Level:

Cash	\$	148,466
In-Kind Goods and Services		<u>52,072</u>
	\$	<u><u>200,538</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.

Winston, Williams, Creech, Evans & Company, LLP

Certified Public Accountants



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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

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

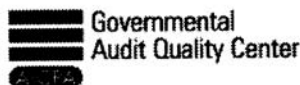
We have audited the financial statements of the Halifax-Warren Smart Start Partnership for Children, Inc. (Halifax-Warren Partnership) as of and for the year ended June 30, 2006, and have issued our report thereon dated December 15, 2006. We conducted our audit in accordance with auditing standards generally 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 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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might material 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 financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

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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 (CONCLUDED)**

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 additional matters that we reported to management of the Halifax-Warren Partnership, in a separate letter dated December 15, 2006.

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.

Winston, Williams, Creech, Evans and Company, LLP

Winston, Williams, Creech, Evans and Company, LLP
Certified Public Accountants

December 15, 2006

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