

STATE OF NORTH CAROLINA

THE NORTH CAROLINA PARTNERSHIP FOR CHILDREN, INC.

RALEIGH, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2012

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

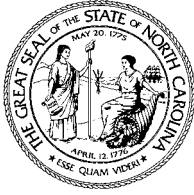
FOR THE YEAR ENDED JUNE 30, 2012

BOARD OF DIRECTORS

DR. NANCY H. BROWN, BOARD CHAIR

ADMINISTRATIVE OFFICER

STEPHANIE FANJUL, PRESIDENT



Beth A. Wood, CPA
State Auditor

STATE OF NORTH CAROLINA
Office of the State Auditor

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AUDITOR'S TRANSMITTAL

The Honorable Pat McCrory, 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, 2012, 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*.

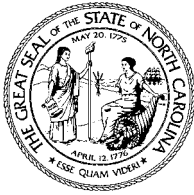
North Carolina General Statutes require the State Auditor to make audit reports available to the public. Copies of audit reports issued by the Office of the State Auditor may be obtained through one of the options listed in the back of this report.

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

Beth A. Wood, CPA
State Auditor

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Beth A. Wood, CPA
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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, 2012, 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 for Children, Inc. as of June 30, 2012, 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 May 10, 2013 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)

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during the audit of the basic financial statements. However, we do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements 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. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.



Beth A. Wood, CPA
State Auditor

May 10, 2013

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, 2012 and June 30, 2011, were approximately \$2.5 million and \$3.8 million, respectively, a decrease of \$1.3 million 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, 2012 and 2011.

Condensed Statement of Net Assets
June 30, 2012 and 2011
(in thousands)

	2012	2011	Percent Change
Assets			
Current Assets	\$ 3,216	\$ 4,252	(24.4) %
Capital Assets, Net	135	116	16.4 %
Other Noncurrent Assets	763	763	0.0 %
Total Assets	4,114	5,131	(19.8) %
Liabilities			
Current Liabilities	1,476	1,331	10.9 %
Noncurrent Liabilities	125	0	100.0 %
Total Liabilities	1,601	1,331	20.3 %
Net Assets			
Invested in Capital Assets	135	116	16.4 %
Restricted:			
Nonexpendable	23	23	0.0 %
Expendable	14	1,044	(98.7) %
Unrestricted	2,341	2,617	(10.5) %
Total Net Assets	\$ 2,513	\$ 3,800	(33.9) %

Current assets as of June 30, 2012, consisted primarily of cash and equivalents, \$1.8 million, investments, \$710,000, receivables, \$560,000, and prepaid expenses, \$107,000. 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 decreased during the fiscal year June 30, 2012, due to the decrease in cash and cash equivalents as these funds were expended for other child care related programs as program restrictions were met.

Capital and Other Noncurrent Assets

Noncurrent assets as of June 30, 2012, primarily consisted of investments, \$763,000 and capital assets, \$135,000. Noncurrent assets as of June 30, 2011, primarily consisted of investments, \$763,000 and capital assets, \$116,000.

Liabilities

Current liabilities as of June 30, 2012, consisted primarily of funds due to the State, \$675,000, and unearned revenue, \$551,000. Current liabilities as of June 30, 2011, consisted primarily of funds due to the State, \$603,000 million, and unearned revenue, \$427,000. The net increase in current liabilities is primarily caused by the \$124,000 increase in the unearned revenue balance for cost-reimbursement contracts with Blue Cross Blue Shield of North Carolina Foundation and other grantors.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

As of June 30, 2012, there were noncurrent liabilities that consisted entirely of accrued compensated absences. As of June 30, 2011, there were no noncurrent liabilities. 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. During the year of the policy change, employees liquidated their existing accrued leave balances at a rate that indicated any remaining balance would be used within one year. However, the policy change allowed employees to earn leave at a higher rate than provided under previous policy. The actual effect of the change, as seen in the current year, is that employees earn leave at a rate high enough to avoid liquidating beginning balances and while maintaining some carry-forward which is not expected to be used within one year.

Net Assets

Net assets invested in capital assets were \$135,000 and \$116,000 as of June 30, 2012 and 2011, respectively. Restricted nonexpendable net assets of \$23,000 as of June 30, 2012 and 2011, represent amounts subject to externally imposed restrictions and which must be maintained in perpetuity. Restricted expendable net assets of \$14,000 and \$1 million as of June 30, 2012 and 2011, respectively, represent amounts subject to externally imposed restrictions. Unrestricted net assets of \$2.3 and \$2.6 million as of June 30, 2012 and 2011, respectively, represent amounts not subject to externally imposed stipulations, but internally designated for various activities and initiatives.

For the year ended June 30, 2012, the decrease in net assets of \$1.3 million is primarily attributable to the decrease in restricted funds for capacity building by \$899,000 and \$918,000 due to the utilization of program funding from the W.K. Kellogg Foundation and the Blue Cross and Blue Shield of Carolina Foundations, respectively.

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, 2012 and 2011.

Condensed Statement of Revenues, Expenses, and Changes in Net Assets
For the Fiscal Years Ended June 30, 2012 and 2011
(in thousands)

	2012 Amount	2011 Amount	Percentage Change
Operating Revenues	\$ 0	\$ 0	0.0 %
Operating Expenses	(5,455)	(5,628)	(3.1) %
Operating Loss	(5,455)	(5,628)	(3.1) %
Nonoperating Revenues	98,281	121,786	(19.3) %
Nonoperating Expenses	(94,113)	(116,585)	(19.3) %
Increase (Decrease) in Net Assets	(1,287)	(427)	201.4 %
Net Assets Beginning of Year	3,800	4,227	(10.1) %
Net Assets End of Year	\$ 2,513	\$ 3,800	(33.9) %

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONCLUDED)

Nonoperating Revenues

For the fiscal year ended June 30, 2012, nonoperating revenues totaled \$98.3 million, of which state aid was \$96.9 million. For the fiscal year ended June 30, 2011, nonoperating revenues totaled \$121.8 million, of which state aid was \$120.5 million. The decrease in nonoperating revenues was due to a 19.6% reduction in state aid for the fiscal year ended June 30, 2012.

Private contributions earned were \$1.2 million and \$900,000 as of June 30, 2012 and 2011, respectively. Major contributors for 2012 were the Blue Cross Blue Shield of North Carolina Foundation for \$918,000, and the Z. Smith Reynolds Foundation, \$78,000.

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, 2012 and 2011
(in thousands)

	2012 Amount	2011 Amount	Percentage Change
Operating Expenses:			
Salaries and Benefits	\$ 3,160	\$ 3,359	(5.9) %
Contracted Services	1,350	1,244	8.5 %
Other Operating Expenses	886	961	(7.8) %
Depreciation	59	64	(7.8) %
Total Operating Expenses	<u>\$ 5,455</u>	<u>\$ 5,628</u>	<u>(3.1) %</u>
Nonoperating Expenses:			
Loss on Disposal of Capital Assets	\$ 4	\$ 0	100.0 %
Contract/Grant Expenses	94,109	116,585	(19.3) %
Total Nonoperating Expenses	<u>\$ 94,113</u>	<u>\$ 116,585</u>	<u>(19.3) %</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. The change in the amount of contracts and grants is due to a 19.6% reduction in state aid for the fiscal year ended June 30, 2012.

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, 2012, private contributions increased as compared to the fiscal year ended June 30, 2011. This increase was the result of a favorable environment for private contributions, which is anticipated to continue in the fiscal years June 30, 2013 and 2014.

It is anticipated that the state of the economy may continue to have an adverse impact on state aid for the fiscal year ending June 30, 2013 and possibly beyond.

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The North Carolina Partnership for Children, Inc.
Statement of Net Assets
For the Year Ended June 30, 2012

Exhibit A

ASSETS

Current Assets:

Cash and Cash Equivalents	\$ 1,839,184
Short-Term Investments	476,588
Restricted Short-Term Investments	233,104
Receivables:	
Accounts Receivable (Note 3)	549,505
Pledges Receivable (Note 3)	10,150
Prepaid Expenses	107,489
	<hr/>
Total Current Assets	3,216,020
	<hr/>

Noncurrent Assets:

Investments	763,108
Capital Assets - Depreciable, Net (Note 4)	134,744
	<hr/>
Total Noncurrent Assets	897,852
	<hr/>

Total Assets	<hr/> <hr/> 4,113,872
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LIABILITIES

Current Liabilities:

Accounts Payable	115,417
Accrued Payroll	64,691
Compensated Absences (Note 5)	3,412
Due to the State	675,421
Unearned Revenue	551,330
Funds Held for Others	65,585
	<hr/>
Total Current Liabilities	1,475,856
	<hr/>

Noncurrent Liabilities:

Compensated Absences (Note 5)	125,357
	<hr/>
Total Noncurrent Liabilities	125,357
	<hr/>

Total Liabilities	<hr/> <hr/> 1,601,213
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NET ASSETS

Invested in Capital Assets	134,744
Restricted for:	
Nonexpendable:	
Annual Recognition Award	22,962
Expendable:	
Specific Child Care Related Activities	14,049
Unrestricted	2,340,904
	<hr/>
Total Net Assets	<hr/> <hr/> \$ 2,512,659

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, 2012***

Exhibit B

OPERATING REVENUES	\$ 0
<hr/>	
OPERATING EXPENSES	
Salaries and Benefits	3,160,428
Contracted Services	1,349,726
Supplies and Materials	42,600
Other Operating Expenses	445,572
Fixed Charges and Other Expenses	330,496
Purchase of Noncapitalized Equipment	66,867
Depreciation	59,453
	<hr/>
Total Operating Expenses	5,455,142
	<hr/>
Operating Loss	(5,455,142)
	<hr/>
NONOPERATING REVENUES (EXPENSES)	
State Aid	96,905,613
Investment Income	14,717
Private Contributions	1,171,573
Miscellaneous	189,335
Loss on Disposal of Capital Assets	(4,198)
Contract/Grant Expense	(94,108,522)
	<hr/>
Total Nonoperating Revenues (Expenses)	4,168,518
	<hr/>
Net Decrease in Net Assets	(1,286,624)
	<hr/>
NET ASSETS	
Net Assets - July 1, 2011	3,799,283
	<hr/>
Net Assets - June 30, 2012	\$ 2,512,659
	<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, 2012

Exhibit C

CASH FLOWS FROM OPERATING ACTIVITIES

Payments to Employees and Fringe Benefits	\$ (3,124,923)
Payments to Vendors and Suppliers	<u>(2,211,305)</u>
Cash Used by Operating Activities	<u>(5,336,228)</u>

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

State Aid Received	96,978,291
Grants to Local Partnerships and Other Organizations	(94,131,391)
Private Contributions	1,295,461
Other Receipts	<u>189,336</u>
Net Cash Provided by Noncapital Financing Activities	<u>4,331,697</u>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Acquisition of Capital Assets	<u>(82,794)</u>
Cash Used by Capital and Related Financing Activities	<u>(82,794)</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Purchase of Non-State Treasurer Investments	(384,171)
Investment Income	<u>7,432</u>
Net Cash Used by Investing Activities	<u>(376,739)</u>

Net Decrease in Cash and Cash Equivalents	(1,464,064)
Cash and Cash Equivalents - July 1, 2011	<u>3,303,248</u>
Cash and Cash Equivalents - June 30, 2012	<u><u>\$ 1,839,184</u></u>

RECONCILIATION OF OPERATING LOSS TO CASH USED BY OPERATING ACTIVITIES

Operating Loss	\$ (5,455,142)
Adjustments to Reconcile Operating Loss to Cash Used by Operating Activities:	
Depreciation Expense	59,453
Changes in Assets and Liabilities:	
Accounts Receivable	(12,034)
Prepaid Expenses	(2,011)
Accounts Payable	38,000
Accrued Payroll	(20,786)
Compensated Absences	<u>56,292</u>

Cash Used by Operating Activities	<u><u>\$ (5,336,228)</u></u>
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NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Loss on Disposal of Capital Assets	<u><u>\$ 4,198</u></u>
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The accompanying notes to the financial statements are an integral part of this statement.

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THE NORTH CAROLINA PARTNERSHIP FOR CHILDREN, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012

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 four board members serve ex-officio by virtue of their State positions. 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 cost, which approximates fair value. 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, and endowment and other restricted investments.
- 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. Noncurrent Long-Term Liabilities – Noncurrent long-term liabilities consist of compensated absences that will not be paid within the next fiscal year.

M. 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. When classifying compensated absences into current and noncurrent, leave is considered taken on a last-in, first-out (LIFO) method.

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 and is available only to employees who have exhausted their PTO balances and are eligible for Family and Medical Leave Act protection. 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.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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.

- O. 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** - The North Carolina Partnership for Children is required by *North Carolina General Statute 147-77* to deposit any funds collected or received that belong to the State of North Carolina with the State Treasurer or with a depository institution in the name of the State Treasurer. All funds of the North Carolina Partnership, other than those required to be deposited with the State Treasurer, 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 \$1,697,430, and a bank balance of \$2,529,347 and deposits held by the State Treasurer totaling \$141,504. Included in the deposits in private financial institutions are

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 1.5 years as of June 30, 2012. 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) 707-0500.

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 \$2,303,794 at June 30, 2012.

- 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 36 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 Funds
- No-Load Money Market Mutual Funds
- U.S. Agency Securities
- Bankers' Acceptances
- Commercial Paper
- Investment Grade Bonds
- High-Quality Stocks
- Exchange-Traded 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, 2012, 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	\$ 709,692	13 days	Unrated
Other Securities:			
Certificates of Deposit	<u>763,108</u>		
Total Investments	<u>\$ 1,472,800</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, 2012, is as follows:

	Amount
Cash on Hand	\$ 250
Carrying Amount of Deposit with Private Financial Institutions	1,697,430
Investments in the Short-Term Investment Fund	141,504
Money Market Mutual Funds	709,692
Investments in Certificates of Deposit	763,108
Total Deposits and Investments	\$ 3,311,984
Curent:	
Cash and Cash Equivalents	\$ 1,839,184
Short-Term Investments	476,588
Restricted Short-Term Investments	233,104
Noncurrent:	
Investments	763,108
Total Deposits and Investments	\$ 3,311,984

NOTE 3 - RECEIVABLES

A. Accounts Receivable - The gross accounts receivable were:

	June 30, 2012
Due from Local Partnership Grantees	\$ 511,908
Interest Receivable	11,360
Sales Tax Receivable	23,428
Other Receivables	2,809
Total Accounts Receivable	\$ 549,505

The North Carolina Partnership expects to collect these receivables.

B. Pledges Receivable - The North Carolina Partnership has pledges receivable in the amount of \$10,150 that are collectible in the fiscal year ending June 30, 2013. 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, 2012, is presented as follows:

	Balance July 1, 2011	Additions	Deletions	Balance June 30, 2012
Capital Assets - Depreciable:				
Machinery and Equipment	\$ 409,937	\$ 82,794	\$ 54,157	\$ 438,574
Less Accumulated Depreciation	294,336	59,453	49,959	303,830
Capital Assets - Depreciable, Net	\$ 115,601	\$ 23,341	\$ 4,198	\$ 134,744

NOTE 5 - LONG-TERM LIABILITIES

A summary of changes in long-term liabilities for the year ended June 30, 2012, is presented as follows:

	Balance July 1, 2011	Additions	Deletions	Balance June 30, 2012	Current Portion
Compensated Absences	\$ 72,477	\$ 287,119	\$ 230,827	\$ 128,769	\$ 3,412

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, 2012:

Fiscal Year	Operating Leases
2013	\$ 305,578
2014	312,252
2015	265,609
Total Minimum Lease Payments	\$ 883,439

Rental expense for all operating leases during the year was \$299,765.

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:

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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.

Early Learning Challenge Grant - Federally funded initiative to reduce disparities in school readiness among children with high needs and their peers. Priorities are:

- Leadership program designed to facilitate effective local community leadership that increases schooled readiness for children with high needs;
- Expanded developmental screening and referrals for children from birth to five;
- Increased access to high-quality child care health consultants who improve health, nutrition, and safety practices in child care facilities;
- Faith summit designed to engage faith leaders as early child champions;
- Community development initiative in four rural, high poverty counties selected to be part of a transformation zone that combines evidence-based programs and infrastructure development strategies;
- Early literacy project in the transformation zone; and
- A data project to support a longitudinal statewide data system that tracks outcomes and measures progress in reducing disparities among children with high needs and their peers.

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 programs 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 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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.

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, 2012, the North Carolina Partnership's Plan contributions were \$147,757.

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

NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

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.

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 \$759,706 as of June 30, 2012.

NOTE 12 - SUBSEQUENT EVENT

Prior to the end of the fiscal year, the North Carolina Partnership received a multi-year Race to the Top Early Learning Challenge contract from the State in the amount of \$11,267,936. The contract was awarded to conduct several projects designed to reduce disparities in school readiness among children with high needs and their peers. Revenues to fund these projects are to be provided during the coming years.

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The North Carolina Partnership for Children, Inc.
Schedule of Functional Expenses
For the Year Ended June 30, 2012

Schedule 1

	Total	Salaries and Benefits	Contracted Services	Supplies and Materials	Other Operating Expenses	Fixed Charges and Other Expenses	Noncapitalized Equipment/Depreciation/Loss on Disposals	Contract/Grant Expense
Programs:								
Comprehensive Training Events	\$ 283,700	\$ 0	\$ 139,617	\$ 0	\$ 137,009	\$ 3,941	\$ 0	\$ 3,133
Early Learning Challenge Grant	36,333	11,422	14,366		9,932	613		
Finance	445,591	183,525	252,662		5,723	3,681		
Financial Services	316,973	302,997			13,976			
Local Partnership Administration	11,462,482							11,462,482
Local Partnership Services	80,496,569							80,496,569
Organizational Development	702,575	196,270	294,613		62,692	1,118		149,000
Program and Evaluation	915,524	586,742	253,240		7,198	7,404		67,226
Public Information	340,891	265,603	54,333		10,558		783	2,210
Regional Accounting (MAC)	1,253,110	163,838	1,390	14,913	79,969	135	20,714	972,151
Shape NC	916,218	62,360	150,661		9,446			693,751
Technical Assistance - Other States	383,911	38,251	95,759		1,901			248,000
Technology	362,159	185,778	71,744	14,893	39,070	1,106	49,568	
	<u>97,916,036</u>	<u>1,996,786</u>	<u>1,328,385</u>	<u>29,806</u>	<u>377,474</u>	<u>17,998</u>	<u>71,065</u>	<u>94,094,522</u>
Support:								
Administration	1,225,015	754,802	10,247	12,715	62,619	311,179	59,453	14,000
Contracts	185,250	185,250				200		
Development	200							
Fiscal	178,838	167,897	9,740		1,201			
Human Resources	62,523	55,693	1,354	79	4,278	1,119		
	<u>1,651,826</u>	<u>1,163,642</u>	<u>21,341</u>	<u>12,794</u>	<u>68,098</u>	<u>312,498</u>	<u>59,453</u>	<u>14,000</u>
Total Expenditures	<u>\$ 99,567,862</u>	<u>\$ 3,160,428</u>	<u>\$ 1,349,726</u>	<u>\$ 42,600</u>	<u>\$ 445,572</u>	<u>\$ 330,496</u>	<u>\$ 130,518</u>	<u>\$ 94,108,522</u>

**The North Carolina Partnership for Children, Inc.
Schedule of Contract and Grant Expenses
For the Year Ended June 30, 2012**

Schedule 2

Organization Name	Gross Amount Expended	Refund Due	Net Amount Expended
Alamance Partnership for Children	\$ 851,646	\$	\$ 848,214
Albemarle Smart Start Partnership, Inc.	1,853,369	(3,432)	1,834,734
Alexander County Partnership for Children, Inc.	379,427	(18,635)	378,939
Alleghany Partnership for Children, Inc.	114,128	(488)	114,128
Anson County Partnership for Children	408,775		408,775
Ashe County Partnership for Children	268,577	(2,794)	265,783
Avery County Smart Start: A Partnership for Children	190,357		190,357
Beaufort/Hyde Partnership for Children	538,252	(1,877)	536,375
Bladen Smart Start-A Partnership for Children, Inc.	364,769	(1,433)	363,336
Buncombe County Partnership for Children, Inc.	1,622,173	(656)	1,621,517
Burke County Smart Start, Inc.	1,269,203	(2,214)	1,266,989
Cabarrus County Partnership for Children	1,621,682	(17,045)	1,604,637
Caldwell County Partnership for Children	951,917	(2,470)	949,447
Carteret County Smart Start A Partnership for Young Children	691,133		691,133
Caswell County Partnership for Children	234,952	(4,743)	230,209
Catawba County Partnership for Children	1,570,590	(3,842)	1,566,748
Chatham County Partnership for Children	634,612	(2,112)	632,500
Children and Youth Partnership for Dare County, Inc.	325,541	(122)	325,419
Children's Council of Watauga County, Inc.	246,961		246,961
Cleveland County Partnership for Children, Inc.	1,006,443	(753)	1,005,690
Columbus County Partnership for Children, Incorporated	444,598	(3,671)	440,927
Craven Smart Start, Inc.	1,054,852	(3,561)	1,051,291
Down East Partnership for Children	2,426,942	(39,005)	2,387,937
Duplin County Partnership for Children	1,039,057	(23,199)	1,015,858
Durham's Partnership for Children	5,218,416		5,218,416
Franklin-Granville-Vance Partnership for Children, Inc.	1,424,668	(6,426)	1,418,242
Guilford County Partnership for Children, Inc.	3,462,084	(2,146)	3,459,938
Harnett County Partnership for Children, Inc.	945,934	(5,335)	940,599
Hertford-Northampton Smart Start Partnership for Children, Inc.	475,623		475,623
Hoke County Partnership for Children and Families	777,438	(559)	776,879
Iredell County Partnership for Young Children, Inc.	1,343,530	(3,730)	1,339,800
Jones County Partnership for Children	233,291		233,291
Lee County Partnership for Children	641,807	(2,745)	639,062
Lenoir/Greene County Partnership for Children	1,579,864	(1,797)	1,578,067
Madison County Partnership for Children and Families, Inc.	271,142	(1,105)	270,037
Martin/Pitt Partnership for Children, Inc.	1,493,683	(6,037)	1,487,646
McDowell County Partnership for Children and Families, Inc.	453,779	(142)	453,637
Mecklenburg Partnership for Children	7,734,586	(2,472)	7,732,114
Montgomery County Partnership for Children	549,255		549,255

**The North Carolina Partnership for Children, Inc.
Schedule of Contract and Grant Expenses
For the Year Ended June 30, 2012**

Organization Name	Gross Amount Expended	Refund Due	Net Amount Expended
Onslow County Partnership for Children, Inc.	2,456,391	(22,277)	2,434,114
Orange County Partnership for Young Children	1,316,322		1,316,322
Pamlico Partnership for Children, Inc.	135,817		135,817
Partners for Children and Families, Inc. (Moore County)	674,658	(753)	673,905
Partnership for Children of Cumberland County, Inc.	4,035,544	(596)	4,034,948
Partnership for Children of Johnston County, Inc.	1,303,962	(15,139)	1,288,823
Partnership for Children of Lincoln/Gaston Counties, Inc.	2,136,907	(24,463)	2,112,444
Person County Partnership for Children	448,370	(1,418)	446,952
Randolph County Partnership for Children	1,106,563	(32,139)	1,074,424
Region A Partnership for Children	1,276,786	(19,793)	1,256,993
Richmond County Partnership for Children	767,925		767,925
Robeson County Partnership for Children	1,710,391	(5,451)	1,704,940
Rockingham County Partnership for Children, Inc.	749,317		749,317
Rutherford/Polk Smart Start Partnership	572,807	(6,058)	566,749
Sampson County Partnership for Children	1,055,056	(1)	1,055,055
Scotland County Partnership for Children and Families, Inc.	440,298	(9,460)	430,838
Smart Start of Brunswick County, Inc.	667,506		667,506
Smart Start of Davidson County, Inc.	2,694,078	(70)	2,694,008
Smart Start of Davie County, Inc.	299,703	(5,932)	293,771
Smart Start of Forsyth County	4,411,086	(13,137)	4,397,949
Smart Start of Henderson County, Inc.	677,545	(3,909)	673,636
Smart Start of New Hanover County	1,431,518		1,431,518
Smart Start of Pender County, Inc.	449,618	(15,830)	433,788
Smart Start of Transylvania County	202,132	(1,153)	200,979
Smart Start of Yadkin County, Inc.	429,262	(634)	428,628
Smart Start Rowan, Inc.	1,773,142	(20,194)	1,752,948
Stanly County Partnership for Children	736,657	(21)	736,636
Stokes Partnership for Children	543,136	(1,358)	541,778
Surry County Early Childhood Partnership	672,841	(16,969)	655,872
The Chowan/Perquimans Smart Start Partnership	352,944	(348)	352,596
The Halifax-Warren Smart Start Partnership for Children, Inc.	548,838	(14,831)	534,007
The Mitchell-Yancey County Partnership for Children, Inc.	330,371	(1,027)	329,344
The Partnership for Children of Wayne County, Inc.	955,465	(25,331)	930,134
Tyrrell-Washington Partnership for Children, Inc.	283,709	(12,224)	271,485
Union Smart Start	1,312,281	(8,397)	1,303,884
Various Other Organizations	584,977		584,977
Wake County SmartStart	6,227,090	(31,471)	6,195,619
Wilkes Community Partnership for Children	841,437	(11,898)	829,539
Wilson County Partnership for Children	1,274,048	(6,204)	1,267,844
	\$ 94,601,554	\$ (493,032)	\$ 94,108,522

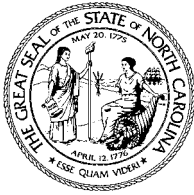
* These organizations are represented on the Partnership's Board as described in Note 10 - Local Partnership Contracts with Board Member Organizations.

The North Carolina Partnership for Children, Inc.
Schedule of State Aid
For the Year Ended June 30, 2012

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) *	7089	\$ 91,958,051	\$ 91,958,051
Early Childhood Initiatives Program (Current Year) *	7088	4,947,726	4,947,726
Early Childhood Initiatives Program (Previous Years)	Various	<u>(164)</u>	<u>(164)</u>
Total State Aid		<u>\$ 96,905,613</u>	<u>\$ 96,905,613</u>

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



Beth A. Wood, CPA
State Auditor

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**INDEPENDENT AUDITOR'S REPORT
ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN
AUDIT OF 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, 2012, and have issued our report thereon dated May 10, 2013.

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

The North Carolina Partnership's management is responsible for establishing and maintaining effective 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.

**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)**

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.

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 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

May 10, 2013

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