



# STATE OF NORTH CAROLINA

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

SHALLOTTE, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2003

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, 2003**

**BOARD OF DIRECTORS**

**STEVE STONE, CHAIRMAN**

**ADMINISTRATIVE OFFICER**

**TUFANNA L. BRADLEY, INTERIM EXECUTIVE DIRECTOR**



Ralph Campbell, Jr.  
State Auditor

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**AUDITOR'S TRANSMITTAL**

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The Honorable Michael F. Easley, Governor  
The General Assembly of North Carolina  
Board of Directors, 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, 2003. Our audit was made by authority of Article 5A of Chapter 147 of the *North Carolina General Statutes*.

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 General Statutes 143B-168.10-.16. These statutes created The North Carolina Partnership for Children, Inc. and required the implementation of local demonstration projects (local partnerships). The 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 General Statute 143B-168.14(b) to have a financial and compliance audit conducted by the Office of the State Auditor.

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

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

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

## AUDITOR'S TRANSMITTAL (CONCLUDED)

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

**Results** - The following condition represents a significant deficiency in internal control or noncompliance with laws, regulations, contracts, or grants.

### **Finding**

Contract Management and Monitoring – More at Four

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**

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

We have audited the accompanying Statement of Receipts, Expenditures, and Net Assets – Modified Cash Basis of the Brunswick County Partnership for Children, Inc. (Brunswick Partnership) as of June 30, 2003, and the related Statement of Functional Expenditures – Modified Cash 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 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 Brunswick County Partnership for Children, Inc. as of June 30, 2003, and the results of its operations arising from modified cash basis transactions for the year then ended, on the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 17, 2004 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 *Government Auditing Standards* and should be read in conjunction with the independent auditor's report in considering the results of our audit.

## INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

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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 Schedules 1, 3, 4, and 5 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. 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.

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

June 17, 2004

***Brunswick County Partnership for Children, Inc.***  
***Statement of Receipts, Expenditures, and Net Assets - Modified Cash Basis***  
***For the Year Ended June 30, 2003***

***Exhibit A***

	Unrestricted Funds		Temporarily Restricted Funds	Total Funds
	Smart Start Fund	Other Funds		
<b>Receipts:</b>				
State Awards (less refunds of \$34,202)	\$ 904,987	\$ 172,995	\$ 0	\$ 1,077,982
Federal Awards (less refunds of \$1,786)		47,556		47,556
Local Awards		10,000		10,000
Private Contributions		4,863	2,844	7,707
Special Fund Raising Events		10,774		10,774
Interest and Investment Earnings		1,481		1,481
Sales Tax Refunds		3,799		3,799
Other Receipts		44,080		44,080
<b>Total Receipts</b>	<b>904,987</b>	<b>295,548</b>	<b>2,844</b>	<b>1,203,379</b>
Net Assets Released from Restrictions:				
Satisfaction of Program Restrictions		24,879	(24,879)	
	<b>904,987</b>	<b>320,427</b>	<b>(22,035)</b>	<b>1,203,379</b>
<b>Expenditures:</b>				
Programs:				
Child Care and Education Quality	267,453	53,091		320,544
Child Care and Education Affordability	122,500	1,829		124,329
Health and Safety	36,000	22,886		58,886
Family Support	113,968	39,505		153,473
More at Four	74,093	134,007		208,100
Support:				
Management and General	135,788	3,409		139,197
Program Evaluation	114,356	67		114,423
Other:				
Sales Tax Paid		2,583		2,583
Refund of Prior Year Grant		3,889		3,889
<b>Total Expenditures</b>	<b>864,158</b>	<b>261,266</b>		<b>1,125,424</b>
<b>Excess of Receipts Over Expenditures</b>	<b>40,829</b>	<b>59,161</b>	<b>(22,035)</b>	<b>77,955</b>
<b>Net Assets at Beginning of Year</b>	<b>35,398</b>	<b>4,916</b>	<b>28,369</b>	<b>68,683</b>
<b>Net Assets at End of Year</b>	<b>\$ 76,227</b>	<b>\$ 64,077</b>	<b>\$ 6,334</b>	<b>\$ 146,638</b>
<b>Net Assets Consisted of:</b>				
Cash and Cash Equivalents	\$ 74,019	\$ 64,077	\$ 6,334	\$ 144,430
Refunds Due From Contractors	2,408			2,408
	76,427	64,077	6,334	146,838
Less: Funds Held for Others	200			200
	<b>\$ 76,227</b>	<b>\$ 64,077</b>	<b>\$ 6,334</b>	<b>\$ 146,638</b>

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



**Brunswick County Partnership for Children, Inc.**  
**Statement of Functional Expenditures - Modified Cash Basis**  
**For the Year Ended June 30, 2003**

**Exhibit B**

	Total	Personnel	Contracted Services	Supplies and Materials	Other Operating Expenditures	Fixed Charges and Other Expenditures	Property and Equipment Outlay	Services/ Contracts/ Grants	Participant Training Expenditures
<b>Smart Start Fund:</b>									
<b>Programs:</b>									
Child Care and Education Quality	\$ 267,453	167,517	6,895	14,768	30,445	29,581	1,547	15,467	1,233
Child Care and Education Affordability	\$ 122,500							122,500	
Health and Safety	\$ 36,000							36,000	
Family Support	\$ 113,968							113,968	
More at Four	\$ 74,093	2,264	64					71,765	
	\$ 614,014	\$ 169,781	\$ 6,959	\$ 14,768	\$ 30,445	\$ 29,581	\$ 1,547	\$ 359,700	\$ 1,233
<b>Support:</b>									
Management and General	\$ 135,788	97,743	5,693	4,153	13,858	13,500	841		
Program Evaluation	\$ 114,356	83,032	4,095	3,654	11,098	12,434	43		
	\$ 250,144	\$ 180,775	\$ 9,788	\$ 7,807	\$ 24,956	\$ 25,934	\$ 884	\$ 0	\$ 0
<b>Total Smart Start Fund Expenditures</b>	<b>\$ 864,158</b>	<b>\$ 350,556</b>	<b>\$ 16,747</b>	<b>\$ 22,575</b>	<b>\$ 55,401</b>	<b>\$ 55,515</b>	<b>\$ 2,431</b>	<b>\$ 359,700</b>	<b>\$ 1,233</b>
<b>Other Funds:</b>									
<b>Programs:</b>									
Child Care and Education Quality	\$ 53,091	34,665	3,590	2,853	5,157	4,096	1,212	175	1,343
Child Care and Education Affordability	\$ 1,829				950			879	
Health and Safety	\$ 22,886	10,712	1,133	1,208	4,022	5,811			
Family Support	\$ 39,505	17,591	3,840	4,380	10,880	663		2,151	
More at Four	\$ 134,007							134,007	
	\$ 251,318	\$ 62,968	\$ 8,563	\$ 8,441	\$ 21,009	\$ 10,570	\$ 1,212	\$ 137,212	\$ 1,343
<b>Support:</b>									
Management and General	\$ 3,409		3,158	75	92	84			
Program Evaluation	\$ 67			3	64				
	\$ 3,476	\$ 0	\$ 3,158	\$ 78	\$ 156	\$ 84	\$ 0	\$ 0	\$ 0
<b>Other:</b>									
Sales Tax Paid	\$ 2,583			2,583					
Refund of Prior Year Grant	\$ 3,889					3,889			
	\$ 6,472	\$ 0	\$ 0	\$ 2,583	\$ 0	\$ 3,889	\$ 0	\$ 0	\$ 0
<b>Total Other Funds Expenditures</b>	<b>\$ 261,266</b>	<b>\$ 62,968</b>	<b>\$ 11,721</b>	<b>\$ 11,102</b>	<b>\$ 21,165</b>	<b>\$ 14,543</b>	<b>\$ 1,212</b>	<b>\$ 137,212</b>	<b>\$ 1,343</b>

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

**BRUNSWICK COUNTY PARTNERSHIP FOR CHILDREN, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2003**

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**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. 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 Brunswick Partnership did not have any permanently restricted net assets at June 30, 2003.

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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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However, unexpended advances to contractors that revert back to the State are recognized as a reduction to expenditures and an increase to net assets. In addition, amounts withheld from employee paychecks or other amounts received in an agency capacity are recorded as funds held for others.

- D. Cash and Cash Equivalents** – This classification appears on the Statement of Receipts, Expenditures, and Net Assets – Modified Cash Basis and consists of petty cash and cash on deposit with private bank accounts.
- 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. Funds Held For Others** - For the year ended, the Brunswick Partnership was holding amounts withheld from employees for distribution to other entities.
- 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 and compensatory time, along with the related employer costs 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 Brunswick 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.
- I. Personnel Costs** – The Brunswick Partnership entered into a co-employment relationship with Staff America, 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, Staff America, Inc. 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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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personnel costs in the Schedule of Functional Expenditures – Modified Cash Basis.

### NOTE 2 - DEPOSITS

All funds of the Brunswick 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 Brunswick Partnership to a concentration of credit risk. At June 30, 2003, the Brunswick Partnership's bank deposits in excess of the FDIC insured limit was \$109,686

### 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 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 Brunswick 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 Brunswick Partnership was awarded and has received \$938,569 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 \$73,865 of this contract to the State based on financial status reports submitted to NCPC prior to June 30, 2003.

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

**More at Four** – The Brunswick Partnership also received revenue and support from the State of North Carolina for the More at Four Program. The Brunswick Partnership was awarded \$201,765 under a current year cost-reimbursement contract. The unexpended balance of this contract is subject to

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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reversion to the State. The 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 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, 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 Quality** - Used to account for service activities including quality enhancement grants for upgrades or child care resource and referral.

**Child Care and Education Affordability** - Used to account for service activities associated with Preschool (0-4) classes.

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

**Family Support** - Used to account for service activities including parent skills training, ongoing parenting education, family crisis intervention, and community outreach-information and resources.

**More at Four** – Used to account for development and implementation of More at Four prekindergarten program for at-risk four-year-olds who are

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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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** - Allocated based on employee time reports.

**Other Costs** - Other costs including contracted services, supplies and materials, occupancy cost (rent, utilities and maintenance), communication costs (telephone and printing), and property and equipment were allocated based on estimates of utilization or utilization data. The Partnership allocated a total of \$99,223 in other costs.

Summarized below are the cost allocated by expenditure classification:

<u>Other Cost Category</u>	<u>Amount</u>
Contracted Services	\$ 7,083
Supplies & Materials	7,216
Other Operating Expenses	28,953
Fixed Charges and Other Expenses	54,922
Property and Equipment	<u>1,049</u>
Total Allocated Cost	<u>\$ 99,223</u>

## 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, 2003:

<u>Fiscal Year</u>	<u>Operating Leases</u>
2004	\$ 13,041
2005	13,226
2006	11,901
2007	<u>10,450</u>
Total Minimum Lease Payments	<u>\$ 48,618</u>

Rental expense for all operating leases during the year was \$45,482.

### NOTE 7 - PENSION PLAN

**Deferred Compensation and Supplemental Retirement Income Plans - IRC Section 403(b) Plan** - All permanent employees who are at least half time can participate in a tax sheltered annuity plan (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. 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 Brunswick Partnership contributed \$7,357 for retirement benefit costs during the year.

### NOTE 8 - RISK MANAGEMENT

The Brunswick 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 Brunswick 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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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Management believes such coverage is sufficient to preclude any significant losses to the Brunswick Partnership. Settled claims have not exceeded this insurance coverage in any of the past three fiscal years.

### NOTE 9 - COMMITMENTS AND CONTINGENCIES

- A. Compensated Absences** – As a result of the Brunswick 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, 2003, is \$5,525. No funds or reservation of net assets has been made for this commitment.
- B. Other Contingencies Resulting from Uncertainties** - The Brunswick Partnership’s deficiencies in managing it’s More at Four activities resulted in overpayments and questioned costs of \$104,584. See the Audit Findings and Recommendations section for details. Because of uncertainty, the amount of contingency that may result from this noncompliance and the disclosure of its effect on future funding from the State is not determinable.

### NOTE 10 - RESTRICTIONS ON NET ASSETS

- A. Temporarily Restricted Net Assets** - Temporarily restricted net assets at June 30, 2003 are available for the following purposes:

Purpose	Amount
Be An Angel	\$ 2,574
Dental Health Supplies	1,500
Fatherhood Project	270
Glaxo Grant	482
Marine Exhibit	508
Preschool Music Program	1,000
	<u>\$ 6,334</u>



## NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

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**B. Net Assets Released From Donor Restrictions** - Net assets were released from donor restrictions during the fiscal year ended June 30, 2003, by incurring expenditures satisfying the restricted purposes as follows:

Purpose	Amount
Be An Angel	\$ 1,671
Fatherhood Project	2,015
Fathers & Family Resource Center	15,780
Male Involvement Program	982
Marine Exhibit	2,780
Teen Family Development Project	1,651
	<u>1,651</u>
	<u>\$ 24,879</u>

*Brunswick County Partnership for Children, Inc.*  
*Schedule of Contract and Grant Expenditures - Modified Cash Basis*  
*For the Year Ended June 30, 2003*

*Schedule 1*

Organization Name	Smart Start Fund		Other Funds	
	Amount Advanced	Refund Due	Amount Advanced	Refund Due
Babies Learning Center	\$ 22,940		\$ 25,460	
Brunswick County Health Department	* 36,000			
Brunswick County Schools	* 113,968		56,622	
Childcare Network # 84	26,610		25,125	
Childcare Network # 85	28,212		26,800	
Communities in Schools	122,500			
Various Centers	11,853	(2,408)	1,054	
	<b>\$ 362,083</b>	<b>\$ (2,408)</b>	<b>\$ 135,061</b>	<b>\$ 0</b>
<i>Individuals:</i>				
Various Individuals	\$ 25	\$ 0	\$ 2,151	\$ 0
	<b>\$ 362,108</b>	<b>\$ (2,408)</b>	<b>\$ 137,212</b>	<b>\$ 0</b>
* 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, 2003***

***Schedule 2***

Organization Name	DHHS Contracts
Brunswick County Department of Social Services	649,376
Child Care Services Association - WAGES Program	91,848
	<b>\$ 741,224</b>
<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 North Carolina 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 - Modified Cash Basis***

***For the Year Ended June 30, 2003***

***Schedule 3***

Federal/State Grantor/Pass-through Grantor/Program	Federal CFDA Number	Contract #	Receipts	Expenditures
<b>Federal Awards:</b>				
Pass-through from the North Carolina Department of Health and Human Services - Division of Child Development Child Care Resource and Referral	93.575	5987	\$ 49,342	\$ 45,636
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	(1,786)	
<b>Total Federal Awards</b>			<u>47,556</u>	<u>45,636</u>
<b>State Awards:</b>				
North Carolina Department of Health and Human Services Division of Child Development Pass-through from the North Carolina Partnership for Children, Inc.				
Early Childhood Initiatives Program (Prior Years)		Various	(33,582)	(1,006)
Early Childhood Initiatives Program (Current Year)	*	N/A	938,569	865,164
Multi-County Accounting and Contracting Grant		N/A	6,000	3,158
North Carolina Department of Health and Human Services More at Four Pre-Kindergarten Program (Prior Year)		2090002913	(620)	
More at Four Pre-Kindergarten Program (Current Year)		2090002913	167,615	134,007
<b>Total State Awards</b>			<u>1,077,982</u>	<u>1,001,323</u>
<b>Total Federal and State Awards</b>			<u>\$ 1,125,538</u>	<u>\$ 1,046,959</u>
* Programs with compliance requirements that have a direct and material effect on the financial statements.				
Note: The More at Four Pre-Kindergarten Program is contracted jointly by the North Carolina Department of Health and Human Services and the Office of the Governor. The allocations for the More at Four program are included in the budget for the North Carolina Department of Health and Human Services; therefore, the above schedule identifies that agency as the State Grantor. The Office of the Governor is responsible for oversight of the More at Four Program.				

*Brunswick County Partnership for Children, Inc.*

*Schedule of Property and Equipment - Modified Cash Basis*

*For the Year Ended June 30, 2003*

*Schedule 4*

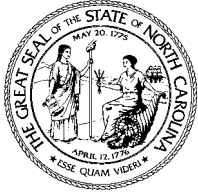
	Furniture and Noncomputer Equipment	\$	22,138
	Computer Equipment/Printers		64,739
	Buildings		172,041
	Leasehold Improvements		184,716
	Motor Vehicles		23,155
	Total Property and Equipment	\$	<u>466,789</u>
	Note: The information on this schedule provides a summary of property and equipment with acquisition or donated cost of \$500 or more which were held by the Partnership at year end. The valuations represent historical cost. On the modified basis of accounting, these items are expensed in the year of purchase.		

<b><i>Brunswick County Partnership for Children, Inc.</i></b>	
<b><i>Schedule of Qualifying Match (Non-GAAP)</i></b>	
<b><i>For the Year Ended June 30, 2003</i></b>	<b><i>Schedule 5</i></b>

<b><i>Match Provided at the Partnership Level:</i></b>	
Cash	\$ 15,675
In-Kind Goods and Services	6,391
	\$ 22,066
<b><i>Match Provided at the Contractor Level:</i></b>	
Cash	\$ 129,008
In-Kind Goods and Services	93,228
	\$ 222,236

Note: This schedule is presented in accordance with the program match requirement as provided for by North Carolina Session Law 2001-424, Section 21.72(c). The law allows for volunteer services to be valued for match purposes, a concept that deviates from generally accepted accounting principles.

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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 STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

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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, 2003, and have issued our report thereon dated June 17, 2004. 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 an instance of noncompliance that is required to be reported under *Government Auditing Standards*.

**Finding**

Contract Management and Monitoring – More at Four

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



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

---

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 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**

Contract Management and Monitoring – More at Four

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, 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

June 17, 2004

## **AUDIT FINDINGS AND RECOMMENDATIONS**

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

The following finding and recommendation was identified during the current audit and describes a condition that represents a significant deficiency in internal control and noncompliance with laws, regulations, contracts, or grants.

#### CONTRACT MANAGEMENT AND MONITORING – MORE AT FOUR

We identified deficiencies in the Brunswick Partnership's contract management and monitoring of the More at Four activity. Deficiencies noted include:

- It was difficult to determine the amount of funds in contract for any of the More at Four activities. State funding for the program is based on individual slots allocated to the county, which are then distributed to various service providers. We were unable to recalculate contract amounts for the involved service providers and current staff was unable to explain how contract amounts were determined.
- The More at Four activity provides start-up funding for service providers during the initial year of operation. The Partnership purchased start-up materials totaling \$12,737 for one service provider; however, the purchase of start-up materials was not made a part of the service provider contract. In addition, the Partnership's available funding for start-up activities was only \$10,500. The Partnership failed to adequately monitor this activity resulting in the utilization of operating funds to pay the balance of start-up materials.
- The More at Four activity requires the use of matching funds to accomplish its objectives. Smart Start funds were designated as matching funds with the specific use to bring the funding per child up to each provider's county market-rate for full-day, full-time care. Rather than calculating the amounts due for each provider, the Partnership combined the Smart Start and More at Four funds to pay a flat rate of \$650 per child. This rate exceeded the established Brunswick County market rates for child care providers. Our recalculations determined that the total amount paid from Smart Start funds in excess of the established criteria was \$27,091. These costs are considered questioned costs.
- The Partnership entered into contract with a service provider to administer the More at Four activities. The contracted amount was \$43,885. Our review of this contract identified the following concerns:
  - The Partnership was actually reimbursed \$79,730 from the Office of the Governor - More at Four Office to fund this activity. The Partnership provided \$43,885 to the service provider in accordance with its contract agreement and kept the remaining \$35,845 in its accounts. It appears that the Partnership used

## AUDIT FINDINGS AND RECOMMENDATIONS (CONTINUED)

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\$2,237 of these funds on hand to pay for the excess start-up costs noted above. The unexpended balance of \$33,608 remains with the Partnership. The State of North Carolina Executive Budget Act provides that State funds are to be used or expended for the purposes for which they were appropriated by the General Assembly or collected by the State. As these funds were not expended on More at Four activities during the 2003 fiscal year, the \$33,608 is considered to be questioned costs and should be returned to the State.

- The service provider received \$43,885 per the terms of the contract. However, it appears that the services were provided for and paid by Title I and local funds, matching sources for More at Four funds. The local service provider did not spend any of the More at Four funds provided by the Partnership. The Partnership authorized the service provider to carry-over the unspent funds into the 2004 fiscal year to be placed in its general fund for future More at Four expenditures. The *More at Four Pre-Kindergarten Program Budget, Financial and Contract Manual* states, “there are no encumbered or carry-forward funds allowed in the program”. The unexpended balance of \$43,885 maintained by the service provider was not spent within the designated contract period, was not subject to any carry-forward provisions, and is considered to be questioned costs.

The achievement of the Partnership’s goals is dependent on the effectiveness of its contract management system and its monitoring of subcontractor performance.

*Recommendation:* We recommend that the Brunswick Partnership enhance its contract management and monitoring system to ensure the establishment of formal contract agreements, disbursements that are in accordance with contract terms and applicable legislative guidelines; and documented monitoring activities are performed to ensure compliance with established program guidelines.

*Partnership’s Response:* The BCPFC will ensure all future contracts are completed and reviewed for accuracy and supporting documentation is available and maintained in file. Contracts will be reviewed for accuracy by the Fiscal Director, More at Four Coordinator, and Executive Director.

Adequate review of contracts before putting into place will ensure start-up funds are included in contract when appropriate. The BCPFC amended the contract with More at Four to increase start-up funds from \$10,500 to \$14,500. The request for reimbursement was inadvertently submitted late and it was necessary to use operating funds to pay for start-up costs. It is our understanding that this is allowed by More at Four. Designating a staff member to be the More at Four Coordinator will ensure start-up funds are included in contracts and requested in a timely manner.

## **AUDIT FINDINGS AND RECOMMENDATIONS (CONCLUDED)**

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The BCPFC inadvertently paid providers above the county market-rate. However, the intent of this activity was to allow the providers to meet and maintain the requirements of being a More at Four provider. While the funds paid to the providers may have brought some of the providers above the county market-rate it also enabled the providers to offer high quality child care and participate in the program supporting the goal of this Smart Start approved activity. BCPFC will work towards developing accurate contracts by having both financial and programmatic review prior to implementation. BCPFC will work with NCPC to resolve the questioned costs.

The BCPFC was reimbursed \$79,730 for slots provided by the Brunswick County School District from More at Four. The service provider was reimbursed \$43,885 and the remainder was retained by the Partnership, which administered the program. It is our understanding, from the More at Four Section Chief, Budget Management & Analysis that carry forward of these funds is in accordance with More at Four policy. (*see the More At Four Pre-Kindergarten Program Budget, Financial and Contract Manual* (page 13, Section III Allocation of Funds, A. Funding.)). BCPFC will work with the More at Four Office to resolve the questioned costs.

The Partnership amended the service providers contract to enable them to carry forward funds because the contract was signed late in the year and Title I funds were advanced to cover the expenses for More at Four students. Documentation shows the funds were used in the following year. It is our understanding that this was acceptable with the More at Four office. In the future, better contract management and financial monitoring will prevent this type of situation from occurring. BCPFC will work with the More at Four Office to resolve the questioned costs.

We agree with the recommendation to enhance our contract management and monitoring system. As part of the Performance Improvement Plan, The BCPFC has been working closely with NCPC to review its contracting and monitoring system. Monitoring policies and procedures have been revised and are being enforced. Staff has and will continue to participate in NCPC trainings related to contract development and compliance. A system for contract development and review will be implemented.

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## DISTRIBUTION OF AUDIT REPORT

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

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The Honorable Roy A. Cooper, III	Attorney General
Mr. David T. McCoy	State Budget Officer
Mr. Robert L. Powell	State Controller
Ms. Carmen Hooker Odom	Secretary, Department of Health and Human Services
Mr. Ashley Thrift	Chairman, Board of Directors
	The North Carolina Partnership for Children, Inc.
Ms. Karen Ponder	Executive Director
	The North Carolina Partnership for Children, Inc.

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Mr. James D. Johnson	Director, Fiscal Research Division
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September 8, 2004

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