



STATE OF NORTH CAROLINA

THE NORTH CAROLINA PARTNERSHIP FOR CHILDREN, INC.

RALEIGH, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2011

OFFICE OF THE STATE AUDITOR

BETH A. WOOD, CPA

STATE AUDITOR

A Component Unit of the State of North Carolina

THE NORTH CAROLINA PARTNERSHIP FOR CHILDREN, INC.

RALEIGH, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2011

BOARD OF DIRECTORS

DR. OLSON HUFF, BOARD CHAIR

ADMINISTRATIVE OFFICER

STEPHANIE FANJUL, PRESIDENT



Beth A. Wood, CPA
State Auditor

STATE OF NORTH CAROLINA
Office of the 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 Beverly Eaves Perdue, Governor
The General Assembly of North Carolina
Board of Directors, The North Carolina Partnership for Children, Inc.

We have completed a financial statement audit of The North Carolina Partnership for Children, Inc. (North Carolina Partnership) for the year ended June 30, 2011, and our audit results are included in this report. You will note from the independent auditor's report that we determined that the financial statements are presented fairly in all material respects.

The results of our tests disclosed no deficiencies in internal control over financial reporting that we consider to be material weaknesses in relation to our audit scope or any instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

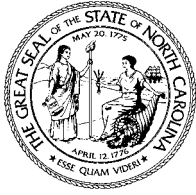
North Carolina General Statutes require the State Auditor to make audit reports available to the public. Copies of audit reports issued by the Office of the State Auditor may be obtained through one of the options listed in the back of this report.

A handwritten signature in cursive script that reads "Beth A. Wood".

Beth A. Wood, CPA
State Auditor

TABLE OF CONTENTS

	PAGE
INDEPENDENT AUDITOR’S REPORT	1
MANAGEMENT’S DISCUSSION AND ANALYSIS	3
BASIC FINANCIAL STATEMENTS	
Exhibits	
A Statement of Net Assets	9
B Statement of Revenues, Expenses, and Changes in Net Assets	10
C Statement of Cash Flows	11
Notes to the Financial Statements	13
SUPPLEMENTARY INFORMATION	
Schedules	
1 Schedule of Functional Expenses	26
2 Schedule of Contract and Grant Expenses	27
3 Schedule of State Aid	29
INDEPENDENT AUDITOR’S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>	31
ORDERING INFORMATION	33



Beth A. Wood, CPA
State Auditor

STATE OF NORTH CAROLINA
Office of the 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
The North Carolina Partnership for Children, Inc.
Raleigh, North Carolina

We have audited the accompanying basic financial statements of The North Carolina Partnership for Children, Inc. (North Carolina Partnership), a component unit of the State of North Carolina, as of and for the year ended June 30, 2011, as listed in the table of contents. These financial statements are the responsibility of the North Carolina 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 misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the 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.

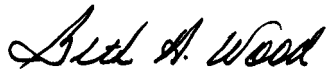
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the North Carolina Partnership as of June 30, 2011, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 4, 2012 on our consideration of the North Carolina Partnership's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 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.

INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

The Management's Discussion and Analysis, as listed in the table of contents, is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements of the North Carolina Partnership 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 supplementary 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.



Beth A. Wood, CPA
State Auditor

April 4, 2012

THE NORTH CAROLINA PARTNERSHIP FOR CHILDREN, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS

Introduction

The following discussion and analysis provides an overview to assist the reader in interpreting and understanding the accompanying basic financial statements. This overview includes comparative financial analysis with discussion of significant changes from the prior year, as well as a discussion of currently known facts, decisions, and conditions. This information is provided by the North Carolina Partnership's management in conjunction with the issuance of the accompanying financial statements.

Overview of the Basic Financial Statements

The *Statement of Net Assets* provides information relative to the North Carolina Partnership's assets, liabilities, and net assets as of the last day of the fiscal year. Assets and liabilities on these Statements are categorized as either current or noncurrent. Current assets are those that are available to pay for expenses in the next fiscal year. Current liabilities are those payable in the next fiscal year. Net assets on this statement are categorized as either invested in capital assets, restricted or unrestricted. Restricted net assets are categorized as either nonexpendable or expendable. Overall, the *Statement of Net Assets* provides information relative to the financial strength of the North Carolina Partnership and its ability to meet current and long-term obligations.

The *Statement of Revenues, Expenses, and Changes in Net Assets* provides information relative to the results of the North Carolina Partnership's operations, nonoperating activities, and other activities affecting net assets that occurred during the fiscal year. Nonoperating activities include primarily subsidies from the State in the form of state aid, noncapital gifts and grants, and investment income (net of investment expenses). Other activities include capital gifts or grants. Overall the *Statement of Revenues, Expenses, and Changes in Net Assets* provides information relative to the North Carolina Partnership's management of its operations and its ability to maintain its financial strength. The above statements are articulated by agreeing the ending net asset balance reported on both statements.

The *Statement of Cash Flows* provides information relative to the North Carolina Partnership's sources and uses of cash funds for operating activities, noncapital financing activities, capital financing activities, and investing activities. This statement provides a reconciliation of beginning cash balances to ending cash balances and is representative of activity reported on the *Statement of Revenues, Expenses, and Changes in Net Assets* as adjusted for changes in beginning and ending balances of noncash accounts on the *Statement of Net Assets*.

The three statements described above are the basic financial statements required by the Governmental Accounting Standards Board (GASB) accounting principles. In accordance with GASB, the financial statements are presented on the North Carolina Partnership as a whole and use reporting concepts in a manner similar to that required of a business enterprise.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

The financial statement balances reported are presented in a classified format to aid the reader in understanding the nature of the financial statement balance.

In using the financial statements, the *Notes to the Financial Statements* accompanying the financial statements should be read in conjunction with the financial statements. The *Notes to the Financial Statements* provide information relative to the significant accounting principles applied in the financial statements, authority for and associated risk of deposits and investments, detailed information on accounts and pledges receivable, revenues and expenses, required information on pension plans and other post employment benefits, insurance against losses, commitments and contingencies, accounting changes, and if necessary a discussion of adjustments to prior periods and events subsequent to the North Carolina Partnership's financial statement period. Overall, the *Notes to the Financial Statements* provide information to better understand details, risk, and uncertainty associated with amounts reported in the Financial Statements.

Brief Agency Highlights

The North Carolina Partnership provides statewide oversight of North Carolina's Smart Start Early Childhood Initiative. The North Carolina Partnership has notably increased its ability to provide effective oversight of, and technical assistance to, the 77 local partnerships that provide the Smart Start services to families and children in their communities.

The North Carolina Partnership has received grants from several private organizations for assisting communities and states in the development, implementation and integration of comprehensive community-based early childhood initiatives.

Analysis of Financial Position and Results of Operations

The North Carolina Partnership's net assets as of June 30, 2011 and June 30, 2010, were approximately \$3.8 million and \$4.2 million, respectively, a decrease of \$400,000 during the year.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Condensed Financial Information

The following table summarizes the North Carolina Partnership's assets, liabilities and net assets as of June 30, 2011 and 2010.

Condensed Statement of Net Assets
June 30, 2011 and 2010
(in thousands)

	2011	2010	Percent Change
Assets			
Current Assets	\$ 4,252	\$ 1,747	143.4 %
Capital Assets, Net	116	155	(25.2) %
Other Noncurrent Assets	763	4,062	(81.2) %
Total Assets	5,131	5,964	(14.0) %
Liabilities			
Current Liabilities	1,331	1,553	(14.3) %
Noncurrent Liabilities	0	185	(100.0) %
Total Liabilities	1,331	1,738	(23.4) %
Net Assets			
Invested in Capital Assets	116	155	(25.2) %
Restricted:			
Nonexpendable	23	20	15.0 %
Expendable	1,044	1,760	(40.7) %
Unrestricted	2,617	2,292	14.2 %
Total Net Assets	\$ 3,800	\$ 4,227	(8.4) %

Current assets as of June 30, 2011, consisted primarily of cash and equivalents, \$3.3 million, investments, \$326,000, receivables, \$517,000, and prepaid expenses, \$105,000. Current assets as of June 30, 2010, consisted primarily of cash and equivalents, \$444,000, investments, \$14,000, receivables, \$1.1 million and prepaid expenses, \$142,000.

Current assets increased during the fiscal year June 30, 2011, due to the increase in cash and cash equivalents related to the significant decline in investment interest rates, as funds were not reinvested in long-term certificates of deposit. Outstanding pledges receivable decreased as these funds were collected and expended for other child care related programs.

Capital and Other Noncurrent Assets

Noncurrent assets as of June 30, 2011, primarily consisted of investments, \$763,000 and capital assets, \$116,000. Noncurrent assets as of June 30, 2010, consisted of investments, \$4 million, and capital assets, \$155,000.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Noncurrent assets decreased during the fiscal year June 30, 2011 due to the maturity of investments. These funds were not reinvested in long-term certificates of deposit due to the significant decline in investment interest rates.

Liabilities

Current liabilities as of June 30, 2011, consisted primarily of funds due to the State, \$603,000, and unearned revenue, \$427,000. Current liabilities as of June 30, 2010, consisted primarily of funds due to the State, \$1.2 million, and accrued payroll, \$159,000. The net decrease in current liabilities is primarily caused by the \$612,000 decrease in the Due to the State as local partnerships reverted funds to be returned to the State and the \$427,000 increase in the unearned revenue balance for a new cost-reimbursement contract with Blue Cross Blue Shield of North Carolina Foundation.

As of June 30, 2011, there were no noncurrent liabilities. In the prior year noncurrent liabilities consisted entirely of accrued compensated absences. During fiscal year ended June 30, 2011, the North Carolina Partnership revised the compensated absences policy to reduce the carry-forward of unused paid time off at the end of each calendar year to 80 hours. Due to the reduction in carry-forward allowed, it is estimated balances will be used within one year.

Net Assets

Net assets invested in capital assets were \$116,000 and \$155,000 as of June 30, 2011 and 2010, respectively. Restricted nonexpendable net assets of \$23,000 and \$20,000 as of June 30, 2011 and 2010 respectively, represent amounts subject to externally imposed restrictions and which must be maintained in perpetuity. Restricted expendable net assets of \$1 million and \$1.8 million as of June 30, 2011 and 2010, respectively, represent amounts subject to externally imposed restrictions. Unrestricted net assets of \$2.6 and \$2.3 million as of June 30, 2011 and 2010, respectively, represent amounts not subject to externally imposed stipulations, but internally designated for various activities and initiatives.

For the year ended June 30, 2011, the decrease in net assets of \$427,000 is primarily attributable to the decrease in restricted funds for capacity building by \$418,000 due to the utilization of program funding from the W.K. Kellogg Foundation. Also, there was a decrease of \$297,000 in restricted funds for other child care related programs due to utilization of program funds.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

The Statement of Revenues, Expenses, and Changes in Net Assets presents the results of the North Carolina Partnership's operations for the report period. The following table summarizes the North Carolina Partnership's revenues, expenses, and changes in net assets for the years ended June 30, 2011 and 2010.

Condensed Statement of Revenues, Expenses, and Changes in Net Assets For the Fiscal Years Ended June 30, 2011 and 2010 (in thousands)

	2011 Amount	2010 Amount	Percentage Change
Operating Revenues	\$ 0	\$ 0	0.0 %
Operating Expenses	(5,628)	(6,248)	(9.9) %
Operating Loss	(5,628)	(6,248)	(9.9) %
Nonoperating Revenues	121,786	123,585	(1.5) %
Nonoperating Expenses	(116,585)	(118,806)	(1.9) %
Increase (Decrease) in Net Assets	(427)	(1,469)	(70.9) %
Net Assets Beginning of Year	4,227	5,696	(25.8) %
Net Assets End of Year	\$ 3,800	\$ 4,227	(10.1) %

Nonoperating Revenues

For the fiscal year ended June 30, 2011, nonoperating revenues totaled \$121.8 million, of which State aid was \$120.5 million. For the fiscal year ended June 30, 2010, nonoperating revenues totaled \$123.6 million, of which State aid was \$123.2 million.

Private contributions earned were \$900,000 and \$220,000 as of June 30, 2011 and 2010, respectively. Major contributors for 2011 were the Blue Cross Blue Shield of North Carolina Foundation for \$493,000, and the Birth to Five Policy Alliance, \$182,000.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONCLUDED)

The following table summarizes the North Carolina Partnership's expenses (operating and nonoperating) for the reporting periods.

Operating and Nonoperating Expenses
For the Fiscal Years Ended June 30, 2011 and 2010
(in thousands)

	2011 Amount	2010 Amount	Percentage Change
Operating Expenses:			
Salaries and Benefits	\$ 3,359	\$ 3,685	(8.8) %
Contracted Services	1,244	1,747	(28.8) %
Other Operating Expenses	961	751	28.0 %
Depreciation	64	65	(1.5) %
Total Operating Expenses	<u>\$ 5,628</u>	<u>\$ 6,248</u>	<u>(9.9) %</u>
Nonoperating Expenses:			
Contract/Grant Expenses	<u>\$ 116,585</u>	<u>\$ 118,806</u>	<u>(1.9) %</u>
Total Nonoperating Expenses	<u>\$ 116,585</u>	<u>\$ 118,806</u>	<u>(1.9) %</u>

Much of the North Carolina Partnership's activities are identified as nonoperating, with State aid its primary source of funding. The North Carolina Partnership provides oversight and funding to a network of other Smart Start organizations across the State, resulting in significant grant disbursements.

For the fiscal year ended June 30, 2011, the decrease in salaries and benefits is attributable to proactive reductions in staff as State budget cuts were anticipated for the fiscal year ended June 30, 2012. The decrease in contracted services is the result of several private grants ending during the fiscal year and the ending of those related services.

Economic Factors That Will Affect the Future

The two main factors that impact the economic outlook for the North Carolina Partnership are private contributions and State aid.

The North Carolina Partnership actively seeks private gifts to support the mission of the Smart Start initiative. For the fiscal year ended June 30, 2011, private contributions increased as compared to the fiscal year ended June 30, 2010. This increase was the result of a favorable environment for private contributions, which is anticipated to continue for the next three fiscal years.

It is anticipated that the state of the economy will continue to have an adverse impact on State aid for the fiscal year ending June 30, 2012 and possibly beyond.

The North Carolina Partnership for Children, Inc.
Statement of Net Assets
For the Year Ended June 30, 2011

Exhibit A

ASSETS

Current Assets:

Cash and Cash Equivalents	\$ 3,303,248
Short-Term Investments	236,887
Restricted Short-Term Investments	88,634
Receivables:	
Accounts Receivable (Note 3)	507,317
Pledges Receivable (Note 3)	10,172
Prepaid Expenses	105,479
	<hr/>
Total Current Assets	4,251,737

Noncurrent Assets:

Investments	89,608
Restricted Investments	673,500
Capital Assets, Depreciable, Net (Note 4)	115,601
	<hr/>
Total Noncurrent Assets	878,709

Total Assets

5,130,446

LIABILITIES

Current Liabilities:

Accounts Payable	77,416
Accrued Payroll	85,477
Compensated Absences (Note 5)	72,477
Due to the State	602,744
Unearned Revenue	427,464
Funds Held for Others	65,585
	<hr/>

Total Current Liabilities

1,331,163

Total Liabilities

1,331,163

NET ASSETS

Invested in Capital Assets

115,601

Restricted for:

Nonexpendable:

 Annual Recognition Award 22,712

Expendable:

 Capacity Building 898,703

 Other Specific Child Care Related Activities 145,465

Unrestricted

2,616,802

Total Net Assets

\$ 3,799,283

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

The North Carolina Partnership for Children, Inc.
Statement of Revenues, Expenses, and Changes in Net Assets
For the Year Ended June 30, 2011

Exhibit B

OPERATING REVENUES	\$ 0
<hr/>	
OPERATING EXPENSES	
Salaries and Benefits	3,358,651
Contracted Services	1,244,118
Supplies and Materials	48,126
Other Operating Expenses	530,913
Fixed Charges and Other Expenses	361,031
Purchase of Noncapitalized Equipment	21,026
Depreciation	64,033
	<hr/>
Total Operating Expenses	5,627,898
	<hr/>
Operating Loss	(5,627,898)
	<hr/>
NONOPERATING REVENUES (EXPENSES)	
State Aid	120,507,674
Investment Income	43,372
Private Contributions	900,455
Miscellaneous	334,667
Contract/Grant Expense	(116,585,594)
	<hr/>
Total Nonoperating Revenues (Expenses)	5,200,574
	<hr/>
Net Decrease in Net Assets	(427,324)
	<hr/>
NET ASSETS	
Net Assets - July 1, 2010	4,226,607
	<hr/>
Net Assets - June 30, 2011	\$ 3,799,283
	<hr/> <hr/>

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

The North Carolina Partnership for Children, Inc.
Statement of Cash Flows
For the Year Ended June 30, 2011

Exhibit C

CASH FLOWS FROM OPERATING ACTIVITIES

Payments to Employees and Fringe Benefits	\$ (3,563,248)
Payments to Vendors and Suppliers	(2,179,761)
	<u>(5,743,009)</u>
Cash Used by Operating Activities	<u>(5,743,009)</u>

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

State Aid Received	119,895,514
Grants to Local Partnerships and Other Organizations	(116,153,328)
Private Contributions	1,422,991
Other Receipts	369,339
	<u>5,534,516</u>
Net Cash Provided by Noncapital Financing Activities	<u>5,534,516</u>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Acquisition of Capital Assets	(24,901)
	<u>(24,901)</u>
Cash Used by Capital and Related Financing Activities	<u>(24,901)</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Sale of Non-State Treasurer Investments	2,987,707
Investment Income	104,791
	<u>3,092,498</u>
Cash Provided by Investing Activities	<u>3,092,498</u>

Net Increase in Cash and Cash Equivalents	2,859,104
Cash and Cash Equivalents - July 1, 2010	444,144
	<u>3,303,248</u>
Cash and Cash Equivalents - June 30, 2011	<u>\$ 3,303,248</u>

RECONCILIATION OF OPERATING LOSS TO CASH USED BY OPERATING ACTIVITIES

Operating Loss	\$ (5,627,898)
Adjustments to Reconcile Operating Loss to Cash Used by Operating Activities:	
Depreciation Expense	64,033
Changes in Assets and Liabilities:	
Accounts Receivable	6,654
Prepaid Expenses	36,158
Accounts Payable	(17,358)
Accrued Payroll	(73,613)
Compensated Absences	(130,985)
	<u>(130,985)</u>

Cash Used by Operating Activities	<u>\$ (5,743,009)</u>
-----------------------------------	-----------------------

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

[This Page Left Blank Intentionally]

THE NORTH CAROLINA PARTNERSHIP FOR CHILDREN, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

- A. Organization and Purpose** - The North Carolina Partnership for Children, Inc. (North Carolina Partnership) is a legally separate nonprofit organization incorporated on March 31, 1993. The North Carolina Partnership provides technical assistance and training for local Smart Start partnerships (currently 77) in the areas of program development, administration, organizational development, communication, financial management, technology, contracts management, and fundraising. The North Carolina Partnership adheres to a comprehensive accountability plan to ensure programs, services, and funds reach the children and families of North Carolina. The North Carolina Partnership is tax-exempt as an organization described in Section 501(c)(3) of the Internal Revenue Code.
- B. Financial Reporting Entity** - The concept underlying the definition of the financial reporting entity is that elected officials are accountable to their constituents for their actions. As required by accounting principles generally accepted in the United States of America (GAAP), the financial reporting entity includes both the primary government and all of its component units. An organization other than a primary government serves as a nucleus for a reporting entity when it issues separate financial statements. The North Carolina Partnership is a component unit of the State of North Carolina and is an integral part of the State's *Comprehensive Annual Financial Report (CAFR)*.

Component units are legally separate entities for which the State is financially accountable. Accountability is defined as the State's substantive appointment of a majority of the component unit's governing board. Furthermore, to be financially accountable, the State must be able to impose its will upon the component unit or there must be a possibility that the component unit may provide specific benefits to, or impose specific financial burdens on, the State. Financial accountability also exists when an organization is fiscally dependent upon the State.

As required by *General Statute 143B-168.12*, certain elected State officials appoint twenty-two of the North Carolina Partnership's board members, while three board members serve ex-officio by virtue of their State positions, and one serves as the Director of the More at Four Pre-Kindergarten Program. The State provides significant operating subsidies to the North Carolina Partnership creating a benefit/burden relationship.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Because of the State's appointment of the board and the benefit/burden relationship, the North Carolina Partnership is a component unit of the State of North Carolina and the North Carolina Partnership's financial statements are included in the State's CAFR.

The accompanying financial statements present all funds for which the North Carolina Partnership's Board of Directors is responsible.

- C. Basis of Presentation** - The accompanying financial statements are presented in accordance with accounting principles generally accepted in the United States of America as prescribed by Governmental Accounting Standards Board (GASB).

Pursuant to the provisions of GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, governmental not-for-profit entities that reported as of June 30, 1999, using the American Institute of CPAs' Statement of Position 78-10, *Accounting Principles and Reporting Practices for Certain Nonprofit Organizations*, may report as special-purpose governments engaged only in business-type activities. As such, the full scope of the North Carolina Partnership's activities is considered to be a single business-type activity and accordingly, is reported within a single column in the basic financial statements.

In accordance with GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Accounting*, the North Carolina Partnership does not apply Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989, unless the GASB amends its pronouncements to specifically adopt FASB pronouncements issued after that date.

- D. Basis of Accounting** - The financial statements of the North Carolina Partnership have been prepared using the economic resource measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred, regardless of the timing of the cash flows.

Nonexchange transactions, in which the North Carolina Partnership receives (or gives) value without directly giving (or receiving) equal value in exchange includes State aid, certain grants, and donations. Revenues are recognized, net of estimated uncollectible amounts, as soon as all eligibility requirements imposed by the provider have been met, if probable of collection.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

- E. Cash and Cash Equivalents** - This classification includes cash on hand, cash on deposit with private bank accounts, and deposits held by the State Treasurer in the short-term investment fund. The short-term investment fund maintained by the State Treasurer has the general characteristics of a demand deposit account in that participants may deposit and withdraw cash at any time without prior notice or penalty.
- F. Investments** - This classification includes money market mutual funds and nonnegotiable certificates of deposit with original maturities of more than three months. The money market mutual funds are accounted for at fair value, as determined by share price. The net increase (decrease) in the fair value of investments is recognized as a component of investment income. The certificates of deposit are reported at cost, if purchased, or at fair market value or appraised value at the date of gift, if donated.
- G. Receivables** - Receivables consist of unexpended grant amounts due from local partnerships and amounts due from the State. Receivables also include amounts due from private pledges that are verifiable, measurable, and expected to be collected and available for expenditures for which the resource provider's conditions have been satisfied. Receivables are shown at book value with no provision for doubtful accounts considered necessary.
- H. Prepaid Expenses** - The North Carolina Partnership records expenses allocable to future periods as prepaid expenses.
- I. Capital Assets** - Capital assets are recorded at cost at date of acquisition or fair market value at date of donation in the case of gifts.

The North Carolina Partnership capitalizes assets that have a value or cost of \$5,000 or greater at the date of acquisition and an expected useful life of more than one year.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 3 to 15 years for equipment.

- J. Restricted Assets** - Certain resources are reported as restricted assets because restrictions on asset use change the nature or normal understanding of the availability of the asset. Resources that are not available for current operations and are reported as restricted include resources whose use is limited by external parties or statute.
- K. Due to the State** - The Smart Start program's funding from the State of North Carolina is recognized as revenue to the extent that allowable costs have been incurred. Any unexpended funds as of June 30 are required to be reverted to the State.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

- L. Compensated Absences** - The North Carolina Partnership's policy is to record the cost of paid time off (PTO) when earned. Unused PTO can be accrued and carried forward from one year to the next. However, no more than 80 hours can be carried forward into the new calendar year. PTO in excess of 80 hours at the end of the calendar year is converted into Family Leave. Family leave occurs when an employee is eligible for Family and Medical Leave Act protection, but has exhausted all PTO. When determining the PTO liability due within one year, leave is considered taken on a last-in, first-out (LIFO) basis.

Prior to the year ended June 30, 2011, the maximum accumulation of unused vacation leave that could be carried forward each January 1st was 240 hours. Due to the reduction in the maximum carry-forward amount, it is estimated that the carry-forward balances will be used within one year.

The North Carolina Partnership has the policy of recording the cost of family leave when taken and paid rather than when the leave is earned. Family leave must be taken in five whole day increments. The policy provides for unlimited accumulation of family leave, but the employee cannot be compensated for any unused family leave upon termination of employment.

The North Carolina Partnership recognizes three separate employment types, distinguished by the expected duration of employment and the number of hours regularly worked each week. The three categories are: Full-Time with Full Benefits, Full-Time Temporary with Partial Benefits, and Part-Time with Partial Benefits. Each employment type provides for different eligibility levels of benefits. These employment types do not alter the employment-at-will doctrine and, therefore, do not guarantee employment for any specified period of time. Benefits are subject to change from time to time, and may be reduced, modified, or terminated at the discretion of the North Carolina Partnership.

- M. Net Assets** - The North Carolina Partnership's net assets are classified as follows:

Invested in Capital Assets - This represents the North Carolina Partnership's total investment in capital assets.

Restricted Net Assets - Nonexpendable - Nonexpendable restricted net assets consist of an endowment for which the use is limited by the donors or other outside sources, and, as a condition of the gift, the principal is to be maintained in perpetuity.

Restricted Net Assets - Expendable - Expendable restricted net assets include those resources in which the North Carolina Partnership is legally

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

or contractually obligated to spend the resources in accordance with restrictions imposed by external parties.

Unrestricted Net Assets - Unrestricted net assets include resources derived from unrestricted gifts and interest income.

Restricted and unrestricted resources are tracked using a fund accounting system and are spent in accordance with established fund authorities. Fund authorities provide rules for the fund activity and are separately established for restricted and unrestricted activities. When both restricted and unrestricted funds are available for expenditure, the decision for funding is transactional based on management decision.

- N. Revenue and Expense Recognition** - The North Carolina Partnership classifies its revenues and expenses as operating or nonoperating in the accompanying Statement of Revenues, Expenses, and Changes in Net Assets. Operating revenues and expenses generally result from providing services that are necessary to the North Carolina Partnership's principal ongoing operations. Operating revenues include activities that have characteristics of exchange transactions. Operating expenses are all expense transactions incurred other than those related to capital and noncapital financing or investing activities as defined by GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*.

Nonoperating revenues include activities that have characteristics of nonexchange transactions. Revenues from nonexchange transactions and State aid that represent subsidies or gifts to the North Carolina Partnership, as well as investment income, are considered nonoperating since these are either investing, capital, or noncapital financing activities. Capital contributions are presented separately after nonoperating revenues and expenses.

NOTE 2 - DEPOSITS AND INVESTMENTS

- A. Deposits** - All funds of the North Carolina Partnership are deposited in board-designated official depositories or brokerage firms. The North Carolina Partnership's deposits include cash on deposit outside the State Treasurer, deposits held by the State Treasurer, and certificates of deposit. The amount shown on the Statement of Net Assets as cash and cash equivalents includes cash on hand totaling \$250, deposits in private financial institutions with a carrying value of \$3,204,414, and a bank balance of \$3,243,707 and deposits held by the State Treasurer totaling \$98,584. Included in the deposits in private financial institutions

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

are certificates of deposit in the amount of \$763,108 reported as investments in the Statement of Net Assets.

The cash on deposit with the State Treasurer is pooled with state agencies and similar institutions and represents the North Carolina Partnership's equity position in the State Treasurer's Short-Term Investment Fund. The Short-Term Investment Fund (a portfolio within the State Treasurer's Investment Pool, an external investment pool that is not registered with the Securities and Exchange Commission and does not have a credit rating) had a weighted average maturity of 1.9 years as of June 30, 2011. Assets and shares of the Short-Term Investment Fund are valued at amortized cost, which approximates fair value. Deposit and investment risks associated with the State Treasurer's Investment Pool (which includes the State Treasurer's Short-Term Investment Fund) are included in the State of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page <http://www.osc.nc.gov/> and clicking on "Reports," or by calling the State Controller's Financial Reporting Section at (919) 981-5454.

Custodial credit risk is the risk that in the event of a bank failure, the North Carolina Partnership's deposits may not be returned to it. The North Carolina Partnership does not have a deposit policy for custodial credit risk. The North Carolina Partnership's deposits with each commercial bank are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. The North Carolina Partnership's bank deposits in excess of the FDIC insured limit totaled \$2,761,928 at June 30, 2011.

- B. Investments** - There are no legal limitations on the types of investments by the North Carolina Partnership. The North Carolina Partnership has adopted formal investment policies to establish investment objectives, standards of prudence, eligible investments, and safekeeping and custodial procedures necessary for the prudent management of the private funds maintained by the North Carolina Partnership.

The North Carolina Partnership is subject to the following risks:

Interest Rate Risk: Interest rate risk is the risk the North Carolina Partnership may face should interest rate variances affect the fair value of investments. In accordance with its investment policy, the North Carolina Partnership manages its exposure to declines in fair values by limiting the weighted average maturity of its investment portfolio. For its two major investment types, certificates of deposit maturities may not exceed 24 months and money market mutual funds must have maturities of 90 days or less.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Credit Risk: Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The North Carolina Partnership manages credit risk by diversifying its investment portfolio. Investments are limited to:

- U.S. Treasury Obligations
- Obligations of the State of North Carolina
- Time Deposits, Certificates of Deposit, and Savings Accounts
- No-Load Money Market Mutual Funds

Policy also further limits the composition of the above investment types as to the total investment portfolio.

The following table presents the fair value of investments by type and investments subject to interest rate risk and credit risk at June 30, 2011, for the North Carolina Partnership's investments.

Investment Type	<u>Fair Value</u>	<u>Properties of Debt Securities</u>	
		<u>Weighted Average Maturities</u>	<u>Ratings</u>
Debt Securities:			
Money Market Mutual Funds	\$ 325,521	12 days	Unrated
Other Securities:			
Certificates of Deposit	<u>763,108</u>		
Total Investments	<u>\$ 1,088,629</u>		

Certificates of deposit reported as investments are also a component of the deposit totals reported in the deposits section of this note. The money market mutual funds are not insured or guaranteed by the FDIC.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

A reconciliation of deposits and investments for the North Carolina Partnership to the basic financial statements at June 30, 2011, is as follows:

	Amount
Cash on Hand	\$ 250
Carrying Amount of Deposit with Private Financial Institutions	3,204,414
Investments in the Short-Term Investment Fund	98,584
Money Market Mutual Funds	325,521
Investments in Certificates of Deposit	763,108
Total Deposits and Investments	\$ 4,391,877
Curent:	
Cash and Cash Equivalents	\$ 3,303,248
Short-Term Investments	236,887
Restrict ed Short-Term Investments	88,634
Noncurrent:	
Investments	89,608
Restrict ed Investments	673,500
Total Deposits and Investments	\$ 4,391,877

NOTE 3 - RECEIVABLES

A. Accounts Receivable - The gross accounts receivable were:

	June 30, 2011
Due from Local Partnership Grantees	\$ 489,040
Interest Receivable	4,075
Sales Tax Receivable	9,066
Other Receivables	5,136
Total Deposits and Investments	\$ 507,317

The North Carolina Partnership expects to collect these receivables.

B. Pledges Receivable - The North Carolina Partnership has pledges receivable in the amount of \$10,172 that are collectible in the fiscal year ending June 30, 2012. Due to the nature of the donor organizations, the North Carolina Partnership considers these pledges to be collectible.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 4 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2011, is presented as follows:

	Balance July 1, 2010	Additions	Deletions	Balance June 30, 2011
Capital Assets, Depreciable:				
Machinery and Equipment	\$ 385,036	\$ 24,901	\$ 0	\$ 409,937
Less Accumulated Depreciation	230,303	64,033	0	294,336
Capital Assets, Depreciable, Net	<u>\$ 154,733</u>	<u>\$ (39,132)</u>	<u>\$ 0</u>	<u>\$ 115,601</u>

NOTE 5 - COMPENSATED ABSENCES

A summary of changes in compensated absences for the year ended June 30, 2011, is presented as follows:

	Balance July 1, 2010	Additions	Deletions	Balance June 30, 2011	Current Portion
Compensated Absences	<u>\$ 203,462</u>	<u>\$ 232,635</u>	<u>\$ 363,620</u>	<u>\$ 72,477</u>	<u>\$ 72,477</u>

During the fiscal year ended June 30, 2011, the North Carolina Partnership changed its accounting policy for compensated absences. See Note 1L for a description of the change.

NOTE 6 - LEASE OBLIGATIONS - OPERATING

The North Carolina Partnership entered into operating leases for office rent. Future minimum lease payments under noncancelable operating leases consist of the following at June 30, 2011:

Fiscal Year	Operating Leases
2012	\$ 299,090
2013	305,421
2014	312,252
2015	265,609
Total Minimum Lease Payments	<u>\$ 1,182,372</u>

Rental expense for all operating leases during the year was \$301,673.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 7 - FUNCTIONAL EXPENSES

The costs of providing the various programs and activities have been presented by their natural classification in the Statement of Revenues, Expenses, and Changes in Net Assets. Also, Schedule 1, accompanying the financial statements, provides a summarization of those expenses by their functional categories for each fiscal year. Following are the functional categories and the services associated with those functions:

A. Program Functions

Comprehensive Training Events - Expenses that are incurred in the provision of training events that foster an understanding of comprehensive early childhood service delivery and best practices in multiple functional areas. Participants may include State and local partnership board members, staff and committee members, direct service providers, early childhood leaders and professionals, and others involved in the development of various facets of a comprehensive early childhood delivery system.

Finance - Responsible for the oversight of the accounting, financial reporting, and contracting functions for the local partnerships and the North Carolina Partnership. Also responsible for the provision of technical assistance and training to the local partnerships.

Financial Services - Responsible for performing financial monitoring of, and providing technical assistance and training to, the local partnerships.

Local Partnership Administration - Grants distributed to local partnerships for administering the Smart Start program on the local level.

Local Partnership Services - Grants distributed to local partnerships to perform direct services activities for the Smart Start program on the local level.

Organizational Development - Privately funded program to provide technical assistance, resources and support necessary to enhance the organizational capacity of the North Carolina Partnership and local partnerships to help ensure long-term success and sustainability as nonprofit organizations. Priorities are increased diversity and inclusion, strengthened governance and executive leadership, deepened grassroots community engagement and advocacy, and increased diversification of funding sources.

Program and Evaluation - Responsible for the approval of local partnership strategic plans and activities as well as performing programmatic monitoring of and technical assistance and training to the

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

local partnerships. Responsible for building the program capacity of local partnerships and facilitating the development and implementation of coordinated state-level systems of service. Also responsible for research and evaluation refining and guiding the Smart Start system work.

Public Information - Provision of outreach materials and technical assistance to local partnerships in the areas of crisis communication, media relations, desktop publishing, and special event planning.

Regional Accounting (MAC) - Used to account for costs associated with the implementation and support of the Multi-Partnership Accounting and Contracting (MAC) plan. Costs include personnel, telecommunications systems, software, equipment, and supplies related to the support for the MAC sites.

Shape NC – Privately funded program to improve the health of young children, ages birth to five, and child care workers through a comprehensive statewide strategy of comprehensive coordinated early childhood obesity prevention, outreach and technical assistance that will address change at the individual, programmatic, environmental and policy levels.

Technical Assistance - Other States - Privately funded program that assists local communities and other states in the development, implementation, and integration of comprehensive community-based early childhood initiatives that primarily benefit children ages' birth to five.

Technology - Provision of technical assistance and training to the North Carolina Partnership and to the local partnership staff. Technical assistance is provided in areas of selecting hardware, software, and acquiring outside consultants for training.

B. Support Functions

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

Contracts - Responsible for establishing and maintaining funding contracts with the local partnerships for (1) administrative costs; and (2) direct service activities related to services to children and families. Also provide technical assistance to local partnerships on the use of the North Carolina Partnership's contracts system.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Development - Expenses that are incurred to induce others to contribute money, securities, time, materials, or facilities for which the contributor will receive no direct economic benefit.

Fiscal - Responsible for maintaining the financial records and processing payments and receipts for the North Carolina Partnership. Also, responsible for developing and implementing proper accounting policies and procedures.

Human Resources - Responsible for the administration of personnel related services and functions, including employee relations, recruiting, compensation and benefits, job descriptions, performance management, maintenance of employee records, and compliance with employment regulations.

NOTE 8 - DEFERRED COMPENSATION PLAN

Supplemental Retirement Income Plan - IRC Section 401(k) Plan - The North Carolina Partnership provides a Supplemental Retirement Income Plan (Plan), which is a defined contribution plan, created under Internal Revenue Code Section 401(k). The Plan is open to all employees who have attained the age of 18 and have at least three months service. The North Carolina Partnership makes a safe-harbor contribution to the Plan each year equal to 3% of the participants' compensation and may make additional discretionary employer contributions. For the year ended June 30, 2011, the North Carolina Partnership's Plan contributions were \$186,542.

NOTE 9 - RISK MANAGEMENT

The North Carolina Partnership is exposed to various risks of loss related to torts; theft of, damage to, and the destruction of assets; errors and omissions; injuries to employees; and natural disasters. These exposures to loss are managed using a combination of methods, including purchase of commercial insurance and self-retention of certain risks. There have been no significant reductions in insurance coverage from the previous year and settled claims have not exceeded coverage in any of the past three fiscal years.

Fire, coverage for other property losses, and vehicular liability insurance are covered by contracts with private insurance companies.

The North Carolina Partnership is protected for losses from employee dishonesty and computer fraud for employees. The blanket honesty bond is with a private insurance company with coverage of \$250,000 per occurrence and a \$1,000 deductible.

NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

Employees are provided health care coverage by Blue Cross Blue Shield of North Carolina. The Plan is funded by employer and employee contributions and is administered by a third party contractor.

The North Carolina Partnership makes the necessary arrangements to carry out the provisions of the Workers' Compensation Act by purchasing workers' compensation insurance for employees through a private insurance company.

NOTE 10 - RELATED PARTY TRANSACTIONS

Local Partnership Contracts with Board Member Organizations - The board members of the North Carolina Partnership are representative of various organizations that benefit from actions taken by the Board. It is the policy of the North Carolina Partnership that board members not be involved with decisions regarding organizations they represent. During the year, the North Carolina Partnership entered into contracts with board member organizations for local partnership activities as identified on Schedule 2 accompanying the financial statements.

NOTE 11 - COMMITMENTS

The North Carolina Partnership has outstanding commitments on cost-reimbursement contracts totaling \$1,322,566 as of June 30, 2011.

The North Carolina Partnership for Children, Inc.
Schedule of Functional Expenses
For the Year Ended June 30, 2011

Schedule 1

	<u>Total</u>	<u>Salaries and Benefits</u>	<u>Contracted Services</u>	<u>Supplies and Materials</u>	<u>Other Operating Expenses</u>	<u>Fixed Charges and Other Expenses</u>	<u>Noncapitalized Equipment/ Depreciation</u>	<u>Contract/ Grant Expense</u>
Programs:								
Comprehensive Training Events	\$ 259,812	\$ 0	\$ 94,674	\$ 0	\$ 160,338	\$ 3,947	\$ 0	\$ 853
Finance	440,783	182,990	248,216		6,479	3,098		
Financial Services	378,772	361,343			17,429			
Local Partnership Administration	13,915,582							13,915,582
Local Partnership Services	101,037,975							101,037,975
Organizational Development	236,707	81,950	136,219	75	18,436	27		
Program and Evaluation	1,077,090	696,546	260,704		14,000	933		104,907
Public Information	379,303	246,876	74,969	85	25,811	9,703		21,859
Regional Accounting (MAC)	1,436,370	237,376		17,542	90,920	16,140	5,845	1,068,547
Shape NC	502,587	5,033	59,799		4,169			433,586
Technical Assistance - Other States	385,901	41,939	301,273		40,404			2,285
Technology	361,092	238,001		17,106	83,425	7,702	14,858	
	<u>120,411,974</u>	<u>2,092,054</u>	<u>1,175,854</u>	<u>34,808</u>	<u>461,411</u>	<u>41,550</u>	<u>20,703</u>	<u>116,585,594</u>
Support:								
Administration	1,269,391	780,844	32,173	13,318	61,229	317,471	64,356	
Contracts	189,846	189,846						
Development	3,038		2,900		38	100		
Fiscal	221,212	208,656	9,945		2,611			
Human Resources	118,031	87,251	23,246		5,624	1,910		
	<u>1,801,518</u>	<u>1,266,597</u>	<u>68,264</u>	<u>13,318</u>	<u>69,502</u>	<u>319,481</u>	<u>64,356</u>	<u>0</u>
Total Expenditures	<u>\$ 122,213,492</u>	<u>\$ 3,358,651</u>	<u>\$ 1,244,118</u>	<u>\$ 48,126</u>	<u>\$ 530,913</u>	<u>\$ 361,031</u>	<u>\$ 85,059</u>	<u>\$ 116,585,594</u>

The North Carolina Partnership for Children, Inc.
Schedule of Contract and Grant Expenses
For the Year Ended June 30, 2011

Schedule 2

Organization Name	Amount Expended	Refund Due
Alamance Partnership for Children	\$ 1,076,134	\$ (1,851)
Albemarle Smart Start Partnership, Inc.	1,907,990	(32,502)
Alexander County Partnership for Children	482,110	(2,622)
Alleghany Partnership for Children	156,205	
Anson County Partnership for Children	510,831	
Ashe County Partnership for Children	396,553	
Avery County Smart Start: A Partnership for Children	265,673	
Beaufort/Hyde Partnership for Children	641,715	(2)
Bladen Smart Start-A Partnership for Children, Inc.	496,113	(9,014)
Buncombe County Partnership for Children, Inc.	2,159,808	(2,818)
Burke County Smart Start, Inc.	1,789,521	(4,482)
Cabarrus County Partnership for Children	1,942,958	(28,009)
Caldwell County Smart Start A Partnership for Young Children	1,354,534	(1)
Carteret County Partnership for Children	861,234	
Caswell County Partnership for Children	296,236	(1,250)
Catawba County Partnership for Children	1,781,753	
Chatham County Partnership for Children	870,819	(3,068)
Children and Youth Partnership for Dare County, Inc.	402,978	(4,523)
Children's Council of Watauga County, Inc.	365,139	(1,825)
Cleveland County Partnership for Children, Inc.	1,294,861	(647)
Columbus County Partnership for Children, Incorporated	551,654	(4,990)
Craven Smart Start, Inc.	1,297,077	(9,519)
Down East Partnership for Children	2,888,011	(29,609)
Duplin County Partnership for Children	868,238	(6)
Durham's Partnership for Children	6,388,351	(1,622)
Franklin-Granville-Vance Partnership for Children, Inc.	1,619,510	(35,255)
Guilford County Partnership for Children, Inc.	4,490,320	(159)
Harnett County Partnership for Children, Inc.	1,282,998	(10,548)
Hertford-Northampton Smart Start Partnership for Children, Inc.	662,775	(4,226)
Hoke County Partnership for Children and Families	999,690	(3,333)
Iredell County Partnership for Young Children, Inc.	1,705,431	(5,536)
Jones County Partnership for Children	272,330	(100)
Lee County Partnership for Children	908,733	(812)
Lenoir/Greene County Partnership for Children	1,854,674	(5,345)
Madison County Partnership for Children and Families, Inc.	462,430	(783)
Martin/Pitt Partnership for Children, Inc.	1,913,611	(21,197)
McDowell County Partnership for Children and Families, Inc.	647,338	(612)
Mecklenburg Partnership for Children	8,721,393	(15,770)
Montgomery County Partnership for Children	622,388	(300)
Onslow County Partnership for Children, Inc.	3,654,403	(6,426)
Orange County Partnership for Young Children	2,283,918	(1,721)

The North Carolina Partnership for Children, Inc.
Schedule of Contract and Grant Expenses
For the Year Ended June 30, 2011

Schedule 2
Page 2

Organization Name	Amount Expended	Refund Due
Pamlico Partnership for Children, Inc.	186,025	
Partners for Children and Families, Inc. (Moore County)	995,797	(641)
Partnership for Children of Cumberland County, Inc.	4,882,200	(488)
Partnership for Children of Johnston County, Inc.	1,658,970	(13,792)
Partnership for Children of Lincoln/Gaston Counties, Inc.	3,101,117	(10,324)
Person County Partnership for Children	588,746	(1,795)
Randolph County Partnership for Children	1,419,227	(30,179)
Region A Partnership for Children	*	1,396,581
Richmond County Partnership for Children	893,101	(12,831)
Robeson County Partnership for Children	2,167,297	(11,887)
Rockingham County Partnership for Children, Inc.	994,358	(92)
Rutherford/Polk Smart Start Partnership	869,664	(8,806)
Sampson County Partnership for Children	1,016,181	(3)
Scotland County Partnership for Children and Families, Inc.	556,377	(13,750)
Smart Start of Brunswick County, Inc.	802,430	(3,875)
Smart Start of Davidson County, Inc.	3,288,115	
Smart Start of Davie County, Inc.	382,398	(1,026)
Smart Start of Forsyth County	5,304,710	(4,375)
Smart Start of Henderson County, Inc.	881,967	
Smart Start of New Hanover County	1,807,009	(18,747)
Smart Start of Pender County, Inc.	525,139	
Smart Start of Transylvania County	250,358	(488)
Smart Start of Yadkin County, Inc.	530,643	(91)
Smart Start Rowan, Inc.	2,165,964	(14,663)
Stanly County Partnership for Children	1,000,637	(665)
Stokes Partnership for Children	593,365	(1,876)
Surry County Early Childhood Partnership	973,596	(4,739)
The Chowan/Perquimans Smart Start Partnership	457,920	(919)
The Halifax-Warren Smart Start Partnership for Children, Inc.	898,860	
The Mitchell-Yancey County Partnership for Children, Inc.	376,497	(3,943)
The Partnership for Children of Wayne County, Inc.	1,300,930	(15,737)
Tyrrell-Washington Partnership for Children, Inc.	362,269	(12,277)
Union Smart Start	1,388,581	(173)
Various Other Organizations	136,803	
Wake County SmartStart	*	7,342,885
Wilkes Community Partnership for Children	991,526	(25,882)
Wilson County Partnership for Children	1,425,848	(239)
	<u>\$ 117,062,529</u>	<u>\$ (476,935)</u>

* These organizations are represented on the Partnership's Board as described in Note 10 - Service Provider Contracts with Board Member Organizations.

The North Carolina Partnership for Children, Inc.
Schedule of State Aid
For the Year Ended June 30, 2011

Schedule 3

<u>State Grantor/Pass-through Grantor/Program</u>	<u>Contract #</u>	<u>Receipts</u>	<u>Expenditures</u>
State Aid:			
North Carolina Department of Health and Human Services			
Division of Child Development			
Early Childhood Initiatives Program (Current Year) *	7007	\$ 114,952,557	\$ 114,952,557
Early Childhood Initiatives Program (Current Year) *	7006	5,555,167	5,555,167
Early Childhood Initiatives Program (Previous Years)	Various	<u>(50)</u>	<u>(50)</u>
Total State Aid		<u><u>\$ 120,507,674</u></u>	<u><u>\$ 120,507,674</u></u>

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

[This Page Left Blank Intentionally]



Beth A. Wood, CPA
State Auditor

STATE OF NORTH CAROLINA
Office of the 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 FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Board of Directors
The North Carolina Partnership for Children, Inc.
Raleigh, North Carolina

We have audited the financial statements of The North Carolina Partnership for Children, Inc. (North Carolina Partnership), a component unit of the State of North Carolina, as of and for the year ended June 30, 2011, and have issued our report thereon dated April 4, 2012. 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 North Carolina Partnership's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the North Carolina Partnership's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the North Carolina Partnership's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency or a combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the North Carolina Partnership's financial statements will not be prevented, or detected and corrected on a timely basis.

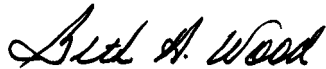
Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses.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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the North Carolina 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 management of The North Carolina Partnership for Children, Inc., the Audit and Finance Committee, the Board of Directors, others within the North Carolina Partnership, the Governor, the General Assembly, and the State Controller, and is not intended to be and should not be used by anyone other than these specified parties.



Beth A. Wood, CPA
State Auditor

April 4, 2012

ORDERING INFORMATION

Audit reports issued by the Office of the State Auditor can be obtained from the web site at www.ncauditor.net. Also, parties may register on the web site to receive automatic email notification whenever reports of interest are issued. Otherwise, copies of audit reports may be obtained by contacting the:

Office of the State Auditor
State of North Carolina
2 South Salisbury Street
20601 Mail Service Center
Raleigh, North Carolina 27699-0601

Telephone: 919/807-7500

Facsimile: 919/807-7647