FINANCIAL STATEMENT AUDIT REPORT OF

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

ROANOKE RAPIDS, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2008

PERFORMED UNDER CONTRACT WITH THE OFFICE OF THE STATE AUDITOR

BETH A. WOOD, CPA
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, 2008

BOARD OF DIRECTORS

STAN LEWIS, BOARD CHAIR

ADMINISTRATIVE OFFICER

MAGDA BALIGH, EXECUTIVE DIRECTOR

STATE OF NORTH CAROLINA
Office of the State Auditor

Beth A. Wood, CPA
State Auditor

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AUDITOR'S TRANSMITTAL

The Honorable Beverly E. Perdue, 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 the financial statement audit of The Halifax-Warren Smart Start Partnership for Children, Inc. for the year ended June 30, 2008. Foster & Dorr PC performed the audit under contract with the Office of the State Auditor, and their report is submitted herewith.

You will note from the independent auditor's report that the auditor determined that the financial statements are presented fairly in all material aspects. The results of their tests disclosed no deficiencies in internal control over financial reporting that were considered to be material weaknesses in relation to their audit scope or any instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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.

Beth A. Wood

Beth A. Wood, CPA
State Auditor

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INDEPENDENT AUDITOR'S REPORT

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, 2008, 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 Partnership as of June 30, 2008, and its receipts and expenditures for the year then ended, on the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 28, 2009 on our consideration of 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)

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 Halifax-Warren Partnership'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.

Foster & Dorr P.C.

Certified Public Accountants

January 28, 2009

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, 2008 ***Exhibit A***

	Unrestricted Funds		Temporarily	
	Smart Start Fund	Other Funds	Restricted Funds	Total Funds
Receipts:				
State Awards	$ 1,185,514	$ 1,496,658	$ 0	$ 2,682,172
Federal Awards		20,000		20,000
Private Contributions		2,988		2,988
Special Fund Raising Events		1,580		1,580
Interest and Investment Earnings		75		75
Rental Income		9,180		9,180
Accounting Services Reimbursement		21,330		21,330
Sales Tax Refunds		5,843		5,843
Other Receipts		8,846		8,846
Total Receipts	1,185,514	1,566,500		2,752,014
Net Assets Released from Restrictions:				
Satisfaction of Program Restrictions		3,855	(3,855)	
	1,185,514	1,570,355	(3,855)	2,752,014
Expenditures:				
Programs:				
Child Care and Education Affordability	527,300	29,266		556,566
Child Care and Education Quality	152,971	43,390		196,361
Family Support	172,550			172,550
Health and Safety	88,951			88,951
More at Four		1,439,196		1,439,196
Support:				
Management and General	171,742	55,132		226,874
Program Coordination and Evaluation	72,000	2,278		74,278
Other:				
Sales Tax Paid		13,690		13,690
Total Expenditures	1,185,514	1,582,952		2,768,466
Excess of Receipts Over Expenditures	0	(12,597)	(3,855)	(16,452)
Net Assets at Beginning of Year	0	35,804	5,000	40,804
Net Assets at End of Year	$ 0	$ 23,207	$ 1,145	$ 24,352
Net Assets Consisted of:				
Cash and Cash Equivalents	$ 0	$ 29,154	$ 1,145	$ 30,299
Less: Funds Held for Others		5,947		5,947
	$ 0	$ 23,207	$ 1,145	$ 24,352

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, 2008

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 Affordability	$ 527,300	$ 265,835	$ 32,025	$ 5,502	$ 23,673	$ 5,264	$ 97	$ 194,904
Child Care and Education Quality	152,971	85,522	3,220	15,582	42,364	6,234	49	
Family Support	172,550							172,550
Health and Safety	88,951				2,451			86,500
	941,772	351,357	35,245	21,084	68,488	11,498	146	453,954
Support:								
Management and General	171,742	138,559	2,684	4,168	16,688	9,562	81	
Program Coordination and Evaluation	72,000	62,524		2,973	5,995	496	12	
	243,742	201,083	2,684	7,141	22,683	10,058	93	
Total Smart Start Fund Expenditures	$ 1,185,514	$ 552,440	$ 37,929	$ 28,225	$ 91,171	$ 21,556	$ 239	$ 453,954
Other Funds:								
Programs:								
Child Care and Education Affordability	$ 29,266	$ 0	$ 2,900	$ 15,486	$ 5,540	$ 0	$ 5,340	$ 0
Child Care and Education Quality	43,390	20,000		364	23,026			
More at Four	1,439,196			3,499	1,297			1,434,400
	1,511,852	20,000	2,900	19,349	29,863		5,340	1,434,400
Support:								
Management and General	55,132	47,244		725	3,655	419	3,089	
Program Coordination and Evaluation	2,278	2,178		25	75			
	57,410	49,422		750	3,730	419	3,089	
Other:								
Sales Tax Paid	13,690			13,690				
	13,690			13,690				
Total Other Funds Expenditures	$ 1,582,952	$ 69,422	$ 2,900	$ 33,789	$ 33,593	$ 419	$ 8,429	$ 1,434,400

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

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.

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.

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. In addition, amounts withheld from employee paychecks or other amounts received in an agency capacity are recorded as funds held for others. Additionally, Smart Start funds advanced to the

Local Partnership that are unexpended and unearned at year end are recorded as funds 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. **Funds Held For Others** - Funds held for others include amounts received that are fiduciary in nature in which the Halifax-Warren Partnership acts in an agency capacity. At year end, the Halifax-Warren Partnership was holding amounts for distribution to the White Oak Parent Advisory Council. Also, the Halifax-Warren Partnership will withhold amounts from employee paychecks for paid health insurance premiums subsequent to June 30, 2008.

F. **Property and Equipment** - Under the modified cash basis of accounting, purchases of property and equipment are reported as expenditures in the year purchased. 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, 2008. 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 other comprehensive 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.

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.

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 $1,185,514 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 had no unexpended funds as of June 30, 2008.

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 $1,472,993 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.

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, 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.

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, comprehensive health support and developmental screenings.

More at Four - Used to account for development and implementation of the 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 Coordination and Evaluation - 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.

NOTE 6 - OPERATING LEASE OBLIGATIONS

Future minimum lease payments under noncancelable operating leases consist of the following at June 30, 2008:

Fiscal Year	Operating Leases
2009	$ 5,571
2010	5,571
2011	5,571
2012	5,571
2013	2,924
Total Minimum Lease Payments	$ 25,208

Rental expense for all operating leases during the year was $6,251.

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 contributed 3% of gross wages for the year ended June 30, 2008. 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 $12,617 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:

Type of Loss	Method Managed	Risk of Loss Retained
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, 2008, is $34,096. No funds or reservation of net assets has been made for this commitment.

NOTE 10 - RESTRICTIONS ON NET ASSETS

A. **Temporarily Restricted Net Assets** - Temporarily restricted net assets at June 30, 2008 are available for the following purposes:

Purpose	Amount
Child Care & Economic Development	$ 1,145

B. **Net Assets Released From Donor Restrictions** - Net assets were released from donor restrictions during the fiscal year ended June 30, 2008, by incurring expenditures satisfying the restricted purposes as follows:

Purpose	Amount
Child Care & Economic Development	$ 3,855

The Halifax-Warren Smart Start Partnership for Children, Inc.
Schedule of Contract and Grant Expenditures - Modified Cash Basis
For the Year Ended June 30, 2008 ***Schedule 1***

	Smart Start Fund		Other Funds	
Organization Name	**Amount Advanced**	**Refund Due**	**Amount Advanced**	**Refund Due**
Organizations:				
* Halifax County Health Department	$ 86,500	$ 0	$ 0	$ 0
* Halifax County Schools	144,504		664,489	
Halifax/Northampton Pride, Inc.	126,000			
* New Beginnings Child Care Center			28,695	
* Roanoke Rapids Graded Schools	7,600		177,776	
* Warren County Schools	24,000		352,928	
The Warren Family Institute	46,550			
* Weldon City Schools	18,800		210,512	
	$ 453,954	$ 0	$ 1,434,400	$ 0

* 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, 2008 *Schedule 2*

Organization Name		DHHS Contracts
Child Care Services Association - WAGE$	$	83,272
* Halifax County Department of Social Services		426,350
* Warren County Department of Social Services		136,550
	$	646,172

* 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, 2008 ***Schedule 3***

Federal/State Grantor/Pass-through Grantor/Program	Federal CFDA Number	Contract #	Receipts	Expenditures
Federal Awards:				
U. S. Department of Health and Human Services				
Pass-through from the North Carolina Department of Health and Human Services - Division of Child Development				
Pass-through Down East Partnership for Children				
Child Care Resource and Referral	93.575	DE08-324	$ 20,000	$ 20,000
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	*	N/A	1,185,514	1,185,514
Multi-County Accounting and Contracting Grant			23,665	23,665
North Carolina Department of Public Instruction, Office of School Readiness				
More at Four Pre-Kindergarten Program	*	N/A	1,472,993	1,459,780
Total State Awards			2,682,172	2,668,959
Total Federal and State Awards			$ 2,702,172	$ 2,688,959

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

The Halifax-Warren Smart Start Partnership for Children, Inc.
Schedule of Property and Equipment - Modified Cash Basis
For the Year Ended June 30, 2008

Schedule 4

Furniture and Noncomputer Equipment	$	108,790
Computer Equipment/Printers		72,995
Buildings		182,656
Land		32,219
Leasehold Improvements		122,415
Total Property and Equipment	$	519,075

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, 2008 ***Schedule 5***

Match Provided at the Partnership Level:

Cash	$	37,420
In-Kind Goods and Services		184,595
	$	222,015

Match Provided at the Contractor Level:

Cash	$	149,598
In-Kind Goods and Services		10,440
	$	160,038

Note: This schedule is presented in accordance with the program match requirement as provided for by North Carolina Session Law 2007-323, Section 10.19(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.

Foster & Dorr P.C.

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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
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, 2008, and have issued our report thereon dated January 28, 2009. 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 as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Halifax-Warren Partnership's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Halifax-Warren Partnership's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Halifax-Warren Partnership's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Halifax-Warren Partnership's financial statements that is more than inconsequential will not be prevented or detected by the Halifax-Warren Partnership's internal control.

Foster & Dorr P.C.
CERTIFIED PUBLIC ACCOUNTANTS

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

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Halifax-Warren Partnership's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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.

This report is intended solely for the information and use of the Halifax-Warren Partnership's Board of Directors, management of the Halifax-Warren Partnership, others within the Partnership, The North Carolina Partnership for Children, Inc., the Governor, and the General Assembly of North Carolina and is not intended to be and should not be used by anyone other than these specified parties.

Foster & Dorr P.C.

Certified Public Accountants

January 28, 2009

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

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