

STATE OF NORTH CAROLINA

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

SHALLOTTE, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2004

OFFICE OF THE STATE AUDITOR

RALPH CAMPBELL, JR.

STATE AUDITOR

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

SHALLOTTE, NORTH CAROLINA

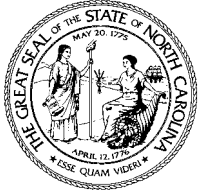
FOR THE YEAR ENDED JUNE 30, 2004

BOARD OF DIRECTORS

ROBERT GOSSIN, BOARD CHAIRMAN

ADMINISTRATIVE OFFICER

LINDA L. GIRONDA, 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, 2004. 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)

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 grant agreements.

Finding

Inadequate Contract Management and Monitoring – More at Four

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

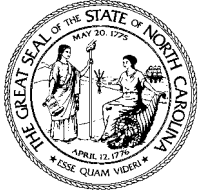
North Carolina General Statutes require the State Auditor to make audit reports available to the public. Copies of audit reports issued by the Office of the State Auditor may be obtained through one of the options listed in the back of this report.



Ralph Campbell, Jr.
State Auditor

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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 – Modified Cash Basis of the Brunswick County Partnership for Children, Inc. (Brunswick Partnership) as of June 30, 2004, 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, 2004, 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 September 29, 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 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 the Brunswick County Partnership for Children, Inc.'s basic financial statements. The information in Schedules 1, 3, 4, and 5 is presented for purposes of additional analysis and is not a required part of the basic financial statements. These Schedules 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.



Ralph Campbell, Jr.
State Auditor

September 29, 2004

Brunswick County Partnership for Children, Inc.**Statement of Receipts, Expenditures, and Net Assets - Modified Cash Basis****For the Year Ended June 30, 2004****Exhibit A**

	Unrestricted Funds		Temporarily Restricted Funds	Total Funds
	Smart Start Fund	Other Funds		
Receipts:				
State Awards (less refunds of \$77,168)	\$ 771,600	\$ 234,425	\$ 0	\$ 1,006,025
Federal Awards (less refunds of \$2,453)		35,392		35,392
Local Awards		4,456	5,544	10,000
Private Contributions		7,176	3,800	10,976
Interest and Investment Earnings		1,083		1,083
Sales Tax Refunds		1,423		1,423
Other Receipts	8,478	7,417		15,895
Total Receipts	780,078	291,372	9,344	1,080,794
Net Assets Released from Restrictions:				
Satisfaction of Program Restrictions		2,311	(2,311)	
	780,078	293,683	7,033	1,080,794
Expenditures:				
Programs:				
Child Care and Education Affordability	122,300			122,300
Child Care and Education Quality	290,355	62,216		352,571
Family Support	94,000	10,507		104,507
Health and Safety	37,435	28		37,463
More at Four	79,065	213,698		292,763
Support:				
Management and General	121,638	32,499		154,137
Program Coordination	28,320			28,320
Program Evaluation	58,317			58,317
Other:				
Refund of Prior Year Grant		975		975
Sales Tax Paid		3,797		3,797
Total Expenditures	831,430	323,720		1,155,150
Excess of Receipts Over Expenditures	(51,352)	(30,037)	7,033	(74,356)
Net Assets at Beginning of Year	76,227	64,077	6,334	146,638
Net Assets at End of Year	\$ 24,875	\$ 34,040	\$ 13,367	\$ 72,282
Net Assets Consisted of:				
Cash and Cash Equivalents	\$ 22,729	\$ 34,040	\$ 13,367	\$ 70,136
Refunds Due From Contractors	2,208			2,208
	24,937	34,040	13,367	72,344
Less: Funds Held for Others	62			62
	\$ 24,875	\$ 34,040	\$ 13,367	\$ 72,282

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, 2004

Exhibit B

	Total	Personnel	Contracted Services	Supplies and Materials	Other Operating Expenditures	Fixed Charges and Other Expenditures	Property and Equipment Outlay	Services/Contracts/Grants	Participant Training Expenditures
Smart Start Fund:									
Programs:									
Child Care and Education Affordability	\$ 122,300	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 122,300	\$ 0
Child Care and Education Quality	290,355	140,048	1,127	30,569	32,295	26,280	18,127	41,896	13
Family Support	94,000							94,000	
Health and Safety	37,435							37,435	
More at Four	79,065							79,065	
	<u>623,155</u>	<u>140,048</u>	<u>1,127</u>	<u>30,569</u>	<u>32,295</u>	<u>26,280</u>	<u>18,127</u>	<u>374,696</u>	<u>13</u>
Support:									
Management and General	121,638	98,018	13,393	298	386	8,091	1,452		
Program Coordination	28,320	19,040	446	387	3,743	4,704			
Program Evaluation	58,317	48,603	400	1,965	5,114	2,035	200		
	<u>208,275</u>	<u>165,661</u>	<u>14,239</u>	<u>2,650</u>	<u>9,243</u>	<u>14,830</u>	<u>1,652</u>		
Total Smart Start Fund Expenditures	\$ 831,430	\$ 305,709	\$ 15,366	\$ 33,219	\$ 41,538	\$ 41,110	\$ 19,779	\$ 374,696	\$ 13
Other Funds:									
Programs:									
Child Care and Education Quality	\$ 62,216	\$ 29,884	\$ 843	\$ 7,188	\$ 10,215	\$ 8,885	\$ 0	\$ 2,049	\$ 3,152
Family Support	10,507			1,983	420	125		7,979	
Health and Safety	28				28				
More at Four	213,698			130		23		213,545	
	<u>286,449</u>	<u>29,884</u>	<u>843</u>	<u>9,301</u>	<u>10,663</u>	<u>9,033</u>		<u>223,573</u>	<u>3,152</u>
Support:									
Management and General	32,499		5,777	2,578	14,802	5,117	4,225		
	<u>32,499</u>		<u>5,777</u>	<u>2,578</u>	<u>14,802</u>	<u>5,117</u>	<u>4,225</u>		
Other:									
Refund of Prior Year Grant	975					975			
Sales Tax Paid	3,797				3,797				
	<u>4,772</u>				<u>3,797</u>	<u>975</u>			
Total Other Funds Expenditures	\$ 323,720	\$ 29,884	\$ 6,620	\$ 11,879	\$ 29,262	\$ 15,125	\$ 4,225	\$ 223,573	\$ 3,152

BRUNSWICK COUNTY PARTNERSHIP FOR CHILDREN, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004

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, 2004.

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)

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.

- D. Cash and Cash Equivalents** – This classification appears on the Statement of Receipts, Expenditures, and Net Assets – Modified Cash Basis and includes all demand and savings accounts and certificate of deposits or short-term investments with an original maturity of three months or less.
- E. Refunds Due From Contractors** - Refunds due from contractors represent the unexpended amount of advances to contractors at year-end that are to be refunded back to the State. As recoveries are collected, the receivable balance is reduced. Payments to the State for the recovered advances are recorded as a reduction to the State awards balance.
- F. Funds Held For Others** - Funds held for others includes amounts received that are fiduciary in nature in which the Brunswick Partnership acts in an agency capacity. For the year ended, the Brunswick Partnership was holding amounts withheld from employee paychecks for insurance costs.
- G. Property and Equipment** – Under the modified cash basis of accounting, purchases of property and equipment are reported as expenditures in the year occurred. However, Brunswick Partnership is required by contract regulation to track and maintain property and equipment items as presented in Schedule 4 of this report. The Brunswick 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, 2004. Donated items are recorded at estimated fair market value at the date of donation.
- H. Compensated Absences** – As a result of the use of the modified cash basis of accounting, liabilities related to accrued compensated absences are not recorded in the financial statements. Expenditures related to compensated absences are recorded when paid. The amount of accrued compensated absences for accumulated, unpaid leave that would be due to employees upon termination is reported as a commitment in Note 9.
- I. Use of Estimates** - The preparation of financial statements in conformity with the 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

costs); accordingly, actual results could differ from those estimates. It is management's belief that these estimates are reasonable and fair.

- J. Personnel Costs** - The Brunswick Partnership entered into a co-employment relationship with Central Leasing Management, Inc., a professional employer organization, beginning November 16, 2003. 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, Central Leasing Management, 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 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, 2004, the Brunswick Partnership's bank deposits in excess of the FDIC insured limit was \$52,609.

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

The Brunswick Partnership was awarded \$847,047 under a current year Smart Start contract with NCPC and has received \$845,925 of this amount. The unexpended balance of this contract is subject to reversion to the State. The Brunswick Partnership has returned \$15,066 of this contract to the State based on financial status reports submitted to NCPC subsequent to June 30, 2004.

The Brunswick 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 \$299,300 under a current year cost-reimbursement contract and has received \$225,268 of this amount. The Brunswick 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 Brunswick 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 Brunswick 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 associated with Preschool (0-4) classes.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Child Care and Education Quality - Used to account for service activities including quality enhancement grants for upgrades, child care resource and referral, professional development, or kindergarten orientation/transition.

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

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

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

B. Support Functions

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

Program Coordination - Expenditures that are incurred to coordinate the policies, procedures, and daily practices of service delivery. Also, costs associated with monitoring in-house and direct service provider activities.

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

C. Allocation of Joint Costs

Expenditures benefiting more than one purpose were allocated as follows:

Salaries and Benefits – Direct allocation based on employee time reports.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

<u>Allocated Expenses</u>	<u>Amount</u>
Contracted Services	\$ 3,213
Other Operating Expenses	21,884
Fixed Charges and Other Expenses	<u>30,540</u>
Total Allocated Costs	<u>\$ 55,637</u>

NOTE 6 - OPERATING LEASE OBLIGATIONS

Future minimum lease payments under noncancelable operating leases consist of the following at June 30, 2004:

<u>Fiscal Year</u>	<u>Operating Leases</u>
2005	\$ 12,701
2006	11,901
2007	<u>10,450</u>
Total Minimum Lease Payments	<u>\$ 35,052</u>

Rental expense for all operating leases during the year was \$39,213.

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 \$3,025 for retirement benefits during the year.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

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, 2004, is \$3,979. 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 its contract management and monitoring activities resulted in questioned costs of \$29,645. 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.

NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

NOTE 10 - RESTRICTIONS ON NET ASSETS

- A. Temporarily Restricted Net Assets** - Temporarily restricted net assets at June 30, 2004 are available for the following purposes:

Purpose	Amount
Be An Angel	\$ 5,127
Celebrate the Children Conference	1,049
County Designated Activities	5,545
Glaxo Grant	482
Marine Exhibit	164
Preschool Music Program	<u>1,000</u>
	<u>\$ 13,367</u>

- B. Net Assets Released From Donor Restrictions** - Net assets were released from donor restrictions during the fiscal year ended June 30, 2004, by incurring expenditures satisfying the restricted purposes as follows:

Purpose	Amount
Be An Angel	\$ 317
Dental Health Supplies	1,500
Fatherhood Project	150
Marine Exhibit	<u>344</u>
	<u>\$ 2,311</u>

Brunswick County Partnership for Children, Inc.
Schedule of Contract and Grant Expenditures - Modified Cash Basis
For the Year Ended June 30, 2004

Schedule 1

Organization Name	Smart Start Fund		Other Funds	
	Amount Advanced	Refund Due	Amount Advanced	Refund Due
Babies Learning Center	\$ 28,350	\$ 0	\$ 32,534	\$ 0
Brunswick Community College	* 9,701			
Brunswick County Department of Social Services	*		1,473	
Brunswick County Health Department	* 37,435			
Brunswick County Schools	* 94,000		114,527	
Childcare Network #84	23,310		24,790	
Childcare Network #85	27,405		29,145	
Communities in Schools	122,300			
Kids Connection	* 1,050			
Little Sandpiper Learning Center	* 1,600			
Rainbow VIP Learning Station	*		20,211	
Various Centers	15,358	(2,208)	576	
	360,509	(2,208)	223,256	
Individuals:				
Scholarships/Bonus Awards	16,395		317	
	16,395		317	
	\$ 376,904	\$ (2,208)	\$ 223,573	\$ 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, 2004***

Schedule 2

Organization Name	DHHS Contracts
Brunswick County Department of Social Services	* \$ 620,994
Child Care Services Association - WAGE\$ Program	111,645
	<u>\$ 732,639</u>
* 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.	

Brunswick County Partnership for Children, Inc.
Schedule of Federal and State Awards - Modified Cash Basis
For the Year Ended June 30, 2004

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 Resource and Referral (Prior Year)	93.575	5987	\$ (2,453)	\$ 0
Child Care Resource and Referral (Current Year)	93.575	5987	11,398	11,209
Pass-through from the North Carolina Department of Health and Human Services - Division of Child Development				
Pass-through from Southeastern Community College				
Child Care Resource and Referral	93.575	6006-2	26,447	36,568
Total Federal Awards			35,392	47,777
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 Years)		* Various	(74,325)	(405)
Early Childhood Initiatives Program (Current Year)		* N/A	845,925	831,835
Multi-County Accounting and Contracting Grant (Prior Year)		N/A	(2,843)	
Multi-County Accounting and Contracting Grant (Current Year)		N/A	12,000	11,986
North Carolina Department of Health and Human Services				
More at Four Pre-Kindergarten Program (Prior Year)		2090002913		24,205
More at Four Pre-Kindergarten Program (Current Year)		* 2090003621	225,268	212,838
Total State Awards			1,006,025	1,080,459
Total Federal and State Awards			\$ 1,041,417	\$ 1,128,236

* 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, 2004

Schedule 4

Furniture and Noncomputer Equipment	\$ 24,218
Computer Equipment/Printers	78,908
Buildings	172,041
Leasehold Improvements	184,716
Motor Vehicles	23,155
Total Property and Equipment	\$ 483,038

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.

Brunswick County Partnership for Children, Inc.
Schedule of Qualifying Match (Non-GAAP)
For the Year Ended June 30, 2004

Schedule 5

Match Provided at the Partnership Level:

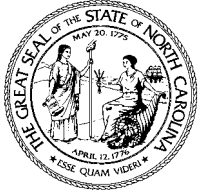
Cash	\$ 10,092
In-Kind Goods and Services	1,207
	<u>\$ 11,299</u>

Match Provided at the Contractor Level:

Cash	\$ 128,638
In-Kind Goods and Services	98,276
	<u>\$ 226,914</u>

Note: This schedule is presented in accordance with the program match requirement as provided for by North Carolina Session Law 2003-397, Section 10.38(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.

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Ralph Campbell, Jr.
State Auditor

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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
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, 2004, and have issued our report thereon dated September 29, 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.

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 an opinion 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 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 is reported, with responses, in the Audit Findings and Recommendations section of this report:

Finding

Inadequate Contract Management and Monitoring – More at Four

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by

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

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. We also noted other matters involving the internal control over financial reporting, which we have reported to management of the Brunswick Partnership in a separate letter dated November 29, 2004.

Compliance and Other Matters

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 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 audit committee, management of the Brunswick 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

September 29, 2004

AUDIT FINDINGS AND RECOMMENDATIONS

Matters Related to Financial Reporting

The following findings and recommendations were identified during the current audit and discuss conditions that represent significant deficiencies in internal control and/or noncompliance with laws, regulations, contracts, or grants. This finding was reported in the prior year.

INADEQUATE CONTRACT MANAGEMENT AND MONITORING – MORE AT FOUR

During the prior year audit, we identified weaknesses in the Brunswick Partnership's contract management and monitoring of the More at Four activity. Those weaknesses included:

- Difficulties in verifying the amount of More at Four funds placed into contract for the involved service providers.
- The failure to include start-up funding as part of the service provider contract and the overpayment of start-up funds.
- The improper calculation of matching Smart Start funds resulting in the overpayment of \$27,091.

The prior finding also questioned the timing and use of the More at Four funds. The Brunswick Partnership was reimbursed \$79,730 for More at Four activities. Only \$2,237 of these funds was actually spent during the 2003 fiscal year. The local school system was allowed to carry-over \$43,885 of unspent funds into the 2004 fiscal year for future More at Four expenditures. The remaining \$33,608 was maintained by the Brunswick Partnership to be used for administrative purposes.

Our prior year finding identified questioned costs of \$27,091 related to the overpayment of Smart Start funds and \$77,493 related to the improper use of More at Four funds.

The questioned costs related to the timing and the use of the More at Four funds were resolved by the state More at Four Office. Their resolution stated, *“Under a purchase of service contract, operating funds are used at the discretion of the Contractor. If there are unused operating funds at the end of the contract, the Contractor has the discretion to utilize these funds as they see fit.”*

This finding is partially resolved. We noted improvement in the Brunswick Partnership's accounting for its More at Four funding with its service providers. In addition, we only identified one instance where start-up funding was not made a part of the service provider contract. However, the Brunswick Partnership continued to reimburse its service providers at rates that exceeded the established Brunswick County market rates for child care providers. As such, the Brunswick Partnership paid \$29,645 from Smart Start funds to day care providers in excess of the established funding criteria resulting in questioned costs.

AUDIT FINDINGS AND RECOMMENDATIONS (CONCLUDED)

Recommendation: We recommend that the Brunswick Partnership continue to enhance its contract management and monitoring system to ensure that disbursements are in accordance with approved program guidelines and contract terms. In addition, the Brunswick Partnership should work with The North Carolina Partnership for Children, Inc. in the resolution of these questioned costs.

Partnership's Response: The Brunswick Partnership continues to improve its overall contract management and monitoring system. Professional staff participated in the North Carolina Partnership for Children contract management and monitoring training. The Brunswick Partnership agrees that the reimbursement rates to service providers, which were established in the previous year, resulted in payments to four service providers that exceeded the county market rate. The Brunswick Partnership will work with the North Carolina Partnership for Children to resolve this issue. The Brunswick Partnership has taken steps to ensure current year disbursements are in accordance with approved program guidelines and contract terms.

DISTRIBUTION OF AUDIT REPORT

In accordance with North Carolina 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 North Carolina Partnership for Children, Inc.

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Director, Fiscal Research Division

December 22, 2004

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