

**Financial Statement Audit Report of
Surry County Early Childhood Partnership, Inc.
Mount Airy, 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
Surry County Early Childhood Partnership, Inc.
Mount Airy, North Carolina
For the Year Ended June 30, 2006

Board of Directors
Barbara Anderson, Chair

Administrative Officer
Marty Westmoreland, 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, Surry County Early Childhood Partnership, Inc.

This report presents the results of the financial statement audit of Surry County Early Childhood Partnership, 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 Surry County Early Childhood Partnership, 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 Surry County Early Childhood Partnership, Inc. is one of these local partnerships. As such, the Surry County Early Childhood Partnership, 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

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	12
2 Schedule of State Level Service Provider Contracts	13
3 Schedule of Federal and State Awards – Modified Cash Basis.....	14
4 Schedule of Property and Equipment – Modified Cash Basis	15
5 Schedule of Qualifying Match (Non-GAAP)	16
INDEPENDENT AUDITOR’S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>	17
ORDERING INFORMATION	19

Winston, Williams, Creech, Evans & Company, LLP

Certified Public Accountants



The CPA. Never Underestimate The Value.™

James P. Winston II, CPA
Gary L. Williams, CPA
Leonard R. Creech, Jr. CPA
Carleen P. Evans, CPA

Jennifer T. Reese, CPA
Elizabeth J. Day, CPA

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Surry County Early Childhood Partnership, Inc.
Mount Airy, North Carolina

We have audited the accompanying Statement of Receipts, Expenditures, and Net Assets – Modified Cash Basis of the Surry County Early Childhood Partnership, Inc. (Surry 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 Surry Partnership's management. Our responsibility is to express an opinion on these financial statements based on our audit.

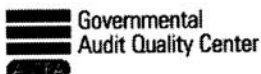
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and 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 Surry County Early Childhood Partnership, 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 January 23, 2007 on our consideration of the Surry Partnership's internal control over financial reporting and our tests of its compliance with certain provisions of laws,

102 W. Spring Street P.O. Box 1366 Oxford, NC 27565 (919) 693-5196 fax (919) 693-7614
12339-108 Wake Union Church Road Wake Forest, NC 27587 (919) 556-0282 Fax (919) 556-0349



www.wwcecpa.com



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 Surry County Early Childhood Partnership, 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

January 23, 2007

Surry County Early Childhood Partnership, Inc.
Statement of Receipts, Expenditures, and Net Assets - Modified Cash Basis
For the Year Ended June 30, 2006

Exhibit A

	Unrestricted Funds		Temporarily Restricted Funds	Total Funds
	Smart Start Fund	Other Funds		
Receipts:				
State Awards (less refunds of \$24,620)	\$ 1,210,068	\$ 702,769	\$ 0	\$ 1,912,837
Federal Awards	0	10,301	0	10,301
Interest and Investment Earnings	0	351	0	351
Sales Tax Refunds	0	1,636	0	1,636
Other Receipts	0	50	0	50
Total Receipts	1,210,068	715,107	0	1,925,175
Expenditures:				
Programs:				
Child Care Education Accessibility and Availability	800	0	0	800
Child Care and Education Affordability	403,663	0	0	403,663
Child Care and Education Quality	312,500	12,970	0	325,470
Family Support	80,449	0	0	80,449
Health and Safety	268,540	0	0	268,540
More at Four	0	672,514	0	672,514
Support:				
Management and General	126,377	12,000	0	138,377
Program Evaluation	17,739	0	0	17,739
Other:				
Refund of Prior Year Grant	0	332	0	332
Sales Tax Paid	0	1,809	0	1,809
Total Expenditures	1,210,068	699,625	0	1,909,693
Excess of Receipts Over Expenditures	0	15,482	0	15,482
Net Assets at Beginning of Year	0	16,379	6,612	22,991
Net Assets at End of Year	\$ 0	\$ 31,861	\$ 6,612	\$ 38,473
Net Assets Consisted of:				
Cash and Cash Equivalents	\$ 19,666	\$ 31,861	\$ 6,612	\$ 58,139
Refunds Due From Contractors	4,954	0	0	4,954
	24,620	31,861	6,612	63,093
Less: Due to the State	(24,620)	0	0	(24,620)
	\$ 0	\$ 31,861	\$ 6,612	\$ 38,473

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

Surry County Early Childhood Partnership, 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
Smart Start Fund:								
Programs:								
Child Care and Education Accessibility and Availability	\$ 800	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 800
Child Care and Education Affordability	403,663	0	0	0	0	0	0	403,663
Child Care and Education Quality	312,500	51,479	0	870	8,507	2,751	571	248,322
Family Support	80,449	0	0	0	0	0	0	80,449
Health and Safety	268,540	27,915	0	609	5,924	1,188	2,543	230,361
	<u>1,065,952</u>	<u>79,394</u>	<u>0</u>	<u>1,479</u>	<u>14,431</u>	<u>3,939</u>	<u>3,114</u>	<u>963,595</u>
Support:								
Management and General	126,377	94,578	1,364	1,596	12,187	12,260	4,392	0
Program Evaluation	17,739	15,137	0	200	1,076	1,326	0	0
	<u>144,116</u>	<u>109,715</u>	<u>1,364</u>	<u>1,796</u>	<u>13,263</u>	<u>13,586</u>	<u>4,392</u>	<u>0</u>
Total Smart Start Fund Expenditures	<u>\$ 1,210,068</u>	<u>\$ 189,109</u>	<u>\$ 1,364</u>	<u>\$ 3,275</u>	<u>\$ 27,694</u>	<u>\$ 17,525</u>	<u>\$ 7,506</u>	<u>\$ 963,595</u>
Other Funds:								
Programs:								
Child Care and Education Quality	\$ 12,970	\$ 0	\$ 0	\$ 7,542	\$ 2,990	\$ 0	\$ 2,438	\$ 0
More at Four	672,514	30,001	0	89	1,134	580	2,097	638,613
	<u>685,484</u>	<u>30,001</u>	<u>0</u>	<u>7,631</u>	<u>4,124</u>	<u>580</u>	<u>4,535</u>	<u>638,613</u>
Support:								
Management and General	12,000	0	8,244	0	0	0	3,756	0
	<u>12,000</u>	<u>0</u>	<u>8,244</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>3,756</u>	<u>0</u>
Other:								
Refund of Prior Year Grant	332	0	0	0	0	332	0	0
Sales Tax Paid	1,809	0	0	1,809	0	0	0	0
	<u>2,141</u>	<u>0</u>	<u>0</u>	<u>1,809</u>	<u>0</u>	<u>332</u>	<u>0</u>	<u>0</u>
Total Other Funds Expenditures	<u>\$ 699,625</u>	<u>\$ 30,001</u>	<u>\$ 8,244</u>	<u>\$ 9,440</u>	<u>\$ 4,124</u>	<u>\$ 912</u>	<u>\$ 8,291</u>	<u>\$ 638,613</u>

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

SURRY COUNTY EARLY CHILDHOOD PARTNERSHIP, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2006

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

A. Organization and Purpose - The Surry County Early Childhood Partnership, Inc. (Surry Partnership) is a legally separate nonprofit organization incorporated on August 24, 1994. The Surry Partnership was established to develop and provide, through public and private means, early childhood education and developmental services for children and families. The Surry 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 Surry 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 Surry Partnership did not have any 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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, Surry Partnership is required by contract regulation to track and maintain property and equipment items as presented in Schedule 4 of this report. The Surry 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 Surry 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

All funds of the Surry 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 Surry Partnership to a concentration of credit risk. At June 30, 2006, the Surry Partnership's bank deposits in excess of the FDIC insured limit was \$1,599.

NOTE 3 - FUNDING FROM GRANT AWARDS

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

Associated with these contracts, the Surry 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 Surry 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 Surry Partnership was awarded and has received \$1,234,688 under a current year Smart Start contract with NCPC. The unexpended balance of this contract is subject to reversion to the State. The Surry Partnership has returned \$24,620 of this contract to the State based on financial status reports submitted to NCPC subsequent to June 30, 2006.

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

More at Four – The Surry Partnership also received revenue and support from the State of North Carolina for the More at Four Program. The Surry Partnership was awarded \$707,236 and received \$690,769 under a current year

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

NOTE 4 - RELATED PARTY TRANSACTIONS

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

NOTE 5 - FUNCTIONAL EXPENDITURES

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

A. Program Functions

Child Care and Education Accessibility and Availability - Used to account for service activities associated with increasing child care availability.

Child Care and Education Affordability - Used to account for service activities associated with public pre-K classes.

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

Family Support - Used to account for service activities including teen parent/child programs, ongoing parenting education, general family support, family crisis intervention, literacy projects, or family literacy projects.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Health and Safety - Used to account for service activities including comprehensive health services, prenatal/newborn services, child care health consultants, special needs – early intervention services/special education, or nutrition programs.

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

B. Support Functions

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

Program Evaluation - Expenditures that are incurred to monitor the performance of service providers as to the delivery of services and adherence to the specific terms and conditions of the contracts.

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	\$ 9,318
2008	1,118
2009	1,118
2010	594
Total Minimum Lease Payments	<u>\$ 12,148</u>

Rental expense for all operating leases during the year was \$11,709.

NOTE 7 - PENSION PLAN

IRC Sections 403(b) Plan – All permanent employees who are full time can participate in a tax sheltered annuity plan (Plan) created under Internal Revenue Code Section 403(b). The Plan is a defined contribution plan in which each employee of the Surry Partnership, as a condition of employment, is provided an individual annuity through an outside insurance company. The Surry Partnership contributed 6% of gross wages for the year ended June 30, 2006. The employee's eligible contributions, made through salary reduction agreements, are exempt from federal and State income taxes until the annuity is received or the contributions are withdrawn. These Plans are exclusively for employees of universities and certain charitable and other nonprofit organizations. All costs of administering and funding these Plans are the responsibility of the Plan participants. The Surry Partnership contributed \$8,542 for retirement benefits during the year.

NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

NOTE 8 - RISK MANAGEMENT

The Surry 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 Surry 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 Surry 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 Surry Partnership's use of the modified cash basis of accounting, accrued liabilities related to compensated absences (vacation and sick leave; sick leave paid out at one half the employee's hourly rate) 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 \$14,140. The compensated absences commitment for sick leave at June 30, 2006, is \$4,146. No funds or reservation of net assets has been made for this commitment.

NOTE 10 - RESTRICTIONS ON NET ASSETS

Temporarily Restricted Net Assets - Temporarily restricted net assets at June 30, 2006, are available for the following purposes:

<u>Purpose</u>	<u>Amount</u>
Family Support - Duke Energy Grant	\$ 6,612

Surry County Early Childhood Partnership, 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>				
* Bright Beginnings Preschool	\$ 0	\$ 0	\$ 46,834	\$ 0
Children's Center of Surry, Inc.	124,610	0	0	
* Elkin City Schools	23,868	0	0	
* Lifespan Incorporated	48,207	558	45,745	
Magical Moments Childcare	800	0	0	
Meet Me at the Sandbox	0	0	11,719	
Mount Airy City Schools	78,925	0	96,321	
* North Carolina Cooperative Extension Service	13,065	0	0	
* Northwestern Regional Library	50,679	394	0	
* Surry Community College	7,000	560	0	
* Surry County Health & Nutrition Center	93,798	1,112	0	
* Surry County Schools	336,700	2,330	353,237	
* Yadkin Valley Economic Development	0	0	84,757	
White Planis Baptist Childcare	1,400	0	0	
	<u>779,052</u>	<u>4,954</u>	<u>638,613</u>	<u>0</u>
<i>Paid to Individuals:</i>				
Enhancements	6,097	0		
Professional Development Supplement	183,400	0	0	
	<u>189,497</u>	<u>0</u>	<u>0</u>	<u>0</u>
	<u>\$ 968,549</u>	<u>\$ 4,954</u>	<u>\$ 638,613</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.

***Surry County Early Childhood Partnership, Inc.
 Schedule of a State Level Service Provider Contracts
 For the Year Ended June 30, 2006***

Schedule 2

Organization Name	DHHS Contracts
Surry County Department of Social Services	* \$ <u>500,733</u>

* This organization is 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.

Surry County Early Childhood Partnership, 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 Child Care Resource and Referral (Current Year)	93.575	013-06-06	\$ 10,301	\$ 12,970
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)	*	N/A	1,210,068	1,210,068
Multi-County Accounting and Contracting Grant (Current Year)			12,000	12,000
North Carolina Department of Health and Human Services More at Four Pre-Kindergarten Program	*	0079-06	690,769	672,514
Total State Awards			<u>1,912,837</u>	<u>1,894,582</u>
Total Federal and State Awards			<u>\$ 1,923,138</u>	<u>\$ 1,907,552</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 Surry County Early Childhood Partnership, 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.

Surry County Early Childhood Partnership, Inc.
Schedule of Property and Equipment - Modified Cash Basis
For the Year Ended June 30, 2006

Schedule 4

Furniture and Noncomputer Equipment	\$	12,326
Computer Equipment/Printers		33,752
Leasehold Improvements		<u>2,030</u>
Total Property and Equipment	\$	<u><u>48,108</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.

Surry County Early Childhood Partnership, Inc.
Schedule of Qualifying Match (Non-GAAP)
For the Year Ended June 30, 2006

Schedule 5

Match Provided at the Partnership Level:

Cash	\$	50
In-Kind Goods and Services		<u>1,428</u>
	\$	<u><u>1,478</u></u>

Match Provided at the Contractor Level:

Cash	\$	141,855
In-Kind Goods and Services		<u>182,123</u>
	\$	<u><u>323,978</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



The CPA. Never Underestimate The Value.™

James P. Winston II, CPA
Gary L. Williams, CPA
Leonard R. Creech, Jr. CPA
Carleen P. Evans, CPA

Jennifer T. Reese, CPA
Elizabeth J. Day, CPA

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
Surry County Early Childhood Partnership, Inc.
Mount Airy, North Carolina

We have audited the financial statements of the Surry County Early Childhood Partnership, Inc. (Surry Partnership) as of and for the year ended June 30, 2006, and have issued our report thereon dated January 23, 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 Surry 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 be 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.

102 W. Spring Street P.O. Box 1366 Oxford, NC 27565 (919) 693-5196 fax (919) 693-7614
12339-108 Wake Union Church Road Wake Forest, NC 27587 (919) 556-0282 Fax (919) 556-0349



www.wwcecpa.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 (CONCLUDED)**

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Surry 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 Surry Partnership in a separate letter dated January 23, 2007.

This report is intended solely for the information and use of the audit committee, management of the Surry 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
January 23, 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