

STATE OF NORTH CAROLINA

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

MORGANTON, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2005

OFFICE OF THE STATE AUDITOR

LESLIE W. MERRITT, JR., CPA, CFP

STATE AUDITOR

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

MORGANTON, NORTH CAROLINA

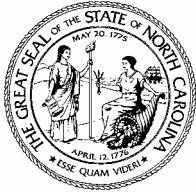
FOR THE YEAR ENDED JUNE 30, 2005

BOARD OF DIRECTORS

STEVEN B. CORLEY, BOARD CHAIRMAN

ADMINISTRATIVE OFFICER

JOAN B. ROVENSTINE, EXECUTIVE DIRECTOR



STATE OF NORTH CAROLINA
Office of the State Auditor

Leslie W. Merritt, Jr., CPA, CFP
State Auditor

2 S. Salisbury Street
20601 Mail Service Center
Raleigh, NC 27699-0601
Telephone: (919) 807-7500
Fax: (919) 807-7647
Internet
<http://www.ncauditor.net>

AUDITOR'S TRANSMITTAL

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

This report presents the results of our financial statement audit of the Burke County Partnership for Children, Inc., (Burke Partnership) for the year ended June 30, 2005. Our audit was made by authority of Article 5A of Chapter 147 of the *North Carolina General Statutes*.

The accounts and operations of the Burke 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 Burke Partnership was made in conjunction with the Early Childhood Initiatives (Smart Start) program authorized by General Statute 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 Burke Partnership is one of these local partnerships. As such, the Burke 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 Burke Partnership's ability to record, process, summarize, and report financial data in the financial statements and present instances of noncompliance or other matters, if any, with laws, regulations, contracts, or grant agreements.

Results – The following condition represents a significant deficiency in internal control.

Finding

Contract Management and Monitoring

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.

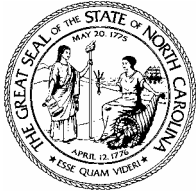
North Carolina General Statutes require the State Auditor to make audit reports available to the public. Copies of audit reports issued by the Office of the State Auditor may be obtained through one of the options listed in the back of this report.

Leslie W. Merritt, Jr.

Leslie W. Merritt, Jr., CPA, CFP
State Auditor

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Leslie W. Merritt, Jr., CPA, CFP
State Auditor

2 S. Salisbury Street
20601 Mail Service Center
Raleigh, NC 27699-0601
Telephone: (919) 807-7500
Fax: (919) 807-7647
Internet
<http://www.ncauditor.net>

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Burke County Partnership for Children, Inc.
Morganton, North Carolina

We have audited the accompanying Statement of Receipts, Expenditures, and Net Assets – Modified Cash Basis of the Burke County Partnership for Children, Inc., (Burke Partnership) as of June 30, 2005, and the related Statement of Functional Expenditures – Modified Cash Basis for the year then ended. These financial statements are the responsibility of the Burke 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 Burke County Partnership for Children, Inc., as of June 30, 2005, 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 April 28, 2006, on our consideration of the Burke 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

INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. 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 Burke County Partnership for Children, Inc.'s basic financial statements. The information in Schedules 1 through 5 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Schedules 1, 3, 4 and 5 have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The information in Schedule 2 has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on Schedule 2.



Leslie W. Merritt, Jr., CPA, CFP
State Auditor

April 28, 2006

Burke County Partnership for Children, Inc.
Statement of Receipts, Expenditures, and Net Assets - Modified Cash Basis
For the Year Ended June 30, 2005

Exhibit A

	Unrestricted Funds		Temporarily Restricted Funds	Total Funds
	Smart Start Fund	Other Funds		
Receipts:				
State Awards (less refunds of \$44,448)	\$ 1,887,253	\$ 871,232	\$ 0	\$ 2,758,485
Federal Awards		428,470		428,470
Private Contributions		507		507
Interest and Investment Earnings		3,407		3,407
Sales Tax Refunds		1,363		1,363
Total Receipts	1,887,253	1,304,979		3,192,232
Net Assets Released from Restrictions:				
Satisfaction of Program Restrictions		3,000	(3,000)	
	1,887,253	1,307,979	(3,000)	3,192,232
Expenditures:				
Programs:				
Child Care and Education Affordability	717,418	3,000		720,418
Child Care and Education Quality	510,236	429,304		939,540
Family Support	365,663			365,663
Health and Safety	133,697			133,697
More at Four		859,365		859,365
Support:				
Management and General	177,959	12,962		190,921
Program Coordination	26,728			26,728
Other:				
Refund of Prior Year Grant		46		46
Sales Tax Paid		4,991		4,991
Total Expenditures	1,931,701	1,309,668		3,241,369
Excess of Receipts Over Expenditures	(44,448)	(1,689)	(3,000)	(49,137)
Net Assets at Beginning of Year	44,448	69,168	3,000	116,616
Net Assets at End of Year	\$ 0	\$ 67,479	\$ 0	\$ 67,479
Net Assets Consisted of:				
Cash and Cash Equivalents	\$ 6,092	\$ 67,479	\$	\$ 73,571
Investments				
Refunds Due From Contractors	27,125			27,125
	33,217	67,479		100,696
Less: Due to the State	33,217			33,217
	\$ 0	\$ 67,479	\$ 0	\$ 67,479

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

Burke County Partnership for Children, Inc.
Statement of Functional Expenditures - Modified Cash Basis
For the Year Ended June 30, 2005

Exhibit B

	Total	Personnel	Contracted Services	Supplies and Materials	Other Operating Expenditures	Fixed Charges and Other Expenditures	Property and Equipment Outlay	Services/Contracts/Grants
Smart Start Fund:								
Programs:								
Child Care and Education Affordability	\$ 717,418	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 717,418
Child Care and Education Quality	510,236							510,236
Family Support	365,663							365,663
Health and Safety	133,697							133,697
	<u>1,727,014</u>							<u>1,727,014</u>
Support:								
Management and General	177,959	111,338	1,051	7,208	23,989	13,698	20,675	
Program Coordination	26,728	24,742		45	1,379	562		
	<u>204,687</u>	<u>136,080</u>	<u>1,051</u>	<u>7,253</u>	<u>25,368</u>	<u>14,260</u>	<u>20,675</u>	
Total Smart Start Fund Expenditures	<u>\$ 1,931,701</u>	<u>\$ 136,080</u>	<u>\$ 1,051</u>	<u>\$ 7,253</u>	<u>\$ 25,368</u>	<u>\$ 14,260</u>	<u>\$ 20,675</u>	<u>\$ 1,727,014</u>
Other Funds:								
Programs:								
Child Care and Education Affordability	\$ 3,000	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 3,000
Child Care and Education Quality	429,304	4,764						424,540
More at Four	859,365							859,365
	<u>1,291,669</u>	<u>4,764</u>						<u>1,286,905</u>
Support:								
Management and General	12,962	10	12,000	100	402		450	
	<u>12,962</u>	<u>10</u>	<u>12,000</u>	<u>100</u>	<u>402</u>		<u>450</u>	
Other:								
Refund of Prior Year Grant	46					46		
Sales Tax Paid	4,991			4,991				
	<u>5,037</u>			<u>4,991</u>		<u>46</u>		
Total Other Funds Expenditures	<u>\$ 1,309,668</u>	<u>\$ 4,774</u>	<u>\$ 12,000</u>	<u>\$ 5,091</u>	<u>\$ 402</u>	<u>\$ 46</u>	<u>\$ 450</u>	<u>\$ 1,286,905</u>

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

BURKE COUNTY PARTNERSHIP FOR CHILDREN, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2005

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

A. Organization and Purpose – The Burke County Partnership for Children, Inc., (Burke Partnership) is a legally separate nonprofit organization incorporated on November 17, 1993. The Burke Partnership was established to develop and provide, through public and private means, early childhood education and developmental services for children and families. The Burke 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 Burke 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 Burke Partnership did not have any permanently restricted net assets at June 30, 2005.

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. Amounts withheld from employee paychecks or other amounts received in an agency capacity are recorded as funds held for others. In addition, Smart Start funds advanced to the local Partnership that are unexpended and unearned at year end are recorded as a Due to the State.

- D. Cash and Cash Equivalents** – This classification appears on the Statement of Receipts, Expenditures, and Net Assets – Modified Cash Basis and includes all demand and savings accounts and money market accounts.
- E. Investments** – This classification consists of mutual fund investments are reported at cost, which approximates fair value.
- F. 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.
- G. Due to the State** – The funding provided by the State of North Carolina for the Smart Start program is funded on a cost reimbursement basis. The money is earned to the extent of allowable costs incurred. Any unexpended funds as of June 30 are required to be reverted to The North Carolina Partnership for Children, Inc., to be returned to the State of North Carolina.
- H. Compensated Absences** – As a result of the use of the modified cash basis of accounting, liabilities related to accrued compensated absences are not recorded in the financial statements. Expenditures related to compensated absences are recorded when paid. The amount of accrued compensated absences for accumulated, unpaid leave that would be due to employees upon termination is reported as a commitment in Note 9.
- I. Use of Estimates** – The preparation of financial statements in conformity with the modified cash basis of accounting used by the Burke 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 2 - DEPOSITS AND INVESTMENTS

- A. Deposits** – All funds of the Burke Partnership are deposited with a commercial bank and insured by the Federal Deposit Insurance Corporation (FDIC) up to \$100,000. In addition, the Burke Partnership has a money market sweep account to invest excess balances over an established target amount. These funds remain in the bank's accounts rather than being invested nightly and earn a money market interest rate. Deposits over the \$100,000 threshold amount subjects the Burke Partnership to a concentration of credit risk. At June 30, 2005, the Burke Partnership's bank deposits in excess of the FDIC insured limit was \$12,165.
- B. Investments** – The Burke Partnership held mutual fund investments with a cost value of \$23,307 and a market value of \$25,984 as of June 30, 2005. These investments are not FDIC insured.

NOTE 3 - FUNDING FROM GRANT AWARDS

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

Associated with these contracts, the Burke 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 Burke 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 Burke Partnership was awarded and has received \$1,964,918 under a current year Smart Start contract with NCPC. The unexpended balance of this contract is subject to reversion to the State. The Burke Partnership has returned \$33,217 of this contract to the State based on financial status reports submitted to NCPC subsequent to June 30, 2005.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

More at Four – The Burke Partnership also received revenue and support from the State of North Carolina for the More at Four Program. The Burke Partnership was awarded \$869,620 and received \$859,232 under a current year contract. The Burke 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 Burke Partnership are representative of various organizations that benefit from actions taken by the Board. It is the policy of the Burke Partnership that board members not be involved with decisions regarding organizations they represent. During the year, the Burke 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 Burke Partnership's Smart Start Allocation.

NOTE 5 - FUNCTIONAL EXPENDITURES

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

A. Program Functions

Child Care and Education Affordability – Used to account for service activities including Head Start wraparound/extended day, child care transportation, part-day care programs, or supplements for quality outside DCD.

Child Care and Education Quality – Used to account for service activities including quality enhancement grants for upgrades, child care resource and referral, professional development, salary supplements, provider training, special needs – support for child care professionals, or health insurance benefits for child care providers.

Family Support – Used to account for service activities including family resource centers, ongoing parenting education, or general family support.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Health and Safety – Used to account for service activities including prenatal/newborn services, child care health consultants, or home visiting.

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.

C. Allocation of Joint Costs

Expenditures benefiting more than one purpose were allocated as follows:

Salaries and Benefits – Direct allocation based on estimated time spent by employees for each function.

Other Costs – Other costs including occupancy cost rent, utilities and maintenance, were allocated based on estimates of utilization.

NOTE 6 - OPERATING LEASE OBLIGATIONS

Future minimum lease payments under noncancelable operating leases consist of the following at June 30, 2005:

<u>Fiscal Year</u>	<u>Operating Leases</u>
2006	\$ 41,064
2007	40,398
2008	38,400
2009	38,400
2010	<u>32,000</u>
Total Minimum Lease Payments	<u>\$ 190,262</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Rental expense for all operating leases during the year was \$10,883.

NOTE 7 - PENSION PLAN

- A. Retirement Plans** – The Burke Partnership has a Simplified Employee Pension plan (SEP Plan) covering all full-time employees. Each full-time employee of the Burke Partnership, as a condition of employment, is provided an Individual Retirement Account through an outside insurance company. The Burke Partnership contributed 6% of gross wages for the year ended June 30, 2005. The Burke Partnership does not own the accounts nor is liable for any other cost other than the required contribution. The Burke Partnership contributed \$6,232 for pension benefits during the year.
- B. IRC Sections 403(b) and 403(b)(7) Plans** – All permanent employees who are at least half-time can participate in tax sheltered annuity plans (Plans) created under Internal Revenue Code Sections 403(b) and 403(b)(7). 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. No costs are incurred by the Burke Partnership.

NOTE 8 - RISK MANAGEMENT

The Burke 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 Burke 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 Burke Partnership. Settled claims have not exceeded this insurance coverage in any of the past three fiscal years.

NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

NOTE 9 - COMMITMENTS AND CONTINGENCIES

Compensated Absences – As a result of the Burke 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, 2005, is \$7,121. No funds or reservation of net assets has been made for this commitment.

NOTE 10 - RESTRICTIONS ON NET ASSETS

Net Assets Released From Donor Restrictions – Net assets were released from donor restrictions during the fiscal year ended June 30, 2005, by incurring expenditures satisfying the restricted purposes as follows:

<u>Purpose</u>	<u>Amount</u>
Year Round, Half-Day Preschool Program	<u>\$ 3,000</u>

Burke County Partnership for Children, Inc.
Schedule of Contract and Grant Expenditures - Modified Cash Basis
For the Year Ended June 30, 2005

Schedule 1

Organization Name	Smart Start Fund		Other Funds	
	Amount Advanced	Refund Due	Amount Advanced	Refund Due
Appalachian Family Innovations	\$ 77,980	\$ 0	\$ 0	\$ 0
Blue Ridge Community Action	* 67,023		36,707	
Burke County Health Department	* 56,178	(461)		
Burke County Public Schools	* 405,874	(20)	753,395	
Burke County Transit Administration, Inc.	95,750	(1,276)		
Child Care Connections of Burke County, Inc.	* 828,958	(25,361)		
Creative Beginnings			70,097	
Puckett Institute	94,373	(7)	378,922	
The Riddle Institute	128,003			
Various Day Cares			47,784	
	<u>\$ 1,754,139</u>	<u>\$ (27,125)</u>	<u>\$ 1,286,905</u>	<u>\$ 0</u>

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

***Burke County Partnership for Children, Inc.
 Schedule of State Level Service Provider Contracts
 For the Year Ended June 30, 2005***

Schedule 2

Organization Name	DHHS Contracts
Burke County Department of Social Services	* \$ <u>989,738</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.

Burke County Partnership for Children, Inc.
Schedule of Federal and State Awards - Modified Cash Basis
For the Year Ended June 30, 2005

Schedule 3

<u>Federal/State Grantor/Pass-through Grantor/Program</u>	<u>Federal CFDA Number</u>	<u>Contract #</u>	<u>Receipts</u>	<u>Expenditures</u>
Federal Awards:				
Department of Health and Human Services				
Administration for Children and Families				
Child Care Bureau				
Asset-Based Literacy and Learning Initiatives	93.577	90LO009101	\$ 428,470	\$ 428,470
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)			(44,448)	
Early Childhood Initiatives Program (Current Year)	*		1,931,701	1,931,701
Multi-County Accounting and Contracting Grant			12,000	12,000
North Carolina Department of Health and Human Services				
More at Four Pre-Kindergarten Program		* 2090004325	859,232	859,232
Total State Awards			<u>2,758,485</u>	<u>2,802,933</u>
Total Federal and State Awards			<u>\$ 3,186,955</u>	<u>\$ 3,231,403</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.

Burke County Partnership for Children, Inc.
Schedule of Property and Equipment - Modified Cash Basis
For the Year Ended June 30, 2005

Schedule 4

Furniture and Noncomputer Equipment	\$	8,009
Computer Equipment/Printers		18,531
Leasehold Improvements		<u>25,734</u>
Total Property and Equipment	\$	<u><u>52,274</u></u>

Note: The information on this schedule provides a summary of property and equipment with acquisition or donated cost of \$500 or more which were held by the Partnership at year end. The valuations represent historical cost. On the modified basis of accounting, these items are expensed in the year of purchase.

Burke County Partnership for Children, Inc.
Schedule of Qualifying Match (Non-GAAP)
For the Year Ended June 30, 2005

Schedule 5

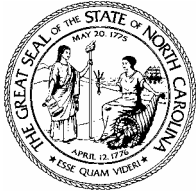
Match Provided at the Partnership Level:

Cash	\$	428,957
In-Kind Goods and Services		7,402
		<hr/>
	\$	<u>436,359</u>

Match Provided at the Contractor Level:

Cash	\$	384,823
In-Kind Goods and Services		77,580
		<hr/>
	\$	<u>462,403</u>

Note: This schedule is presented in accordance with the program match requirement as provided for by North Carolina Session Law 2003-284, 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.



STATE OF NORTH CAROLINA
Office of the State Auditor

Leslie W. Merritt, Jr., CPA, CFP
State Auditor

2 S. Salisbury Street
20601 Mail Service Center
Raleigh, NC 27699-0601
Telephone: (919) 807-7500
Fax: (919) 807-7647
Internet
<http://www.ncauditor.net>

**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
Burke County Partnership for Children, Inc.
Morganton, North Carolina

We have audited the financial statements of the Burke County Partnership for Children, Inc., (Burke Partnership) as of and for the year ended June 30, 2005, and have issued our report thereon dated April 28, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

As described in Note 1, the accompanying financial statements were prepared on the modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Burke 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 Burke 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

Contract Management and Monitoring

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Burke 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 Burke 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.

Leslie W. Merritt, Jr.

Leslie W. Merritt, Jr., CPA, CFP
State Auditor

April 28, 2006

AUDIT FINDINGS AND RECOMMENDATIONS

Matters Related to Financial Reporting

The following finding and recommendation was identified during the current audit and describes conditions that represent significant deficiencies in internal control. This finding was also reported in the prior year.

CONTRACT MANAGEMENT AND MONITORING DEFICIENCIES

The prior year audit identified weaknesses in the Burke Partnership's contract management and monitoring system. *This finding is unresolved.*

During our review of the Burke Partnership's monitoring of direct service provider contracts, we noted that fiscal and programmatic monitoring activities were deficient or not performed as follows:

- Documentation was unavailable to support programmatic monitoring for two providers;
- Financial monitoring was inadequate for one provider and no documentation was available for review for another provider.

Recommendation: We recommend that the Burke Partnership continue to enhance its contract management and monitoring system to ensure documentation is available to support compliance with contractual terms and program requirements.

Partnership's Response: Partnership complies with finding. A new Executive Director with six years of Smart Start experience was hired as of February of 2005. All Policies and Procedures have been reviewed and revised. A full-time Program/Fiscal Evaluator was hired in July 05 and a new Fiscal and Programmatic Monitoring Procedures have been developed. As of this date all Providers have been MONITORED in strict adherence with these new Procedures. Separate Monitoring files are available with complete documentation on ALL Providers.

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State of North Carolina
2 South Salisbury Street
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