



STATE OF NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT OF BRUNSWICK COUNTY PARTNERSHIP FOR CHILDREN, INC.

SHALLOTTE, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2001

OFFICE OF THE STATE AUDITOR

RALPH CAMPBELL, JR.

STATE AUDITOR

**FINANCIAL STATEMENT AUDIT REPORT OF
BRUNSWICK COUNTY PARTNERSHIP FOR CHILDREN, INC.**

SHALLOTTE, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2001

BOARD OF DIRECTORS

DIANNE McRAINEY, CHAIR

ADMINISTRATIVE OFFICER

LORRAINE S. BATES, EXECUTIVE DIRECTOR



Ralph Campbell, Jr.
State Auditor

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AUDITOR'S TRANSMITTAL

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

This report presents the results of our financial statement audit of the Brunswick County Partnership for Children, Inc. (Brunswick Partnership) for the year ended June 30, 2001. Our audit was made by authority of Article 5A of G.S. §147.

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

The audit of the Brunswick Partnership 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 demonstration projects (local partnerships). The Brunswick Partnership is one of these local partnerships. As such, the Brunswick Partnership is a private nonprofit 501(c)(3) organization and is required by G.S. 143B-168.14(b) to have an annual financial and compliance audit conducted by the State Auditor.

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

1. **Objective** - Express an opinion on the accompanying financial statements and supplementary information.

Results – The accompanying financial statements present fairly, in all material respects, the amounts and disclosures made in accordance with the regulatory basis of accounting established by the North Carolina Partnership for Children, Inc. The accompanying supplementary information presents information that is fairly stated in all material respects in relation to the basic financial statements.

AUDITOR'S TRANSMITTAL (CONCLUDED)

2. **Objective** - Present instances of noncompliance, if any, with laws, regulations, contracts, or grants.

Results - Our tests disclosed no instances of noncompliance which require disclosure herein under *Government Auditing Standards*.

3. **Objective** - Present significant deficiencies, if any, in internal control over financial reporting which could adversely affect the Brunswick Partnership's ability to record, process, summarize, and report financial data in the financial statement.

Results - The following significant deficiency was detected in internal control over financial reporting:

Finding

Financial Presentations

This matter is described in the Independent Auditor's Report on Compliance and on Internal Control over Financial Reporting and the Audit Findings and Recommendations section of this report.

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



Ralph Campbell, Jr.
State Auditor

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Brunswick County Partnership for Children, Inc.
Shallotte, North Carolina

We have audited the accompanying Statement of Receipts, Expenditures, and Net Assets - Regulatory Basis of the Brunswick County Partnership for Children, Inc. (Brunswick Partnership) as of June 30, 2001, and the related Statement of Functional Expenditures - Regulatory Basis for the year then ended. These financial statements are the responsibility of the Brunswick 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 statement is 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 regulatory basis of accounting as prescribed by the North Carolina Partnership for Children, Inc., which is a comprehensive basis of accounting other than generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets of the Brunswick County Partnership for Children, Inc. as of June 30, 2001, and the results of its operations 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 February 22, 2002 on our consideration of the Brunswick Partnership's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. This report is an integral part of an audit performed in accordance with

INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

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 made for the purpose of forming an opinion on the basic financial statements of the Brunswick County Partnership for Children, Inc. taken as a whole. The accompanying supplementary schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. The information in these schedules has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the management of the 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.



Ralph Campbell, Jr.
State Auditor

February 22, 2002

Brunswick County Partnership for Children, Inc.

Statement of Receipts, Expenditures, and Net Assets - Regulatory Basis

For the Year Ended June 30, 2001

Exhibit A

	Unrestricted Funds		Temporarily Restricted Funds	Total Funds
	Smart Start Fund	Other Funds		
Receipts:				
State Awards (less refunds of \$13,993)	\$ 1,491,369	\$ 0	\$ 0	\$ 1,491,369
Federal Awards		94,014		94,014
Private Contributions		142,905	7,092	149,997
Interest and Investment Earnings		13,526		13,526
Sales and Services		167,645		167,645
Sales Tax Refunds		3,140		3,140
Other Receipts		2,514	30	2,544
Total Receipts	1,491,369	423,744	7,122	1,922,235
Net Assets Released from Restrictions:				
Satisfaction of Program Restrictions		78,187	(78,187)	
	1,491,369	501,931	(71,065)	1,922,235
Expenditures:				
Programs:				
Child Care and Education Quality	513,650	57,241		570,891
Child Care and Education Affordability	110,543	5,291		115,834
Health and Safety	165,130			165,130
Family Support	258,913	160,951		419,864
Pediatric Dental Clinic	100,000	220,696		320,696
Support:				
Management and General	176,201	31,311		207,512
Program Evaluation	147,343	1,874		149,217
Other:				
Sales Tax Paid		885		885
Total Expenditures	1,471,780	478,249		1,950,029
Excess of Receipts Over Expenditures	19,589	23,682	(71,065)	(27,794)
Net Assets at Beginning of Year	17,386	28,004	82,174	127,564
Net Assets at End of Year	\$ 36,975	\$ 51,686	\$ 11,109	\$ 99,770
Net Assets Consisted of:				
Petty Cash	\$ 0	\$ 600	\$ 150	\$ 750
Cash on Deposit	263	51,086	10,959	62,308
Refunds Due From Contractors	36,712			36,712
	\$ 36,975	\$ 51,686	\$ 11,109	\$ 99,770

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

Brunswick County Partnership for Children, Inc.
Schedule of Functional Expenditures - Regulatory Basis
For the Year Ended June 30, 2001

Exhibit B

	Total	Personnel	Contracted Services	Supplies and Materials	Other Operating Expenses	Fixed Charges and Other Expenses	Property and Equipment Outlay	Services/ Contracts/ Grants	Participant Training Expense
Smart Start Fund:									
Programs:									
Child Care and Education Quality	513,650	129,410	6,592	23,158	43,015	37,100	125,985	145,916	2,474
Child Care and Education Affordability	110,543							110,543	
Health and Safety	165,130							165,130	
Family Support	258,913	29,718	2,452	7,569	10,431	2,908	3,399	202,436	
Pediatric Dental Clinic	100,000	50,525	9,419	18,081	9,148	3,692	9,135		
	1,148,236	209,653	18,463	48,808	62,594	43,700	138,519	624,025	2,474
Support:									
Management and General	176,201	95,191	5,282	18,530	31,486	22,999	2,713		
Program Evaluation	147,343	89,108	5,952	19,446	11,683	17,694	2,960		500
	323,544	184,299	11,234	37,976	43,169	40,693	5,673	0	500
Total Smart Start Fund Expenditures	1,471,780	393,952	29,697	86,784	105,763	84,393	144,192	624,025	2,974
Other Funds:									
Programs:									
Child Care and Education Quality	57,241	40,000	300	4,690	7,500	3,628	123		1,000
Child Care and Education Affordability	5,291							5,291	
Family Support	160,951	100,343	4,563	3,728	23,262	9,904	4,483	10,203	4,465
Pediatric Dental Clinic	220,696	147,484	10,068	16,500	6,098	24,045	16,501		
	444,179	287,827	14,931	24,918	36,860	37,577	21,107	15,494	5,465
Support:									
Management and General	31,311		8,725	1,814	13,389	5,408	1,975		
Program Evaluation	1,874				175		1,699		
	33,185	0	8,725	1,814	13,564	5,408	3,674	0	0
Other:									
Sales Tax Paid	885	0	0	0	885	0	0	0	0
Total Other Funds Expenditures	478,249	287,827	23,656	26,732	51,309	42,985	24,781	15,494	5,465

BRUNSWICK COUNTY PARTNERSHIP FOR CHILDREN, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2001

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

A. Organization and Purpose - The Brunswick County Partnership for Children, Inc. (Brunswick Partnership) is a legally separate nonprofit organization incorporated on August 1, 1994. The Brunswick Partnership was established to develop and provide, through public and private means, early childhood education and developmental services for children and families. The Brunswick 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 Brunswick Partnership's Board of Directors is responsible. In accordance with 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 Brunswick Partnership did not have any permanently restricted net assets at June 30, 2001.

C. Basis of Accounting - The accompanying financial statements were prepared on the regulatory basis of accounting as prescribed by the North Carolina Partnership for Children, Inc. This basis differs from generally accepted accounting principles primarily because it recognizes long lived assets and other costs which benefit more than one period as expended in the year purchased; it recognizes revenue when received rather than when earned; and it recognizes expenditures when paid rather than when incurred.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

However, unexpended advances to contractors that revert back to the State are recognized as a reduction to expenditures and an increase to net assets.

- D. Refunds Due From Contractors** - Refunds due from contractors represent the unexpended amount of advances to contractors at year end which 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.
- E. Use of Estimates** - The financial statements include estimates and assumptions made by management for the allocation of joint costs. It is management's belief that these estimates are reasonable and fair.
- F. Personnel Costs** - The Brunswick Partnership entered into a co-employment relationship with StaffAmerica, Inc., a professional employer organization, beginning April 1, 2001. This relationship is in accordance with Section 414(N) of the Internal Revenue Code and creates a dual employment relationship for the Brunswick Partnership's existing workforce. Under an administrative agreement, StaffAmerica assumed responsibilities for preparation of monthly payroll and the payment of all applicable federal, state, and local employment taxes. All payroll related costs paid in accordance to this agreement are reported as personnel costs in the Schedule of Functional Expenses - Regulatory Basis.

NOTE 2 - DEPOSITS

All funds of the Brunswick Partnership are deposited with one commercial bank and insured by the Federal Deposit Insurance Corporation (FDIC) up to \$100,000. Deposits over this amount subjects the Brunswick Partnership to a concentration of credit risk. At June 30, 2001, the Brunswick Partnership's bank deposits in excess of the FDIC insured limit was \$108,857.

NOTE 3 - FUNDING FROM GRANT AWARDS

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

Associated with these contracts, the Brunswick Partnership is responsible for developing a comprehensive, collaborative, long-range plan of services to

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

children and families for the service-delivery area. During the year, the Department of Health and Human Services (DHHS) entered into contracts with and made payments to service providers selected by the Brunswick Partnership. These service provider contracts are not reflected on the accompanying financial statement. However, a summary of the service provider contracts entered into by DHHS are presented on Schedule 2 accompanying the financial statements.

The Brunswick Partnership was awarded and has received \$1,505,362 under a current year Smart Start contract with NCPC. The unexpended balance of this contract is subject to reversion to the State. The Partnership has returned \$33,625 of this contract to the State based on financial status reports submitted to NCPC subsequent to June 30, 2001.

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

Child Care Resource and Referral Program - The Brunswick Partnership's other major source of revenue and support is from the State of North Carolina based on a cost-reimbursement contract with DHHS for the Child Care Resource and Referral (CCR&R) Program.

The Brunswick Partnership was awarded and has received \$67,182 under CCR&R contracts with DHHS. The unexpended balance of this contract is subject to reversion to the State. The Partnership expects to receive continued funding through new CCR&R Program contracts with the State.

NOTE 4 - RELATED PARTY TRANSACTIONS

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

and Net Assets – Regulatory Basis. Also, the Statement of Functional Expenditures – Regulatory 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 Quality - Used to account for service activities including quality enhancement grants, program upgrade projects, child care resource and referral, professional development, child care substitutes, and outreach plan to assess services.

Child Care and Education Affordability - Used to account for service activities including expand child care eligibility and eliminate waiting list.

Health and Safety - Used to account for service activities including comprehensive dental services, comprehensive health services, and comprehensive health support.

Family Support - Used to account for service activities including family resource center, parenting education, parenting skills training, support services for children in crisis, special needs – family support, literacy projects, outreach materials, and school readiness program.

Pediatric Dental Clinic – Used to account for the dental health project service activity. The Brunswick Partnership operates a dental clinic to provide dental care for Brunswick County youth under the age of 21, with a focus on preschool children, who are serviced by Medicaid or North Carolina Health Choice.

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

C. Allocation of Joint Costs

Expenditures benefiting more than one purpose were allocated as follows:

Salaries and Benefits - Allocated based on employee time reports.

Other Costs - Other costs including occupancy cost (rent, utilities and maintenance), supplies and materials, and communication costs (telephone and printing) were allocated based on utilization data.

NOTE 6 - COMMITMENTS AND CONTINGENCIES

A. **Leases** - The following is a schedule by years of future minimum rental payments required under leases that have noncancelable lease terms as of June 30, 2001:

<u>Fiscal Year</u>	<u>Operating Leases</u>
2002	\$ 29,890
2003	7,900
2004	700
2005	<u>525</u>
Total Minimum Lease Payments	<u>\$ 39,015</u>

Total rental expenditure for all operating leases was \$56,498 for the year ended June 30, 2001.

B. **Loan Commitment** - The Brunswick Partnership has a note with a balance of \$75,207 at June 30, 2001 that is secured by a dental practice and payable to an individual in monthly installments of \$1,000, with a final balloon payment of \$48,245. This amount includes principal and interest computed at an annual rate of 9%.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

The future scheduled maturities of long-term debt are as follows:

<u>Fiscal Year</u>	<u>Principal Amount</u>	<u>Interest Amount</u>
2002	\$ 4,979	\$ 6,021
2003	6,437	6,563
2004	6,524	5,476
2005	7,136	4,864
2006	<u>50,131</u>	<u>1,114</u>
Total Loan Payments	<u>\$ 75,207</u>	<u>\$ 24,038</u>

C. Commitments on Contracts - The Brunswick Partnership has an associateship employment agreement for the provision of dental services that is effective through August 31, 2005. The agreement provides for a minimum payout of \$534,485.

NOTE 7 - PENSION PLAN

IRC Section 403(b) - All permanent employees who are at least half-time can participate in a tax sheltered annuity plan created under Internal Revenue Code Section 403(b). 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. For the year ended June 30, 2001, the Partnership had a total payroll of \$529,999, a portion of which was covered under the plan. The Partnership contributed \$18,698 for pension benefits during the year. The voluntary contributions by employees amounted to \$21,739 during the year ended June 30, 2001.

NOTE 8 - RESTRICTIONS ON NET ASSETS

A. Temporarily Restricted Net Assets - Temporarily restricted net assets at June 30, 2001 are available for the following purposes:

<u>Purpose</u>	<u>Amount</u>
Be an Angel	\$ 4,829
Fatherhood Project	1,440
Glaxo Grant	527
Male Involvement Program	982
Pediatric Dental Clinic	680
Preschool Music Program	1,000
Teen Family Development Project	<u>1,651</u>
	<u>\$ 11,109</u>

NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

B. Net Assets Released From Donor Restrictions - Net assets were released from donor restrictions during the fiscal year ended June 30, 2001, by incurring expenditures satisfying the restricted purposes as follows:

<u>Purpose</u>	<u>Amount</u>
Fatherhood Project	\$ 75,000
Nonprofit Building Fund	1,705
Preschool Music Program	<u>1,482</u>
	<u>\$ 78,187</u>

Brunswick County Partnership for Children, Inc.
Schedule of Contract and Grant Expenditures - Regulatory Basis
For the Year Ended June 30, 2001

Schedule 1

Organization Name	Smart Start Fund		Other Funds	
	Amount Advanced	Refund Due	Amount Advanced	Refund Due
Brunswick Community College	172,523	(31,016)		
Brunswick County Health Department	167,250	(2,120)		
Brunswick County Schools	94,129			
Sharon's Little World	14,477			
Various Other Organizations	212,358	(3,576)	15,494	
	660,737	(36,712)	15,494	0

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

***Brunswick County Partnership for Children, Inc.
Schedule of State Level Service Provider Contracts
For the Year Ended June 30, 2001***

Schedule 2

Organization Name	DHHS Contracts
Brunswick County Department of Social Services	556,640
Child Care Services Association - WAGES	41,804
	598,444
<p>*These organizations are represented on the Partnership's Board as described in Note 4 - Service Provider Contracts with Board Member Organizations.</p>	
<p>The information on this schedule provides a listing of service provider contracts entered into by the Department of Health and Human Services (DHHS) as described in Note 3 - Funding From Grant Awards.</p>	

Brunswick County Partnership for Children, Inc.
Schedule of Federal and State Awards - Regulatory Basis
For the Year Ended June 30, 2001

Schedule 3

Federal/State Grantor/Pass-through Grantor/Program	Federal CFDA Number	Contract #	Receipts	Expenditures
Federal Awards:				
Pass-through from the North Carolina Department of Health and Human Services - Division of Child Development				
Child Care and Development Block Grant - Child Care Resource and Referral	93.575	5731 5852	\$ 12,492 54,690	\$ 0 54,690
Pass-through from the North Carolina Department of Health and Human Services - Division of Public Health				
Temporary Assistance for Needy Families - Community-Based Father Focused Projects	93.558	15161009	24,709	29,980
Pass-through from the North Carolina Department of Health and Human Services - Division of Social Services				
Grants to States for Access and Visitation Programs - Fatherhood Summit	93.597	00445-01	2,123	337
Total Federal Awards			94,014	85,007
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 (Prior Year)		1-90-4-03-001	(13,993)	
Early Childhood Initiatives Program (Current Year)		* 1-01-4-03-001	1,505,362	1,471,780
Total State Awards			1,491,369	1,471,780
Total Federal and State Awards			\$ 1,585,383	\$ 1,556,787

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

Brunswick County Partnership for Children, Inc.
Schedule of Property and Equipment
For the Year Ended June 30, 2001

Schedule 4

	Furniture and Non-Computer Equipment	\$	46,258
	Computer Equipment/Printers		76,587
	Buildings		341,556
	Leasehold Improvements		170,188
	Motor Vehicles		18,810
	Total Property and Equipment	\$	653,399
	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. On the regulatory basis of accounting, these items are expensed in the year purchased.		

Brunswick County Partnership for Children, Inc.
Schedule of Qualifying Match (Non-GAAP)
For the Year Ended June 30, 2001

Schedule 5

<i>Match Provided at the Partnership Level:</i>			
Cash		\$	148,120
In-Kind Goods and Services			<u>106,572</u>
		\$	<u>254,692</u>
<i>Match Provided at the Contractor Level:</i>			
Cash		\$	101,072
In-Kind Goods and Services			<u>60,670</u>
		\$	<u>161,742</u>
Note:	This schedule is presented in accordance with the program match requirement as provided for by North Carolina Session Law 1999-237, Section 11.48(l). The law allows for volunteer services to be valued for match purposes, a concept that deviates from generally accepted accounting principles.		



Ralph Campbell, Jr.
State Auditor

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

Board of Directors
Brunswick County Partnership for Children, Inc.
Shalotte, North Carolina

We have audited the financial statements of the Brunswick County Partnership for Children, Inc. (Brunswick Partnership) as of and for the year ended June 30, 2001, and have issued our report thereon dated February 22, 2002. 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.

Compliance

As part of obtaining reasonable assurance about whether the Brunswick Partnership's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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, which are reported in the Audit Findings and Recommendations section of this report, disclosed no instances of noncompliance that is required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Brunswick 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 assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. A reportable condition involves a matter coming to our attention relating to a significant deficiency in the design or operation of the internal control over financial reporting

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

that, in our judgment, could adversely affect the Brunswick Partnership's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. This reportable condition noted as a result of our audit is described in the Audit Findings and Recommendations section of this report:

Finding

Financial Presentations

A material weakness is a 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 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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider the reportable condition described above to be a material weakness.

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



Ralph Campbell, Jr.
State Auditor

February 22, 2002

AUDIT FINDINGS AND RECOMMENDATIONS

Matters Related to Financial Reporting

Current Year Findings and Recommendations Also Reported in Prior Audit - The following finding and recommendation was identified during the current and prior audit and represents a significant deficiency in internal control.

FINANCIAL PRESENTATIONS

Prior audits reported that the Partnership's financial presentations were materially misstated. Numerous adjustments were required to reconcile beginning fund balances, revenue and expenditure amounts were misclassified at both the fund and object level, and bank reconciliations did not consistently agree to the monthly trial balances.

This finding is partially resolved. Improvements were noted in the beginning fund balances and, with the help of the North Carolina Partnership for Children, the cash balance at June 30, 2001 agreed to cash recorded in the books. However, the financial presentations of revenues and expenditures continued to be misclassified at the fund and object level.

Recommendation: We recommend that the Brunswick Partnership establish procedures for the review and classification of transactions to ensure that activities are properly classified.

Partnership's Response: The misclassified items that have been found in previous years' financial presentations have been reconciled and should not be recurring in the future, thanks in great part to the timeliness of this audit.

We appreciate the recommendations to improve the review of transaction classifications. New procedures are in place that include several levels of review of the proper classification and entry of transactions as well as an additional level of the monthly review of the general ledger.

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April 23, 2002

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